

Issue Brief

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The Republican Study Committee's Budget Plan Would Implement Key Reforms to CBO and the Budget Process

Introduction

The Republican Study Committee (RSC), a caucus of conservative Republicans serving in the House of Representatives, introduced its "[Reclaiming Our Fiscal Future](#)" budget a few weeks ago.¹ Unlike the current budget outlook as projected by the Congressional Budget Office (CBO) or the Biden Administration's budget proposal, both of which anticipate over \$14 trillion in additional deficit spending, the RSC's outline would slow spending enough to eventually produce small annual surpluses starting in FY 2024.

In addition to reducing taxes, the RSC's budget specifies trillions of dollars in savings, including several recommendations in NTUF's and U.S. Public Interest Group Education Fund's joint [Toward Common Ground report](#).² The RSC budget would also

¹ Republican Study Committee. (2021). *Reclaiming Our Fiscal Future: Fiscal Year 2022 Budget*. Retrieved from https://banks.house.gov/uploadedfiles/budget_fy22_final.pdf.

² Brady, Demian and Cross, R.J. *Toward Common Ground: Bridging the Political Divide with Deficit Reduction*. National Taxpayers Union Foundation and U.S. Public Interest Research Group Education Fund, April 23, 2020. <https://www.ntu.org/library/doclib/2020/04/Toward-Common-Ground-2020.pdf>.

Key Facts:



The RSC would adopt several reforms to CBO and scorekeeping that NTUF has recommended, including requiring cost estimates to include debt interest impacts, implementing fair value accounting, and improving transparency.



The blueprint includes trillions in specific savings that will set the budget on a path to balance while also reducing taxes.



Also included are several significant budget reforms to limit the growth in outlays.

enact important and necessary reforms of the budget process and of estimates produced by CBO. Among these reforms are proposals that NTUF has recommended such as dynamic scoring, greater transparency, and fair-value accounting.

CBO and Scoring Reforms

The RSC plan would advance several proposals recommended by NTUF to improve the work of CBO. CBO is central to the policy making process, so it is imperative that the baseline projections and cost estimates it produces are as accurate as possible. Congress writes the rules that CBO must adhere to while scorekeeping, yet there are some shortcomings that should be addressed.

Dynamic Scoring

Dynamic scoring accounts for the market reactions to policies enacted by Congress, a significant improvement over static scoring. Pro-growth tax reductions have a stimulative impact, reducing the revenue loss that would occur under a simplistic static scoring model. Similarly, higher taxes will often generate less revenue than policymakers expect because taxpayer behavior changes in response to disincentives. During the passage of the Tax Cut and Jobs Act, NTUF's Andrew Wilford wrote on the [importance of dynamic scoring](#):

Besides alleviating the arbitrary bias static scoring has towards higher taxes and higher spending, dynamic scoring is also more helpful for comparing different tax policies against each other and illustrating tradeoffs; different tax cut policies can have vastly different effects on economic growth.³

The RSC budget would reinstate the use of dynamic scoring in the Rules of the House. In a related development, the bipartisan agreement reached last week on an infrastructure package included use of dynamic scoring for the spending in the plan. Dynamic scoring is a better fit for tax cuts than spending hikes, since the rate of return on public investment is inferior to the private investment it often crowds out. CBO has estimated that private investment has [twice the rate of return](#) than public investment does.⁴

Account for Debt Service Cost

Earlier this year, when Congress passed ARPA, CBO's cost estimate understated the price tag because it did not include impacts on debt service costs. CBO reported that ARPA would cost \$1.844 trillion over the next decade. In [response to a request](#) from Senator Lindsey Graham (R-SC), ranking member of the Senate Budget Committee, the agency produced a follow up estimate of ARPA that included debt interest payments.⁵ With the addition of debt interest payments, the cost increased to \$2.052 trillion. It should be routine practice for CBO to report debt service impacts.

Similar to an [NTUF recommendation](#) earlier this year, the RSC would implement H.R. 638, the [Cost Estimates Improvement Act](#) introduced by Representative Michael Cloud (R-TX).⁶ This would require CBO to include debt service costs in its estimates. In addition, the bill would have CBO include a duplication report in its estimates to identify existing federal programs that overlap with new proposals.

³ Wilford, Andrew. "The Importance of Dynamic Scoring." National Taxpayers Union Foundation. September 20, 2017. Retrieved from <https://www.ntu.org/foundation/detail/the-importance-of-dynamic-scoring>.

⁴ Congressional Budget Office. (2016). *The Macroeconomic and Budgetary Effects of Federal Investment*. Retrieved from https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51628-Federal_Investment.pdf.

⁵ Congressional Budget Office. (2021). *Three Scenarios for the Budget as Specified by Senator Graham*. Retrieved from <https://www.cbo.gov/system/files/2021-05/57239-Graham.pdf>.

⁶ Brady, Demian. *Building on CBO's Transparency Progress: Recommendations for Further Reform*. National Taxpayers Union Foundation. April 26, 2021. Retrieved from <https://www.ntu.org/foundation/detail/building-on-cbos-transparency-progress-recommendations-for-further-reform>. Representative Michael Cloud. H.R.638 - Cost Estimates Improvement Act. February 1, 2021. Retrieved from <https://www.congress.gov/bill/117th-congress/house-bill/638>.

Fair-value Accounting

Under current law, CBO is required to score federal loan and guarantee programs under the accounting method prescribed by the Fair Credit Reform Act of 1990 (FCRA). Through this accounting, the present value of the government's credit activity is discounted using the interest rates on Treasury securities. This scoring method makes it look as though federal credit programs are generating significant revenues. However, this practice does not take into account market risk of defaults.

NTUF has recommended that Congress instead adopt an alternative fair-value accounting method that provides a more comprehensive assessment of risk. This method is far more accurate, as it estimates how the private sector would value the cash flows and defaults. CBO occasionally analyzes credit programs using fair-value accounting. In these re-evaluations, many federal loan programs that appear to generate budgetary savings are instead revealed to impose significant liabilities to taxpayers.

The RSC proposes implementing fair value accounting for student loan programs and federal insurance programs. To be sure, this methodology ought to be applied across the board to all federal credit and guarantee programs. This would be achieved through Representative Ralph Norman's (R-SC) new legislation, [H.R. 3785](#), to make fair value the scoring standard for federal credit programs.⁷

Scorekeeping Reports Transparency

CBO is required to report to the House and Senate Budget Committees on the cost of legislation enacted in Congress 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 are sometimes gaps with no updates. RSC supports making CBO's scorekeeping reports public.

Transparency for Appropriations Bills

As a part of the legislative process, CBO publicly reports cost estimates of proposals, but this is not always the case with appropriations bills. As [described](#) by CBO, its appropriations analyses process provides "the appropriations committees with data and other information as they consider legislation and distributes detailed reports to interested parties in the Congress that display account-level detail of the budgetary effects of proposed appropriation legislation."⁸

The RSC budget supports making these appropriations scores public.

Transparency for Cost Estimates

The RSC budget would require CBO to make its models more transparent through the CBO Show Your Work Act, introduced in the previous Congress by Rep. Warren Davidson (R-OH). NTUF expects the bill to be re-introduced again in the current Congress. Sen. Mike Lee (R-UT) introduced the bill in the Senate this year as [S. 793](#).⁹ NTUF [recommended](#) this reform to increase the transparency of scorekeeping by requiring CBO to provide greater information about its data and modeling. 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 on the source of the data.

⁷ Representative Ralph Norman. Fair-Value Accounting and Budget Act. June 8, 2021. Retrieved from <https://www.congress.gov/bill/117th-congress/house-bill/3785>.

⁸ Congressional Budget Office. (2018). *How CBO Prepares Cost Estimates*. Retrieved from <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53519-costestimates.pdf>.

⁹ Senator Mike Lee. S.793 - CBO Show Your Work Act. March 17, 2021. Retrieved from <https://www.congress.gov/bill/117th-congress/senate-bill/793>.

Confidence Intervals

RSC supports an additional reform recommended by NTUF which requires CBO to use confidence intervals that would assess the likelihood of the outcomes presented in its analysis. This method would better inform lawmakers about the difficulties present during the scoring of significant proposals.

Reauthorization Vote Triggered When CBO Estimate is Inaccurate

As part of its process to ensure accuracy, CBO uses outside advisors to review its methodology and findings. But as a function of the inherent uncertainty involved in scoring complex legislation, use of faulty assumptions, or due to the scoring constraints enacted through budget rules, CBO's estimates may miss the mark with actual deficits ending up higher than initial estimates.

The RSC Budget would require a vote to reauthorize a mandatory spending program (excluding entitlements such as Social Security and Medicare that are financed through trust funds) when actual spending exceeds CBO's estimates by a certain percentage. The RSC notes, "When a program costs more to implement than CBO modeling suggested, the authorization of such a program should be reconsidered with the new information."

Budget Reforms

The budget caps created by the Budget Control Act of 2011 expire this year, and with the federal debt on track to exceed WWII levels, a successor plan is sorely needed. Most importantly, the RSC blueprint also supports the adoption of a balanced budget amendment and discusses limiting revenues and spending as a percentage of GDP. Taxpayers would see a refund if revenues breach the cap. When there is a deficit, growth in spending would be limited as a share of the cap. Spending in excess of the cap would trigger automatic across-the-board reductions, with "exemptions for recession, war, pandemic, or other national emergency related spending."

Additionally, the RSC budget would provide for better accounting of emergency spending mechanisms, the use of which frees lawmakers of any obligation to offset the amount. The current process is intended for rapid congressional response to emergencies such as earthquakes, hurricanes, or matters of national defense but there are often questionable emergency designations, such as the recent Endless Frontiers Act (renamed the United States Innovation and Competition Act) that would add over [\\$240 billion](#) to the deficit.¹⁰

The RSC would require that emergency proposals include detailed justifications and would also raise their threshold for passage. Because emergency spending is supposed to be timely and targeted, the budget would create a new point of order against emergency spending that would result in outlays beyond the first two years. In 2019, NTUF [recommended](#) that while major disasters require an immediate and swift response, "an effort must be made to account as much as possible for this spending in the base budget." When a large-scale disaster occurs, and requires a quick appropriation of funds, Congress should endeavor to offset the amounts later in the session.

The budget also addresses the "[zombie programs](#)" problem. As highlighted in a recent NTUF paper, the level of spending on programs with expired authorizations has been increasing. This growth in expired authorizations is a sign that Congress is not properly vetting programs before providing funding. The RSC advocates for the adoption of Representative Cathy McMorris Rogers' (R-WA) Unauthorized Spending Accountability Act to phase out unauthorized spending.

¹⁰ Congressional Budget Office. (2021). S. 1260, *Endless Frontier Act, with an Amendment in the Nature of a Substitute, the United States Innovation and Competition Act of 2021*. Retrieved from <https://www.cbo.gov/system/files/2021-05/s1260.pdf>.

Similarly, the RSC plan would implement a reform to stop the use of a commonly used budgetary gimmick under which unspent funds are used to offset higher spending in appropriations bills. The problem is most of these unobligated funds were provided years ago, and will never actually be spent. As such, these offsets are as phony as a three-dollar bill. The RSC would require the Office of Management and Budget to report on unobligated funds, including the years that the funding was originally provided.

As [detailed](#) by NTUF earlier this year, there is also a process through which Congress can expedite the consideration of rescissions packages that cancel these unused funds so they will no longer be available as bogus “offsets.”¹¹

The RSC budget would implement Representative Virginia Foxx’s (R-VA) Unfunded Mandates Information and Transparency Act (UMITA). In addition to analyzing the budgetary impact of legislation, CBO is also responsible for estimating the cost of uncompensated compliance burdens placed on the private sector as well as state and local governments. Members can raise a point of order against legislation that imposes unfunded mandates over a certain level (\$170 million in 2021) on state and local governments. The UMITA would add a point of order against unfunded mandates on the private sector, and extend reporting requirements to regulatory agencies that are currently excluded. In 2018, NTUF [wrote](#) that this reform would “further fortify the protections against the imposition of hidden taxes on state and local governments and taxpayers.”¹²

Specified Spending Reductions

The RSC plan includes specific savings of \$14 trillion across vast swaths of the bloated federal budget. Enacting these reforms would be a welcome restart on budgeting. Savings proposals have become few and far between in Congress, despite the trillions of dollars in emergency spending enacted after the pandemic and the economic shutdowns. Last year, [NTUF reviewed Congress’s workload](#), as reflected in cost estimates produced by CBO over a six-week period, and only one of the bills included an offset (and it did not occur until after the fifth year of its budget window).¹³ Although the budget outlook worsened, lawmakers proceeded with business as usual. And with the passage of ARPA, plans to make its costly provisions permanent, ongoing negotiations for a multi-trillion transportation package, and plans to expand entitlement programs, there is little sign of change this year.

RSC’s spending cuts include 17 reforms recommended in our *Toward Common Ground 2020* report jointly completed with the U.S. Public Interest Research Group Education Fund. The goal of our report was to break through the ideological divide that often frames unproductive policy debates, and to offer a pathway that addresses the nation’s fiscal problems. The program reforms also in the RSC proposal include eliminating federal research programs that ought to be conducted by the private sector, such as the Department of Energy’s Office of Fossil Energy and Office of Nuclear Energy. Other proposals would reform agricultural subsidy programs and Medicare Advantage payments, while eliminating the East-West Center, one of the very few [think tanks](#) in the U.S. that are line items in the federal budget.¹⁴

In addition to the positive steps [detailed](#) by NTU Free Trade Initiative Director Bryan Riley to restrain bad trade policies from the executive branch, the RSC’s budget would eliminate the Export-Import Bank and related agencies that subsidize trade, including the Commerce Department’s International Trade

¹¹ Brady, Demian. *President Trump’s Late Term Rescission Request Would Save Taxpayers \$27 Billion*. January 27, 2021. Retrieved from <https://www.ntu.org/foundation/detail/president-trumps-late-term-rescission-request-would-save-taxpayers-27-billion>.

¹² Brady, Demian. *Legislation to Improve Transparency and Accountability of Unfunded Federal Mandates*. National Taxpayers Union Foundation. July 13, 2021. Retrieved from <https://www.ntu.org/foundation/detail/legislation-to-improve-transparency-and-accountability-of-unfunded-federal-mandates>.

¹³ Brady, Demian. *CBO’s Most Recent Cost Estimates Highlight Congress’s Big Spending Agenda*. National Taxpayers Union Foundation. July 2, 2021. Retrieved from <https://www.ntu.org/foundation/detail/cbos-most-recent-cost-estimates-highlight-congresss-big-spending-agenda>.

¹⁴ Brady, Demian. *Eliminating Direct Federal Funding for Think Tanks Would Save Taxpayers Millions*. National Taxpayers Union Foundation. Retrieved from <https://www.ntu.org/foundation/detail/eliminating-direct-federal-funding-for-think-tanks-would-save-taxpayers-millions>.

Administration and the U.S. Trade and Development Agency.¹⁵ Just because other countries are pursuing bad policies there is no reason the U.S. should too. These types of activities should be financed with private-sector dollars.

Conclusion

These reforms would enact sweeping and necessary changes to reduce spending and set the budget on a path toward balance. Furthermore, the RSC's recommendations coupled with the NTUF's proposals would employ safeguards in the budgetary process, improve the accuracy of CBO's estimates, and encourage fiscal discipline.

About the Author

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¹⁵ Riley, Bryan. "House Republican Study Committee Attempts to Restrain Bad Biden Trade Policies." National Taxpayers Union Foundation. June 8, 2021. Retrieved from <https://www.ntu.org/foundation/detail/house-republican-study-committee-attempts-to-restrain-bad-biden-trade-policies>.



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