The Daily Dish

Dynamically Scoring the Administration's Plans

DOUGLAS HOLTZ-EAKIN | MAY 4, 2021

Eakinomics: Dynamically Scoring the Administration's Plans

Treasury Secretary Janet Yellen made a bit of news over the weekend: "Asking 'will these tax increases hurt the economy?' is not the right question," Yellen told CNN. "The right question is: 'Is trading higher taxes on high-income taxpayers for middle-class tax cuts and major economic investments pro-growth?' And the answer to that question is a resounding yes."

Well…no. As Eakinomics has noted, then-candidate Biden's Build Back Better plan raised $3.3 trillion in taxes. If all of this new revenue was plowed back into productive infrastructure, the result was still a smaller economy: "Despite this significant increase (ultimately 16 percent) in public capital, the impact after 10 years is to lower gross domestic product (GDP) by 0.2 percent and household spending by 1.2 percent." Remember, that is the best-case scenario. What the president is actually proposing is to raise those taxes and spend about a quarter of the revenue on infrastructure (how productive the choices are remains to be seen). The remainder would be spent on social welfare programs such as a child tax credit, home health care, and the like. This spending waters down the productivity impacts and worsens the already negative impact on growth in output and productivity. This is far from a "resounding yes."

But don't take AAF's word for it. Eventually the administration's plan will be legislation, and Congress has the capability – housed at the Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT) – to analyze the macroeconomic impacts of important legislation. Specifically, the purpose of "dynamic scoring" is to compute the budgetary impacts of legislation, taking into account the effects of faster or slower economic growth on spending and revenues.

Congress has used dynamic scoring in the past. As noted by Gordon Gray in his latest, from 2015 to 2018, "The House and Senate enacted contemporaneous budget resolutions that instituted bicameral rules for dynamic scoring similar to the new House rule. As with the House rule, the budget resolution called for dynamic estimates for revenue and mandatory spending legislation that met the definition of 'major legislation,' again defined as legislation that would be projected to have a budgetary effect of at least 0.25 percent of projected U.S. GDP. The rule added a specification to include any treaty with an impact of at least $15 billion in that fiscal year to reflect the Senate's role in approving treaties. That budget resolutions allowed for the chairs of the House and Senate budget committees to designate mandatory spending legislation as 'major,' or the chair or vice chair of the JCT to designate tax legislation as 'major' for the purposes of the rule. In the Senate, where budget enforcement rules are more consequential (in the House, majorities often waive these rules before legislation is considered), the Senate Budget committee clarified that the dynamic estimates were for informational purposes only."

When Congress is considering legislation that is supposed to affect growth – as the American Jobs Plan surely is – it can and should learn something about the impact on growth. Historically, dynamic scoring has been associated with Republicans and the analysis of tax cuts, but there is nothing about the techniques that cannot be applied to both tax and spending proposals. In this instance, Democrats clearly have a stake in demonstrating the growth impacts of the proposed plans, which have to qualify as "major legislation" by any definition.

Sadly, when Democrats took control of Congress, they dropped the use of dynamic scoring, so nothing will happen automatically. Instead, it will take a specific request of the CBO and JCT to produce such an analysis. Such a request seems unlikely. The combined analytic firepower of the U.S. Treasury, Council of Economic Advisers, and Office of Management and Budget has yet to produce a single bit of quantitative analysis of the administration's plans. One can only assume that the administration doesn't want to see the answer.