



The Daily Dish

Policy Evaluation and Budget Projections

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Eakinomics: Policy Evaluation and Budget Projections

There is no question whatsoever that budgetary analysis should be part and parcel of the policy-making process. There are better and worse ways, however, to think about the budget consequences of proposals. The right combination is a commitment to good policy and fiscal responsibility. Lately, it seems that fiscal responsibility appears only when someone wants to stop a proposal. Consider, for example, the recent “[rebate rule](#)” proposal from the Trump Administration, under which manufacturer rebates must be provided at the point of sale, allowing patients to benefit directly from them. Numerous studies came to the same conclusions about the impact of the proposal, namely that a minority (roughly 30 percent) of beneficiaries would benefit greatly, but the remainder would face only somewhat increased premiums. Moreover, the federal taxpayer would experience a budgetary impact that [ranges](#) in [estimates](#) from savings of \$99.6 billion over 10 years to costs of \$196 billion over the same period.

The latter range is what caught my eye. Opponents of the proposal seize on the \$196 billion cost as a way of stopping the rule, while ignoring the potential for savings. Indeed, in my experience, 10-year budget estimates are highly uncertain. For example, when I was director of the Congressional Budget Office, it estimated the cost of the Medicare Part D program in the Medicare Modernization Act. As part of that, we estimated in 2004 that the cost in 2012 would be \$122.8 billion. As fate would have it, the actual cost was only \$55 billion. It is simply very difficult to anticipate the future behavior and trends of manufacturers, innovators, competitive entry, beneficiary health, medical practice, and so forth.

The right way to decide the rebate rule is whether you favor the policy or not. The second step is to gauge the direction and rough size of the impacts — in this case likely positive — and then commit to making other changes to offset the actual budgetary impact as it becomes apparent. Policy and budget go hand in hand. It is not the case that good policy allows you to ignore the budgetary impact, or that a negative budget impact permits you to stop any policy. And in all cases, appropriate caution should be exercised in the face of budgetary uncertainty.