Insight

In Defense of Budget Analysis

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A nerd skirmish has broken out over the budgetary impact of the Affordable Care Act (ACA). Normally, the Congressional Budget Office (CBO) is the gold-standard for budget estimates. In 2012, CBO estimated that the ACA would reduce the deficit over ten years. Underpinning that estimate are a host of other estimates related to the economy as a whole, specific sectors of the economy, the behavior of individuals and other actors; all projected over the next decade. Suffice to say, this projection is subject to uncertainty. But for the supporters of the ACA, any assertion that the ACA might increase, rather than decrease, the deficit over the next decade is witchcraft. Recently, the Republican Senate Budget Committee (SBC) asserted just that, and was (predictably) attacked, by the Center on Budget and Policy Priorities.

To understand the debate, begin with the fact that CBO is bound by statute to interpret policies and estimate their budgetary affects a certain way. There is good reason for having the official budget scorekeeper of record play by a known and consistent set of rules. But that doesn't mean the SBC's alternative analysis is any less illuminating.

To assess the merits of SBC's estimate, we have to understand where its methodology deviates from agreed-upon scoring convention. For starters, CBO doesn't continue to do stand-alone estimates of the costs of the ACA, so SBC must extrapolate from CBO's last estimate of the costs of a repeal of the ACA. In this exercise, the SBC plays fair, and gives credit where credit is due – at least mathematically. The SBC extrapolation assumes a lower cost for the insurance coverage provisions, a reflection of a host of factors, pushing the estimated deficit reduction higher. For this deviation from CBO's practice, SBC's critics appear silent.

However, when SBC did find reasons to diminish the deficit savings, that's where critics took issue. Since the CBO's last cost estimate of a repeal of the ACA, two important trends have been identified by the CBO that are directly related to what the ACA will cost going forward and should be considered.

First, CBO has downwardly revised the cost of federal health programs, in particular the projected costs of Medicare. Cuts in these programs contributed to CBO's estimate of the net deficit reduction from the ACA. When the dollar value of these cuts declines, it diminishes the value of the net deficit reduction. The SBC incorporates this in its estimate.

One critic takes issue with the degree to which the SBC discounts these claimed savings and asserts that even if a small portion of the slowdown were attributable to the ACA, than the slowdown "would more than offset" the discounting of the savings. There is no consensus as to how much, if any, of the slowdown is attributable to ACA. Indeed, the SBC and other observers make a good case that the trend predated enactment of the ACA. This reduces the baseline of spending subject to the cuts imposed by the ACA, and therefore the dollar value of the cuts. This is simple math, and is an undeniable change to the health expenditure baseline since CBO's last estimate of the cost of repealing the ACA.

The second key phenomenon that has occurred since CBO's last repeal estimate is an update on the labor market effects of the law. The SBC staff incorporates these updates to estimate an associated decline in the tax

base attributable to the law. Lower tax revenue introduces a countervailing *increase* in the deficit. To estimate this effect, SBC reduced baseline taxable income by the amount CBO attribute to the law, applied the appropriate effective tax rate, and produced an associated revenue loss. The primary criticism of this method is that taxable income only comprises a portion of overall compensation. This is true, but applying the appropriate reduction in overall compensation (one percent) will, on average, proportionally reduce taxable income by the appropriate amount. For the tax loss to be lower, the affected population must have a *lower than average* share of income to overall compensation. The critics are unaware of what the actual share is and therefore cannot make this argument convincingly.

Lastly, SBC should be acknowledged for what it did *not* include in its estimate – specifically future policy changes. SBC did not include the cost of future "doc fixes" or future Congressional action to alleviate providers dropping patients to additional payment cuts in the ACA. For example, recent research has noted that over 200,000 doctors are opting out of ACA exchange products because of low reimbursement rates. If payment rates continue to adversely affect access to care, one could predict Congress spending funds in the future to ameliorate this challenge. SBC incorporated neither assumption, which would further push the ACA deficit effect into the red.

CBO's estimating methodology for program costs is essential to policy debates in Washington, but does not preclude additional analyses that may shed additional light on a given policy debate. To the extent that CBO has ceased estimating the costs of the ACA, these supplementary analyses are valuable. Their value should be weighed on the strength of their underlying methodologies. In the case of the Senate Budget Committee's analysis, their methodology was sound. Unfortunately, its critics do not focus on the underlying methodology, just with their dissatisfaction at its conclusion.