The Heritage Foundation

BACKGROUNDER

No. 3153 | SEPTEMBER 8, 2016

Improving Accuracy in Congressional Scorekeeping

Romina Boccia

Abstract

Congress should account for debt-service costs or interest costs when considering the costs of proposed legislation. Including interest costs would improve accuracy in congressional scorekeeping, ensuring that Congress compares apples to apples when comparing new spending legislation to the Congressional Budget Office baseline. It would further discourage costly budget practices, such as "spend now, save later," whereby Congress authorizes immediate additional spending for delayed savings later in the budget window. This is a simple, easy fix that Congress can make right away. The Cost Estimates Reform Act of 2015 (H.R. 3804), introduced in the House by Dave Brat (R–VA), should attract bipartisan support since improving accuracy in congressional scorekeeping should be a nonpartisan priority.

Congress should account for debt-service costs when considering the costs of proposed legislation. Current scorekeeping conventions fail to account for debt-service costs when Congress considers new legislation outside of major budget proposals. This leads to lawmakers having incomplete information concerning how a proposal will impact the U.S. budget. The practice further enables added deficit spending by encouraging costly budget practices, such as "spend now, save later," whereby Congress authorizes immediate additional spending for delayed savings later in the budget window. Including interest costs in legislative cost estimates would improve accuracy in congressional scorekeeping and should be a bipartisan priority.

Key Points

- Congress should account for debt-service costs when considering the costs of proposed legislation. Cost estimates of legislative proposals confront Congress with the fiscal impacts of proposed legislation prior to passage of a bill on the floor of the House and Senate. They also aid in the enforcement of budgetary rules and targets.
- Including interest costs in estimates of legislative proposals would improve accuracy in congressional scorekeeping, by making sure that lawmakers compare apples to apples when considering proposals against the budget baseline.
- Including interest in cost estimates could put an end to costly budget gimmicks, such as "spend now, save later," because lawmakers would be faced with the debt-service costs of this practice.
- This is a simple, easy fix that Congress can make right away—and improving accuracy should be a nonpartisan priority.

This paper, in its entirety, can be found at **http://report.heritage.org/bg3153**

The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

The CBO Baseline

Several times each year, the Congressional Budget Office (CBO) produces estimates of spending and revenues under current law, based on certain assumptions determined by law under the Balanced Budget and Emergency Deficit Control Act (BBEDCA) of 1985 and general scoring conventions agreed upon by Congress and the executive branch. These estimates, referred to as "the CBO baseline," project spending and revenues for 10 years from the current year.

In establishing the baseline, the CBO makes economic assumptions and budget and technical adjustments that affect spending and revenue programs. These are generally issued each January in *The Budget and Economic Outlook*[1] and are updated in March and in August. Once a year, the CBO also produces the extended baseline, which projects the 10-year baseline budget out to 30 years, using approximate growth rates, in a report called *The Long-Term Budget Outlook*.[2]

Section 257 of the BBEDCA establishes the statutory requirements for these baseline estimates.[3] The law requires that the CBO and the Office of Management and Budget (OMB) assume that current policies governing taxes and spending operate in accordance with the terms set in law. If a tax provision is set to expire within two years, for example, the CBO assumes in its baseline estimates that Congress will allow the provision to expire. For entitlement spending, the CBO assumes sufficient funding to continue spending as authorized in law, even if a trust fund governing such programs is projected to be exhausted within the budget window.

When the CBO constructs its baseline for spending or outlays, the agency relies on its own economic projections for the next decade. The CBO produces estimates of certain key variables, such as interest rates, inflation, and economic growth. In addition to estimating spending for certain programs and aggregating the results, the CBO also includes estimates for how much the government will likely spend on interest payments to service the debt.

The CBO further incorporates dynamic macroeconomic effects of policies in its baseline. The CBO estimates the effect on federal interest payments based on public debt projections, and the effects of labor force participation from changes to means-tested programs, for example.[4]

Scoring Legislative Proposals

Cost estimates of legislative proposals contain critical information. They confront Congress with the fiscal impact of proposed legislation prior to passage of a bill on the floor of the House and Senate. Cost estimates also aid in the enforcement of budgetary rules and targets.

Section 402 of the Congressional Budget Act of 1974 requires the CBO to prepare cost estimates for all bills or resolutions, reported by any committee of the House of Representatives or the Senate. The CBO will also evaluate proposals based on congressional requests during any stage of the legislative cycle. Similarly, the Joint Committee on Taxation (JCT) is responsible for evaluating all tax proposals and the CBO is required to rely on the JCT's estimates in this respect when reporting on legislation that affects spending and taxes.[5]

Proposals that increase mandatory spending are subject to points of order in the House and the Senate, and to budget-enforcement legislation, including the statutory Pay-As-You-Go (PAYGO) Act of 2010. The benchmark against which proposals are estimated is the CBO 10-year baseline.

The 2016 budget resolution adopted by the House and Senate requires the CBO and OMB to provide dynamic analyses, incorporating macroeconomic effects, for all major legislation that will have a significant effect on the economy (defined as legislation that affects revenues, outlays, and deficits by more than 0.25 percent of gross domestic product or is otherwise designated as "major" by the Budget Committee or the JCT).

1. Congressional Budget Office, *The Budget and Economic Outlook: 2016–2026*, January 2016, https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51129-2016Outlook.pdf (accessed August 3, 2016).
2. Congressional Budget Office, *The 2016 Long-Term Budget Outlook*, July 2016, https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51580-LTBO-2.pdf (accessed August 3, 2016).
3. Balanced Budget and Emergency Deficit Control Act of 1985, Section 257, 2 U.S. Code § 907 (1985).
4. Congressional Budget Office, "How CBO Analyzes the Effects of Changes in Federal Fiscal Policies on the Economy," November 2014, https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/49494-FiscalPolicies.pdf (accessed August 11, 2016).
5. Congressional Budget Act of 1974, 2 U.S. Code 653, § 402 (1974).

When Congress considers a proposal that would substantially increase the public debt, the CBO provides estimates concerning the likely increase in outlays as higher debt levels are projected to raise interest rates and thus interest costs, for example. With this proposal, Congress took an important step in the direction of improving the accuracy of congressional scorekeeping. Yet more work remains to be done.

Spending on Interest: A Budget Score Discrepancy

Congress should direct the CBO to produce debt-service cost estimates with every estimate of proposed legislation, and Congress should consider debt-service costs when evaluating whether a proposal and its offsets meet congressional budget rules. Doing so would improve accuracy in congressional scorekeeping, ensuring that Congress compares apples to apples when comparing new spending legislation to the CBO baseline.

Current scoring conventions fail to account for changes to interest spending when considering legislative changes to outlays and revenues. This introduces a discrepancy between the true cost of a bill and the cost reflected within the estimate prepared by the CBO and JCT as it is being considered by Congress.

In essence, Congress is not considering the comprehensive budgetary impact of spending and taxing proposals. This distorts congressional decision making in favor of more spending and debt accumulation than might otherwise be the case. According to Donald Marron, former CBO Acting Director:

> Interest on the national debt is technically a form of mandatory spending, but the congressional budget process does not consider it when evaluating legislation. Legislation might increase or decrease the size of the debt, and thus increase or decrease the amount of interest payments, but those changes fall outside the official budget process.[6]

The CBO does, however, include estimates for net interest outlays in its baseline budget projections to which outlay and revenue proposals are compared. To some degree then, the CBO is comparing apples and oranges. On the one hand it is considering a budgetary outlook assuming no changes to current policy that includes assumptions about net interest costs; on the other hand, the CBO ignores net interest costs when assessing how proposals to change spending and taxing policy would affect the baseline. As the CBO explains its approach to scoring legislation, "[t]o be consistent with long-standing procedures used by the Congress for budget enforcement purposes, CBO does not include [the effects on federal interest payments of such broad proposals' changes to the total amount of federal debt] in cost estimates for specific pieces of legislation or other analyses of specific proposals."[7]

One possible reason for the convention to exclude interest outlays from cost estimates is to isolate only the direct spending and revenue effects from proposed legislation, so Congress may consider these on their own merits. Interest costs are determined by a number of factors, some of which are outside Congress's control, such as market-driven interest rates. In this environment of permanent and growing deficits, it is particularly important for Congress to consider direct spending and revenue effects as well as effects on interest outlays when considering new legislation.

The difference in scores between those that include only direct spending and revenue effects and those that include interest costs can be sizeable. For example, the CBO estimated that in addition to the $816 billion that the American Recovery and Reinvestment Act of 2009, also known as the stimulus bill, would spend over 10 years, it would incur $347 billion in additional interest costs.[8] Congress should consider the full impact of spending proposals, including their effects on interest outlays.

End "Spend Now, Save Later"

Congress employs a variety of budget gimmicks when seeking to offset new spending. One common

6. Donald B. Marron, "Measuring and Managing Federal Financial Risk: A View from the Hill," National Bureau of Economic Research, July 9, 2008, http://www.nber.org/chapters/c9241.pdf (accessed August 3, 2016).
7. Congressional Budget Office, "Processes," https://www.cbo.gov/about/processes (accessed August 3, 2016).
8. Douglas W. Elmendorf, Director, Congressional Budget Office, letter to Representative Paul Ryan (R–WI), January 27, 2009, pp. 1–2, https://www.cbo.gov/publication/20457 (accessed August 3, 2016).

gimmick involves authorizing more funding immediately while delaying savings until later in the budget window. Assuming that delayed savings do come to fruition, current scoring practices mean that lawmakers are not required to fully offset the impact of their new spending legislation.

Additional deficit in years one and two without offsetting this spending during those same years will increase the debt, increasing debt-service costs. If savings to offset this new spending do not materialize until years eight and nine in the 10-year budget window, the legislation could result in a significant increase in debt-service costs, without Congress offsetting this added spending.

On the flip side, Congress might leverage interest savings to offset other spending. If Congress considered legislation that cut spending or raised taxes early in the window, Congress could potentially use such savings to offset new spending that begins later in the budget window. The Affordable Care Act enacted revenue provisions early in the budget window but delayed spending on the law's Medicaid expansion and health care subsidies.

Congress should account for debt-service costs when considering the costs of proposed spending legislation. Doing so would ensure that Congress considers the time-value of money when authorizing new spending. It would improve accuracy in congressional scorekeeping, by making sure that lawmakers compared apples to apples when considering spending proposals to the budget baseline. This would further put an end to costly budget gimmicks, such as "spend now, save later," because lawmakers would be faced with the debt-service costs of this practice.

Include Debt-Service Estimates

Since the CBO is merely following "convention" in not producing interest-cost estimates for all spending proposals reported out of committee, all it takes to make this change is for the congressional budget committees to request that the CBO include debt-service costs in all legislative scores produced by the agency. To enshrine interest-cost estimates as a statutory requirement for spending bill scores, Congress should amend the Congressional Budget of 1974. Representative Dave Brat (R–VA) introduced the Cost Estimates Reform Act of 2015 (H.R. 3804) to do just that.[9] This is a simple, easy fix, Congress can make right away. This proposal should attract bipartisan support because improving accuracy in congressional scorekeeping should be a nonpartisan priority.

*—**Romina Boccia** is Grover M. Hermann Research Fellow in Federal Budgetary Affairs and Deputy Director in the Thomas A. Roe Institute for Economic Policy Studies, of the Institute for Economic Freedom and Opportunity, at The Heritage Foundation.*

9. Cost Estimates Reform Act of 2015, H.R. 3804, 114th Cong., 1st Sess. (2015).