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It's Dynamic

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For years, dynamic scoring has been the frumious Bandersnatch of the left, arousing the sort of scary rhetoric usually reserved for the campfire. "I think it's nuts," Sen. Tom Daschle recently stated, "fantasyland scoring." Two arguments have been floated to justify the vehement opposition. We're told that the economics is so complicated that no professional staff could ever provide a score in time to be useful to politicians -- and that the score will be cooked by supply-siders in order to create the appearance of a free lunch.

Yesterday, in a historic action, the Congressional Budget Office released a careful dynamic score of the president's budgetary proposals. The world didn't end. Proving critics wrong, the CBO's professional staff worked up a timely and thorough dynamic analysis of the budget, and the numbers reflect a wide range of views about the proper way to model the macroeconomy.

One surprise was finding so little difference between the static and dynamic scores of the president's proposals. How could that happen? Clues in the report indicate the CBO found that the negative effect of higher spending and expanded entitlements offset the positive effect of the marginal tax rate reductions. Relying on models similar to those used by the CBO, the president's Council of Economic Advisers estimated that the dividend proposal would, all else equal, add about one percentage point to GDP growth in 2003 and 2004. Yet all else is not equal in the budget, and the remaining changes offset the beneficial impact of pro-growth policy.

These offsetting effects largely work through the crowding out of capital formation by consumption of individuals and government. The CBO dynamic score allows for far more such crowding out than empirical evidence suggests. Even so, now that dynamic scoring has been proven possible, economists can stop debating its existence and turn to the important work of improving the models.

The CBO document has a major shortcoming. It doesn't provide enough evidence to let lawmakers evaluate which parts of the president's proposal provide the biggest kick to economic growth. Discussions of legislative compromise are centering on reducing the size of the president's proposal to eliminate the double tax on corporate income. A transparent dynamic score would make a scaling back of the dividend plan less likely. After all, it is the other components of the budget that are less beneficial to the economy.

Unfortunately, turf issues mean that yesterday's release won't spark the productive debate it should. Scoring authority is divided between the CBO and the Joint Tax Committee. The latter is charged with providing scores on the details of tax bills in a timely fashion, and the committee has been dragging its feet. Now that the CBO's dynamic scoring operation is up and running, the Joint Tax Committee should be required to borrow the apparatus developed by the CBO and begin providing detailed scores of important tax bills. If the committee can't catch up to the CBO's effort, it will be time to reorganize key staffs.

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