JOINT ECONOMIC COMMITTEE
RANKING DEMOCRAT CAROLYN B. MALONEY
UNITED STATES CONGRESS
PRESS RELEASE

Statement of Carolyn B. Maloney, Ranking Democrat

Joint Economic Committee
Tuesday, July 28
As Prepared for Delivery

Thank you Chairman Coats.

Last month, this committee held a hearing on so-called "fair value accounting," a method of calculating the impact of federal lending programs that will make them appear more expensive.

Today, the committee turns its attention to dynamic scoring, a method of analyzing and quantifying the budgetary impact of tax cuts that will make them appear less expensive.

Both methods are very problematic.

And in both cases, they change the rules of the game so my Republican colleagues can get the results they want.

Dynamic scoring has been conservatives' Holy Grail for many years. This is because if tax cuts appear to cost less, it will be easier for Congress to pass more of them.

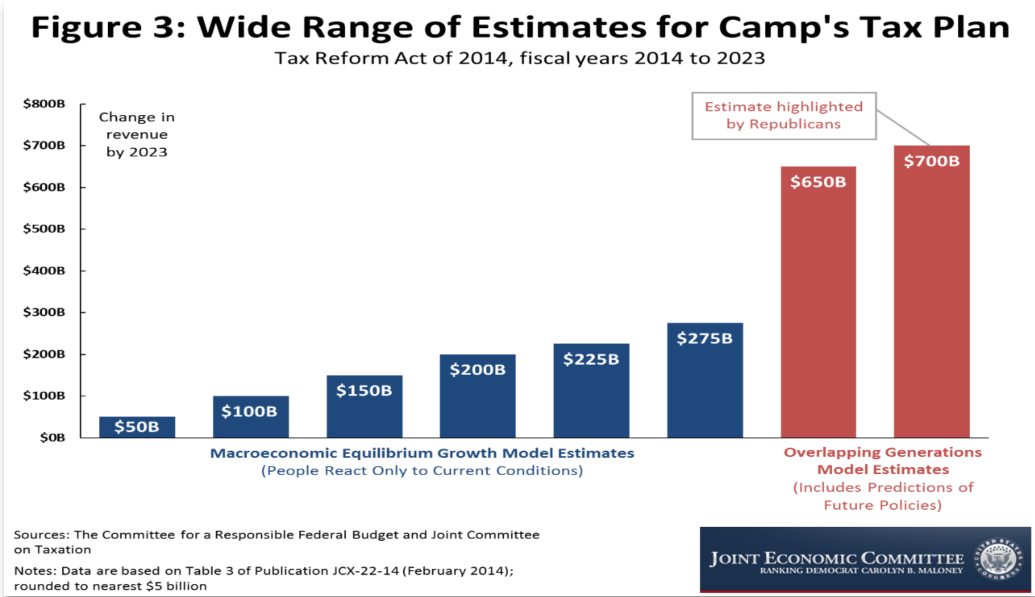
Revenue estimates are based on projections of future behavior. For many decades, budget effects from legislation were estimated using what my Republican colleagues mistakenly called "static" models. These models are not "static" because they anticipate how individuals would react to the legislation, and the models are broadly-accepted by the experts in the field.

Recently my Republican colleagues changed the scoring rule by requiring the estimates to include the effect of legislations on the whole economy, which is called "dynamic scoring."

But there are serious problems with dynamic scoring. One problem is that it provides results that are highly uncertain, vary wildly, and could be subject to manipulation.

Let's take the example of former House Ways and Means Chairman Dave Camp's tax reform legislation last Congress.

The JCT performed a dynamic analysis to see how much additional revenue the tax plan could return to the Treasury.



They used eight different models. They came up with eight different answers – from $50 billion to $700 billion. The largest estimate was 14 times the size of the smallest estimate.

Which estimate did Chairman Camp highlight?

$700 billion. The HIGHEST one.

This leads to two more serious problems with dynamic scoring – there is no consensus on which dynamic scoring model is the most appropriate. And the models rely on assumptions that are sometimes wildly unrealistic.

For example, one dynamic scoring model assumes that if the debt increases as a share of the economy future Congresses will deal with the problem.

The model assumes that in the future there will be no unemployment.

The fact is that dynamic scoring, budget analysts will be forced to choose between deeply flawed, models.

Former CBO Director Rudolph Penner has said that:

> "…dynamic scoring would force analysts to make many more judgment calls than they do today. Quality control would be difficult, and that implies a high risk that ideological biases will pollute the analysis."

There is yet another serious issue with dynamic scoring – new rules require a single estimate.

Until now, JCT and CBO have been required – at the request of the chairman of the Ways and Means Committee – to provide a range of dynamic analysis estimates to reflect the different models and assumptions choices.

But the new rule passed by Congressional Republicans requires JCT and CBO to provide a single revenue projection. And the estimate is official, not advisory.

The example of Dave Camp's bill shows that dynamic estimates for major tax bills can differ by hundreds of billions of dollars.

If the Camp bill had become law and the $700 billion figure proved wrong, deficits would explode.

Because the results are so unreliable, dynamic scoring will compromise the accuracy and integrity of the federal budgeting process.

Former Federal Reserve Chairman Paul Volcker has said simply:

> "I won't believe the numbers."

[PAUSE]

And what happens if the markets come to doubt the integrity of the scoring process?

Former Federal Reserve Chairman Alan Greenspan has said that:

> "Should financial markets lose confidence in the integrity of our budget scoring procedures, the rise in inflation premiums and interest rates could <u>more than offset any statistical difference between so-called static and more dynamic scoring."</u>

Republicans' decision to use dynamic scoring -- a highly unrealistic and deeply flawed method, may by itself have negative consequences that overwhelm whatever positive revenue effects that could be gained by cutting taxes.

There is still another problem with dynamic scoring as implemented by this Congress – it strongly biases policy toward tax cuts.

The new rule applies dynamic scoring only to tax cuts, not to discretionary spending.

There is a broad consensus among mainstream economists that investments in infrastructure, education, and research and development can have a strong stimulative effect. But the new rules do not apply to discretionary spending. For this reason, these investments will seem very expensive relative to tax cuts. And Congress will be more likely to cut them.

But does that mean that we should apply dynamic scoring to discretionary spending proposals as well?

No – because an accurate and impartial method of dynamic scoring remains far beyond the reach of economists and budget analysts.

Until those models improve VASTLY, there is little justification for using dynamic scoring on either tax bills or spending bills.

The dynamic scoring rule serves only one purpose– it helps Republicans reach their Holy Grail….

…. rigging the rules so it's easier for Congress to cut taxes.

Bruce Bartlett, a former aide to President Reagan, put it this way: dynamic scoring is

> "…is not about honest revenue-estimating. It's about using smoke and mirrors to institutionalize Republican ideology."

I look forward to our witnesses' testimony.