

# Strengthening the Congressional Budget Office

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## Executive Summary

- The Congressional Budget Office has made strides to increase transparency, but more can be done making data and modeling available, providing cost estimates for appropriations bills, and providing clarity about the true current law baseline.
- CBO scoring could be improved by utilizing more accurate macroeconomic estimates, incorporating debt servicing costs, using fair value estimates for credit programs, and providing updated estimates when the scoring of enacted laws changes from the original assumptions.
- Congress should begin reauthorizing the CBO regularly, using this opportunity to modernize and update the agency's mission as needed.
- The Budget Committees should ensure the CBO is allocating resources and personnel in a way that meets the needs of lawmakers.

# Introduction

The Congressional Budget Office (CBO) is an essential resource for the Legislative Branch and the American public.

One of the most important oversight responsibilities of the Budget Committees is of the CBO. The Rules of the House of Representatives state that: “The Committee on the Budget shall review on a continuing basis the conduct by the Congressional Budget Office of its functions and duties.”<sup>1</sup> The House and Senate Budget Committees should remain in constant conversation with the Director of the CBO about how to strengthen and improve the agency to meet the evolving needs of Congress.

Similar efforts should be undertaken with respect to the Joint Committee on Taxation (JCT), the official Congressional scorekeeper for revenue legislation.

## Increasing Transparency

An important way to improve trust in the Congressional scorekeepers is by increasing transparency. This principle is reflected in the Congressional Budget Act, which established the CBO.<sup>2</sup>

In response to mounting criticism by Members of Congress and the public, the CBO has made progress increasing transparency in recent years. The CBO has disclosed additional data, published working papers explaining methodology and assumptions, and conducted selected analyses of previous cost estimates. It has also produced a centralized web page and reoccurring reports that increase transparency.<sup>3</sup>

Building on this progress, the Budget Committees can work with the CBO to accomplish additional reforms:

## Expand Availability of Data and Modeling

Transparency is fundamental for the policy making process to function well.

The Budget Committees should require the CBO and the JCT to publish detailed descriptions of how they produce cost estimates, including assumptions, data inputs, and methodologies. A reasonable goal should be to provide sufficient transparency so independent sources could replicate CBO's estimates. H.R. 1492, the CBO Show Your Work Act, introduced by Rep. Warren Davidson (R-OH-08) would require the CBO to publish models used for cost estimates.

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<sup>1</sup> Rules of the House of Representatives for the 118<sup>th</sup> Congress, Rule X, Clause 4(b)(1).

<sup>2</sup> See, for example, Congressional Budget and Impoundment Control Act Of 1974, Public Law 93–344, Sec. 203.

<sup>3</sup> Matthew Dickerson, "Improving Budget Rules and Processes to Achieve Policy Outcomes in the 118th Congress," Heritage Foundation Backgrounder No. 3740, December 12, 2022, <https://www.heritage.org/budget-and-spending/report/improving-budget-rules-and-processes-achieve-policy-outcomes-the-118th>.

## Provide Cost Estimates for Appropriations Acts

Appropriations bills are the most important legislation affecting federal spending considered by Congress on a regular basis. Despite this, the CBO does not provide formal cost estimates on the regular appropriations bills. This is because a loophole in Section 402 of the Budget Act carves out bills reported by the House or Senate Appropriations Committees from the requirement that the CBO prepare cost estimates for legislation reported by other committees.<sup>4</sup>

However, the appropriations loophole does not *prohibit* the CBO from conducting analyses of appropriations bills. In fact, the CBO has disclosed that it “provides detailed reports showing estimates of the discretionary budget authority provided and the outlays that would occur in that year, including the estimated budgetary effects of provisions that make changes in mandatory programs,” including “account-level details.” These analyses are provided to the Appropriations Committee and other “interested parties in the Congress.”<sup>5</sup> However, the data is *not* widely distributed to *all* Members of Congress, their staff, or the public.<sup>6</sup>

In response to questioning from Representative Tom McClintock (R-CA-05) on the House Budget Committee, former CBO Director Keith Hall testified in 2017 that “CBO is developing a plan to make that information available to the public in an accessible format.”<sup>7</sup> While CBO has since then publicly provided additional information about appropriations bills, it has yet to make all relevant analysis available.

Requiring cost estimates on appropriations bills from Congress’s non-partisan official scorekeeper would be an important step towards transparency and uniformity in understanding the fiscal implications of spending legislation.

The Budget Committees should require CBO cost estimates for appropriations bills to include account-level, agency-level, and summary totals (for the budget year and each of the other years in the budget window) for:

- Gross discretionary budget authority;
- The estimated outlays flowing from such budget authority;
- Rescissions of budget authority and the estimated changes in outlays;

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<sup>4</sup> Congressional Budget And Impoundment Control Act Of 1974, Sec. 402 reads: “The Director of the Congressional Budget Office shall, to the extent practicable, prepare for each bill or resolution of a public character reported by any committee of the House of Representatives or the Senate (**except the Committee on Appropriations of each House**), and submit to such committee (1) an estimate of the costs which would be incurred in carrying out such bill or resolution in the fiscal year in which it is to become effective and in each of the 4 fiscal years following such fiscal year, together with the basis for each such estimate.” [emphasis added]

<sup>5</sup> Congressional Budget Office, “CBO Describes Its Cost-Estimating Process,” April 2023, [https://www.cbo.gov/system/files/2023-04/59003-cost\\_estimate\\_primer.pdf](https://www.cbo.gov/system/files/2023-04/59003-cost_estimate_primer.pdf).

<sup>6</sup> Matthew Dickerson, “CBO Has Made Important Progress in Transparency, But Additional Steps Needed,” The Daily Signal, April 27, 2021, <https://www.dailysignal.com/2021/04/27/cbo-has-made-important-progress-in-transparency-but-additional-steps-are-needed>.

<sup>7</sup> Keith Hall, “Answers to Questions for the Record Following a Hearing on the Budget and Economic Outlook for 2017 to 2027 Conducted by the House Committee on the Budget,” Congressional Budget Office, March 3, 2017, <https://www.cbo.gov/sites/default/files/115th-congress-2017-2018/reports/52468-outlookqfrs.pdf>.

- Offsetting receipts and collections;
- Changes in Mandatory Programs (CHIMPs) and the changes in outlays;
- Appropriated mandatory budget authority and outlays;
- The effects of any other authorizing provisions in the bill;
- Notations of different categorizations of budget authority and outlays (such as Defense or Non-defense categories subject to discretionary caps, and disaster, emergency, program integrity, and other adjustments to caps); and
- The net total for scorekeeping purposes.

## Expose the Myth of the "Current Law" Baseline

The CBO's baseline is often described as reflecting current law. However, this is a myth.<sup>8</sup>

There are four deviations from actual current law in the baseline that the CBO is required to incorporate by the Balanced Budget and Emergency Deficit Control Act:<sup>9</sup>

1. Discretionary appropriations are assumed to be continued and grow with inflation each year.
2. Direct spending programs larger than \$50 million are assumed to be extended beyond their statutory expiration.
3. Entitlement programs are assumed to make all scheduled benefit payments, even if a program's trust fund and financing is inadequate to do so.
4. Excise taxes dedicated to a trust fund are assumed to be continued beyond their statutory expiration.

These distortions make spending look much higher and revenues look slightly higher than they would actually be if Congress made no further changes in law. The distortions in the baseline bias the entire budget process in favor of higher spending and higher taxes.

To increase transparency, the Budget Committees should instruct the CBO to provide information describing a true current law baseline and how it deviates from the official baseline.

For cost estimates of legislation that interacts with one of the deviations, such as expiring direct spending programs, expiring excise taxes that go to trust funds, or spending from insolvent trust funds, CBO should be instructed to provide supplementary information describing how the bill would be scored against a true current law baseline.

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<sup>8</sup> Matthe Dickerson, "The Myth of the Current Law Budget Baseline," Economic Policy Innovation Center, November 28, 2023, <https://epicforamerica.org/blog/the-myth-of-the-current-law-budget-baseline>.

<sup>9</sup> Sec. 257 of The Balanced Budget and Emergency Deficit Control Act, Public Law 99–177. Codified at 2 USC 907.

## Modernize the Public Access to Budget Data Requirements

CBO has been a leader in providing information online, including using different accessible file formats. Unfortunately, the laws governing the public's access to budget data are stuck in the 1970s.

Sec. 203 of the Budget Act provides for “Public Access to Budget Data.” However, the specific requirements placed on the CBO reflect a time when individuals had to go to an office in person to create a copy of a physical document. The law does not consider the opportunities and challenges of our modern information age.

As a part of the Budget Committee's review of the CBO, Sec. 203 could be modernized and future proofed.

## Improving Scoring Methods

### Improve Macroeconomic Estimates

Understanding the economic effects of legislation is more important now than ever. However, Congress must also ensure that scorekeeping agencies use best practices when conducting so-called dynamic scoring.

CBO has used outdated models assuming simplistic Keynesian “multipliers” to government spending, which attempt to quantify the change in the gross domestic product (GDP) associated with an increase in government spending. A complete score should include “the other side of the equation” – the diversion of resources from the private sector by taxes or deficit (future taxation) financing for the government spending; those private resources could have otherwise been put to uses with a higher productivity than the government spending.<sup>10</sup> A CBO working paper has shown there are significantly different effects on the economy depending on the sources of financing government spending.<sup>11</sup>

The Budget Committees should require to CBO update its macroeconomic scoring methodology to incorporate the budgetary effects of changes in economic output, employment, capital stock, tax revenues, sources of financing new outlays, total debt of the federal government, international trade, and international capital flows resulting from the legislation. The Pro-Growth Budgeting Act, introduced by Representative Kevin Hern (R-OK-01) in the 117<sup>th</sup> Congress, would implement these requirements.

The CBO and JCT should also be as transparent as possible regarding their dynamic scoring models. For example, the CBO and JCT should discuss their assumptions regarding the long-run equilibrium and the speed of convergence for when the debt-to-GDP ratio stabilizes.<sup>12</sup>

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<sup>10</sup> Curtis Dubay, “CBO Should Update Its Methodology Before Dynamically Scoring Spending Bills,” Heritage Foundation Issue Brief No. 4361, March 5, 2015, <https://www.heritage.org/budget-and-spending/report/cbo-should-update-its-methodology-dynamically-scoring-spending-bills>.

<sup>11</sup> Jaeger Nelson and Kerk Phillips, “The Economic Effects of Financing a Large and Permanent Increase in Government Spending: Working Paper 2021–03,” Congressional Budget Office Working Paper, March 22, 2021, <https://www.cbo.gov/publication/57021>.

<sup>12</sup> As the Penn Wharton Budget Model describes, models “effectively crash when trying to project future macroeconomic variables under current fiscal policy” so modelers add a “closure rule” that assumes changes in taxes or spending that would put the budget on a more sustainable path; see

## Incorporate Debt Servicing Costs for Legislative Proposals

Net interest costs are one of the largest and fastest growing components of the federal budget. Congress should understand how proposed legislation would add to or decrease interest costs.

The Budget Committees should require cost estimates to include the projected debt servicing costs that would be attributable to the legislation. H.R. 311, Cost Estimates Improvement Act, introduced by Rep. Michael Cloud (R-TX-27) would implement this reform.

CBO Director Phillip Swagel has previously testified that “[i]n most cases, inclusion [of debt service costs] would be feasible and require few additional resources.”<sup>13</sup>

## Use Fair Value Methodology for Credit Programs

The Federal Credit Reform Act of 1990 (FCRA) controls how credit assistance programs are counted for purposes of budget scorekeeping. The FCRA method discounts the cost of loans using the interest rates of Treasury securities. However, this understates the actual costs to taxpayers because it fails to take into account market risks.

In contrast, fair-value accounting would take into account the market risk of the cost of credit assistance. A CBO working paper states, “Fair-value budgeting represents a more comprehensive measure of cost for government activities than the measure required under current law.”<sup>14</sup>

The Budget Committee should direct CBO to use fair value budgeting as the agency’s default methodology.

## Provide Updated Assumptions Regarding Major Enacted Legislation

Understanding the past is essential for preparing for the future. When CBO's understanding of the costs of previously enacted legislation are updated based on new information, it should alert Congress to these facts.

For example, the CBO and JCT estimated that green energy tax subsidies in the so-called Inflation Reduction Act would cost less than \$300 billion over ten years. But now, the estimated costs exceed \$650 billion, more than double the original projection.<sup>15</sup> Similarly, the Inflation Reduction Act’s \$80 billion slush

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Penn Wharton Budget Model, “When Does Federal Debt Reach Unsustainable Levels?,” October 6, 2023, <https://budgetmodel.wharton.upenn.edu/issues/2023/10/6/when-does-federal-debt-reach-unsustainable-levels>.

<sup>13</sup> Phillip L. Swagel, “Answer to a Question for the Record Following a Hearing on CBO’s Appropriation Request for Fiscal Year 2023,” May 12, 2022, <https://www.cbo.gov/publication/58129>.

<sup>14</sup> Michael Falkenheim, “Fair-Value Budgeting: Practical Issues: Working Paper 2021-08,” Congressional Budget Office Working Paper, July 29, 2021, <https://www.cbo.gov/publication/57264>.

<sup>15</sup> William McBride and Daniel Bunn, “Repealing Inflation Reduction Act’s Energy Credits Would Raise \$663 Billion, JCT Projects,” Tax Foundation, June 7, 2023, <https://taxfoundation.org/blog/inflation-reduction-act-green-energy-tax-credits-analysis>.

fund for the Internal Revenue Service has only brought in a fraction of the new revenue originally projected by the CBO.<sup>16</sup>

Another instance that should trigger disclosure is if a provision in a previously enacted law that was meant to offset the costs of other spending is later repealed or proves to save less than originally estimated. An example of this is the CLASS Act budget gimmick included in Obamacare that was scrapped before ever being implemented.<sup>17</sup>

The information reported in updates from the CBO could feed into an “offset accountability tracker” cataloguing if Congress is keeping its promises to pay for various legislative proposals.

## Maximizing Resource Allocation

The CBO exists to assist Congress. The Budget Committee must constantly be asking if the CBO prioritizes its staffing allocations and other resources to meet the needs of Congressional priorities.

As a part of this process, Congress must consider the upcoming fiscal challenges and inflection points. In 2025, a massive fiscal cliff is looming, with the reinstatement of the debt limit, the expiration of major provisions of the Tax Cuts and Jobs Act, enforcement of Statutory PAYGO, the expiration of Fiscal Responsibility Act discretionary spending caps, and other policies.

As daunting as that may seem, even larger challenges are forthcoming: the depletion of the Medicare Hospital Insurance Trust Fund, the depletion of the Social Security Trust Fund, rising interest costs, and the potential for the erosion of fiscal space for financing unsustainable spending and deficits.<sup>18</sup>

## Congressional Action: Oversight Opportunity

The Budget Committees serve a unique oversight role in addition to their responsibilities to produce an annual budget resolution and serve as official scorekeepers. They are the only committees with direct oversight jurisdiction over the CBO.

Rather than allowing the agency to float along as it has since its creation in 1974 or to improve only on an ad-hoc basis, the Budget Committees should consider reauthorizing the CBO.<sup>19</sup> This would enable the Budget Committees to regularly review the CBO’s transparency, scoring methods, and resource allocation.

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<sup>16</sup> Matthew Dickerson, "IRS Enhanced Enforcement Falling Short of Projections," Economic Policy Innovation Center, January 17, 2024, <https://epicforamerica.org/blog/irs-enhanced-enforcement-falling-short-of-projections>.

<sup>17</sup> Robert P. Saldin, "Gaming the Congressional Budget Office," National Affairs, Fall 2014, <https://www.nationalaffairs.com/publications/detail/gaming-the-congressional-budget-office>.

<sup>18</sup> Matthew Dickerson, "Upcoming Fiscal Challenges Show Need for Lawmakers to Think Longer Term and Bigger Picture," November 8, 2023, <https://epicforamerica.org/blog/upcoming-fiscal-challenges-show-need-for-lawmakers-to-think-longer-term-and-bigger-picture/>.

<sup>19</sup> Brittany Madni, "CBO Reauthorization: Regularizing Oversight," January 30, 2024, <http://epicforamerica.org/blog/cbo-reauthorization/>.

Finally, the Budget Committees should regularly hold oversight hearings of the CBO, seek input from individual Members, and revise the CBO's mandate as Congress sees fit. This must be an ongoing exercise for the CBO to maintain its maximum usefulness to the Legislative Branch.

The Chairmen of the Budget Committees should assess the priorities of the Congress and clearly communicate expectations to the CBO Director to plan accordingly.