Joint Economic Committee Democrats

Representative Pete Stark (D-CA) – Ranking Member

Economic Policy Brief — May 2003

A Reality Check on "Faith-Based" Revenue Estimation

Executive Summary

The Congressional Budget Office's analysis of the President's budgetary proposals for fiscal year 2004 found that those proposals would add $2.7 trillion to the cumulative 2004-2013 budget deficit. The CBO analysis also provides a reality check on committed supply-siders who assert that a different method of budget estimation known as "dynamic scoring" would produce substantially smaller estimates of the budgetary costs of those policies.

This JEC Democratic staff study finds that CBO's analysis of the potential macroeconomic effects of the President's budgetary proposals provides strong support for critics of dynamic scoring, who believe that it is neither feasible nor desirable to incorporate dynamic analysis into the normal revenue estimating process. In particular, the following lessons can be drawn from the CBO analysis:

- There is no uniquely appropriate model or framework for conducting dynamic budget analysis.
- Considerable disagreement and uncertainty exists about many of the key economic effects and policy assumptions that must be incorporated into this kind of analysis.
- Dynamic analysis is as likely to add to the estimated revenue loss from a tax cut as to lower it.
- Dynamic analysis is unlikely to produce revenue estimates that are substantially different from those produced using current methods of revenue scoring.
- Tax cuts (and spending increases) can also have demand-side (business-cycle) effects in the near term, but those are temporary.

The lessons from CBO's analysis of the potential macroeconomic effects of the President's budgetary proposals strengthen the conclusions of an earlier JEC Democratic staff study comparing the centerpiece of those proposals, the "Jobs and Growth Initiative," with a Democratic alternative. Together these studies show the following:

- In the first year, the Democratic alternative would provide roughly twice as large a boost to jobs and growth as the President's proposal. The Democratic plan raises GDP up to 1.6 percent by the end of the year and creates 1.1 million jobs.
- The President's plan continues to provide demand stimulus beyond when it is effective, which puts upward pressure on interest rates and hurts long-term growth.
- Based on standard budget estimation methods, the President's plan is nearly seven times as expensive as the Democratic alternative.
- When short-run increases in revenue and long-term debt service costs are included, the President's plan is nine times as expensive as the Democratic alternative, yet it is less effective in generating jobs and growth in the short run, while hurting growth and income in the long run.

Chart 1

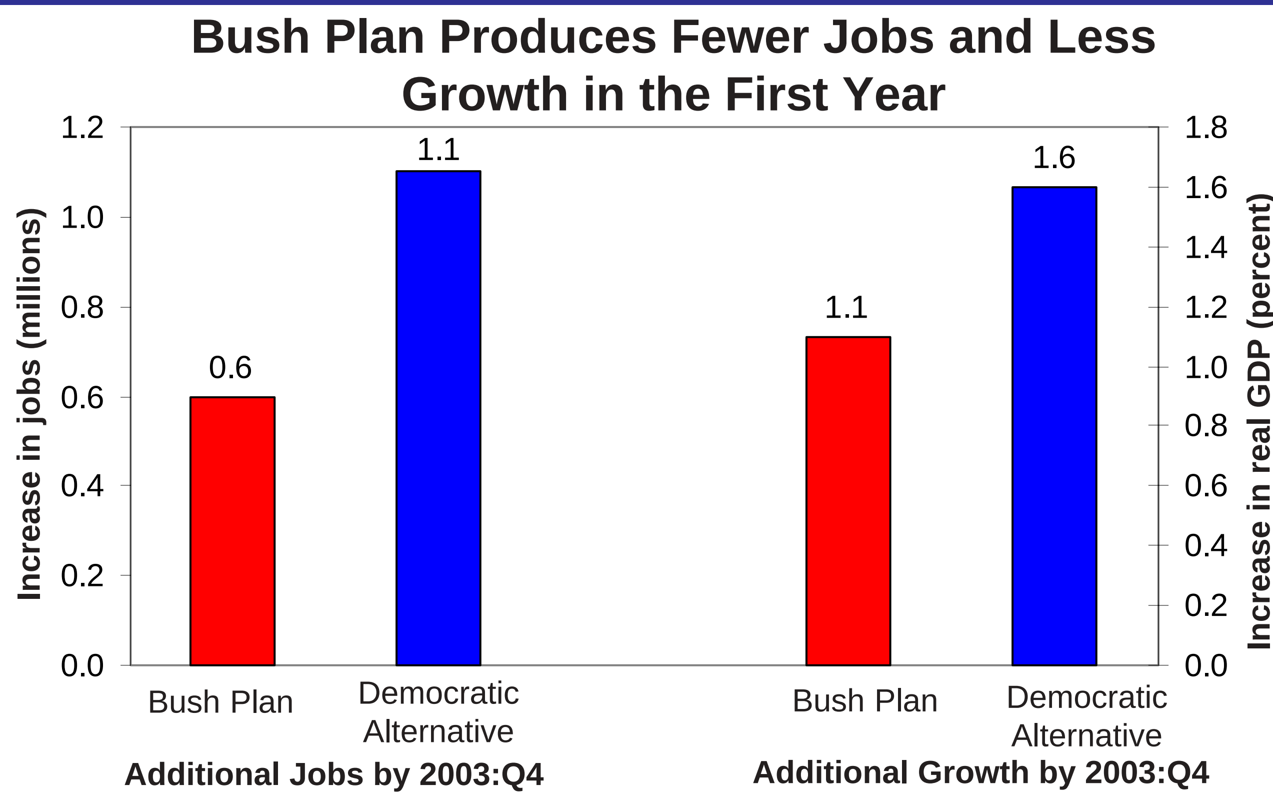
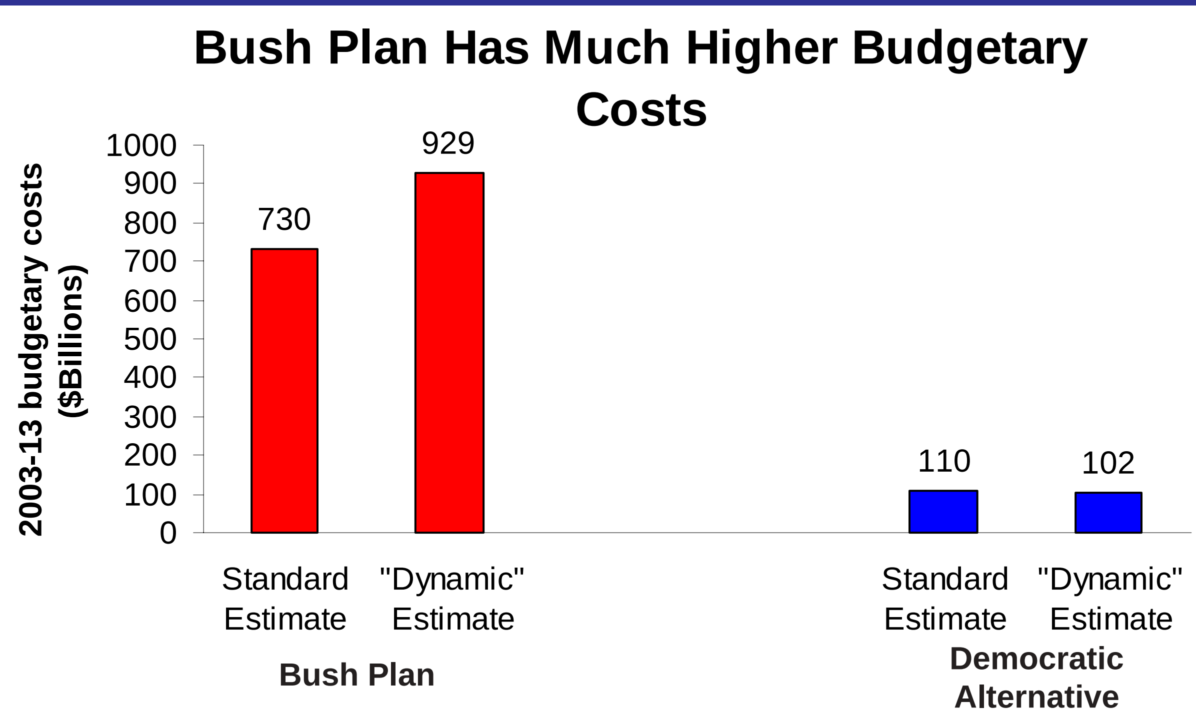


Chart 2



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