Congressional Budget Office

This is an accompanying paper to the economics section of the Revolving Door Project's "Climate Corporate Crackdown" series. It is meant to supplement that chapter's discussion of "scoring policy" by considering a powerful agency related to that function, but which is not part of the federal executive branch, and thus is outside of the thematic focus of the Climate Corporate Crackdown series. Read the economics section of the Climate Corporate Crackdown report here.

I. INTRODUCTION

The **Congressional Budget Office** (CBO) is an agency housed within Congress which estimates the dollar cost of implementing various pieces of legislation. CBO's cost estimates are called "scores." CBO was created in 1974 as part of a series of reforms after President Nixon attempted to impound funds for environmental and public works projects just because he disapproved of them. It was meant as the legislative branch's counterbalance to the executive branch's Office of Management and Budget, which Congress felt overestimated the costs of policies which the President disliked and underestimated the costs of policies which the President approved of.

The CBO is intended to be a non-partisan advisory tool — it does not claim, in other words, that its analysis should be the only thing legislators consider when deciding whether to support or oppose a piece of legislation. **As one CBO insider pithily put it**, "If you ask us how much it costs, we'll tell you how much it costs. If you ask us if it's a good idea, we'll tell you how much it costs."

However, the reality of politics is that high CBO scores are almost always used as a weapon against pieces of legislation by their opponents, typically without any information besides the bottom-line cost estimate to contextualize the number. CBO is also the only legislative advisory office of its type: there is no "Congressional Social Benefit Office," for example, which could analyze a bill's positive impacts with a similar imprimatur of independence.

This imbalance means that even if the CBO miraculously did its job perfectly, its overall impact on American policymaking would still be to bias lawmakers against large-scale transformative legislation, even if that is not the intention of CBO or the fault of its staff and leadership. One notable effect of the CBO's existence is that when policymakers do attempt large-scale transformative legislation, it is often designed through awkward, inefficient, or heavily bureaucratic means as a way of keeping CBO scores low, out of fear that a bill with a high estimated price tag will have fewer supporters and more vocal opposition.

Moreover, while CBO scores are taken tremendously seriously within Congress (Senator Chuck Grassley once said "**CBO is God**"), they are ultimately estimates based on the CBO's assumptions. Economics, like all social sciences, has a wide range of different perspectives and ideologies, and economists' pre-existing perspectives inform the assumptions they build into their models. Almost all of the CBO's work relies on plugging a piece of legislation into a model. This inherently means that the

CBO's ideological assumptions inform their scoring results — and notably, **the CBO's models have never been peer-reviewed by accredited economists**.

Because CBO so highly values its non-partisan reputation, its assumptions almost always reflect the median of the economics profession. But centrism, of course, is an ideology itself. And even if a view appears to be a consensus within a profession (and centrist economics is hardly consensical), that does not necessarily mean that it is correct.

Plus, to maintain its non-partisan reputation, the CBO applies the same set of assumptions across the board at all times, regardless of which party is in power — but also regardless of other shifts within society. For instance, many CBO models attempt to **estimate a bill's impact on one imagined American citizen**, who is a perfectly rational actor. Not only are actual people not perfectly rational, but a model in which the government only acts on one individual has no way to assess inequality, **one of the most important aspects of the economy today**. **Some other common CBO assumptions include**…

- A recession will not happen during the period which the bill covers.
- **Transfers to low-income people reduce the labor force**. (In other words, if the government provides a benefit to the poor, CBO assumes that the poor will automatically work less.)
- Wages equal productivity. (In other words, people who receive a high paycheck are personally generating more goods and services than people who earn less.)
- Deficit financing always leads to higher interest rates. (**This despite over a decade of the federal government running high deficits with interest rates near zero**, and interest rates rising in 2022 amidst **declining deficits**.)
- Higher taxation on corporations and the ultra-wealthy automatically reduces investment, and even reduces overall tax revenues. (**Empirical research** finds no correlation between higher taxes on corporations and the rich and reduced investment.)
- Federal investment — all federal investment — has an average rate of return of about five percent.
- Public investment has about half the rate of return of private investment.
- If the economy enters a recession, social safety net programs like food stamps will be used in their entirety. All of their allocated funds will be spent.
- Social Security and Medicare will eat into general government spending if their own trust funds are depleted. (This is literally impossible. **It's prohibited by statute for either Social Security or Medicaid to eat into general public spending**. The conservative Congress of 1985 mandated CBO make this assumption.)

Another highly relevant assumption: CBO never factors any economic benefits of reduced carbon emissions into its scores, and assumes that no natural disasters will occur, nor be exacerbated by climate change.

Much like OIRA, some critics of CBO feel it should be abolished outright by Congress, while others would have it reform its models and seek to shift Congressional culture around CBO's unquestioned authoritative status. But almost all critics agree that CBO is often used as a corporate tool to deter any major changes in government policy, including on climate change. Passing transformative legislation like the Green New Deal will require both environmental activists and Congress itself to reckon with the power of CBO scoring, and internalize a different way of valuing legislation and interpreting policy.

Unfortunately, because CBO is wholly owned and directed by Congress, there is almost nothing which the President and executive branch can unilaterally do to reform the CBO. Moreover, public efforts to antagonize the CBO strongly risk a dire backlash — a President lashing out at a political actor seen as non-partisan and highly respected would likely rally members who want a similar reputation to the CBO's defense. Changing the CBO must therefore be a long-term project to better educate lawmakers about the flaws with CBO's mandate and process in order to open a path to more concrete reforms. Several options for improving CBO are below.

II. POLICY OPTIONS

Diversify the economists and economic schools who work at CBO

The CBO's history coincides with the rise of the neoliberal consensus of the 1980s - 2010s, in which politicians of both parties pursued deregulatory, anti-labor, and pro-corporate policies. The CBO prides itself on its non-partisan reputation, which was easier to maintain when both parties adhered to extremely similar schools of economic thought. Today, though, both parties encompass much broader ranges of economic thinking, from social democratic policy among Democrats to arch-libertarian beliefs among Republicans.

If for no other reason than to better represent the legislative body it serves, the CBO ought to hire and encompass economists from a much broader range of both literal and ideological schools. While the political right has developed sophisticated pipelines from its institutional training grounds into government posts, including the CBO, any economist with remotely left-of-center beliefs will have a hard time being seen as "serious" enough for a CBO job. This reflects a conservative and frankly elitist culture within the office "**that they stop stupid shit from happening**," in the words of one CBO veteran, and within much of the economics profession in general.

Making the mainstream economics profession recognize the limitations and ideological machinery of the field — and also that this does not *invalidate* the field, but merely means it is one lens for viewing the world among many — is a long-term project which will require work in the academy, the media, and many other aspects of American culture. But for the CBO specifically, diversifying its staff and admitting that its projections reflect conscious and unconscious assumptions on the part of its staff, and that its projections often prove wrong, would actually help legitimate the office and allow it to better advise policymakers.

Make CBO scoring more transparent and comprehensible to the public

Given the extraordinary power which the CBO wields within Congress, it is patently absurd that its methods have never been peer-reviewed. Opening the black box of the CBO is likely scary for the office's most devoted employees and alumni, but is the only way it can actually serve its goal of advising Congress with any sort of honesty and accountability.

The CBO ought to permit peer review and update its practices where qualified economists and social scientists persuasively argue that the office's methodology is lacking. The CBO also should regularly review its scoring decisions from past Congresses and reflect frankly and openly on what it got right, what it got wrong, and where its most recurring errors may be coming from. This again could threaten CBO's reputation as a "god" of economic wizardry which is beyond questioning within Congress. That is a likely obstacle to seeing such accountability measures enacted, but is all the more reason to pursue them if we are to have a democratic and honest legislative process.

End the assumption that private-sector investment always leads to a higher rate of return than public-sector investment, and question the assumptions that led to it.

The CBO assumes that investment in government capacity leads to a smaller rate of return than investment in the private sector, and that government is always a less efficient and effective user of capital than corporations. This means that Congress' most trusted economists don't ring alarm bells when, say, the Securities and Exchange Commission **sheds 200 employees** in a three-year hiring freeze from 2016 - 2019. A smaller SEC staff naturally leads to fewer enforcement actions, which leads to more financial crime that enriches the wealthy and oppresses the less powerful — yet normative CBO models would likely interpret the resulting data as evidence that the economy is growing and becoming more efficient since, in the short run, incomes at the top are higher and the CBO assumes that income and wages correlate with productivity.

This leads to a demonstrably less fair and just economy, and one which provides less opportunity to people lower on the economic spectrum. **Literature from development economics**, moreover, shows that corruption harms long-term economic growth by distorting incentives, reducing available human and non-human capital, and wasting resources on rent-seeking. Watchdog agencies like the SEC are America's front lines in preventing corruption and the economic harms that accompany it, and so should be seen as having long-term positive effects on economic growth. The CBO ought to consider markers of economic health besides incomes at the top, and recognize that a well-regulated and equitable economy is one which is healthy for the long term.

Constantly emphasize that the point of policymaking is to improve American life, not to be frugal.

It is difficult to separate out the problems with how CBO scores government capacity from the broader flaws with the CBO's analytical framework which leads it to its economists' laissez-faire conclusions. In order to win the narrow reforms of better CBO reports on climate legislation or the Corporate Crackdown Project's priorities, one necessarily needs to change the overarching assumptions which leads CBO to the current scores.

Moreover, the **Corporate Crackdown Project**'s own thesis that prosecuting corporate crime is a worthy and politically potent goal is orthogonal to the CBO's narrow goal of presenting the dollar costs of legislation, without any normative judgment on whether a bill's goals are worthy or not. One cannot convert into dollars and cents the value of Americans knowing and trusting that the rich and the powerful are held to account by the law the same as anyone else, but that belief is a critical and necessary prerequisite to a functioning democracy. Hiring more white-collar crime investigators and prosecutors, and paying and promoting them sufficiently to retain their loyalty to the cause, costs money. But what comes out of it is faith in the government, which is indispensable to rebuilding faith in the country as a whole.

Readers should again conclude that price tags are only one component of policymaking and far from the most important one, and that any analysis which centers a legislative proposal's cost over its social and philosophical purpose is necessarily hollow and does a disservice to a democratic society.

Authorship

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Project Information

The **Corporate Crackdown Project** series of reports documents the power of the executive branch to pursue vigilant enforcement against corporate lawbreakers. Beginning in November 2022, the Corporate Crackdown Project has produced three full-length reports and one polling memo produced in conjunction with Data for Progress.

About the Revolving Door Project

The **Revolving Door Project** (RDP) is a project of the Center for Economic and Policy Research (CEPR), a progressive think tank focused on economic policy. RDP scrutinizes executive branch appointees to ensure they use their office in the public interest, not to serve entrenched corporate power or achieve personal advancement.