

In Our Estimation: Episode 1 – Cost Estimates

TRANSCRIPT

[MUSIC INTRO]

Adam Russell: Hello and welcome to *In Our Estimation*, a podcast from the Congressional Budget Office. This podcast looks at the inner workings of CBO and its role in the legislative budget process.

I'm your host, Adam Russell, and today we're discussing cost estimates. What are they? How are they produced? What are they used for? Answering those questions and more is Teri Gullo. Teri is CBO's Assistant Director for Budget Analysis and has been working at CBO for over 30 years.

Teri Gullo: Hi, Adam!

AR: Hi, Teri! Well let's jump right in. So the most basic question I can think of is, what is a cost estimate?

TG: At its core, a cost estimate is pretty simple—it's a projection of how a particular bill would affect federal spending, revenues, and the deficit compared to what spending, revenues, and the deficit would be under current law. That is, if the bill was not enacted.

AR: OK, so why does CBO prepare these estimates?

TG: That's also a simple question. Because the Congress requires us to prepare them. There's a provision of the Budget Act of 1974—the act that created CBO—that requires us to prepare cost estimates for certain pieces of legislation. The estimates are intended to make sure that when the House and the Senate consider a legislative proposal on the floor, Members have information about how its enactment would affect the budget.

AR: So just to provide our listeners with some historical context, CBO was established when the Congress passed the 1974 Budget and Impoundment Control Act, or as it's more commonly known, the Budget Act of 1974.

TG: Yes, that's right. Before CBO was created, budgetary analysis was primarily done by the Executive Branch.

AR: From OMB, or the Office of Management and Budget. That's an agency that reports to the President.

TG: Right, and because that put the Congress at somewhat of a disadvantage, it decided that it needed its own analytic capabilities and its own process for making budget decisions that was independent of the White House.

AR: And for over 40 years then, CBO has been producing these estimates. So during the legislative process, when does CBO get involved and prepare a cost estimate for a particular bill?

TG: So there's two points in the process. CBO is required to provide what we call "formal" cost estimates for all bills when they are approved by Congressional committees. But we also prepare formal estimates at other stages of the process when we're requested to do that by the committees of jurisdiction, by the Budget committees, and by Congressional leadership.

AR: Teri, I can't help but notice there you clarified that these are formal estimates. Does CBO produce informal estimates?

TG: Yes, we do. Informal estimates are an important part of the technical assistance that we provide to the Congress, but most people are probably less aware of that work because informal estimates are often done at early stages in the legislative process.

AR: So could we consider these informal estimates as "unofficial" scores?

TG: You could think of it that way. Informal estimates are not signed by the Director and thus they're not official CBO estimates. And importantly, they're preliminary and subject to change as the legislative proposals we're analyzing change and as CBO gathers more information.

AR: So if these are unofficial, then what's the value in an informal estimate?

TG: The goal of providing this kind of technical assistance and informal estimates for legislative proposals is that Congress wants information as they're developing proposals to help the committees refine their ideas.

Other times we do them for proposals at later stages. For example, when amendments are being considered for a bill on the floor, we also will provide some informal feedback on those amendments. Preliminary estimates provide Members and staff with the information that might lead them to modify their proposals before they become public or before they make final committee decisions on them.

AR: So overall, how many formal and informal estimates does CBO produce?

TG: Typically, we produce about 500 to 700 formal estimates each year. Informal estimates are a whole different ball game, and they can number in the thousands.

AR: Can any Member of the Congress request a formal cost estimate from CBO?

TG: Any Member can ask, but the Budget Act is pretty clear that our priority is the committees. In particular, the Budget committees. And frankly, given our staffing, we realistically are often not able to satisfy requests for formal estimates that don't come from the Budget committees, or the committees of jurisdiction, or the leadership.

AR: So, what if I'm a Member of Congress who wants an estimate for my proposal before it is introduced or potentially considered by a committee?

TG: When a CBO analyst receives a request from an individual Member, they will, if time permits, try to provide informal feedback on the possible direct spending and revenue effects of the proposal. But sadly, the demand for such informal estimates far exceeds our capacity to provide them. So while we try to be helpful to individual Members, we're often not able to provide even informal evaluations for individual Members' requests.

AR: And then are these estimates made public?

TG: All estimates for public proposals are available publicly. However, our estimates of proposals that are not public are held confidentially until those proposals are made public.

AR: OK. Does CBO follow any established requirements or guidelines when producing cost estimates? And who developed those requirements?

TG: We do. There's a variety of laws, rules, and guidelines that have evolved and been developed over the years that set out the process CBO uses. For example, the Budget Act, which we discussed earlier, and subsequent budget laws—in particular, the Deficit Control Act of 1985—provide the general guidelines about the types of information that CBO should include in cost estimates and the rules that govern how those estimates are used.

AR: So what kinds of information would those guidelines cover?

TG: Well, for example, those laws I mentioned outline the number of years that our estimates should cover: five years for discretionary estimates and 10 years for estimates of mandatory programs and for revenues. They also specify how estimates of various accounts and programs should be projected into the future, and they require cost estimates to include other specific information.

AR: So it sounds like cost estimates change over time as the Congress needs different types of information?

TG: Yes, exactly. The kind of information that CBO includes in its cost estimates has evolved over time as the needs of the Congress have evolved. For example, a recent budget resolution and subsequent House rules require CBO to prepare analyses of the macroeconomic effects of some major pieces of legislation and to provide information on the long-term budgetary effects of all proposals.

AR: So if I go to CBO's website and pull up a cost estimate, walk me through what I can expect to see there.

TG: If you're looking at a cost estimate or a series of cost estimates, they're designed to provide a consistent set of information. For the most part, you'll see a summary of the bill's provisions and the budgetary effects of those provisions. A table showing year-by-year effects. A statement about enforceable duties, known as federal mandates, contained in the bill. And an explanation of how we arrived at the estimate—what we label the basis of estimate.

AR: OK, is there anything else that goes in there?

TG: To assist the Budget committees and the Rules committees and the parliamentarian with a variety of enforcement activities, CBO's cost estimates identify whether any of the spending or revenue effects of a proposal are subject to the statutory Pay-As-You-Go law, and whether the bill would have long-term budgetary effects above a specified threshold.

AR: So then are, I guess, every cost estimate that's on the website, are they all the same when it comes to their layout?

TG: Not exactly. For bills that CBO estimates that would have little or no budgetary impact, those estimates are less formal and are quite short. They can sometimes be a page or a half-page long.

AR: It seems like there's a lot of information that you have to pull together here. How many people does it take to produce an estimate? And do you consult with any outside experts when preparing your analysis?

TG: Honestly, it depends on the proposal and its complexity. The number of people that it takes to do an estimate can range from two for a fairly straight-forward one to 30 or 40 people for a more complex proposal. And although CBO's budget analysts are experts in their fields, we often bring in the knowledge and expertise of a diverse range of experts from around the country.

AR: Can you describe some of those diverse experts?

TG: Professors, analysts at think tanks, representatives of industry groups, other private-sector experts, people working for federal agencies, and for state and local governments. Those are the people who often implement the legislative directives, so getting their perspective on bills is pretty important.

AR: Can you give me a recent example of when you guys had to rely on outside experts?

TG: Sure. When CBO was working on all of the health reform proposals in 2017, we spoke to a variety of people: state insurance commissioners, health economists, state officials, insurance companies, just to name a few.

AR: Yeah, health care—that was a pretty big debate last year. So was tax reform, actually. Does CBO estimate the budgetary effects of tax bills?

TG: Some tax provisions. But in the case of the tax reform bill that was recently enacted, it was the Joint Committee on Taxation who provided the estimates. In fact, they provide all estimates for legislation that amends the Internal Revenue Code.

AR: Well, did CBO do any of those estimates then on tax reform?

TG: CBO does provide estimates of the revenue effects of other types of receipts. For example, unemployment insurance taxes, customs duties, miscellaneous fees, and Federal Reserve earnings and their effects on the federal Treasury.

AR: OK. Does CBO provide documentation of its analysis? I guess, in other words, do you show your work?

TG: We do. And that is certainly our intention in every estimate to the greatest extent possible—and within the very tight time constraints we're often working under. Formal cost estimates give as much detail as possible. We lay out what data and other information we used, where we got that information, how we constructed the estimates, and importantly, the sources of uncertainty that surround those estimates.

AR: Now, given that discussion about uncertainty, especially surrounding projecting costs in the future, why does CBO provide point estimates rather than ranges of the budgetary effects of legislation?

TG: That is a very good question—something we get asked about a lot. An frankly, the answer is because the Congressional budget process requires such estimates. Those requirements are found in the Budget Act itself, in annual budget resolutions, in other laws such as the statutory PAYGO law, and in a host of parliamentary rules that require point estimates.

AR: Can you just go a little more into how CBO approaches uncertainty in cost estimates?

TG: Very carefully! CBO analysts are acutely aware of the uncertainty of the estimates we provide to the Congress. And we view our estimates as representing the middle of the distribution of possible outcomes. We frequently explain the estimates that way to Members of Congress and their staffs, and when applicable, estimates contain sections that discuss those key areas of uncertainty.

AR: Can you give any examples?

TG: Sure. Uncertainty comes into play in a number of ways in cost estimates. Some, for examples, critically depend on things like projections of demographic and economic factors. And those are all inherently uncertain themselves. And the range of that uncertainty will vary depending on the sensitivity of estimated budgetary effects to those factors. For example, how states will react to a proposed change to the Medicaid program, how environmental factors such as droughts will affect the cost of farm programs. Those are all very hard things to predict and create a fair amount of uncertainty in the estimates.

AR: So how accurate have CBO's cost estimates been?

TG: Often, it's hard to tell, even in retrospect. We don't always know the incremental impact on the budget of a particular piece of legislation.

AR: Can we ever know for sure?

TG: Sometimes we can figure out whether we were right. For example, the actual spending that resulted from the American Recovery and Reinvestment Act of 2009, which most people refer to as the stimulus bill, was actually roughly in line with the original estimates that CBO and JCT prepared.

AR: But that bill seems more like an exception rather than a rule.

TG: Yeah, actually that's true. Often we can't estimate whether we were accurate or right on because it's not always possible to track new programs after they've been enacted into law.

AR: OK. I guess in retrospect, there's often no way to know what would have happened if the law hadn't changed.

TG: Exactly.

AR: Which would be, I guess, the basis for determining its effects.

TG: Right. And from my perspective, it's important to ask what accuracy means when we're talking about cost estimates that project into an uncertain future. In the really challenging cases, outcomes are so uncertain that great precision may actually be impossible.

AR: So then how would you frame the whole accuracy thing?

TG: I think the questions one ought to ask are: Did CBO get the basic story right in terms of whether the bill would cost or save money? Did we accurately identify the major effects of the legislation? Did we properly capture the differing effects of different versions of the legislation?

And importantly, was our estimate in the same range as other estimates that were prepared at the same time? We hope that we can say “yes” to those questions most of the time.

AR: OK. You know, a great man—Yogi Berra—once said: “It's tough to make predictions, especially about the future.” So, big picture, what should folks take away from CBO’s cost estimates?

TG: I love the baseball analogy, especially since people often describe CBO as the umpires who call the balls and strikes. And I would conclude by saying, CBO makes the best estimates it can often with limited time and limited information. Those estimates are quite uncertain, but they reflect the best information and the thoughtful analysis of a very committed, objective, and knowledgeable staff.

AR: Alright, Teri. Well, I want to thank you for taking the time to explain all of that. This was fun!

TG: Yeah, it was great! Thank you!

AR: If you would like to see the latest cost estimates from CBO, head over to our website, www.cbo.gov. If you would like to leave a comment about this podcast, send an email to communications@cbo.gov.

I’d like to thank our guest, Teri Gullo, for joining us today. I’m Adam Russell and thank you for listening to this episode of *In Our Estimation*, a podcast from the Congressional Budget Office.

[MUSIC OUTRO]