

In tracing CBO's history over more than three decades in his new book, Philip G. Joyce highlights key points when CBO directors could have bowed to pressure from political masters—but none did.



How the Congressional Budget Office Earned its Clout

Reviewed by Jason Juffras



As Congress and President Obama raced to avoid defaulting on the nation's debt in the last week before the August 2, 2011, deadline, the Congressional Budget Office (CBO) dealt a sharp setback to the debt-reduction bill advanced by House Speaker John Boehner. CBO trimmed Boehner's estimated savings of \$1.2 trillion over 10 years to \$850 million, forcing House Republicans to revise their plan. Congress and the president ultimately reached agreement with one day to spare, but only after CBO certified that the package would reduce the debt by at least \$2.1 trillion over the next decade.

CBO was established by the Budget Act of 1974 to provide Congress with the budget expertise and independent analyses that would give legislators greater capacity to counter presidential budget power. In *The Congressional Budget Office: Honest Numbers, Power, and Policy*, University of Maryland professor Philip G. Joyce explains how CBO has met—if not exceeded—those expectations. He posits that the CBO serves not only as a check on presidential authority, but it also subjects legislative initiatives to tough scrutiny, as evidenced in this year's battle over the debt ceiling.

A budget expert who worked in CBO's special studies division from 1991 to 1995, Joyce is well positioned to give us a definitive, comprehensive review of CBO and its impact on federal policymaking. *The Congressional Budget Office* tells an important story of a federal agency that works: CBO is respected for professional excellence, non-partisanship, and its willingness to "speak truth to power." In a time of widespread dissatisfaction with government, CBO provides a welcome reminder that government agencies can set and maintain high standards.

Case Studies Trace CBO's Role

Joyce chronicles the history of this important office in a careful, thorough, and methodical fashion, based on archival research and interviews with more than 60 people (including six of CBO's eight directors) who have played central roles in national budget debates since the 1970s. He traces CBO's role in macrobudgeting (economic and budget forecasting), microbudgeting (cost estimates for legislation), and policy analysis. He uses the Clinton and Obama health-care reform plans as case studies of CBO's involvement and influence in shaping major national policy decisions.

Joyce tells a sober yet uplifting story of leadership and vision, recounting how CBO's founding director, Alice Rivlin, made critical, probing, and even-handed analysis an intrinsic part of the institutional culture. While some powerful members of Congress envisioned CBO as a number-crunching staff arm of the newly-created budget committees, Rivlin insisted on a broader role, applying CBO's economic and budget expertise to a wide range of policy issues. CBO's skeptical 1977 analysis of President Carter's energy policy established CBO as an influential player in federal policy analysis. Appointed by Congressional Democratic leaders, Rivlin also built up CBO's credibility from the outset by casting the same critical eye on the policies of Presidents Ford, Carter, and Reagan.

Although a determined leader like Rivlin can make the difference between mediocrity and excellence, subordinates and successors must follow in her path. Joyce explains in detail the contributions made by other senior employees, by the different units of CBO, and by subsequent

directors who ensured continuity in staff, organizational structure, and analytic methods. The similar policies followed by "Republican" appointees Rudy Penner, June O'Neill, Dan Crippen, and Douglas Holtz-Eakin, and "Democratic" appointees Robert Reischauer, Peter Orszag, and Douglas Elmendorf allowed CBO to cement a reputation for neutral expertise, immune to political influence.

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The Congressional Budget Office thus serves as a case study of how vulnerable public institutions can be. In tracing CBO's history over more than three decades, Joyce highlights key points when CBO directors could have bowed to pressure from political masters—but none did. For example, both O'Neill (appointed in 1995) and Crippen (appointed in 1999) resisted Republican demands for "dynamic scoring" (in essence, assuming economic-growth effects from tax cuts). CBO has been fortunate to have a string of strong, highly respected directors who charted an independent course. At the same time, a strong institutional culture can nurture and protect professional competence: CBO's long history of neutral expertise means that any attempt to politicize the office would probably trigger strong internal and external resistance.

Joyce weaves together many examples and anecdotes from CBO's history to illuminate CBO's role in federal policy debates. In 1981, CBO

was much more pessimistic about the impact of President Reagan's economic plan than the administration, and anticipated the large federal deficits that would ensue (actual deficits, though, were greater than CBO projected).

In the mid-1980s, CBO estimates forced Congress to face up to the large costs generated by the bailout of failed savings and loans.

When President Bush and congressional leaders negotiated a five-year deficit-reduction package in 1990, CBO's projections of the distributional impact were decisive in shaping the final agreement.

CBO also played a role, although unintended, in facilitating the tax cuts proposed by President George W. Bush in 2001, when CBO projected a \$5.6 trillion surplus over 10 years. Although CBO warned that this estimate was subject to considerable uncertainty, Congress and the president quickly squandered the surplus before it ever materialized. Tax cuts, economic recession, the Iraq and Afghanistan wars, and homeland security programs launched after the terrorist attacks of September 11, 2001, quickly returned the federal government to its familiar deficit position.

Deficit Concerns Shape Federal Policy

The book's case studies of the Clinton and Obama healthcare reform

plans attribute CBO's important role not only to its credibility, expertise, and statutory mandate, but also to the persistent deficit concerns that have shaped federal policy since the 1980s. Both Presidents Clinton and Obama vowed that their health plans would not add to the deficit, placing CBO "at the center of a perfect analytical storm," as Joyce states.

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CBO's pivotal role is illustrated by its verdict on the two plans. CBO delivered a blow to the Clinton plan by treating the transactions of the proposed healthcare alliances as part of the federal budget (helping opponents castigate the plan as more "big government") and estimating that it would increase the deficit in its first five years. By contrast, CBO helped seal a successful outcome for the Obama plan by projecting that it would save \$143 billion over 10 years.

Joyce points out that the Obama decision to develop the plan by working through the congressional committee process (which allowed for informal feedback from CBO) led to a more favorable "score" than the Clinton plan, which was drafted through an internal administration process led by First Lady Hillary Clinton and then "dropped in the lap" of Congress.

Joyce acknowledges the limits on CBO's influence as well as the perverse results that sometimes ensue from its scorekeeping duties.

Although CBO sounded the alarm about the risks to the federal treasury from government-sponsored enterprises (GSEs) like Fannie Mae, Freddie Mac, and Sallie Mae as early as 1985, CBO's warnings fell on deaf ears, partly due to the political power and influence-peddling of the GSEs and the reactive nature of Congressional policymaking. The federal

takeover of Fannie Mae and Freddie Mac in 2008 has cost taxpayers almost \$400 billion. Joyce also reminds us that policy is often contorted and distorted to fit within budget constraints, but CBO only serves as the umpire, rather than making the rules.

A Fiscal Paradox

Joyce addresses an important paradox: if CBO is such an effective institution, why is the federal budget process so dysfunctional? The problems are legion. In the face of swelling deficits and publicly held debt that threatens to exceed the gross domestic product, Congress routinely fails to enact appropriations on time or approve a budget resolution (one of the main procedural reforms of the 1974 Budget Act), the cost of entitlements continues to rise, and budget brinkmanship seems endemic.

"The type of information CBO provides ... is only necessary, not sufficient," Joyce argues. "Many of CBO's experiences—from its work on GSE reform, to its admonitions to

Congress to address the nation's long-term fiscal challenges—suggest that only external political imperatives result in progress toward solutions." CBO produces high-quality information, but elected officials must use it.

In a bitterly partisan time marked by declining confidence in government (and other important institutions), bastions of excellence like CBO may be more important than ever. As Joyce states, "Neutral competence shines light on alternatives. In complicated public policy choices, transparency about assumptions is the foundation of neutrality. ... Over its 35 years, (CBO) has modeled precisely the transparency indispensable to reasoned debate and deliberation. ... Reasoned debate is not possible if only conclusions are aired: it requires revelation of assumptions to draw those conclusions."

The Congressional Budget Office is important reading for those who care about government institutions and their ability to serve the public faithfully. CBO shows us that government agencies can exemplify "neutral competence," and provides a model of how we might create and sustain other first-rate government organizations.

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The views expressed in this article are solely those of the author and do not represent any official views of the chief financial officer of the District of Columbia government.