

**CONGRESSIONAL BUDGET OFFICE
– SINCE WHEN DOES TWO PLUS TWO EQUAL THREE?**

Stephen L. Bakke – April 11, 2010

I recently read a commentary written by economist Thomas Sowell in which he recalled that “Abraham Lincoln once asked an audience how many legs a dog has, if you called the tail a leg? When the audience said “five,” Lincoln corrected them saying that the answer was four. “The fact that you call a tail a leg does not make it a leg.”” **So too with the numbers and predictions being forced out of the Congressional Budget Office.**

Overview

The Congressional Budget Office (CBO) has been the foil for the Democrats in Congress as they stormed Obamacare through both houses. It was quite obvious that they continually shopped assumptions, predictions, and directives through the CBO to arrive at the answer they were seeking. While that’s all fine and good – and legal – it behooves us to understand the responsibilities of the CBO, how independently it operates, and what its numbers really represent.

CBO was created by the 1974 Congressional Budget Act. The CBO Director is appointed jointly by the Speaker of the House (Pelosi) and the President pro tempore of the Senate (Byrd). The term is four years with no limit on the number of terms that can be served.

According to its web site, the mission of CBO is “to provide the Congress with the objective, timely, nonpartisan analyses need for economic and budget decisions and with the information and estimates required for the Congressional budget process.” It supports the work of the House and Senate committees on the budget.

The Congressional Budget Office is Not an Independent Audit and Review Firm

The CBO is indeed non-partisan – which I accept and won’t argue with. But as we move into the next phase of debates concerning revising the new health care law, the democrats will constantly point out that their financial predictions are accurate because the CBO generated them. That is patently misleading.

I hear and read comments like, “accepted,” “passed on,” “given green light,” “provided support,” “critically reviewed,” etc. These all describe the CBO reports that are used by (in this case) democrats in support of their claims relative to the financial impact of the new health care law.

Some points to remember when assigning weight to the CBO reports:

- CBO is required to take written legislation at face value and not second guess the plausibility of what it is asked to “score.”

- It is required to accept the assumptions it is given.
- The majority party is able to get an advance “glimpse” at the final report and then “tweek” the assumptions and instructions given to CBO.
- CBO is asked to provide cost and revenue impacts on only a very narrow, specific law or provision of law – and that’s partly the “rub” here.
- CBO’s report must not be interpreted to imply credibility of assumptions or viability of predictions included in the legislation!

I think of CBO as a large calculator/number cruncher. And just like any mechanical or electronic data processing system, garbage in/garbage out.

My observation is that rarely does CBO issue a sideline “parenthetical memo” that says “Hey! Wait just a cotton pickin’ minute!” But that’s just exactly what happened when Congress was heralding the fact that most of the additional health care costs in the new law would be paid for by the “waste, fraud, and abuse” savings in Medicare. I understand that at about the same time, in a different analysis, CBO was asked (officially or unofficially I’m not sure) to acknowledge that cutting hundreds of billions of dollars out of Medicare would strengthen the financial footing of Medicare, and significantly delay any concern over its funding. Of course, each of those studies may have been credible taken alone, but CBO issued a memo pointing out that you can’t have it both ways. CBO referred to this as “double counting.” I refer to it as double spending. If costs are saved in Medicare, that program is strengthened only if those savings are not spent on something else. But as we all know, Congress was making both claims simultaneously.

CBO cranks out numbers having been given assumptions which they do not control or evaluate. They have no duty to evaluate the viability or probability of the assumptions.

What Else About the CBO Cost Scoring Should be Remembered?

Please understand, I don’t blame CBO for any of these issues. They are doing their job. We should continue to keep in mind some of the ways Congress has gamed the system and come up with CBO numbers that look good but have little basis in fact or reason:

- **Consider the “Doc Fix”** - The “Doc Fix” is a legislative measure whereby substantial proposed reductions in Doctors’ reimbursement rates for Medicare and Medicaid are to be appropriately and perpetually delayed. When the CBO scoring results persistently showed marginal or significantly unattractive results, it was necessary to get creative. The inevitable higher costs for “Doc Fix” were in the CBO estimates and the results were unattractive. What happened? “Doc Fix” costs were separated from the reform legislation, **but they WILL be approved separately in different legislation. Thus it will not count against the CBO score for the reform legislation, but will increase the deficit overall.** Impact? Just a couple hundred billion dollars!
- **Front Loading Revenue While Back Loading Costs** – A basic rule in any accounting or budget system is the “matching concept”. That means, in order to be meaningful, revenues and costs **MUST** relate to the same time period. In

public companies, a material violation of this concept would result in fraud charges with the possibility of prosecution. But not in Congress where different rules apply! The final legislation laid claim to being budget neutral or even better, over the decade beginning in 2010. But here's the "rub": Substantially all costs of the reform occurred during the period 2014 through 2019, whereas the revenue (increased taxes and reductions to expenditures for "the Meds") would start immediately in 2010. **VOILA** – out came the desired deficit neutrality. Impact? In the hundreds of billions of dollars.

- **Double Counting** – As discussed earlier, while claiming to be strengthening Medicare by taking out "waste, fraud, and abuse," they used the funds to fund the new law. That's just not right. If you accept the premise of strengthening Medicare's viability in this manner, the funds ARE NOT available to fund reform. **Furthermore, many experts feel these savings will not be possible unless services are actually cut for Medicare recipients.** Nevertheless, CBO had to score it as if it would happen. They had no right to evaluate the viability or probability of the assumption. Impact? Almost \$500 billion.
- **Costs Left out Entirely** – It appears that to operate the new programs, even in the first 10 years, future Congresses would need to vote for billions in additional annual spending. These are referred to as "discretionary spending", but many believe future Congresses will have little choice. These costs were left out of the CBO cost estimates. Impact? About \$114 billion, according to the NY Times.
- **Talk About a CLASS Act!** – The first back loading scam worked so well they tried it again. The legislation created a long-term care program (CLASS Act) which would charge premiums immediately, but the apparent assumption is that those signing up would be younger and require very few benefits during the decade being measured starting in 2010. Once again, revenues early with expenses coming later. Estimated impact? A mere \$70 billion.
- **Student Loan Legislation** – A federal takeover of the student loan program was slipped into the final legislation through some thin thread of logic. This takeover was a separate agenda item, but when they saw they could predict some cost savings compared with the current student loan program, it was attached to the health care legislation. Impact? \$19 million dollars.
- **The State of the States?** – Ever heard of unfunded state mandates? This means that, as a result of this reform, costs for Medicare and Medicaid will increase for each individual state, without funding from the federal government. **CBO estimates do not include this in their cost predictions.** This fact is glossed over by the democrats. Impact? I don't think there is an updated estimate for this cost.

What's the Bottom Line?

Overall I believe it is safe to say that the democrats' "deficit neutral" legislation will actually ADD to the deficit by a half trillion over the next ten years and probably much more. This is borne out by professional estimates in addition to the congressional Republicans. But who knows? I believe it will be a big number. That's why we can't drop the fight to make as many congressional changes as possible so we can start to make revisions to the law that actually do improve health care costs and the payment system.

The following caught my eye as somehow reminiscent of the “shell game” being disguised as legitimate policies and cost estimates:

