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IMPACT OF TAX REFORM – WHY SUCH CONTRADICTIONARY PROJECTIONS?



By Stephen L. Bakke  November 23, 2017

Here's what provoked me:

We constantly hear incredibly contradictory projections coming out of Washington. It's hard to imagine both sides are looking at the same information, let alone even talking about the same topic. But there's a reason, and I have to constantly remind myself of it and attempt to use that explanation to reach a personal opinion about the topic.

Here's my response:

Impact of Tax Reform – Why Such Contradictory Projections?

Democrats and republicans express profoundly contradictory economic impact predictions for legislation. They are generally convincing in their arguments, but “politicians are politicians” and we often end up neither listening nor believing.

What if I told you they were both telling the truth – technically that is. The devil is in the process used to develop their respective “numbers.”

“Scoring” is the legislative term to describe the process of determining the “cost” or “economic impact” of proposed legislation. Surprisingly, there are two distinct methods being used by our Washington politicians. A good example is to look at the proposed impact of tax reform. Confusion arises because democrats are using the CBO's traditional “static” scoring process while the republicans are using a “dynamic” scoring method.

Dynamic scoring takes into account the impact of a policy on different parts of the economy – e.g. the expansionary impact of repatriating foreign earnings or cutting taxes. Republicans are, responsibly I believe, attempting to reflect those in their projections.

Ultimately, democrats get the wrong result by ignoring real and predictable economic impacts, while republicans are subject to error because of the difficulty identifying proper assumptions to use.

Keep these methods in mind as you evaluate future political prognostications.