

# CBO OVERSIGHT: MEMBER DAY

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## HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, D.C., MARCH 7, 2018

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## CBO OVERSIGHT: MEMBER DAY

WEDNESDAY, MARCH 7, 2018

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON THE BUDGET,  
*Washington, D.C.*

The Committee met, pursuant to call, at 10:30 a.m., in Room 1334, Longworth House Office Building, Hon. Steve Womack [Chairman of the Committee] presiding.

Present: Representatives Womack, Woodall, Grothman, Ferguson, Black, Faso, Yarmuth, and Jayapal.

Chairman WOMACK. The hearing will come to order. Good morning, and welcome to the Budget Committee Members' Day Hearing on Oversight of the Congressional Budget Office. Before we begin, I would ask a unanimous consent that consistent with clause 4 of House rule XVI, the Chairman be authorized to declare a recess at any time. Without objection, the request is agreed to.

While CBO was established by the Congressional Budget Impoundment Act of 1974, the agency has not undergone a comprehensive review since its founding more than 40 years ago. CBO's mission has remained the same over the years, but expectations have clearly changed and evolved over time.

So, these hearings in the House Budget Committee are intended to help us learn more about how CBO carries out its nonpartisan mandate to consider potential areas for improvement and to ensure the agency has everything it needs to fulfill its mission.

We started this series of hearings discussing the agency's organizational and operational structure with CBO Director, Dr. Keith Hall. In our second hearing, we began to explore some of the more technical aspects of how they work in crafting an impartial work product to Congress that relies on the CBO to make informed legislative decisions. And last week, we took an even deeper dive into CBO's use of models as a tool in scoring legislative proposals, and what kinds of assumptions are made in that process.

Today will be a little different than the previous discussions. We are providing interested Members of the House the opportunity to be part of the ongoing conversation about CBO's mission, work product, and transparency efforts.

Members who do not serve on this Committee engage with CBO in different ways and can present additional perspectives on the challenges they have experienced in working with CBO and possible improvements on how the agency supports Congress. CBO is necessary for a successful and fully functioning budget process, so we do not take light of any of these conversations.

I look forward to considering ideas brought by Members of the House and continuing to identify potential areas improvement at the agency. Thank you, and with that I will yield to the ranking member, Mr. Yarmuth.

[The prepared statement of Chairman Womack follows:]

**Chairman Steve Womack's Opening Statement:  
Hearing on CBO Oversight: Member's Day**

Washington, March 7, 2018

*As prepared for delivery- House Budget Committee Chairman Steve Womack*

Good morning, and thank you for joining us as we continue our series of hearings on the Congressional Budget Office—a vital and nonpartisan congressional support agency that directly assists the House and Senate Budget Committees.

While CBO was established by the Congressional Budget and Impoundment Act of 1974, the agency has not undergone a comprehensive review since its founding more than 40 years ago.

CBO's mission has remained the same over the years, but expectations have clearly changed and evolved over time.

So these hearings in the House Budget Committee are intended to help us learn more about how CBO carries out its nonpartisan mandate, to consider potential areas for improvement, and to ensure the agency has everything it needs to fulfill its mission.

We started this series of hearings discussing the agency's organizational and operational structure with CBO Director Dr. Keith Hall.

In our second hearing, we began to explore some of the more technical aspects of how CBO actually crafts the impartial work-products Congress relies on to make informed legislative decisions.

And last week, we took a deeper dive into CBO's use of models as a tool in scoring legislative proposals and what kinds of assumptions are made in the process.

Today will be a little different than the previous three discussions.

We're providing interested Members of the House the opportunity to be part of the ongoing conversation about CBO's mission, work product, and transparency efforts.

Members who do not serve on this Committee engage with CBO in different ways and can present additional perspectives on the challenges they have experienced in working with CBO and possible improvements to how the agency supports Congress.

CBO is necessary for a successful and fully functioning budget process, so we do not take light of any of these conversations.

I look forward to considering ideas brought by Members of the House and continuing to identify potential areas of improvement at the agency.

Thank you, and with that, I yield to the Ranking Member, Mr. Yarmuth.



Mr. YARMUTH. Thank you very much, Mr. Chairman. I appreciate your holding this hearing. I am pleased to join you in welcoming our witnesses for Members' Day, our fourth CBO Oversight Hearing. The Congressional Budget Act of 1974 created CBO. For more than 40 years as you mentioned CBO, a nonpartisan agency, has provided Congress with objective and impartial information about budgetary and economic issues.

The agency assists Congress by developing our Nation's fiscal and economic outlook, which helps us understand where we are, and where we are going in terms of deficits and debt under current law. CBO also provides cost estimates for legislation being considered by Congress, which are extremely important in detailing a bill's potential impact, and its effects on deficits.

CBO has never claimed, nor has it ever been expected, to perfectly predict the future. If the staff could I am sure they would be in a much more profitable line of work. However, CBO and its experienced nonpartisan analysts do provide their best estimates possible within the time and resource constraints that Congress gives them.

Nevertheless, CBO has recently been the target of harsh and sometimes unjust attacks. We may hear some of those criticisms today, but I hope the fact that just a handful of Members are testifying at this hearing is an indication that cooler heads are prevailing.

To be fair, Congress has a duty to review CBO's work and ask questions about economic assumptions and methodologies used. And CBO should do its best to provide Congress with explanations for that work, as they have done over the last few hearings. Democrats have certainly raised questions about CBO's assumptions in the past, and I am sure we will in the future. However, we Democrats and Republicans have not been given any reason, in my opinion, to question the integrity of CBO or its analysts.

In the three CBO oversight hearings we have already held this year we have heard nothing that should lead anyone to doubt the character of CBO staff or the soundness of their work. So, I hope and expect that Members giving testimony today will focus on appropriate areas for oversight and will not sink to the level of making ad hominem attacks on CBO staffers, or questioning the integrity or political impartiality of the institution.

CBO tells Congress what we need to know regardless of whether or not it is what we want to hear. That is invaluable. So, Mr. Chairman, I will not take any more time. I look forward to hearing from what our colleagues have to add to this conversation today, and I yield back the balance of my time.

[The prepared statement of Mr. Yarmuth follows:]

**Ranking Member John Yarmuth's Opening Statement:  
Hearing on CBO Oversight: Member's Day**

Washington, March 7, 2018

*As prepared for delivery- House Budget Committee Ranking Member John Yarmuth*

Thank you, Chairman Womack, for holding this hearing today. I am pleased to join you in welcoming our witnesses for Members' Day, our fourth CBO oversight hearing.

The Congressional Budget Act of 1974 created CBO. For more than 40 years, CBO, a nonpartisan agency, has provided Congress with objective and impartial information about budgetary and economic issues. The agency assists Congress by developing our nation's fiscal and economic outlook, which helps us understand where we are and where we are going in terms of deficits and debt under current law. CBO also provides cost estimates for legislation being considered by Congress, which are extremely important in detailing a bill's potential impact and its effects on deficits.

CBO has never claimed, nor has it even been expected, to perfectly predict the future. If their staff could, I'm sure they would be in a much more profitable line of work. However, CBO and its experienced, nonpartisan analysts do provide their best estimates possible within the time and resource constraints that Congress gives them.

Nevertheless, CBO has recently been the target of harsh and sometimes unjust attacks. We may hear some of those criticisms today, but I hope the fact that just a handful of Members are testifying at this hearing is an indication that cooler heads are prevailing.

To be fair, Congress has a duty to review CBO's work and ask questions about economic assumptions and methodologies used, and CBO should do its best to provide Congress with explanations for that work. Democrats have certainly raised questions about CBO's assumptions in the past and I'm sure we will in the future.

However, we, Democrats and Republicans, have not been given any reason to question the integrity of CBO or its analysts. In the three CBO oversight hearings we've already had this year, we've heard nothing that should lead anyone to doubt the character of CBO staff or the soundness of their work.

So I hope and expect that Members giving testimony today will focus on appropriate areas for oversight and will not sink to the level of making ad hominem attacks on CBO staffers or questioning the integrity or political impartiality of the

institution. CBO tells Congress what we need to know, regardless of whether or not it's what we want to hear. That is invaluable.

Mr. Chairman, I will not take any more time. I look forward to hearing what our colleagues have to add to this conversation today and yield back the balance of my time.

Chairman WOMACK. I thank the ranking member. As a reminder, Members have 5 minutes to give their oral testimony. Their written statements will be submitted for the record. Additionally, the majority and minority will each be given 5 minutes per side for members to question each witness following their statement.

I now would like to recognize our first witness, Representative Warren Davidson from the Buckeye State. Thank you for taking time to share your views with the Budget Committee. The Committee has received your written statement; it will be part of the formal hearing record and you will have 5 minutes to deliver your remarks, give or take, given our short turnout here today. And I am going to turn the floor over to you, Representative Davidson.

**STATEMENT OF HON. WARREN DAVIDSON, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO**

Mr. DAVIDSON. Chairman, thank you. And to the Committee, thank you for taking up this time in your Committee's schedule to hear from other Members. And I appreciate your interest in the CBO Show Your Work Act, H.R. 3822.

This is a bill that deals not with pejorative accusations or ad hominem attacks on CBO, it simply says whatever you are doing please show your work. It could be PhD level algorithms, or a Magic 8 Ball, but whatever they do they could show it to the world. The goal is to strengthen the transparency and, therefore, accountability. And in the long run accuracy because they would benefit from the same sorts of open source methods that are popularized throughout the for-profit economy.

Before coming to Congress, I was a manufacturer. Whenever our company was deciding how to price for a quote, or a new product line, or how to value an acquisition, I always worked closely with our CFO and our cost accountants. Owner actions were iterative as we worked to model the critical decisions that shaped our companies. At times, a quick summary report, a chart, graph, or a simple email was sufficient. But I can always get as much detail as needed to understand how the cost stacked up, so that I could accurately assess how the various alternative courses of action could influence the desired outcome.

This open and transparent relationship helped my executive team communicate effectively and my businesses run more efficiently. I was able to execute transactions knowing I had the best data. No section or department within the business held the other hostage.

Congress, and indeed the American people, need the same relationship with CBO. CBO has the vital role as our accounting department in Congress. Given the enormous weight CBO scores have on the ability of the Members of Congress to make policy decisions, it should be a top priority for CBO standards and scores to be transparent, accurate, and of the highest possible quality.

Requiring CBO to release how it scores legislation for informational purposes can help lawmakers fairly judge these bills effectively and accurately model alternative courses of actions. I did not have to guess in business, and when the stakes are even higher here in Congress, we should not hope we should know. For that

reason, last September I introduced H.R. 3822, the CBO Show Your Work Act.

The bill does three things. First, it requires the CBO to publish all data, models, and processes utilized in the analysis and scoring of legislation online. Next, it specifies that the data and information provided must be sufficient so that individuals outside of CBO can understand, replicate, and reproduce the results found within CBO scores.

Finally, should CBO not disclose certain datasets due to privacy, they must, instead, publish a complete list of data variables for that data. This would give users of the model an opportunity to modify inputs using aggregates based on private details kept at CBO. So, for example, you could have the sum but not the individual components, say, of tax returns or prescription drug costs.

Data such as these descriptive statistics, averages, standard deviations, or correlations could include reference to the statute or rule preventing their disclosure. In considering this bill, it is important to remember that academic institutions around the world already do this.

Economists understand that transparency and openness of communication provides a strong safeguard against errors, omissions, and bias. This is why the academic community increasingly requires scholars and economists to show their work before publishing; to ensure the integrity is upheld of the published work.

In one example, the American Economic Association Data Availability Policy reads, "It is the policy of the American Economic Association to publish papers only if the data used in the analysis are clearly and precisely documented and are readily available to any researcher for purposes of replication."

In light of most recent glaring need for transparency concerning the increasingly contentious healthcare and tax reform debates, it is vitally important that CBO adopts this widely accepted and acknowledge data availability standard. So that Members can do our job, and that we have access to our accounting department, and we have access to expertise that may not even be available on Capitol Hill. I look forward to your questions.

[The prepared statement of Warren Davidson follows:]

**The Honorable Warren Davidson**  
**Member of Congress**  
**8<sup>th</sup> District, Ohio**

*CBO Oversight: Member Day*  
House Budget Committee  
March 7, 2018

Chairman Womack, Ranking Member Yarmuth, and Members of Congress, thank you for inviting me to testify this morning about my bill H.R. 3822, the CBO Show Your Work Act.

First, I want to applaud the Committee's efforts on taking up this important topic.

This bipartisan effort aims to strengthen transparency and accuracy within the CBO scoring process. Transparency and accuracy is needed now more than ever given the enormous impact tax legislation has on our macro-economy. CBO has an incredibly important role as Congress' scorekeeper providing budget and cost analysis. In the business world, CBO essentially serves as our accounting department.

Before coming to Congress, I was a manufacturer. Whenever our company was deciding how to price a quote, a new product line, or value and acquisition, I always worked closing with our CFO and cost accounts. Our interactions were iterative as we worked to model the critical decisions that shaped our companies. At times a quick summary report, a chart, graph or a simple email was sufficient, but I could always get as much detail as needed to understand how they costs stacked up so that I could accurately assess how the various alternative courses of action could influence the desired outcome. This open and transparent relationship helped my executive team communicate effectively, and my business itself run more efficiently. I was able to execute transactions knowing I had the best data available.

No section or department within my business held the other hostage.

Congress, indeed the American people, need the same relationship with CBO. CBO has the vital role as the accounting department for Congress. Given the enormous weight CBO scores have on the ability of Members of Congress to make policy decisions, it should be a top priority for CBO standards and scores are transparent, accurate and of the highest possible quality. Requiring CBO to release how it scores legislation for informational purposes can help lawmakers fairly judge these bills effectively, and accurately model alternative courses of action. I didn't have to guess

in business, and when the stakes are higher here in Congress, we shouldn't hope, we should know.

For that reason, last September, I introduced H.R. 3822, the CBO Show Your Work Act.

This bill does three things.

First, it requires the CBO to publish all data, models, and processes utilized in the analysis and scoring of legislation online. Next, it specifies that the data and information provided must be sufficient so that individuals outside of CBO can understand, replicate, and reproduce the results found within the CBO scores. Finally, should CBO not disclose certain datasets due to privacy concerns, they must instead publish a complete list of data variables for that data. This would give users of the model an opportunity to modify inputs using aggregates based on the private details kept at CBO. Data such as descriptive statistics, averages, standard deviations, correlations, would include a reference to the statute or rule preventing them from disclosing the data, and the contact information for the individual or entity who has access to the redacted data.

In consideration of this bill, it's important to remember that academic institutions around the world already do this. Economists understand that transparency, and the openness of communication provides a strong safeguard against errors, omissions, and bias. This is why the academic community increasingly require scholars and economists to "show their work" before publishing to insure integrity is upheld and the published work can stand on its own.

In one example, the American Economic Association's "*Data Availability Policy*" reads:

"It is the policy of the American Economic Association to publish papers only if the data used in the analysis are clearly and precisely documented and are readily available to any researcher for purposes of replication."

In light of our most recent, glaring need for more transparency concerning the increasingly contentious healthcare and tax reform debates, it is vitally important that CBO adopts this widely accepted and acknowledged data availability standard, so that members of Congress, outside experts, and interested parties can understand the CBO's methodology – when appropriate, raise concerns about its limitations or accuracy.

Chairman WOMACK. Thank you, Representative Davidson. Again, pursuant to the rules of the Committee hearing, 5 minutes each side for questions. I will yield to the ranking member.

Mr. YARMUTH. I have no questions, Mr. Chairman.

Chairman WOMACK. Are there any questions on the majority side? Mr. Woodall.

Mr. WOODALL. Thank you, Mr. Chairman. Mr. Davidson, I was struck by what the ranking member said that here is an important issue. We all talk about CBO a great deal, yet only three Members have come forward to try to make a difference in that. I think that is partly because of a confidence that we all like to have in the men and women who work with us in service. I think part of it is because it is so complex.

When you talk about replicating the CBO's work, I believe we have had some hearings, Mr. Chairman, folks have said, "You know what we really cannot be a check and a balance on CBO because we do not have their model. We do not have their capability. We cannot go back and replicate it."

On the one hand, I would imagine that if we could replicate CBO's work there might be more gaming of the system. You and I would sit down with CBO's model and we would work our bill out so that it came back with a favorable score based on that model.

I guess my question is when I go to the private sector and look at some of the big macroeconomic modeling houses they tell me that their formula is the most proprietary thing that they have. They want to keep that a secret. In fact, we had a bill about Wall Street the other day where stock pickers wanted to keep their formulas for picking stocks a secret in that way.

Given your experience in the private sector you would distinguish the work that CBO does, and its need for public transparency from the work that all of those private sector groups do, and their desire for secrecy.

Mr. DAVIDSON. Absolutely, so if you think about a trading firm, they are literally rewriting code all day to get the right algorithm to trade. If you think about, you know, Google they are writing stuff all day to get search results. If you are looking at people to do this, they have proprietary information.

In this case, the information is the American people's information. This is our accounting department and, you know, their formulas should not be proprietary. So, if you think about a spreadsheet or a pivot table that they are looking at, there may be proprietary information that is contained on other sheets. But the top-level data the formula that says this is how, you know, how many people are affected by this change of policy. Well, that is an equation of some sorts. There is math behind it normally. And so, we should be able to say, "Gee, what are the variables that are driving that?"

If you think about a company like G.E., they are undergoing some restructuring. I would assume the board of directors right now is asking lots of questions about the cost accounting in these various divisions of the company saying, "How are we going to save our company?" And I am confident they are not being told by their accounting department, "Well, we cannot really share that with you."



And, you know, essentially, we are here trying to steer the course of fiscal policy for the United States' economy, far more consequential than any one company. And we are doing it blindly, frankly. We just throw stuff in and go, "Well, gee, I hope this gets a good score." And then how dare you question the integrity of the accounting department.

Well gee, what did you base your assumption on? I mean could you show me? Maybe I would understand why if I, you know, make this recommendation we are getting the outcome here. And it may be that you are exactly right, but then legislators could write effective legislation and not be shooting in the dark.

Mr. WOODALL. You would anticipate if your bill became law that I would be able to grab some group of data, or a program or something, and take it down to Georgia State University, and we would be able to run the same model with the same variables on the same formula and come out with the same outcome. When you talk about show your work, you mean we really ought to be able to replicate the work that today goes on behind closed doors.

Mr. DAVIDSON. Right. It should be reproducible. Just the same as the standard for academic research, and same when you are looking at crowd sourcing a project. If they are looking at open source code, it is available and it is out there. You should be able to put the inputs in and people would say, "Gee, what about this idea?" You may actually get even better ideas from the great American public, and the other minds that are focused on other problems.

Mr. WOODALL. Well, I agree with Mr. Yarmuth that we ought to be proud of the men and women who serve us in all the different ways that they do. And I would wonder if anyone would have an objection to being able to replicate that work, because whatever cloud of suspicion hangs over that work today, your idea would dispel that cloud forever. And I am grateful to you for it. Mr. Chairman, I yield back.

Chairman WOMACK. Okay, given the fact that we have 5 minutes each side I would seek unanimous consent to extend the time just a little bit longer, because we do have a couple more members that had a question, and, without objection, we will do that. Just be mindful of the fact that we are supposed to be on the clock. Mr. Ferguson.

Mr. FERGUSON. Mr. Davidson, thank you so much and you too, Mr. Perry; glad you all are here. One of the concerns that I have had, or one of the questions that I have had, and just keep going back to is looking at the accuracy of the data within a 10-year window. Go and pick any year in which you have a CBO score, and then extrapolate out 10 years, and what is the accuracy of that data at that 10-year window?

What we have been told by CBO is that they are 97, I think, percent accurate within 6 years. But they do not have any data to support year 7, 8, 9, and 10. And we are being asked to make long-term decisions on data which we have no idea what the accuracy of that data, or the likelihood of those things coming true is at the 10-year mark.

Would you ever, in your business models, try to look 10 years out and say, "Well, we really have no idea what that could actually

look like and cost our company.” And do you have any suggestions about, you know, what you would do with that? With that lack of certainty in the outlying years as we make really critical decisions based on data that is unclear what the long-term outlook is?

Mr. DAVIDSON. Yeah, I think, you know, rearward looking is a little easier than forward-looking, right? So, when you look back on anything it is hard to know exactly how things are going to turn out in 6 to 10 years, or sometimes 6 to 10 months. But you can look at what the assumptions were, and why you drew that conclusion if you have access to the models.

And so, that is my hope is that we would get more accurate models if there was transparency. And as Mr. Woodall stated, it would be the surest remedy to all the partisan accusations that, “Well, this is bias because of this assumption.” Look, it is math. Here is the formula. This is the assumptions, and if you disagree then at least you would know why.

So, it may be that some people, for example, in tax modeling the whole debate about how much revenue does the government collect comes down to what your assumption on the growth rate is. Well, what is driving the assumptions on that? I think a lot of us looked at the CBO report and talked to some outside people that had more optimistic assumptions than CBO did.

But we did not have the model to go off of, we just had people hoping that they were accurate. We could look at outside models and say why their assumptions were what they were, but we could not and still have not been able to look at what CBO’s model was.

Chairman WOMACK. All right. Mrs. Black, Tennessee.

Mrs. BLACK. Thank you, Mr. Chairman, and thank you Representative Davidson for being here. I, like you, would like to see the information and how they got to where they got to. I think when you are in a business, at least my experience in business, it is a lot easier to be able to make some of those assumptions that are being made because it really is just about numbers in many of those cases.

The thing that I think is so difficult, and I wanted to ask you if you have a recommendation, or if you have looked at other models that do a better job with this are the behavioral assumptions. That has been my biggest complaint with CBO is they make an assumption on how someone is going to behave.

We saw that particularly in the case of the Affordable Care Act. “If you do this, then we think people are going to react this way and do that.” I do not know that there is a good model out there; do you know is there a good model out there? Is there some other scoring agency that you have looked at where you said, “I really like that behavioral assumption model, and I think they do a really good job on that.”

Mr. DAVIDSON. Yes. I think if you look at say, for example, a large retail store like Walmart. How do they run their inventory? How is it that they know that if the store models predict this, we should stock these items on their shelf? They have got great data. They will have reasonably accurate projections off, you know, how many Pop-Tarts they are going to sell in a storm versus how many Pop-Tarts they are going to sell in good weather. And, you know, when they need to have stock.

So, they understand that because it is the specifics of their business, but they really look at it differently by different regions. And so, I am not saying that we can use their exact model to drop in on health insurance, but they are very familiar with their model.

CBO may very well be incredibly familiar with our model, but as the people making the decisions it is guarded, it is veiled. We still do not know why they assume that no matter what we do the same number of people lose coverage on the healthcare plan. It would be nice to see the model, and then we could see well, I do not know I model different behavior.

Now, you could say I believe there is different behavior than the CBO believes, but that is all qualitative. What we would like to be able to do is make it quantitative with a real model.

Mrs. BLACK. Have you seen any other models out there that you could point to say this particular model got things right, got it closer? Because I have not seen any of that.

Mr. DAVIDSON. Well, at the macroeconomic level, I mean, economists exist to make weathermen look accurate, right?

Mrs. BLACK. That is true. Thank you, I yield back.

Chairman WOMACK. All right, Mr. Yarmuth.

Mr. YARMUTH. Thanks, Mr. Chairman. In another day, we are going to start a process, Mr. Woodall is part of it, Chairman Womack and I are part of it, a bicameral bipartisan effort to analyze the budgeting and appropriations process and see if there are solutions we can come up to whatever problems we perceive. And I would think that your proposal would be something that this group might want to consider.

My question about it is, and part of it relates to what former Chairman Black mentioned, but when you listen to CBO here—and we have had three hearings and they have spent a lot of time talking about the components of their analysis. And when you listen to them it actually seems there is more subjective artistic modeling than there is actual data, and so much of it has to do with human behavior.

We know that, for instance, with the ACA all the anticipation was that a lot of companies would decide it was in their economic interest to pay the \$2,000 per employee rather than continuing to provide coverage. And very few companies did that, because they made the judgment that it was more important to retain their workers, to treat their employees well, and that that is something that no model, I think, could have anticipated. And, in fact, I do not think any outside analysis of the ACA anticipated that so few companies would actually make that decision.

So that is one point I want to make. But my question to you is: if we were to have all this information—knowing Congress as I think I do in my now my 12th year—what do you think Congress would make of it if they had all of this information? And what would be the repercussions if you or 10 Members or 50 Members came and said we are convinced that this modeling was wrong, that this process was wrong, this methodology was wrong. What would be the repercussions of that if we had your suggestions in place?

Mr. DAVIDSON. Well I think, you know, so you make the point that how much of it is qualitative versus quantitative. And I think

that is one of the concerns, frankly, that we rely a lot on qualitative data. And you have got companies out there in the private sector where, you know, quant folks, high caliber math folks, are some of the highest demand. I mean you have Ph.D.'s in math signing for million-dollar initial jobs because math is so important to their business.

They are not hoping on some qualitative assumptions. They are building great datasets and using math. I am not saying CBO can pay those, but it may be we have companies making million-dollar decisions with better support than we are making trillion-dollar decisions. And if it were working really well I suppose I would not be as concerned. But if you just back in, in macro, take all the politics away and look at the math, think of all the assumptions we have to have going for us to believe that we are somehow going to collect a trillion dollars extra revenue. Because we are borrowing a trillion dollars, somehow, I assume some people that vote for this stuff believe that in the long run we are going to be able to afford it.

If you are just doing qualitative decisions, maybe it is okay to keep doing that. We have got to get more quant in our accounting department. And if they do have it, I think that making it public might even drive behavior where it becomes common for Members of Congress to have a quant person in their office. I would be looking at that.

I mean, one of the most important hires that we had in our company was cost accounting, because we were pricing stuff, you know, the fate of the company hangs out sometimes on a 10th of a penny in terms of pricing it. You cannot guess at that you have to be, you know, quantitatively accurate.

And I think sometimes when we are modeling these things they are incredibly consequential for the entire economy in the United States but have really big impact on the global economy. And so, I really believe that we are way behind what is happening in the private sector with respect to quantitative data.

Mr. YARMUTH. Well, you did not answer the one question I had was if Congress had all this data, and you have a number of Members who say, "Oh, this is wrong. They should not have done it this way." What happens at that point?

Mr. DAVIDSON. Well, this is common in a business as well, you know, you will have, you know, this person might believe that no, this is the right course of action, but they are supporting it with data. And generally, some people are persuaded more by emotion and qualitative reasoning, and that might be the right answer sometimes.

But facts matter; they are stubborn. And when you have quantitative data and it is supported by, you know, sound logic and math a lot of people are persuaded by that. Now, we would have our debate. We would still have our privileges as Members of Congress. We would make our arguments, but I think we would have the supporting documents. And then, you know, as is the case we would probably have Brookings look at the data and believe that it is this way, and have Heritage look at it and it is that way. It may still have the same kinds of debates, but I think the quality of our debate would be better because it would be based on mathe-

mational models more and more frequently, and we would get more and more accurate just as we have seen the private sector do.

Chairman WOMACK. All right.

Mrs. BLACK. Mr. Chairman, may I just ask if you would yield on just the end of that question, because it was a very interesting question.

Chairman WOMACK. Sure.

Mrs. BLACK. Representative Davidson, what would then happen at the end of the day because you would obviously have a number of people say, "I think it is more the way Brookings, or I think it is more this one, or that one, whichever one you choose." But at the end of the day would we still use CBO as what we would use as in Congress?

Mr. DAVIDSON. Thank you. And so, my bill does not say whether we should or should not have CBO. I think it would be hard to imagine not operating with some kind of accounting department, so I think we should have someone. Exactly what the org chart should look like, I will leave that to those of you who have been spending a lot of time working with them.

I am just looking at it and saying: even if we had the debate as Mr. Yarmuth laid out, at the end of the day we would make a decision whether it was based off of qualitative data or quantitative data, or this person's model or that one; we would decide.

And then, as Mr. Ferguson pointed out over time we would see the results, and we would know who was accurate. I mean we are in the early stages of that experiment today. It was, you know, a five-alarm fire, Armageddon, crumbs on the tax plan. And over the course of the next year or 2, or 5, we will see whether it really is going to have a simulative effect on the economy.

And people are really going to get more take home pay as has been the case, or whether it is really just a rip-off of the middle class. People are already starting to see that in their paychecks. We made the decision based off of something, but time will tell. And I think that is going to continue to be the case even if we do have the back and forth between a higher level of data.

Mrs. BLACK. Thank you. I just think the ranking member brought up something I had not thought about. I appreciate that.

Mr. DAVIDSON. Thank you.

Chairman WOMACK. Good healthy discussion. Thank you, Representative Davidson for your comments, and your desire to seek improvement in our process, and your willingness to take questions today. Thank you.

Mr. DAVIDSON. Thank you, Chairman.

Chairman WOMACK. I would like to now recognize our next witness, Representative General Scott Perry from the Keystone State. Representative Perry, you have 5 minutes.

**STATEMENT OF HON. SCOTT PERRY, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF PENNSYLVANIA**

Mr. PERRY. Thank you. Let me begin by offering my appreciation to you, Chairman Womack and Ranking Member Yarmuth, for this. This is a grand opportunity for any citizen to speak before the Budget Committee.

Members of Congress and the American people should be able to rely on the fiscal analysis of all legislation as accurate. However, the fiscal analysis provided by the Congressional Budget Office, or the CBO, is consistently incorrect and has numerous detrimental policy implications on a variety of policy over the years. Most recently, the CBO came under renewed criticism as Congress continued its push to repeal and replace the Affordable Care Act, or the ACA, in 2017.

In 2010, the CBO projected that 21 million people would enroll in the exchange plans by 2016. The actual 2016 enrollment was 10.4 million. They missed the mark by over 50 percent. And I would just encourage you if that was your mutual fund manager, I suspect you would have some questions about accountability there.

Additionally, in 2016 the CBO projected 22 million Americans would lose health insurance under the House Republican replacement proposal for the Affordable Care Act while ignoring the fact, the fact, that 19 million people either paid the penalty or claimed an exemption from the individual mandate.

Now I just wonder, and it is not to impugn the organization, or any of the individuals in it. I am sure that they are working hard and diligently and believe in their mission, as they should. But I wonder, and I do not know, nor do any of us if that was formulaic, or if they literally disregard what is happening in reality, as opposed to some formula that says at this point we should be at this number, and so that is our starting point.

And you say, "But yeah, I understand that is the formula maybe. But the reality is that never happened, so you should base your assessment on reality," yet they do not.

Another example that comes to mind is from 2015 when Congress authorized the Federal Communications Commission to auction off portions of the electromagnetic spectrum by voluntarily asking public broadcasters to surrender unused space to mobile data providers, including cell phone companies. This auction generated over \$40 billion in revenue for the Federal Government, yet the CBO score indicated that this would yield no revenues to the Federal Government.

Ladies and gentlemen, nations go to war on imperfect information, and the decisions that we make here impact people's lives very closely, very intimately. And my interest is seeking the most accurate, the most correct, information so that we can proceed that. That is my only motivation here.

But even worse than incorrect outcomes themselves is the lack of transparency of the process that Mr. Davidson discussed. We have no idea why these projections were so inaccurate, and if you do not have any idea why they are wrong, you have no way of correcting this course.

And so, we continue to score legislation and make decisions based on what we do not have any confidence in. I just think that is foolish. We do not live our lives that way. Why would we, as a representative of the American people, make decisions for them on that behalf the same way?

To me, we face four critical problems with CBO scoring, which much be addressed to ensure the accuracy of projections in the fu-

ture. Number one, Keynesian assumptions; since its inception CBO's economic models have been based on assumptions that more government spending nearly always yields faster economic growth; the so-called Keynesian multiplier.

Unfortunately, these Keynesian economic policies, in many people's opinion—and I know some others—but in my opinion, have failed in reality, in real life. On the other side of the same coin, the CBO underestimates the benefits of market forces in reforming government programs.

Number two, lack of transparency. To add to this difficulty, the formulas the CBO uses are not public, and they cannot even be evaluated independently. Maybe Congress should not evaluate them. I am not an economist, but my goodness somebody should evaluate them. And after 40 years, I have no idea if they have modernized. This seems archaic to me.

Baseline budgeting. The use of baseline budgeting is flawed, and often construes government spending increases as a given prior to the appropriations process. This results in a distorted view of what is or is not a funding cut. If the funding is off base on the assumed but not authorized or appropriated funding level, any reduction from the assumption becomes a cut. This is a misnomer and unfairly strikes fear in the hearts of vulnerable populations or seniors and our military while simultaneously encouraging more underfunded spending. And that only happens in Washington, D.C.

You know if I go to the store and I say to my wife, "I am going to spend \$100," and that is my plan, but I come home and I say, "Well, I only spent \$85." She is not going to be mad at me and say, "Well, you cut the grocery spending." She is going to say, "Well, good for you. You did not spend as much." That is not necessarily a cut, you know, if it is the same \$100 that you spent the week before.

With your indulgence, Mr. Chair, one more point. Even worse, we do not have a metric to determine the efficacy of the CBO. There is no empirical data to show congressional decisions making has improved as a result of the CBO. However, it is safe to say fiscal responsibility has significantly decreased in the time since its establishment.

While I completely respect the impartiality of the office, I have deep concerns that this process has flaws as demonstrated by the examples I have listed. This has directly limited our ability to address the pressing issues facing the American people, and we need transparency in the process. And again, I thank you for your indulgence.

[The prepared statement of Scott Perry follows:]

**The Honorable Scott Perry  
Member of Congress  
4th District, Pennsylvania**

CBO Oversight: Member Day  
House Budget Committee  
March 7, 2018

Thank you for allowing me time to speak before the Budget committee today. Members of Congress and the American people should be able to rely on the fiscal analysis of all legislation as accurate. However, the fiscal analysis provided by the Congressional Budget Office (CBO) is consistently incorrect and has had numerous detrimental policy implications on a variety of policies over the years.

Most recently, the CBO came under renewed criticism as Congress continued its push to repeal and replace the Affordable Care Act/Obamacare (ACA) in 2017. In 2010, the CBO projected that 21 million people would enroll in exchange plans by 2016. The actual 2016 enrollment was 10.4 million. They missed the mark by over 50 percent.

Additionally, in 2016, the CBO projected 22 million Americans would lose health insurance under the House Republican replacement proposal for the Affordable Care Act, while ignoring the fact that 19 million people either paid the penalty or claimed an exemption from the individual mandate. Even the Speaker called the accuracy of the CBO projections into question.

Another example that comes to mind is from 2015, when Congress authorized the Federal Communications Commission (FCC) to auction off portions of the electromagnetic spectrum by voluntarily asking public broadcasters to surrender unused space to mobile data providers, including cell phone companies. This auction generated over \$40 billion in revenue for the federal government. The CBO score indicated that this would yield no revenues to the federal government.

Even worse than the incorrect outcomes themselves, is the lack of transparency of the process that gets these results- we have no idea why these projections were so inaccurate.

We face 4 critical problems with the CBO scoring, which must be addressed to ensure the accuracy of projections in the future:

- **1. Keynesian Assumptions**
  - Since its inception, CBO's economic models have been based on assumptions that more government spending nearly always yields faster economic growth (the so-called Keynesian "multiplier").
  - Unfortunately, these Keynesian economic policies have failed in real life.
  - On the other side of this same coin, the CBO underestimates the benefits of market forces in reforming government programs.
- **2. Lack of Transparency**
  - To add to this difficulty, the formulas the CBO uses are not public and they can't even be evaluated independently.
- **3. Baseline Budgeting:**



- The use of “baseline” budgeting is flawed and often construes government spending increases as a given prior to the appropriations process. This results in a distorted view of what is or isn’t a funding a cut. If the funding is off base on the assumed, but not authorized or appropriated, funding level, any reduction from the assumption becomes a cut. This is a misnomer and unfairly strikes fear into the hearts of vulnerable populations, our seniors and our military, while simultaneously encouraging more unfunded spending.
- **4. Ensuring Efficacy**
  - Even worse, we don’t have a metric to determine the efficacy of the CBO. There is no empirical data to show Congressional decision making has improved as a result of the CBO. However, it is safe to say, fiscal responsibility has significantly decreased in the time since its establishment.

While I respect the impartiality of the Office, I have deep concerns that this process is flawed, as demonstrated by the examples above. This is directly limiting our ability to address the pressing issues facing the American people and we need transparency in the process. Thank you for letting me address this committee today.

Chairman WOMACK. You bet. Thank you, Representative Perry. Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman. Thank you, Congressman Perry, for your testimony. I am curious have you ever met with CBO?

Mr. PERRY. Well, as a rank and file Member, every time that I seek to get something from the CBO it has to go through a Chairman, and the CBO is always happy to tell me that. So, unfortunately, no I do not have many opportunities to meet with the CBO staff.

Mr. YARMUTH. Well, when they were here over these last three hearings, they stressed that they are more than happy to meet with Members to talk about how they analyze data and issues and so forth. So, I would recommend that you avail yourself of that opportunity. And also, I suspect that maybe if they see your testimony, they would be interested in responding to it which, you know, I think is probably a good idea.

Mr. PERRY. I am happy to have the dialogue.

Mr. YARMUTH. What is interesting to me is, and clearly when we passed the ACA, when CBO scored the ACA, we were talking about something that it affects somewhere around 16 to 18 percent of the economy, 300-plus million people. And it was going to be an exercise that was fraught with complexity and with so many variables that any kind of analysis of either economic or otherwise was going to be fairly difficult to make.

So, you mentioned that. And you mentioned the auction—and I do not know if there are any other examples that you want to provide—but when the CBO has been here for three hearings basically all that has come up is the ACA. And if, you know, granted that was a major, major piece of legislation, but if those are the only examples that somebody can pull out of 40 years of CBO performance when they got something significantly wrong, that is a pretty good track record, I would think.

And when you are talking about the auction, you are talking about trying to predict something that probably the fastest moving segment of civilization was going to be difficult, to say the least. But also, if I am not mistaken, CBO's projection of the auction impact was no different than anybody else's. Virtually everyone thought that it was not going to be as successful as it turned out to be.

So, I just raised those points. I would love to hear more because, again, the CBO is constantly reviewing its record. And, as I said, they have gotten it right far more than they have gotten it wrong. And I just raised those points.

With regard to the ACA, one of the things that I think is important to remember is that there were a lot of things that happened that were not part of the original legislation. So, when you had under the original legislation every State had to opt into the Medicaid expansion Supreme Court changed that in 2012, which changed a lot in terms of the impact. And CBO continually changed their forecasts because of that.

The other point I would mention, and I have raised this in hearings before with CBO, I would ask them "Well, since everything you are doing is somewhat imprecise by nature what about giving

a range that would maybe be more helpful?" And, unfortunately, Congress prescribes to them that they have to come up with an exact number. And so, maybe that is something that we would want to consider changing, because the CBO is subject to the rules that we set up for them.

So, anyway with all that, I did not really have a question except the first one. And I would, again, recommend that you take the opportunity to go meet with CBO and discuss some of your concerns with them. Because you may not be satisfied, and when I discuss some of my concerns I am not always satisfied either. But that is how I—

Mr. PERRY. If I may respond.

Mr. YARMUTH. Sure.

Mr. PERRY. Like I said, I am happy to have the dialogue. We limited the examples to two in the interest of time, which I still failed to be successful at, but we will endeavor to get you more information.

I would just offer this even though I have not put it into legislative language, I have offered in public that I thought maybe a new model, or at least a competing model—and I offered something like where we pick the Democrat side because it is inherently partisan like everything else would pick a firm to do their modeling, and the assessments, and the estimates.

And the Republicans pick one and then we both agree on some independent one. We would do an RFP for 10 years or something like that. And whoever is least accurate drops off and we rebid that and continue a drive towards more and more accuracy, so that we can go forward in these decisions with more complete information.

And like I said, I have not put that into legislative language, but in my opinion what we have now is not working adequately.

Mr. YARMUTH. Thank you for your comments and your testimony. I appreciate that. I yield back.

Chairman WOMACK. I thank the ranking member. Mr. Grothman.

Mr. GROTHMAN. You bring up something that I, quite frankly, was not aware of. But in all their estimates they abide to this Keynesian Holcombe, is that true?

Mr. PERRY. That is the information that I have that was as originally established that is where it is weighted. And I am a person who does not believe wholly, or even marginally, in Keynesian economic theory. And I know that there are always arguments among economists and would be economists, and just your average citizen. But I think that to get an accurate assessment we ought to look at both sides of that equation, not have it tilted towards the Keynesian economic model.

Mr. GROTHMAN. I think it is largely discredited. I mean, I thought it was kind of embarrassing that I was given Keynesian economics when I went to the University of Wisconsin 40 years ago. I always thought it was a stain on UW. Do you think there is any way we can make sure we hire some more open-minded people? Do you ever talk to them? Do they acknowledge that they buy into this Keynesian stuff?

Mr. PERRY. Like I said, as a rank and file Member every time that we try and get something scored from the CBO, or what have

you it has to go through your Committee Chairman, and so on and so forth, and you are frustrated.

And so, I have not had that conversation about how they hire, or if you have to have a Keynesian economic belief in your education and your assessments. I do not know that to be true, and I suspect actually that it is not. But if that is how the modeling is skewed I think that is important for all of us to know. Because we make our decisions oftentimes based on these estimates and the budget window, and so on and so forth.

And I think it really hampers our ability to come up with good policy that is long lasting and visionary. And our adversaries, whether they be China or even someone like Russia, they are not hampered by these decisions. They have a different governing model, and I accept that. But I think that we are limiting ourselves willfully and willfully, and it is unnecessary. And so, that again would be my position.

Mr. GROTHMAN. That will be enough.

Chairman WOMACK. Any other questions? Mr. Woodall.

Mr. WOODALL. Mr. Perry, I think sometimes we think we treat the CBO like we treat the IRS, we do not like what it is doing, but the truth is it is doing what we told it to do. I carry the baseline Budgeting Bill with Louie Gohmert and Congress told you. I told CBO you have got to do it this way. It is very strange to me.

CBO was created to be an adjunct of Budget Committee staff. We are not going to have an appropriations hearing where the appropriation staff director dictates to the Chairman how it is going to be. We are not going to have an Energy and Commerce hearing where the Energy and Commerce staff director dictates to the members how it is going to be.

But in the absence of us setting it up in statute, you know, while Mr. Yarmuth would be a very capable Chairman next cycle, I hope Mr. Womack is the very capable Chairman next cycle. The alternative to us setting it in statute is to leave it in the discretion of Committee Chairman to direct the CBO. Knowing that you speak for the frustrations of a lot of Members, would you be more comfortable if it was not statutory guidance, if it was Committee leadership guidance, or which do you believe protects your interests more?

Mr. PERRY. Well, of course, the caveat is as leadership changes and viewpoints change, if it is left up to Committee leadership, so goes the assessment. But I think that as a small government guy I feel like legislation becomes overwhelming to change, and ultimately limiting as this has over the span of 40 or so years, and does not keep up with the times.

So, I think I would be willing, if that were my options, to roll the dice, and we are all accountable at some point. And if the chair chooses a course that is ineffective, I think that there would be some level of accountability based on the failure or success of that policy decision. I could live with that. That is how our government is supposed to work.

Mr. WOODALL. That is valuable to hear. Thank you, Mr. Perry. Thank you, Mr. Chairman.

Chairman WOMACK. Any other questions? Mr. Perry, we thank you for your comments, and your willingness to take questions. Thank you for your appearance here.

Mr. PERRY. And I thank you so much for the opportunity.

Chairman WOMACK. All right. See Dr. Burgess, it is good to have you here today. I would like to recognize our next witness, Representative Dr. Michael Burgess from Texas. You will have 5 minutes and then we will give each side an opportunity to engage in Q-and-A with you. The floor is yours, sir.

**STATEMENT OF HON. MICHAEL C. BURGESS, A  
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. BURGESS. In our Committee on Energy and Commerce, we sometimes swear witnesses in; you are not going to do that today?

Chairman WOMACK. No, we only swear at them.

Mr. BURGESS. All right. Well, I appreciate you letting me be here today, and talk about what I think is an important—

Chairman WOMACK. Mike, talk right into that mic, if you would, please.

Mr. BURGESS. So, the Congressional Budget Office—

Chairman WOMACK. Back away from that mic just a little bit.

Mr. BURGESS. You know, as we are all aware the Congressional Budget Office does dictate to us, but really, they should be our partner in things, at least that is my approach. And I will submit my entire testimony for the record, but let me just summarize. In healthcare, we are moving to an era where management of chronic disease becomes as important, or perhaps even more important, than the management of an acute episode of an illness. And we can all think of examples of that.

And here is the problem: within the budgetary guidelines within the structure that the Congressional Budget Office works it works off a 10-year budget window. Now, if you have something that is likely to improve population health over a longer term, the 10-year budget window will reflect only the cost of doing that intervention, whatever it is, but will not account for any of the savings delivered.

So, this approach is a way to expand the 10-year budget window to perhaps one or two additional 10-year cycles in order to capture the savings that are available. And the bill is really pretty simple and straightforward in that approach. You do have to have a determination by the director of the Congressional Budget Office that a proposal will result in reductions in budget outlays. That seems pretty simple.

If the CBO determines that a measure would result in reductions, then the CBO shall include a description, an estimation of the reductions in the budget outlays that it provides to Members of Congress. And secondly, it will include the projected savings in the appropriate budgetary out-years.

So, the bill also goes on to define preventive health, because, as you might imagine, any time in the budgetary process when you are changing things, there is perhaps still the ability to open the door to unintended consequences.

So preventive health is defined in the bill, and that means an action that focuses on the health of the public individuals and defined populations in order to protect, promote, and maintain health and

wellness. And the budgetary out-years phrase is defined as meaning two consecutive 10-year periods following the initial 10-year scoring window for a total scoring period of up to 30 years.

This bill would in no way remove the authority of this Committee, or the authority of the authorizing Committees, either the House or Senate. This type of activity would have to be brought to the CBO by one of the relevant Committees. It is not just something that they can undertake.

And, Mr. Chairman, I do not know if there is anyone here who was here the night that Medicare part D passed. That was 2003, and there was a budgetary projection with Medicare part D. And over the next 10 years, I cannot recall the Congressional Budget Office ever coming back and saying "Well, this is what we told you it was going to cost? Here is what it actually did cost."

So, in 2013 or 2014, perhaps 2015 at the latest, we should have, I think, received that information. And if we had, this is what we might have found if they did take into account preventive scoring. We all talked when the part D of the Medicare Modernization Act was passed, that if we treat the diabetes we will have to pay less for amputations, and end-stage renal disease. It is well-known clinical fact that tighter glucose control and better management leads to fewer complications. And it is the complications which are so expensive.

So, I just submit this for your consideration. I see that Ms. Schakowsky is part of your Committee here. She is also on the Energy and Commerce Committee. When the Democrats were in the majority and the Affordable Care Act was considered, I can recall very clearly an afternoon where she was incredulous that Mr. Doug Elmendorf, who was then the Director of the CBO, would not give our Committee credit for any savings that were going to be manifested, and all of the great things that were going to happen in the Affordable Care Act.

So, I will credit Ms. Schakowsky. It was her and Diane DeGette who actually brought this to my attention, and the bill is bipartisan it has bipartisan cosponsors.

So, thank you for allowing me to testify, and I will be happy to take your questions.

[The prepared statement of Michael C. Burgess follows:]

**The Honorable Michael C. Burgess, M.D.**  
**Member of Congress**  
**26<sup>th</sup> District, Texas**

*CBO Oversight: Member Day*  
House Budget Committee  
March 7, 2018

Thank you, Chairman Womack, Ranking Member Yarmuth, and members of the Budget Committee, for holding this hearing today. I appreciate the opportunity to come before all of you today and be part of the conversation to improve the important mission and work of the Congressional Budget Office (CBO).

As all of you may be aware, chronic disease, such as diabetes, accounts for over 70 percent of all health spending, and by improving wellness and disease prevention, we can improve our healthcare system. A healthier society is something we can all support. However, Congress' ability to enact meaningful prevention policies is hampered by how legislation is scored for its budget impact by CBO.

Today, CBO reports budgetary implications of preventive health legislation in a ten-year timeframe. So, it is unable to recognize savings from those initiatives in budgetary out-years, denying Congress a complete picture. In our current financial environment, it is critical that we have all information about the budgetary ramifications of our policy proposals, particularly related to health care.

With health costs rising and utilization continuing to grow, I believe it is time to highlight the enormous health benefits and long-term cost savings of preventive health measures. To move forward, we must modernize the way CBO scores preventive health legislation.

Last year, I along with Reps. Diana DeGette and Todd Rokita, the Vice Chairman of the Budget Committee, introduced **H.R. 2953**, the *Preventive Health Savings Act of 2017*. This bill is a narrowly tailored and responsible approach to updating the existing budget law. This bill would direct CBO to analyze scientific medical data to provide information on the savings of preventive health initiatives in the two 10-year periods beyond the existing 10-year window.

It defines preventive care narrowly and requires that preventive care treatments be credible and proven through publicly available epidemiological projection models incorporating clinical trials or observational studies in humans. This approach prevents the legislation from being misused and emphasizes the importance of using evidence-based practices, strong metrics, and data to design and implement prevention and wellness initiatives.

Bending the cost of a significant and complex problem as chronic disease is not an easy or quick endeavor. Even though many businesses have seen results in fewer than ten years, legislation like this is necessary because it will allow CBO to more accurately project the true implications of programs affecting children and other populations or disease states with longer development periods that require an extended view.

I look forward to continuing the discussion on how this legislation can enhance the work CBO performs for Congress and assist all of us in gaining a stronger insight on the true impact preventive health policies could have on our nation's health care system and populace. I welcome your thoughts and suggestions. Again, thank you.



Chairman WOMACK. Dr. Burgess, we really appreciate your testimony. Mr. Yarmuth.

Mr. YARMUTH. Thank you, Mr. Chairman. Thank you, Dr. Burgess. You and I, back when we were debating the Affordable Care Act, had some spirited discussions and arguments. And I think it is accurate to say we do not agree on much, but I totally agree with you.

Mr. BURGESS. That is correct.

Mr. YARMUTH. I totally agree with you on this. It is something we have raised, or I have raised, a number of times with CBO. And I tell you the answer they give, which is not something that I think is sufficient. But the answer they will give is that there are so many added balancing costs when people live longer that it is very difficult to make that kind of analysis.

And I have asked the same question about education: under current rules and 10-year budget windows we could not have passed the original G.I. Bill because all of the economic benefits of those educational payments accrued after a 10-year budget window after World War II.

So, this is something that we absolutely have to deal with if we are going to do any kind of long-term thinking in this body, we have to, in some way, figure out how to anticipate long-term implications budgetary and otherwise, so I thank you for your contribution.

And I would hope that in our joint special Committee that Mr. Woodall and Chairman Womack and I are part of, we can address this issue as well. So, I thank you and I yield back.

Mr. BURGESS. I thank you for pointing out. It is necessary to take the long view sometimes.

Chairman WOMACK. Mr. Woodall.

Mr. WOODALL. Thank you, Mr. Chairman. I had never considered as I have looked at your legislation, Dr. Burgess, the comments that Mr. Yarmuth just made. Would you anticipate that a multi-decade analysis showing both the cost savings because you were improving health outcomes, as well as cost expenses because folks were remaining on Medicare longer, remaining on Social Security longer? I have always anticipated that it was going to help us provide better funding for preventative diseases, but I could certainly understand how it starts to value a life as opposed to value prevention. How does the legislation anticipate that?

Mr. BURGESS. Well, I can. And I am going to go back to my discussion on the Medicare Modernization Act, and perhaps some of those questions could be answered by a study. What is the 10-year interval since the passage of the Medicare Modernization Act, or more correctly its implementation in January 2006? What does that study show us about what is the behavior of populations managed in this way over a longer period of time? Perhaps we could gain some insights. It is quite possible that, hey, there is no impact, but I do not believe that will be the case.

And then in medicine, we talk about a phenomenon known as the compression of morbidities. So, you take the statin so you do not have the heart attack at age 48 or 52, but something is eventually going to happen. We all wear out at some point. The object is

to keep that person as healthy and useful and engaged in productive activities for as long as possible.

Then, when the inevitable end is in sight, there will be a compression of morbidities, and perhaps that timeline will be sufficiently short that it will not bankrupt the budget. Otherwise, as those of us who are fortunate enough to be baby boomers come down the pipe, we are going to cost those that come after us a lot of money.

Mr. WOODALL. Well, you are as conservative a Member as we have in Congress. You bring a bipartisan piece of legislation today. It has always struck me that every time you talk about saving money, it is in the name of making people's lives better by preventing bad outcomes, as opposed to making their life worse by taking something away. You only want to take away sickness, and I have always been grateful to you for that. Thank you. I yield back, Mr. Chairman.

Chairman WOMACK. Any other questions for the witness? Dr. Burgess, we truly appreciate your appearance before the Committee today, and grateful that you have taken time out of your schedule to share your thoughts with us.

Mr. BURGESS. Thank you. May I leave some materials for the record? Do you have a record in the Committee?

Chairman WOMACK. We do, and as part of our opening, your prepared statement will be made a part of the official record.

Mr. BURGESS. Right. Thank you very much.

Chairman WOMACK. You bet. That completes the Committee's business that I see for today. Is there anything left for the good of the order? Not hearing any, I would like to thank all the Members who shared their views before the Budget Committee, and this Committee stands adjourned.

[Whereupon, at 11:27 a.m., the Committee was adjourned.]

**Statement of William M. “Mac” Thornberry  
Chairman, Committee on Armed Services  
Before the Committee on the Budget  
CBO Oversight: Member Day  
March 7, 2018**

Chairman Womack and Ranking Member Yarmuth,

Thank you for this opportunity to testify today to engage in the ongoing conversation regarding the Congressional Budget Office (CBO)’s mission, work product, and transparency effort. I appear before you today to ask for consideration by the Budget Committee to modify the standards of how multi-year service contracts are scored, and describe mandatory spending issues associated with the authorization of multi-year contracts, using commercial satellite communications (COMSATCOM) as an example.

Based on current standards provided to CBO by Congress, multi-year contracts for services is predominantly scored as mandatory spending for the out-year costs. CBO scores these provisions conservatively, and subsequently anticipates a mid-term cancellation of a contract which result in significant termination costs. The termination costs would be an obligation to the government and therefore mandatory spending. The scoring and assumption of termination liability has led to a general aversion to authorizing multi-year service contracts in previous authorization acts.

Over the past several years, Congress, working with the Department of Defense and the industrial base, has attempted to provide multi-year contract authority for service contracts. Currently, such contracts are purchased on a one-year basis. This fixed level of contracting authority does not allow for future planning for both the Department and private industry. Providing multi-year authority for the Department would allow for lower costs over the life of the contract, and would provide a demand signal for the industrial base to move forward with necessary capital investments.

For example, the amount of commercial satellite communications purchased in an average year is approximately \$200 million. In discussions with industry and the department, a five-year contract for the same communications could total \$700 million over the life of the contract, or an average of \$140 million per year. Over this five-year period, there could be a savings to the taxpayer of \$300 million in discretionary spending.

Not only does a CBO estimate of a multi-year contract provision not account for any potential savings in discretionary spending, but CBO also determines a mandatory spending cost in the form of a termination liability. CBO assumes a possible breach of contract for each multi-year agreement, and this estimated termination liability is scored as a mandatory obligation to the government. The estimated mandatory spending associated with the commercial satellite communication contract example above is in the range of \$200-\$300 million, which seemingly obviates the discretionary savings over the term of the contract.

CBO’s stated mission is to produce independent analyses of budgetary and economic issues to support the Congressional budget process. To meet that intent, the Budget Committee should work with CBO to review and update how they assume termination liability, how they score

multi-year contracts, and where appropriate risk should be tolerated. We should encourage legislation that projects to generate significant savings, whether that be discretionary or mandatory.

Changes to CBO practices should allow for these proposals to become law. One option could be to provide a discount on the termination liability by offsetting the amount by any estimated discretionary savings over the life of the contract. Another option could be to reduce or eliminate termination liability as an estimated obligation to the government.

In closing, CBO remains a dynamic and supportive non-partisan organization that has routinely proved itself to be capable of adapting to new models, assumptions, analytical tools. As the Budget Committee considers possible changes to these standards, I would welcome further discussion on the scoring of multi-year service contracts.

**House Budget Committee  
CBO Oversight: Member Day  
March 7, 2018**

**Statement for the Record**

**Sam Johnson  
Chairman, Social Security Subcommittee  
Committee on Ways and Means**

Chairman Womack, Ranking Member Yarmuth, and Members of the Committee:

Thank you for the opportunity to submit a statement for the record on CBO Oversight as it relates to issues of importance to the Ways and Means Social Security Subcommittee. First, I will discuss the Social Security Subcommittee's work examining the differences between CBO's and the Social Security Trustees' projections of Social Security's solvency. Then, I will discuss CBO's scoring conventions and House rules that make it difficult to make commonsense changes to Social Security, followed by CBO's responsiveness to Authorizing Committee requests. And finally, I will discuss the limited value of certain CBO publications.

Differences between CBO and the Social Security Trustees

During my time as Chairman, the Social Security Subcommittee has focused on the ongoing differences in CBO's and the Social Security Trustees' projections of Social Security's solvency.

Both CBO and the Social Security Trustees have been looking at Social Security's finances for decades. However, they paint very different pictures of just how much trouble Social Security is in. CBO projects that the combined Social Security Trust Funds will be exhausted in 2030, while the Trustees project that this will not occur until 2034. CBO's projection of Social Security's 75-year actuarial deficit is about 1.5 times that of the Trustees'.

With CBO and the Trustees so far apart, it's hard to know if a Social Security plan will actually make the program solvent. While a plan may be sustainability solvent according to the Trustees, it might only get you a couple additional years of solvency according to CBO.

In early 2016, Chairman Brady and I asked CBO and Social Security's Chief Actuary to take a look at each other's projections and help us understand how they come to such different views of Social Security's future.

On September 21, 2016, the Social Security Subcommittee held a hearing to discuss what they learned. According to Dr. Hall's testimony, about two-thirds of the difference between CBO's and the Trustees' projections comes from their economic and demographic assumptions, while the remaining one-third comes from different modeling approaches. In particular, they differ on assumptions about: labor force participation rates; wage growth, which affects the amount of earnings subject to payroll taxes; demographics, particularly fertility and mortality rates; and long run real interest rates.

The hearing restarted the conversation between CBO and the Trustees about their different approaches. Following the hearing, CBO made some changes to its labor force participation model. These steps are a good start, but the two still remain far apart.

In order to protect Social Security and strengthen it for generations to come, Congress needs to be sure the action it takes will work. Oversight of CBO's Social Security projections is a key role the Budget Committee can play as part of our shared commitment to strengthen Social Security.

#### Bills with a 10-Year Cost but Long-Term Savings

As you know, House Rules generally focus on the 10-year scoring window, and CBO mainly produces scores for this time period. However, for Social Security purposes, we're concerned with the program's long-term solvency and look at the effect of policy changes over the 75-year window. There are a number of Social Security bills that have a cost in the 10-year window but improve Social Security's solvency overall.

The Senior Citizens' Freedom to Work Act of 2017 (H.R.3077) is a good example. H.R. 3077 fully eliminates the penalty on seniors who choose to enter, remain in, or return to the labor force while also receiving Social Security retirement benefits. The bill costs \$192 billion over 10 years but actually reduces Social Security's long-term costs and improves Social Security's actuarial deficit. This is because individuals would be able to access their earned benefits regardless of earnings level, which is strictly a timing shift from a scoring perspective.

The focus on the 10-year window makes it difficult to move this type of practical legislation and just doesn't make sense for Social Security bills. Consideration should be given to whether CBO scores for legislation affecting Social Security benefits should include the 75-year score, in order to provide an accurate view of their long-run impact.

#### CBO's Responsiveness to Authorizing Committees

Another issue I would like to raise before this Committee is CBO's responsiveness to Authorizing Committees' scoring requests. As you know, CBO plays an important role in supporting the Congress's efforts to develop and advance legislation. CBO must provide timely responses for this process to work like it should. However, CBO can take weeks, and sometimes months, to get started on a scoring request. I am interested to know how CBO decides the order of priority for scoring requests and how CBO balances these requests with its other work. Given some of what I've seen over the years, this is an issue that would benefit from further discussion.

Due to responsiveness issues, the Subcommittee on Social Security has relied more heavily on the Social Security Actuary to provide scoring information for policy development decisions. Policy development would benefit from more ongoing dialogue with the staff at CBO.

#### Value of Certain CBO Publications

The final issue I would like to raise concerns the value of certain CBO publications. As you know, CBO produces a number of reports in addition to scoring legislation. Some of these reports, such as the Budget and Economic Outlook, provide important information to the

Congress and the public, and are directly related to CBO's other work. However, other reports, such as the Budget Options books, often provide little value to the Congress.

The Budget Options books often include proposals that are unworkable as scored. Social Security changes typically include a phase-in to give people time to plan. For example, in my solvency plan I phased in benefit changes over 10 years. However, the options in the Budget Options books typically don't include phase-ins, meaning they show higher savings than could actually be achieved in practice. Despite their limited value, the Budget Options books – and specifically the resources invested in developing those books – are often cited as a reason why CBO can't be more responsive to the Subcommittee's scoring requests, even though this workload is not required by statute.

The Committee may want to consider the value of all CBO publications in the context of the usefulness for policy development purposes. Like all agencies, CBO does not have indefinite resources and direction on how to better use those resources may be merited.

Thank you for the opportunity to submit a statement for the record on these issues of importance to the Committee on Ways and Means Social Security Subcommittee. I look forward to continuing to work with my colleagues to make sure the Congress has the best, most accurate information available when it comes to Social Security.

March 6, 2018

Honorable Steve Womack  
Chairman  
House Committee on the Budget

Honorable John Yarmuth  
Ranking Member  
House Committee on the Budget

Dear Chairman Womack and Ranking Member Yarmuth:

I write to provide testimony to the House Committee on the Budget regarding a much-needed change in the scorekeeping rules that control the Congressional Budget Office's ("CBO") cost estimates for legislation authorizing or mandating the sale, exchange, or transfer of federal lands. CBO cost estimates should provide Congress all relevant information regarding the budget consequences of enacting proposed legislation and the scoring rules for federal land transfers fail to do so.

Current CBO scoring rules consider proposed transfers of federal land to have no cost to the federal government, as long as the parcel is not expected to generate receipts over the next ten years. This scoring prevents CBO from providing accurate information to the American people regarding the inherent real estate or natural resource value of public land.

In failing to account for the value of land beyond what it generates in receipts, CBO is working under the assumption that land owned by the American tax-payers is worthless, except for its mining or timber or grazing value. As a result, legislation to give Grand Canyon National Park or Yellowstone to a private developer would only score as a loss of entry fee receipts.

I implore you to address this scoring failure.

The Office of Valuation Services within the Department of the Interior and the Forest Service conduct appraisals whenever there is a legislative proposal for a land conveyance, sale, or transfer. Appraisers determine the market value of the parcel and that information is provided to the CBO. CBO *may* take market value into consideration but, per their current scorekeeping rules, the estimates provided to Congress only calculate lost receipts. Expanding current rules to require consideration of the appraised market value of federal parcels will significantly increase the validity of CBO scores for public land sales.

This failure to value land beyond its ability to generate fee receipts must be considered with the fiscally-irresponsible change to the rules of the House of Representatives authored by House Natural Resources Chairman Rob Bishop of Utah at the beginning of this Congress. The rule states that transferring ownership of public lands belonging to all Americans "shall not be considered as providing new budget authority, decreasing revenues, increasing mandatory spending or increasing outlays." This rule change aligns with the House Republican's plan to give away America's public lands for free as it would allow Congress to ignore the minimal cost CBO does consider and pretend that the American taxpayer has lost nothing of value.



I appreciate the opportunity to testify on this important topic, and I hope we can work together to better value our public lands.

Sincerely,

Raúl M. Grijalva  
Ranking Member  
House Committee on Natural Resources