Dynamic Scoring

Like many bad ideas, at first glance it seems quite reasonable. Suppose we have a government surplus, with say 10% more tax revenue than we need to cover government spending. That suggests we can cut tax rates 10%. But suppose the tax cut increases the amounts that people work, save, and invest. Then all that extra productivity will generate even more tax revenue, so really, we can afford to cut taxes 15% or 20%.

It's called “Dynamic scoring” – the idea that we should take into account the incentive effects of tax cuts when we forecast how they'll impact tax revenue. And the economists who create those revenue forecasts routinely do that for individual behavior, reflecting how a higher cigarette tax will change how much people smoke.

But they've typically not done that for the whole economy, for a reason. As I pointed out in January and February, both economic theory and the accumulated evidence show that the incentive effects of tax cuts on working, saving, and investing are pretty much zero. So the revenue forecasters in the scenario above would say nope – all we can afford is a 10% tax cut.

To a true believer though, that's not good enough. Conservatives ”know” that tax cuts boost economic activity by enormous amounts. They “know” that they can slash tax rates, and still be able to pay for all the government programs we need. So to them, making economic forecasters include the “real” incentive effects of a tax cut is a really big deal – which is why one of the first things the Republicans in Congress did this January was to adopt a rule requiring dynamic scoring by the Congressional Budget Office.

[Incidentally, why are they called “conservatives”? It's not because they're fiscally conservative, because dynamic scoring is a sure fire way to increase the deficit. Indeed, every time conservatives have gotten into power, in 1981 and 2001, deficits have ballooned. Maybe they're called “conservatives” because they like to conserve old, tired ideas, despite all the evidence to the contrary. Like denying evolution, despite 150 years of evidence that supports the theory of natural selection. Like denying global warming, despite the overwhelming evidence that has built up over 20 years. So I guess that it's easy for them to hold onto the Gospel of Ayn Rand, and believe the “truth” of a 1950s novel, despite 80 years of economic evidence.]

So how well does dynamic scoring work? Whenever the economists at the Congressional Budget Office have applied it this year, it’s had a negligible impact, just as I'd predict. So done correctly, dynamic scoring makes pretty much no difference whatsoever.

But what happens when you put this in the hands of the true believers? To find out, just check how well Wisconsin is doing, budget-wise. The US economy is near full employment, but we are once again in a fiscal crisis, this time to the tune of $2.2 billion. The “conservatives” in Madison way over-projected revenue growth, because they “knew” that Walker's tax cuts were going to result in enormous economic growth. They “knew” that jobs would be created at an amazing pace, totally ignoring Wisconsin's consistently poor job growth record throughout the last 4 years. But to a true believer, facts are immaterial.

Now, because of their incompetence, we're facing a fiscal crisis at a time when most states are deciding what to do with their surpluses. Because they're incompetent, the UW System is being gouged. But don't expect them to backtrack, to admit their mistake. Because to true believers, the only speed is full speed ahead, even if there's a cliff straight ahead.