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Discussion of: “Dynamic Analysis at the US Congressional Budget Office”

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What I learnt from the CBO presentation

- Dynamic scoring, contrary to the static one, provides fully-fledged information of economic and budgetary impact of legislative measures
- However, dynamic scoring could be cumbersome (in terms of data, assumptions and models) and time consuming
- Thus, better to carry it out if worth it (e.g. in case of major legislation) and if enough time is available for the analysis (scarce resource in a parliamentary context)
- So maybe more fit for ex-post program evaluations and analysis or for ex-ante multi-year plans (e.g. public-infrastructure-enhancement plans)

Dynamic scoring/analysis in Italy

- Cost estimates have to be provided for by the government on each legislative measure presented to Parliament; estimates systematically double-checked by PBOs and, for major ones, by UPB
- For the most part, these cost estimates are «static», although assumptions on behaviours (e.g. benefit take-up) have to be made
- However, some effects are considered: 1) the automatic impact on revenues that a specific measure automatically entails (“*oneri riflessi*”, e.g. the increase in personal taxes and social contributions from a rise in public workers’ gross wages); 2) the direct (“first-order”) estimated impact on revenues from specific measures, notably incentive programmes (“*effetti fiscali*”, e.g. the rise in VAT revenues, net of estimated “deadweight losses”, from car purchases following incentive programmes on private-car renovation)
- Second case is sometimes controversial as there can be misuse (too-optimistic claims of «self-financing measures»): important role for PBOs and UPB here

Dynamic scoring/analysis in Italy

- At a macro level, favourable feedback impact of National Recovery and Resilience Plan on GDP included by the Government in multi-year fiscal strategy to fund permanent expansionary measures
- UPB assessment very critical of this non-prudent approach (inappropriate funding instrument for permanent measures; insufficient information on timing/assumptions; overestimated impact compared to UPB model and those of other forecasters; NRRP implementation risks)
- Need to avoid “asymmetric” treatment of dynamic analysis: in general, despite potentially being a commendably prudent approach, it is not carried out in case of fiscal consolidations (normal case in Italy because of high debt)

Dynamic scoring/analysis at UPB

- At UPB, analysis/assessment of cost estimates are generally based on a “static” approach
- Ongoing project for integrating tax/benefit model with DSGE model (Italian section of QUEST model)
- At a macro level, dynamic analysis regularly used in the endorsement process of the government’s policy macroeconomic framework and in the assessment of the official fiscal strategy

Dynamic scoring/analysis at UPB

- In Spring and Autumn, endorsement process of official macroeconomic frameworks feeding into Stability Programme and Draft Budgetary Plan
- Endorsement takes into account, *inter alia*, both UPB macroeconomic forecast and those of a panel of 4 private forecasters
- At first, endorsement of unchanged legislation macroeconomic scenario
- In a second step, endorsement of the “policy” macroeconomic scenario incorporating the fiscal consolidation or expansionary plan
- UPB (internal) fiscal forecast/projections are carried out twice taking into account unchanged-legislation and policy UPB macroeconomic scenarios

Some issues for discussion

- In your experience, is there a tension between full consistency of macroeconomic and fiscal frameworks and the practical difficulties of achieving that?
- Is there a risk of providing non-cautious assessment of financial impact of expansionary legislative measures?
- In a context of relatively scarce resources, to what degree is dynamic scoring a desirable goal compared to others like strengthening distributive analysis or sustainability-impact assessment of legislative measures?
- On a more technical level, what are the most challenging model-related difficulties to carry-out reliable dynamic-scoring analysis?