

Deciphering The CBO

Obscure Scorekeeper Of The U.S. Budget Game

For those who have been following news on Capitol Hill lately, the Congressional Budget Office (CBO) has been in the hot seat.

Policymakers say, “We’re not buying the CBO’s estimates,” or “[It’s] notorious for getting things wrong.”¹

The current U.S. Treasury Secretary, Scott Bessent, called the recent CBO scoring “not real [and] a lot like Enron accounting.”² He went on to criticize the CBO for using “nonsensical rules.”³

Well, it’s not the first time that policymakers have attacked the CBO. Back in 1980, President Reagan called the CBO estimates “phony” when the CBO scored his tax cuts conservatively.⁴

But why so much fuss with what seems to be a quirky government think tank? It turns out that this unelected office in Congress wields surprising influence in the federal budget process.

Let’s unpack the CBO’s importance.

FOUNDATIONS

According to the U.S. Constitution, out of the three branches of the U.S. government, the legislative branch, or Congress, has “the power of the purse.” However, Congress has not always had control over the budget. Analysis shows that the President was in the budgetary “driver’s seat” before 1974.⁵

Before 1974, when Congress passed spending bills, it was then the Executive Branch’s authority to execute the actual funding. Further, the President was responsible for planning the federal budget by submitting annual budget proposals through the Executive Branch’s Bureau of the Budget (later renamed the Office of Management and Budget, or OMB).

In other words, Congress lacked the power to ensure that the President followed through on funding bills and the capacity to develop budget estimates independently of the President’s.

The situation escalated in 1974 when the Nixon administration threatened to ignore or withhold (also known as “impound”) Congress’s approved expenditures to fund government programs that President Nixon opposed (see *Did You Know? Impoundment Aficionado Nixon on page 3*).⁶

As a result, Congress overwhelmingly passed the *Budget and Impoundment Control Act of 1974*, also known as the Budget Act, to reassert Congress’s authority over spending.

The Budget Act established budget committees in the House and the Senate, formalizing the congressional budget process we know today. Among a host of reforms, the Budget Act established the CBO to provide nonpartisan budget analysis for Congress and serve as the new guidepost for the federal budget process.

«THE CBO CRUNCHES THE BUDGET NUMBERS FOR CONGRESS WITH ITS 275 STAFF MEMBERS, CONSISTING OF ECONOMISTS, PUBLIC POLICY ANALYSTS, LAWYERS, INFORMATION TECHNOLOGISTS, AND EDITORS.»

A NEW ORDER

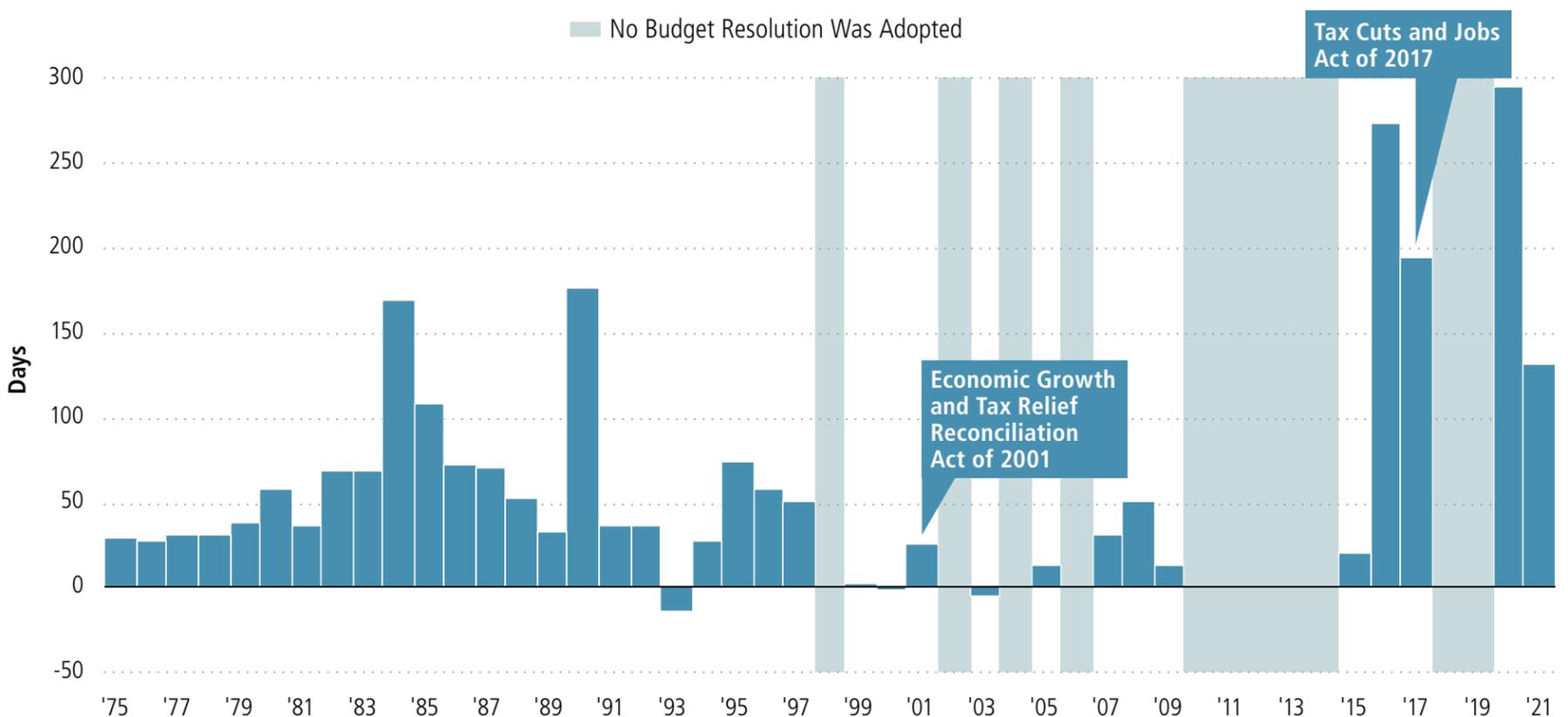
Simply put, the CBO crunches the budget numbers for Congress with its 275 staff members, consisting of economists, public policy analysts, lawyers, information technologists, and editors. It might not sound like much at first, but the CBO’s math is integral to almost all stages of the budget process, from baseline budget forecasts to “scoring” new legislation.

First, the 1974 Budget Act requires the CBO to produce annual budget reviews and outlooks assuming the continuation of current law for the next 10 fiscal years, also commonly referred to as baseline forecasts.

Although similar to what the OMB was doing before 1974, the CBO’s forecasts are considered more neutral, as they assist members of Congress

fig 1. TOO MANY BUT NOT TOO TIMELY:

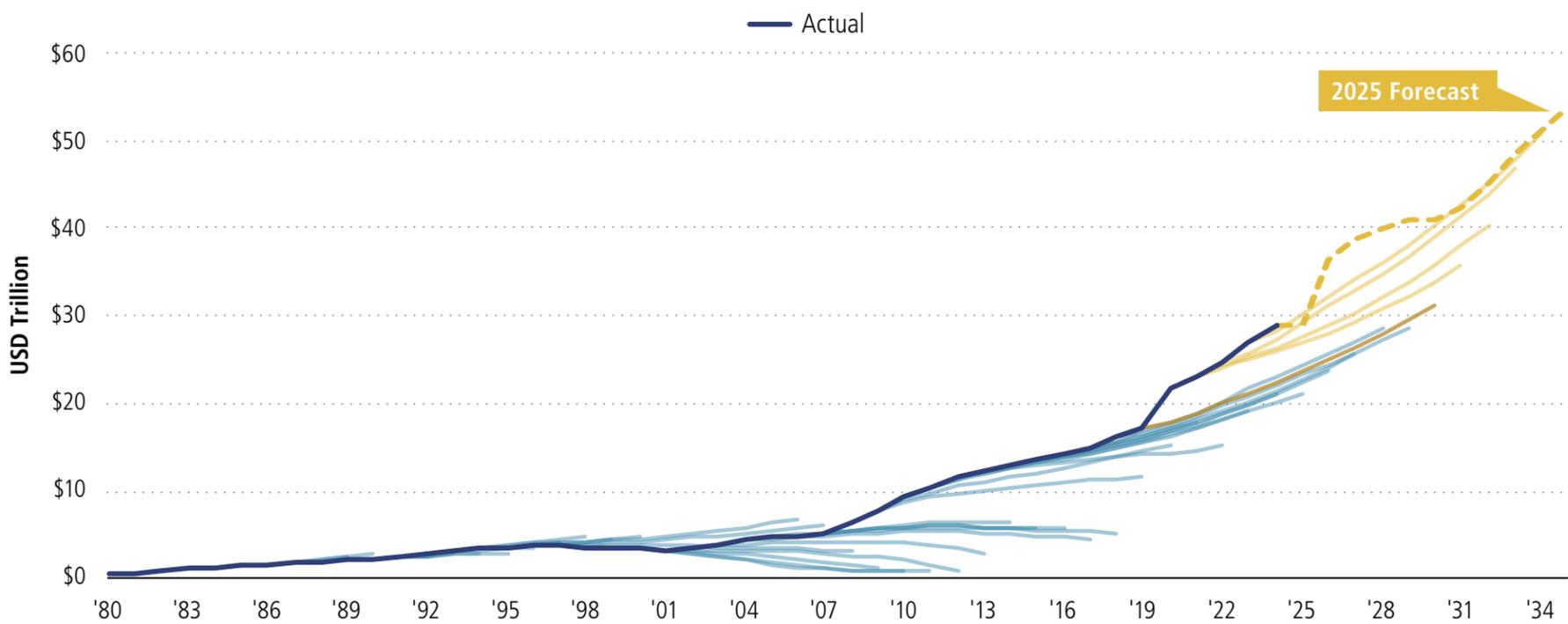
CALENDAR DAYS BUDGET RESOLUTIONS ARE ADOPTED AFTER APRIL 15 TARGET DEADLINE



Source: Congress.gov

fig 2. INFLECTION LAG:

CBO PROJECTIONS—TOTAL DEBT OUTSTANDING TO PUBLIC, ACTUAL VERSUS FORECASTS



Sources: U.S. Treasury, Congressional Budget Office

from both political parties. As a result, since 1974, the CBO’s annual outlooks became the preferred “baseline” for any policymaking, while the President’s budget has simply become a “wishlist,” sometimes referred to as “dead on arrival.”⁷

Second, the Budget Act “requires that *each bill* ordered by a Congressional committee to the House or Senate include a CBO cost estimate.”⁸ In other words, all proposed legislation needs to be “scored” by the CBO. By “scoring,” it means that the CBO will estimate how much the new bill adds to or subtracts from the current projected deficit under existing law.

Since its creation, the CBO has published approximately 600 to 800 cost estimates each year for bills that have passed through congressional committees and are scheduled for a vote on the House or Senate floor.⁹

In recent decades, the CBO has also been increasingly involved in crafting stages of legislation and helps analyze the cost impact of amendments to existing bills.

CONGRESSIONAL GUIDEPOST

In addition to providing baselines and individual bill scoring, the CBO also serves as the guidepost for Congress in budget resolutions—that’s usually when the CBO attracts the most attention.

Specifically, Congress can initiate budget resolutions to plan for the next fiscal year’s budget, which includes funding adjustments and the addition or amendment of legislation.¹⁰ The resolution sets a “target” budget level, and policymakers need to ensure that all new and existing legislation matches the target numbers.¹¹

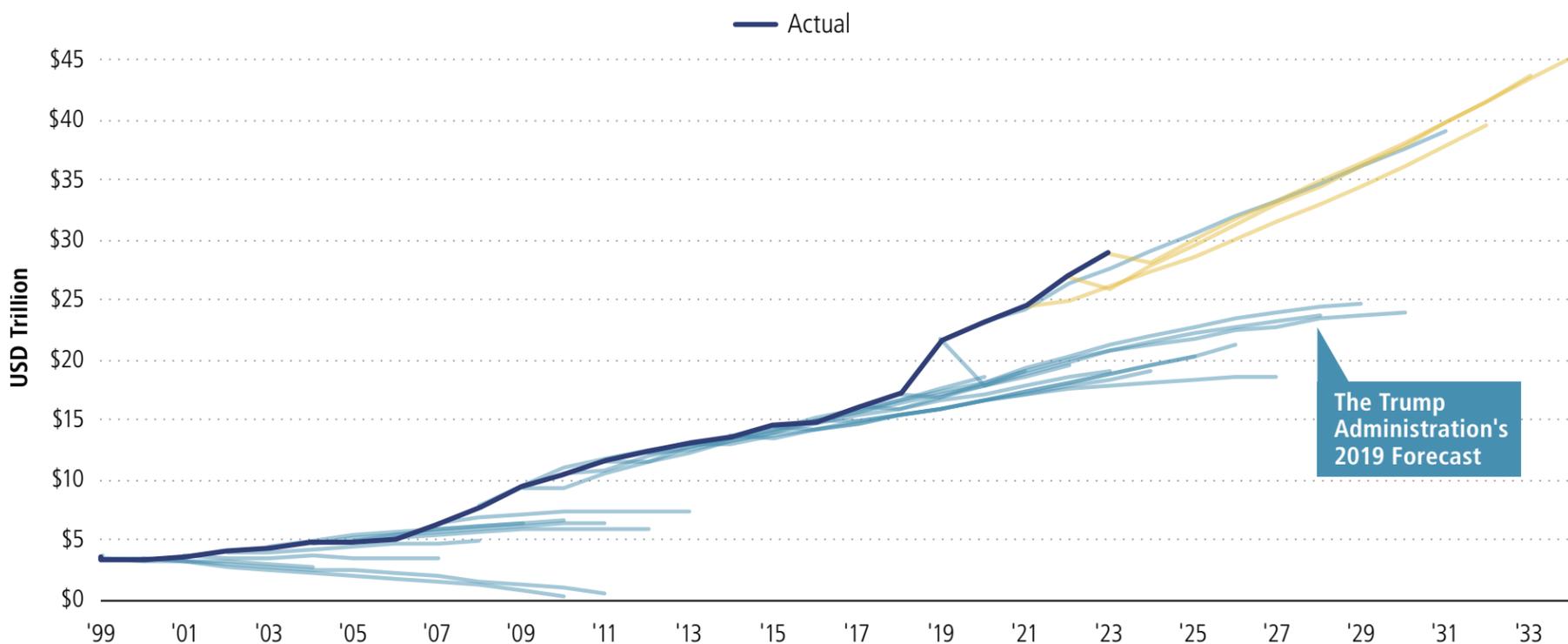
That’s when the math becomes complicated. After all, one doesn’t simply add up all the costs and savings of hundreds of bills to arrive at a total cost estimate, as budget bills have second-order economic impacts and may amplify or reduce the effects of other pieces of legislation.

«WITHOUT THE CBO, IT WOULD BE IMPOSSIBLE TO TRACK ALL EXISTING LEGISLATION AND ENFORCE BUDGET TARGETS.»

But don’t worry—the CBO is here to crunch out all the dynamic impacts and make sure that the net scoring of individual bills doesn’t violate

fig 3. CONSISTENT UNDERSHOOT:

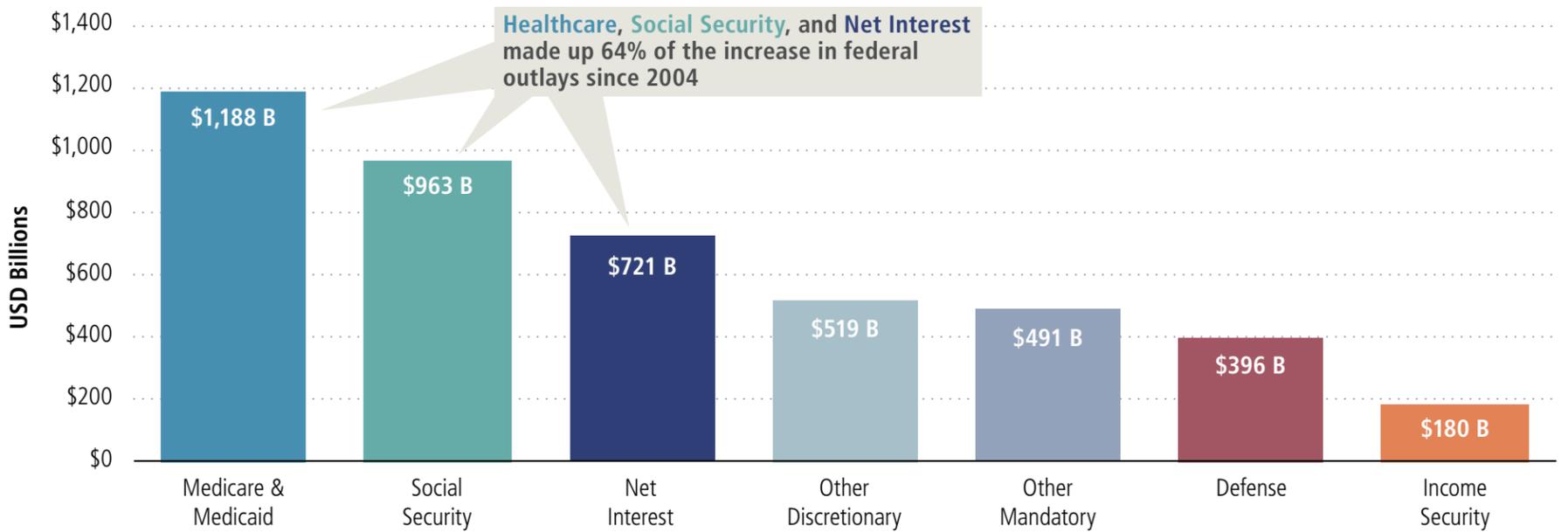
OMB PROJECTIONS—TOTAL DEBT OUTSTANDING TO PUBLIC, ACTUAL VERSUS FORECASTS



Sources: Office of Management and Budget, Payden Calculations

fig 4. STRUCTURAL SPENDING RISE:

FEDERAL GOVERNMENT OUTLAYS CUMULATIVE CHANGE BY CATEGORY, FROM 2004 TO 2024



Source: Congressional Budget Office

the top-line number specified by the budget resolution. Since 1975, Congress has adopted 32 budget resolutions out of the 41 fiscal years—think of your 2001 and 2003 Bush tax cuts, the Tax Cuts and Jobs Act of 2017, and the American Rescue Act—none of those could have passed without the technical analysis from the CBO (see Figure 1 on page 1).¹²

Finally, after budget resolutions and new pieces of legislation have passed, the CBO also works together with the Congressional Budget Committees and the OMB in keeping track of “approximately 1,200 spending accounts from the time bills are reported out of committee” to their enactment. Without the CBO, it would be impossible to track all existing legislation and enforce budget targets.

BIPARTISAN NONPARTISANSHIP

Now, skeptical readers might ask: What makes the CBO so trusted in the budget process?

Well, the reliability of the CBO’s estimates compared to those of its Executive Branch counterpart (the OMB) stems from the fact that it provides “nonpartisan analysis” to “perhaps [the] most partisan institution imaginable—the U.S. Congress.”¹³

For example, the CBO’s director is appointed by the House and the Senate, not the President, for four-year terms, whereas the President directly selects the head of the OMB.

In its early years, the CBO established its reputation as it was critical of both President Ford’s (Republican) and President Carter’s (Democrat) budgets, despite the founding director, Alice Rivlin, having a long history of serving under Democratic administrations. Rivlin once said that she was happy that the CBO was attacked “both from the right and from the left.”¹⁴

Even to this day, the political affiliation of the director does not prevent either party in control of Congress from criticizing the CBO. The current director, Philip Swagel, is registered as

a Republican but was initially appointed during the Trump administration and reappointed during the Biden administration. Much like the current Federal Reserve Chair Jerome Powell, his Republican affiliation has not prevented members of his party from criticizing his agency’s analysis recently. All is fair in love...and politics?

THE ULTIMATE GOLD STANDARD?

Critics of the CBO point to its erroneous forecasts. Indeed, being neutral does not mean that the CBO’s estimates are always accurate.

The CBO’s deficit forecasts have an average absolute error of 1.1% of GDP, or \$330 billion in today’s dollars in the short run and \$750 billion over the medium and long term (six years and beyond).¹⁵ Further, the CBO estimates often lag major “turning points” in the deficit (see Figure 2 on page 2).

However, as the previous CBO director Rudolph Penner explained, making assumptions for the next 10 years is “much more challenging than predicting the weather or the outcome of sports events.”¹⁶ We economists are well aware of data

surprises and how differing assumptions can yield widely divergent forecasts.

«IT IS ALSO WORTH NOTING THAT JUST BECAUSE FORECASTS ARE NOT PERFECTLY ACCURATE DOESN’T MEAN THEY’RE NOT HELPFUL.»

It is also worth noting that just because forecasts are not perfectly accurate doesn’t mean they’re not helpful. The CBO is tasked with analyzing proposed legislation, not with predicting wars, recessions, and election outcomes, which often prove to be the most significant source of error rather than the budget forecasts themselves.

Further, there are no alternative government bodies that serve the same purpose as the CBO and possess the capacity to analyze the complex federal budget. For example, other government forecasts, such as the OMB’s, are even more

DID YOU KNOW?

IMPOUNDMENT AFICIONADO NIXON

Nixon was not the only president who impounded funds appropriated by Congress. Presidential impoundment powers date back to Jefferson, who was the first to refuse spending funds that Congress had approved in 1803 for the purchase of gunboats. Nixon’s more recent predecessors, including Truman, Eisenhower, Kennedy, and Johnson, have all exercised impoundments. So what makes Nixon’s impoundment so agitating to Congress? After World War II, impoundments were smaller, well justified, and generally used to reduce war funding that was no longer necessary. Nixon’s impoundment was larger and was for domestic social and educational programs that he disapproved of, which, to Congress, was a clear violation of the balance of power. Coincidentally, when Congress passed the 1974 Budget Act, Nixon signed the bill under pressure from the Watergate scandal and resigned a month later. So is it all Nixon’s fault (or is it to his credit?) that we have the lengthy and inefficient budget process today?

inaccurate than the CBO's, aside from the early 2010 period (see Figure 3 on page 2).¹⁷ Historically, the OMB has forecast lower deficits and faster GDP growth, which makes sense given that the OMB's mission is to promote the President's budget, rather than taking a neutral approach like the CBO.

THE LONG GAME

The goal of the Budget Act of 1974 was to return the “power of the purse” to Congress. Since then, we have seen the power of Congress in the U.S. budget process in real-time, with the CBO as the guidepost.

That said, the federal deficit has been rising on an unsustainable path. Has the CBO failed its mission?

We'd argue otherwise.

«MUCH OF THE GROWTH IN THE U.S. DEFICIT IS ALSO INHERENTLY STRUCTURAL DUE TO THE COUNTRY'S AGING POPULATION.»

Much of the growth in the U.S. deficit is also inherently structural due to the country's aging population. For example, from fiscal year 2004 to 2024, federal outlays increased by \$4.5 trillion, half of which is attributed to Social Security and healthcare, including Medicaid and Medicare (see Figure 4 on page 3). Moreover, as structural deficits increase, the cost of carrying all that debt, or the net interest cost, also adds a substantial amount to the spending pile (also see our *Centerpiece: Slicing The Federal Budget*).

Further, without the CBO as Congress's most nonpartisan (and arguably the best) number cruncher, the deficit situation could be even worse.

«“NEUTRALLY ANALYZED AND PRESENTED INFORMATION CANNOT SUBSTITUTE FOR—OR COMPENSATE FOR THE ABSENCE OF— POLITICAL WILL.”»

In the end, the CBO only provides guidance and assistance for policymakers, but “neutrally analyzed and presented information cannot substitute for—or compensate for the absence of—political will.”¹⁸ It will be up to policymakers to address U.S. fiscal concerns, and the CBO, as always, will continue to conduct objective analysis to assist the process. 

ENDNOTES

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2. The Enron scandal was a major corporate accounting fraud that led to the collapse of the energy company Enron in 2001.
3. Townhall. (2025, April 4). [Tweet]. X. Retrieved from <https://x.com/townhallcom/status/1908210725668962508>
4. Penner, G. R. (2017, June 23). *Attacks on the Congressional Budget Office are wrong*. Tax Policy Center. Retrieved from <https://taxpolicycenter.org/taxvox/attacks-congressional-budget-office-are-wrong>
5. Joyce, P. G. (2013). *The Congressional Budget Office: Honest Numbers, Power, and Policymaking*. Georgetown University Press. p 15; According to the 1974 Budget Act, the President can still influence the budget by submitting rescissions (recommended spending cuts) to Congress, but both chambers of Congress have to approve the request within 45 days or the President's rescissions get rejected (or expire). On June 5, President Trump submitted a \$9.4 billion rescission request to Congress, which was approved on time. However, \$9.4 billion represents only a small share of total federal outlays (0.14% of total federal outlays in FY 2024).
6. Congressional Record, April 18, 1973, 13166.
7. Reynolds, M. E. (2023, March 10). *The president's budget and the battle ahead*. Brookings Institution. Retrieved from <https://www.brookings.edu/articles/the-presidents-budget-and-the-battle-ahead/>
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15. Congressional Budget Office. (2024, December 5). [An Evaluation of CBO's Projections of Deficits and Debt From 1984 to 2023]. Retrieved from <https://www.cbo.gov/publication/60664>
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17. The OMB's forecast was more accurate than the CBO during President Obama's time in office. Interestingly, President Obama's OMB director, Peter Orszag, was formerly the director of the CBO from 2007-2008.
18. Joyce. (2013). p 86.

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1 (617) 807-1990

LONDON

1 Bartholomew Lane
London EC2N 2AX
United Kingdom
+44 020 7621 3000

MILAN

Corso Matteotti, 1 20121
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