Does Congress Need To Be Bribed To Do Its Job?

Posted By Peter Fricke
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Would Congress adopt sounder policies if members received bonus pay for reaching economic growth targets?

In a Cato Institute online forum on Wednesday, Mercatus Center research fellow Eli Dourado argued that a system of performance bonuses could, if properly structured, provide a strong incentive for members to support pro-growth policies, and not just the parochial interests of their own constituents.

Dourado notes that, "members of Congress usually do not literally enrich themselves at the expense of voters; rather, they play to voters' worst biases in order to get re-elected, often at the expense of good policy."

Incentive pay, he argues, "would help to overcome some of Congress's complacency and division in the face of decades-long economic stagnation."

"In order to induce a large change in Congressional behavior, Congress's performance bonus should be generous," Dourado says. He suggests $100,000 per member, which would likely appeal to all but the richest members of Congress, and would even be revenue-neutral if it caused Congress to adopt policies adding just 0.0015 percent to GDP growth.

Because "Congress can boost measured GDP any time it wants," Dourado suggests setting economic growth targets in terms of total factor productivity (TFP), "which measures [in principle] how much output can be produced with a fixed, diverse basket of inputs."

Not only does TFP depend on a variety of measures, making it harder for Congress to "game" the statistics, it is also compiled by multiple sources on a quarterly basis, ensuring transparency and reminding members of the potential bonus on a regular basis.

"A conspiracy to game TFP without detection would need to span multiple federal agencies," he points out, adding that because "the methodology to calculate TFP is well documented," even that would not prevent a private entity from conducting an accurate independent analysis.

Dourado suggests a target TFP growth rate of 2 percent, which he claims is both achievable—between 1948 and 1973, annual TFP growth averaged more than 2 percent—and challenging—average annual growth has been less than 1 percent since 1973.

He acknowledges that luck would likely factor, to some extent, into whether Congress reached its target each year, but counters that if Congress adopts sound policies, the role of luck is diminished, and in any event, “growth would likely be higher than without a performance bonus, and almost certainly no worse.”

Another potential objection Dourado anticipates is that, “paying a performance bonus could skew policy toward ideas with a short-term payoff.”

“Fortunately,” he says, “average terms of service in Congress are long”—13 years for the Senate and 10 years in the House—so “most members of Congress have some expectation of reaping the benefits of future bonuses,” and can put pressure on those who have no such expectation.

Dourado concedes that “incentive pay is not perfect,” but retorts that, “it would be so cost-effective that it wouldn’t need to be perfect. Even a tiny increase in [growth] due to additional skin in the game for Congress would more than cover the cost.”