Options to Restore More Discretion to the Federal Budget

Rudolph G. Penner and C. Eugene Steuerle

MERCATUS RESEARCH

A joint Mercatus Center and Urban Institute publication.

MERCATUS CENTER
George Mason University

URBAN INSTITUTE · ELEVATE · THE · DEBATE

Rudolph G. Penner and C. Eugene Steuerle. "Options to Restore More Discretion to the Federal Budget." Mercatus Research, Mercatus Center at George Mason University and Urban Institute, Arlington, VA, September 2016.

ABSTRACT

US fiscal policy has long been unsustainable, driven largely by automatically growing entitlement spending and insufficient revenues. Often overlooked is the extent to which this preordained fiscal policy limits policymakers' discretion to act on new priorities each year, whether through newly legislated increases in spending or through tax reductions. This study lays out reforms to the federal budget process that could restore greater discretion to congressional lawmakers, so that a greater share of revenues is not automatically allocated without any vote by a current Congress. Such reforms include various triggers in entitlement and tax programs that limit their automatic growth, more transparent reporting and informative displays of budget information, and more requirements to subject programs to periodic review and reauthorization. Examples are provided for how such reforms could be applied to specific entitlement and tax programs.

JEL codes: H610, H620, H630, I180

Keywords: fiscal policy, public finance, entitlements, national deficit, debt, Social Security, Medicare, Medicaid, tax expenditures, appropriation, budgeting, budget process

This research was made possible, in part, by a grant from the Peter G. Peterson Foundation.

Release: September 2016

Because politicians throughout history have been tempted to run deficits and increase national debt, many people are tempted to think that today's deficit issues differ little from those of the past. Yet somehow the budget process in place over recent years, and by some counts for more than three decades, has increasingly failed to contain debt growth or even produce a budget on time. Something else must be amiss that cannot be explained by simply claiming that the wrong officials are being elected. We suggest here that those processes fail largely because of a phenomenon generally unknown in past budgets: the extraordinary extent to which future budgets, not just the current budget, have been set in law, putting in place a set of expectations that simply cannot be met. Past budget processes were not designed to deal with this phenomenon and, because they were developed largely for a different world, have proved inadequate.

Whether good politics leads to good process or good process enables good politics is not our concern, though we believe both renditions contain some truth. Regardless, we wish to set out here the types of processes that must be adopted either way if we are to move past the failure of today's federal budget policy.

This paper proceeds in three steps. First, we lay out, partly by historical analogy, a general rule for the type of process reform we believe must be adopted: moving a greater share of growth in spending and tax subsides back toward a discretionary or current basis. To be clear, this is not a one-sided agenda. Collecting enough taxes to pay the bills is one way to restore greater discretion. Doing so also requires more attention to the long-term budget.

Second, we specify the nature of the reforms that would put the federal government on track. The reforms fall generally into two categories: substantive procedures, such as triggers or delegated authority that comes into effect to limit automatic growth when all else fails, and important budget practices for Congress to follow as it schedules, reports on, and allocates committee responsibilities and otherwise engages in processes, internally or with the president, to produce a budget each year.

“Imagine a household or business that keeps signing contracts about how it will spend all future expected revenues and then some and that then occasionally tries to renegotiate those contracts—this analogy gives some idea of the nature of modern government’s fiscal problem.”

Some authors define the first set of procedures as policy rather than process. In some ways, this is an issue of semantics. When Congress sets a budget goal, for instance, it is a matter of both process and policy. Here we view triggers not so much as broad policy reforms but as backup mechanisms intended to reinforce policy and policy reforms aimed at achieving budgetary goals. When in place, they can also serve as powerful inducements for Congress to more directly take up new legislation to achieve stated budgetary goals. As will be shown, neither type of procedural reform substitutes for improvements to policy per se and both types could be sustained more easily as a supplement to better policies.

Finally, we provide examples of how these procedures could be applied to the largest of the automatically growing parts of the federal budget—Social Security, Medicare, and tax subsidies—though we suggest that similar procedures could and should apply to almost any program with permanent growth built in by law.

THE GENERAL RULE: RESTORE GREATER DISCRETION TO THE BUDGET PROCESS

Why does a budget need to leave a fair degree of discretion to future decision makers? The answer is fairly simple: nobody knows the future well enough to preordain the amount of spending, taxes, and deficits needed to accommodate uncertainties and unknown opportunities and problems. Note that adopting a budget process with less automaticity does not imply that spending increases are prohibited, even for entitlements. Discretionary spending has risen absolutely even when it was not promised to happen automatically. Moreover, when taxes were sufficient to pay most of the nation’s bills, debt fell relative to GDP, reducing the demands placed on the federal budget by interest costs and making it easier to finance both future tax cuts and more noninterest spending. The goal of our procedural reforms is simply to ensure that policy decisions, whether they imply spending or tax increases or decreases, are debated frequently and rationally and are not the automatic result of old laws.

How was discretion largely removed from the hands of current elected officials? Until very recently, had there been official forecasts for the budget 10 years or more into the future as there are today, those forecasts would have shown revenues growing faster than the economy but spending, which was largely or completely discretionary and subject to regular authorizations and annual appropriations each year, flat or even falling in real terms. That is, absent new legislation, spending was flat or declining because few or no spending programs contained large future commitments and some programs simply ended. In those years, under any law then on the books, there was no long-run deficit even when the year in question carried a deficit; after all, rising revenues in a growing economy would soon or eventually exceed the committed levels of spending.[1]

The focus of the budget process was primarily on the present, and only in recent decades has budget accounting extended even beyond the next year's budget. As a result, forthcoming surpluses left Congress free to increase spending or cut taxes legislatively. In fact, with revenues but not spending rising with the economy, Congress actually had to return money to the public to avoid rising surpluses. As long as Congress acted with moderation over time, even if occasionally profligate, budgets could be kept in balance relative to the size of the economy.

When spending that was promised under some current laws began to grow faster than revenues, the budget world changed. Now added to the annual deficit issue was a second and, in many ways, more difficult problem: a budget, when projected into the future under current law, that was always or almost always out of balance. Politicians increasingly fought over how to control the future, not just the present. Spending growth was built into the law, but that did not always deter even more attempts to control the future, in this case by those favoring tax cuts when fiscal policy was already unsustainable.

As the budget became increasingly absorbed in that competition over the future, short-run success in cutting near-term deficits never really solved the long-term problem. The national debt remained on a long-run upward trend despite deficit-reducing budget and Social Security agreements in 1982, 1983, 1984, 1985, 1987, 1990, 1993, 1997, 2005, and 2011.

---

1. This explanation of how the long-run budget gradually grew into permanent imbalance is explained in detail by C. Eugene Steuerle in *Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future* (New York: Century Foundation Press, 2014), 47–80.

Imagine a household or business that keeps signing contracts about how it will spend all future expected revenues and then some and that then occasionally tries to renegotiate those contracts—this analogy gives some idea of the nature of modern government's fiscal problem. Now add elected officials' need to run for office on what they are going to do for voters in the form of new spending or tax cuts. No longer could they easily give more money back to voters to avoid a large future surplus. Now they had to renege on promises—a much more politically challenging activity.

Discretionary, Mandatory, and Automatically Growing Programs

What caused spending growth to start rising relative to revenue growth? In the past, almost all federal spending was discretionary, and most programs would decline over time relative to the economy without new legislative increases. That does not mean that budget pressures were absent; witness President Dwight D. Eisenhower's worry about the military-industrial complex. But generally speaking, there was no built-in growth in future spending for almost all programs. Even if real defense spending was not falling as fast as Eisenhower might have liked, its share of spending, revenues, or GDP was declining significantly.[2] For many programs, commitments would end or recede over time. For instance, much New Deal growth in domestic spending was devoted to unemployment-related issues and simply went away when unemployment declined, allowing discretionary spending to shift more easily to defense needs. Once defense needs fell after World War II, debt levels began to fall significantly relative to GDP for close to three decades, even while Congress enacted significant increases in domestic spending. Thus, even with the demands of the New Deal and then World War II, those years' federal budgets were not in long-term imbalance. Future revenues would eventually exceed any committed level of spending under current law. That was especially true when personal income tax brackets were not indexed for inflation.

What is new about the fairly high level of US debt today? Mandatory spending, most of which consists of entitlement programs, now occupies a larger share of the budget pie. With entitlements, no new legislation is required for that spending to continue. But here we must make an important distinction. Not all entitlements grow faster than the economy. Those that do have design elements that automatically push spending upward at a rapid

2. Rudolph G. Penner, "When Budgeting Was Easier: Eisenhower and the 1960 Budget," *Public Budgeting & Finance* 34, no. 4 (2014): 24–37.

rate. In the case of Social Security, three major design elements are at play. Other than a modest adjustment in 1983 reform legislation, the system has not been adjusted for increases in life expectancy, so that the retiree-to-worker ratio has continued to rise substantially. No adjustment has been made for declines in the birth rate, which also affects that ratio. One major design element, the indexing of benefits to grow as wages grow, was introduced long after the program was created.

Entitlements that grow automatically have a partner on the tax side of the budget: automatically growing tax subsidies, sometimes called *tax expenditures*. As an example, people tend to buy more expensive housing over time, and permanent tax subsidies such as the home mortgage interest deduction grow right in line. As one generation increases its housing spending relative to its parents' generation, the cost of this tax subsidy rises, absent drops in subsidy or tax rates.[3]

Table 1 outlines the types of spending and tax subsidies in each category. Our categorization contains some simplification because some programs, such as highway spending, are hybrids. Some entitlements, such as the Supplemental Nutrition Assistance Program, do get appropriated. Some discretionary programs do require occasional reauthorization. Their spending may not be called an entitlement, but they are considered mandatory spending because states are promised specific amounts of assistance during the limited period for which each such program is authorized (e.g., the Children's Health Insurance Program). Other programs are partially or wholly financed by fees, such as operations of the Securities and Exchange Commission, and they are not discussed here. Also, the Congressional Budget Office (CBO) often assumes that at least the real level of spending in the discretionary part of the federal budget will be sustained for future years, but it treats temporary tax subsidies as entirely temporary,[4] despite repeated reenactment. CBO then projects costs for future years at a current law cost of zero, which means that any extension of temporary tax subsidies, even at past real levels, is counted as a significant increase in the deficit but a similar reappropriation of discretionary programs is not. None of these nuances affects our overall conclusions here about how to deal with permanence and automatic growth in the annual budget process.

3. In 1986, caps were placed on this deduction, though at very high levels. Without going into detail, these caps can slow growth in the use of the subsidy, though for only a small percentage of the population so far.
4. Temporary excise taxes that are dedicated to a trust fund and that have often been renewed are considered permanent.

TABLE 1. SIMPLIFIED CATEGORIES OF SPENDING AND SUBSIDIES BY LEVEL OF DISCRETION

Type of spending or tax subsidy	Examples	Definition
Discretionary spending	Most federal government departments, agencies, and programs (e.g., Department of Defense, NASA, Head Start)	Spending subject to the annual or at least periodic appropriations process; also referred to as appropriated spending
Entitlement spending without automatic growth	Supplemental Nutrition Assistance Program, unemployment insurance, Supplemental Security Income	Entitlement spending that does not automatically grow faster than the economy, except perhaps in bad times or when more people qualify under a given set of conditions (e.g., though unemployment insurance and Supplemental Nutrition Assistance Program outlays may increase during recessions, they generally decline when the economy is growing)
Entitlement spending with automatic growth	Medicare, Medicaid, Social Security	Entitlement programs whose outlays generally grow in real terms over time, often permanently, and sometimes faster than the economy; the growth stems from a combination of factors, including demographic shifts and increases in life expectancy, wage indexing of program parameters, rising healthcare costs, and open-ended accommodation of new healthcare treatments and higher prices
Tax expenditures set to expire under current law	Bonus (or extra) first-year depreciation of investments, tuition deduction for higher education, some energy incentives*	Tax provisions that are set to expire or revert to an earlier version at a statutorily specified date; sometimes referred to as tax extenders because of the tendency of Congress to periodically extend them when they expire, sometimes retroactively
Permanent tax expenditures without automatic growth	Child Tax Credit, Earned Income Tax Credit	Tax subsidies that are permanent elements of the tax code and do not generally grow without new legislation
Permanent tax expenditures with automatic growth	Employer-provided health insurance, retirement plan subsidies, home ownership subsidies (mortgage interest deduction)	Tax subsidies that are permanent elements of the tax code and grow, often perpetually over time, without legislation slowing or halting that growth

* For a list of such provisions, see Joint Committee on Taxation, “List of Expiring Federal Tax Provisions, 2016–2025,” JCX-1-16, Washington, DC, January 2016.

Note: There are a number of exceptions to the simplified categorization in table 1, such as programs listed as mandatory that are not permanent and discretionary spending that is reauthorized only periodically.

Source: Authors’ taxonomy.

Most of our examples for how legislation could restore balance and discretion to the long-term budget focus on Social Security, health care, and tax expenditures because of their rapid automatic growth and dominance in the budget. However, our conclusions often apply to other budget items. Social Security is the largest and most prominent automatically growing program, though major healthcare programs have begun to play the most important role in putting the nation's fiscal policies on an unsustainable path. Both have significant built-in growth even in the absence of demographic pressures, though demography adds considerably to budget pressures because of its dramatic effect on the decline in tax-paying workers relative to Social Security and Medicare beneficiaries.

An Uneven Playing Field

Getting better control over entitlements and tax expenditures would make for better budget policy even in the absence of long-run deficit and debt problems. The current budget process distorts the policy choices. Automatically growing programs and tax subsidies receive precedence over entitlements and permanent tax expenditures without automatic growth unless Congress proactively changes program designs. Such reforms are often painful politically. All entitlements receive precedence over discretionary spending because discretionary spending is scrutinized annually, whereas entitlements are rarely examined carefully and are reformed even less frequently. It should not be surprising, therefore, that throughout recent decades those programs with priority in the budget process have dominated the growth in spending. In turn, cutbacks have occurred mostly in those programs that are at a legislative disadvantage. Among the many disturbing consequences are the following:[5]

5. These and other consequences are laid out in more detail by Steuerle, *Dead Men Ruling*, 81–116.

"[In the budget process] automatically growing programs and tax subsidies receive precedence over entitlements and permanent tax expenditures without automatic growth. . . . All entitlements receive precedence over discretionary spending."

1. Programs that are more future and growth oriented or that involve some investment in the future, including spending on children, are largely discretionary or, if entitlements, contain little or no built-in growth. As a result of the disfavor they receive in the budget process, they are scheduled to decline severely relative to the size of the economy.
2. The budget adapts less and less to changes in needs or voter desires over time. Even though federal outlays are projected to rise in real terms by more than $1.3 trillion in 10 years and tax subsidies by a few hundred billion dollars more, all that growth is essentially preordained by the budget process.
3. In a closely related manner, the ability to respond to the next recession or other emergency is severely constrained, because national debt is scheduled to rise, not fall, even in good times.
4. Elected officials and the public itself are misled to believe that we live in a time of austerity rather than one of forgone opportunity. To increase spending and tax subsidies by roughly $2 trillion more than inflation within about a decade, or by more than $12,000 per household, does not represent austerity. The built-in growth in spending—some of which will go to interest costs that will rise in the long run when tax revenues cannot pay the government's bills—is so high that, absent new legislation, the debt will rise relative to national income, and there will be no room for anything new without even more paring.

Note, importantly, that each of those four consequences would hold even if the federal budget were somehow on a more sustainable path.

Why Process Matters

Today's federal budget process was last redesigned in 1974, largely around practices built up in a budget dominated by discretionary spending. By 1974 some recognition was given to the growing influence of mandatory spending, but it was modest because the pressures were still modest. Before income tax brackets were indexed to price levels starting in 1985, inflation was adding to the tax burden and keeping revenue growth high, particularly in the 1970s. Moreover, major demographic pressures on programs for the elderly, which resulted from a decline in the birth rate starting in the mid-1960s, were not given due recognition until the beginning of this century.

Today, the budget process fails because it no longer relates well to changes in the economy, the international environment, and the demands of voters.

Most of the broad changes that occur in spending and tax expenditures no longer occur in the annual budget process but instead result from past changes in policy. That is, Congress tries to adopt 12 or so appropriations bills each year but usually fails to deal with the major changes in taxes and entitlements scheduled through past enactments. In 2009, for instance, ever-rising entitlement spending and the Great Recession meant that, for the first time in US history, every dollar of revenue had been spent before the new Congress walked through the door of the Capitol. Every appropriation essentially had to be paid for by increasing the deficit.

Those limitations on action arise not simply across program areas but also within them. Consider increases in the home mortgage interest tax deduction versus an alternative like a first-time homebuyer's credit, which would more likely stimulate homeownership. Congress almost never seriously debates whether revenues lost from entitlements might be applied more efficiently and equitably toward such a credit. For example, much of the mortgage interest subsidy favors reductions, not increases, in home equity when homeowners take out larger mortgages to finance consumption.

Unfortunately, the accounting associated with the current budget process mistakenly implies that restoring a more discretionary budget somehow creates more "losers" than does sticking with a current law. The information currently available is insufficient to evaluate how making a program's budget discretionary would affect program constituents or taxpayers, because those who in the future would benefit from the greater discretion—through similar spending, spending on new priorities, lower interest costs, or lower taxes—cannot be specified. But that doesn't mean they are as real as those supposedly benefitting from unsustainable growth in entitlements and tax subsidies. To make matters worse, the failure to enact a more discretionary budget restrains fiscal policy and threatens economic growth, which in the long run threatens to produce less real spending and higher tax rates because of the smaller economy that might result.

The budget process reforms recommended here involve nothing more than a commitment to move back toward a budget in which more choices are discretionary. The reforms can be achieved in a variety of ways. There is no such thing as a perfect budget process, but a better process could remove excessive long-term commitments that leave budgeting in a state of perpetual crisis. The budget process reforms proposed here would not prevent the continual political war over larger or smaller government, but they would put limits on the extent to which either side could tie the hands of future voters and their representatives. The reforms would give due recognition to the need for flexibility in meeting the demands and needs of an unknown future.

THE NATURE OF REFORMS THAT WOULD IMPROVE BUDGETING FOR ENTITLEMENTS AND TAX EXPENDITURES

In this section, we first examine important details of the current budget process, largely developed in 1974, and then proceed to the types of reforms that would restore fiscal sanity through a more discretionary budget.

“The budget process reforms recommended here involve nothing more than a commitment to move back toward a budget in which more choices are discretionary.”

The Current Budget Process

Before the Congressional Budget and Impoundment Control Act of 1974, Congress did not have a coherent budget process. No formal procedure was in place for adding up individual spending and revenue decisions and no procedure existed for relating aggregate spending to revenues. Entitlement spending, though starting to grow rapidly by the late 1960s, was still a small share of the budget. Hence, a current law projected into the future, if it had been computed by today’s standards, would still have shown significant future surpluses. Inflation in the 1960s and 1970s added temporarily to flexibility by pushing taxpayers into higher tax brackets in the then-unindexed tax system. Indeed, the late 1970s saw average tax rates rising despite many legislated tax cuts.

Partly in response to a strong feeling that President Richard Nixon had exceeded his powers, Congress in 1974 severely limited the president’s authority to impound or fail to spend money that it had appropriated. Starting to become more concerned about the out-year implications of policy, Congress also created the CBO to prepare five-year projections of budget authority, outlays, revenues, and the surplus or deficit, a period now extended to 10 years. The 1974 act established a budget committee in both the House and the Senate. Both committees were supposed to draft a budget resolution for the approval of the whole

Congress that set targets for aggregate spending, revenues, and the deficit. The resolution is not a bill and therefore is not signed or vetoed by the president.

Total spending is allocated to different budget functions, and a cross-walk is provided to show what is implied for individual committees. The House and Senate appropriations committees are given a total spending target, and they allocate the spending to their various subcommittees. The amount of spending for mandatory categories is implied by the resolution and in theory can imply that entitlements and other mandatory programs have to be reformed. Tax expenditures largely also fall outside the budget process because they have not been a target of allocations, although the revenue target in the budget resolution might imply that tax expenditures be reviewed more carefully than usual.

When revenue growth exceeded automatic spending growth, especially in the period before enactment of the current procedures, the job of the appropriations committees and subcommittees was usually to determine how to spend more. Members might disagree about the allocation and might even show their frugality by cutting back on some of the president's proposed increases, but they had little incentive to punt and not allocate any additional spending at all. As entitlements increased as a share of the economy and taxes were lowered or not raised in similar fashion, the net effect was to leave Congress debating over how to appropriate smaller and smaller shares of total spending, barring occasional consideration of reforming entitlements.

The process is complicated by the fact that the 1974 act's authors knew they could not tread on the jurisdictions of traditional committees. Debate on the budget resolution is supposed to focus on the aggregates and not specify the types of reforms necessary to achieve spending and revenue targets. However, debate on the resolution quickly opens an argument about individual programs as legislators attempt to expand or, more often today, protect their favorite government activities.

The targets in the budget resolution are supposed to be enforced with various points of order. In the Senate, the chairman and ranking member of the Budget Committee are highly influential in determining which points of order come to the floor. In the House, the Rules Committee decides whether proposals violating the budget resolution are allowed to come to the floor and whether points of order will be allowed.

Some limited attention was paid to entitlement programs, which were then starting to show their growth. The Congressional Budget and Impoundment Control Act of 1974 allowed for expedited consideration of certain tax and spending legislation through an added tool, called *reconciliation*. The budget resolution can contain reconciliation instructions that order certain committees to increase or decrease spending on entitlements or change revenues by a specified amount. When the resulting reconciliation bill comes to the floor, debate is limited and the bill cannot be filibustered in the Senate. While reconciliation was initially thought by many to be a tool to be used mainly to reduce the deficit, it can and has been used to increase the deficit, as happened with the tax cuts under President George W. Bush.[6]

It has often been suggested that reconciliation should be used only to reduce the deficit. Senate rules follow that recommendation, but House rules make an exception for tax cuts that increase the deficit. Because the Senate rule can be overturned by a three-fifths vote, we believe that the House exception for revenue decreases should be eliminated to make deficit-increasing reconciliation measures more difficult to enact.[7]

Even so, reconciliation could not be used to reform Social Security because the so-called Byrd rule limits how reconciliation can be used. The rule has a good aspect in that a reconciliation bill cannot increase deficits beyond the budget window, but then the rule also says reconciliation cannot be used to alter the Old-Age, Survivors, and Disability Insurance program.[8] Today, with demographic pressures much better understood, and with Social Security payroll taxes increasingly falling short of Social Security benefits, it seems ridiculous to make it more difficult to reform the government's largest program than, say, to reform Medicare. We think it extremely important to alter the Byrd rule so that reconciliation can be used to reform Social Security.[9]

Requirements to cut entitlements or increase taxes have never been easy to enact. Congress, as a whole, has found it extremely difficult to pass a budget resolution in recent years. A resolution finally did pass for fiscal year 2016, but

---

6. As their titles suggest, the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 were both passed by reconciliation. The first instituted the Bush tax cuts, and the second largely accelerated their phase-in and reduced dividend and capital gains taxes.
7. House rules also prohibit reconciliation measures that increase mandatory spending, no matter the bill's final impact on deficits. See David Reich and Richard Kogan, "Introduction to Budget 'Reconciliation'" (Center on Budget and Policy Priorities, Washington, DC, January 2015).
8. The Byrd rule is formally laid out in section 313 of the Congressional Budget and Impoundment Control Act. Defined as "extraneous" are any "recommendations with respect to the old-age, survivors, and disability insurance program established under title II of the Social Security Act [42 U.S.C. 401 et seq.]." For a primer, see Reich and Kogan, "Introduction to Budget 'Reconciliation.'"
9. Other researchers also propose subjecting Social Security to some form of reconciliation. See James C. Capretta, "The Budget Act at Forty: Time for Budget Process Reform" (Mercatus Research, Mercatus Center at George Mason University, Arlington, VA, March 2015), and Alice M. Rivlin and Pete Domenici, "Proposal for Improving the Congressional Budget Process" (Bipartisan Policy Center, Washington, DC, July 2015).

it was violated before the ink was dry. The resolution assumed that the permanent elimination of a law that drastically cut Medicare reimbursements would be fully paid for with other spending cuts, but that did not happen. Soon after the House passed the budget resolution, it also voted to eliminate the estate tax, something that was not provided for in the resolution's revenue target.

It has become common to say that the congressional budget process is dysfunctional. Many proposals have been made to resuscitate it. For example, it has been suggested that the budget committees would have more clout if they consisted of the Republican and Democratic leadership of the House and Senate.[10] It has also been suggested that the House and Senate budget committees be merged into a joint committee. Then the Senate and House would begin by debating identical resolutions and, although the resolutions might be amended, conferences would presumably be simpler and quicker. Although those proposals might make the budget process function somewhat more efficiently, we believe both proposals would be inadequate to deal with the long-term budget problems.

Another reform proposal would convert the concurrent budget resolution into a law, or joint resolution, which could be signed or vetoed by the president.[11] One of the authors of this paper once favored such a reform,[12] but given the difficulty of passing a resolution of any kind in recent years, it seems impractical to also have to negotiate an agreement with the president before a resolution could be passed. Proposals for a joint resolution usually provide a fallback to a concurrent resolution if Congress cannot come to an agreement with the president. We suspect that this would almost always happen, especially when one political party did not control both the legislative and executive branches of government.

Why has the current budget process not been more successful at encouraging more rational budget making? The answer is simple. Politicians find it extremely painful to vote to raise taxes or to slow the growth of spending when the growth rate has already been built into the law. Voting for cuts in automatically growing entitlements is especially difficult because of the language used in debates regarding changes in budget policy. The semantics clearly favor entitlements over discretionary spending. A legislator voting to slow the growth of an entitlement is accused of cutting the program even if the real value of benefits

---

10. Peterson-Pew Commission on Budget Reform, "Getting Back in the Black" (Philadelphia, November 2010); Rivlin and Domenici, "Proposal for Improving the Congressional Budget Process."
11. Philip G. Joyce, "Strengthening the Budget Committees: Institutional Reforms to Promote Fiscally Responsible Budgeting in Congress" (prepared for the Federal Budget Reform Initiative, Pew Charitable Trusts, Washington, DC, January 2011).
12. Rudolph G. Penner and Alan J. Abramson, *Broken Purse Strings: Congressional Budgeting, 1974–1988* (Washington, DC: Urban Institute Press, 1988).

continues to grow after the reform. The word *cut* generally is not applied to a change in a discretionary program unless its total real value is actually reduced.

Politicians also do not like to vote explicitly for a large deficit. That is why one or both houses of Congress have so often failed to vote for a budget resolution in recent years. However, remember that the politics works out quite differently in a budget dominated by discretionary spending. In the days of yore, politicians would usually be required not to take away but to give away, to spend more or cut taxes, to avoid eventually running massive surpluses.

Categories of Process Reforms

In what follows, we suggest the types of processes that could be used to reduce the pain of making difficult budget decisions. However, as noted, no change in the budget process can completely substitute for political courage, nor can the process entirely substitute for policy so much as enable it and then reinforce it.

High on the list of substantive procedural reforms are triggers to limit growth in programs when other enactments fail to do so. We use the term *trigger* in a very expansive way because we conclude that in an overcommitted budget one must reinforce and encourage movement toward a more discretionary budget after decades of moving in the opposite direction. The triggers can state the exact nature of the limits, empower particular actors to achieve those limits, or set new processes in motion that may achieve the stated goals. Another substantive approach would call for periodic reauthorization or formal reexamination of most or all programs, including entitlements, or at least the growth built into those programs. Although existing reauthorization procedures are often merely perfunctory, they need not be, and they do require action.

Other process reforms include expanding the budget window closer to 25 years and reporting on the budget in a way that better holds the president and Congress accountable for all the changes that occur over time, not just those they newly legislate.

Triggers. Triggers are both fallback mechanisms to keep programs within certain bounds when legislative reform cannot fill the gap and ways to automatically deal with uncertainty about the future cost of programs.[13]

13. A longer discussion of triggers, with international examples of their application, is provided by Rudolph G. Penner and C. Eugene Steuerle in “Stabilizing Future Fiscal Policy: It’s Time to Pull the Trigger” (Urban Institute, Washington, DC, August 2007).

There are two types of triggers. One automatically lowers spending growth or increases revenues if some condition is violated and Congress does not respond. The other does not alter benefits or revenues directly but does set in motion a process that forces the president or Congress to take actions that focus on a problem and to expedite the enactment of reforms. For example, if spending threatens to exceed some cap, or trust funds are projected to run out of money, the law might require that the president recommend remedies and that Congress consider them in an expedited manner.

One purpose of the first type of trigger is to provide some protection for politicians when painful decisions are required. Politicians can argue that they strongly opposed the reduction in benefit growth or increase in taxes but that, once the trigger was pulled, the policy change had to be accepted.

The second type of trigger does not protect politicians from having to take painful votes. However, the trigger is pulled only if something has clearly gone wrong. That condition may give legislators some protection because they must engage in a process to address a problem immediately instead of forestalling action.

Some triggers have worked extremely well for a long period. For most individuals, premiums for Medicare Part B are automatically set to cover 25 percent of average costs, and in most years the rule has been followed.[14] The number of weeks that a person can collect unemployment insurance is determined by state unemployment rates, and the formula has been followed even when unemployment insurance has been made less generous.

“Triggers are both fallback mechanisms to keep programs within certain bounds when legislative reform cannot fill the gap and ways to automatically deal with uncertainty about the future cost of programs.”

14. With low inflation in recent years, this provision has proved more problematic. Because of a hold-harmless provision, most Social Security beneficiaries cannot have Medicare premiums increase more than the cost-of-living adjustment to their Social Security benefits. In years with no cost-of-living adjustment, the constraint threatens a large Medicare premium increase for the small number of beneficiaries who are not subject to the hold-harmless provision. See Rudolph G. Penner, “Medicare Premiums and Social Security’s Cost-of-Living Adjustments” (Urban Institute, Washington, DC, August 2011).

But some triggers have failed, usually because they are badly designed. A common design flaw is to require measures that are too politically painful to carry out. For example, Medicare payments to doctors were supposed to be cut automatically if increases exceeded an amount that made cost growth unsustainable. The trigger eventually required very large, painful, and politically impractical cuts, and so it was abandoned.

One of the most spectacular failures was related to the Balanced Budget and Emergency Deficit Control Act of 1985 (better known as Gramm-Rudman-Hollings, or GRH), which established targets for the budget deficit. If the targets were not achieved, an automatic across-the-board cut in spending, called a *sequester*, was supposed to affect almost every government activity. There were some notable exceptions, such as for Social Security benefits. Unfortunately, the deficit targets were based on a baseline deficit forecast that was too optimistic. Consequently, the sequester required to achieve budget targets was far more painful than had been anticipated when the law was devised. The targets were eased once and then finally abandoned in 1990.

Although it appears that triggers failed in those cases, Congress did not think it could abandon the triggers without putting something else in their place that had the same goal of disciplining the deficit. In the case of Medicare reimbursements, Congress on many occasions canceled the large cuts called for by the trigger one year at a time for several years but paid for some of the additional spending with other deficit-reducing measures. Hence, the trigger indirectly cut the deficit. In the case of GRH, Congress replaced the trigger with the Budget Enforcement Act of 1990, which was much better designed than GRH and relatively successful at controlling deficits until the late 1990s. A budget surplus emerged in 1998, completely by surprise, partly as a result of higher revenues from a stock market bubble and partly from lower spending because of a temporary slowdown in the growth of healthcare costs. Budget surpluses continued through 2001.

Congress was able to adhere to the Budget Enforcement Act before 1998 because the law was not overly demanding and consensus was strong that deficits should be controlled. The law required that entitlement increases or tax cuts had to be paid for with other entitlement or tax changes. That requirement imposed spending and tax discipline without inflicting much pain, because it did not require any additional deficit reduction or significant reforms in entitlement programs or taxes. It simply preserved the significant cuts agreed to in the negotiations that led to the act.

The Medicare Modernization Act of 2006, the prescription drug act that created Medicare Part D, contained a trigger that created a new process.

If the Medicare actuary projected that more than a certain proportion of Medicare funding would depend on general revenues in the future, the president was to make proposals for reform and Congress was to deal with the proposals in an expedited fashion. The actuary reported, President George W. Bush's administration made proposals, and then nothing happened. Congress very quietly abandoned the new process. True, the trigger process was not well designed, but that was a reason to improve it, not abandon it.

A number of lessons for the design of triggers emanate from these failures and successes:

1. *The variable used as a trigger should not be too volatile*. The corollary is that it should be easy to forecast. The deficit trigger of the type used by GRH is very likely to fail. It is very volatile, with changes in its size from year to year usually deriving much more from economic fluctuations than from changes in policy. Because of resulting errors in forecasting deficits, GRH chose politically unrealistic targets.

2. *The policy changes that are triggered should not be too painful or else they will be waived*. Medicare Part B premium adjustments have survived because they are only a few percent per year and can be anticipated. Another way to make the pain acceptable is to put a limit on the size of the automatic adjustment. For example, the law might say that the size of a triggered tax increase should not exceed 0.5 percent of GDP.

3. *The existence of triggers should be highly publicized*. Congress got away with abandoning the Medicare Part D trigger because few noticed its creation in the first place, and the media and general public paid very limited attention when it was abandoned.

4. *Triggers work best when they are adopted along with fundamental reforms of a program*. The trigger is then used to provide protection in case the economic and demographic assumptions underlying the reform turn out to have been too optimistic, whether on purpose or accidentally. The trigger can be used to slow benefit growth, increase revenues, or both. Sweden, Germany, Canada, Italy, and Japan are among the countries that have adopted triggers in their social security programs after making fundamental reforms. Using a trigger to reform a program without any accompanying legislation is much less likely to be acceptable, in part because it forces a much larger portion of any reform to be triggered rather than achieved through a broader and, ideally, more considered enactment. This point is probably the most important. That is, a trigger used to enforce fundamental reforms that are the result of a rational debate is more likely to

be successful than a trigger that tries to automatically reform a program without a thorough debate.

Sweden devised a clever social security trigger that satisfies those criteria.[15] Existing and future benefits are indexed to wages. Actuaries estimate the present value of future outlays and revenues for the country's social security system. If the present value of revenues falls short of the present value of outlays, then the former is divided by the latter and the resulting fraction is multiplied by the wage index. For example, suppose that the present value of revenues is 99 percent of the present value of benefits and the wage index is 3 percent. The index used to adjust present and future benefits becomes 2.97 percent (0.03 × 0.99 × 100). If in some future year the present value of revenues is sufficient to fund the present value of benefits (i.e., financial integrity of the program is restored), benefits are raised and earlier cuts reversed.

Modification of the usual index tends not to be volatile. It is very unlikely to be painful in any one year, and in any case some hope remains that the pain will be reversed in future years. The process is very well publicized and is followed closely by current and future beneficiaries. The only criticism is that the slow nature of the process may not fully keep up with a significant deterioration in the finances of the system.

“The making of a long-term legal promise in a world of uncertainty leads to the demand for longer-term accounting of what a contract means.”

The trigger was designed in conjunction with a fundamental reform of the system. The trigger protects the system in the long run if the assumptions underlying the reform prove to have been too optimistic. The example illustrates how a trigger can be used to manage uncertainty.

In addition to applying triggers to spending programs, policymakers can apply them to tax expenditures. Also, programs can be designed so that tax rates are increased to cover shortfalls in programs. For example,

15. Agneta Kruse and Edward Palmer, “Sweden,” in *International Perspectives on Social Security Reform*, ed. Rudolph G. Penner (Washington, DC: Urban Institute Press, 2007), 35–53.

a value-added tax could be dedicated to fund the general revenue portion of Medicare and the rate could be automatically increased if shortfalls occurred. The pain imposed by raising the tax rate would increase the incentive to reform the program.

Sequesters. As designed, GRH required a sequester if its deficit targets were violated and applied the spending cuts with an equal percentage for a wide range of government activities. A long-run budget target could be backed up with a similar percentage cut triggered by a specified deviation from the target. The cut would have to be limited in size to avoid being too painful, but it would have to be significant enough to foster some movement toward the target. Of course, the cut could be eliminated or reduced in size by a decision to change the target, but the administration and Congress would have to provide a persuasive rationale for doing so.

In general, broad sequesters that apply to a wide range of government activities are irrational in the sense that they cut good and bad programs equally. Percentage cuts focused more narrowly on programs in which spending exceeds a carefully debated target make more sense.

Given the uneven history of the use of triggers and sequesters, it is, of course, possible that even a well-designed trigger or sequester will fail from time to time. Then, the best kind of failure is one that results in a better policy. That happened when the failure of GRH provoked the budget deal of 1990 and was replaced by the Budget Enforcement Act. Even if a failure does not provoke a new and improved policy, it generally draws attention to flaws in an old policy.

Periodic reauthorization or formal reexaminations. The budget process could require many more programs to be reauthorized periodically but less frequently than annually. Such procedures already apply to agricultural subsidies and the Temporary Assistance for Needy Families program, though neither of those has much built-in growth because of their particular structures. Whether spending for a reauthorized program then would be considered mandatory for a given number of years or discretionary, such periodic review places more limits on perpetuity and automatic growth than does no review at all.

Like any process, reauthorization or reexamination can and often has been perfunctory for those programs for which it is required, but it need not be. Reexamination empowers members to take action when required, and a well-designed formal reexamination of a program can and should entail assessment of the program's performance and success, not just its impact on the budget.

Technically, no reauthorization is scheduled for Social Security. That omission may be wise, because a requirement that the program be reauthorized every year may create needless uncertainty among individuals nearing or already in retirement. A weaker approach that would threaten less radical change would be to revive the old quadrennial Social Security advisory councils, which reviewed the financial status of the program every four years. The reports received a lot of attention. The councils were replaced by the Social Security Advisory Board, which reports on the program and makes recommendations for legislation. The board's reports receive little attention, perhaps because they are not released on a predictable schedule. It may be useful to revive a commission structure tasked with proposing broad reform of the Social Security system, not just periodic studies of particular problems. Similar reexaminations could be required for other entitlements.

Those examples show a range of ways by which processes requiring reconsideration can resemble the type of reconsideration required in the appropriations process for discretionary spending. At the same time, the examples show that, as with other reforms discussed here, some designs are more effective than others.

Expanding the budget window. Congressional budget decision-making within the normal budget process now begins with a CBO baseline that projects the spending and revenue implications of current law for 10 years. Lengthening the projection to 20, 25, or 30 years would have two benefits. First, it would more clearly show that the current fiscal path is unsustainable and at the micro level would indicate how much of the problem is the result of spending on popular programs. The hope is that lengthening the projection would provoke Congress, and indirectly voters, to ask, "Although we like these programs very much as they are, do we like them so much as to warrant their absorbing such a large share of the nation's economic resources?" It would also show that rising deficits caused by the growth of popular programs would cause interest payments to soar in the long run. Voters can easily understand that they could buy a lot of good things if they borrowed freely, but eventually interest costs would overwhelm them. In any case, devoting a larger and larger share of revenue increases to interest costs is not very appealing.

A second benefit of a longer time horizon for politicians is that it more clearly illustrates the benefits to be gained from painful entitlement reforms, especially reforms of Social Security and Medicare. The deficit reductions from many reforms compound over time, and the reductions enjoyed in the first 10 years constitute a small portion of the gains over, say, 30 years. That advantage is especially true of reforms to retirement programs because Congress will want to give long advance notice of significant changes so that people nearing retirement can plan accordingly. For example, Medicare reforms proposed by recent Republican budget resolutions would not go into effect for 10 years, and the resulting deficit reductions would not show up at all using the current budget horizon.[16]

Today, government actuaries already do 75-year estimates for Social Security and Medicare, but the numbers are not integrated into the normal budget process so that the impact of current actions could be assessed over a longer-term trajectory than 10 years. For instance, because the deficit in those programs is scheduled to rise significantly over the next 25 years (and beyond), a process or budget agreement that might look sustainable over a 10-year period might be shown to fail over 25 years. Outside the normal process, Congress has at times aimed for broad-based Social Security reform that creates some balance over a 75-year period and relies on longer-term projections, so adaptation within the normal budget process would be relatively easier for that program than for others.

For other reforms, either in non–Social Security programs or for Social Security changes integrated into the normal process, a longer accounting period also gives a more accurate reading of benefits relative to costs. For instance, expansion of private retirement benefits to a larger share of middle- and lower-income taxpayers often has up-front costs, such as when deductions are taken, but revenues later tend to offset some of the costs when taxable withdrawals are made, particularly at retirement.

As a practical matter, it is over the 25-year period from about 2010 to 2035 that many of the demographic pressures of the retirement of baby boomers will play out in the federal budget. Social Security's projected annual deficit as a share of GDP in 2035, for instance, is only moderately below that projected for 2070 or 2080.

True, it is difficult to make long-run projections accurately. For example, CBO did not anticipate the slowdown in the growth of healthcare costs that occurred in recent years. However, changes in the projections from year to year have never been significant enough to alter the basic conclusion that current fiscal policies are unsustainable and that changes in spending and tax policies are desperately needed.

16. CBO periodically produces very long-run budget projections and analyzes policy options that can improve the long-run outlook. However, CBO's reports generally appear after a budget resolution has been debated and are not integral to the budget process. See CBO, "The 2015 Long-Term Budget Outlook," Washington, DC, June 2015.

The criticism of longer-term projections, though legitimate, is upside down. It is not the projection that is at fault. If "contracts" are not signed for decades into the future, accounting for the obligations of those contracts is not required. The making of a long-term legal promise in a world of uncertainty leads to the demand for longer-term accounting of what a contract means. No business would fail to estimate the impact of a long-term contract, though it would likely decline to make so many that it mattered so much.

Using a longer window has one potential disadvantage. Congress may claim that it is making fiscal policy more responsible even if its painful reforms are put off for 25 years. Or it may claim that it is being deficit neutral if it pays for immediate spending increases or tax cuts with spending cuts or tax increases in the distant future.

Congress already plays this game using the current 10-year budget window. For example, it has become common in recent years to "pay for" immediate spending increases or tax cuts with spending cuts or tax increases spread over several years late in the 10-year budget horizon. It is doubtful that such spending cuts or tax increases will ever occur. Although lengthening of the window may increase somewhat the opportunity for gaming, the increase is marginal and we think the benefits outweigh the costs. No budget process is immune from gaming or from using gimmicks. The only way to combat such practices is to try to focus as much publicity on the gaming as is possible.

Accurately displaying changes in spending and taxes. The current budget baseline, or estimate of what is required under current law, has its uses, including showing how much legislated spending increases and tax cuts will change the deficit. But the baseline masks the total change that is taking place and the extent to which automatically growing entitlements receive budgetary advantage relative to programs that must be appropriated. Better ways are available to illustrate the national priorities that are embedded in current law. The spending and revenue totals in the baseline are the cumulative result of numerous past policy decisions. The priorities embodied in current law come into sharper focus if we look forward and ask how *increases* in real budgetary resources, that is, increases in revenues and increases in the deficit after adjusting for inflation, will be used for different programs. This evaluation can be done by examining sources and uses of budgetary resources (see table 2).

Table 2 illustrates how the increase in budgetary resources provided in the baseline over the 2016–2026 period will be used if laws are not changed. The first two columns of numbers are real dollars. Outside the conversion to real dollars, the table presents exactly how most changes in discretionary spending

TABLE 2. SOURCES AND USES OF CHANGES IN BUDGETARY RESOURCES, 2016–2026

Sources	Real dollar increases (billions)	Uses	Real dollar increases (billions)	Percentage of increase
Revenues	781	Social Security	421	31.1
Deficits	571	Major healthcare programs	462	34.2
		Other mandatory spending	53	3.9
		Defense discretionary	3	0.3
		Domestic discretionary	−24	−1.8
		Net interest	437	32.3
Total	1,352	Total	1,352	100

Note: Real dollar increases are in 2016 dollars.

Source: Authors' calculations, using CBO, "Updated Budget Projections: 2016 to 2026," Washington, DC, March 2016.

are shown now and fairly matches how increments to spending would have been viewed throughout most of history when the budget was discretionary.

The last column shows that almost one-third of the increase in budgetary resources will be devoted to Social Security, one-third to major healthcare programs, and one-third to interest on the debt. Close to nothing is left for everything else, including most programs for education, infrastructure, the environment, and energy. Social Security and healthcare entitlements may be good and popular programs, but should the federal government really be spending almost all new resources on them and on interest? Should nothing be left for other domestic programs? The failure to provide any real increases in defense spending also implies a significant cutback in military personnel after 10 years.[17] Do we know enough to ensure that the world will be significantly less dangerous then?

Table 2 also shows that Social Security and health care absorb more than all the increased revenues expected 10 years from now; only increased borrowing covers the costs of other obligations. Though increased deficits can be used to capture additional resources temporarily, they add to the interest costs that show up in this type of table. In fact, fully 23 percent of the increase in resources provided in the baseline is already used for interest payments, which is money that cannot be used for beneficial programs.

17. This observation assumes that Congress does not "cheat" by exploiting loopholes in the current spending caps. A giant loophole in the defense cap, in the form of an account called Overseas Contingency Operations, is not actually subject to the cap. It was created to finance the wars in Iraq and Afghanistan and is now also used to finance the air war against ISIS. Aided by Congress, the Department of Defense is very imaginative in defining war-related expenditures. Spending in this account may not fall as much as true war-related spending falls for Afghanistan and Iraq and may even increase more than the inflation-adjusted amount assumed in the baseline.

“Social Security and health care absorb more than all the increased revenues expected 10 years from now; only increased borrowing covers the costs of other obligations.”

Of course, the automatic growth in Social Security and health care it is not the only factor that crowds out other spending and leads to higher interest costs;[18] the failure to collect enough taxes to pay the federal government's bills also is at fault. At the end of the day, the country can easily witness lower noninterest spending and higher taxes because rising interest costs put pressure on both.[19]

Table 2 then allows for new legislation to be added in separate columns, thereby showing what changes are due to new legislation and what changes result from changes enacted in the past that the president and Congress bear responsibility for sustaining. As noted, the federal budget has evolved so far today that simply presenting new legislative changes misleads the public by hiding most of the changes that are, in fact, occurring.

To give weight to this type of table, it needs to be presented prominently in budget analyses, not buried in a study or appendix. We suggest it be the first type of table presented by CBO when detailing its summary of the president's annual budget proposal for the next fiscal year. Closely related tables would show changes in the share of the economy or GDP for particular revenue and spending items.

Other approaches to displaying budgetary choices. Other efforts could draw attention to the unsustainability of current fiscal policy:

1. *Financial State of the Union.* The president could be required to present a financial State of the Union statement each year that would include an assessment

18. Veronique de Rugy and Jason J. Fichtner, “Growth in Entitlements Means Less Money to Budget,” Mercatus Center at George Mason University, January 14, 2013.
19. Of course, if the interest rate on the debt equals the economic growth rate, it is necessary to balance only the primary or noninterest deficit to achieve sustainability. Our point here focuses on the use to which dollars are put, and less on the precise amount of interest that might be sustainable.

of the very long-run fiscal outlook and an analysis of why it changed from year to year.[20]

2. *Establishing long-run targets*. Another approach would be to require the administration and Congress to establish long-run targets for spending on rapidly growing programs. Options for buttressing those targets could be both strong and weak. A possible strong approach would use reconciliation, triggered percentage spending cuts to hit the target, or both. A possible weak approach would require the president to report on the reasons for any change in the administration's targets, and the budget committees could be required to do the same for any changes in congressional targets. In the best case, the administration and Congress would agree on targets, but that would not be necessary. Obviously, such an approach would not necessarily provoke action, but it would draw more attention to the nature of the problem. Australia's government is required to promulgate a target for the national debt. The government then is required to report the reasons for any change in the target. Apparently, those reports receive much attention from the public and act as something of a disciplining tool.

FURTHER APPLICATIONS TO SOCIAL SECURITY, MAJOR HEALTHCARE PROGRAMS, AND TAX EXPENDITURES

In this section we turn to reforms of major programs that could be backed up by or made subject to the substantive procedural reforms discussed in this paper. The presentational and other process reforms already suggested would reveal a good deal about the extent to which these programs affect discretion in the budget.

Social Security

The growth in the cost of Social Security relative to GDP derives from three major sources.[21] First, benefits are being provided for more and more years as people live longer. Though modest in any one year, over the decades (and soon a century), those benefits have added substantially to costs, with the largest gain

20. The analytical perspectives section that accompanies the president's annual budget submission includes a discussion of the long-term budget outlook; however, that section receives relatively little attention.

21. A helpful overview of drivers of growth in Social Security and various reforms that have been considered to close the program's imbalance can be found in CBO, "Social Security Policy Options, 2015," Washington, DC, December 2015.

in lifetime benefits accruing to higher-earning households, whose members both live longer and have higher annual Social Security benefits. For young couples today that have average life expectancies, benefits are scheduled to be provided on average for about three decades to the longer-living of the two spouses. Second, benefits are indexed to wages, so when, for instance, one generation's earnings rise 20 percent relative to the parents' generation, the younger generation's annual benefits also rise 20 percent (on top of additional years of benefits). Third, by aging the population, the decline in the birth rate has led to significant increases in the percentage of adults receiving benefits and hence to rising aggregate costs relative to GDP and the Social Security payroll taxes that are collected.

Direct Social Security reform, of course, could deal with the automatic growth. Such reform could slow growth rates by, say, no longer providing more and more years of benefits as people live longer. Or it could remove automatic wage indexing for workers while still protecting those with, say, lifetime earnings below the median (one form of this type of adjustment is called *progressive wage indexing*).

An increase in the retirement age, by the way, is a combined spending and revenue reform, as greater work efforts lead to higher tax collections, both in Social Security payroll taxes and in income taxes.[22]

Note that provisions such as a good minimum benefit could be established. In addition, wage indexing for higher-income beneficiaries could be limited and other benefits for individuals with lower average incomes could be added beyond what current law provides.

As noted, the purpose here is not to go through the many Social Security reforms that could be enacted to increase the program's efficiency or equity. The examples presented were selected because each could easily be made subject to triggers.[23] For example, increases in the full retirement age could be triggered by increases in life expectancy to keep the expected number of years of benefits constant rather than growing. The increases could lag to avoid surprising anyone. Wage indexing of higher benefits could be slowed or stopped, mainly for those with above-average lifetime incomes.

Reforms could be triggered if the Social Security system's actuaries declare (perhaps in reports from the Board of Trustees) that future revenues are not sufficient to fund future benefits. They could be enacted but then

---

22. Barbara Butrica, Karen E. Smith, and C. Eugene Steuerle, "Working for a Good Retirement" (Discussion Paper 06-03, Urban Institute, Washington, DC, May 2006).
23. Penner and Steuerle, "Stabilizing Future Fiscal Policy."

removed or slowed when actuarial balance is achieved. In Sweden, past triggered restraints on benefits are reversed if the country's social security system develops an actuarial surplus.[24]

Periodic reauthorization or formal reviews could tie in closely with such procedures. Certain growth elements, such as wage indexing or increases in the number of years of benefits as people live longer, could be subject to periodic examination even once the system did come into some long-term balance. We recommend, of course, retaining price indexing or cost-of-living adjustments for existing retirees, as we do not believe their benefits should be subject to the whims of inflation. But periodic reexamination of various growth factors would force Congress at times to choose where growth should be directed to best meet the current needs of citizens. At the same time, future beneficiaries should not be given statements, as they are now, that imply that they will get a certain level of benefit in a program that the trustees year after year state cannot be financed under current law. Any reforms enacted as the result of periodic reauthorizations or formal reviews should be implemented with considerable time lags to give those near or in retirement plenty of notice that changes are coming. If triggers were enacted along with at least some policy reforms, such as a good minimum benefit, Social Security benefits could be improved, rather than simply sustained, for those with lower lifetime earnings.

As noted, one of our concerns with automatic growth is not simply that it leads to fiscal imbalances that must be addressed. Automatic growth in Social Security predetermines that the growth in benefits deserves priority over, say, education. Failing to adjust the system to modern needs and circumstances is troublesome. The system in place now will soon provide benefits for almost one-third of adults for one-third of their adult lives, and it is modeled on an idealized family structure from the early 20th century.[25] Longer expected lifetimes with more years of Social Security benefits continually "front load" benefits relative to needs. That is to say, an ever-smaller share of lifetime benefits is received in the last 10 expected years of life, when the need for long-term care rises. Also, spousal and survivor benefits have been shown to be designed in highly inequitable ways that are not progressive and that especially discriminate against single heads of household, who essentially pay to provide benefits to spouses and survivors they will not have themselves. Should the inequities be allowed to continue and grow?

24. Kruse and Palmer, "Sweden."
25. Melissa M. Favreault, Frank J. Sammartino, and C. Eugene Steuerle, eds., *Social Security and the Family: Addressing Unmet Needs in an Underfunded System* (Washington, DC: Urban Institute Press, 2002).

Major Healthcare Programs

This section describes ways that government healthcare programs could operate with triggers, trigger-like mechanisms, or reauthorization requirements that would constrain *automatic* cost growth in the absence of broader reforms. As with Social Security, the mechanisms work best when they integrate with and reinforce rather than simply substitute for policy reforms.

Medicare. Medicare covers individuals ages 65 and over and people who are on disability insurance. It is, by far, the largest government health insurance program, with expenditures equaling 3.6 percent of GDP in 2015. As recently as 2000, its expenditures were only 2.1 percent of GDP. However, Medicare's rate of growth has slowed significantly in recent years. Between 2009 and 2015, costs remained stable relative to GDP.

Regardless of its future rate of growth, Medicare still absorbs a very large share of budgetary resources and economic growth. Actuaries project higher future growth, in no small part because the program's open-ended features encourage new, uncontrollable, and inefficient expansion. For example, policymakers recently have debated the effects of large increases in drug prices by pharmaceutical companies with monopoly or temporary monopoly powers. The open-ended nature of Medicare and other federal healthcare programs essentially means that the power of appropriations resides with beneficiaries, who can demand more healthcare goods and services, and providers, who can sell more of them, with the costs being imposed on all taxpayers. Also, Medicare has all the demographic problems inherent in Social Security because of the significant and steady scheduled decline in workers relative to beneficiaries, particularly in the years up to 2035.

Along with the rest of the public and private health insurance system, Medicare is highly inefficient and could finance higher-quality health care at lower cost. Whatever the level of cost growth over time, Medicare should compete for resources with other programs on a level and discretionary playing field. For example, no research suggests that end-of-life care should receive priority in the budget over, say, wage subsidies to promote employment, better educational support for individuals who are not college bound, or preventive health care.

Medicare reform proposals vary widely. Again, we are interested in mainly procedural reforms such as triggers or delegated authority as a way to back up whatever other program features may be in place. In the following discussion, we include limits on indexed growth as a type of triggered policy.

Suggestions for controlling Medicare's cost growth fall into several categories. First, the net benefits to which people are entitled could be reduced by increasing deductibles, copayments, and premiums or by making some treatments, such as chiropractic care, ineligible for reimbursement. Second, the fees or reimbursements paid to providers, such as hospitals and doctors, could be increased at a slower rate or actually reduced. Third and in a closely related manner, reimbursements could be bundled in ways that restrict the payments for multiple procedures. Fourth, the government could adopt a premium support system or voucher, which in theory is simply a high-level way of bundling. Medicare Advantage is a type of voucher system, as are the Affordable Care Act (ACA) insurance premium subsidies. Fifth, the eligible population could be reduced by, say, indexing the eligibility age to life expectancy, though the net savings, especially in the first decades, would be quite modest because some people excluded from Medicare would then be eligible for Medicaid or for subsidies to help pay premiums for an insurance plan purchased from a marketplace exchange. Also, the youngest Medicare enrollees are relatively less expensive to serve.

For our purposes, however, the issue is less with the method of cost control than with the system being put on a path of control, with adjustments made over time as knowledge evolves and as the political parties and the public vie over the most efficient way to proceed. Indeed, putting health care on a lower automatic growth path opens up the possibility of devoting resources to better forms of healthcare services. Trying to predetermine the perfect healthcare policy for the entire future of the United States is like trying to put in place laws that would forever guide the entire economy of a country the size of Germany or France; current US law decides how to allocate additional healthcare cost growth badly, and we do not presume we can provide a new, permanent guide here either. Thus, the real reform that must be adopted is to put in place rules that leave options open for the future while avoiding an automatic growth in healthcare costs that puts enormous pressure on the rest of the budget.

Congress places some limits on reimbursements. Under the assumption that hospitals and other institutions

“The open-ended nature of Medicare . . . essentially means that the power of appropriations resides with beneficiaries, who can demand more healthcare goods and services, and providers, who can sell more of them, with the costs being imposed on all taxpayers.”

should be able to improve productivity, the ACA lowered the growth of reimbursements below the inflation rate. Note that this action is less radical than it may sound. In almost all growth industries, prices rise more slowly than the inflation rate because new goods and services push down the prices of what had been provided. The ACA also includes a number of other adjustments that put downward pressure on costs, including placing a cap on the total cost of premium tax credits and indexing the so-called Cadillac tax on high-cost private health insurance plans to the Consumer Price Index. But the ACA does not reduce real growth in healthcare costs.

Later, when Congress permanently did away with scheduled but constantly deferred cuts for physician reimbursements that had been part of Medicare's sustainable growth rate policy, it put an upper limit on the growth rate of physician fees of 0.75 percent per year after 2025, a rate below the expected inflation rate. The Medicare actuary has declared that those reimbursement rates are unrealistically low and expects them to be increased significantly in the long run.[26]

Both the Obama administration and House Speaker Paul Ryan, when he was chairman of the House Budget Committee, agreed that Medicare's cost growth should be limited. Ironically, they both chose the same target: cost growth should be limited to GDP growth plus 0.5 percentage points, which still allows Medicare to grow faster than the economy and to continue to absorb ever more of the federal budget. CBO expects the growth in Medicare expenditures to average 6.8 percent per year between 2015 and 2026, compared with a nominal GDP growth rate of 4.1 percent. Hence, the Obama–Ryan target would require restraining program costs.[27]

Although the Obama administration and Ryan promulgated the same target for cost growth, their approaches to attaining that target could not be more different. Ryan wants to rely on competitive market forces to restrain costs. He would adopt a "premium support" plan that would provide income-related subsidies to those eligible for Medicare to be used to buy insurance in the private market. The system would have many of the same characteristics as the system created for people who use the ACA's marketplace exchanges. Cost growth could be limited to Ryan's target by varying the subsidies under the plan. People would be allowed to choose to remain in the traditional Medicare

26. John D. Shatto and M. Kent Clemens, "Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers" (Centers for Medicare & Medicaid Services, Baltimore, MD, July 2015).
27. CBO, "The Budget and Economic Outlook: 2016 to 2026," January 2016.

program, but the generosity of that program would be changed to limit cost growth to the target.

The Obama administration originally planned to use a delegated authority approach by empowering an Independent Payment Advisory Board (IPAB), created by the ACA, to limit cost growth. Board members have never been appointed, and in recent budgets the president has offered other options to restrain costs. However, in theory something like the IPAB could be used to try to hit a growth target. Originally, the IPAB was supposed to make cost-restraining proposals that would automatically go into effect unless Congress explicitly rejected them. Instead, the powers of the IPAB were severely limited by the ACA, and the IPAB was not allowed to propose anything that would affect quality, premiums, or coverage or that implied rationing. President Obama has proposed expanding the IPAB's powers significantly.[28]

For a variety of reasons, both empowering some delegated authority like the IPAB and converting to premium support are difficult, though we believe both have merit and that the two techniques could be combined, tested, and evolved over time. Indeed, Medicare itself is a hybrid. At times, it restrains costs through some, though inadequate, price controls for standard Medicare. The program also contains Medicare Advantage plans, a type of premium support approach; some recent research suggests that this approach at times has restrained costs.[29]

Capretta suggests that Congress establish caps on entitlements, including Medicare.[30] The caps would be enforced using reconciliation procedures. We suggest that such caps might be reinforced with triggers more specifically designed to limit cost growth in particular programs.

If Congress failed to enforce the caps in a concurrent resolution and was forced to resort to a trigger that automatically limited cost growth, then it must be determined how the trigger should be applied. We have noted a variety of potential changes. Some, such as changing the eligibility age, would require a fair amount of time lag and would be unlikely to affect near-term budgets.

Alternatively, the trigger could be applied to reimbursement rates. But as already noted, healthcare providers have often circumvented the

---

28. For a more detailed discussion of the IPAB, see James C. Capretta, "The Independent Payment Advisory Board" (Mercatus on Policy, Mercatus Center at George Mason University, Arlington, VA, March 2016).
29. Molly Frean, Jonathan Gruber, and Benjamin D. Sommers, "Premium Subsidies, the Mandate, and Medicaid Expansion: Coverage Effects of the Affordable Care Act" (Working Paper No. 22213, National Bureau of Economic Research, Cambridge, MA, April 2016).
30. Capretta, "Budget Act at Forty."

"Any trigger or formula should be flexible over the economic cycle, both to protect people when they are most vulnerable and as sound fiscal policy for automatically spending more in a recession and less after recovery."

reimbursement rates imposed by current law by prescribing more treatments. Price controls tend not to be effective by themselves.

That leaves triggers to automatically increase premiums for Medicare Parts B and D. Again we note that, if triggers are too harsh, they will be waived; and if they are too gentle, they might not bring spending under the caps. However, efforts to pull a trigger or waive a trigger should attract attention that may induce Congress to undertake more fundamental reforms.

As noted, triggers need not be used to change program parameters such as premiums, but they can be used to initiate an expedited procedure that forces Congress to consider reforms. The Medicare Payment Advisory Commission advises Congress on reimbursements and often identifies reimbursements for particular procedures that are clearly excessive in its view. Congress generally ignores the recommendations. A trigger could be used to force the president to choose which commission recommendations to approve and to force Congress to consider the president's recommendations in an expedited manner. The procedure could be designed to resemble the one used in reconciliation, so that debate is limited and filibusters are forbidden.

As noted, a similar procedure was included in the legislation that created Medicare Part D, but it was quietly waived by Congress. The procedure recommended here is more narrowly focused and may have a better chance of success.

The Medicare payroll tax could be subjected to a trigger mechanism based on the Medicare actuary's finding that Medicare Part A was experiencing an actuarial deficit above some threshold. Because the tax base applies to all earnings without a cap, the trigger would have to apply to the tax rate.

Medicaid. The Medicaid program is run by the states. It is subject to federal rules, but the states have some flexibility in designing their individual programs. Federal government cost-sharing grants finance somewhat more than 50 percent of state expenditures.

If federal Medicaid expenditures were capped, one way to enforce the cap would be to convert the cost-sharing grants to block grants or to cap cost sharing at some maximum grant level. The size of a block grant could be altered every year to satisfy a cap, but it would probably be better to obligate the grant for, say, five-year periods, so that states would know what was coming. As Capretta notes, a block grant approach would probably not be acceptable unless states were given considerably more freedom in designing their Medicaid programs.[31] A per capita cap for each state, based in part on the size of poor and elderly populations, would almost surely help accommodate differences in eligible populations across the states, because Medicaid law as a cost-sharing program already adjusts for the number of Medicaid recipients in a state.

Even so, it may be difficult to sell a block grant approach. Medicaid was exempted from the sequester implemented by GRH and then exempted again from the sequester imposed by the Budget Control Act of 2011. More generally, Congress has been reluctant to impose stringent budget controls on programs that serve mainly poor people. A notable exception occurred with welfare reform legislation, when the Aid to Families with Dependent Children program was converted into a block grant program, now called the Temporary Assistance for Needy Families program. But that development over time was assisted considerably by expansions in other programs, such as the Earned Income Tax Credit and the Supplemental Nutrition Assistance Program—again demonstrating that triggers or caps usually work best when they back up other policy changes. A related approach may be to gradually convert some Medicaid recipients to a premium support system, whether like that of the ACA or something else that Congress may design.

Other healthcare programs and issues. Under the ACA, the government subsidizes insurance premiums for eligible people who purchase plans on the marketplace exchanges, and the costs are controlled fairly directly by simply varying the generosity of the subsidies. If total premium tax credits exceed a cap, they are adjusted in future years. Those types of limits or triggers can be adjusted automatically upward or downward to stay within a budget, though one has to look carefully at what types of benefits are mandated because they also affect both government costs and what the public still has to pay.

31. Ibid.

The Children's Health Insurance Program (CHIP) is financed by block grants that are reauthorized every five years. It, too, provides matching funds at a higher rate than does Medicaid but only up to a capped amount. States can apply for further help in a number of ways when expenses exceed the cap. Through use of a cap and periodic reauthorization, the program has in place mechanisms to constrain spending. For a variety of reasons, CHIP does not provide a model for what would happen under certain block grant proposals for Medicaid.[32]

The federal government spends a great deal on health insurance for its military and civilian employees while they are working and later when they become retirees. One direct way of controlling net costs is to increase employee contributions and cost sharing both for those employed and for those retired. Such changes could be triggered automatically.[33] In many ways, the Federal Employees Health Benefits Program already operates somewhat like a premium support plan in the sense that it sets an annual maximum cap for government contributions for the insurance plans offered, and each employee then pays the differential when choosing a plan that costs more than the cap. The cap could be constrained or triggered over time to stay within a budget. In many ways, that option may be superior to automatically increasing employee contributions, which simply shifts costs from government to individuals, often without applying any pressure on overall healthcare costs.

As in the case of Social Security, those triggers, caps, and reauthorization procedures work best when integrated with other reforms that ensure other objectives of a program are met. Special attention, for instance, should be paid to the poor and near poor, who generally can cover only very little of the average cost of health insurance and health care. Any trigger or formula should be flexible over the economic cycle, both to protect people when they are most vulnerable and as sound fiscal policy for automatically spending more in a recession and less after recovery. We noted this problem on a broader scale when reflecting on the failure of GRH. Here, the design of grants to states becomes important because it can adjust for the number of people in need while still restraining growth in costs per recipient.

---

32. Jocelyn Guyer, Martha Heberlein, and Joan Alker, "CHIP: Not a Model for a Medicaid Block Grant" (Center for Children and Families, Health Policy Institute, Georgetown University, Washington, DC, June 2011).
33. See Susan D. Hosek and Nathaniel Lutovsky, "As Congress Drafts the NDAA, What Are Options for TRICARE Reform?," *RAND Blog*, February 8, 2016, which examines the military's TRICARE program and considers these and other options drawn from the experiences of private providers and insurance companies.

Though we list raising deductibles and copayments as a type of change that can be triggered, we have not spent much time on that particular option. Making that kind of change may not reduce the growth of healthcare costs at all if higher deductibles and copayments merely shift liabilities from taxpayers to insured individuals paying more out of pocket. The exception comes when doing so efficiently reduces the demand for health care.

Tax Expenditures

If budget constraints are applied only to direct spending but tax expenditures are excluded, over time Congress will have even greater incentive to put spending-like subsidies into the tax code, where the members can circumvent other budget process rules meant to create greater congressional discretion over time in decision-making.[34]

Though there is general agreement as to most items that should be classified as tax expenditures, a precise definition has eluded consensus.[35] The debate centers mainly on what constitutes a subsidy versus an item that simply represents a way to calculate the income tax base. For instance, should inflationary returns to capital be in the tax base? Because some nontaxable returns to homeownership are in the form of lower rental income that otherwise would be paid, the Office of Management and Budget counts them as tax expenditures, whereas the Joint Committee on Taxation, recognizing that the tax system never taxes this type of return, excludes them.

For the most part, that definitional problem does not matter for the purpose of creating a more discretionary budget. Individual subsidies can still be limited, and we recommend strongly that immediate attention be given to the major growing ones. Attempting to place a limit on all tax expenditures or even a group of them, such as those that are itemized on tax returns, operates a bit like a limit on all spending programs in a sequester. As we have discussed, subsidies often turn out to be quite inequitable and inefficient and sometimes not administrable. For instance, the net value of a retirement plan subsidy plays out over decades, from the time of deposits to the time of withdrawals, so it is not even clear how to temporarily sequester such a subsidy, as opposed to

34. Jason Fichtner and Jacob Feldman, "When Are Tax Expenditures Really Spending? A Look at Tax Expenditures and Lessons from the Tax Reform act of 1986" (Mercatus Working Paper 11-45, Mercatus Center at George Mason University, Arlington, VA, November 2011); Donald B. Marron, "Spending in Disguise," *National Affairs* 8 (Summer 2011): 20–34.
35. Joint Committee on Taxation, "A Reconsideration of Tax Expenditure Analysis," JCX-37-08, Washington, DC, May 2008.

designing a limitation specific to a retirement program itself. A combined cap on all itemized deductions reduces charitable deductions much more than it does mortgage interest deductions, a goal not advocated by anyone, as best we can tell. Moreover, complex interactions among deductions, exclusions, and credits make it impossible to add up tax expenditures without an enormous amount of analysis.

We did note attempts by budget committees to pass a mandate to the tax-writing committees to raise taxes relative to current law—and the difficulty in implementing that goal. We also noted the success of the budget agreements, starting in 1990, in limiting any new legislation that, on net, increased deficits through entitlement and tax reform together. Interestingly, when Congress has agreed to raise taxes, it has been more willing in recent decades to broaden the tax base by limiting tax expenditures than to increase tax rates, especially for middle-income taxpayers.

Individual tax expenditures can be capped, each in its own way. Home mortgage subsidies, for instance, could be capped at a level lower than the current $1 million for a primary mortgage. The $100,000 cap on home equity loans, which essentially finance consumption and reduce home equity, could be further restricted as well, and the restrictions could be implemented in such a way that growth in the cost of the tax subsidy is slowed or eliminated over time, absent new legislation.[36]

Retirement plan subsidies, as noted, are more complicated, but limits could be placed on Roth accounts that show up in a short budget window as reductions in the deficit. (Roth accounts allow people to pay extra taxes in the current year in exchange for nontaxability of later returns, though such accounts often have very large out-year costs.) As for typical retirement accounts, the maximum amounts that can be deposited could also be further restricted. Ideally, those limits would be integrated into broader retirement and pension reforms that would increase the coverage and net retirement savings of people who are expected to have very limited private assets in retirement.

The largest tax subsidy derives from the tax exclusion of employer contributions to employee health insurance. Proposals from the Left and the Right have long favored capping that exclusion, though under the ACA, the alternative enacted was to tax insurance companies for plans that provided insurance benefits that exceed some capped amount.

36. Recent history suggests there is at least some appetite for this approach. A tax reform effort spearheaded by then House Ways and Means Committee chairman David Camp would have phased down the allowable mortgage interest cap to $500,000 and eliminated the deduction for home equity loan interest.

Many other tax expenditures can be limited in similar ways. Caps and other restrictions, wherever applied, can be made subject to triggers, as when debt levels are above some amount relative to GDP. As with spending programs, the purpose of such restrictions is not to bias the budget against expanding these programs but to subject them to a regular review process in which they compete with other tax and spending programs on a more level playing field and, within the tax system, with the lower rates that could be financed with a broader tax base.

SUMMARY OF RECOMMENDATIONS

The recommendations listed here all represent changes in the budget process that we believe would help slow the growth of rapidly growing programs and more generally would improve the rationality of budget decision-making. We do not claim to have designed a comprehensive approach to long-run budgeting, much less to have addressed all the reforms needed in thousands of government programs and tax subsidies. We only hope to ameliorate the current tilt in the budget playing field that so favors entitlements and tax expenditures.

The process and procedural changes we recommend would even out the playing field and make it less biased. These approaches would help restore the federal budget to a more discretionary basis so that lawmakers from the past no longer preordain so much of future policy. Nonetheless, the best approach to most budget issues is to reform spending and tax policies directly, while putting fiscal policy on a sustainable path, and then to back up those direct reforms with process reforms that fail-safe those efforts. At the same time, we recognize that in the absence of major reform, some process reforms and triggers might still be applied, even though they are imperfect, with particular application to the major sources of automatic growth. As a highly imperfect substitute for more considered actions, we hope they would further galvanize direct reform and in some ways make reform easier.

"These approaches would help restore the federal budget to a more discretionary basis so that lawmakers from the past no longer preordain so much of future policy."

No matter how budget reform is begun, attention must be paid to design and to attending to goals other than costs, whether protecting and improving the lives of those most disadvantaged or promoting innovation. In many ways, policy and process can never be fully separated.

Our recommendations for reform are as follows:

1. *Use carefully designed triggers to slow the growth of rapidly growing entitlements and tax expenditures.* The examples we describe in this paper go hand in hand with program reforms and serve as automatic mechanisms for preventing programs from steering the federal budget into long-term imbalance. Triggers should not be indexed to an indicator that is too volatile, triggers should avoid imposing changes so severe that Congress will likely override them, and triggers should be highly publicized so that policymakers are held accountable to the public.

2. *Remove rules that prevent reconciliation procedures from being used for Social Security reform and that limit reconciliation procedures to policy changes that reduce deficits, and change House rules to eliminate the use of reconciliation for deficit-increasing tax cuts.* Current House rules now allow reconciliation to be used for deficit-increasing revenue decreases. Thus reconciliation can be used for deficit increases if three-fifths of the Senate votes to wave the rule prohibiting reconciliation from increasing deficits. Although any rule that Congress passes can always be changed, our recommendation would make it somewhat more difficult to pass deficit-increasing tax cuts in the absence of a sustainable budget. Allowing Social Security to be subject to reconciliation measures could limit the priority its permanent growth path currently receives over other uses of resources.

3. *Subject more government programs to periodic review and reauthorization.* Programs, including tax expenditures, should be regularly reviewed against the evidence to see if they are working, and Congress should be forced to take explicit votes on whether the government should continue to devote resources to them. True, Congress may choose to rubber stamp many programs, but building concrete decision points into the process increases the chances that ineffective policies could be subject to reform. Also, we suggest that reauthorization could be designed particularly to apply to various growth features of programs while sustaining some levels of real spending, such as benefits promised to those retired or disabled. As for scheduling reviews, the former quadrennial Social Security councils provide a good example.

4. *Lengthen the federal budget window from 10 years to between 20 and 30 years*. Doing so would produce a clearer view of the long-run budget problem. It would also better illustrate the long-run benefits derived from reforms that restrain the growth of rapidly growing entitlements and tax expenditures.

5. *Adopt more informative up-front displays of real future changes in revenues and spending, whether implied by current law or policy changes.* In particular, provide up front in various federal budget presentations, including CBO's analysis of the president's annual budget, a table that lists sources and uses of changes in budgetary resources and that shows how the real increase, or decrease, in budget resources, flowing from changes in revenues and deficits, will be allocated to changes in real spending in different program areas. Doing so will provide a clearer view of the national priorities implied by the combination of changes deriving both from new legislation and changes already built into current law. It would also make Congress and the president more accountable for changes, not just those that exceed some budget baseline whose definition few in the public understand. This is especially relevant now that Social Security and health care are scheduled to absorb more than all the additional revenues expected from economic growth and, when combined with interest payments, to absorb almost all spending growth financed by both taxes and larger deficits. As one consequence, other programs decline dramatically as a share of the GDP and the budget.

6. *Require the president to present an annual Financial State of the Union report*. The report would indicate whether the long-run budget problem is getting more or less serious and would describe recommended reforms.

7. *Specify long-run goals for spending on entitlements and the size of tax expenditures, with most attention paid to the entitlements and tax expenditures that are growing faster than the economy.* If it looks like the goals will be exceeded, reconciliation, triggers, or both could be used to enforce the goals. A much weaker version of this recommendation would not enforce the goals but would require the administration to report reasons that the goals might not be achieved. This would presumably draw more attention to the nature of our country's long-run budget problem.

ABOUT THE AUTHORS

Rudolph G. Penner is an Institute fellow at the Urban Institute. Before joining Urban, he was a managing director of the Barents Group, a KPMG company. Penner directed the Congressional Budget Office from 1983 to 1987 and was a resident scholar at the American Enterprise Institute from 1977 to 1983. His previous posts in government include assistant director for economic policy at the Office of Management and Budget, deputy assistant secretary for economic affairs at the US Department of Housing and Urban Development, and senior staff economist at the White House Council of Economic Advisers. He is on the boards of MDRC, the Committee for a Responsible Federal Budget, and Fix the Debt. He is also on the advisory committee for the Committee for Economic Development and for the American Council for Capital Formation.

C. Eugene Steuerle is an Institute fellow and the Richard B. Fisher Chair at the Urban Institute. Among past positions, he served as deputy assistant secretary of the US Department of the Treasury for Tax Analysis (1987–1989), president of the National Tax Association (2001–2002), chair of the 1999 Technical Panel advising Social Security on its methods and assumptions, and chair of a recent National Academy of Sciences committee on the use of economic evidence to inform investments in children, youth, and families. He is also a founder or cofounder of ACT for Alexandria (a community foundation), the Urban Institute and Brookings Institution's Tax Policy Center, and the Urban Institute's Center on Nonprofits and Philanthropy. Between 1984 and 1986 he served as economic coordinator and original organizer of the Treasury's tax reform effort, which Treasury and White House officials acknowledged would not have moved forward without his leadership. Steuerle is the author, coauthor, or coeditor of 18 books and numerous publications and congressional testimonies, including *Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future*, *Contemporary U.S. Tax Policy* (2nd edition), *Nonprofits and Government* (3rd edition, forthcoming), and *Retooling Social Security for the 21st Century: Right and Wrong Approaches to Reform*.

ABOUT THE MERCATUS CENTER AT GEORGE MASON UNIVERSITY

The Mercatus Center at George Mason University is the world's premier university source for market-oriented ideas—bridging the gap between academic ideas and real-world problems.

A university-based research center, Mercatus advances knowledge about how markets work to improve people's lives by training graduate students, conducting research, and applying economics to offer solutions to society's most pressing problems.

Our mission is to generate knowledge and understanding of the institutions that affect the freedom to prosper and to find sustainable solutions that overcome the barriers preventing individuals from living free, prosperous, and peaceful lives.

Founded in 1980, the Mercatus Center is located on George Mason University's Arlington and Fairfax campuses.

ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is dedicated to elevating the debate on social and economic policy. For nearly five decades, Urban scholars have conducted research and offered evidence-based solutions that improve lives and strengthen communities across a rapidly urbanizing world. Their objective research helps expand opportunities for all, reduce hardship among the most vulnerable, and strengthen the effectiveness of the public sector.