New Ideas for Federal Budgeting:

A Series of Working Papers for the National Budgeting Roundtable

Long-Term Budgeting

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WORKING PAPER #8

Long-Term Budgeting[1]

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I. Introduction

Budgeting is a process in which decisions about program and policy details – such as spending for the FBI, how much to pay physicians for Medicare services, the top income tax rate and any exclusion of education expenses from income – are related to preferences about totals: total spending, revenue, and deficit or surplus. Decisions about details are constrained by preferences about totals; but the totals are the sum of the parts, so preferences about details shape the totals. For example, policy-makers may decide that a larger deficit is required because of national security threats; or to invest in human capital. Or, they may decide to cut spending or raise taxes in order to hit some deficit target.

The basic challenge of budgeting is how to reconcile conflicting preferences about details and totals. That reconciliation has historically been an annual process (Wildavsky 1978; Caiden 1982). Each year's budget decisions could and should, however, be informed by assessments of how they might affect *future* totals or details. The OECD network of Senior Budget Officials, for example, has recommended "publishing a report on long-term sustainability of the public finances, regularly enough to make an effective contribution to public and political discussion on this subject, with the presentation and consideration of its policy messages – both near-term and longer-term – in the budgetary context" (OECD 2015a: 10; see also White 2015a). In the United States, such long-term projections have been common since they were created by GAO and taken up by CBO in the 1990s (GAO 1992; CBO 1997a). They were and are used to call for budgetary caution even in good times (GAO 2001).[2]

Many of the leading figures in debate over the federal budget process recommend going further. They maintain that instead of being judged by the prospective deficit in the next year, the federal budget should be judged by the deficits or debt it is estimated to produce decades into the future. In short, allocation decisions should be driven by long-term goals for totals; and policy details designed and judged based on their estimated effects on budget goals 20, 30, or more years into the future. That is very different from international practice, in which "long-term projections are not used for allocation" (Schick 2009: 17).[3]

Thus, GAO has proclaimed that, "Long-Term Focus is Critical" (GAO 2004) and that any delay in addressing those concerns would be "destabilizing" and unwise (GAO 2011: 2). It has called for "enforcement mechanisms" to encourage better deficit control for longer periods of time (GAO 2011: 3). In 2008 a group of budget commentators including three former Directors of the Congressional Budget Office proposed thirty-year budget caps for Social Security, Medicare, and Medicaid, enforced by "automatic adjustments in benefits, premiums, provider payments, or other revenues" in order to save the nation's "fiscal future" (Antos et al. 2008: 2). Eleven members of the National Commission on Fiscal Responsibility and Reform ("Bowles-Simpson Commission") in 2010 endorsed a plan that defined the goal of budgeting as to, among other

[1] This paper is a shorter and more prescriptive adaptation of a much longer draft. The original draft attempted to analyze issues in much greater depth. It will be posted as a reference at http://policy.case.edu.
[2] The shorter-term forecasts at the turn of the millennium were dubious for many reasons, and there was sufficient reason for caution without emphasizing possible deficits in 2040, as GAO did.
[3] In personal conversation in February of 2016, Jon Blondal, Head of the Division of Budgeting and Public Expenditures in OECD's Directorate for Public Governance and Territorial Development told me he was aware of no country that budgeted, as the term is normally understood, for the long term.

things, reduce federal debt as a share of GDP in 2035 to 40% (National Commission 2010). They clearly believed that budgets should be judged by whether they would (purportedly) hit that target. In 2011 the Committee for a Responsible Federal Budget (2011a) called for a "credible process" for entitlement "reforms," again with binding, automatic consequences if said reforms were not adopted. Alice Rivlin and Pete Domenici (2015: 13) urged reforming the federal budget process so that Congress would "enact explicit long-term budgets for Medicare, Medicaid, and Social Security as well as other mandatory programs" with "limits on automatic spending growth" that would be enforced by "reestablishing and simplifying pay-as-you-go rules for these mandatory spending programs."[4]

The National Budgeting Roundtable has now generated two analyses calling for enforceable long-term totals for either all or most of the federal budget. Phil Joyce (2016: 4) calls for establishing a statutory fiscal rule to determine long-term totals. Stuart Butler (2016: 3) called for "a 25-year budget for long-term mandatory programs, together with a funding plan." Each proposal says that Congress could make changes to the long-term plan. Each also, however, provides for automatic procedures to make program or revenue details fit the targets as a default. In Butler's (2016: 4) testimony, "(i)f spending or revenues for these programs exceeded or fell short of the corridor established in the original statute, automatic provisions would be triggered to maintain the original long-term budget." In Joyce's version (2016: 5), deviations from the agreed budget path would be countered with sequestration applied to "all spending and revenue changes, including tax expenditures."

Advocates for such proposals may argue they are not really long-term "budgets" because the "enforcement" provisions are not intended to go into effect.[5] In this view, setting caps is not really budgeting; a budget must include decisions about budget details. In this paper I agree with the principle – deciding about totals without considering what that means for details is an irresponsible and in some cases dishonest way to budget. Yet *enforcement provisions are decisions about details*. They are laws that will determine policy if Congress and the president cannot agree on alternatives. This makes them just like any other budget law. As a default, the enforcement has all the power of the status quo in a political system in which legislating can be exceedingly difficult. Moreover, if Congress and the president could agree to waive the details of the enforcement, they also could agree to waive the totals – that is, to have higher deficits than planned. Therefore, proposals which combine long-term decisions about totals with enforcement procedures either should be viewed as long-term allocation decisions to reconcile details and totals – that is, budgets - or should not be viewed as providing serious caps.[6] Advocates who propose "enforcement" actions that they do not mean to occur are refusing to take responsibility for their own choices. They are misleading the public, themselves, or both.

In this paper I argue that the long-term budgeting described above represents a narrow, impractical, and dangerous view of how federal budgeting should work. Budgeting based on long-term estimates requires making decisions with particularly unreliable "information" – especially, as we will see, in the case of projected spending on health care programs. It requires substituting current politicians' judgments for those of the voters who will experience policy. In some cases, especially Social Security, the policy design requires long-term commitments; and there is little reason to expect public preferences to change. In other cases, however, future choices and trade-offs logically would depend on information we cannot know. Again, this is especially true of health care. We do not know what benefits medical care will offer in thirty years; we do not know how efficiently those could be provided; and we do not know what future judgments of the relative efficiency and equity of financing health care through government will be. Therefore, we cannot set a share of GDP that government health care programs should consume without substituting our poorly informed judgment for the better-informed views of future voters.

[4] The term "pay-as-you-go" usually refers to provisions to inhibit legislative changes, but in the context of the sentence must mean provisions that would change spending trends if events were different than expected.
[5] One can see versions of this view in some of the proposals mentioned above, and it was expressed in the June meeting of the National Budgeting Roundtable that discussed the first version of this paper.
[6] The Gramm-Rudman-Hollings Act of 1985 is an example of the second result, fake savings; the Budget Control Act of 2011 is an example of the first, the details (mostly) taking effect so far.

Many of the basic purposes of budgeting, especially for non-entitlement ("bureau" – see White 1998b) programs, are best served by the traditional annual budget process. Other purposes, such as a rough setting of policy priorities and national economic policy, should be subject to change whenever a new government takes office. Any proposal to set economic policy or priorities for longer terms would require making elections and so representative government far less relevant.

LONG-TERM BUDGETING

Budgeting based on long-term estimates requires making decisions with particularly unreliable "information"

Federal budgeting is not working well at present, but the reasons have little to do with the rules of the budget process, and far more with broader partisan warfare.[7] Demanding that budgeting solve supposed problems thirty years in the future will only intensify the blame associated with budgeting, and make it even harder to make decisions (White 2009b). It sets a standard that is both unrealistic and unwise. If policy-makers are concerned about long-term spending trends, they would do better to focus on medium-term policies for the entire U.S. health care system, rather than on long-term, largely mythical, policies for the parts that are on the federal budget.

The balance of this paper will begin with an overview of the relationship between the purposes of budgeting and the time period for which budgets are made. I will suggest why long-term decision-making fits poorly with many of those purposes, while a biennial approach makes sense for a few. Next I will discuss experience with enforcement of "caps" as applied to one portion of the budget, discretionary (bureau) spending. It is not especially encouraging. The following section considers Social Security, the part of the federal budget for which long-term budgeting is, in a sense, already established. The final section considers Medicare, and makes the case for a different approach to Medicare within the context of the U.S. health care system.

II. Annual Budgets and the Goals of Budgeting

> Budgeting is supposed to contribute to continuity (for planning), to change (for policy evaluation), to flexibility (for the economy), and to provide rigidity (for limiting spending) … Obviously, no process can simultaneously provide continuity and change, rigidity and flexibility. And no one should be surprised that those who concentrate on one purpose or the other should find budgeting unsatisfactory. (Wildavsky 1978: 501)

Federal budgeting is a complex process because it makes many different decisions and must serve many different goals. Both analytic and prescriptive studies about budgeting provide summaries of those goals, which go well beyond simply "controlling deficits" (Axelrod 1988; Lewis and Hildreth 2013; OECD 2015a; Rubin 1997). Budget processes should fit with representative government by promoting accountability for and transparency of decisions. They should encourage good management and efficient delivery of services. They should add to totals that are affordable (however defined) and good for the economy (by whatever theory is chosen). None of these goals can be attained if budgets are not honest and accurate. Last but hardly least, a budget process should not set standards that lead to unmanageable conflict.

The reasons for annual budgeting. The traditional budget *process* or *schedule* in both the United States and other countries has been annual (Wildavsky 1978), but that has never meant that all *decisions* were made for only the following year (Caiden 1982). Just as families will make long-term commitments such as mortgages, buying cars, and committing to pay a child's college tuition, governments engage in some activities for which they make commitments for multiple years: such as buying an aircraft carrier (they take a while to build), or committing to pay pensions (such as government employee pensions, or Social Security), or promising to pay back loans (much like a home mortgage). Just as people do not normally

[7] For a good statement of this view see Kogan (2016); on the underlying political conflict see Mann and Ornstein (2013).

change jobs every year, governments normally do not change their revenue sources (the tax code) every year. Yet the federal government (and almost all other firms and governments) have had annual budget processes in the sense that each year they reviewed and tried to project what the spending and revenue totals would be if they kept doing what they did before, and considered whether to make changes in budget details in order to achieve different totals.

One reason to focus on annual totals is as a basis for managing cash flow: making sure money is on hand to pay bills. This includes both a planning function (forecasting current trends and making decisions about changes from trends) and a control function (making sure government agencies spend in line with plans, and that revenues are collected as planned).[8] Since adoption of the Full Employment Act of 1948 annual budgets have also been viewed as influencing the economy through shaping aggregate demand and potentially interest rates. Changes in the extent to which federal spending and taxing adds or subtracts money from the private economy will influence short-term inflation and unemployment. Therefore, the annual budget is also the logical focus for *fiscal policy*.

Annual budgeting also fits with concerns for democratic *accountability* or *transparency*. Annual statements of agency plans and spending or revenue prospects tell the public, or the section of the public that cares to know, what the government is doing. Publishing plans and promises and then auditing performance provide ways for citizens and their representatives to direct and/or oversee the government. This kind of review, however, must fit within the election cycle.

Annual budgeting processes in the United States also serve to provide oversight of how programs are managed and incentives for *efficiency* in the provision of government services. In principle, efficiency is a neutral value. From the perspective of either consumers of services or taxpayers, getting more for the money (or the same for less money) are good things.[9] Allocations to agencies are justified by plans about what they will do with the money. As the sum of decisions about individual programs, the overall set of budget decisions each year will approach what W. F. Willoughby called a "general financial and work program" for a government and its agencies (Mosher 1984: 21fn6).[10] Agency plans are reviewed in two ways: by the Office of Management and Budget that "scrubs the estimates" when the President's Budget is assembled, and by the Appropriations committees when agencies submit detailed justifications of the requests within the President's Budget to Congress. Annual decision-making fits best with this pursuit of efficiency, because many of the factors in agency production of goods and services will change frequently. Input costs will change with factors such as the price of fuel or trends in wages. Demands will change with events in the economy. These factors will change enough over time that plans for longer than a year can easily be superseded by events.

Efficiency is not the same as *economy* (Simon 1997; Wildavsky 1966). Economy means simply spending less, even if that means eliminating highly useful programs, or cutting program spending in a way that reduces output even more, so gives citizens a worse deal than they received before. Economy is the dominant goal for many participants in budget processes, especially participants who represent those who are likely to pay more of the taxes that finance spending. It is the stated goal of many budget process reforms. As we will see, however, economy is not logically especially related to annual budgeting; in fact it has been pursued in recent years by setting multi-year "caps" on spending. In contrast, annual budgeting's

[8] In the U.S. context, this means that the Anti-Deficiency Act and related statutes interact with budget allocations to create a set of limits on officials' behavior. In Wildavsky's (1978: 501) words, "Control over public money and accountability to public authority were among the earliest purposes of budgeting." For explanation of the history of the Act, see GAO 2006, especially pages 6-34 through 6-58. But the entire three-volume GAO manual is essentially about the control function.

[9] One OMB official described neutral competence in an interview in the early 1990s, "that meant if it was a Republican administration trying to minimize cost; if it was a Democratic administration, trying to maximize value for the money we had." The quote is from one of the hundreds of confidential interviews about federal budget processes that I have conducted over the past thirty years.

[10] Annual budgeting is actually a compromise to fit two concerns. From a pure cash management perspective, governments might want to just allocate money monthly to each agency. But that would make it very difficult for agency leaders to plan their activities. Annual allocations, combined with controls on the rates at which agencies spend their allocations, balance the two concerns.

routines for increasing efficiency can help fit details to totals in a way that reduces the conflict between policy goals for programs and the reasons to constrain totals.[11]

The annual budget serves fiscal policy goals by forcing a review of trends and a statement of the government's approach. Annual budget decisions are not as effective a tool for fiscal policy as was assumed when the Full Employment Act was passed. Legislative responses to economic change are slow and often poorly timed (e.g. the spending occurs when the slump has ended). Therefore, the best response to economic cycles is "automatic stabilizers": programs that change with the economy. A graduated income tax is countercyclical because it reduces revenues in a slump and raises them in a boom. Similarly, spending on Unemployment Insurance and Medicaid grow during a slump and decline during a boom. Legislated fiscal changes in response to economic cycles make most sense in extreme circumstances, such as 2008-09.

For these and other reasons, the traditional annual budget process has persisted in spite of many criticisms. We turn now to those criticisms.

Concerns about annual budgeting. Proposals to budget for longer terms may follow from emphasis on other values, or perceived weaknesses in the current annual process.

One argument has been that the annual budget process tends to run on "automatic pilot" – to be too "incremental." From this view, the purpose of a budget should be to "set national priorities,"[12] and too much is normally taken for granted. There are good reasons, however, for most of the budget to be stable from year to year.[13] The reasons for one year's decisions normally apply in the next year. Stability in public policy helps businesses and individuals understand their environments. A long campaign against incrementalism by budget reformers has failed because incrementalism is a vital aid to making decisions about details and because the balance of power which establishes priorities rarely changes very much (White 1994; Schick 2009).

A related concern, highlighted in many of the proposals mentioned in this paper's introduction, is that federal budgeting puts specific parts of the budget – *revenues* but in those proposals especially *entitlement* (or "*mandatory") spending* on "automatic pilot." Supposedly, programs like Medicare and Medicaid, or aspects of the tax code, escape budget discipline. Such claims that either entitlements or the tax code are on automatic pilot are grossly exaggerated.[14] Nevertheless, there is a distinction between *discretionary* programs, which receive annual appropriations and cannot function unless those appropriations are renewed, and *mandatory* programs, which in many cases have *budget authority* that continues from year

[11] Many budget reformers expect annual budgeting to compare programs and change the overall package to increase overall efficiency. "Performance budgeting" in its many forms is a response to this desire. It hardly ever works; the most recent failure in federal budgeting is explained in White (2012a). It is better to look for ways to ensure budgeting is "performance-informed" (Anderson 2012; OECD 2015a: 9).

[12] This view was taken for granted in the long series of Brookings Institution volumes which described each presidential budget as *Setting National Priorities*. The title became less and less plausible over time, as political conflict meant that: (a) priorities were rather frozen; and (b) the President's Budget didn't set them, anyway.

[13] Some changes will occur each year, but these shift points (Dempster and Wildavsky 1979) are punctuations in normally stable equilibria (Baumgartner and Jones 1993).

[14] Legislation affecting Medicare, for example, was enacted at least 17 times in the 19 years from 1997 through 2015: Public Laws 105-33, 106-113, 106-554, 108-173, 109-171, 109-432, 110-173, 111-5, 111-148&152 (the PPACA as amended by HCERA), 111-309, 112-240, 113-67, 113-82, 113-93, 113-185, 114-10 and 114-74.
The last two are MACRA 2015 and the Bipartisan Budget Act of 2015. The others are listed in the 2014 and 2011 Green Books of the Committee on Ways and Means, Chapter 2, at http://greenbook.waysandmeans.house.gov/2011-green-book/chapter-2-medicare/medicare-legislative-history and http://greenbook.waysandmeans.house.gov/2014-green-book/chapter-2-medicare/medicare-legislative-history

to year (White 1998b).[15] Congress and the president can choose not to act on most of that law – which means fail to agree on action – without drastic consequences.[16]

OECD's Senior Budget Officials (2015a: 6) have worried that budget processes may not be sufficiently responsive if a government wants either to change priorities or to alter fiscal policy. They therefore suggest that annual budgets be controlled by Medium Term Expenditure Frameworks (MTEFs). In the Netherlands, for example, budget priorities and targets for budget totals are negotiated as part of the coalition agreement when a new government is formed (Bos 2008). Annual budgets then are to fit into that framework (unless events lead to changes).

These concerns about broad priorities and ability to change entitlements and revenues are addressed by the current federal budget process. Presidents can propose anything they want, and consider the full scope of budget decisions. The congressional budget process includes *budget resolutions* which set multiyear totals, beyond the length of any presidency (recently five or ten years, though the amount has changed over time; see Heniff 2015). If the political balance allows, changes in entitlements (such as Medicare or Medicaid) or in tax law are encouraged by *reconciliation* instructions in the resolution. Reconciliation instructions allow congressional majorities to overcome procedural barriers to action (especially the Senate filibuster), and even to bypass uncooperative congressional committees (Kogan 2016; White and Wildavsky 1991). Major reconciliation laws are only enacted at irregular intervals, however, because opinion about taxes and entitlement programs does not change dramatically every year (remember, they don't change all that much for other programs, either). Reconciliation allows a governing majority to change all aspects of budget law – but does not create such majorities.

In practice, major changes in preferences are highly unlikely to occur more often than every two years. The governing coalition, however, could change with each election. Therefore, it would make sense to reform the current process by adopting two-year Budget Resolutions during the first year of each new Congress. These would include reconciliation instructions to fit changes in the preferences of the governing coalition, or respond to new conditions. They would also set targets for the next two years of appropriations legislation – allowing annual decisions that fit the management requirements of agencies.

Although it would address legitimate concerns about establishing a new government's policy priorities and attending to entitlement and revenue choices, making the budget resolution and reconciliation processes biennial will not address the real goals of proponents of long-term budgeting. From their perspective, the real problem with the current process is that it leads to the wrong totals and priorities. In practice, people usually support budget process reforms because they hope to get different budget results. So to clarify thinking, we need to understand different standards for evaluating budget totals. Debate about budget totals in the United States reflects deep disagreements about both the political meaning of debt and deficits and how the budget influences the economy.

American politics includes strong political pressures for the traditional "balanced budget" and deep uneasiness about debt. This demand is based partly on a false household analogy ("I have to balance my budget so the government should have to balance its budget;" (see White 1998a)), and partly on a deeply rooted belief that a government that can create debt is out of control (Savage 1988). Public finance and budgeting specialists generally disagree with both views, as is shown in both the Maastricht standards for participation in the European Monetary Union and in OECD's budgetary recommendations (2015a: 6). This

[15] The distinction is not in fact so simple. While Social Security and Medicare Part A have dedicated revenues which flow into "trust funds," and any money in those funds is available for spending, many other mandatory programs do not have such permanent budget authority and require annual appropriations. These mandatory programs are considered "entitlements" because the law is written in a way that would allow individuals to sue for their benefits in the Federal Court of Claims, even if Congress and the President do not appropriate the money. But that is hardly as secure as having a permanent appropriation – if appropriations are not made, beneficiaries could at a minimum have benefits delayed, and that assumes everyone would have access to the courts.
[16] Except if that part of the law is temporary, so expiring, as is true of many tax provisions. Or if the law involves some sort of unpopular or undesirable automatic change which policy-makers do not want to go into effect – as was true for many years with both the Alternative Minimum Tax (AMT) and the Medicare Sustainable Growth Rate (SGR) provisions. Both these cases are further evidence that taxes and entitlements are not on automatic pilot.

deep distrust of deficits at all times is not really addressed by budgeting for the distant future. It would be better addressed by a constitutional balanced budget requirement.[17] The arguments for and against long-term budgeting therefore will depend more on other beliefs about the economy or the role of government in society.

Any argument that there is a "right" deficit total that can be identified far in advance fits poorly with the Keynesian focus on *demand management*. There is plenty of room for disagreement about totals within that framework, mainly between policy-makers who worry more about preventing unemployment and those who are more worried about inflation (with the latter wanting smaller deficits). In either case, the "right" budget balance should depend on each year's economic conditions, so be set as close to that time as possible.

An alternative view of how government should influence the economy says its major role should be to increase *national savings*. This idea rose to prominence among American economists in the later years of the Carter administration. This view says budget totals should be managed to increase national savings, so ideally the budget should be in surplus.[18] From this perspective, short-term demand management is much less important, and long-term spending control (but not tax reduction) especially important.[19] Savings should be increased permanently, so a single year's improvement, from this perspective, is not enough. The savings argument, unlike demand management, sets no standard for totals in any given year.[20]

The *government is too big* approach is now dominant among Republican policy-makers and activists. In this view, the difference between spending and revenues is far less important than the totals for each. Lower spending and lower taxes are by definition good for the economy. A telling example was the George W. Bush administration's argument that taxes should not be raised to pay for new "homeland security" spending "because of the economic distortions introduced by the tax system" (White House Office of Homeland Security 2002: 65).[21] In this view, budget rules should force reductions in spending or taxes, over any period of time.

A fourth argument emphasizes *financial market “confidence”* and can be applied either to annual budgets or over a longer period. It maintains that the financial markets will punish the nation for whatever budget totals the advocates for this approach do not like. This argument usually says deficits must be lowered because, otherwise, high real interest rates will torpedo the economy (White and Wildavsky 1991; Woodward 1994). Since participants in financial markets are assumed to be forward-looking, expected future deficits could be as damaging as current ones. There have been variations, such as that Carter-era deficits were fueling inflationary expectations and behavior, or that the Reagan budget package would win market confidence by stimulating expectations of rapid growth (Stein 1984; White and Wildavsky 1991). But assertions that "the markets" demand austerity are the major basis for claims that projected future deficits are a crisis that demands immediate action (CRFB 2011a; 10 Ex-Chairs 2011).[22] Contrary experience both in the 1980s (with big deficits, declining inflation and a stock market boom) and in the past seven years (with big deficits and historically low real interest rates) are ignored by promoters of the market confidence view.

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[17] I do not intend to endorse such an amendment; only to point out that long-term budgeting is not a response to the basic concern.

[18] For an overview and critique of the development of this view within the United States, see White (2003), Chapter 5.

[19] As described in White and Wildavsky (1991), this emphasis on savings and uninterest in demand management was justified, at the time, by an assumption that monetary policy could do the work of short-term macroeconomic management. Budget-makers around the world lost a bit of faith in that view around 2008 (though monetary policy was needed too!).

[20] If a higher government surplus always increases national savings, and therefore economic growth, then there is no inherent standard of proper "balance."

[21] Another good example of the right-wing view is Boccia (2014) – objecting to IMF (2014) because that document allowed for the possibility of revenue increases.

[22] Both CRFB and the Ex-Chairs were essentially asserting that the risk of some sort of market consequences in 20 or 30 years due to excess debt was equivalent to the risk of market consequences from failing to raise the debt ceiling in August of 2011, and so from nearly certain default on some federal debt in that year. That serious people could make this argument shows the intensity of belief about the supposed long-term threat by some in the budget and economic policy communities. For discussion of the origin and flaws of this view, see White and Wildavsky (1991) and White (2003).

In principle the first economic goal, demand management, could be combined with the others, as variations from a baseline. In practice, demand management fits awkwardly with long-term budgeting, because any provisions to allow response to economic distress can be accused of being a way to bust the necessary fiscal constraints. The Peterson-Pew Commission (2011b: 19) framed the problem nicely:

> There are questions about how to formulate this long-term rule in a way that is both transparent and sufficiently flexible. The former is necessary… to ensure public pressure is brought to bear when the rule is violated. The latter is necessary to accommodate inevitable short-term shocks that will require deficits and thereby sustain support for the rule over time. However, experience with cyclically adjusted balanced budget rules is insufficient to judge whether they are sustainable both economically and politically.

It may be possible to design a fiscal rule that allows for some automatic response to deficits that exceed targets, is suspended under sufficiently dire circumstances, but cannot be manipulated to allow deviation under less dire circumstances. Such a rule has yet to be identified.

Any particular long-term budgeting proposal, then, seeks to favor some specific economic approach over others.[23] Advocates for long-term budgeting hope it will help them enact their views of budget totals, and establish them over time through the "enforcement" provisions. Yet there are good reasons for skepticism about the savings, size-of-government, and financial market confidence argument. Therefore, citizens might doubt that budget processes should be designed to favor any of those positions.

Controlling totals and budgetary conflict. The time frame used for budget decisions will also influence the conflicts peculiar to budgeting. Ordinary policy-making involves conflicts about particular programs, priorities or economic theories. Budgeting brings many decisions together, so involves a unique challenge: **conflict between preferences about details and preferences about totals**. Preferences about details for spending and revenue tend strongly to sum to deficits that are larger than preferences for deficit totals. Making the two match can be difficult because the details are policies that, among them, may have just as important consequences as the results of totals. The Bush administration, for example, believed that limiting taxes and protecting the "homeland" were more important than balancing the budget (White 2009a, 2009b). Faced with deficit projections in 1989, neutral parties could easily conclude that the pain of balancing the budget, once the means were specified, would be greater than the benefits of balance.[24]

Many commentators on and participants in federal budgeting explain away this problem by viewing budgeting as a battle between "special interests" devoted to spending or to avoiding taxes and the "general interest" in lower deficits. Budget-makers see themselves as guardians of the general or public interest against the special interests or "claimants" (Wildavsky 1964). Yet the federal budget process provides a wide range of advantages to the "guardians," with powerful participants in both presidential and congressional budgeting who are oriented towards controlling totals. Especially once deficits have arisen, *the main obstacle to meeting some deficit target is not weak guardians, but disagreement about what details to change.*[25]

As Anthony Downs (1960) explained long ago, budgeting is a social choice problem in which consistent individual preferences sum to ***inconsistent social preferences***. As he puts it, the package of government programs always includes "at least one act which any given voter opposes" – in fact it surely includes many

[23] Bowles-Simpson, for example, would have limited spending and taxes to 21% of GDP, so favored the "smaller government" approach while, of course, its advocates claimed it was necessary for reasons of market confidence.
[24] White and Wildavsky (1989) illustrate this point with examples and cite Rudolph Penner and Joseph Minarik's conclusion that they could balance the budget, "only with some fairly radical—and many people would say politically implausible—changes in tax and spending policy."
[25] The argument that follows was developed more fully in White (1998a); these dynamics are illustrated in White and Wildavsky (1991).

more. Therefore, everyone could accept lower spending but, because different people want to cut different programs, it is easier to agree on lower totals than on how to get there.[26]

Budget-makers face blame for having larger deficits, or larger taxes, and sometimes larger spending. They also are blamed for cutting programs or raising taxes. OECD's solution to this dilemma is "top-down budgetary management" (2015a: 6): governments should decide on popular totals and then make the details fit later. Yet that does nothing to ensure that there is any set of details that fit the total and win majority support. Opponents of any package can argue they support an alternative package, so feel no moral obligation to compromise.[27]

Budgeting for more than one year must mean matching details to totals over the longer period. That can alter conflict in a series of ways.

(1) First, it changes the nature of the information available for decision-making. Efficiency analysis is essentially short-term; for many programs there is no good way to project things like input costs or possible productivity increases more than one or two years in advance. Advocates for long-term approaches may claim that they make government more transparent and accountable. Information can only improve transparency, however, if it is true. The United States represents the international state of the art for long-term forecasts, both in terms of the sophistication of methods and having multiple, competing sources.[28] Nevertheless, such forecasts are highly unreliable guides to likely budget totals far in the future. As Rudolf Penner has written, long-term forecasts can be justified as an attention-getting device – as a way to call attention to long-term issues – and from this perspective, "the huge inaccuracies do little harm." But one should be very cautious about assuming any budget forecast is good information because, as he wrote, "it has been shown that forecasts become rapidly less reliable as the forecast period is extended" (Penner 2001: 14, 12). Attempts to budget for the long term therefore add another dimension of conflict, about the estimates themselves.

(2) Longer time frames will change the repertoire but not prevalence of budgetary "games" – evasions and deceptions. If budget makers only are judged by the effects of their actions one year in the future, they may do things like move payment dates from one fiscal year to another, or appropriate budget authority that will take more than a year to be spent (so not add to the first year's deficit). Although some analysts have viewed extending the time period as a significant "step forward" for reducing gamesmanship (GAO 2011:3), it mainly has led to different games. The 2001 tax cuts, for example, were kept within ten-year budget control rules by having them all expire 9 months early – creating a massive and automatic tax increase that reasonable people (and the law's sponsors) could expect would not be allowed to occur (Horney and Kogan 2007). A ten-year budget horizon has allowed budget makers to increase the deficit in the near future but promise to "offset" those increases in the ninth or tenth year – a process that can be repeated year after year. Keeping score of budgetary effects over ten years led to continual short-term

[26] The problem can be illustrated most easily with a smaller system, like a condo association. Imagine a condo association with ten units and monthly payments of $225, so annual revenue of $27,000. Imagine it has ten expenditures, each costing $3,000 per year: landscaping, cleaning public spaces, utilities for public spaces, heating and cleaning the pool, maintenance of the exercise room – whatever. So spending is $30,000, revenues are $27,000, and the deficit is $3,000. The simplest approach would be to raise the fees to $250 per month. But Mr. Simpson may say, "wait a minute, I don't swim, let's cut out spending for the pool." That is a consistent position – but the other nine owners like to swim. Mr. Bowles may say, "I'm allergic to grass, let's pave the yard and then we won't have to pay to maintain it." But the other nine think pavement is much uglier than grass. Mr. Cote thinks people can bring their own towels to the exercise room and shower in their condos, but the others think the showers and towels are worth the money. In this scenario all ten owners object to raising the fee; all ten owners are intellectually consistent; none is a hypocrite; but 90 percent oppose any individual's solution. A good budget process might then involve carefully reviewing each expense; determining if any efficiencies are possible; some bargaining among the owners, and perhaps a package of specific changes adding up to $1500 per year and an increase of the monthly payments to $237.50. The example can be extended to allow for borrowing. In short, the condo association would go through an iterative process in which preferences about the details and totals were adjusted. Traditional budgeting works in this iterative manner.

[27] The argument here was first developed to explain why hostage-taking approaches, such as the original Gramm-Rudman-Hollings law and the 2011 Budget Control Act, did not force the compromises that many of their sponsors at least claimed would result. If disaster is possible, then the *other side* should give in – since it is obviously wrong anyway.

[28] Readers may compare U.S. institutions to the OECD Recommendation (2015a).

"fixes" of the Alternative Minimum Tax (AMT), sometimes with doubtful "offsets."[29] As I will discuss below, long-term budgeting has encouraged discretionary spending caps that allowed budget-makers who enacted the caps to claim credit for savings, leaving to later budget makers (possibly including themselves) the problem of figuring out how to meet them. When caps are too severe – as with the Gramm-Rudman-Hollings (GRH) rules – they can nearly mandate fraud, as there is no responsible way to meet them (White and Wildavsky 1991).

(3) Under the right circumstances, keeping score of budget results for more than one year can make it easier to pass deficit-reducing legislation. This has both a Dr. Jekyll and Mr. Hyde version. Once the deficit became embarrassingly large it was easier to get credit for making a dent in it by spreading action over a number of years. Some policies take time to implement, and the total amount of deficit reduction will look much bigger over three or five years than in just the first year. The 1990 deficit reduction package, for example, was described as a $482 billion five-year package – which sounds much better than the $33 billion deficit reduction in the first year. Allowing deserved credit is the Dr. Jekyll side. Unfortunately, long-term budgeting can also lead to claiming credit for big savings that may not occur because the details have not been specified – more of a Mr. Hyde effect.

(4) Arguments about alleged long-term crises are intended to make deficit-reducing action more likely. The implicit theory is that raising concern about the totals should strengthen the guardians against the special interests that care more about details. It is often expressed as forcing politicians to confront the "tough choices." This political theory, however, ignores the fact that "tough choices" are legitimately tough – consequences on details matter (White 2010). It also ignores the problem of inconsistent social preferences – that it is easier to agree on totals than on how to achieve them. As a result, the more likely result of the campaign for longer-term budgeting is that it can increase conflict, by making it even more difficult to reconcile preferences about details with totals.

INCREASING CONFLICTS

The more likely result of the campaign for longer-term budgeting is that it can increase conflict, by making it even more difficult to reconcile preferences about details with totals.

(5) A final argument views budget choices as potentially a conflict among "generations." Many advocates of long-term budgeting argue that the annual process allowed long-term commitments (to entitlements) without seriously considering their implications. In Eugene Steuerle's version of the argument, Republican tax cuts also reduced future revenues, again without considering future balances. As a result, "dead men" rule, as "yesterday's policymakers have robbed their successors of their fiscal freedom" (Steuerle 2014: 11). Reducing short-term deficits will not be enough "to restore fiscal freedom": only long-term policies can eliminate the projected long-term deficits. Although Steuerle's argument has many interesting parts, the basic claim is that entitlements commit resources in a way that is unfair to future generations – in particular, by favoring the old over the young. Spending on them therefore should be cut with something resembling the long-term cap proposals mentioned at the beginning of this paper. That would restore "fiscal democracy."

There are many problems with the claim that long-term budgeting would be more democratic (that is, accountable and transparent). Steuerle (2014:9) objects to making long-term promises because "they are set in law and, in the real world of policymaking, changing the law to break past promises to voters is easier said than done." Yet the power of the status quo applies to any status quo: for example, privatizing Social Security would make it very hard to restore the current system. Any automatic Medicare spending cuts would have the same advantage whether or not they look like good policy when the time comes. If enforcement procedures are protected by supermajority provisions, they would have a further advantage. Either way, decisions made in 2016 will influence results in 2036, so why is trying to force cuts now more democratic than trying to enforce promises about benefits? Voters in 2036 should have a better idea what

[29] For an explanation and history through 2012, when permanent change in the AMT formula was finally enacted, see http://www.taxpolicycenter.org/briefing-book/what-amt.

tradeoffs they would like to make than we have today. These tradeoffs include decisions about the size of government and of federal revenues. So why should we assume that current voters and politicians should decide the appropriate "size of government," as in the Bowles-Simpson plan, far into the future? Why should they be allowed to legislate some sort of automatic mechanisms to impose pain if voters 20 years in the future do not share their fiscal values?

In practice, some public policies, especially pensions, make very little sense if they cannot include long-term and fairly binding commitments.[30] The big federal entitlement programs also have been extremely popular for a long time. The political pattern that campaigners to reduce entitlements want to "fix" reveals the point: proposals to cut benefits (as opposed to payments to medical providers) very rarely pass. Over fifty years of experience with Medicare and eighty with Social Security show that support for those programs has persisted across "generations." The whole framing in terms of generations should be challenged, because aging is part of the life cycle. Any day's taxpayers are the future's beneficiaries, and making their health and income when they become elderly less secure may not seem like helping them.

For these reasons, the claims that entitlements have "bound the future" in an undemocratic and unaccountable manner, so that such programs must be cut to restore "fiscal freedom," are at best based on preferences about policy substance. Budget analysts and policy-makers can reasonably disagree about what form of "binding the future" is better policy, or more of a problem for democratic accountability (Rubin 2009, White 2009a).

From principles to cases. None of these criticisms mean there is no reason to worry about future costs of entitlement programs. They should show, however, that there is good reason to doubt the major arguments made in favor of long-term budgeting. The discussion to this point, however, has excluded perhaps the most basic question: whether long-term budgeting is even possible.

The following sections of this paper addresses a series of difficulties. Multiyear caps on discretionary spending separate decisions about details from decisions about totals in ways that are hard to sustain because of the consequences for details. Social Security is the best case for long-term budget planning, but it turns out to be very difficult to find agreement on how that could work. In the case of Medicare, there simply is no good way to make long-term budget allocations. Health care spending control is a short-term problem; the best way to control the long-term is to control spending now. The focus should be on all health care, not Medicare alone.

III. Caps, Enforcement, and Discretionary Spending

Many proposals to reduce deficits over the long run through some sort of enforcement procedure target enforcement on entitlement programs. Some recommend backup tax increases. To date, however, legislation that actually passed has targeted enforcement on discretionary spending: bureau programs that are annually appropriated, such as the Army, NASA, EPA, NIH, or Head Start. Congress and the president have agreed on five laws with such provisions: The Gramm-Rudman-Hollings Act of 1985 (GRH); the Omnibus Budget Reconciliation Act of 1990 (OBRA-1990; and in particular the Budget Enforcement Act, or BEA, that was Title XIII); the Deficit Reduction Act of 1993 (also known as OBRA-1993); the Balanced Budget Act of 1997 (BBA-1997); and the Budget Control Act of 2011 (BCA).

Gramm-Rudman. The last four laws were influenced by experience with GRH.[31] In 1985, a coalition of senators took legislation to raise the debt ceiling hostage, threatening default on existing debt unless Congress passed legislation to force a balanced budget. Since there was no majority for any particular way to do that, they demanded a process with phased deficit reductions (ultimately five increments of $36 billion each, to balance the budget at the end of five years) that would be enforced by automatic cuts

[30] See the discussion below and White (1998b).
[31] The summary here is based on the much more extensive account in White and Wildavsky (1991), chapters 19 and 21. See also the account in Leloup (2005).

("sequesters") to discretionary spending programs. We see here the origin of multi-year deficit reduction through "enforcement" provisions. When House Democratic leadership decided that desire to "do something" about the deficit meant they would lose conservative southerners if they offered no alternative, they worked to pass a version of GRH that would be as noxious as possible to Republicans. Nobody claimed that the discretionary cuts were desirable, and almost everyone involved rationalized them as so terrible that, rather than letting them go into effect, the other side would have to give in and do something else (for Democrats, the Republicans would raise taxes and cut defense; for Republicans, the Democrats would have to cut entitlements). In the most dramatic explanation of this budgetary terrorism, House Majority Whip Tom Foley (D-WA) said GRH was "about the kidnapping of the only child of the President's official family that he loves," namely the defense budget, "and holding it in a dark basement and sending the President its ear."

The political theory of GRH was flawed because all sides had already shown that they cared more about entitlements and tax policy than about discretionary programs, by excluding the first two from the sequester. It was easier to threaten cuts in discretionary programs in general because they did not have to be specified in advance, so the voters would not know what to protest against. But in order to make sequesters as threatening as possible, the law was written in a way that made it as arbitrary and irrational as possible.

The result should have been predictable. Hardly anyone was willing to give up their priorities in order to avoid sequestration, because they thought the sequester terms were so obviously horrible that the other side would have to give in. Since the threat did not create agreement, when the crunch hit each year the only response on which majorities could agree was to combine a small amount of real deficit reduction with a larger amount of flim-flam. In the three years prior to passing GRH, Congress and the President passed a major deficit reduction package in 1982, a modest but real one in 1984, and a Social Security refinancing package in 1983 that included significant policy changes (especially in Medicare) that would reduce the unified budget deficit. Tellingly, between GRH and OBRA-1990, they did much less.

The GRH experience led at least a sufficient number of centrist policy-makers to draw some useful conclusions. The first was that holding discretionary spending hostage to force action on entitlements and taxes didn't work (though this lesson was forgotten or ignored in 2011). Second, if policy-makers want to cut entitlement spending or raise taxes they should do that directly. Third, attaching enforcement to specific deficit targets is a bad idea because outside events can require much larger cuts than expected in order to meet the targets. Fourth, all things considered, targets for total discretionary spending should bear some plausible relationship to acceptable details.

Caps from the Budget Enforcement Act. OBRA-1990 reflected all these conclusions.[32] The BEA section created discretionary spending caps as part of a broader deficit-reduction package that also included, among other provisions, Medicare savings and tax increases. The caps were defined as specific numbers for each of the following five years, but the law allowed for automatic adjustments in response to some economic factors (CBO 1990: 5). BEA kept a sequester process, but sequesters would only be triggered if Congress acted to increase the deficit beyond what OBRA-1990 would have produced. Sequestration would apply if appropriations exceeded the discretionary spending limits, or if new laws increased entitlement spending or decreased revenues. The idea was to maintain specific provisions in the law, not to force new action. A series of points-of-order were designed to pressure Congress to offset any new spending or revenue reductions. Both the points of order and sequester process were called "PAYGO" (pay-as-you-go) rules.

This basic approach was continued in the 1993 Deficit Reduction Act and the 1997 Balanced Budget Act. Each combined a set of caps on future discretionary spending with specific provisions about entitlements and revenues. Each continued enforcement through PAYGO rules. There were two major differences between the first two laws and the third. One is that the first two significantly reduced deficits and helped achieve a balanced budget. In contrast, the BBA-97 was passed in conjunction with the Tax Relief Act of

[32] There are many possible sources; naturally I rely here on the Postscript to White and Wildavsky (1991).

1997, and the combination made no contribution to the balanced budget that emerged (to general amazement) by the end of 1997.[33] The second is that the discretionary spending caps in the 1990 and 1993 laws were pretty much enforced, while the 1997 caps were spectacularly overshot (CBO 2003; GAO 2002). The reasons for this difference in enforcement are instructive.

* First, the targets for 1991-1993 in the BEA were actually based on judgments that the collapse of the Soviet Union would allow significant cutbacks in defense spending, and included modest increases in domestic discretionary spending.[34]

* The targets for the following few years were also easier to hit because of the ability to reduce defense spending. But the 1990 and 1993 caps were also enforced, and the 1993 caps passed because of, a powerful anti-spending mood in Congress after Ross Perot's 1992 presidential campaign. Conservative Democrats demanded a spending "freeze" early in 1993, and this attitude helped kill President Clinton's stimulus package. Supplemental appropriations that could have been excluded from the caps were offset. (Hager 1993 a,b,c; Towell 1993).

* The Republican victories in 1995 put control of Congress in the hands of a majority that made cutting domestic spending its highest priority. Although they could not enact their "revolution" (Drew 1997; Joyce and Meyers 2001), some domestic discretionary cuts should have been expected even if there were no caps.

* The caps enacted in 1997 then were exceeded by large margins for two basic reasons. First, they were not needed to balance the budget – as CBO (2003: 114) later noted, "the surplus eliminated the essential purpose… to combat and control deficits." Second, after years of constraint legislators in both parties wanted to spend more on specific programs. Republicans, for example, wanted to spend on transportation projects and biomedical research.[35] Republican leaders also thought they had lost the veto battles with President Clinton in 1995 and were worried about maintaining their majorities, and leaders of the appropriations committees didn't think they could pass bills with the required constraint on the details.[36]

* Therefore policy-makers avoided the caps with procedural moves that were available before but they had not wanted to use so much. These included advance appropriations, payment delays, and defining much more spending as "emergencies" so not subject to the cap.[37] Beginning in 2000 those measures were not large enough, so the caps were simply raised within some convenient piece of legislation. Sequesters were prevented by legislatively eliminating balances from the PAYGO scorecards (CBO 2003, 116; also GAO 2002, 11-12). Thus, by fiscal year 2001, outlays exceeded the caps by 15 percent, nearly $85 billion.[38]

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[33] According to CBO's estimates of the two bills, their net effect on the deficit for Fiscal Years 1998 to 2000 would be roughly zero. See Table 1 in CBO 1997b and the summary table in CBO 1997c. The 1997 legislation was not really about deficits; instead it was a short-lived truce in the budget war between congressional Republicans and the Clinton administration, enabled mainly by the fact the deficit was going away anyway. For a good overview of that conflict see Joyce and Meyers (2001); on the peak conflict of 1995-96 see Drew (1997).

[34] This was a deal between Senate Appropriations Chair Robert C. Byrd and OMB Director Richard Darman; see White and Wildavsky (1991: 583).

[35] Joyce and Meyers (2001) emphasize Bud Shuster and the Transportation Committee, but the doubling of NIH spending was initiated by House Appropriations Labor/HHS Subcommittee chair John Edward Porter (R-IL), with support from party leaders.

[36] The problem, as they saw it, was that colleagues who supported the caps in principle or when voting on budget resolutions would not want the blame for the cuts in actual appropriations, so would vote against them. The bitter pill of "more spending" was sweetened a bit by increasing the volume (and more modestly the spending total) or earmarks for which members could claim credit (see White 2015).

[37] See GAO 2002 (p. 34) and CBO 2003 (pp. 114-16). For some reason CBO and GAO have very different figures for Fiscal Year 2000: GAO says $30.8 billion and CBO $44 billion.

[38] Author's calculation from data in CBO 1997b, p. 90; CBO 2003, Table A-2

In short, neither the immediate budget situation nor actual preferences about details supported enforcement of the caps adopted in 1997, so they were violated. It required some gamesmanship, but was easily managed.

Return of the Caps: 2011 to the Present. The story of the current round of caps is incomplete, yet it still suggests some lessons about long-term budgeting.

The 2011 Budget Control Act in a sense combined Gramm-Rudman with the cap approach from the 1990s, only for ten years instead of five. It first created a series of discretionary spending caps for fiscal years 2012-2021. Relative to CBO's baseline, this involved cutting budget authority by 4 percent in FY2012, rising to nearly 9 percent by FY2021.[39] In this sense it was similar to the 1990, 1993, or 1997 plans. But it also called for a Joint Committee process that was supposed to yield another $1.2 trillion of deficit reduction over the same ten years. If the Joint Committee failed, a backup sequester, as with GRH, would go into effect. The sequester's size, however, was defined in advance: it would cut spending by a further $984 billion from FY2013 through FY2021.[40] Half of the savings would come from defense and half from domestic spending. A portion (just below 35%) of the domestic sequester would be applied to entitlements (mainly Medicare), but about 83 percent of the total sequester would come from discretionary spending.[41]

It should have been no surprise that a political system that could not agree on different deficit reductions in July of 2011 could not agree on anything else a few months later. The Joint Committee process failed, and the sequester occurred in 2013. The Act then automatically lowered the caps for subsequent years. The overall effect of the BCA, therefore was to create budget authority limits that were about 14 percent lower than the CBO baseline for FY2013, and 15 percent lower for FY2021.[42]

What have been the effects of the BCA, and to what extent has it been enforced? The first question is particularly difficult to answer, because the baseline from which its effects began was less than straightforward. First, a large part of military spending has been defined as "Overseas Contingency Operations" (Davidson and Brooking 2015), not subject to the controls. Second, while OCO raised military spending well above the caps, it was declining as the Obama administration sought to reduce deployments (CBO 2016a: 82).[43] Third, in the first couple of years there were still extra outlays for domestic spending from earlier anti-recession spending. On balance, the reductions in budget authority were significant; but their effects were not as immediate as the cap totals might imply.

Yet the caps were also more severe than they seemed, because they extend for ten years rather than five. CBO's baseline assumes spending increases only with inflation. That could have growing negative effects over time if spending requirements grow with population or for any other reasons; or if any increases in real compensation for employees cannot be matched with increased productivity.[44] If we define program cuts as less ability to pursue programs' goals, then on average CBO's baseline is already assuming program cuts. The 2011 CBO baseline already assumed spending would decline from 9.1 percent of GDP in FY2011 to 6.7 percent in FY2021 (CBO 2011d: 15). As a baseline this is just a calculation aid, and might be defended on the grounds that there is no good alternative yardstick.[45] The BCA caps, however, turned the baseline into law – and then cut further. Naturally, the effects would become more severe each year.

[39] Author's calculation from data in CBO 2011a.
[40] Savings from these cuts were assumed to lead to further savings from borrowing less and paying less interest.
[41] These were CBO's estimates from CBO 2011c, Table 2. For attempts to make sense of the BCA and its terms, see CBO 2011a,c; Kogan 2012, 2013; Austin 2014; Driessen and Labonte 2015.
[42] Author's calculation from data in CBO 2011a,c.
[43] To trace the use of the OCO designation as a share of defense spending over time, one can consult reports on the office of the Department of Defense Comptroller, at http://comptroller.defense.gov/budgetmaterials/budget2016.aspx
[44] Programs should have very different profiles. The amount of weather to be forecast is not related to population. Neither is the need for national defense, which depends more on the (perceived) threats than on how many people need to be defended.. For other programs the population served is growing more quickly than the overall population (such as for programs that serve the elderly).
[45] For example, a stable share of GDP might not be necessary because of the programs for which need may not increase with economic growth – such as weather forecasting or defense.

As of 2016 the caps had been mostly enforced, but with a series of exceptions.[46] The 2013 sequester was delayed and modestly reduced as part of the American Taxpayer Relief Act (ATRA), otherwise known as the end-of-2012 "fiscal cliff" deal. The caps were modestly raised again in both the Bipartisan Budget Act of 2013 and the Bipartisan Budget Act of 2015. In each case Congress and the President raised the caps for two years and then claimed that spending would return to the previously capped levels afterwards.[47]

In addition to this legislation, the effect of the caps has been buffered by further use of the Overseas Contingency Operations designation, both for defense spending and international spending by State and some other departments. In previous years it appears that DOD paid for some non-emergency, non-contingent spending with OCO or supplemental funding (Davidson and Brooking 2015; Tucker 2015); and CBO reported that, "funding provided to the Department of Defense in 2016 for overseas contingency operations includes some amounts that are intended to be used for regular activities" (2016a p.18, fn12). As part of BBA-2015, an extra $32 billion was provided for OCO spending, equally divided between defense and nondefense categories ("Winners and Losers" 2015). It seems fair to project that OCO appropriations are not likely to decline as much as OCO activities, thereby providing a bit more wriggle room for defense and some international affairs spending under (or out from under) the caps.

In short, the totals from the caps are becoming more difficult to enforce, because of growing dissatisfaction with the details. One might expect deviations to increase as the caps become much more severe than they were in the late-1990s. The domestic outlay projections as a share of GDP are significantly lower from FY2018 on. The defense outlay projections for FY2020-2021 are not much below those for FY2000-2001; but seem likely to be less adequate for the tasks of a much busier military.

Each of the laws which raised the BCA caps included offsets, but this does not suggest that a longer-term perspective makes budgeting more honest or helps reduce deficits. Offsets have been heavily backloaded, with more spending in the next two years offset by promises of less in the ninth or tenth years. ATRA's offsets were mainly back-loaded or, in the long run, cost more than they saved (Driessen and Labonte 2015; PGPF 2013a).[48] The offsets for BBA-2013 also were heavily back-loaded (PGPF 2013b). The offsets for BBA-2015 included some more plausible payment reductions for Medicare, some one-term benefits from selling government assets, and again were heavily back-loaded (Driessen and Labonte 2015; PGPF 2015; "Winners and Losers" 2015).[49]

Lessons of a sort. What, then, might we conclude from experience with medium-term (5-10 year) caps on discretionary spending?

It is important, first, to understand why long-term caps are attractive. Discretionary caps are what American budget makers agree to when they can't agree on much of anything else, but feel they have to do something to limit deficits. Agreement is possible because (a) the public cannot see who will be hurt - unlike, for example, cuts in Social Security, for which any plan involves specific changes in benefit rules; and (b) *the politicians cannot see who will be hurt, either* – because opposing negotiators guess differently about what

[46] By my calculations, the appropriations allowed for FY2016 were 10.1% below the March, 2011 CBO baseline for non-OCO spending, instead of the 14.3% reduction projected in the original estimates of the effects of sequestration. Data is taken from Driessen and Labonte 2015; CBO 2011a; CBO 2011c.
[47] For an overview see Driessen and Labonte 2015. These varied measures addressed more than discretionary spending (for ARRA the discretionary aspect was a small portion of the law) and each had its own peculiar politics. On the two Bipartisan Budget Acts see Parrott et al. 2013; CBO 2015a; House Committee on Rules 2015; Krawzak 2015; Tucker 2015; "Winners and Losers" 2015. The final decisions implementing some implications of the 2015 BBA are reported in Brown et al. 2015.
[48] ATRA also included massive deficit increases relative to the baseline because of its revenue provisions; in context whatever it did to the sequester was decimal dust. We should remember that the baseline was not politically credible. Some portion of the Bush tax cuts would have been continued; they certainly would not have all expired at once; and provisions like the A.M.T. had to be fixed. Nevertheless, ATRA certainly could have reduced revenues less than it did, so can hardly be seen as an example of budgetary responsibility.
[49] There was also some controversy about a change in Social Security payment rules, which was viewed by most Social Security experts as correcting a minor loophole and didn't amount to enough money to be mentioned in offset summaries. See NCPSSM 2015.

will be cut in a few years – for example, defense vs. domestic spending. Following the logic explained by Downs, each voter may assume that other peoples' programs will be cut. The problems arise later, when policy-makers have to fill in the details, and can be blamed for them.

Second, the caps themselves have normally been set without an evident policy logic. In 1990, the caps did reflect budget-makers' judgment of how much restraint on the totals would be acceptable on the details. The first three years took credit for savings that probably would have happened anyway. This does not appear to have been the case in 1985, 1993, 1997, or 2011. There is no good rule of thumb from which to construct a path for discretionary spending totals. Neither a share of GDP, nor relationship to inflation, nor any other standard is evidently adequate. People who just think government spending is bad for the economy can support arbitrary cuts, but such economic theories have little empirical support. Future discretionary spending also could involve emergent needs that are barely in the baseline if at all, so would require much larger spending increases, if addressed - such as AIDS in the 1980s or, if global warming continues, massive infrastructure projects to protect coastal land (or help people move to the new coast).[50] Defining a rule is made especially difficult by the fact that more than half of discretionary spending in the U.S. goes for defense, for which the need for spending is shaped by unpredictable events.

Third, if Congress and the President want to, they can easily exceed the caps. There have been no political consequences when they did. When legislation has offset cap increases, it has usually claimed savings years in the future, so that the long-term focus enabled higher deficits in the short term. In general, setting caps without explaining the details involved, and then offsetting some of the effects with what Robert L. Bixby and others call "gimmicks" ("Are We Running Out?" 2015), does not seem to serve honesty, transparency, and accountability. On the other hand, experience with even the BCA caps has yet to approach the depths of gimmickry required to cope with Gramm Rudman.

LIMITING DEFICITS

Discretionary caps are what American budget makers agree to when they can't agree on much of anything else, but feel they have to do something to limit deficits.

Fourth, Congress and the President have enacted caps and tried to figure out later what to do about them. What they did has been determined largely by the political conditions at the time: public moods about deficits, elite pressures, and the partisan division within the government. Those are also the factors that normally determine annual budget action. So, while long-term caps may have some impact on spending and deficits, much of the results in the cases reviewed here would have happened anyway. Caps have been input to later decisions but not actual long-term commitments.

Last but not least, at some points discretionary spending caps have been associated with spectacularly broken budget processes. Nevertheless, it would be unfair to conclude that the 5- or 10-year caps in the United States have caused process collapse. It makes more sense to conclude that both the caps and the collapses have been produced by the combination of intense budgetary pressure and disagreement about how to respond to that pressure.

III. Social Security[51]

Considered in isolation, Social Security has always been budgeted for the long-term. The first Advisory Council on Social Security (1938), whose report set the stage for the important 1939 Amendments, declared that,

"V. The planning of the old-age insurance program must take full account of the fact that,

[50] A true long-term perspective might say budget plans should include increased revenue to deal with the costs of global warming, but advocates for long-term budgeting are not looking for arguments to spend more.

[51] There is a lot of controversy about Social Security, as well as an extensive literature. My own overview of the history and issues is in White (2003). It does not seem that much has changed, in terms of the positions taken and their merits, since then; much of the discussion that follows is based on that work.

> while disbursements for benefits are relatively small in the early years of the program, far larger total disbursements are inevitable in the future. No benefits should be promised or implied which cannot be safely financed not only in the early years of the program but when workers now young will be old.
> "VI. Sound presentation of the government's financial position requires full recognition of the obligations implied in the entire old age security program and treasury reports should annually estimate the load of future benefits and the probable product of the associated tax program."

As one example of such looking ahead, the original Report of the Committee on Economic Security estimated, quite accurately, the population proportion of aged persons in 1960 and 1975.[52] From its beginning, the program's financing plans included scheduled increases in the payroll tax as costs were expected to increase.

Old Age and Survivors Insurance (OASI) and its companion, Disability Insurance (DI) are financed through trust funds, with trustees who report each year on the funds' prospects for the next 75 years. The 1983 Social Security amendments were made necessary by the prospect that the trust funds would have less money than needed to pay full benefits around July 1 of that year. While getting through the immediate problem was the highest priority, policy-makers also sought to enact enough changes to eliminate the long-term actuarial shortfall (difference between projected costs and revenues over 75 years) (Light 1985; see also Goss 2010; Kingson 1984; White and Wildavsky 1991).

Social Security elicits long-term planning because it extracts contributions that are justified by the promise of future benefits. Individuals' benefits are related by formula to their contributions. So, unlike most programs, there is a very specific promise and claim to that promise – an "entitlement" in the sense that was defined in litigation during the 1960s.[53] The claim is not quite equivalent to a contract, because Congress is sovereign and (with the President's support) can break its promises by changing the law.[54] But a major reduction in the promise was intended to be difficult: President Roosevelt famously explained that the payroll contributions were "there so as to give the contributors a legal, moral, and political right to collect their pensions…"[55]

The 1938 Advisory Council's statement clearly did not, however, view the program entirely in isolation, separate from the rest of the federal budget. The quote above emphasizes "the government's financial position" as a whole, not simply the program's.[56] So one of the basic questions about Social Security is the relationship between Social Security's financing and the overall federal budget, which is not as straightforward as many policy advocates may believe. The second is to what extent it is really practical to plan for the program many years in the future.

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[52] The report estimated that the population aged 65 or over would be 9.3% in 1960 and 10.0% in 1975. The actual figures were 9.2% in 1960 and 10.5% in 1975. See Committee on Economic Security 1935; United States Census Bureau 1975. Common claims that Social Security was designed for the 1930s and is in that sense outdated are falsehoods. For a critique of some more egregious examples, see Altman and Kingson 2010.

[53] On the founding of Social Security and development of the legal concept of entitlement, see White 2003: 18-27.

[54] But if Congress does not specifically change the law, the claim is legally enforceable within the terms of the law. That's the legal meaning of entitlement. If Congress did not appropriate the money for SNAP benefits, for example, a person who is eligible based on the law's terms could have the claim enforced in the United States Court of Claims. In the case of Social Security, however, authority to pay benefits is specifically linked to the balance in the trust funds; so "if the trust funds ever become exhausted, expenditures thereafter would be limited to the amount of continuing tax income" (Goss 2010: 121).

[55] The comment was reported in a memorandum written by Luther Gulick, which can be found at https://www.ssa.gov/history/Gulick.html . Note that compulsory contributions were also intended to ensure that individuals took some responsibility for their own retirement, rather than rely entirely on others who were "more prudent" (Musgrave 1986: 69-70; Penner 1994:4).

[56] The Advisory Council also assumed that eventually some of the program would be paid for from general revenues, on the grounds that it would help citizens other than the direct beneficiaries. For example, helping older people retire would help younger people find employment, and maintaining income for the elderly would help the economy.

In addressing those questions, it is important to remember that OASI and DI have rather different dynamics. OASI covers pensions for people who reach retirement age, while DI provides benefits for people who are below retirement age but physically unable to work. Eligibility for OASI depends only on age, and benefits on contributions made; once eligible a person stays eligible. Eligibility for DI depends on physical condition and how that relates to jobs available in the economy. Determining eligibility requires much more administrative discretion; a person can recover and lose eligibility; and the future eligible population is much less predictable for DI than for OASI.

The combined OASDI is financed mainly by a payroll tax: a percentage of wages, up to a limit ($118,500 in 2016). The tax is 6.2% of covered income paid by both employers and employees (so 12.4% total). The amount has been changed many times (always upwards) since the program was created; it reached the 6.2% level in 1990. The trust funds also receive income from income tax on benefits and from interest credited on the funds' balances. Therefore, benefits are essentially paid from three streams of income: current payroll taxes; current taxes on benefits (which could also be seen as just a reduction in benefits); and the interest created by previous surpluses of taxes over benefits.

Since DI (Disability Insurance) was created, the balance between DI and OASI financing has sometimes been changed within the total at the time, as one or the other fund was seen as requiring assistance. Under current law, the payroll contribution will have been divided six different ways between 1990 and 2019.[57] Although, "most analysis of the actuarial status of the Social Security program is done on a theoretical basis where the two trust funds are considered on a combined basis" (Goss 2010: 116), I will argue below that the logical time frame for DI budgeting is much shorter than for OASI.

The trust funds and Social Security within the federal budget.[58] How, then, can the 1938 Advisory Council's advice be followed? How can policy-makers plan to meet future costs of benefits? One approach would be to schedule, in the law, future revenue increases to match the spending increases, or spending cuts to match the revenue, or some of both to bring the two into balance. A second would be pre-funding: to build up surpluses in the trust fund(s) that could be used to pay for some future costs – either through interest earned on the trust funds or interest plus spending down the principal.

As enacted in 1935, Social Security included some moderate pre-funding, but that was pared back for many reasons in the 1939 amendments – one argument being that collecting taxes without paying benefits had helped put the economy back into recession in 1937 (for a further explanation that provides a good introduction to the program, see Corson 1940). But, since all covered workers (which then did not include the self-employed and agricultural workers) were paying in, and payouts were low for a long time because few retirees had made many contributions, the OASI trust fund far exceeded benefits into the 1950s.[59] From about 1960 on, however, spending and tax revenue had become fairly similar, and as both grew, the trust fund balance shifted to about 100% of annual spending – a prudential margin to cover short-term bad news. At that point the program could be described as basically pay-as-you go, with some tax increases still scheduled to cover projected spending increases, and a cushion against bad economic news in the trust fund.

During the 1970s a combination of policy decisions and unexpectedly bad economic news threw the program out of financial balance. Financing reforms enacted in 1977 failed largely because of miserable economic performance over the following five years, and the actuarial projections then showed the trust

[57] Self-employed individuals pay both parts, but the equivalent of the employer contribution can be deducted from calculated income for income tax purposes. The history of payroll tax rates can be seen at https://www.ssa.gov/oact/progdata/oasdiRates.html .
[58] The argument I make here views the trust funds with much less skepticism than I expressed in White and Wildavsky 1991 (pp. 315-317). My excuse is that at that time I was focused on short-term budgeting, and had yet to investigate the history of Social Security financing. For a much more extensive analysis see White 2012b. Readers interested in technical operations of the funds should see Pattison 2015.
[59] In 1949 the trust fund end-of-year balance was more than 16 times that year's expenditure; in 1954 it was more than five times as high; 1957 was the first year in which expenditures exceeded payroll tax contributions to OASI, so trust fund earnings became part of financing the costs. Calculations here and the data for descriptions that follow are from Social Security Administration 2015, Tables 4.A1 and 4.A3. The best account of policymaking through the 1977 legislation is Derthick (1979).

fund balance falling to zero, so unable to pay full benefits, by July 1 of 1983. This led to the Social Security Amendments of 1983 and a policy change to more of a pre-funding approach.[60]

The 1983 law did accelerate scheduled payroll tax increases, but did not change the projected rate of 12.4% combined (for OASDI) in 1990. Nor did it schedule further tax increases in the future. It included one significant benefit cut in the future, an increase in the Normal Retirement Age from 65 to 67, which would be implemented in two stages over the years from 2000 to 2022. The 1983 amendments also included new revenues from taxing benefits for higher-income Social Security recipients and increasing the contributions by self-employed persons; a spending cut by permanently shifting the date for cost-of-living adjustments (COLAs) by six months, and a series of other provisions, such as covering new federal employees, which helped in the short run.[61] These measures were projected to build up surpluses to help finance costs through the baby boom generation's retirement.[62] In essence, the baby-boom "generation" would pay higher taxes than needed to pay for its predecessors' retirement, in order to help finance its own. Current estimates say it didn't quite work: the trust fund balance is expected to hit zero in 2034, when the oldest baby boomers will be 88 and the youngest will be 70. Still, starting at near-zero and ending up with a positive balance for the next fifty years is pretty good, if not quite as good as it looks.[63]

Using the trust fund logic, the Social Security Trustees reported in 2015 that costs in 2089 would be 17.97 percent of taxable payroll, and income 13.32 percent, for a difference of 4.65 percent of taxable payroll. That 4.65 percent was the change needed to bring the program into balance on a pay-as-you-go basis in that year. At the same time, the actuarial deficit was 2.68 percent of taxable payroll. This is the amount by which policy would have to change immediately in order to build up surpluses that would ensure a positive balance through 2089 (Board of Trustees OASDI 2015: 4).[64] Thus, the Trustees and others have long argued, acting sooner will enable less drastic change (Board of Trustees OASDI 2015; CRFB 2015).

Many budget experts and economic commentators would agree (in more gentle words) with Allan Sloan's (2016) description of the trust fund logic as, "ridiculous accounting." Their problem is the nature of the assets in the trust funds. The Treasury holds the surpluses as federal debt instruments, because it is forbidden to invest surpluses in the private economy (the main reason for that ban is that conservatives have long argued private investment would be like socialism, with the government owning parts of the economy). The critics' point is that when Social Security spends interest or spends down the principal, Treasury has to get the money somewhere, which means from taxes or borrowing. But if there were no trust funds, it would do the same – so the trust funds would seem to be irrelevant. The 2001 President's Commission to Strengthen Social Security (set up to favor the Bush administration's agenda)[65] was able to quote President Clinton's OMB that, "(t)he existence of large Trust Fund balances… does not, by itself, have any impact on the Government's ability to pay benefits (President's Commission 2001: 17)." It cited the Social Security public trustees, CBO, GAO, and the Congressional Research Service to the same effect

[60] For the most detailed summary of the law's provisions, see Svahn and Ross (1983); for discussions focused more on the highlights and politics, see Light (1984), White and Wildavsky (1991).
[61] The package also included some measures that were either short-term, cosmetic, or arguably subsidies from general revenues. See the sources cited above for details.
[62] The trust fund ratio (end of year balance to year's expenditure) was projected to rise to 2.58 in 2000, 3.90 in 2005, 5.0 in 2010, and 5.44 in 2015 before declining slowly over the following 45 years.
[63] Projections began changing almost immediately, due to changed economic and demographic assumptions and economic experience. OASDI's financing then was improved by adding new state and local employees in the 1990 Omnibus Budget Reconciliation Act. Projected trust fund ratios based on the 1983 Amendments are taken from *1984 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, Table 33, p. 78, and from the same table from the *1985 Annual Report*. For how the figures change, see the data in Table 4.A3 in Social Security Administration, 2015.
[64] Actually they said that the imbalance was 2.68 percent, but a 2.62 percent change would, for various reasons, be sufficient. I've used the 2.68 percent estimate because it allows for a cushion equal to one year's spending in 2089. The Trustees (2015: 6, 12) also estimated that the program could be put into 75-year actuarial balance by cutting benefits 16.4 percent immediately, while if benefits were cut on a pay-as-you-go basis, that would be a 21 percent cut in 2034, and 27 percent in 2089.
[65] Most evidently, it was instructed to make the program solvent without raising the payroll tax, and to include voluntary personal (private) retirement accounts.. For more information see https://www.ssa.gov/history/reports/pcsss/pcsss.html

(President's Commission 2001: 19). This view has become conventional wisdom for many journalists (e.g. Jackson 2011; Montgomery 2011).

Yet the same institutions and advocates who claim the trust fund is useless argue that the long-term future of Social Security is a crisis that must be addressed quickly. *The first argument contradicts the second.* If trust fund balances don't make it easier to pay for Social Security in 2034, then the actual benefit reduction or tax increase as of 2034 should be the same regardless of what was done before. One can argue that planning ahead would allow cuts or tax increases to be phased in, but that should not be confused with making a transition easier for beneficiaries. Let's assume there would be a big benefit cut in 2034. If cuts were phased in instead, they would impose pain on beneficiaries in earlier years, without reducing the pain from 2034 on. A rational retiree in 2025, if told that the government would cut their benefits each year leading up to 2034 so as to help "phase in" the pain of the cut, would say, "no thanks, let me have the full benefit up to 2034, and if I want to I'll save the difference each year." Having the government give her less surely won't help her cope![66]

The skepticism about the trust funds, although it is widely shared within the budgeting community, is misguided. The 1938 Advisory Council explained why:

> "The United States Treasury uses the money realized from the issuance of these special securities by the old-age reserve account in the same manner as it does moneys realized from the sale of other Government securities. As long as the budget is not balanced; the net result is to reduce the amounts which the Government has to borrow from banks, insurance companies, and other private parties. When the budget is balanced, these balances will be available for the reduction of the national debt held by the public.
>
> "Members of the Advisory Council are in agreement that the fulfillment of the promises made to the wage-earners included in the old-age insurance system depends upon, more than anything else, the financial integrity of the Government. The members of the Council, regardless of differing views on other aspects of the financing of old-age insurance, are of the opinion that the present provisions regarding the investment of the moneys in the old-age reserve account do not involve any misuse of these moneys or endanger the safety of these funds."

Past surpluses reduced federal borrowing from, so debt owed to, the public. Less debt (interest rates being equal) means lower interest spending in the future. Lower spending on interest means more money available to pay for other government activities.

The situation is analogous to a person preparing for retirement. She could invest any extra cash so that future unearned income could replace earned income.[67] But she could also pay off her mortgage, reducing future housing expenses. Nobody would say that reducing future costs by paying off the mortgage is "useless" as a way to prepare for retirement. Reducing future government interest costs is exactly the same principle. The balance in the Social Security trust funds reports the amount of debt that is not owed to the public because of the history of Social Security surpluses. In 2016, the interest earnings account for what the government does not have to pay to outsiders because of the previous surpluses.

Advocates for entitlement cuts make a further argument in order to say the trust fund surpluses have not improved the federal government's financial integrity. They claim Social Security's surpluses made the deficit look smaller than it really was, so Congress and the President simply spent extra money (or cut taxes

[66] Other arguments are equally flawed. For example, a sharp benefit cut in 2034 is not a big difference between people who retire in 2033 or 2034; it is only a difference in one year for people who spend an average of 20 retired. The benefit reduction would be only one percent of GDP, so not a significant macroeconomic shock.
[67] The same could have been done with Social Security surpluses, though it would have made only a modest difference. For discussions see Aaron and Reischauer (1998); Van de Water (2014); White (2003).

more) in the rest of the budget (CRFB 2011b; Munnell 2005; Spivak 2010). In a separate paper (White 2012b: 13-25), I give extensive reasons to agree with Alicia Munnell (2005:3), who judged that, "neither administrations nor Congress pushed less hard to restore balance on the non-Social Security side because of the surpluses in the trust funds."[68]

So to summarize this section: the trust funds are real, and some portion of future costs can be pre-funded by building them up. This is an argument for long-term financial planning for Social Security. The next questions are whether costs and revenues can be forecast accurately, and how likely it is that policy-makers could agree on long-term plans.

Accuracy and acting on projections. How accurate, then, are long-term projections of Social Security costs and revenues? Clearly there is some uncertainty, which is why the actuaries create high-, low-, and intermediate cost forecasts.[69] Estimates depend on assumptions about dozens of factors. These include birth rates, death rates, immigration rates, the ages of immigrants, trends in disability, growth in national income, how that growth is distributed between labor and capital, what portion of the labor share is above and below the maximum for OASDI contributions, interest rates and labor force participation.

Part of the future is relatively predictable. Spending should rise substantially relative to payroll tax revenues and GDP because the number of beneficiaries will rise relative to the number of workers paying taxes. In the next fifteen years that will be mainly due to retirement of the baby boom cohorts, but the long-term cause is a reduction in the birth rate to roughly 2 children per woman of childbearing age (Goss 2010). The effect of other factors, however, is much less predictable.

Consider the pattern over time of projections of long-term actuarial balance. The 1983 legislation projected actuarial balance over 75 years at 0.02 percent of taxable payroll (so, barely positive). By 1985 the estimate declined to -0.41. By 1994, the projected trust fund balance was down to -2.13, with the reserve estimated to be depleted by 2029. But in 2008 the projection of the actuarial balance had improved to -1.70, and depletion of the reserves was not expected until 2041. Then the projections started to go south again, so that by 2014 the projected long-term shortfall was -2.88, and the reserve was estimated to run out in 2033.

Some of the decline in projected actuarial balance over most of this period is simply due to time. Each year's projection is for 75 years; each successive estimate includes one more year when costs are higher than the projected taxes, because more of the baby boomers are retired and fewer are working. Yet the variation from year to year has been much larger than can be explained by timing alone. The deterioration in the forecast long-range balance in the six years between 1988 and 1994 was 1.55 percentage points – nearly as large as the 1.84 point improvement from the 1983 legislation (Board of Trustees OASDI 2015, Table VI.B1). The trustees (Board of Trustees OASDI 2015: 165-167) briefly explain each year's change. Their explanations show the importance of assumptions other than birth rates.[70]

We can get another view of variation in forecasts by looking at spending projections as a share of GDP. Figures 1 and 2 give two views of how forecasts have changed over time. The 2050 forecast, highlighted in Figure 1, may look fairly stable; but the estimate made in 2008, at 5.81% of GDP, was almost a full point lower than the 1999 projection of 6.79%. Figure 2 shows projections for a series of other years, and how

[68] CRFB cites economic modeling (Smetters 2003) that is flawed both technically (Hungerford 2009) and in its understanding of budget process and history. I should note that Munnell's discussion is in terms of a further view of how the trust funds work, which I call the economic capacity perspective, and derives from the national savings view of the budget's balance (see Aaron, Bosworth and Burtless 1988; Moynihan 1989). I have not emphasized it because it does not appear to be having much effect on current debate, and has flaws I've discussed in White (2003) and White (2012b). One cannot even make a case that the Bush 2001 tax cuts were enabled by the Social Security surpluses, as CBO's estimate at the time still showed an on-budget surplus after the revenue losses.

[69] Also, CBO's estimates differ from the Trustees'. Compare CBO (2015c), Exhibit 2, to Board of Trustees OASDI (2015), Table VI.G4.

[70] These included changes in how the age distribution of immigrants was estimated, in economic assumptions, in the definition of "actuarial balance," and assumptions about disability rates.

they have changed over time. If we were to look at the numbers behind the chart we would see, for example, that the current predicted shortfall in 2035 is 1.24% of GDP, but projected spending in that year was 6.96% of GDP in 1999 but only 6.02% today.

Figure 1

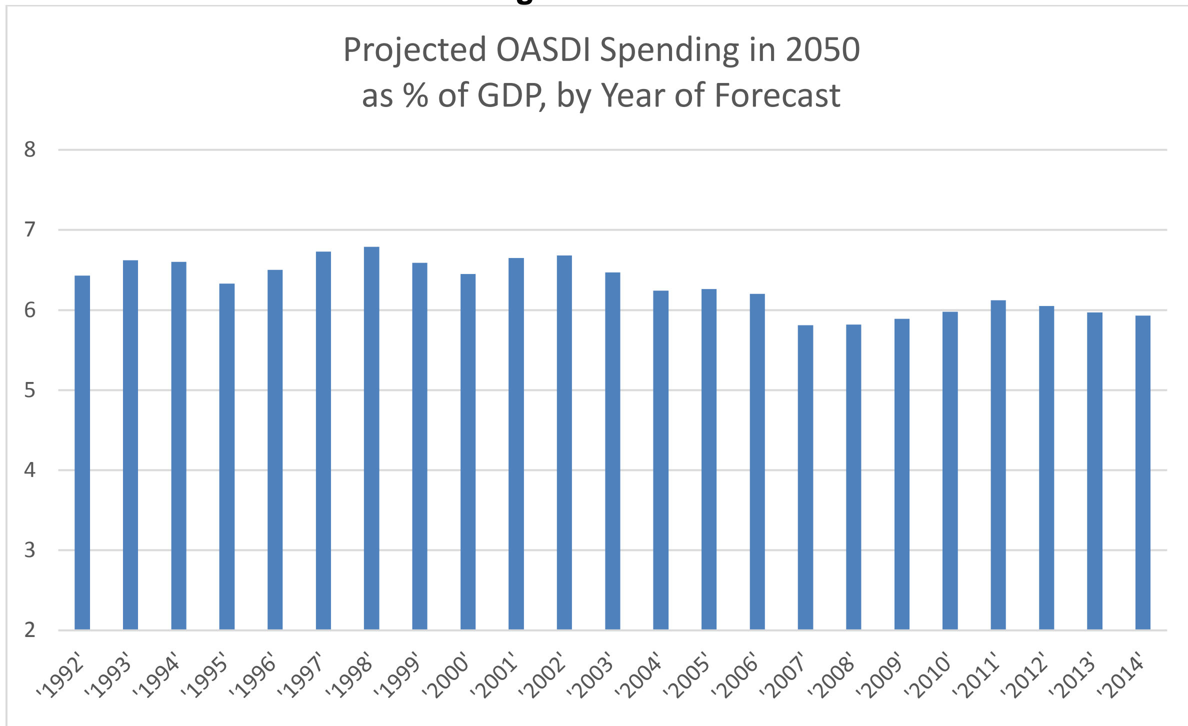
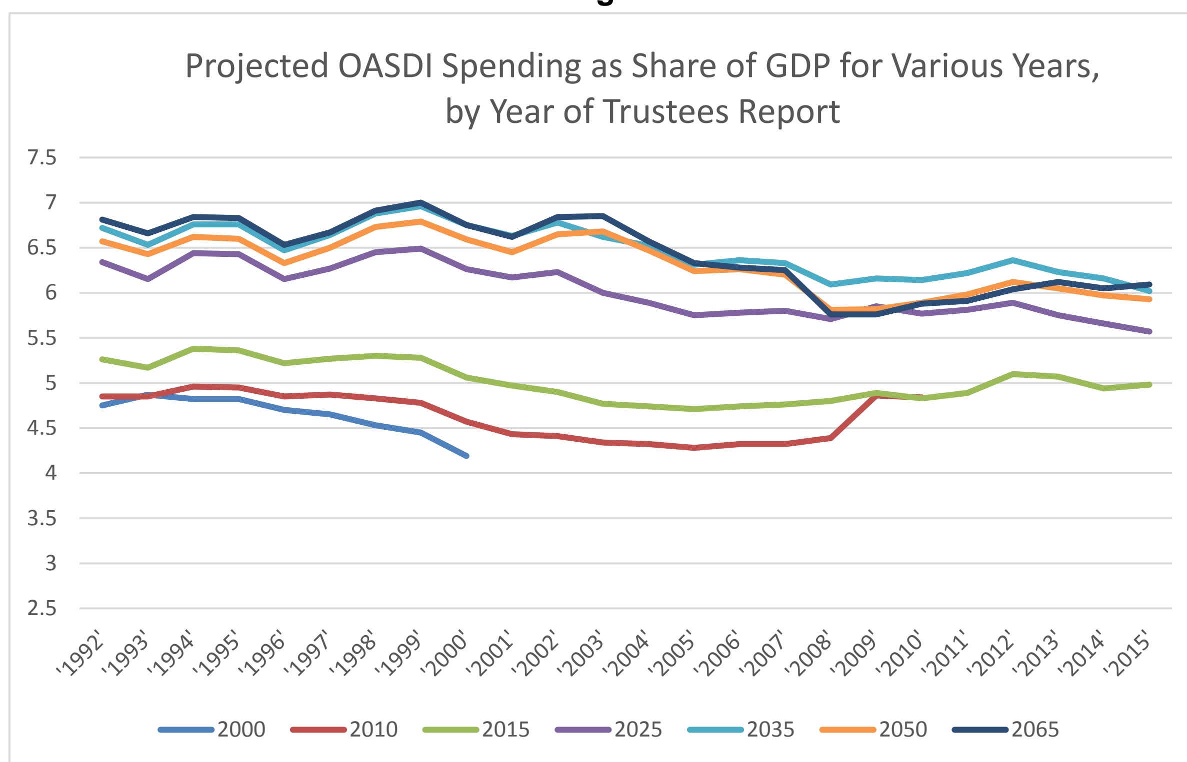


Figure 2



As these numbers show, the future burden of Social Security on the economy is not so easy to predict, and no one should imagine long-term budgets for Social Security can be made with the same kind of confidence as annual budgets for agencies. The revenue side of Social Security is directly vulnerable to economic uncertainty, and Disability Insurance is more easily affected than old-age and survivor's pensions on the spending side as well.

DI is Different. In fact, DI is far less predictable than OASI. There are reasons to combine the two programs, as expressed by the House Committee on Ways and Means, when it reported the legislation which created DI in 1956. It declared that, "retirement protection for the 70 million workers under old-age and survivor's insurance is incomplete because it does not now provide a lower retirement age for those who are demonstrably retired by reason of a permanent and total disability" (quoted in Social Security Administration 1986). Disability is also subject to some of the same long-range demographic dynamics, because older people are more likely to become disabled.[71]

Yet DI is very different from OASI because eligibility is much less straightforward. Administrative discretion matters more, and there are many more arguments about supposed fraud and abuse (people getting benefits who should not) or inequity (people not getting benefits who should).[72] There are two levels of choice, which vary less systematically than demographics: people have to choose to apply, but the disability determination process also must decide they are eligible. Both are influenced in part by economic

[71] Therefore, the aging of the baby boom group raised spending for DI about 15 years before OASI. See CBO (2010) for an explanation of effects on DI spending within a good short introduction to the program. These effects are similar across rich democracies; for an overview see OECD (2010).
[72] A good recent example is the controversy over Senator Rand Paul's claim that, "if you look like me and you hop out of your truck, you shouldn't be getting a disability check. Over half of the people on disability are either anxious or their back hurts – join the club. Who doesn't get a little anxious for work and their back hurts? Everybody over 40 has a back pain." See Kessler 2015

conditions.[73] Disability spending therefore has fluctuated not only with underlying economic conditions, which influence applications, but with the administrative process, which varies with legislative changes, budgetary resources, administrations' priorities, and among states.[74] Applications must first be approved or rejected through processes managed by state governments; then they can be appealed to administrative law judges appointed by SSA. These processes can involve medical judgments and input from medical experts; it can take well over a year to process an application and most are rejected. States manage this process in different ways and so with different initial results.

Table 1 indicates how the combination of administrative and short-term economic factors influences DI differently from OASI. One can see how the numbers of applications and awards for DI varied more than for OASI.[75] Except during the 1982-83 recession, when policy was clearly trying to discourage applications, applications have increased significantly during and after economic slumps – and especially in 2008-09 (Merline 2012: 25).

The table also demonstrates both that most DI applications are rejected, and that the rate of awards has varied substantially. Increases and decreases in both awards and applications have been related to policy changes, especially a crackdown on both applicants and current beneficiaries that was legislated in 1980 and implemented with perhaps unexpected zeal by the Reagan Administration (Derthick 1990; Pear 1982; Social Security Administration 1986).[76]

To summarize, DI is an entitlement but involves administrative discretion that means it does not operate remotely as automatically as OASI. It involves a much less certain risk, and most people will not end up collecting. Nobody who is paying into DI expects to collect even 50 years later – they're supposed to be retired and on OASI by then. The promise is that DI will protect you if you get disabled soon, or at least sooner than your expected retirement age. If a change in eligibility rules is defensible, then it normally should be implemented quickly. If current rules reward people they should not, or prevent aid to people who should get it, that should be fixed sooner rather than later.

OASI, DI, and the goals of budgeting. OASI is the best case for long-term budget planning. Individual voters have reason to look ahead and – if they're not told the trust funds are fake, and trust politicians to treat the assets as real – perhaps agree to pay for benefits in the future with earlier contributions. Because discretion is limited, administration is not so strongly related to spending, as long as it is not badly underfunded. Any efforts to change long-term outcomes also require specific decisions about those rules, so conscious and visible connection of details to totals. Estimates are uncertain enough that policy-makers should not respond often to changed projections. There can even be honest mistakes.[77] But over many decades the Social Security Actuaries have earned a reputation for integrity. Building up a trust fund is a policy choice to lean in a more fiscally contractionary direction, but only modestly so and should not be viewed as especially biased.

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[73] In practice disability is not simply a physical phenomenon. CBO (2010: 2) gives a good example. A deaf person might receive accommodations from some employers but not others. When the economy turns sour, his disability might mean he cannot work. The Americans With Disabilities Act may have led to more people becoming eligible for DI because they could find work for a while (Merline 2012).

[74] These kinds of behavioral and administrative uncertainties led the Social Security Board Actuaries in the 1930s to believe it was very difficult to produce reasonable cost estimates for a program (Kearney 2005/2006).

[75] Workers' dependents can also be beneficiaries, of both DI and OASI, but I focus on workers here because those are the people by whom and about whom decisions are being made. New beneficiaries tell us more than the year-to-year change in enrollments, because for each program some people leave the roles each year – for OASI by dying, and for DI by dying, becoming employed, or aging into OASI. In 2012 we begin to have the first baby-boomers aging into OASI and out of DI. The effect of the baby boom showed up around 2000 for DI, as disability rates increase for people in their fifties, and is reversing for DI now as DI beneficiaries age into OASI (Fritze 2015).

[76] Some of the effects of this crackdown are not in Table 1, because an increase in Continuing Disability Reviews, mandated by the 1980 Disability Amendments, led to more persons being removed from the roles. That in turn led to a backlash and loosening of the rules in 1984 legislation. The level of Continuing Disability Reviews depends on discretionary appropriations, and lower funding therefore leads to fewer reviews and so higher DI spending (CBO 2010).

[77] CBO made a quite surprising error recently; see CBO (2015c) and the note at the bottom of page 16, "text and table corrected on February 10, 2016." The explanation is at https://www.cbo.gov/publication/51232 . Arguably, this is an example of how having multiple analyses helps encourage accuracy. Then again, the SSA actuaries had not made the mistake to begin with.

Yet even in the case of Social Security, the conventional approach to long-term planning is excessive. One problem is that 75-year forecasts even for OASI are not especially credible. A second is that DI does not belong in those forecasts. Its spending is driven too much by short-term economic developments and how the program is administered. Medical understandings change, and so decisions about disability change, in ways that cannot be anticipated. Administration is especially important for the value of efficiency, as *both* accepting applicants who perhaps should not get benefits and turning down people who perhaps should can reduce the net benefit of the program. So it would make a lot more sense to view DI in a much shorter time frame. A third problem applies to current arguments that entitlements as a whole should be subjected to caps over a 20-year or 30-year or longer time period. Ironically, a long-term plan that separates entitlements out from the rest of the budget and sets a cap on entitlement spending would ignore how the trust funds can reduce spending in the rest of the budget.

The most severe problem with proposals to focus on long-term financing of Social Security, however, is that adding some sort of larger set of long-term budget controls or solvency rules to what already exists within Social Security will not solve the problem of how to get agreement about the means. There might be situations in which a long-term focus enables political leaders to compromise with each other, because very long-term measures would not excite their constituents. The 1983 legislation's provision to increase the retirement age in stages, ending in 2022, seems like an example. But in order for that kind of buffering from voters to work, the sides have to want to compromise. In 1983 a majority of the House and Senate appears to have thought raising the retirement age was a reasonable policy.[78] Under present circumstances, looking at the long-term does nothing to reduce conflict. If anything, the choice between accelerating and delaying action is just a matter of tactics.

DI would have gone into deficit this year, and substantive response was postponed by changing the fund allocation between OASI and DI, rather than addressing DI on its own. Similarly, the Trustees have argued for many years that the trust funds were not in long-term actuarial balance, and since 2013 have projected exhaustion within 20 years. From this perspective, long-term budgeting for OASI is possible but is not being done; and the time for long-range budgeting of DI is past.

So why has there been no action on OASI or DI in recent years? DI beneficiaries are not powerful "claimants." They are poor, disabled people – which may be why U.S. policies to help the disabled are among the least adequate among all OECD nations (OECD 2010: 85-87).[79] Instead, policy leaders in the two parties disagree intensely about how to respond to DI's financing issues. Republicans believe the program is rife with abuse and encourages people who aren't really disabled not to work. Democrats believe these claims grossly misrepresent benefit levels, the difficulty of claiming benefits, and the medical status of beneficiaries (Fritze 2015; Kessler 2015; Ruffing 2015). Democrats believed they could not convince a Republican-controlled Congress, so sought to postpone the issue by reallocating funds from OASI; House Republicans tried to forbid re-allocation through a House rule (Romig 2015; Ruffing 2015). Eventually they backed down, and the Bipartisan Budget Act of 2015 included a three-year reallocation from OASI to DI, which was projected to build up the DI fund enough to pay full benefits into 2022. The reallocation was immediately condemned by the Heritage Foundation as robbing $150 billion from Social Security (Greszler 2015). Not much room for agreement there.

The OASI story is much the same. Virtually the entire Republican party insists that only spending cuts are acceptable as ways to reduce deficits in the budget as a whole or OASI in particular. More and more Democrats have concluded that a steady decline in other sources of retirement income means Social Security benefits should be increased, not cut (Altman and Kingson 2015; Hiltzik 2016). Even without

[78] As described in White and Wildavsky (1991: 323-325), some senior House Democrats supported the idea but did not say so publicly because they wanted to make House Rules Committee Chair Claude Pepper think he could defeat it, so allow a vote on the floor.

[79] See also the comparison between average DI and OASI benefits at Social Security Administration (2016a, Table 2), and the discussion in CBO (2010).

advocating expansion, Democrats have emphasized raising payroll taxes and especially the cap on taxable payroll. Republicans, if they are willing to be specific at all, have favored privatization and certainly no tax increases. Adherents of each party can fervently believe: (a) that their plans would preserve and improve the program; and (b) that the other side's plans would destroy the program. Meanwhile, self-described centrists propose approaches that hardly anyone likes – in the Bowles-Simpson case, also relying heavily on benefit cuts (Blahous 2010; Ruffing 2011). The current OASI conflict is precisely the kind of situation in which attention to totals does not cause action because of disagreement about the details, for there is no majority to meet solvency targets in any specific way.

In this situation, any attempt to force immediate action is fundamentally partisan. To put this another way, time is more on the Democrats' side. Democrats will want to delay on DI because getting what they want will be more likely if they win some elections. Democrats also can reasonably project that OASI's funding is far more likely to be improved by tax increases in the future than it is today. In the early 2030s the prospect of major benefit cuts will seem much more real, and the elderly will be a much larger portion of voters – particularly in midterm elections (such as 2030 and 2034). Under these circumstances, raising taxes – including even taxing "unearned income" or raising the threshold so high earners pay on more of their earnings – seem much more likely than they are today (Arnold 2015).

What, then, could any efforts to further enforce long-term budgeting for Social Security accomplish? A plan might include some sort of automatic policy changes triggered by changes in projections. Yet the fight over such a plan will look just like the fight over more straightforward policy changes, and there will be no more reason to expect compromise. Or, the plan could include some sort of commission to submit proposals in response to projected shortfalls. Yet there is no reason to expect that approach to be any more successful than the 2011 commission – or various other efforts over the years.

The federal budget process already has all the information and attention-getting devices needed to get politicians and the public to worry about the long-term future of Social Security. But, the budget process cannot be expected to bridge the kinds of deep disagreements that exist today. If policy-makers do not have some underlying basis for agreement, then trying to force action on issues that do not have to be dealt with yet (because they are long-term) can only increase conflict, without resolving it.

IV. Medicare

Within long-term projections of the federal budget, Medicare is the major cause of future spending increases.[80] Indeed, health care spending is widely considered a key aspect of budgetary sustainability across all rich democracies (OECD 2015b; White 2014). If we combine Medicare with Medicaid and other federal health care programs, it is easy to argue that the United States does not have a "deficit" or "entitlement" problem, but a health care cost problem (Aaron 2007). Therefore, long-term federal budgeting can only be justified if long-term budgeting for Medicare is possible and desirable. Yet long-term budgeting for Medicare is a truly terrible idea. Projections are dubious or useless. Practical methods to control health care costs over the long run – without abandoning the purposes of the programs – are extremely hard to identify. Worst of all, Medicare's long-term spending is the wrong worry – Americans face a much greater threat from costs for health care for all of us (for just one other argument making this point, see Aaron et al. 2008).[81]

Medicare policy basics. Medicare provides benefits to people who are eligible for OASDI[82] and persons with end stage renal disease (ESRD). Part A, hospital insurance (HI), has dedicated funding similar to

[80] For instance, the 2015 forecasts (Board of Trustees OASDI Table V.B3) showed OASDI growing from 4.98 percent of GDP in 2015 to 6.03% in 2060; Medicare was projected to grow from 3.53% in 2015 to 5.7% in 2060. As Figure 3 shows, projected Medicare spending growth has been much larger in some of the other Trustees Reports.

[81] Budgeting for health care programs is arguably more challenging than budgeting for most other activities. The discussion to follow will touch on some but not all of the issues. I provide a more extensive analysis and interpretation in White (2014).

[82] There is no equivalent of OASI's "early retirement," which allows claiming reduced benefits at age 62, and there is a two-year waiting period between receiving DI and becoming eligible for Medicare.

Social Security's, with the major part being a payroll tax.[83] Part B (physician and related expenses) and Part D (subsidies to buy insurance for prescription drugs) are funded from general revenues and some enrollee premiums. Because of the similar population covered and dedicated tax, HI also has a trust fund, and the OASDI Trustees also serve as Medicare Trustees. Medicare also reports 75-year solvency estimates. A federal agency, the Centers for Medicare and Medicaid Services (CMS) administers the program, although much of the work is done by private contractors who handle claims.[84]

Medicare spending involves costs for an extremely wide array of services, each of which poses its own cost control challenges (White 1999). Spending on one service can be affected by policies about others. For example, policies to raise patient contributions towards the cost of drugs might cause some to do without necessary drugs and end up as expenses for HI; or spending more on Part B primary care might reduce HI hospitalizations. Focusing on the status of the HI trust fund (or any other component) alone therefore is not a good way to think of how Medicare affects either the federal budget or its beneficiaries. Medicare policies about payment rates and when services will be reimbursed will be applied to thousands of different types of service and hundreds of millions of bills each year. The demand for services is heavily influenced by doctors and other participants in the medical industry. Demand is encouraged not only because patients see doctors as the experts but by forces in everyday life – in television ads and newspaper stories and in physicians' offices – that promote the idea that peoples' problems are medical and the medical industry can solve them (White 2014).

In order to make sensible budget choices for Medicare it is important to avoid common misunderstandings and recognize the following facts about both U.S. health care costs and the relationship between Medicare and the rest of the U.S. health care system:

(1) The United States has by far the most expensive health care system in the world. In 2013 spending per capita was 38% higher than the next most expensive country (Switzerland), and spending as a share of GDP was 16.4%, compared to 11.1% for the next highest countries (OECD 2015c: 165, 167).[85] Unlike all comparably rich democracies, the U.S. has no national guarantee of health care.[86] Therefore the higher spending is associated with less "entitlement" to care.

(2) The higher spending in the United States is caused mainly by higher prices and overhead costs, rather than by greater use of services or prevalence of disease. The U.S. has more intensive use of some services, such as tests and prescriptions, but is at the low end among rich democracies in per capita physician visits, hospitalizations, and hospital days (Angrisano et al. 2007; Farrell et al. 2008; Ginsburg 2008; Squires and Anderson 2015).

(3) American higher spending does not result in better health or even healthcare outcomes. The proportion of Americans who die from conditions that would be amenable to healthcare is higher than in at least 23 other countries, including all those that might be expected to have comparable economic capacity and political responsiveness. This amenable mortality is declining more slowly in the United States than in other countries, such as France, Germany, and the United Kingdom (Gay et al. 2011; Nolte and McKee 2012).

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[83] The contribution rate is 2.9% total, or 1.45% from both employer and employee. But there is no cap on the wage income to which it applies, and the 2010 health care legislation created a 0.9% "additional Medicare tax" on wages above various thresholds (Kaiser Family Foundation 2015b).

[84] At present there are 12 contractors which handle Parts A and B claims; four that process Durable Medical Equipment claims; and then four of the 12 contractors in the first group also process Home Health and Hospice Claims. See https://www.cms.gov/Medicare/Medicare-Contracting/Medicare-Administrative-Contractors/What-is-a-MAC.html

[85] There are modest definitional issues with the comparative statistics, so the ranking among countries that are close together (such as the Netherlands, Switzerland, Sweden and Germany, all close to 11 percent of GDP) might be questioned. The scale of the difference between the United States and other countries would be similar regardless of measurement choices.

[86] Among OECD member nations, Greece and Poland also have sizeable portions of the population not covered, while the benefit package in Korea and Mexico is for a smaller portion of costs than is covered for the insured in the United States. See OECD (2015c), pp. 20, 25.

(4) Although its record of cost control is by no means stellar, the Medicare program has for most of its history, and overall, done better than private insurers at controlling spending per enrollee (MedPAC 2015: 9). But the private payers' worse cost control creates fears that, if Medicare tightens further, providers will start refusing to see Medicare patients.

(5) Because overall costs are so high, government in the United States spends a larger share of GDP on health care than in most other rich democracies, even though public insurance guarantees reach only about half of Americans. By OECD's estimates, government spending is only 48 percent of total U.S. health care spending, but that works out to almost 8 percent of GDP.[87] The United States has international-standard government spending without international-standard coverage.

(6) Population aging is a major factor in projected Medicare cost increases (c.f. CBO 1998, Tables 4-2, 4-5). Yet aging does not lead to comparable spending increase projections in other countries, and is not viewed as so important a threat to health care program "sustainability" (de la Maisonneuve and Martins 2013).[88] One reason is that, because U.S. health care costs per person are so much higher than in any other country, any effects of aging compound on a much higher spending base. But the major reason is that aging in the United States shapes eligibility, whereas in other countries it only affects per capita costs. In the United States, when a person turns 65 she may shift from private budgets to Medicare. Her entire cost is an increase in government spending. In other countries, the increase in spending when a person turns 65 is just the difference between her costs that year and the year before. Therefore, if all Americans were "entitled" to the same public or semi-public coverage, the effect of aging on the budget would be much lower![89]

(7) When projections show Medicare spending rising quickly over time, so being "unsustainable," then if the same assumptions about spending growth per capita were applied to the entire health care system, it too would be "unsustainable." For example, in 2001, when Medicare spending was expected to rise to about 8.5 percent of GDP by 2075, the same assumptions projected total national health care spending of 38 percent of GDP (Technical Review Panel 2000: 39). That would be at least as much of a challenge to private budgets as the Medicare figure would be to the federal budget.[90]

These facts help explain why focusing on long-term Medicare costs is a seriously flawed problem definition. The health care spending control problems in the United States go far beyond Medicare. Projections of higher budgetary costs from aging are due to the weakness of health care guarantees in the United States and the weak cost controls, not to flaws in Medicare itself. Medicare's superior cost control performance, plus the better performance in other countries where the government does more to manage the system, suggest that expanding government's role might be the best policy. Yet any long-term set of caps on federal

[87] My calculations, from data at http://www.oecd.org/els/health-systems/health-statistics.htm . The U.S. is below Belgium, Denmark, France, Germany, Japan, the Netherlands, and Sweden. The U.S. might be above some of those countries if the figures counted capital investment, or the budgetary effects of the tax expenditure which encourage employers to offer health care benefits were included.

[88] A common argument says that very old people cost more, so as life expectancies increase and more of the population is "old old," costs will burgeon. This has been refuted in multiple studies. Most of the increase in medical costs associated with being older is not due to age per se but to likelihood of dying (as fatal diseases tend to be expensive). If more people live to age 85 twenty years from now, then 75-year-olds will on average cost less (de la Maisonneuve and Martins 2013; OECD 2015b; White 2007). Another common error maintains that costs expand because of excess care at the end of life. If that were true, then spending at the end of life would become a larger part of Medicare, and decades of evidence show that it hasn't (Riley and Lubitz 2010).

[89] A recent study (Wallace and Song, 2016) provides evidence that spending per enrollee may decrease when a person switches to Medicare from private insurance – though the study only has full data (for 200,000 persons) on outpatient imaging and procedures. The difference was explained entirely by Medicare's lower prices.

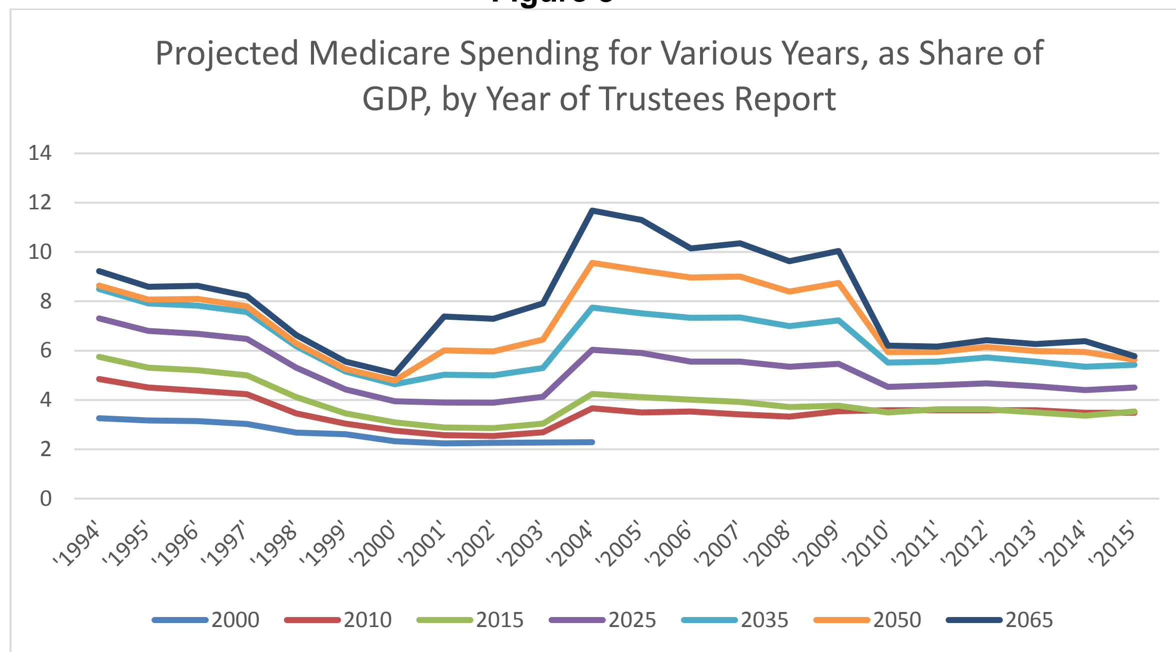
[90] The Technical Review Panel argued that this level of spending could be sustainable in the sense that it would still allow net growth over the time period for everything else. But they did not explain how the political and economic systems would manage to redistribute much larger amounts of money from higher-income to lower-income households than is being transferred today. The real "sustainability" issue for health care systems in all countries is not whether economies can pay for the care, but whether political systems can establish the necessary redistribution (White 2014). Note also that the Panel was assuming Medicare and other health care costs would rise at the same rate, even though Medicare costs had historically risen more slowly.

medical care spending would be designed to foreclose a larger federal role that could well be a more efficient policy.

Long-term Medicare spending forecasts are extremely unreliable, and essentially arbitrary. Former Medicare Administrator Bruce Vladeck in 1998 described the whole enterprise of forecasting costs beyond a ten-year horizon as "an exercise in comparative fantasy," and with good reason (Pear 1998).

Part of the problem is that short-term forecasting is also quite difficult. In 1994, the Medicare actuaries projected that spending would be 3.26 percent of GDP in 2000, yet spending was only 2.29 percent of GDP (Figure 3 reflects this change). This was a far greater change than was predicted from any legislation passed in the interim. Policy can change short-term results, but results also depend on unpredictable behaviors within the health care world. A major cost limiting factor in the late 1990s was a campaign against fraud and abuse that had much greater effects than policy-makers expected (Rosenblatt and Rubin 2000).

Figure 3



Spending on the Part D drug benefit, enacted in 2003 and implemented in 2006, exemplifies the challenges. When the law was passed CBO "projected that net federal spending for the Medicare Part D program would be $99 billion in fiscal year 2013; actual spending was $50 billion, or nearly 50 percent less than anticipated. Over the 2006-2013 period covered by CBO's original cost estimate, net federal spending for Part D was projected to be $550 billion; actual spending was $353 billion, or 36 percent less" (CBO 2014: 5). One reason is that fewer people than expected signed up for Part D (CBO 2014: 11). The larger explanation was that prescription drug spending growth for the entire country moderated dramatically, falling well below what CBO expected (CBO 2014; Hoadley 2012).[91]

The Part D example shows the importance of factors that are very hard to project. Some very expensive drugs came off patent, allowing creation of generic competitors. These products had much lower prices than the previous brand-name products; as a result, "although retail prices for the same drugs continue to

[91] The CMS Actuary expected pharmaceutical spending to grow even more quickly, but his projection was suppressed by the CMS Administrator so that it would not imperil passage of the MMA (Pear 2004). The difference in assumptions is explained by Hoadley (2012: 9).

rise, prices that take into account substitution of generic drugs for brand-name drugs have grown slowly if at all" (Hoadley 2012: 1). In addition, "new brand-name drugs (which tend to be more expensive than older brand-name therapies) were introduced at a slower rate than in the late 1990s" (CBO 2014:2). Then the good news suddenly reversed in 2014: Part D payments jumped by 8.3 percent, with the Medicare trustees (2015: 106) projecting a 15.1 percent increase in 2015. What happened? Prescription drug spending in the entire system accelerated sharply in 2014, largely "caused by increased spending on new medicines (particularly for specialty drugs such as those used to treat hepatitis C), a smaller impact from patent expirations than in previous years, and price increases for brand-name drugs." (Martin et al. 2016).

This is not to suggest policy-makers could do nothing about such developments. They could regulate prices for new drugs more strictly, or block increases in prices of old drugs that have only one supplier.[92] Nevertheless, Part D is one extreme case of the difficulty in forecasting health care spending even for the immediate future.

Long-term forecasts then can change dramatically from year to year for four reasons. First, short-term experience changes the baseline on which increases could compound (Sommers 2010). That is part of what happened in the late 1990s. Second, short-term experience may cause CBO or the Medicare Actuary to alter assumptions about future trends. Third, some of the assumptions used for long-term projections are rather arbitrary, and can be changed partly because none of the arguments is particularly compelling. Last, legislation can change policy – but that does not mean the new forecasts are necessarily more accurate.

Figure 4 shows the dramatic variation in projections for Medicare spending as a share of GDP in 2050 made in Trustees Reports from 1994 through 2015. You can see how Medicare's estimates depend on far more than demographics or basic economic trends by comparing these projections to those for Social Security in Figure 1. At the extremes, over the first six years the forecast fell by almost 4 percent of GDP, from 8.64 percent in the 1994 Trustees Report to 4.79 percent in 2000. It jumped significantly, to 6.45 percent of GDP, in the next three years; then leaped in 2004. 2010 saw another sharp break. Figure 4 provides another view of these wide swings in projected spending.

The change in 2000 is an example of effects of arbitrary assumptions. Until then, the Medicare actuaries did not imagine they could make any detailed estimate of spending trends after the first twenty-five years. Instead, they simply assumed that the shorter-term excess in health care spending growth per capita over GDP growth couldn't continue forever, so per capita spending growth would eventually decline to equal the growth of per capita GDP.[93] After a recommendation by the 2000 Technical Review Panel, the Trustees changed their long-term assumptions to include growth in health care spending per capita one percentage point higher than growth in per capita GDP. As they noted (Board of Trustees HI 2001: 24), the change in long-range projections only offset about half of the improvement that had occurred since 1997, but it still significantly raised long-term forecasts (while not affecting short-term costs in the least).

The increased projections after 2003 are an example of estimates changing due to a policy change, enactment of the 2003 Medicare Prescription Drug Improvement and Modernization Act, even though Part D turned out to be distinctly less expensive than expected. The sharp drop in estimated spending in 2010 is due in part to the short-term measures in the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (PPACA hereafter). PPACA included a set of short-term measures that reduced spending (and raised revenues) in reasonably predictable ways. But the big shift in the long-term projections, which can be seen in Figures 3 and 4, was largely due to a change in the law about how payments to health care providers would be calculated "in 2011 and later" – that is, forever. The law said that instead of updating payments to each category of provider according to changes in the

[92] The list price for Harvoni, the main Hepatitis C drug, could lead to over $200 billion in sales if all possible candidates received the drug. For information on Harvoni prices and Hep-C incidence see http://esofosbuvir.com/harvoni-cost-in-usa-canada-europe-egypt-india/ . On price increases for old drugs, see McLean (2016).

[93] A policy analysis implementation of Stein's Law, from the great economic policy analyst Herbert Stein: "if something cannot go on forever, it will stop."

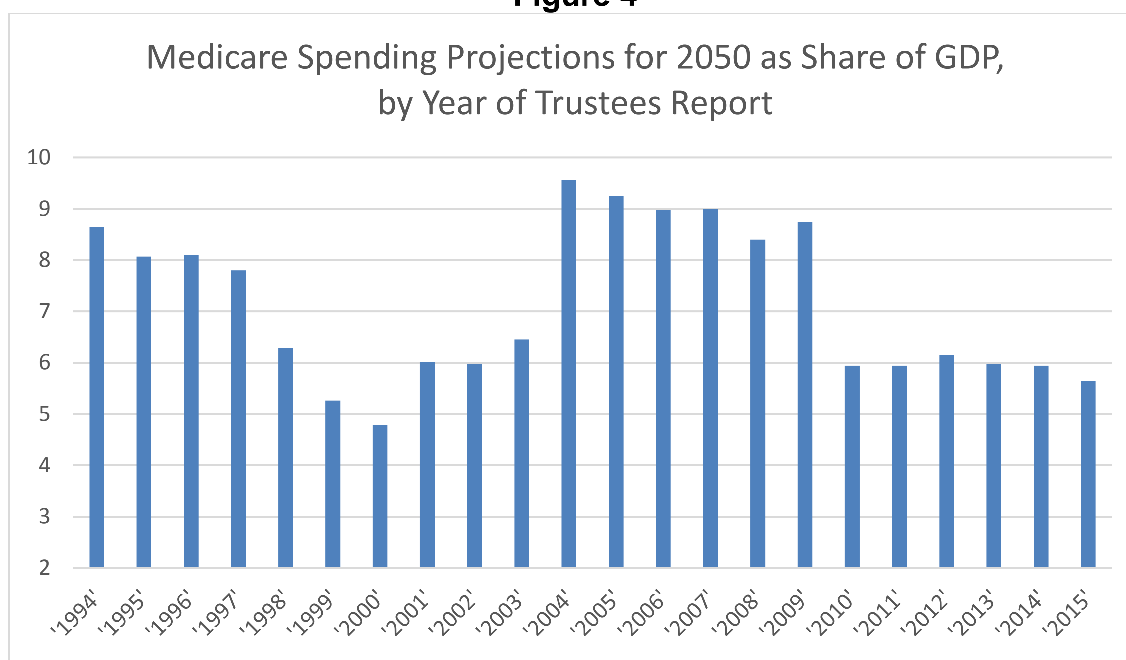
underlying "prices that providers must pay to purchase the goods and services they use to provide health care services," the Medicare program would raise its providers' prices about 1.1 percent per year more slowly, on the theory that the productivity of Medicare services could improve at the same rate as productivity increases in the whole economy (Medicare Trustees 2010: 2, 8). Thus the legislation essentially offset the actuaries' previous assumption that in the long-term spending per capita would rise by one percentage point over the trend of per capita GDP.

The U.S. health care system could surely do a better job of capturing technological improvement in the form of greater value for payers rather than higher income for the medical industry.[94] Yet nobody should pretend to know if the current provisions can be enforced for ten years, never mind forever. Many health policy experts argue that major savings are possible from an alphabet soup of ideas such as ACOs ("Accountable Care Organizations"), P4P ("Paying for Performance"), EHRs (Electronic Health Records), and "Medical Homes." They view budget forecasters as being narrow-minded and too insistent on "traditional evidence" when they do not give credit for savings from those measures (Cutler, Davis and Stremeckis 2009: 10). Some health policy analysts who agree about little else agree that these ideas are badly oversold (Holtz-Eakin and Ramlett 2010; Oberlander 2011; White 2011a, 2013). But again, the fact is that nobody knows. Long-term policy-making to control Medicare costs is difficult because the evidence base for projecting long-term effects is often weak.

The most recent forecasts provide one more example of the problems with making long-term estimates. The 2015 Medicare Access and CHIP Reauthorization Act (MACRA) overturned projected major reductions in Medicare's payments to physicians, which had been part of baseline estimates even though they were not about to happen.[95] CBO (2015d) projected the change in physician payment would raise (estimated) Medicare spending by $175 billion over ten years. Yet MACRA enacted some annual restraints on increases in physician fees, which were assumed to apply forever. As a result, the next Trustees report projected slightly smaller Part B spending beginning in 2059 (Medicare Trustees 2015:71, 98) (See Figure 3).[96] CBO, however, still makes its long-term projections by assuming that "excess cost growth per beneficiary" [over growth of per capita GDP] "will trend smoothly to a rate of 1.0 [percent] between 2027 and 2046" (CBO 2016b: 16), so does not include any long-term benefit from the further annual restraints on physician fees. It is easier to see why both assumptions are wrong (or arbitrary) than why either would be right.

[94] Health care policy wonks debate such issues as whether health care is subject to "Baumol's Disease," or why technology might drive spending up. For one review of such issues see White (2014).
[95] The issue here was the Sustainable Growth Rate Mechanism (SGR), and its technical failings. For explanations of the policy and its problems, see Farb (2015); Fontenot, Brandt and McClellan (2015); and Laugesen, Wada and Chen (2012).
[96] See the slight uptick in the 2025 line in 2015 and the slight downtick of the 2065 line.

Figure 4



Common sense about Medicare and American health care. It should be difficult for most people to look at the record of Medicare long-term spending projections and conclude that enacting big changes one year in order to change projected results 20 or 30 years later is a good idea. It is hard enough to get policies right – meaning to have the desired effect – for a few years into the future. The only thing we can say for sure is that reducing spending in the short run could have favorable and credible effects on long-term spending estimates, as occurred after 1997. Such effects – so long as policy-makers don't go out of their way to reverse them – seem more reliable than any assumptions about what will be done ten or twenty years in the future. Sherry Glied and Abigail Zaylor (2015: 1), based on their own analysis of this history, agree. "The ability to make significant programmatic changes in the short-term," they write," … and the difficulty of forecasting costs over the long-term suggest that policymaking can be most effective by addressing immediate needs."

Health care cost control should address immediate needs not only because we have a better idea how to do that, and spending is already far too high for what the nation buys, but because of the nature of health care politics. Health care cost control is a continual war, a contest for territory (money) between powerful adversaries. On one side are the payers, government and private (the privates haven't been doing so well lately). On the other side are the providers, a sixth of the national economy. They are some of the smartest and most accomplished people in the country and have massive political resources. The industry can be beat in political battles, as the history of successful Medicare spending control efforts shows. Yet this battle must be fought again and again. The providers will attempt to bust any spending control method, and eventually budget makers will need to adjust their tactics in response. Setting up a spending control system and then expecting it to last forever would be like relying on the Maginot line to defend France. The American medical industry will eventually find a way to bypass any defense.

In any case, focusing on Medicare alone is a flawed approach. I have emphasized Medicare in this review because it plays such a prominent role in long-term budgetary projections, and because Medicare's own origins, as a continuation of the logic of Social Security (Marmor 2000), gives it a system and record of long-term actuarial projections. Although Medicare is the largest part, however, it is only part of how health care costs influence the federal budget. CBO projected that Medicare spending for FY2016 would be $692 billion. The combined effects of Medicaid, the Children's Health Insurance Program, subsidies under the Affordable Care Act, and the tax expenditure for employers' contributions for employees' medical insurance

premiums would be $666 billion.[97] ACA and tax expenditure spending are especially influenced by the ability of private insurers to limit costs.

Focusing on current entitlements, especially Medicare, also biases policy response to the rising unaffordability, for ordinary citizens, of American health care. It is easier to get CBO to score reductions in benefits, such as transforming Medicare into a voucher system or Medicaid into a block grant, than to score measures to reduce the costs of a given level of care.[98] From a purely budgetary perspective CBO's position is reasonable – it is right to be skeptical about giving budgetary credit for the effects of any policies to control excess cost growth after five or ten years into the future. But controlling spending is not the only purpose of budgeting; another is to meet social needs in an efficient way. A budget process which prioritizes abandoning needs, by favoring benefit cuts, is not a neutral process. As mentioned above, a long-term approach that simply focuses on limiting total federal spending further inhibits action to increase government control of costs in the system as a whole. Yet Medicare has controlled costs better than private insurers have, and countries in which government has more responsibility for total health care costs have much lower spending than the U.S. has.

Policies to address the health care system as a whole could include some measures that would have positive effects only after a number of years. This can include encouraging experiments with the alphabet soup of delivery system reforms, so long as they are not counted on to produce savings. Other measures might enable greater spending control in the future,[99] but nobody should imagine that the main effort to control costs should focus on the long term. Long-term forecasts may not be dishonest, but there is no good way to make them credible. They do not relate details to totals except in the sense that, because the details are made-up, the totals are made-up too. Since most long-term estimates are not credible, long-term budgeting will not pass tests of accountability or transparency. There is a long history, in the United States and other countries, of adopting policies that made health care systems more efficient (in terms of value for the money) in the short or medium term. Yet it simply isn't possible to adopt policies that reliably offer efficiency gains over the long run.

VI. Summary and Conclusion: A Non-Solution to the Wrong Problem

In this paper I have offered an extensive analysis of issues related to the idea that the federal government should budget for the long term. Long-term budgeting in this sense would involve the kind of analysis that is made in numerous reports by CBO, GAO, and private organizations. Analysis and estimation of long-term trends has been included by the OECD in its 2015 recommendations for budgetary governance. Such analysis is especially important for pension programs, but has been recommended as a useful component of an assessment of the fiscal "sustainability" of the full set of current policies.

The United States is unique, however, in the extent to which budget authorities and some advocates have asserted that budget makers should make decisions with the goal of meeting some set of totals 20, 30, or more years in the future. Possible results that far or further away are described as crises that need to be addressed immediately. Reformers say totals must be enforced with decisions about budget details. Although in many cases these details are described as "backup" or "fallback" mechanisms, they would go into effect if other decisions are not made – as happened with Gramm-Rudman and the BCA sequester. Any budget maker who supports legislation with such measures either: (a) should be willing to live with them; or (b) is engaging in dishonest budgeting. It is dishonest because if the budget maker does not

[97] Spending figures are from CBO (2016a), Table 3.2: $381 billion for Medicaid, $13 billion for CHIP, and $56 billion for ACA. Annual revenue loss from the tax preference is estimated at $216 billion; see http://www.taxpolicycenter.org/briefing-book/what-are-largest-tax-expenditures
[98] See, for example, CBO (2011c), crediting savings from those measures. Compare that to CBO's long-term assumptions about excess cost growth.
[99] My own favorite would be for the federal government to pay for medical education. My reasoning is that physicians then would not feel they need to make huge incomes to pay off their huge debts. As a result, it could be possible to ratchet down fees over time to collect more savings than the cost of education. Many other countries pay for medical education but pay doctors lower fees.

believe in the details of the back-up plan, she is claiming to have achieved totals without saying what the details will be. It is not made more honest by the possibility that the sponsors are misleading themselves.

Good budget processes serve a wide range of goals. Among these goals, long-term budgeting only seems useful for encouraging economy. It is poorly designed for purposes of increasing efficiency, relating details to totals, transparency, accountability, or encouraging accuracy and honesty. It is designed to favor its sponsors' economic theories and overall political priorities over others.

The operation of budget processes depends on how they solve the core budget decision-making quandary, which is how to match *social* preferences about totals to *social* preferences about details. Social preferences are inconsistent even when individual preferences are not. The most basic problem is not how "guardians" can protect the budget against "claimants." It is how to resolve conflict between different views of how to fit totals and details together. Therefore, common political arguments about how to budget are based on a misguided view of the problem. Advocacy for long-term budgeting is an example, because it is based in part on a belief that making the totals seem like more of a crisis will strengthen guardians. This does nothing to enable compromise between competing views.

Social Security, or more precisely Old Age and Survivors Insurance (OASI), is the strongest case for making long-term decisions within a broader budget process. Long-term commitments are part of the program's promise, and so their financing should be part of its decision-making. Compared to either taxes or other spending programs, OASI is designed in a way that allows the least inaccurate estimates, and poses fewer issues of transparency or efficiency.

Yet even the case for long-term decision-making about OASI has been made in some confusing and contradictory ways. It requires giving credence to pre-funding through the trust funds, so is contradicted by common claims, from many of those who claim to be budget guardians, that the trust funds are fake. Unfortunately, also, if building up trust funds is agreed to be helpful, that still does not solve the problem of how to do so – from whom to collect extra money in advance (if anyone) and which benefits to reduce so as to allow greater accumulation. It was difficult enough to forge agreement in 1982-83; it seems impossible now. Any efforts to create some sort of doomsday mechanism to force earlier action will face the same problem: how to agree on the mechanism. Moreover, the mechanism is very likely to become the policy. Long-term decision-making for OASI can be justified, but looks extremely unlikely.

Within Social Security, the case for long-term financing of Disability Insurance is much weaker than conventional approaches assume. DI's spending is far less predictable and far more subject to administrative determinations and economic cycles. There is a strong case for dedicated funding, much like for Unemployment Insurance, but nobody should imagine DI can reasonably be budgeted far into the future. Because spending recently has far exceeded revenues, debate is needed about how to bring its financing and spending into balance *now*.

Long- or medium-term caps on discretionary spending are another form of long- or medium-term budgeting. They have become what American budget makers can agree on when there is great pressure to reduce deficits. Experience with those caps suggests a few lessons. First, they are the preferred method of deficit reduction because it is possible to adopt caps without specifying details. That avoids (in the short run) transparency and accountability for budgetary consequences, and takes advantage of the fact that different decision-makers would want similar totals but different details. Second, long-term caps cannot be based on analysis of how to make specific programs more efficient. Third, they only postpone conflict; when the time comes to make the details fit the cap, this may lead to intense conflict that can only be resolved by cheating or by more straightforwardly busting the caps. Fourth, their enforcement depends very much on political conditions in each year that appropriations must be made, instead of on the supposedly binding nature of the caps. Fifth, there is no good way to project long-term "need" for discretionary spending, both because no simple baseline rule makes sense, and because over half of the total goes for defense, for which need is extremely unpredictable. None of these factors suggest long-term caps on discretionary

spending are a good idea. All suggest that using discretionary caps as backup enforcement for long-term budget plans is a bad idea.

Long-term Medicare spending projections explain much of projected increases in federal deficits and debt; Medicare's costs and how to control them in the long term are therefore major emphases in all serious discussions of long-term budget policy; and yet Medicare meets neither of the basic requirements for long-term budgeting: ability to forecast future spending, and ability to make policies that will control future spending for many years.

Medicare spending depends crucially on trends in costs per enrollee, and those in turn depend partly on policy and partly on behavior by patients and the medical industry. The medical industry works tirelessly to expand demand by medicalizing conditions, making treatments more attractive, and promising new and improved cures. In spite of these pressures, public policy can restrain growth in spending per capita. Experience in other countries has been far more successful than in the United States, and Medicare has been more successful than private insurers. There is no way, however, to make policies to resist the providers that can work for long periods of time. The providers will work to create public dissatisfaction to overturn the measures politically, or simply beat the system through their own innovations. Health care spending control is a continual battle, with victories and setbacks, and has to be fought year by year. One year's budget decisions can't defend the federal fiscal territory for ten, twenty, thirty years in the future.

MEDICARE COSTS

The best method for constraining Medicare costs in the long run would be to adopt short-term measures that actually work, so reducing the base on which future increases compound.

The best method for constraining Medicare costs in the long run would be to adopt short-term measures that actually work, so reducing the base on which future increases compound. Then do it again, again, and again. Even so, the measures that work for Medicare, such as fee restraints, can have side effects due to the difference between Medicare and the rest of the system. If providers who are dissatisfied with Medicare fees cannot escape Medicare (it may be hard), they will try to use market power to extort ever-higher fees from private insurers (which then get passed on to employers). This threatens coverage for everyone else, while making employers a lobby against Medicare spending control. We have also seen that costs for care funded by private insurance have significant effects on the federal budget through other policies, such as the Affordable Care Act and the tax preference for employer payments of insurance premiums.[100]

For this and other reasons, the real "crisis" in U.S. health care finance is not the long-term federal budget but health care costs for the whole country, now and in the immediate future. Long-term budgeting for Medicare not only asks the impossible (credible forecasts and effective long-term measures) but asks the wrong question.

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What, then, should be done to improve on the annual budget process? I have three suggestions.

The first is to move towards a biennial process for budget resolutions and reconciliation. That would recognize the difference between making economic policy or broad priorities and evaluating how much money bureaus should receive each year.

[100] Not to mention costs for the federal government's own employees and their dependents, both civilian (through the Federal Employees Health Benefits Program; see Blom and Cornell 2016) and military (through the Defense Health Program and TRICARE), and military veterans. The military provides some medical services directly, through its own employees.

The second would be to bring long-term worries back into a reasonable perspective, rather than promoting an exaggerated sense of crisis. That sense has been used to justify highly irresponsible actions such as holding the debt ceiling hostage in 2011, with perhaps unwitting support from promoters of "responsible" budgeting who argued that solving the long-term "crisis" was as important as raising the debt ceiling.

In addition to toning down the rhetoric, budget makers should reconsider how they think of the risks. I have argued that definition in terms of spending decades in the future is misguided both because the estimates must be variable and unreliable, and because it calls for pre-determining responses rather than let the people who will be affected make the choices. If policy-makers are worried about deficits "spiraling out of control," they should focus on that specific phenomenon: whether interest costs are feeding on themselves in a threatening way. One way to think of this is, if forecasts show interest costs rising to 4 or 5 percent of GDP within ten years, there might be good reason for alarm. That still does not justify adopting in advance some sort of automatic policies to be implemented when projections reach that point, but would be a better basis for sounding an alarm.[101]

The most useful response would be to recognize that if there is any financing problem it involves health care, applies to the whole economy rather than just the federal budget, and is a major problem now, rather than in the long-term. The logical response to that would be to create a separate process to control overall health care costs, which would mean a mix of budgeting for publicly financed care and regulation for privately financed spending. Policy could include a national health care spending target, with both budgeting and regulatory components. This would require a new process within Congress, probably with a new committee that would have authority over the spending and regulatory programs of government. It would be a major institutional change, but would have the advantage of addressing the real problem.

Regardless of the merits of any of these ideas, however, nobody should imagine that process changes will make budgeting better in a neutral way. We are in the middle of a political war over what kind of government the United States will have, for whom. In this context the call for long-term budgeting has two major flaws beyond severe difficulties in estimating future totals, projecting effects of policy changes, and matching details to totals, as discussed for discretionary spending, Social Security, and Medicare. First, it largely supports one side, by defining government as the problem. Second, it provides no reason for anyone to compromise. Rather than cooling the temperature of political debate, the campaign for long-term budgeting raises the temperature, by providing one more source of heat, one more "crisis."

In response to these criticisms, advocates for long-term budget plans may insist that they are just meant to call attention to problems. But we have plenty of calls for attention already. Each plan proposes votes on totals (ends) and details of enforcement (means). If they are serious, then people can be expected to fight fiercely over them. Yet they will be fighting over measures that are inherently not credible. They will not be credible because the estimates of trends will be dubious, the estimates of effects of means will be equally dubious, and in some cases the whole point of the design (as with the sequesters) will be to avoid specifying details. Worse yet, they will be addressing “problems” whose scope is highly uncertain and that could be addressed later with better information, better reflecting the voters of the time’s preferences about taxing and spending, closer to the time of “enforcement.”

Policy-makers should re-direct attention to controlling health care costs as well as possible, as soon as possible. That could do far more good than any attempts at long-term budgeting either for the whole federal budget or for “entitlements.”

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[101] Part of the problem with relying on interest rate projections is that they too are difficult. Every year since 2010, CBO has projected that the rate on ten-year Treasury notes would return to the 4-5% range within about 3 years. They've slightly reduced their assumption in CBO (2016a), to about 4 percent. Yet the actual 2015 figure was 2.1%. It's possible that some fundamentals – such as the Asian savings glut described by King (2016) – have changed the medium-term trends for interest rates. So one should be leery about basing budget policy on assumptions about what interest rates will do, rather than what they are.

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	Table 1: Comparison of Annual Enrollment by Workers in DI and OASI				
	Disability Data				**OASI New Worker Awards (in thousands)**
Year	New Applications (in thousands)	New Awards	Awards % of Applications	Awards per 1000 insured workers	
1965	529.3	253,499	47.9	4.7	1,183
1970	869.8	350,384	40.3	4.8	1,338
1975	1285.3	592,049	46.1	7.0	1,505
1980	1262.3	396,559	33.3	4.3	1,613
1981	1161.2	351,847	32.8	3.8	1,579
1982	1019.8	297,131	33.0	3.3	1,618
1983	1019.3	311,549	42.0	4.1	1,670
1984	1036.7	361,998	39.5	3.9	1,608
1985	1,066.2	408,900	39.0	3.9	1,683
1986	1,118.4	409,400	38.0	3.9	1,724
1987	1,108.9	409,600	37.9	3.8	1,651
1988	1,017.9	412,700	40.8	3.7	1,611
1989	984.9	415,500	43.7	3.7	1,657
1990	1,067.7	461,800	44.2	4.0	1,643
1991	1,208.7	513,100	44.7	4.5	1,681
1992	1,335.1	636,900	48.1	5.3	1,697
1993	1,425.8	629,700	44.7	5.2	1,684
1994	1,443.8	613,300	43.8	5.1	1,613
1995	1,338.1	631,600	48.3	5.2	1,600
1996	1,279.2	604,000	48.8	4.9	1,579
1997	1,180.2	561,300	49.8	4.6	1,713
1998	1,169.3	603,300	52.0	4.6	1,642
1999	1,200.1	605,800	51.7	4.7	1,677
2000	1,330.6	612,200	46.7	4.6	1,969
2001	1,498.6	669,300	46.1	5.0	1,787
2002	1,682.5	750,003	44.6	5.4	1,812
2003	1,895.5	777,461	41.0	5.5	1,791
2004	2,137.5	795,775	37.2	5.6	1,884
2005	2,122.1	829,687	39.1	5.8	2,000
2006	2,134.1	798,675	37.7	5.5	1,999
2007	2,190.2	804,787	37.4	5.6	2,036
2008	2,320.4	877,226	38.4	6.0	2,279
2009	2,816.2	970,696	[a] 35.1	6.6	2,740
2010	2,935.8	1,026,988	35.7	7.0	2,635
2011	2,878.9	998,979	35.4	6.8	2,578
2012	2,820.8	960,206	34.9	6.6	2,735
2013	2,640.1	868,965	33.6	[a] 6.0	2,794
2014	2,521.5	778,796	32.2	5.4	2,772

Sources: Social Security Bulletin Annual Statistical Supplements, 2015 and 2000, Tables 6.B5 and 6.C7.

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