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How Budget Offices Should Reframe Our Long-Term Budget Problems

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Bad framing of fiscal policy contributes to a poor allocation of money collected and spent. Today, almost all real growth in government goes automatically to health, retirement, and tax subsidy programs. Meanwhile, spending on children, education, workers, and public goods like infrastructure and defense—mainly programs without automatic growth—are effectively scheduled for decline as a share of national income. But policymakers don't see this.

That's because today's budget frame distorts the true tax and spending changes taking place. It creates an uneven playing field for programs competing for resources and gives inadequate attention to long-term budget considerations. It discourages investment in people and infrastructure and encourages game-playing by ducking responsibility for shifting costs to future generations. It understates requirements for sustainability and takes democracy away from future voters and elected officials. This inevitably leads to inefficiency because officials who pre-ordain the direction of almost all future spending cannot know the future well enough to do it properly.

Voters and elected officials mistakenly see our time as one of austerity rather than of opportunity to engage new efforts. Yet with roughly constant tax rates, the federal government will raise more than $6,000 per household of additional taxes and increase spending and tax subsidies by more than $13,000 annually within a decade.[21] Rather than a time of austerity, it is a time in which government must make better choices with the increased resources at its command.

The Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) produce a lot of numbers, but the way they present them has at least two shortcomings. First, too little attention is paid to the allocation of the total growth in spending, most of which is due to past legislation, not new proposals. Second, it is highly misleading to measure program

growth by the nominal change in spending and tax subsidies, because programs can increase nominally and appear to be sharing in overall economic growth, when in fact they are declining in real terms.

This chapter proposes a better way to frame budget choices that would ideally occur alongside other process reforms. But, as this is merely an issue of presentation, it could be implemented immediately and independently. Neither CBO nor OMB needs to wait for process reforms to use this presentation.

To summarize, our proposal is this:

> *"CBO, OMB, and other budget offices should prominently and timely show all projected changes in after-inflation spending and taxes, clearly delineating automatic changes due to past legislation from new legislation, and thereby hold the president and Congress more accountable for both."*

The Long-Term Budget Challenge and Opportunities for Reframing Choices

This volume is hardly the first to point out the nation's long-term fiscal imbalance. Budget experts also know that autopilot health and retirement entitlement programs drive future spending levels and that the tax code, itself riddled with expensive subsidies, will not pay for that growth.

Less clearly articulated by budget analysts is the extent to which these permanent programs dominate changes in real spending and tax subsidies. These programs' growth is now the primary, sometimes exclusive, way that government "increases" spending and subsidies. Yet the president and Congress aren't held responsible for passively accepting these increases.

Prime Opportunities for Reframing Budget Choices

The two most important occasions for using our presentation are 1) when the president submits the Administration's annual budget proposal; and 2) any time Congress makes comprehensive budget decisions, including the annual Congressional Budget Resolution, budget reconciliation bills, and major tax reform. These occasions already focus on changes in spending and revenues that Congress and the president desire, so they are ideal for showing how proposed changes combine with passively accepted changes.

This reframing should also be used at the start of the fiscal year, when projections inform budget thinking; at the end of each session of Congress, when a complete accounting should be made of what was achieved over that period; and when CBO does its long-term economic projections. In these latter cases, the focus is not on new proposals but on the aggregate size and direction of government.

Reframing to Focus On Changes Over the Long Term

The Basic Table

How can budget offices like CBO give decision-makers and budget observers a clearer picture of the budget's path? The foundation is a simple but powerful "Changes in Money Spent and Raised" table that clearly shows what the government will do with the additional money it collects and how it will finance increased spending from current versus future resources (Table 2.1).[22]

A quick calculation from Table 2.1 shows that under current law a $1,373 billion increase in mandatory spending of $936 billion plus and interest spending of $437 billion (that is, everything but discretionary spending) will absorb 176 percent of the $781 billion revenue growth expected between 2016 and 2026! Even with dramatic deficit increases required to pay for higher mandatory spending, there is almost nothing for expanding discretionary programs, which lose ground to inflation. Remember, this is estimated under CBO's assumption that the economy will be more than 20 percent larger in real terms.[e]

CBO's annual reports, such as *the Budget and Economic Outlook, Analysis of the President's Budget,* and *Long-Term Budget Outlook*, should show up-front a version of Table 2.1 to explain the real effects of maintaining current law. The table would show changes in inflation-adjusted annual spending relative to today's level over different periods, such as one year, ten years, 25 years, or longer. Because the most detailed data currently published by CBO is for the ten-year budget window, most tables presented in this chapter adhere to that standard.

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[e] The estimates used in this chapter are based mainly on CBO's March *Updated Budget Projections: 2016 to 2026* and January economic forecast for the *Budget and Economic Outlook* in order to have a consistent basis for showing changes in the current law outlook and analyzing the President's FY 2017 budget proposal, which CBO analyzed using its March and January projections. CBO updated both its budget baseline and economic forecast in August 2016, but not the president's proposal, to reflect new assumptions about economic factors. The August update does not alter our conclusions: While interest costs were projected to be lower, they still comprise over one-quarter (26.5 percent) of the increase in scheduled spending by 2026 and will continue to compound in the longer term.

Table 2.1. Changes in Money Spent and Raised Under Current Law, 2016 to 2026
(Numbers Presented in Billions of 2016 Dollars)

Money Spent	Changes in Annual Spending Levels by 2026	Money Raised	Changes in Annual Revenue and Deficit Levels by 2026
Mandatory Health Programs	+471	Income Taxes	+564
Social Security	+421	Payroll Taxes	+210
Other Mandatory Spending	+44	Corporate Taxes	+35
Subtotal: *Mandatory Programs*	*+936*	Other Revenues	-28
Defense Discretionary	+3	**Subtotal**: *All Revenues*	+781
Nondefense Discretionary	-24		
Subtotal: *Discretionary Spending*	*-21*		
Net Interest	+437	Deficit (Borrowing)	+571
Total: Change in Money Spent	**+1,352**	**Total: Change in Money Raised**	**+1,352**
Addendum:	Spending	Revenues	Deficit
Total 2016 Level	3,897	3,364	534
Total Change	+1,352	+781	+571
Total 2026 Level	5,249	4,145	1,104

Source: Authors' calculations from Congressional Budget Office March 2016 *Updated Budget Projections* and January 2016 economic baseline forecast.

Note: See chapter appendix for a walkthrough of how the table is constructed.

However, examining longer-term changes is recommended. Long-term analysis requires showing periods like 25 years, while shorter-term comparisons are also required because the dominance of past legislation now appears even in current one-year changes.

Congress and the president are responsible for the allocative consequences across programs, not just the level of dependence on borrowing. And the public is entitled to know what lawmakers' choices mean for next year, over their elected leaders' terms of office, and for their children when they become adults.

Later examples will show how to adapt the presentation when new budget laws are considered. In both cases, it's important that the initial presentation concisely shows lawmakers the changes that occur without new enactments.

Why Real Dollars?

Using inflation-adjusted dollars as the main unit for showing changes in spending and revenues is a significant departure from current practice, which uses nominal dollars and percentages of GDP. Nominal figures are misleading for examining changes even over short periods, as significant growth in programs can occur simply because of wage and price inflation.

For example, in March 2016 CBO projected a $102 billion nominal increase in annual outlays for nondefense discretionary programs between 2016 and 2026, a 16.7 percent nominal increase. This seemingly implies an increase in the capacities of those government programs. But this is not so. After projected 21 percent inflation over ten years, nondefense discretionary outlays face a $24 billion, or 4 percent, *cut*.[f] That is, investments in education and training, infrastructure maintenance, and advancements in science and technology (among other critical priorities) will decline absent changes to current law.

Percentage-of-GDP presentations avoid the inflation problem, and are useful particularly for long-term comparisons. Still, they are inadequate by themselves. First, the appropriations process will always focus on dollars, not shares of GDP. Here we merely suggest that the appropriators should have some sense of how inflation affects dollars allocated. Second, percentage-of-GDP numbers hide the opportunities made available by increased revenues and are not usually an appropriate way to evaluate economically the benefits versus costs for various programs.

Understanding and discussing real figures requires adjustment, but the enhanced clarity is worth it. And nominal budget tables would still be developed for reporting on levels of spending and revenues for individual fiscal years. When the focus turns to *changes over time*, however, real numbers are required. In this case, nominal figures not only cannot suffice, they mislead.

Reinforcing Incremental Budgeting

This new presentation represents nothing more than the frame that would accompany incremental budgeting, where spending is largely discretionary and where inflation is not a major factor. Budget decision-making has always been largely incremental. Comparisons by

[f] Deflation, a current threat, would also make nominal figures quite misleading, as when a program had real but no nominal growth.

legislators are usually made marginally, not comprehensively, in no small part because it is hard to both suddenly change what programs are doing and to open up fights each year over everything that government does.

Documents currently prepared for budget deliberations stress only the tiny increment Congress considers through legislation, therefore, neither legislators nor the public see a clear picture—actually any picture—of the total increment in real dollars being allocated through the combination of both past and new legislation.

Measuring only newly legislated changes might have sufficed 60 years ago and throughout earlier U.S. history—when spending was more discretionary—because there was little or no built-in spending growth put into the law itself.[g] Legislated changes would dominate the total changes that were taking place each year. If tables comparing legislative and total changes had been prepared, they would largely have shown similar results. Even though mandatory spending started increasing rapidly by the 1950s, it still comprised a smaller share of spending than today. There often was room to increase spending or cut taxes without threatening continual deficits over the next decade or longer.

After all, as long as revenues grew with an expanding economy—and even faster before income taxes were indexed for inflation—they would increase more than total automatic mandatory spending growth. The larger base of discretionary spending would have comprised commitments with no built-in growth, and often reduction after some task was completed. To avoid short-term drag on the economy, Congress and the president would want to return some of the growing surpluses to the public by cutting taxes or increasing spending—a much easier process than cutting back on unsustainable promises.

Not to be overly sanguine about past budget policy. Policymakers often failed to address social problems, provided no assessment of the long-term direction of policy, and made little use of economic evidence.[h] They just didn't face today's problem of a budget so driven by decisions from the past that some had to be overturned. The fear factor was reversed: they were afraid not to enact a budget.

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[g] Of course, there are always exceptions. Most importantly, permanent subsidies built into the tax codes, such as for homeowners or charitable contributions, did increase over time as the economy expanded. These were included on the revenue, not spending, side of the budget.

[h] See the recommendation of the 2016 National Academy of Science report, *Advancing the Power of Economic Evidence to Inform Investments in Children, Youth and Families*, which suggested that budget offices should at least report for programs on whether economic evidence was available or being developed. One of the authors of this study served as chair of that committee.

Addressing the Demand for Certainty and Tackling Unsustainable Growth

The federal government's role of providing direct supports to individuals creates a strong demand for certainty, like maintaining Social Security benefits so that aging workers can plan for retirement and making sure people's government-subsidized health insurance is not yanked away arbitrarily. Our proposed budget presentations might seem to threaten this promise of certainty because it shows clearly the unequal plane on which different programs operate within the budget process.

Government can and should reduce risk and provide greater certainty for some households against some events, especially when it can spread risks in ways unavailable and unlikely to happen in the private sector. But when promises of certainty, particularly for future growth in benefits and low taxes, exceed projected growth in government resources, newer voter demands and needs cannot be met without cutting back on those past promises. When programs automatically grow faster than the economy, they pose both macro-economic and allocation problems.

Balance and discretion, therefore, are needed when making promises for the future. Yes, vulnerable groups need protections, and short-term changes cannot be too drastic. For instance, protecting after-inflation benefit levels for the elderly can be distinguished from promising each succeeding generation ever more years of retirement support. With 176 percent of revenue growth over the next ten years already committed, it's easy to recognize how too many promises increase rather than reduce uncertainty for most households. What other spending will be cut? Whose taxes will be raised? How will the budget respond to the next recession? In general, what promises will not be kept?

Lawmakers need some budget flexibility and discretion. And they need to understand the nature and cause of restrictions on that flexibility. Table 2.1 revealed the consequences of staying on a current law path over the next ten years, but an annual table would also show that by fiscal year 2017, every single dollar of the roughly $93 billion inflation-adjusted increase in federal spending scheduled under current law is devoted to mandatory or interest spending, with discretionary programs headed for real decreases absent offsetting legislation.

Reframing for Proposed Reforms and New Legislation

Table 2.1 summarizes all budgetary changes taking place. When considering new proposals, of course, officials need to understand not just total changes built into current law, but how those changes combine with proposed changes, including the president's budget proposal

and Congress's actions over the past year. Table 2.2 shows how the president's FY 2017 budget proposal would be presented using our reframing. The first columns show the path implied under current law. The next columns show incremental changes proposed, and the last columns show the combined changes due to both existing law and the new legislation.

When the president's budget is presented, the simpler format used in Table 2.1 (for various time periods) would show the overall direction of the budget—in this case, however, from the combination of current law and the president's proposals—and then how those total changes are allocated among categories. It is still useful to present a summary Table 2.1 initially as a first step for readers, even though the same information is included in Table 2.2. Table 2.1 represents what should be the primary focus of accountability: the overall direction that would come about if the president's budget submission were accepted by Congress, not just some of the pieces. Table 2.2 clearly parses how much of that total change derives from current law versus the president's new proposals.

With these big-picture views, these tables would ground discussion at the very beginning of any budget process since the president's proposed budget sets the stage for discussions throughout the year. The tables could also be incorporated into separate communications to the public, such as an OMB-generated "Citizen's Guide" to the federal budget (see Joyce and Hoagland, Chapter 5).

Note that Table 2.2 condenses summary tables already included in the president's budget: the baseline from which the White House measures its budget (in the FY 2017 Budget, Table S-4), proposed changes in mandatory spending and receipts (Table S-9), and levels of appropriated sources (Table S-10). It adds together different items for summary purposes, adjusts for inflation, and then shows how total changes would be allocated.

Our presentation avoids many of the problems with today's incomplete framing: The extent of change under current law is explicitly listed, as are the sources of those changes; the playing field is leveled by directly showing the trade-offs among all sources and uses of money; and the focus on the total extent of additional resources to be spent or returned to taxpayers reveals to the democratic process just how much is in play.

Table 2.2. Changes in Money Spent and Raised in the President's Proposed Budget, 2016 to 2026

(Numbers Presented in Billions of 2016 Dollars)

Money Spent	Changes in Annual Spending Levels by 2026 Under Current Law	President's Proposed Changes	Total Changes Under the President's Budget	Money Raised	Changes in Annual Revenue and Deficit Levels by 2026 Under Current Law	President's Proposed Changes	Total Changes Under the President's Budget
Mandatory Health Programs	+471	-49	+421	Revenues	+781	+285	+1,067
Social Security	+421	+0	+421				
Other Mandatory Spending	+44	+153	+198				
Subtotal: *Mandatory Programs*	+936	+104	+1,040				
Defense Discretionary	+3	-51	-48				
Nondefense Discretionary	-24	-5	-29				
Subtotal: *Discretionary Spending*	-21	-56	-77				
Net Interest	+437	-63	+374	Deficit (Borrowing)	+571	-301	+270
Total: Money Spent	+1,352	-15	+1,337	**Total:**	+1,352	-15	+1,337

Addendum	**Current Law**			**President's Budget**		
	Spending	Revenues	Deficit	Spending	Revenues	Deficit
Total 2016 Level	3,897	3,364	534	3,897	3,369	529
Total Change	+1,352	+781	+571	+1,337	+1,067	+270
Total 2026 Level	5,249	4,145	1,104	5,234	4,435	799

Source: Authors' calculations from Congressional Budget Office March 2016 *Updated Budget Projections*, March 2016 *Analysis of the President's FY2017 Budget*, and January 2016 economic baseline forecast.

Note: Revenues were not presented by source in CBO's March 2016 *Analysis of the President's FY2017 Budget*.

Additional Applications

Our proposed reframing can and should be adapted for other uses. Four examples follow: changes as a share of GDP; budgetary consideration of tax subsidies; combined spending and tax program areas; and growth rates.

Changes as a Share of GDP

As noted before, Tables 2.1 and 2.2 should also be displayed in terms of changes in shares of GDP (Table 2.3). Shares of GDP are especially helpful when looking at longer trends, such as 25 years or in the 75-year projections accompanying programs like Social Security.

There is a parallel here with the accounting done in Australia's Intergenerational Reports, each of which analyzes the direction of debt and deficits (although less the composition of spending) under "previous policy" before the last budget, recently enacted laws, and proposed law.[23] Anderson, in Chapter 4, suggests that this modest comparison seems to influence long-term decision-making by the Australians.[i]

Budgetary Consideration of Tax Subsidies

The two sides of Tables 2.1 and 2.2 show both taxes and spending. But sometimes only one side of the balance sheet is considered, for instance, tax reform.

More detailed tables analyzing just spending or tax changes should accompany the high-level tables above. Table 2.4 provides a rough example showing major tax expenditures. Tax expenditures like the mortgage interest deduction and health insurance subsidies have similar budget effects to direct spending, yet are currently given appendix treatment by the Treasury Department for the president's budget, while studies by the Joint Committee on Taxation (JCT) are also little noted. Neither report focuses directly on real changes over time. Yet because most tax subsidies are permanent fixtures of the tax code, their increases from year to year are akin to automatic increases scheduled in mandatory programs. They aren't cheap: Housing tax subsidies exceed the Department of Housing and Urban Development's entire budget and grow over time as people buy more expensive homes.

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[i] There is at least one technical challenge to retrospective analysis based on numbers that change over years versus analysis at a point in time under a consistent set of economic and technical assumptions. Over time, some changes in estimates are due to economic changes occurring in intervening years, while others occur because of improvements in projection or scoring techniques or new data. Official budget scorekeepers would need some way to control for and describe these other factors, similar to how CBO describes how economic and technical factors change between its baselines for reasons other than change built into the law or new laws passed by Congress. See Penner, Chapter 3.

Table 2.3. Changes in Money Spent and Raised in the President's Proposed Budget, 2016 to 2041

(Numbers Presented as Percentage of GDP)

Money Spent	2016	Change	2041	Money Raised	2016	Change	2041
Social Security	4.9	+1.2	6.1	Income Taxes	8.8	+1.6	10.4
Major Health Programs	5.4	+2.7	8.1	Payroll Taxes	5.9	-0.2	5.7
Other Mandatory Spending	2.9	-1.1	1.8	Corporate Taxes	1.8	+0.0	1.8
Subtotal: *Mandatory Programs*	13.2	+2.8	16	Other Revenues	1.7	-0.2	1.5
Defense Discretionary	3.2	-0.7	2.6	Total Revenues	18.2	+1.3	19.5
Nondefense Discretionary	3.3	-0.8	2.6				
Subtotal: *Discretionary Spending*	6.5	-1.5	5.2				
Net Interest	1.5	+2.8	4.3	Deficits (Borrowing)	2.7	+3.2	6.0
Total Money Spent	20.9	+4.5	**25.4**	**Total Money Raised**	20.9	+4.5	25.4
Addendum	Spending	Revenues	Deficit				
Total 2016 Level	20.9	18.4	2.5				
Total Change	+4.5	+1.1	+3.4				
Total 2041 Level	25.4	19.5	5.9				

Source: Authors' calculations from Congressional Budget Office March 2016 *Updated Budget Projections* and July 2016 *Long-Term Budget Outlook*.

Note: Totals may not sum due to rounding. Revenue estimates by source from 2041 projected by authors from CBO's 2040 estimates.

Table 2.4. Changes in Top 10 Individual Income Tax Expenditures, 2016 to 2026
(Numbers Presented in Billions of 2016 Dollars)

Tax Expenditure	2016 Level	2026 Level[a]	Change ($)	Change (%)	Real growth rate (%)
Tax Exclusion for Employer-Sponsored Health Insurance[b]	211.0	307.9	+96.9	+45.9%	+3.9%
Net Exclusion of Pension Contributions and Earnings[c]	176.2	228.1	+51.9	+29.5%	+2.6%
Exclusion of Net Imputed Rental Income	101.1	117.7	+16.6	+16.4%	+1.5%
ACA Premium Assistance Credits (Including Outlay Effects)	40.4	111.4	+71.0	+176.0%	+10.7%
Mortgage Interest Deduction	62.4	109.0	+46.6	+74.6%	+5.7%
Special Rates for Capital Gains (Except Agriculture, Timber, Iron Ore, and Coal)	92.8	106.5	+13.7	+14.7%	+1.4%
Step-up Basis of Capital Gains at Death	58.3	86.0	+27.7	+47.6%	+4.0%
Deductibility of Nonbusiness State and Local Taxes Other than on Owner-occupied Homes	51.4	75.6	+24.2	+47.1%	+3.9%
Charitable Deduction (All Purposes)	51.4	75.5	+24.1	+46.9%	+3.9%
Capital Gains Exclusion on Home Sales	40.6	64.5	+23.9	+59.0%	+4.7%
Addendum					
Sum of Top 10 Tax Expenditures[d]	886	1,282	+397	+44.8%	+3.8%
Sum of All Tax Expenditures[d]	1,287	1,811	+524	+40.7%	+3.5%

Source: Authors' calculations from OMB *Analytical Perspectives, Budget of the U.S. Government, FY 2017* and CBO January 2016 economic baseline forecast.

Notes:
[a] Estimates for 2026 projected from OMB 2025 estimates using constant shares of GDP.
[b] Excludes reductions in payroll tax revenue that result from the exclusion.
[c] Includes defined-benefit and defined-contribution employer plans, individual retirement accounts, and self-employed plans.
[d] Totals do not take into account the interaction between tax expenditures, for example, when a household is eligible for two or more subsidies but must choose only one.

If Congress was engaged in a revenue-neutral tax reform, proposed changes to tax subsidies could be compared to changes under current law on the "spending" half of a table similar to Table 2.2. Changes to overall taxes or tax rates could be shown on the revenues half of the table so that the changes in tax expenditures could be compared to the changes in tax revenues.[j]

Even outside of major tax reforms, the JCT and the Treasury Department occasionally should report how tax subsidies automatically change over time. Such reports ideally would not be relegated to an appendix that few besides tax experts know exists. If people spend more on housing over time, the analysis would reveal how housing tax subsidies increase in real and relative terms compared with other tax subsidies. By the same token, it would show how the child credit, which is not indexed for inflation, declines in real value and relative to GDP. The congressional and presidential decision implicitly to favor housing over child tax credits would be much more transparent.

Combined Spending and Tax Program Areas

Both spending and tax provisions affect many broad program areas, but the two are rarely shown together. This hides the overall direction of government policy in these areas. Health care, housing, and income maintenance are ripe sectors for combined scrutiny. Importantly, analyses would cut across congressional jurisdictions, not just the tax and spending sides of government accounts.

Again, the problem extends beyond assessments of current law to times when reform is on the table. For instance, tax expenditures are considered separately or not at all during major "spending" reform efforts, despite their enormous size. At other times, such as the debate over the Patient Protection and Affordable Care Act of 2010 (Obamacare), taxes and tax subsidies are considered alongside spending changes, but the framing lacks a comprehensive view of how total changes in health spending and tax subsidies relate to each other.[k]

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[j] Here again technical issues must be given some consideration. Tax provisions interact, so that changing one can affect the cost of others. For instance, if mortgage interest payments were limited, there would be an increase in number of taxpayers itemizing deductions and a decrease in number taking charitable contributions. At the same time, similar considerations are less noted but apply to direct spending programs. For instance, if cash welfare subsidies become limited, they increase the level of housing benefits provided. These issues arise with current budget displays already, at times dealt with by simply not adding up provisions and at others by providing additional numbers on the size of interaction effects.

[k] To its credit, CBO created a combined measure of federal support for health insurance during the ACA debate. See for example, Congressional Budget Office, *Federal Subsidies for Health Insurance Coverage for People under Age 65: 2016 to 2026*, March 24, 2016. Available online at https://www.cbo.gov/publication/51385.

Putting related tax and spending programs together in a way similar to the spending side of Table 2.1 or 2.2 would give policymakers a better grasp of all tools at their disposal when weighing trade-offs to potential policies. A simple version of this, to which other smaller items could be added, is shown in Table 2.5. It demonstrates, for instance, how the growth in the new premium assistance credits under Obamacare relates to other sources of health spending growth. During reform processes, the additional columns for proposed changes that are incorporated in a Table 2.2 can be added.

Table 2.5. Scheduled Changes in Spending on Major Federal Health Insurance Programs and Tax Subsidies

	2016	2026[a]	Change ($)	Change (%)	Real growth rate (%)
Medicare[b]	597.6	892.4	294.8	49.3%	4.1%
Medicaid	370.9	512.8	141.8	38.2%	3.3%
CHIP	12.6	4.7	-7.9	-62.8%	-9.4%
ACA Premium Assistance Credits[c]	40.4	111.4	71.0	176.0%	10.7%
Tax Exclusion for Employer-Sponsored Health Insurance					
Income Tax Exclusion	211.0	307.9	96.9	45.9%	3.9%
Payroll Tax Exclusion	131.4	172.0	40.7	30.9%	2.7%
Total Tax Exclusion	342.4	479.9	137.6	40.2%	3.4%
Self-employed medical insurance premiums	7.1	9.2	2.2	30.6%	2.7%
Total: Major Health Insurance Initiatives[d]	**1,370.9**	**2,010.4**	**639.4**	**46.6%**	**3.9%**

Source: Authors' calculations from Office of Management and Budget, *Analytical Perspectives, Budget of the U.S. Government, FY 2017*; Congressional Budget Office, March 2016 *Updated Budget Projections*; Congressional Budget Office, March 2016 *Analysis of the President's FY2017 Budget*; and Congressional Budget Office, January 2016 economic baseline forecast.

Notes:

[a] Estimates for 2026 projected from OMB 2025 estimates using constant shares of GDP.

[b] Net of offsetting receipts.

[c] Includes both outlays and reductions in tax liabilities.

[d] Excludes interactions between health programs, for example, when a household is eligible for two or more subsidies but must choose only one. For instance, limiting the tax exclusions would likely lead more employers to drop insurance and affected employees to switch to premium assistance credits.

Growth Rates

One final way to describe changes over time is to show real growth rates, starting with the largest programs, built into the "current law" estimates. The president's proposals and congressional decisions could be added to this growth rate table, just as in the tables on real increments to spending and tax subsidies. Table 2.6 gives an example.

Table 2.6. Annual Real Growth Rates Under President's Proposals, 2016-2026

	Changes Implied Under Current Law	President's Proposed Changes	Total Changes Under the President's Budget
Revenues	2.1%	+0.7%	2.8%
Deficits	7.5%	-3.3%	4.2%
Mandatory Health Programs	3.8%	-0.3%	3.4%
Social Security	3.9%	+0.0%	3.9%
Other Mandatory Spending	0.9%	+2.6%	3.5%
Defense Discretionary	0.1%	-0.9%	-0.8%
Nondefense Discretionary	-0.4%	-0.1%	-0.5%
Net Interest	10.6%	-1.1%	9.5%
Total Spending	3.0%	+0.0%	3.0%

Source: Authors' calculations from Congressional Budget Office March 2016 *Updated Budget Projections*; Congressional Budget Office, March 2016 *Analysis of the President's FY2017 Budget*; and Congressional Budget Office, January 2016 economic baseline forecast.

Note: The growth rate is calculated as the annual geometric rate of growth between 2026 and 2016 or [(2026 level /2016 level)$^{.1}$ - 1], expressed as a percentage.

Conclusion

Budget reform requires reframing budget presentations to draw attention to the true extent of all spending and tax changes, not just newly proposed changes. Our framing holds elected officials accountable for the overall direction of government—not just for whether it is on a sustainable path, but also for how priorities are set for today and for the long term.

Our recommendations concern how information is framed, but better framing, in turn, could spur process reform. A better process would focus more on the budget's overall direction, on total taxes and spending (discretionary *and* mandatory), and allocating increased revenues among different spending and tax subsidy possibilities, without privileging programs with built-in growth.

> *"A better process would focus more on the budget's overall direction, on total spending and taxes (discretionary and mandatory), and allocating increased revenues among different spending and tax subsidy possibilities, without privileging programs with built-in growth."*

Suppose process reform does occur and creates significantly greater discretion in the budget.[24] In particular, suppose that a significant share of long-term revenue growth remains to be allocated on a discretionary basis to new spending or lower taxes. And suppose that future Congresses were prevented by the new budget process from retreating backward into the current morass by removing discretion in the budget for future elected officials.

Then our proposed reframing fits neatly into a workable budget process with which elected officials would want to engage.

First, a Table 2.1 would be produced. It would show rising revenues to be allocated and, in this world of restored discretion, budget surpluses once revenues outpaced automatic spending growth. The budget process could easily start with congressional leadership seeking a resolution, perhaps with presidential concurrence, on some overall level of increase in spending, tax subsidies, or tax reduction. Those totals would then be parceled out to particular committees for further allocation and distribution.

In many ways, today's process already attempts this, but with the budget so overcommitted, members are asked not to allocate additional resources but to renege on unsustainable "promises" to a disgruntled public. Unsurprisingly, this political hot potato continually gets passed around without decision, and the budget process fails to function properly.

Next, a Table 2.2 would compare proposed changes against current law, and, while the president and Congress could do more if the proposed changes included significant structural reform, they would have strong incentives to enact a budget in almost any case. After all, they would need to allocate any surpluses soon before reduced government demand slowed the economy. Unlike today, they would be debating what to "give away" as spending increases or tax cuts rather than what to "take away" from the public.

In sum, reframing the budget clarifies the consequences of the lawmakers' lack of discretion to respond to new emergencies and opportunities. Even those more sanguine about today's deficits might more likely consider alternative paths if they recognized and were held accountable for the real programmatic changes that are occurring. Not only would the reframing proposed here encourage process reform, but it would fit neatly into that process.

Process reform is crucial, but framing matters, and it matters a lot. CBO and related budget offices can and should lead in such reframing, and in most cases, they require no new legislative authority to act.

Appendix

How Table 2.1 Was Derived From CBO Data

This appendix walks through the steps to arrive at Table 2.1 in this chapter. CBO typically begins its budget updates with a summary table of the annual projected aggregate spending, revenues, and deficits for the ten-year budget window in nominal terms, that is, unadjusted for inflation. It also includes actual historical aggregates for the most recent completed fiscal year. More recently, it has begun to show longer-term horizons in its analyses.

The categories in CBO's summary tables vary from year-to-year and grow more detailed over time. Its most detailed tables show receipts by source (income taxes, payroll taxes, etc.) and levels of mandatory, discretionary, and net interest spending. For simplicity, Table A1 keeps to the categories presented in this chapter, which can be derived from supplementary data CBO helpfully provides with each update.[25]

One could simply display nominal changes over the ten-year period, as done in Table A2. CBO presented similar information in graphic form in a recent report.[26] However, this is misleading, as inflation greatly diminishes the value of a dollar in 2026 as compared to 2016—by a bit more than 20 percent with 2 percent per year inflation (about what CBO typically assumes in its economic forecast). This is also why the summation of annual figures for five- and ten-year periods totals often used by CBO, OMB, and other fiscal analysts are not included in our examples: The dollars being added are not of the same value.

Table A1. Nominal Aggregate Receipts and Outlays Under CBO's March Baseline
(Numbers Presented in Billions of Nominal Dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Receipts (Sources of Funds)											
Income Taxes	1,626	1,744	1,835	1,913	1,998	2,092	2,191	2,297	2,412	2,536	2,664
Payroll Taxes	1,099	1,140	1,180	1,223	1,266	1,316	1,366	1,419	1,473	1,532	1,592
Corporate Taxes	329	357	366	372	400	395	401	407	417	429	444
Other Revenues	309	267	264	263	267	278	289	301	313	328	342
Total Revenues	3,364	3,508	3,645	3,772	3,931	4,082	4,247	4,423	4,615	4,825	5,042
Deficits (Borrowing)	534	550	549	710	798	890	1,043	1,080	1,094	1,226	1,343
Outlays (Uses of Funds)											
Mandatory Health Programs	1,055	1,094	1,125	1,216	1,291	1,371	1,496	1,552	1,603	1,742	1,856
Social Security	911	947	1,003	1,067	1,135	1,206	1,282	1,360	1,442	1,529	1,620
Other Mandatory	483	505	496	540	553	562	592	586	577	602	641
Defense Discretionary	588	592	593	609	623	638	657	669	680	702	719
Nondefense Discretionary	608	614	611	613	625	638	650	664	679	695	710
Net Interest	253	306	365	437	501	557	613	673	728	782	839
Total Spending	**3,897**	**4,058**	**4,194**	**4,482**	**4,729**	**4,972**	**5,290**	**5,504**	**5,709**	**6,051**	**6,385**

Source: Authors' calculations from Congressional Budget Office, March 2016 *Updated Budget Projections*; and Congressional Budget Office, January 2016 economic forecast.

Table A2. Changes in Nominal Money Spent and Raised Under CBO's March Baseline, 2016 to 2026
(Numbers Presented in Billions of Nominal Dollars)

Money Spent	Changes Implied Under Current Law	Money Raised	Changes Implied Under Current Law
Mandatory Health Programs	+800	Income Taxes	+1,038
Social Security	+709	Payroll Taxes	+493
Other Mandatory Programs	+158	Corporate Taxes	+114
Subtotal: *Mandatory Programs*	+1,667	Other Revenues	+32
Defense Discretionary	+131	**Subtotal:** *All Revenues*	+1,678
Nondefense Discretionary	+101		
Subtotal: *Discretionary Spending*	+232		
Net Interest	+586	Deficits (Borrowing)	+810
Total	**+2,488**	**Total**	**+2,488**

Source: Authors' calculations from Congressional Budget Office March 2016 *Updated Budget Projections* and January 2016 economic baseline forecast.

As explained in this chapter, only changes in inflation-adjusted terms give policymakers and the public a true idea of the real shifts occurring in budget policy over time. As a starting point, Table A3 therefore presents the ten-year aggregate totals in constant 2016 dollars. The particular price deflator to make the adjustment can be debated, but we use the GDP price deflator adjusted to 2016 dollars because it represents a broad "basket" of goods that includes government purchases (as opposed to the consumer price index or personal consumption expenditures, which focus only on price changes for household goods and services). Also, many program costs increase as prices increase, so inflation-adjusted estimates are often more accurate than nominal estimates.

Table A3. Real Dollar Aggregate Receipts and Outlays Under CBO's March Baseline
(Numbers Presented in Billions of Nominal Dollars)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Receipts (Money Raised)											
Income Taxes	1,626	1,715	1,771	1,811	1,854	1,903	1,953	2,007	2,065	2,128	2,190
Payroll Taxes	1,099	1,121	1,139	1,157	1,175	1,197	1,218	1,240	1,262	1,286	1,309
Corporate Taxes	329	351	353	352	371	360	358	356	357	360	365
Other Revenues	309	263	255	249	248	253	258	263	268	275	281
Total Revenues	3,364	3,450	3,517	3,570	3,647	3,713	3,787	3,866	3,952	4,049	4,145
Deficits	534	540	529	672	740	810	930	944	937	1,029	1,104
Outlays (Money Spent)											
Social Security	911	931	968	1,010	1,053	1,097	1,143	1,189	1,235	1,283	1,332
Mandatory Health Programs	1,055	1,076	1,086	1,151	1,198	1,247	1,334	1,357	1,373	1,462	1,526
Other Mandatory	483	497	479	511	513	511	528	512	494	505	527
Defense Discretionary	588	582	572	576	578	580	586	584	582	589	591
Nondefense Discretionary	608	604	590	581	580	580	579	580	581	583	584
Net Interest	253	301	353	414	465	507	546	588	624	656	690
Total Spending	**3,897**	**3,990**	**4,047**	**4,242**	**4,388**	**4,523**	**4,717**	**4,810**	**4,889**	**5,078**	**5,249**

Source: Authors' calculations from Congressional Budget Office, March 2016 *Updated Budget Projections*; and Congressional Budget Office, January 2016 economic forecast.

Finally, Table A4 is the same as Table 2.1 in the main body of this chapter. It shows, in 2016 dollars, changes in spending levels for key government functions and how those changes will be financed. Note the contrast with Table A2, which showed a $131 billion nominal increase in annual defense spending by 2026 and a $102 billion nominal increase in nondefense discretionary spending. After adjusting for inflation, growth is modest or negative: an increase of only $3 billion for defense, and for nondefense discretionary budget, a $24 billion decrease.

Table A4 (2.1). Changes in Money Spent and Raised Under Current Law, 2016 to 2026
(Numbers Presented in Billions of 2016 Dollars)

Money Spent	Changes in Annual Spending Levels by 2026	Money Raised	Changes in Annual Revenue and Deficit Levels by 2026
Mandatory Health Programs	+471	Income Taxes	+564
Social Security	+421	Payroll Taxes	+210
Other Mandatory Spending	+44	Corporate Taxes	+35
Subtotal: *Mandatory Programs*	*+936*	Other Revenues	-28
Defense Discretionary	+3	**Subtotal**: *All Revenues*	+781
Nondefense Discretionary	-24		
Subtotal: *Discretionary Spending*	*-21*		
Net Interest	+437	Deficit (Borrowing)	+571
Total: Change in Money Spent	**+1,352**	**Total: Change in Money Raised**	**+1,352**
Addendum	Spending	Revenues	Deficit
Total 2016 Level	3,897	3,364	534
Total Change	+1,352	+781	+571
Total 2026 Level	5,249	4,145	1,104

Source: Authors' calculations from Congressional Budget Office, March 2016 *Updated Budget Projections*; and Congressional Budget Office, January 2016 economic baseline forecast.