
Federal Budget Reform: A Behaviorally Informed Approach
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WORKING PAPER #4

Federal Budget Reform: A Behaviorally Informed Approach

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I. Introduction

Budgeting – choosing from among alternative beneficial uses of resources – is a necessary consequence of scarcity. Ideally, individuals and societies, all subject to this constraint, make their choices to maximize benefits. However, making choices that are close to optimal is challenging for humans, who often exhibit limited self-control, present bias, excessive optimism, and a distaste for careful, informed analysis, to mention but a few human traits that can lead to decision errors. Mercifully, though, humans also possess an intermittent awareness of their cognitive and behavioral limitations, which often leads them to adopt a variety of safeguards to thwart mindless inclination and to make better choices. For example, we enter into forced saving contracts, avoid temptation, associate with those who share our goals, and develop healthy habits. Today, informed by the results of behavioral research, we are better able to design “choice architectures” (Thaler and Sunstein, 2008) or decision processes to enable us to more nearly achieve our authentic intentions.

This paper reexamines current budget practice of the U.S. government from a behavioral perspective. We identify its strengths and weaknesses as a means of assisting policymakers and, to a lesser extent, voters in overcoming those human traits that tend to produce decisions inconsistent with the objective of minimizing the adverse effects of scarcity over time. Based on that assessment, we develop a number of proposed modifications to the current process that seem likely to increase the frequency of budget decisions consistent with long-term preferences.

The paper proceeds in the following steps. Section II describes the budgeting function, summarizes the general categories of information required for informed budget decisions, and outlines major features of the current process. Section III identifies some relevant features of human decision making and some general applications to choice architecture that have been found effective in improving decisions. Section IV identifies behavioral deficiencies in the current budget process. Section V sets out specific recommendations for modifying the current process. Section VI acknowledges objections to and limitations of our analysis.

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II. Budgeting: Concepts, Current Federal Practice and Results

Budgeting is necessary given the universal phenomenon of scarcity: resources are limited, and there are an unlimited number of beneficial ways in which they may be used. Given that we can’t have everything, we must choose, either implicitly or explicitly. And, it is sensible to aim to allocate scarce resources among alternatives to maximize benefits over a time horizon that is relevant to those affected by the choices.

Budgeting is also cognitively difficult. It is forward looking and requires decisions about uncertain events for which information requirements are demanding, such as estimates of future resources and the expected costs and benefits of alternative uses. Choices using that information must be framed broadly across a wide range of alternatives and made simultaneously rather than sequentially.

Effective public budgeting for democratic governments is potentially more difficult than private budgeting because of the larger number of individuals whose welfare is directly affected by collective choice, the lack of detailed information about individual preferences, and weaker incentives for policymakers to act on that knowledge, even when it is available. As a practical matter, federal budgeting has become more complex and difficult with the loss of the balanced-budget norm and the massive growth and shift in U.S. spending over the past 75 years from purchases of goods and services (largely for defense) to the provision of social and financial insurance.

For purposes of this paper, we assume that the objective of federal budgeting is to maximize social benefits from the large but nevertheless limited resources of the nation. While Congress and the President share the role of decision maker in this process, we focus on Congress as the first mover, as the President cannot sign any bill into law that Congress does not send to him. To make this objective of maximizing benefits operational, we assume it is manifest in two goals: economic stability and efficiency.

The first goal corresponds to the macro-economic objective of using the budget to enhance the stability of the economy and avoid “feast or famine” swings in consumption and, conversely, to avoid policies that would be destabilizing. The second goal (economic efficiency) refers to the professed preference of both elected officials and constituents for policies that produce the bigger “bang,” or benefit, for the “buck.” We assume that Congressional pursuit of the objective of maximizing social benefits is limited by the long-term federal budget constraint, which is defined as the taxes that voters are willing to pay now and in the future. Knowledge of this constraint, combined with timely and accurate information on the costs and benefits of alternative budget choices, would enable the Congress, in concept at least, to make decisions consistent with its assumed objective of maximizing social benefits. We acknowledge that elected members of Congress are likely to overweight benefits provided to their “important constituencies” relative to benefits afforded others, but we rely on the Madisonian view that competing factions and transparency can restrain the effects of this bias on budget decisions.

While some readers may regard our assumptions as naïve and simplistic, we suggest that a similar model of Congressional behavior undergirds the existing budget process, as embodied in the Congressional Budget and Impoundment Control Act of 1974 (CBA). That Act, informed by the rational choice model, which has proved invaluable in understanding human decisions and behavior, assumes implicitly that given sufficient relevant information and the opportunity to choose, members of Congress would develop budgets consistent with maximizing social benefits. Accordingly, the CBA attempts to provide Congress with both the information and the opportunity to use it in making budget decisions.

To that end, the CBA authorized and assigned the task of developing Congressional budget resolutions – with limits on spending, revenues and deficits – to the new Budget Committees. It also provided a guiding role for the political leadership, planning assistance from the other Congressional committees, and

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2 Some readers will note our omission of “equity” from the normal triune phrasing: equity, efficiency, and stability. We assume that voters demand and receive benefits from a public financial safety net (equity) as one use of resources to be included in the set of alternative uses of resources.
During fiscal 1993, violations of the discretionary caps within each budget year by spending reductions and tax increases. However, violations of deficit (via increases in mandatory spending and reductions in revenue) were waived by the discretionary caps. The Budget Enforcement Act (BEA) of 1990 sought to replace the GRH approach with ex ante caps on discretionary spending and a pay-as-you-go (PAYGO) rule that required legislated net increases in the deficit (via increases in mandatory spending and reductions in revenues, aka “tax cuts”) to be offset within each budget year by spending reductions and tax increases. However, violations of PAYGO and the discretionary caps were to be enforced by ex post sequestration (which could be, and often was, waived by subsequent changes in law). The BEA (along with successor legislation in 1993 and 1997) appears to have contributed, combined with a robust economic expansion, to steadily declining deficits during fiscal 1993-1997. In 1998, the U.S. recorded the first of four consecutive budget surpluses.

The initial ability of the Budget Committees to adopt restrictive resolutions and enforce points of order to restrain the impulse toward fiscal ease weakened fairly quickly. In the 1985 Gramm-Rudman-Hollings (GRH) Act, Congress attempted to require itself to be more fiscally responsible by enacting hard deficit targets into law that were to be enforced, if necessary, by across-the-board (with major exceptions) reductions in federal spending through the new process of “sequestration.” The subsequent failure of fixed targets and sequesters to reduce deficits exposed the weakness of the notion that Congress might be able to force fiscal restraint on itself by ex post self-flagellation. From a behavioral perspective, those corrective measures, similar to debt ceilings, come too late to overcome present bias in the decision process. Indeed, the existence of an automatic – but later and possibly avoidable – correction to decision errors may invite disregard of the need for restraint in the present.

The Budget Enforcement Act (BEA) of 1990 sought to replace the GRH approach with ex ante caps on discretionary spending and a pay-as-you-go (PAYGO) rule that required legislated net increases in the deficit (via increases in mandatory spending and reductions in revenues, aka “tax cuts”) to be offset within each budget year by spending reductions and tax increases. However, violations of PAYGO and the discretionary caps were to be enforced by ex post sequestration (which could be, and often was, waived by subsequent changes in law). The BEA (along with successor legislation in 1993 and 1997) appears to have contributed, combined with a robust economic expansion, to steadily declining deficits during fiscal 1993-1997. In 1998, the U.S. recorded the first of four consecutive budget surpluses.

For a detailed statutory history of the federal budget process see Lee, Johnson, and Joyce (2008) Ch.9 or Mikesell (2014) Ch. 3.
However, with the 2001 recession and the significant economic stimulus and war-related legislation enacted that year, followed by the expiration of PAYGO and discretionary spending caps in 2002, the budget returned to deficit in 2002, where it has since remained. Fiscal performance does not appear to have been markedly improved by the re-enactment of a weaker form of PAYGO in 2010 or adoption of new discretionary caps in the Budget Control Act of 2011.

Today, a consensus among analysts and budget practitioners is that the federal budget process is “broken.” Although specific grievances vary, frequently cited failings include:

- Under current budget policy, the ratio of debt to GDP is projected to increase over time without limit. This exposes the U.S. to a rising risk of a sudden, debt-driven fiscal crisis, in which investors lose confidence in the value of U.S. debt securities and “run.” The dangers of such an event are not just economic; they could also threaten political and social stability.

- Federal policy choices are frequently made on considerations other than “efficiency.” Policies are enacted once a majority of members has agreed to support a proposal, with scant attention to alternative means of achieving the same result. Citation of systematic program evaluation and performance information is rare in legislative deliberations.

- Inaction – Congress now seems no more likely to adopt an annual budget resolution than to ignore that task; legislative action on appropriations is almost always incomplete at the beginning of a fiscal year; government shutdowns are avoided only by the urgent enactment of temporary continuing resolutions; a failure to increase the debt ceiling in a timely fashion periodically threatens a default on debt and the government's other obligations, including those to retirees, veterans, the poor, employees, and private sector vendors who provided goods and services to the government in good faith.

- The government does not plan or budget for future contingencies, some of which are almost certain to occur at an unpredictable time: wars, financial crises, and disasters. Every adverse occurrence is treated as a “surprise,” and the federal response is financed by more borrowing.

How did this happen? What went wrong?

The current budget process has many strengths that facilitate informed choice. Members of Congress and voters have access to much of the information they need to identify fiscal policies that would be consistent with stable prosperity and that would be more efficient than current policy. And members have ample opportunity to enact those policies. The conventional wisdom among many federal budget veterans and analysts is that “the process is not the problem, the problem is the problem” (attributed to Rudy Penner). So, if the process is blameless, why are the results so disappointing? Again, the standard answer is – “lack of political will,” a translation of which seems to be – members want to be reelected by an electorate that rejects the necessity of budgeting and assumes there are no adverse consequences from failure to do so.

Our view is that the current budget process, based on the rational choice model of information and choice, is suited, inappropriately, for use by *homo economicus*, economic man (or woman). Those super-rational beings are assumed to ferret out and use all relevant information in making decisions that are always consistent with the objective of maximizing benefits from limited resources. They value future costs and benefits at appropriate discount rates, consider all feasible options, and are not misled by irrelevant information or over-optimism. In fact, for such an ideal type, process would never be a problem because process has no effect on one’s decisions or behavior.

However, for human voters and policymakers, who do not meet the definition of what Thaler and Sunstein (2009) call “econs,” *process always matters*. For people, the current budget process makes informed budget decisions more difficult than necessary. It requires too much analysis and mental effort to get information that is relevant and that would produce decisions more consistent with the goals that voters and human policymakers profess to have. As we attempt to show, modifying the current budget process
using the results of behavioral science to make better decisions easier could repair many elements of the broken budget process and reduce budget errors.4

III. Understanding Human Decisions and Process Architecture

Around the same time Congress was attempting to replace the balanced-budget norm with a less restrictive budget process, a seemingly unrelated line of research was flourishing in academia. Building on work from the 1930s, a number of scholars were engaged in the systematic empirical study of decision making. They were especially interested in assessing the degree to which people act rationally in pursuit of their interests, the nature of deviations from this assumption, and the circumstances under which people are likely to make better choices (defined in terms of consistency with their expressed preferences).

In 1974, psychologists Daniel Kahneman and Amos Tversky published “Judgment under Uncertainty: Heuristics and Biases” in Science. They argued, from experimental laboratory results, that people often rely on rules of thumb (or heuristics) to estimate probabilities of uncertain events, rather than using systematic analysis. They found subjects frequently resorted to crudely informed decision rules even in cases where they had information that could improve their estimates and increase the rewards from greater accuracy. They were not the first to find that human decision making is not completely described by the rational choice assumption, but they also found decision errors to be systematic. That insight encouraged analysts to attempt to identify human decision heuristics and to search for means of reducing errors in choice.

The influence of Kahneman and Tversky on the social sciences, especially economics, increased with their 1979 publication of “Prospect Theory: An Analysis of Decisions under Risk” in Econometrica. That paper also used experimental evidence to argue against the generally accepted theory of expected utility as a descriptive model of economic decision making under uncertainty. In their alternative descriptive framework, people undervalue risky expected outcomes relative to certain ones because they disvalue losses more than they value equal size gains: humans thus display “loss aversion.”

Concurrently, economists Vernon L. Smith and Charles R. Plott were pioneering the use of laboratory studies of economic decision making. In successfully publishing the results of their research in leading journals, Smith and Plott established the legitimacy of experimentation as a useful methodology for testing economic hypotheses. In 2002, Kahneman and Smith shared the Nobel Prize in Economic Science.5

The work of Kahneman and Tversky, which was critical to the development of behavioral economics, has been extended and popularized by many, including Dan Ariely, Richard Thaler, Cass Sunstein, and Reid Hastie, as well as Kahneman’s own Thinking, Fast and Slow, a New York Times 2011 best seller. 6 More recently, some (Thaler and Sunstein, 2008; Sunstein, 2013; and Sunstein and Hastie, 2015) have applied this research to public policy as it relates to individual choices (e.g., students’ nutritional choices in school cafeterias; employee participation in pension plans). Their primary focus has been on identifying modifications to decision processes used by humans in making important personal choices, such as

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4 To be clear, we do not claim that the behavioral weaknesses of the current budget process are the sole cause of poor fiscal results nor that our proposed modifications could eliminate errors. To the contrary, we offer our proposal as one of several complementary approaches – including those that entail additional changes to legislative rules, committee jurisdictions, the redistricting process, and primary election procedures – that together would appear to have the potential to significantly improve budget outcomes. However, those proposals are well beyond the scope of this paper.

5 Kahneman’s Thinking, Fast and Slow was written “In memory of Amos Tversky,” who died in 1996; Smith praised Plott’s work and acknowledged his contributions in his Nobel lecture.

6 Herbert A. Simon (1916-2001) also has a claim to parenthood of behavioral economics. Simon’s studies of decision making by individuals and firms led him to conclude that decision makers do not optimize across all choices because they have limited cognitive skills and information which render optimizing too costly to attain. Instead of optimizing, decision makers stop searching for the optimum solution when they identify one that is satisfactory, a process he called “satisficing” (1956). Simon also coined the phrase “bounded rationality” to refer to the limited human ability to make optimal decisions. He was awarded the Nobel Prize in Economics in 1978.
saving for retirement and adopting practices that promote good health. Here, we switch the focus to improving choices and decisions of humans in the collective or public domain.

An important characteristic of behavioral-process interventions, whatever the application, is that those modifications do not directly constrain choice. Rather, they affect decisions through reminders, changed information frames, contextual cues and feedback, but without coercion.

A Framework for Behavioral Analysis

Kahneman (2011) uses the "fiction" of two separate human systems of cognition (System 1 and System 2) to summarize the results of recent efforts “to identify and understand errors of judgment and choice.” System 1 is automatic, quick, requires little mental energy, includes a working model of the world, and is the origin of much error in decisions. But it also is responsible for much that we do well, such as recognizing and responding to danger or routine activities like driving a car or playing a skill sport. System 2 is effortful, energy intensive, slow, better at making complex choices and judgments, and is essential for self-control. But System 2 is not homo economicus by another name. It is also indolent, often lacks essential information and endorses or rationalizes ideas that originate in System 1, and its analytical capabilities are limited (Kahneman. 2011, pp 415, 417).

Humans frequently make poor choices when System 1 is used for decisions that are better suited to System 2. For example, on my way home from a meeting with a financial adviser, I stop off at a car dealership, but, consistent with my long-term plan to save more, refuse to buy a car that costs $60K (System 2). But then I change my mind after a salesman persuades me to experience a test drive and explains that I will make no car payments for the first year of ownership (during which the dealer will provide free regular car-maintenance service), and then I will pay only $19.99 per day – less than an inexpensive rental car. In my System 2 defense of the System 1 decision, I note that the car is a pleasure to drive, and I don’t recall that the salesman gave much emphasis to the duration of payments, which is more than10 years.7

A fundamental result of behavioral science is that our long-held suspicions about the literal validity of assuming humans to be super-rational “Econs” (homo economicus) are confirmed. Stated differently, the rational choice model is not a complete description of human decisions and behavior. And, just as the model has been improved by taking account of such factors as uncertainty and transactions cost, it also might be made more useful by recognizing the limits of human cognition.

Individuals – Systematic Decision Errors and Remedies

Humans often act impulsively, with little regard for longer-term consequences, and inconsistently with their expressed preferences and plans. We consume food that is less healthy and in greater quantities than would be consistent with our dietary goals; we save less than needed to achieve our long-term financial objectives; we make purchases without regard to the larger benefit per dollar we could obtain from alternative goods and services. When confronted with complex decisions, rather than thinking systematically, we tend to rely on recent and limited experience with similar choices and events, follow the example of others, or procrastinate. Our decisions vary with our emotional state and level of fatigue. In contrast to econs, human decisions vary with the context in which we make them, and “everything” seems to have the potential to affect context.

In this paper, our interest is specifically limited to decision errors that appear in public budgeting and that are inconsistent with the goals of long-term fiscal and consumption stability and efficiency in the use of

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7 Humans also make poor decisions when System 2 is turned on while System 1 should be operating. For instance, Sunstein (2013 p.50) recounts the case of Larry Bird asking an opposing basketball player, “You changed your shot lately? It looks different” and mentioning that the balls used at this site “felt slippery.”
For that purpose, we focus on three individual behaviors that lead to related decision errors: (1) lapses in self-control and an associated present bias toward “gain now, pain later;” (2) limited information and processing (cognitive) capability; and (3) a desire for social acceptance that inclines us to seek and retain membership in a tribe or “herd.” These behaviors are closely related, can be interactive, and at times are difficult to distinguish from one another. We then consider the vulnerability of group decisions to systematic error. In each case, we describe some general remedies that have been found useful in moderating those behaviors.

1. Limited Self-Control and Present Bias. Widespread agreement exists among researchers and their human subjects that people have “…a tendency to pursue immediate gratification in a way that their ‘long run selves’ do not appreciate” (O’Donoghue and Rabin, 2001). Especially when System 1 is making decisions, people tend to choose short-term benefits at a disproportionately high future cost and are reluctant to defer pleasure now, even if future benefits have a larger present value. We are especially prone to overconsumption now if the cost is not salient – for example, when the availability of credit enables us to shift cost easily to the distant, heavily discounted, optimistically anticipated future.

Some scholars have attempted a deeper understanding of this bias. One prevalent view is that making a choice between now and later (inter-temporal choice) is heavily influenced by the degree to which a person feels connected to his or her future self. “To people estranged from their future selves, saving is like a choice between spending money and giving it to a stranger, years from now” (Hershfield et. al. 2013). Following this perspective, Hershfield and his associates found that by showing subjects age-progressed photographs of themselves, they could induce an increase in willingness to “accept later monetary rewards over immediate ones.” (Also see Sunstein, 2013, pp. 55-57.)

Factors affecting inter-temporal choice are multiple, complex, and appear to include the linguistic structure of the language we speak. Keith Chen (2013) has observed that for native speakers of English and other languages that require the distinctive marking of future events from the present (e.g., “it is raining today” vs. “it will be raining tomorrow”), the challenge of acting today consistent with future plans is made more difficult by the required separation of “now” from the distant land of “later.” By contrast, “…languages that grammatically associate the future and the present [such as German, Finnish, Japanese, Mandarin: e.g., “it is raining today” and “it is raining tomorrow”], foster future-oriented behavior. Chen (2013) finds empirically “that speakers of such languages: save more, retire with more wealth, smoke less, practice safer sex, and are less obese.”

Self-control can be strengthened and present-bias weakened by pre-commitment to a planned course with continuous external monitoring of performance and frequent feedback. Other successful strategies include: vivid, salient reminders of the “losses” associated with deviations from plan; avoiding or reducing opportunities for temptation and error; bringing the future closer to the present by changes in measurement and language; and emphasizing the benefits of staying with the plan to a highly valued future generation (e.g., grandchildren).

2. Limited Information and Processing Capability. Behavioral studies confirm that humans have a limited willingness and ability to focus attention and exert mental effort. Both are scarce resources with alternative beneficial uses (Kahneman, 2011, Ch.2). Many people, much of the time “…apparently find cognitive effort at least mildly unpleasant and avoid it as much as possible.” Instead, we rely mostly on our automatic, or System 1, thinking, which is effortless and quick in producing “impressions, intuitions, intentions and feelings” but also is unsuited for solving complex problems or exercising self-control.

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8 Behavioral science has produced numerous consumer innovations: the connection that prevents gas caps from being left atop the pump; the beep that signals a card left in an ATM; smaller plates in better restaurants; and, instantaneous feedback on the Prius dashboard on the effect of driving speed and style on gasoline consumption.
One form of this limitation is a preference for framing decisions narrowly in order to avoid consideration of a broader range of consequences and effects. An example is the decision to purchase an item on the basis of its expected benefit and ease of financing without reference to a long-term binding budget constraint or the benefits of alternative uses of these resources.

The quality of human choice responds favorably to the simplification and increased salience of relevant information (Sunstein, 2013). “Dumbing down” is not the objective; but information will be used more effectively if it is not mixed with the irrelevant, unnecessary, or misleading. Choices can also be improved by creating an expectation that it will be necessary to defend specific decisions against rejected, feasible alternatives.

3. Inclination to Herd. The human desire for acceptance and membership in a group is strong. Its strength in shaping our judgments and decisions has been robustly confirmed in a variety of experiments, many of which are summarized in Thaler and Sunstein (2008), Sunstein (2013), and Sunstein and Hastie (2015). (See Appendix 1.) Meeting the social need for association may be personally and socially useful under many circumstances. However, it is also clear that group decision making has a different dynamic than individual decision making. It is also subject to its own pathology, which behavioral science has investigated separately. We summarize some of its findings immediately below.

Groups – Systematic Decision Errors and Remedies

Public budgeting is group decision making. In the absence of evidence, one could argue that group decisions are expected to be (a) better, (b) about the same, or (c) worse than decisions made by individuals. Kahneman (2011), for example, suggests that organized groups – because they rely on routine processes designed to acquire relevant information and conduct analysis and make decisions subject to review and oversight by others – ought to improve on the judgments and choices of individuals. He notes, however, that few organizations make much effort at putting quality control mechanisms in place and often neglect training in the conduct of efficient, decision-making sessions. Kahneman (2011) also observes a group tendency toward overoptimism, which he refers to as the “planning fallacy.”

Other research (Bisin et al., 2015) suggests that voters with present bias favor candidates who promise debt-financed benefits and tax cuts, so that public financial decisions should evince the present-bias errors of individuals. Sunstein and Hastie (2015) also emphasize an apparent lack of attention to process design and find scant evidence that group decisions avoid the errors observed in individual decisions. Indeed, they conclude that groups are prone to worse decisions and cite several related group dynamics to explain this perverse result: susceptibility to polarization; the power of the group (and especially leaders) to restrict the expression of alternative views by creating a flow toward quick agreement or “cascades” of opinion; and reliance on commonly held (“shared”) information to reach decisions.9 They find that groups also tend to generate excess optimism about the likely success of their plans.

Polarization. Even within a single herd, people are likely to hold different initial preferences. Yet, as may be obvious from recent Congressional experience, when members of rival herds are sorted and selected on the basis of an initial preferred view on an issue, such as the appropriate reach and scale of government, polarization can be a serious threat to effective and efficient public decisions.10

9 The concept of cascade occurs frequently in the behavioral literature. Sunstein and Hastie (p.63) defines it as: “A cascade occurs when people influence one another, so much so that participants ignore their private knowledge and rely instead on the publicly stated judgments of others. . . . [T]here are two kinds of cascades: informational and reputational. In informational cascades, people silence themselves out of respect for the information conveyed by others. In reputational cascades, people silence themselves to avoid the opprobrium of others.”

10 A classic behavioral case study of polarization is the Robbers Cave experiment, conducted in the early 1950s by Muzafer Sherif and his associates at the University of Oklahoma. This carefully documented experiment demonstrates the following tendencies of humans (in this instance, 11-12 year old boys from white, middle class families, randomly assigned to two separate groups at a camp in Robbers Cave State Park, Oklahoma): bond into named groups through shared experiences, with their own colors, mascots and leaders; develop an intense hostility, verging on violence, toward another group of like individuals with whom they compete for accolades, status, and scarce resources; reconcile with the “enemy” under the mediating influence of shared experiences and challenges, which required the cooperative efforts of both groups to resolve.
Polarization, however, can be diminished by the appearance of external threats, by shared cooperative experiences, and by social interaction.

**Loss of Independent Observation and Dissent.** The desire to be perceived as a loyal “team player” and to remain in good standing with associates can change an individual’s expressed view, even if the initial view is consistent with an objective, verifiable reality (see experiments, e.g., Sherif, summarized in Appendix 1).

Group decisions can be improved by independent expert review of decisions and by creating ownership by individual members of the group’s performance. Transparency of process also increases effectiveness.

**Reliance on Shared Information.** One purpose of using groups to make decisions is to increase the pool of relevant, private information used in the decision by combining the unique information held by individual members. But, as noted in the study by Sherif on estimating the distance traveled by a point of light, an overwhelming majority (“cascade”) can prevent this information from being heard. In fact, many group decisions are based on shared, commonly held information, i.e., “what everybody knows” (Strass and Titus, 1985; Gigone and Hastie, 1993). This result can be encouraged by a leader’s message: “We’ve addressed this question before. I know of no reason for changing what made sense then.”

Another effective device for silencing those with unique, private information is to impose an artificially short limit on the time allowed to reach a decision. For ease and speed of agreement, nothing trumps reliance on commonly held information. By contrast, processing unique information possessed by one or a few members requires the group to resort to an effortful System 2 analysis. The use of only shared common knowledge in a decision defeats a major purpose for which the decision was referred to a group.

If participants in a group decision are reminded effectively of their obligation to dissent, to identify the strengths, weakness, and threats to a range of choices, and to share all relevant information known to them, the group is likely to make fewer but better decisions than would any single member.

**Overoptimism.** The self-silencing behavior of group members with relevant information may also help explain what Kahneman and Tversky call the planning fallacy, or the tendency of group plans to be overly optimistic. They attribute this error partly to the cognitive ease of imagining the success of a tentative plan instead of visualizing the myriad adverse events that could prevent its realization. The desire to be seen as loyal to the group and its plans also induces silence on the potential threats to success. Most group plans are closer to best-case scenarios than realistic expectations.¹¹

Excessive optimism found in groups can be reduced by requiring external reviews of the performance of past plans, such as previous budgets or schedules for completing projects successfully.

**IV. Deficiencies in the Federal Budget Process’s Effective Use by Humans**

A number of mismatches exist between the current budget process and one that would be more suitable for use by humans. Specifically, the process lacks features that would make it easier to arrive at resource-allocation decisions that are consistent with long-term goals. Those include the absence from the current process of salient measures of:

- the long-term budget constraint;
- the annually controllable costs of deferred payment programs; and
- the cost of tax expenditures.

¹¹ For evidence of optimistic bias in the Congressional Budget Resolution, see Bhatti and Phaup (2015).
The current process also fails to provide policy makers with sufficient information on expected performance of alternative policies; and there are too few warning signals and speed bumps for violations of the budget constraint. As a consequence, the current budget process is subject to large errors in the choice and financing of enacted policies. (See Appendix 2 for three recent examples.)

Mitigating these deficiencies does not require heroic action by elected officials or large increases in budgetary resources; much can be accomplished with modest changes in the choice architecture.

No Long-Term Budget Constraint

The current budget process lacks a salient, operational measure of the long-term budget constraint. Without much effort, humans can ignore information delivered by a courier dressed in a gorilla costume (Kahneman, 2011, pp. 23-24). If relevant information is missing altogether from a decision process, it has almost no chance of being taken into account. Thus, it should be no surprise that every proposal for increased spending, whether through outlays or changes in the tax code, appears to be “affordable” because the government seems able to borrow unlimited amounts at low interest rates. That the cumulative effect of those increases may be a sudden run from U.S. debt securities and an inability to finance planned spending is rarely depicted as a realistic threat.

In fact, long-term balance between available resources and commitments of resources is necessary to smooth consumption over time, i.e., to avoid a pattern of feast and famine (Bhatti and Phaup, 2013). For governments, long-term fiscal imbalance eventually leads to constraints on ability to borrow and reductions in future consumption below the levels that were previously financed in part by borrowing.

Reductions in consumption are especially painful and strongly resisted by voters when they are perceived as losses of benefits already possessed and in hand. Given that all public spending must be paid for sometime, by someone, to spend more than the public expects to pay in taxes means that someone must suffer unexpected losses in the future: taxpayers, pensioners, creditors, and others who have been encouraged by current law to anticipate payments from the government.

Mis-measured, Annually Controllable Costs of Deferred Payment Programs

The risk of an unanticipated fiscal crisis is increased because the current budget accounting system fails to provide comprehensive measures of costs incurred in the current period while they are controllable (see box on the following page). In reality, most mandatory spending in the current budget year was sunk in years past and is now politically enforceable. Withdrawing benefits when they are payable is effectively a government default on a solemn, long-standing obligation and a loss to those expecting payment.

Delaying recognition of the cost of defined-benefit pensions for federal employees from their working years to their retirement years, for example, means that when pension costs appear in a salient form in the budget, those costs are already beyond the government’s discretionary control: labor services have been provided at agreed rates of compensation, and the retired employee is no longer in a position to replace the promised benefits if the government fails to pay.

If human policymakers and voters were sufficiently energetic and rational, they might “see through” the veil of deferred recognition of those costs and mentally adjust current spending and deficits to take account of those obligations without the assistance of accrual measurement and costing. However,

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12 The federal debt limit has proved ineffective as a budget constraint. One reason for its failure is that it does not constrain spending or revenue decisions. It binds too late, when fiscal obligations and shortfalls have already occurred and when debt incurred to finance previous payments must be re-financed. As such, it is an attempt at fiscal responsibility through a refusal to pay the bills. It thus places the nation at risk of defaulting on its obligations without restraining profligate behavior.

13 Even the most fiscally aware policymaker or voter is unlikely to understand from the budget numbers that retiree health costs are also being incurred while the employee is working. Recognition of the cost of retiree health insurance premium support is delayed until it is paid. But in this case, there is no actuarial charge booked (via an intra-governmental transfer) to an on-budget trust fund when the benefit is earned. Instead, these deferred benefits are paid directly from Office of Personnel Management accounts when due.
Legislative Sovereignty – Rationalization for Not Recognizing Deferred Payments Until Paid?

Cash-basis accounting for deferred spending programs is defended with the argument that this treatment is consistent with the doctrine of legislative sovereignty. U.S. courts have long held that, under the Constitution, one Congress cannot bind a future Congress. An entitlement under current law may not be honored by a future Congress, which has the power to change the law. This fact is often cited to justify the current practice of waiting to record the fiscal costs of Social Security and defined-benefit pensions in the budget until benefits are paid. The underlying principle is that these payments are subject to cancellation through changes in law until paid. ([http://www.slate.com/articles/news_and_politics/politics/2010/07/pelosis_paradox.html](http://www.slate.com/articles/news_and_politics/politics/2010/07/pelosis_paradox.html)).

This budgetary practice, however, is inconsistent with a widely held view that commitments to pay age-related benefits have become the “third rail of politics,” i.e., they are politically enforceable. Members of Congress would be risking their political lives if they voted for legislation that would reduce benefits to those who are already retired or if they reduced future payments below amounts that beneficiaries have been told to expect based on past earnings and taxes paid. The enduring strength of these commitments is not an accident; the law was designed precisely to tie the hands of future legislatures de facto (though not de jure) and to elevate those commitments to the moral equivalent of “full faith and credit” obligations. The success of this design has dismayed many and inspired the title of Eugene Steuerle’s analysis of the effects of those programs on the rest of the budget – Dead Men Ruling (2014).

To keep the costs of these programs in line with amounts constituents are willing to pay, policymakers and voters need a more transparent and salient budgetary accounting. Such an accounting might include: recognizing in current budget outlays and deficits the costs of such deferred-spending programs as they accrue; a means of recognizing in the budget the cost of any legislative action (such as a transfer from the general fund of the Treasury) that enables a trust fund to continue paying benefits at the current level; and recognition of total current-law fund liabilities as part of government debt. Some trust fund liabilities are already counted in the gross debt, or publicly held debt plus intra-governmental debt (which closely approximates the debt subject to statutory limit). Yet, gross debt is regarded by many budget officials as less significant than debt held by the public, because the latter is sold to investors in credit markets and may crowd out private investment. However, federal deferred payment programs, such as pensions, also crowd out private saving because they are counted as assets by beneficiaries as they are earned and, unless offset by increases in public saving, reduce national saving and investment.
behavioral science confirms the personal experience of many: if information is not salient (i.e., most noticeable), it usually is unperceived. As Kahneman (2011) puts it: what you see is all there is (WYSIATI), at least for most human decisions.

The budgetary treatment of federal insurance programs also defers the recognition of costs until payments are made to beneficiaries. Compounding the confusion, premiums collected in advance of claims are counted as inflows of budgetary resources, without recognizing the associated future obligation to pay claims. This is especially egregious for programs where premiums plus interest on fund balances are required by law to be sufficient to pay claims. When cash inflows exceed cash outflows, these programs appear to be a source of budgetary resources that may be used to finance other public activity.

A related cost distortion arises under current practice for programs that are required by current law to be fully financed with dedicated taxes but whose resources are inadequate to pay benefits in the foreseeable future. Those include the chronically underfunded Highway Trust Fund (HTF) and the Social Security disability insurance (DI) trust fund (and by the early 2030s – the Medicare hospital insurance trust fund and the Social Security Old Age and Survivors Insurance trust fund).

In all those cases, a misstatement of the costs of legislative action results from those rules governing the construction of baseline projections (see section 257 of the Balanced Budget and Emergency Deficit Control Act). Those rules require CBO to assume that the benefits authorized in current law for each program (or, in the case of the HTF, either as enacted or projected based on the current highway program) continue to be paid: (1) even if the trust fund does not have sufficient resources to make those payments; and (2) even though the law requires the agency administering each program to reduce payments to beneficiaries so that total payments do not exceed resources available in the trust fund. For example, up until enactment of the Bipartisan Budget Act of 2015, budget analysts had estimated that by the end of 2016 the DI trust fund would have a balance of zero. According to current law, when trust fund balances reach zero, the Social Security Administration is required to reduce DI benefits from the scheduled level to the level of earmarked taxes credited to the fund each year. Yet, because baseline rules require CBO to assume that benefits are not reduced, legislation to change the law and continue payments at scheduled levels appear to have no cost. This practice suggests that Congressional intent (of past Congresses, at least) is to maintain benefits at scheduled levels, notwithstanding that current law requires benefits paid to be no more than the resources available from earmarked taxes and Treasury interest on fund balances.

Key Information on the Cost of Tax Expenditures Lacks Salience

Some highly relevant information is presented in the budget in such a way as to seem unimportant or irrelevant to budget decisions. An example is the budgetary treatment of tax expenditures.

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14 The attempt to create a federal long-term care insurance program in the Community Living Assistance Services and Supports (CLASS) Act, is a recent example of a program explicitly intended to be actuarially sound. The 10-year CBO cost estimate for the overall legislation (the Affordable Care Act, which included the CLASS Act) scored the bill with $72 billion of deficit reduction (consistent with current federal budgetary accounting practice) resulting solely from the CLASS Act component. This highly salient, negative “cost” was due entirely to differences in timing of premium receipts, which were to be collected during the working lives of beneficiaries, and the payment of claims, which could not begin until after a five-year vesting period and then only with the onset of disability, which is often age related. (See Appendix 2 for additional detail.) Social Security, Medicare, and deposit and pension insurers are afflicted with this same cash-basis distortion from the treatment of collections as an inflow of resources now without taking account of the obligation to use those dollars to pay future insurance claims.

15 An important exception to this practice is the current budgetary treatment of federal loan guarantees. Before 1992, loan guarantee programs (and the budget totals) were credited with the inflows of fees received when loans were extended, without recognition of the cost to be borne for claims for default later. Since enactment of the Federal Credit Reform Act of 1990, the net expected cost of guarantees has been shown as a budget outlay in the year when guaranteed loans are extended. This prevents, at the time the guarantee is made, the budget from showing initial gains in budget resources (from guarantee fees) while ignoring payments that are expected to be made later. For an example of how this accrual model might be applied to other programs including deferred payment programs, see Bhatti and Phaup (2015).
Tax expenditures – special deductions, credits, exclusions, and preferences in the income tax code intended to promote specific types of activity such as saving, investment, homeownership, or energy conservation – are equivalent to levying and collecting a tax on all tax filers and then refunding (i.e., writing a check for) those taxes to taxpayers who engage in the favored activity. The same effects on resource allocation and fiscal policy could be obtained with explicit subsidy payments. But, elected officials find tax expenditures politically attractive because they can be framed as tax cuts (or letting people keep their own money), conditional on taxpayers spending their money on the use favored by policymakers.

Although tax expenditures amount to about $1 trillion per year (about 25 percent of the amount currently reported as federal spending), they are largely invisible in the budget process because they appear in the budget only as a disclosed lower level of tax revenues than otherwise would have been collected.

Too Little Information on “Value for Money”

While many budget activities are decided with a fairly precise estimate of current cash cost, there is usually little more than a name as a description or expected effect of the activity. Efficient choice must make use of available evidence on expected policy performance across a range of alternatives. For example, if the goal is to increase home ownership, and three equal-cost options are available (e.g., mortgage interest rate reduction, a mortgage interest deduction from taxable income, and down payment assistance), evidence should be provided to policymakers and voters that would enable them to identify the more effective and efficient choice.

Of course, information about program performance and social benefit is more difficult to quantify than information about cost, which uses the convenient metric of market prices at which goods and services are bought or sold. It is probably impossible to measure value for non-market goods and services with the same accuracy as costs. Fortunately, such precision is not necessary to effect significant improvement in public budgeting. Policymakers would likely make better budget choices if they asked preparers of budget information to include performance estimates for proposed policy changes and alternatives and they were expected to explicitly consider such information in their decisions.

Too Few Speed Bumps for Fiscally Irresponsible Actions

For reasons that may have seemed justified at the time, policymakers sometimes enact legislation that in hindsight was a poor decision with respect to economic stability or generational equity or was simply a gross misallocation of resources (see Appendix 2 for examples). In fact, when the President and the leadership of Congress are of the opinion that an action should be taken, there is little in the current budget process to slow the process and give time for more reflective, analytical thought. Effective budgeting uses danger warnings and speed bumps to delay the enactment of new, fiscally irresponsible legislation.

V. Specific Recommendations for Process Change

We propose five specific changes to the current budget process:

- Add budget constraint targets for debt/GDP and fiscal gap to President’s budget and budget resolution with monthly CBO reporting on legislative performance;
- Adopt accrual budgetary accounting with annual re-estimates for deferred payment programs (including federal retirement and social and financial insurance) to recognize costs in budget outlays and the deficit at the last point of effective control;\(^{16}\)

\(^{16}\) Note, however, that not all trust funds are deferred payment programs; yet all deferred payment programs that are trust funds, as well as other trust funds that are not deferred payment programs (such as the Highway Trust Fund), suffer from the problem that cost information is mis-measured and lacks salience, resulting from the statutory dictate on how the baseline for such trust funds
• Treat tax expenditures in the budget as spending;

• Create an expectation that policy makers will consider the cost and effectiveness of alternative uses and sources of budget resources and defend their choice of policy throughout the budget preparation process; and

• Establish a point of order against a budget resolution or legislation that would increase the fiscal gap.

Add budget constraint. Effective budgeting requires a salient measure of the long-term budget constraint (how much is likely to be available now and in the future and how much have we used or committed). The present value of expected future tax collections under current law provides a useful approximation of the budget constraint, and the fiscal gap (present value of future spending less present value of future revenues, expressed as a percent of GDP) is a rough measure of the shortfall of resources required by current policy commitments relative to expected revenues.

We propose that the President and the Congress agree to set annual targets in the President’s budget and in the budget resolution for debt/GDP and the fiscal gap. Our intent is to modify the context in which budget decisions are made by adding the concept of a limit, that if violated, necessarily imposes unanticipated, significant losses on many. This modification in process architecture is intended to make the scarcity of resources salient and to remind decision makers that trade-offs are unavoidable in every decision to use resources to meet a particular policy goal. If successful, this change could promote fiscal sustainability and loss avoidance by explicitly linking decisions to spend with the expected availability of resources in the intermediate and long terms. Currently, fiscal gaps are calculated for 25-year horizons by CBO and are required by Federal Financial Accounting Standard 36 in the annual Financial Report of the U.S. Government. Adding an annual target path for reducing fiscal imbalance to the process could broaden the budgeting frame to include long-term sustainability. With established targets, Congress and the public, using frequent CBO reports, could more easily and continuously monitor policymakers’ performance with respect to their long-term stabilization goal. Adopting more precise language could also increase awareness of the significance of the long-term budget constraint. For example, the deficit could more usefully be described as “taxes to be paid later for costs incurred now.”

Of course, the President and Congress could ignore their agreement to establish targets or the targets themselves, once set. However, short of a Constitutional amendment with effective judicial enforcement, there is no feasible mechanism available to force elected officials to take any action that they otherwise choose to avoid. Instead, this proposal of adding a budget constraint is designed to work through the power of public pre-commitment to a course of action with frequent public feedback by an independent observer.

A defense or economic emergency could necessitate an adjustment in the selected fiscal target path. The use of such adjustments would not be restricted by this proposal, but policymakers would be expected to explain their decision to modify their targets. In fact, existence of an agreement on moving toward long- and intermediate-term balance could increase the willingness of elected officials to adopt more aggressive responses to short-term fiscal shocks (Bhati-Phaup, 2015). Our proposal does not include enforcement of debt targets by the use of sequesters, whose effectiveness in promoting fiscal discipline is doubtful at best.

Adopt accrual budgetary accounting for deferred payments. Effective budgeting by humans requires a measure and awareness of the opportunity cost of a choice “up-front” when that allocative decision is must be calculated (see pages 19-20). Until our proposal for changing the cash-basis treatment of deferred payment programs can be adopted, we propose as an interim solution to amend the baseline rule so that the baseline treatment matches current law – i.e., when a trust fund lacks earmarked balances to pay scheduled benefits, then benefits are assumed to be reduced. (This also would improve the cost information for legislation affecting trust funds that are not deferred payment programs).

being made. It is critical that this measure not conflate or comingle sunk costs resulting from past
decisions with those costs to be committed by the current decision, because the sunk costs are already
unavoidable and irrelevant to the current decision.

Two challenges must be overcome to make accrual accounting for the major deferred payment programs
feasible: (1) defining a point at which costs become sunk, "earned" or politically unavoidable; and (2)
identifying a mechanism to prevent "manipulation" or budgetary "cheating" with accrual estimates.

Current cash-basis accounting for deferred payment programs is consistent with the fact that claims on
post-employment and social insurance benefits would not be legally enforceable if the law under which
those benefits are provided is changed by new legislation (as discussed in the box on page 15). That is,
we treat the costs of these policies as controllable (not sunk) until benefits are paid. However, planning
and budgeting for these programs must also take account of the low political probability of allowing an
event (either through legislative action or inaction) that withdraws or significantly reduces benefits. That
low probability especially applies to benefits that have already been earned and therefore are sunk, say,
by vesting of federal pension benefits or by 40 quarters of covered employment for Social Security claims.
From a behavioral, loss-averse perspective, reductions in benefits that have not yet been earned are
more politically likely to be adopted and less likely to appear as a loss to recipients than reductions in
benefits that are already in our "mental accounts."

For federal defined-benefit pension plans for civilian employees hired after 1983 and for military service
rendered after FY 1984, actuaries estimate an annual accruing pension charge, which is currently paid to
the Office of Personnel Management (OPM) by employing agencies (adjusted for employee
contributions), but these employer payments have no net effect on current deficits. And for future
retirement health benefits of current employees, employing agencies are not paying anything (although
these costs currently are recognized in the Financial Statements of the U.S. Government as earned, even
though they are not included as an agency expense or in the deficit in the annual cash-basis budget). We
propose not only to require that employing agencies make annual payments to OPM to cover the accrual
costs of all future retirement benefits of current employees, but to include those payments in the deficit
today, rather than when the retirement benefits are paid in the future. This change would increase current
retirement outlays of federal employing agencies and for the government as a whole by increasing
payments for retiree health care as earned.\textsuperscript{18} Recognizing all personnel costs in agency budgets as
earned would likely increase the perceived cost of labor services and increase legislative and managerial
efforts to reduce costs by using resources more effectively and by reducing total compensation. The latter
might be accomplished either by reducing post-employee benefits or by reducing the number of
employees, offset in whole or in part by contracting out.\textsuperscript{19}

Similarly, for Social Security, the Social Security actuaries estimate an annual accruing cost for those in
covered employment for both Old Age Survivor and Disability Insurance and for Medicare. Those
accruing costs, net of employee and employer payroll taxes, are natural additions to expenses that should
be recognized now in budget outlays and the deficit.

An advantage of using those actuarial estimates in calculating budget outlays is that the budget numbers
would be consistent with those values of expected benefits that employees can access and monitor at
\url{www.ssa.gov/myaccount/}.

Accrual accounting for financial insurance programs would be technically more familiar to budget
practitioners and decision makers than for social insurance, except for the difficulty of establishing the
term of the insurance. For a notable example, does deposit insurance have a one-year term? Or is the
term the expected lifetime of the bank? One way of settling this issue (somewhat arbitrarily, to be sure)
would be to adopt the assumption used in a path-breaking application of options pricing theory to
estimating the cost of deposit insurance (Merton, 1977, 1978). That approach assumes that deposit

\textsuperscript{18} The budgetary treatment of previously earned benefits could continue to be liquidated on a cash-basis as paid by OPM.
\textsuperscript{19} Contracting out will reduce budget costs only if private employees are more productive or if total compensation of federal
employees exceeds that of equivalent non-federal workers.
insurance remains in force until the insurer (the Federal Deposit Insurance Corporation – FDIC) discovers by audit examination that the bank is insolvent. At that point, the insurer takes over the bank’s assets, makes depositors whole, and loses the difference between asset value and the value of insured deposits. Because both audits and bank failures are costly, the FDIC selects an audit frequency to minimize its total costs. The observed frequency of audits, e.g. once a year, could be used as a reasonable measure of the term of the insurance for calculating budget costs.

We also may find some assurance that accrual costs will not be susceptible to “gaming,” manipulation, or diversion to other uses from the experience with accrual accounting in measuring the cost of direct loans and guaranteed loans, as required by the Federal Credit Reform Act (FCRA, adopted as part of the Budget Enforcement Act of 1990). Under that statute, the budget recognizes (at loan disbursement) the expected cost of loans and guarantees as budget outlays and changes in the deficit by using transfers from “program” accounts (that affect the deficit) to “financing” accounts that are reported in the “means of financing” tables in the budget.

One of the misgivings policymakers had about FCRA before 1990 was that reserve balances in those financing accounts would be easy pickings for “budget entrepreneurs” who would “raid” the accounts to fund spending for other purposes. But the potential for abusive practice has been successfully thwarted, in part, by subjecting those accounts to annual re-estimates to maintain balance between assets and liabilities. For deferred-payment accounts, applying this process of continually re-estimating and rebalancing the account from which future payments are to be made would seem likely to be an effective mechanism for avoiding legislative abuse of balances already committed to beneficiaries.

Treat tax expenditures as outlays. To make tax expenditures as salient as other spending, they should be shown in the budget as equivalent to taxing all filers and then refunding the tax to those who qualify for the benefit by, for example, taking out a mortgage or investing in a favored economic activity. This can be accomplished by dividing both revenues and outlays into two sub-categories: (1) revenues, which includes cash tax payments and tax payments forgone by virtue of tax expenditures; and (2) outlays, which includes cash spending and spending via revenues forgone through tax expenditures. By applying this labeling to existing tax expenditures, both revenues and spending would increase by the same amount (as shown in Table 1). As a result, the revised budget presentation would report correctly that the government’s allocative role in the economy is about $1 trillion larger than reported under current practice, but the deficit would be unaffected by inclusion of tax expenditures in both revenues and outlays. New tax expenditures, however, would be shown in the budget (see Table 2) as an increase in tax expenditure outlays, the deficit, and an equal shift from cash revenues to tax expenditure revenues.

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20 To strengthen this protection, the permanent and indefinite budget authority provided under FCRA for subsidy re-estimates might be replaced in this case by mandatory appropriations to maintain account balance with positive (negative) adjusting transfers charged (credited) to the agency’s appropriations sub-committee.
Table 1. Example of Including Existing Tax Expenditures in Budget Totals

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<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Total revenues</strong></td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td><strong>Tax expenditures</strong></td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total outlays</strong></td>
<td>5.0</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td><strong>Tax expenditures</strong></td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td><strong>Surplus (deficit)</strong></td>
<td>(1.0)</td>
<td></td>
</tr>
<tr>
<td>Borrowing from the public</td>
<td>1.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Burman and Phaup (2012)

Table 2. Scoring (as Outlays)
Legislative Increases in Tax Expenditures

<table>
<thead>
<tr>
<th>Change in total revenues</th>
<th></th>
<th>0.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td>-0.1</td>
</tr>
<tr>
<td><strong>Tax expenditures</strong></td>
<td>+0.1</td>
<td></td>
</tr>
<tr>
<td>Change in total outlays</td>
<td></td>
<td>+0.1</td>
</tr>
<tr>
<td>Cash</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td><strong>Tax expenditures</strong></td>
<td>+0.1</td>
<td></td>
</tr>
<tr>
<td>Change in surplus (deficit)</td>
<td>(0.1)</td>
<td></td>
</tr>
<tr>
<td>Change in borrowing from the public</td>
<td>+0.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: Burman and Phaup (2012)

Add information on program and policy performance at decision points and create an expectation that this information will be used. All activity proposed in the President’s budget and related justifications of appropriation requests should be accompanied by a statement of expected results. The Office of Management and Budget, under the Obama Administration (with a push from GPRAMA 2010), is already requiring agencies to provide this information, which could be shared with and used by Congress.

Similarly, each congressional committee’s budget plans conveyed to the Budget Committees in Views and Estimates letters should explicitly describe the plans that it considered, along with cost-benefit explanations for their preferred choice. New initiatives proposed by a committee should contain a recommended source of funding, including possible spending reductions elsewhere within the committee’s jurisdiction. CBO cost estimates should be expanded to summarize recent relevant program evaluations and policy analyses and a statement of measurable results that can be expected from new initiatives or reauthorizations.

Add a point of order against proposals to increase the fiscal gap. Because the consequences of legislative actions can be long-lived and difficult to reverse, we propose additional procedural hurdles to
reduce the frequency of large budget errors. Specifically, new points of order should be established against any legislation or resolution that would increase the fiscal gap.21

VI. Objections, Caveats, and Closing Comments

We cannot claim with certainty that our approach will improve federal budget decisions. Nonetheless, further discussion of our proposals and possibly experimental trials seem justified on grounds that they are low-risk, have low costs, would be easy to reverse, are informed by research instead of political platforms, and are fully consistent with democratic governance. And if one is reluctant to consider these types of non-coercive process interventions, what is the alternative? – (1) a Constitutional amendment requiring some form of fiscal balance, enforced by the judiciary? (2) a debt crisis that rapidly forces a retrenchment in the government’s capacity to operate and deliver benefits? (3) continued trial and error experimentation with *ex post* self-inflicted harms such as debt ceilings and sequesters that Congress has tried in various combinations?

In our view, measures that attempt to force Congress to take thoughtful action now to avoid some future self-imposed calamity ignore the major findings of behavioral research: humans have great difficulty in overcoming their present bias for gain now and pain later. We’ll take the pie now, in the hope that the bill will not come, or that when it does, we will be in a much better position to pay. An effective choice architecture improves decisions precisely at the point in time when they are being made. Anything later is too late and is likely to be subject to further deferral and evasion.

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21 While not directly related to the motivating concern of this paper – which is that decision makers are obtaining poor budget results (too much debt, inefficient policy choices) through a choice architecture that could be improved – there is another example of a “nudge” that could help with another problem decision makers face. Increasingly over recent decades, Congress has failed to complete appropriations legislation by the start of the fiscal year. Congress finds it easier to enact short-term continuing resolutions (CRs) to avoid the political penalties associated with shutting down much of the government while they continue to wrangle. Occasionally, Congress has found it easier to do nothing at all, allowing spending authority to expire and thus forcing a shutdown of parts of the government. Some have suggested that it is better to avoid shutdowns by putting in place an automatic CR that would go into effect upon Congress’ failure to act, leaving spending levels the same as in the preceding year. If one believes that an automatic CR would likely reinforce Congress’ tendency to delay, a better strategy might be to make the default option one that most actors would want to avoid, i.e., a shutdown. Roy Meyers, Paul Posner, Steve Redburn, and Phil Joyce have suggested the creation of a point of order against consideration of any appropriations bill that does not provide a full 12 months of funding, which could only be waived if 75 percent of the body votes to allow the bill to proceed. Since it likely would be very difficult to garner sufficient votes to proceed with a partial-year funding bill, Myers et al. suggest a government shutdown would be the default result, prompting Congress to enact regular appropriation bills in a timely fashion. Even so, the authors did not make clear how the House could prevent itself from conducting a simple majority vote to set aside such a 75 percent rule. ([http://www.memostoleaders.org/sites/default/files/MEMO4_1.pdf](http://www.memostoleaders.org/sites/default/files/MEMO4_1.pdf))
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On Polarization:

Sunstein and Hastie (2015) identify conditions that can lead to extreme polarization. They conclude, based on the “Colorado” experiment (Schkade, Sunstein, and Kahneman, 2000, as summarized in Sunstein and Hastie, 2015, pp 81-83), that when like-minded individuals deliberate or “caucus” together, they are likely to adopt a more extreme view than they had as individuals before they talked together. In this experiment, a small sample of residents were recruited in two cities (a right of center group from Colorado Springs in one group and a left of center sample from Boulder in another). Each group was asked to first record their anonymous views on three contested policy topics and then to talk together to reach a group decision. After the group deliberations were concluded, individuals were asked again to record their views. Both the group decision and the second set of anonymous statements of individuals were more extreme than the initial statements.

Sunstein and Hastie offer three explanations for this. The first is that when like-minded people talk together on a policy question, the number of speakers supporting the view to which the group was predisposed will vastly outnumber those opposed, and some of the arguments offered will be new to the group. The frequency and novelty of the “evidence” on the question will move the group toward a more extreme position. Second, having heard the views of other members, individuals seeking the approval of the group are likely to adopt a stronger position along the spectrum favored by the majority. Third, when others corroborate our view, we are likely to hold it with greater confidence. This reduction in doubt about the validity of our position disposes us to accept a more extreme version of the policy.

On the Influence of the Group on Individual Perception and Judgment:

In an early study,22 Sherif placed adult subjects in a dark room where they were asked to estimate the distance traveled by a stationary pinpoint of light. Even though the light did not move, most subjects experienced movement. Their estimates ranged from two to six inches. After a number of individual trials, two or more subjects were asked to agree on an estimate. Both high and low estimators tended to compromise toward the average. Subjects were then asked if their estimate was affected by the views of the other observers. They denied such an effect. However, when they were retested alone, their estimate moved toward the previously established average of individual trial observations.

Solomon Asch (1955) tested the power of the group to affect individual observations using an experiment, ostensibly dealing with “visual judgment.”24 In the test, a subject is shown two cards: one card has three lines of unequal length, and the second card has a single vertical line that matches the length of one of the lines on the other card. The task is to match the lines of equal length. The differences in length were significant so that ordinarily the error rate of subjects in identifying the matching line is less than 1 percent. The test is administered to the subject, along with six to eight others who, unbeknownst to the subject, are collaborators with the researcher. Their role is provide answers aloud before the subject and, initially, to provide unanimously correct answers. After two rounds of answering correctly, however, the collaborators unanimously report false answers for the next 16 rounds. The object is to test the extent to which the subject will report what his eyes tell him or conform to the overwhelming majority view.

On average, subjects tend to yield to the judgment of the majority and report a false answer about 36 percent of the time. About one-fourth of subjects never conform and continue to report correctly through the 18 rounds of the test. Those who begin to follow the majority almost never revert to their own judgment. After the test, all subjects who yielded to the majority’s judgment underestimated the frequency

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22 See: http://www.intropsych.com/ch15_social/sherif_1936_group_norms_and_conformity.html
with which they followed the majority. In a controlled variation, experimenters inserted a “truthful partner” onto the panel. The presence of a supporting dissenter reduced the frequency with which the subject conformed to about 9 percent of the time.

In related studies, the role of the early-speaking majority is assumed by a confident, credentialed “chair” who speaks first and directs the group toward a specified decision. Such a voice has disproportionate influence on the group’s decision, even if it is based on error, because those with information that could derail the leader’s recommendation do not want to slow the group’s progress and take the time of busy people or to appear as one who is not a team player. Thus, the early speakers in a group decision process often create a “cascade” of support for a particular proposal that will prevent the group from hearing information held by self-silenced members.

Group affiliation can also blind members to the substantive content of a policy proposal (System 2 yields to System 1). Cohen (2003) reports a series of experiments in which self-described liberal and conservative students are randomly assigned to read one of two alternative, detailed proposed welfare reform policies, which are summarily characterized as either stringent or generous. Subjects were also randomly assigned to receive one of two different pieces of information: either that mostly Democrats favor the proposal (95 percent of House Democrats and 10 percent of House Republicans favor it) or that mostly Republicans favor the proposals (95 percent of House Republicans and 10 percent of House Democrats favor it). Each student was then asked to express support of or opposition to the policy.

The result – liberal students supported the assigned proposal, whether more stringent (less generous that any current policy) or generous, if they were told that Democrats favored it; otherwise, those liberal students opposed the proposal. Similarly, conservative students supported both generous and strict versions, when told Republicans supported that version. The substantive content of the two proposals had little effect on their assessment of the change in policy.

APPENDIX 2: Human Behavior in the Current Budget Process – 3 Cases

A Practitioner’s Guide to Nudging (Ly et al., 2013) suggests that the “first step in the process of designing an effective nudging strategy is to audit the decision-making process.” The best way to do that here might be through case studies of budget “errors.” An “auditor” of Congressional decisions might assume that Congress makes decisions inconsistent with its fiscal intent by enacting legislation that exceeds its budget plan, which is indeed a frequent event under the current budget process. But often, Congress deliberately plans to incorporate poor decisions (i.e., decisions that produce fiscal results counter to the lower-deficit, lower-debt goal that many Members of Congress profess they desire) into their budget plan – “for free.” In addition, they sometimes merely take advantage of the current budgetary accounting to spend now while moving the cost into the distant future. Consider, first, two examples of decisions made without having to recognize that the decision is counter to the goal of fiscal balance and responsibility. Then, we turn to a case in which the Congress exploited the cash-basis of accounting for a deferred payment insurance program with up-front cash fees to pay for other spending that the Congress wanted to effect immediately.

Medicare Prescription Drug Benefit

Perhaps the poster child of a fiscally irresponsible budget decision made jointly by the President and the Congress is the Medicare Prescription Drug, Improvement, and Modernization Act (MMA), enacted in December 2003. A thumbnail sketch of the development of this law goes as follows:

* On February 3, 2003, President George W. Bush proposed in his 2004 budget to spend $400 billion over 2004-2013 on a new prescription drug benefit for seniors under Medicare (the next Presidential

election was in 2004). A month later, CBO estimated that the President’s 2004 request, including his proposal to create this new prescription drug benefit, would double the deficit over the 2004-2013 period from $0.9 trillion to $1.8 trillion (2003). Nonetheless, the possibility of paying for this new debt-financed entitlement program was never seriously discussed by the Congress or the Administration.

* The Republican-controlled House and Senate decided to facilitate enactment of the new drug benefit by including the cost of it in the budget resolution. Because of its privileged nature from the 1974 Budget Act, a budget resolution cannot be filibustered in the Senate and therefore can pass both bodies by a simple majority. And, there is no point of order against a budget resolution that includes plans to spend more or tax less in the future than current law. So the conference report on the budget resolution for fiscal year 2004 included a $400 billion reserve fund. The reserve fund could be released by the chairmen of the House and Senate Budget Committees as an increased allocation over the baseline to the relevant committees of jurisdiction (the Finance Committee in the Senate and the Ways and Means Committee in the House) to accommodate legislation creating this new entitlement, dependent on the condition that the legislation reform (i.e., “modernizes” or “strengthens and enhances”) Medicare.\(^{26}\)

* Little in the eventual MMA legislation “modernized” or “strengthened and enhanced” the Medicare program. But the conditions in the reserve fund language in the budget resolution were ignored, and the Budget Committee chairmen released the allocations from the reserve funds to the relevant committees, with the idea being there would be smoother sailing for the prescription drug legislation on the floor of each body of Congress (i.e., less chance of a point of order being raised that would require 60 votes in the Senate to waive and proceed with the bill; indeed, no point of order was raised against the MMA bill when the Senate considered its version, and the bill passed 76-21).

* Despite these well-laid plans, immediately after the Senate invoked cloture (by a vote of 70-29) against a filibuster of the conference report on the MMA, the Senate Minority Leader, Senator Daschle, raised two points of order under the Congressional Budget Act against the bill, but not because it spent more than the $400 billion allowed by the budget over 2004-2013 (it didn’t; in fact, the net cost estimate of the bill came in at $395 billion — under the amount allowed). Instead, Senator Daschle raised the points of order because the bill spent $4 billion more in 2004 alone than was assumed in the budget resolution (and the same $4 billion more than was allocated to the Finance Committee for 2004). Senator Daschle attempted to use the points of order arising from spending an extra $4 billion in 2004 to kill the conference report –

\(^{26}\) SEC. 401. RESERVE FUND FOR MEDICARE MODERNIZATION AND PRESCRIPTION DRUGS

(a) IN THE HOUSE- (1) In the House, if the Committee on Ways and Means or the Committee on Energy and Commerce reports a bill or joint resolution, or if an amendment thereto is offered or a conference report thereon is submitted, that provides a prescription drug benefit and modernizes medicare, and provides adjustments to the medicare program on a fee-for-service, capitated, or other basis, the chairman of the Committee on the Budget may revise the appropriate allocations described in paragraph (3) for such committees and other appropriate levels in this resolution by the amount provided by that measure for that purpose, but not to exceed $7,000,000,000 in new budget authority and $7,000,000,000 in outlays for fiscal year 2004 and $400,000,000,000 in new budget authority and $400,000,000,000 in outlays for the period of fiscal years 2004 through 2013. . .

(3) In the House, there shall be a separate section 302(a) allocation to the appropriate committees for medicare. For purposes of enforcing such separate allocation under section 302(f) of the Congressional Budget Act of 1974, the “first fiscal year” and the “total of fiscal years” shall be deemed to refer to fiscal year 2004 and the total of fiscal years 2004 through 2013 included in the joint explanatory statement of managers accompanying this resolution, respectively. Such separate allocation shall be the exclusive allocation for medicare under section 302(a) of such Act.

(b) IN THE SENATE- If the Committee on Finance of the Senate reports a bill or joint resolution, or an amendment is offered thereto or a conference report thereon is submitted, that strengthens and enhances the Medicare Program under title XVIII of the Social Security Act (42 U.S.C. 1395 et seq.) and improves the access of beneficiaries under that program to prescription drugs or promotes geographic equity payments, the chairman of the Committee on the Budget, may revise appropriate budgetary aggregates and committee allocations of new budget authority and outlays provided by that measure for that purpose, but not to exceed $7,000,000,000 for fiscal year 2004 and $400,000,000,000 for the period of fiscal years 2004 through 2013, http://thomas.loc.gov/cgi-bin/cpquery/z?sid=cp108FXZY6&refer=&r_n=hrt071.108&db_id=108&item=3&n=hr071.108&hd_count=50&item=3&aset=TOC_798777

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not because it increased the deficit by too much, but rather because it did not increase spending and the deficit over 2004-2013 by an amount even larger than $400 billion. As Daschle argued:

I don’t challenge the $400 billion. Frankly, I don’t think that it is adequate to provide a meaningful drug benefit. We have to do better than that.27

In fact, Senator Daschle and others wanted to spend well more than $400 billion on the bill to “close the donut hole.” But, with one vote to spare (by a vote of 61-39), the Senate waived Senator Daschle’s point of order, the conference report survived, and the Senate proceeded to pass it by a final vote of 54-44.28

* President Bush signed the MMA into law, which has been in operation since January 2006. There has never been an effort to pay for the costs of the program or otherwise prevent the MMA from being a pure add to future deficits and debt. Proponents of the bill instead have attempted to burnish their fiscal-discipline bona fides by observing they have been “correct” all along, as the actual cost of the bill has not turned out to be quite as much as initially estimated in 2003.29

Highway Spending

Another example of Congressional fiscal irresponsibility is the use of the Congressional budget resolution to circumvent the fiscal limit that is supposed to be provided by the use of a trust fund to link spending on highways to amounts collected in taxes by users of federal transportation infrastructure. The federal Highway Trust Fund is credited with receipts (primarily gasoline taxes), which is supposed to ensure that such taxes are only used to pay for highways and, symmetrically, that highway spending is limited by the amount of those receipts.

But since 1998, the Highway Trust Fund has been running out of money (CBO, 2014). This result is due to annual Congressional budget resolutions that continue to allocate more spending authority to the highway committees than can be paid for by the incoming revenue earmarked for the fund. The budget resolution provides the increased spending authority to the committee of jurisdiction “for free” – it neither plans for nor instructs any other committee to create additional revenue from sources related to highway usage (or any other source for that matter). And, as with the Medicare Modernization Act, the budget resolution that provides free money can be adopted by a simple majority.

Given this increased spending allocation, when the highway bill comes to the floor of each body with the level of spending assumed in the budget resolution, that highway bill does not face a point of order. Once that bill is enacted, the Department of Transportation then obligates the amounts as directed, and when it comes time to write the checks to states to liquidate those commitments that exceed the available Trust Fund balances (i.e., gasoline tax revenues), Congress has thus far decided it has little choice but to retroactively make good on those outlays in a timely manner by authorizing Treasury borrowing to pay for it, thereby increasing the federal debt. The bottom line is that Congress assumes excess highway spending authority in budget resolutions even though it knows the Trust Fund does not have the money to pay for it and that Congress ultimately will have to enact a subsequent law that increases Treasury borrowing to cover it, which means that future taxpayers (i.e., children and grandchildren) will have to pay for it instead.

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28 For completeness, it is important to note that even though no Budget Act points of order came into play during the House's consideration of the legislation, passing the bill in the Republican-controlled House was not a cakewalk, even though it was written by Republicans for a Republican president to sign. When the bill was first considered in the House in June 2003, three Republicans had to change their initial “nay” vote before it could be passed 216-215. When the conference report came back to the House on November 22, 2003, in an unusual move, the vote was kept open from 3 AM until about 6 AM, until it passed 220-215.

29 “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.” See page 5 of CBO, Competition and the Cost of Medicare’s Prescription Drug Program, July 2014 (http://www.cbo.gov/sites/default/files/45552-PartD.pdf).
The CLASS Act of 2010

Our third case study illustrates how the cash-basis presentation of some of the largest federal social insurance programs, such as Social Security and Medicare, encourages a "present bias" in budget decisions because it delays the recognition of current-period costs until they are beyond the responsibility of current budget decision-makers. In those cases, cash-basis budgetary accounting violates the "concept (or more correctly, the functional necessity) of matching costs in the budget with the act of allocating scarce resources to specific purposes.

As a rule, cash-basis accounting for cost understates (1) the current-period claims on resources that are being made by payments that are deferred until later and (2) the resulting contribution of those claims to the deficit and the debt. In an a odd twist, because of the mistreatment of interest, this method of accounting also overstates the net long-term outlays of an actuarially sound program, where premiums are set in present values equal to the future value of claims.

All of these shortcomings of the current cash-basis accounting are spelled out clearly by CBO in its 2009 cost estimate\(^\text{30}\) (and explanatory letters to Senator Harkin\(^\text{31}\) and Congressman Miller\(^\text{32}\)) for the Community Living Assistance Services and Supports Act (CLASS Act), which was part (Title VIII) of the Affordable Care Act of 2010. This legislation attempted to create a voluntary long-term care insurance program for those who might enroll in case they are later unable to perform basic living functions for themselves, such as dressing, cooking and eating. Care was to be provided in the community, either in the home of the disabled person or in a residential facility. The insurance would have been provided through employers after a five-year vesting period. The program was explicitly intended to be self-supporting from premium income. Accordingly, the Secretary of the Department of Health and Human Services was directed to either: (1) set premiums and adjust benefits as needed to assure the financial viability of the program, or else (2) never initiate the program if it would not be possible to offer the insurance on terms that would be sustainable and self-financing.

The CBO cash-basis cost estimate faithfully reflected the provisions of the legislation:

* Premium income (offsetting receipts, i.e., negative outlays) was projected to flow into the government for the first five years. With no possibility of claims during this initial vesting period, the insurance program would have accumulated a balance of more than $30 billion, further increasing to more than $73 billion over years 6-10, even after allowance for expected claims and administrative costs.

* For the 2010-2019 period, the CLASS Act was projected to "reduce" the budget deficit by $72 billion (the excess of premiums over claims).

* Premiums were also projected to exceed claim payments and other costs in the following decade (2020-2029) and to similarly reduce the deficit by the difference, though by less than in the first decade.

* Only in the third decade did CBO estimate that insurance outlays for claims would exceed premium income and the program would begin to show a cost in net outlays and the deficit.

* Because the CLASS insurance fund balances were to be invested in Treasury securities, the CLASS Act would also reduce federal borrowing from the public by the same amount and result in savings in interest payments to the public that would now be paid to the trust fund as interest on fund balances. Those payments would have been required by the trust fund to permit premium balances to grow into the future value of insurance claims.


* However, interest payments to the insurance fund by Treasury are intragovernmental transfers that have no effect on net federal outlays. Thus, over an entire cohort of insured employees, the actuarial payment of claims by the trust fund was scored as exceeding the collection of premiums by the amount of interest earned by the trust fund on its balances.

As a result, the CBO cost estimate of the CLASS Act (under current cash-basis accounting) indicated to members and the public:

* The CLASS Act was projected to provide $72 billion in extra income or budget “resources” over the first 10 years, and additional unspecified amounts in the next 10 years that were available to either offset new spending provided elsewhere in the ACA or else to allow the authors to claim deficit reduction.33

* The interest savings from collecting premiums in advance of claims and reducing public borrowing and interest is not a legitimate offset to other federal spending.

* This cost estimate gave credit for and counted a false saving (actuarially fair premiums already obligated to pay future claims), while ignoring a genuine, if temporary, one – interest saved on debt not sold to the public because of the accumulation of premiums.

* Enacting this legislation would impose a cost on government in the future, but for the next 20 years, the CLASS Act would be a fiscal positive.

As there was no feasible accounting solution available under law to this misleading accounting, one might be sympathetic to CBO’s “tied hands.” (One might wonder, nonetheless, about CBO’s self-imposed silence on the merits of its scoring.) As many expected, however, in October 2011, the Secretary of HHS determined that no feasible premium schedule could be established that would permit the insurance to be offered as a self-sustaining program because of the threat of adverse selection. That is, only the least healthy, most-likely highest claim employees would enroll, thus driving premium rates higher until only the worst risks were in the insurance pool. Consequently, as directed by the ACA, the Secretary halted efforts to establish the insurance program. (For good measure, in January 2013, Congress repealed the CLASS Act.)

Even though the net premium income for the first 20 years would eventually be needed to make good on insurance claims in the future, the CBO cost estimate clearly indicated that the CLASS Act premium income contributed $72 billion to deficit reduction in the first 10 years of the ACA.34

However, a budgetary accounting solution is readily available: define the insurance fund to be outside the unified budget, just as the financing accounts for direct loans and loan guarantees are treated as means of financing under credit reform. Then, insurance premiums would not be scored as federal receipts, and claims payments would not be scored as outlays. However, interest paid on Treasury debt would be scored as outlays, and debt held by the insurance program would be included in debt held by the public, just as such debt held by the Federal Reserve is treated.

33 Senator Conrad, Chairman of the Senate Budget Committee in 2010, prevented this sum from being included as a credit on the just-enacted statutory PAYGO scorecard. Hence, the funds could not be used to avoid a sequester. However, nothing offset the general perception and advertising that the ACA (including the “savings” from the CLASS Act) represented a “hard decision” to reduce the deficit.

34 A slightly more complicated, but more relevant, case is the Old Age and Survivors Insurance (OASI) program of Social Security. Currently, there is a fiscal gap in the program. Current payroll taxes of 12.4 percent of taxable payrolls are insufficient to pay formula benefits in the future. Payroll taxes would need to be increased by 1.7 percentage points (to 14.1 percent of taxable payrolls) in order to pay accruing benefits. To get a more relevant and salient measure of the cost of Social Security, one could move the OASI trust fund outside the federal corpus and require an annual government payment to the fund equal to the existing tax shortfall. In addition, one could score payroll taxes as both revenues and outlays when received and paid to the trust fund. This treatment would make clear the amount of the annual cost of Social Security that is within the reach of current budget decisions, the amount that is not, except by default on past promises, and the total public debt including existing obligations to make payments under current law.
As a result, collecting premiums in advance of claims payment for insurance funds would not be scored as deficit reduction or “pay-fors” for other spending, and interest payments on debt held by those funds would be scored as outlays as earned.

**What Does the Audit of the Decision-Making Process Tell Us?**

It is clear from these three examples that no impediments currently restrain a budget resolution from assuming any costly policy or prevent misrepresentation of the budgetary effects of premium payments to an insurance fund. The 40-year-old Congressional budget process, despite providing lawmakers with much of the information they need to realize their goals for budget policy, fails to provide cost information in a form that is salient in day-to-day decisions and consistent with their professed goals.