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ANOTHER COMMISSION?
The Wolf Entitlement Commission Includes Favorable and Unfavorable Aspects

by Richard Kogan

Representative Frank Wolf (R-VA) recently introduced legislation (H.R. 5552) to establish a commission to study the long-term fiscal problems the United States faces.[1] The commission would propose legislation to address these problems, and Congress would be required to vote up or down on that legislation. The bill also permits a vote on at most three alternatives: an alternative prepared by the Bush Administration and alternatives prepared in each house of Congress by the majority of that chamber's Budget Committee.[2]

Some aspects of the Wolf proposal seem meritorious. As the proposal is currently drafted, however, other aspects of it are highly problematic. A bipartisan attempt to reduce the nation's long-term fiscal imbalance is important. Based on Congressional Budget Office projections through 2050 (and assuming that the 2001 and 2003 tax cuts are made permanent and relief from the Alternative Minimum Tax is continued), we estimate that to eliminate the "fiscal imbalance" through that date would require increasing all revenues by an average of 17 percent starting now, decreasing all programs (including Social Security) by an average of 16 percent starting now, or some

KEY FINDINGS

- **Resolving the nation's long-term fiscal imbalance will require painful spending cuts and revenue increases. Such changes likely cannot be achieved in a partisan fashion, so measures to encourage bipartisan Congressional action on these issues are potentially valuable.**
- **Unfortunately, the Wolf proposal undercuts the potential for bipartisanship by slanting the commission's membership toward Republicans and providing a fast-track procedure for Congressional consideration of the commission's proposals, with only Republican amendments to the commission's plan being allowed.**
- **The language of the Wolf proposal heavily favors cuts in programs over revenue-raising measures. It is ideologically slanted in this regard instead of being ideologically neutral, further reducing the commission's chances of achieving bipartisan success.**
- **The 1983 Greenspan commission, which was created and run on a strongly bipartisan and ideologically neutral basis, is the type of commission model to emulate.**

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[1] The "SAFE Commission Act" (H.R. 5552), introduced on June 7, 2006.

[2] On June 12, 2006, Senator George Voinovich introduced a companion bill (S. 3491) that has the same title and includes very similar (although not identical) provisions. The Voinovich bill sets forth the procedures that would govern Senate consideration of the commission's plan. While this analysis assesses the Wolf bill, the aspects of the Wolf bill that this analysis finds to be problematic exist in the same form in the Voinovich bill.

combination of the two steps. Waiting to reduce the deficit, or phasing in the revenue increases and programs reductions gradually, will require the size of the tax increases or program cuts that ultimately are made to be substantially larger. Under these projections, if Congress neither reduced projected expenditures nor increased projected revenues, the debt would reach approximately 176 percent of GDP by 2050 and seriously harm the economy.[3]

The Wolf commission proposal is intended to encourage Congress to address long-term budget problems. Yet despite the clear advisability of congressional action to substantially reduce or eliminate projected deficits, Rep. Wolf's proposal has three serious flaws that undercut its merits.

- First, the commission could operate on a largely partisan basis. Republican appointees to the commission would outnumber Democratic appointees by 9-6. Ten votes would be needed for the commission to approve its recommendations. This suggests the commission could develop its proposals largely on a partisan basis and seek to entice a single Democratic commission member to vote for them. (Among other things, this possibility likely would encourage Democratic leaders to name to the commission only stalwarts expected to adhere to party discipline, to prevent a lone defection from enabling the commission to produce a largely partisan Republican plan.)

- Second, the legislation would provide for the commission's proposal to be "fast-tracked" through Congress (meaning that the proposal could pass the Senate with a bare majority of 51 votes). And while Republicans in Congress would be allowed to offer amendments to the commission's plan, Democrats in Congress would be denied that right (unless control of Congress changes). Only two amendments would be permitted in each chamber of Congress — an alternative to the commission's recommendations submitted by the President and an alternative submitted by a majority of that chamber's Budget Committee. All other amendments would be barred.

- Third, the language of the proposal heavily favors cuts in programs over increases in revenues and is not even-handed. In fact, it is drafted in a way that could open the door for commission members who are supply-siders to develop "dynamic scoring" methods that would show tax cuts losing less revenue than official estimates would show, or even raising revenue. They could try to persuade the commission to employ these dynamic estimates and endorse additional tax cuts in the name of deficit reduction.

These three flaws substantially reduce the prospects for the commission to produce a balanced, bipartisan plan that could be enacted and sustained and that would substantially improve the long-term budget outlook. A balanced, even-handed deficit-reduction commission might be useful in efforts to achieve such a desirable outcome. The problems in the Wolf bill as it now stands are sufficiently great, however, that its enactment would be ill-advised unless its flaws are addressed. In

[3] Estimates of the long-term fiscal imbalance are highly uncertain and depend, among other things, on the rate at which health care costs grow in future decades. Experts concur that it is extremely unlikely health care costs will grow so slowly that the fiscal imbalance will disappear and are unanimous in the opinion that economic growth will not solve the problem. It also should be noted that all current projections of expenditures and revenues show that deficit problems will be still more serious after 2050 than before that date. Consequently, the level of program cuts and/or tax increases needed to eliminate the fiscal imbalance through 2050 would not be sufficient to eliminate fiscal imbalances over longer periods of time.

this analysis, we suggest ways in which these three flaws could be addressed while keeping in place the main thrust of the bill, which is the creation of a bipartisan commission dedicated to serious long-term deficit reduction.

The Need for Bipartisanship

Reducing projected deficits is an exercise in unpleasant choices. The largest expenditures in the budget occur for Social Security, Medicare and Medicaid, and the Department of Defense. The public is not likely to take kindly to major cuts in these programs (or to major tax increases) unless it believes a crisis is at hand. Similarly, members of the House and Senate generally prefer not to vote for substantial program cuts or tax increases unless a crisis compels such a vote. Yet there is no obvious crisis now. The problem with large long-term deficits is that they will gradually erode future standards of living and weaken the nation's economic strength. (They also could exacerbate and make it harder to respond to an international financial crisis if one were to occur for other reasons.)

These political dynamics suggest that the only chance for enactment of a major deficit-reduction plan is if it is clearly bipartisan in both name and substance. It would need the vigorous support of the President and of *both* Republican and Democratic Congressional leaders. Frankly, without a presidential commitment to engage in serious negotiations, substantial long-term deficit reduction legislation is unlikely to be enacted even if there otherwise would be bipartisan leadership support in Congress. And without both presidential and congressional leadership and commitment, no commission has much chance of success. We believe that the best such a proposal can accomplish — if designed in way that is balanced and workable — would be to act as a fair framework that the President and the bi-partisan leadership could use *if* they mutually choose to do so.

Composition of the Commission

The composition of the commission proposed under the Wolf bill does not fulfill the requirements of bipartisanship. The commission would be composed of 15 members, three each appointed by President Bush, Speaker Hastert, Senate Majority Leader Frist, House Minority Leader Pelosi, and Senate Minority Leader Reid. This produce would a ratio of nine Republicans to six Democrats.

The bill specifies that the proposal the commission submits be approved by a two-thirds vote of the commission, i.e., by ten of the commission's 15 members. The concept of requiring a two-thirds vote has merit, since a proposal supported by a bare majority is less likely to be enacted. But in this case, with Republicans having nine members of the commission and ten members being required to report a deficit-reduction plan, the political dynamics become clear: the Republicans may be tempted to appoint nine party stalwarts in the hope that they can pick up a single Democrat; and Democratic leaders, seeing this obvious risk, may be tempted to appoint only party stalwarts since they would feel they could not afford even one possible stray.

A second issue is that no more than two of the Democrats and three of the Republicans can be members of Congress. While the notion of a commission with a strong contingent of private citizens and policy experts may appear high-minded, it also may be unrealistic. The goal is to get legislation enacted by Congress. If the key leaders of Congress are not intimately involved in designing the commission's plan, that goal is less likely to be met.

It is instructive to contrast the proposed commission with the last commission to propose a major legislative change and have it successfully enacted — the Greenspan Commission, which designed the Social Security rescue plan of the early 1980s. That commission had eight Republicans and seven Democrats, and included four Senators, three members of the House, and two former members of the House. The membership consisted of political heavyweights: Republicans such as Barber Conable and William Archer (leaders of the House Ways and Means Committee) and Senator Robert Dole (Chairman of the Finance Committee), Robert Ball (long-time commissioner of Social Security), Senator Daniel Moynihan (of the Finance Committee), Rep Claude Pepper (Chairman of the Aging Committee), former Rep. Martha Keys (of the Social Security Subcommittee), and Lane Kirkland (President of the AFL-CIO). It was understood that the Greenspan Commission was supposed to achieve a result that *all* the key Republicans and Democrats could endorse, and that they were then supposed to use their weight to achieve enactment.

Furthermore, the Greenspan Commission's plan was *not* fast-tracked through Congress, which heightened the need for the Commission to produce a thoroughly bipartisan plan, with solid support that extended to the top of both parties. The Commission understood that it needed to win the assent of President Reagan, Speaker O'Neill, and the top Democrats and Republicans on the Commission, and it succeeded in doing so. Its primary recommendations were passed by a Commission vote of 12-3 and then approved by strong bipartisan majorities in both the House and the Senate.

This history and these considerations strongly suggest that the composition of the commission proposed in the Wolf bill should be modified. For instance, the proposal could be changed so that the President appoints three persons from within the Administration who would have a veto over the final recommendation. The four Congressional party leaders (the Speaker, the House minority leader, and the Senate majority and minority leaders) could each appoint three persons, at least two of whom are members of Congress. Finally, a requirement could be added that the commission's recommendations must have support from at least nine of these twelve congressional appointees. The approval conditions will not be easy to meet, but unless they are, the commission will not produce a deficit reduction plan that can withstand the inevitable, intense attacks it will receive over time.

Only Republican Amendments Allowed

The Wolf bill requires that the commission's deficit reduction plan be submitted in the form of legislation within eight months of the proposal's enactment. Within another two months, the deficit reduction legislation would have to be brought to the floor of the House for consideration, exactly as submitted by the commission. Only two amendments would be allowed in the House: a substitute prepared by President Bush, and a substitute prepared by the House Budget Committee.[4] Thus, two Republican substitutes could be offered, and they would be offered to legislation that itself was drafted by a Republican-dominated commission. *No Democratic amendments would be permitted*. The three plans would each be voted on, and whichever received the most votes (if a majority) would be considered to have passed. Senate procedures (which are set forth in a companion bill introduced in the Senate by Senator George Voinovich) would be virtually identical.[5]

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[4] For this analysis, we assume that control of the House and Senate does not shift to the Democrats.

[5] The Wolf proposal is silent about Senate procedure, but the Voinovich bill specifies a similar procedure. Under it, as well, only substitutes presented by the President and the Senate Budget Committee could be offered. No other

These aspects of the bill are highly problematic. The bill should be modified so that the legislation embodying the commission's recommendations is open to a broader range of amendments. As noted, the Social Security legislation designed by the Greenspan Commission in 1983 was allowed to be amended in the House and the Senate; dozens of amendments were considered by the Senate and a number were adopted, as was a key House amendment (raising the "normal retirement age") that provided many additional years of solvency to the Social Security trust fund. Perhaps all amendments should be required to live within some constraints, such as that non-budgetary amendments be disallowed.

In addition to limiting amendments, the proposal would establish "fast-track" procedures; the proposal would do away with the right of the Senate to engage in extended debate, which can ultimately become a filibuster. In effect, the normal Senate procedures guarantee some degree of broad-based support for all important legislation because Senate rules require the concurrence of 60 of the 100 Senators to limit debate and thus ultimately stop a filibuster. The effect of this "fast-track" procedure is to allow a bill crafted by a potentially partisan Republican commission — and subject to only two amendments, both designed by Republicans — to be enacted into law by a 50-50 Senate vote, with Vice-President Cheney breaking the tie.

We believe that either by removing the Senate fast-track provision so that a filibuster is allowed, or through a specific requirement that would be added to the proposal, Senate opponents of the deficit-reduction legislation should have at their disposal a procedure that would require 60 votes for passage, should they choose to invoke it. The possibility that 60 Senate votes would ultimately be required would increase the likelihood that the deficit-reduction legislation would be designed to attract wider and more bi-partisan support.

Expenditure Cuts Favored over Revenue Increases

The proposal would give guidance to the commission in three ways: by listing "Issues to Address," by outlining "Policy Solutions," and through a section of the bill labeled "Proposal Requirements." The list of "Issues to Address" is well designed and unbiased: it asks that the commission address the "unsustainable imbalance between long-term federal spending commitments and projected revenues" and calls for "increasing net national saving to provide for domestic investment and economic growth." These statements say, in effect, that future deficits should be reduced and reflect the mainstream economic view that over time, a national saving rate that is too low will be harmful for the economy and that the most direct way Congress can increase national saving is to reduce the deficit.

The list of "Policy Solutions," however, is problematic and unbalanced. It includes a call for "reforms that make the tax code more efficient and more conducive to continuing economic growth," and for "incentives to increase private saving." The White House and Republican Congressional leaders frequently repeat the supply-side claim that over the long term, various tax cuts — even if deficit-financed — will produce higher economic growth by improving incentives to work, save, and invest. They also maintain that low taxes on investment income (as opposed to

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amendments would be allowed. Hence, absent a change in control of Congress, only Republican amendment would be allowed.

taxes on wages and salaries or on consumption) provide especially good incentives for private saving. Without debating this issue at length, suffice it to say that the evidence shows these supply-side effects to be weak at best, and strongly suggests that *deficit-financed* tax cuts — including so-called "savings incentives" that are deficit financed — are likely to do more harm than good to the economy over the long term. It therefore follows that over the long run, tax increases that are dedicated to deficit reduction are more likely to help the economy than harm it, and will clearly reduce the budget deficit. Yet the "Policy Solutions" listed in the bill treat tax policy in a way that Republicans leaders are likely to claim justifies having the commission consider only those tax changes that they believe will promote economic growth and private saving. This may all but rule out having the commission recommend measures that would produce net revenue increases.

That Republicans may interpret this language as a call for further tax cuts — or at least as an argument against any revenue increases — is evident from a recent discussion of the Wolf proposal issued by the Heritage Foundation, an organization well-known for its conservative viewpoint. That discussion included the following sentence:[6]

> [B]y placing an emphasis on pro-growth tax reform, a commission proposal could also lead to some additional revenues not by raising taxes but thanks instead to faster economic growth—just as the Bush tax reforms produced the recent sharp increase in federal revenues.

This Heritage discussion interprets the Wolf bill as endorsing the notion that some deficit-financed tax cuts ultimately more than pay for themselves by generating substantial extra economic growth. This is both dogma and myth — it is rejected by virtually all mainstream economists and is decisively refuted by the evidence[7] — but if some people believe that the role of the commission is to design new tax cuts, the entire venture would get off to a very bad start.

Furthermore, the bill's list of policy solutions calls for limiting "the growth of entitlement spending to ensure that the programs are fiscally sustainable." Were the proposal even-handed in its treatment of expenditures and revenues, it would include a parallel "Policy Solution" item that calls for "achieving sufficient revenues so the budget is fiscally sustainable." Or, at a minimum, it would include a call for limiting the growth of what OMB and the Joint Tax Committee call "tax expenditures" and Alan Greenspan has called "tax entitlements" — the nearly $800 billion a year in tax subsidies contained in the tax code — to ensure that tax expenditures (i.e., spending through the tax code) is fiscally sustainable. Such language is absent from the bill.

In short, the bill speaks of economic growth only with respect to tax policy, and in a way that many Republicans are likely to believe rules out most or all tax increases (and might even be used to

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[6] Stuart Butler, "The Wolf SAFE Commission Act: A Chance To Get The Budget Back On Track," Heritage Foundation, July 14, 2006.

[7] For a discussion of the research and evidence refuting this notion, see Richard Kogan and Aviva Aron-Dine, "Claim That Tax Cuts "Pay For Themselves" Is Too Good To Be True," Center on Budget, July 12, 2006; James Horney, "A Smoking Gun: President's Claims That Tax Cuts Pay for Themselves Refuted By Administration's Own Analysis," Center of Budget, July 14, 2006; Jason Furman, "Do Revenue Surprises Tell Us Much About The Cost Of Tax Cuts?" Center on Budget, July 18, 2006; and Jason Furman, "A Short Guide To Dynamic Scoring," Center on Budget, July 12, 2006.

justify more tax cuts). The bill fails to mention deficit reduction as a necessity for long-term economic growth. The bill also fails to mention public investment in areas such as education, the health of children, scientific research, and infrastructure as being conducive to economic growth. A better approach would have been simply to focus on the need to bring deficits down to sustainable levels and thereby avoid an explosion of the national debt, and not to include any pronouncements on what other policies are (and by implication are not) needed to promote economic growth.

Moreover, these problems are exacerbated by another troubling aspect of the proposal — a provision in the bill that allows any *five* of the commission's 15 members to propose "methods of estimating the cost of legislation as an alternative to the method currently used by the Congressional Budget Office." This would seem to open the door to a "dynamic scoring" estimate of the effect of changes in tax policies and to enable five hard-line, supply-side members of the commission to design their own estimating model (or to have an ideologically-driven think tank do it) that would produce estimates purporting to show that various tax *reductions* would lose little or no revenue over the long term while most tax increases would damage the economy and raise little revenue. Rep. Wolf may not have intended such an outcome and may have had in mind the production of alternative estimates of both the economic and fiscal effects of various proposals. As drafted, however, this provision — taken in conjunction with the provision calling for tax measures to promote economic growth — risks being used by commissioners as justification to reject all or nearly all revenue increases (and possibly to promote new tax cuts).[8]

Other Problems

In addition to these basic problems, the bill also is weakened by its treatment of several other issues in a manner that is likely to reduce the commission's chances of success.

- The only two substitute amendments that Congress would be allowed to consider (those submitted by the President and the Budget Committee) would have to be deficit-neutral relative to the commission's proposal — i.e., they would have to reduce deficits fully as much as the commission's proposal or else they could not be offered. (If the proposal is modified as we recommend to allow more amendments, then all amendments presumably would have to be deficit-neutral.) Yet it is unclear whether a rule of deficit neutrality is wise. The point is to achieve as much deficit reduction as Congress is able to pass. If the commission overreaches in some politically unacceptable way, a prohibition on considering a substitute plan that is any less far-reaching may doom *all* plans to defeat.

  On the other hand, permitting amendments that are not paid for might allow some constituency to win a vote exempting itself from contributing to deficit reduction; such a vote

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[8] It is not unreasonable to want Congress to consider the long-term economic consequences of major changes in policy. If the intent of this alternative estimates proposal is to ensure that members of Congress would have information on the potential economic and other effects of the commission proposal when they consider it, a better approach would be to have CBO produce a traditional cost estimate of the proposal and separately provide a report describing the range of plausible ways in which the legislation could affect the economy and other policy outcomes, such as income and wealth distribution, health care access, and health outcomes. (CBO has, at the request of Congressional leaders, produced such reports on certain major legislative proposals.) These are, after all, key questions that will arise when one alters tax, Social Security, and health care policy.

could then unravel a packaged that had been carefully balanced by the commission. As we see it, the rule of budget neutrality is an "all or nothing" rule that may increase the odds of failure but also may allow consideration of alternative deficit-reduction approaches without decreasing the overall amount of deficit reduction. The advantages and disadvantages of such a rule of deficit neutrality are not easy to assess but must be carefully considered.

- The proposal discusses possible "improvements in the budget process" and "triggers to enforce spending and revenue targets." It would be unwise, however, to allow the commission to turn into a *budget process* commission. As former CBO Director Rudy Penner said many years ago when Congress was faced with unsustainably large deficits, "The process is not the problem; the problem is the problem."

  The need is both to reduce expenditures and increase revenues, and by substantial amounts over time. The purpose of a commission should be to achieve a bipartisan consensus on *specific policy changes*. If the commission is given the option of ducking the hard choices and focusing primarily on budget process changes as an alternative to specific policy changes, the temptation for the commission to do that may prove too great to resist. When negotiations on specific program cuts or tax increases become difficult, it is too easy to look to automatic entitlement caps or revenue floors, supposedly enforced by some across-the-board automatic "adjustments" to expenditure and/or revenue levels. In reality, automatic formula budgeting is an admission of failure, and it generally does not work. It is extremely difficulty to enforce the formulas and to turn them into specific policy changes that yield large savings, as the failure of the Gramm-Rudman-Hollings law in the 1980s demonstrated. The commission proposal would be stronger if it did not create a ready way for a commission to evade its responsibilities by proposing budget-process changes instead of specific changes in programs and tax policies.

  The use of the word "triggers" is especially problematic, since it implies the creation of entitlement caps and revenue floors enforced by automatic across-the-board entitlement cuts and automatic surtaxes, respectively. History suggests that these mechanisms are ultimately unworkable and constitute a promise that cannot be met, in part because such triggers usually do not reflect the natural working of the economy. Revenues temporarily slow their growth or decrease, and entitlement programs temporarily expand, when the economy slows; entitlement caps and revenue floors consequently trigger tax increases and entitlement cuts when the economy weakens, precisely the wrong time for such measures to be instituted. And as a result, entitlement caps and revenue floors likely would be evaded or set aside when they were about to bite sharply. Ultimately, for the necessary program cuts and tax increases to be enacted and to remain in effect, they must be honestly explained to and understood by the public to begin with.

Conclusion

Commissions formed to address tough problems facing policymakers and the nation do not have a good track record of success. To lessen a commission's prospects of failure, care must be taken to make it thoroughly bipartisan so that the leaders of both parties fully buy into it, and to make it even-handed on the issues it is designed to address, without a preconceived ideological tilt. Unfortunately, as currently drafted, the Wolf (and Voinovich) bills, no matter how well intended, do not meet this test. With some changes in drafting, they might. Even if they do, however, it must be recognized that without a commitment from the President and Congressional leaders to engage in real, bipartisan deficit reduction negotiations, nothing major is likely to be accomplished.