

## **A BALANCED APPROACH TO RESTORING FISCAL RESPONSIBILITY 16 Leading Economists and Budget Experts Challenge Recent Proposal; Propose Different Approach**

Sixteen leading economists and budget experts issued a major critique today of a recent proposal to address future federal budget deficits through radical changes in budget procedures for Social Security, Medicare, and Medicaid.

These experts, who include a Nobel Laureate in economics, two former Office of Management and Budget Directors, and a former Deputy Director of the Congressional Budget Office, agree that the nation faces large, persistent budget deficits that would ultimately risk significant damage to the economy. They also concur that policymakers should begin now to make the tough choices needed to avert such deficits.

But they believe the methods set forth in "Taking Back Our Fiscal Future" (TBOFF), a recent proposal by some analysts at the Brookings Institution, the Heritage Foundation, and other groups, are misguided. Instead, they believe policymakers should begin the hard work of building consensus on specific spending and tax measures that would start reducing long-term deficits, and they recommend a series of such measures (see below).

### **Proposal Suffers from Three Serious Flaws**

Under the TBOFF proposal, Congress would establish 30-year budget caps for Social Security, Medicare, and Medicaid. The White House would then conduct a review every five years. If it projected that expenditures would exceed the caps, these programs would face automatic cuts or related tax increases.

The 16 experts agree that the proposal suffers from three principal flaws.

- **First, while subjecting Social Security, Medicare, and Medicaid to the threat of automatic cuts, TBOFF gives a free pass to the many open-ended entitlements enshrined in the tax code.** These "tax expenditures" cost hundreds of billions of dollars a year and disproportionately benefit more affluent Americans. In addition, TBOFF would not place any obstacle in the way of new, deficit-financed tax cuts (or increases in other spending) even though over the next 75 years, the cost just of making permanent the 2001 and 2003 tax cuts is 3½ times the size of the entire Social Security shortfall.

TBOFF thus departs from the "shared sacrifice" approach that characterized the major successful deficit-reduction laws of recent decades, such as those of 1990 and 1993. Those agreements resulted when policymakers placed all parts of the budget "on the table" and developed balanced packages that combined reductions in major programs with increases in taxes.

**Second, TBOFF does not focus adequate attention on the main cause of long-term budget problems — rising costs throughout the U.S. health care system.** The main driver of the sharp growth in projected expenditures for Medicare and Medicaid is the high growth in costs systemwide, not features unique to these two programs. For 30 years, per-beneficiary spending in Medicare and Medicaid has grown at rates nearly identical to those for the overall health care system.

### **SIGNATORIES**

Henry Aaron  
Nancy Altman  
Kenneth Apfel  
James Blum  
J. Bradford De Long  
Peter Diamond  
Robert Greenstein  
James Horney  
Richard Kogan  
Jack Lew  
Marilyn Moon  
Van Doorn Ooms  
Uwe Reinhardt  
Charles Schultze  
Robert Solow  
Paul Van de Water

But, TBOFF seeks to force substantial reductions in projected expenditures for Medicare and Medicaid without requiring measures to restrain the growth of health care costs systemwide. Fundamental reform of health care financing and delivery is the key to controlling Medicare and Medicaid expenditures — and reducing projected long-term deficits — without draconian cuts that would harm the poor, the elderly, and people with serious disabilities.

- **Third, TBOFF proposes budget targets enforced by automatic cuts to reduce the deficit, but this approach has proved ineffective in curbing past deficits.** Policymakers have tried before to force action on tough budget choices by instituting budget targets backed by automatic cuts. These efforts, enshrined in the 1985 and 1987 Gramm-Rudman-Hollings laws, failed badly. Policymakers used rosy assumptions to claim that the targets would be met and, when rosy scenarios proved insufficient, they resorted to accounting gimmicks and timing shifts in order to avert the automatic cuts without making the hard choices necessary for real deficit reduction. When such evasions were not enough, they waived or raised the budget targets. Ultimately, policymakers repealed the whole framework because it failed to produce the intended results.

Opportunities for evasion under the new proposal would, if anything, be even greater. Projections of health care expenditures (and hence Medicare and Medicaid costs) as much as three decades in the future vary widely among experts and involve considerable guesswork about future trends in medical technology and other matters. The potential for future administrations and Congresses to use rosy assumptions to avoid unpopular actions would be great.

In short, the experts said, if TBOFF worked, it could place the burden of deficit-cutting on needier members of society, while leaving tax breaks for the more economically secure untouched and without adequately addressing the systemwide rise in health care spending that underlies our fiscal problems. If TBOFF did *not* work, it could encourage policymakers feeling pressure to start taking action on deficits to substitute TBOFF’s changes in budget *procedures* for tough budget choices, only to have TBOFF’s easily-evaded procedures subsequently fail to produce meaningful results.

### **“Grand Bargains” on Spending and Taxes Needed to Rein in Deficit**

The experts also noted that TBOFF is “exceedingly vague in critical respects;” it fails to indicate either how the budget caps would be set or how the automatic cuts would work. Policymakers would have to hash out agreements on these contentious matters to convert TBOFF into a concrete plan and enact it.

The experts counsel that rather than spending the next few years trying to do that — that is, trying to design complex budget procedures that would likely be of dubious merit and effectiveness — policymakers should focus on actual steps they can take to start reducing projected deficits by slowing the growth of health care spending systemwide, reforming Medicare, closing the Social Security shortfall, and raising more revenue. While policymakers may not yet be ready to address such matters fully, they can begin by seeking “grand bargains” involving changes in both the big spending programs and taxes. Some of these changes may be difficult to enact on their own but may be achievable as part of overall deficit-reduction packages. Not all signatories to this statement favor all of the following measures, but all favor at least a majority of them. The recommended measures are:

- Adopting the recommendations of Congress’ Medicare Payment Advisory Commission, such as to halt the large overpayments to private insurance companies in the Medicare Advantage program;
- Increasing the Medicare premiums that affluent beneficiaries pay;
- Instituting vigorous research programs to determine the comparative effectiveness of different health care treatments and procedures and the causes of the huge differences in health care costs across the country, and using the results as the basis for new policies to restrain health care costs without compromising quality;

- Curbing or eliminating outdated or unproductive tax expenditures;
- Switching to the Bureau of Labor Statistics' alternative, more accurate Consumer Price Index in computing annual cost-of-living adjustments in Social Security and other entitlement programs (while shielding vulnerable beneficiaries) and annual inflation adjustments in the tax code;
- Reforming farm price supports; and
- Adhering to Pay-As-You-Go rules, which require Congress to offset the cost of tax cuts and increases in mandatory programs to avoid increasing the deficit.

Ultimately, the experts said, policymakers will need to enact more extensive measures to achieve long-term fiscal sustainability. But measures such as these would have a substantial effect and put us on the path of starting to address the nation's serious long-term fiscal problems.

The report, "A Balanced Approach to Restoring Fiscal Responsibility," is available at <http://www.cbpp.org/7-9-08bud.pdf>.

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