

A BALANCED APPROACH TO RESTORING FISCAL RESPONSIBILITY

EXECUTIVE SUMMARY

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We agree that the nation faces large, persistent budget deficits that would ultimately risk significant damage to the economy. We also concur that policymakers should begin now to make the tough choices needed to avert such deficits.

But we believe the proposal set forth in "Taking Back Our Fiscal Future" is misguided. We believe there are better ways to begin tackling projected deficits, which we describe in this paper.

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Executive Summary

In a recent paper, “Taking Back Our Fiscal Future,” a group of policy analysts from several Washington think tanks proposed a radical change in budget procedures related to Social Security, Medicare, and Medicaid as a way to address budget deficits projected for future decades. They urged Congress to establish 30-year budgets, or caps, for these programs. The White House would conduct a review every five years. If it projected that expenditures would exceed the caps, the programs would face automatic cuts or related tax increases.

We agree that the nation faces large, persistent budget deficits that would ultimately risk significant damage to the economy. We also concur that policymakers should begin now to make the tough choices needed to avert such deficits.

But we believe the proposal set forth in “Taking Back Our Fiscal Future” (hereafter referred to as TBOFF) is misguided. It could jeopardize the health and economic security of the poor, the elderly, and people with serious disabilities. For one thing, it does not focus adequate attention on the main driver of our fiscal problem — the relentless rise in health care costs throughout the U.S. health care system. Without measures to slow the growth of total (public and private) health care spending, no solution to the nation’s fiscal challenges will prove sustainable. For another, it does not propose any action to restrain the hundreds of billions of dollars in entitlements that are delivered through the tax code and flow largely to more affluent Americans.

THE SIGNATORIES

This information is for identification purposes only. The material in this document represents the views solely of the individuals listed here, not of the institutions with which they are, or have been, affiliated.

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We believe there are better ways to begin tackling projected deficits, which we describe below.

In addition, TBOFF¹ would establish budget procedures that closely resemble failed approaches of the past. We believe that the proposal's formulaic budget caps backed by automatic cuts would fail to reduce projected deficits, just as when Congress tried such an approach under the 1985 Gramm-Rudman-Hollings law.

We believe the TBOFF proposal is ill-advised for three main reasons.

- **First, TBOFF is unbalanced.** It would subject Social Security, Medicare, and Medicaid to the threat of automatic cuts while giving a free pass to the open-ended entitlements (or “tax expenditures”) enshrined in the tax code. These tax entitlements cost hundreds of billions of dollars a year, and their benefits flow largely to more affluent Americans. Nor would TBOFF place any obstacle in the way of deficit-financed tax cuts (or increases in other spending) even as Social Security, Medicare, and Medicaid faced potentially deep reductions based on projections of spending as much as three decades in the future. Yet 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. Thus, the plan departs from the “shared sacrifice” approach that has characterized the major, successful deficit-reduction laws of recent decades, such as those enacted in 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 (particularly Medicare) with increases in taxes.
- **Second, TBOFF seeks to force action to substantially reduce projected expenditures for Medicare and Medicaid without requiring measures to restrain the growth of health care spending throughout the U.S. health care system.** The main driver of the high growth in projected expenditures for Medicare and Medicaid is the continued high growth in health care 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 health care system as a whole. As Congressional Budget Office director Peter Orszag recently noted, “Put simply, health care costs are the single most important factor influencing the federal government’s budget trajectory.”² Fundamental, systemwide reform of health care financing and delivery is the key to controlling Medicare and Medicaid expenditures — and reducing projected long-term deficits — without imposing draconian cuts that would harm the poor, the elderly, and people with serious disabilities.
- **Third, budget targets enforced by automatic cuts have proved ineffective in curbing past deficits, and there is no reason to think they will succeed in the future.** Under TBOFF, if the administration in office projected that expenditures for Medicare, Medicaid, or Social Security would exceed the caps that had been set for the next 30 years, automatic cuts would take effect. However, when policymakers previously tried to use budget targets backed by automatic cuts to force tough budget choices — under the 1985 and 1987 Gramm-Rudman-Hollings laws — the efforts failed. Policymakers first resorted to 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. 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 TBOFF would,

¹ The paper is available on the websites of the Brookings Institution (http://www.brookings.edu/~media/Files/rc/papers/2008/04_fiscal_future/04_fiscal_future.pdf) and the Heritage Foundation (<http://www.heritage.org/Research/Budget/upload/takingbackourfiscalfuture.pdf>).

² Peter Orszag, “Health Care and Behavioral Economics: A Presentation to the National Academy of Social Insurance,” May 29, 2008.

if anything, be even greater. Projections of health care expenditures as much as three decades in the future — and hence of Medicare and Medicaid costs — 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 TBOFF proposal is fundamentally flawed. If it worked, it could undermine the defined-benefit structure of Social Security, Medicare, and Medicaid, without adequately addressing the systemwide rise in health care spending that underlies our fiscal problems. And it would focus deficit-cutting attention on programs that serve needier members of our society without a comparable focus on tax breaks for the more economically secure. If TBOFF did not work, it could prove counterproductive — by encouraging policymakers who were beginning to feel pressure to address long-term deficits to substitute TBOFF's procedural change for tough budgetary choices, only to have TBOFF's easily-evaded budget procedures subsequently fail to produce meaningful results. In the interim, the existence of the TBOFF procedures could create an illusion of progress, giving policymakers a false sense of security and easing pressure on them to strike effective bipartisan deals for long-term deficit reduction.

Finally, TBOFF is exceedingly vague in critical respects. Would the caps for each of the three large programs be set in dollar terms, as a share of the Gross Domestic Product, as a function of other economic variables, or in some entirely different manner? At what levels would the caps be set and how would they be adjusted over time? Would the automatic cuts take the form of benefit reductions, cuts in provider payments, increases in beneficiary premiums or copayments, tax increases, or some combination thereof?³ TBOFF is silent on all of these questions. While urging policymakers to make tough choices, TBOFF's authors skirted the tough choices needed to convert their proposal into a concrete plan.

Rather than spending time trying to hammer out complex budget procedures of dubious merit and effectiveness, policymakers should focus on actual steps they can start taking to reduce projected deficits by slowing the growth of health care spending throughout the U.S. health care system while also 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, including the changes suggested below. To be sure, some of these changes will be difficult to enact on their own. But, in the spirit of “shared sacrifice” as exemplified by the deficit-reduction packages of 1990 and 1993, these measures may be achievable as part of overall deficit-reduction packages. (Note: Not all signatories to this statement favor all of the following measures, but all favor at least a majority of them.)

- Adopting recommendations of Congress' Medicare Payment Advisory Commission, which could generate substantial savings;
- Increasing the Medicare premiums that affluent beneficiaries pay;
- Instituting vigorous research programs to determine the comparative effectiveness of different health care treatments and procedures as well as what is causing 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 health care quality;
- Curbing or eliminating outdated or unproductive tax expenditures;

³ As another illustration of TBOFF's vagueness, the TBOFF document even suggests at one point that a projection that expenditures for these programs would exceed the caps could trigger the formation of a commission to make recommendations to Congress for “closing the gap,” although TBOFF's primary focus clearly is on automatic spending reductions or comparable automatic mechanisms.

- Switching to the Bureau of Labor Statistics' alternative, more accurate Consumer Price Index in computing the annual cost-of-living adjustments in Social Security and other entitlement programs (while taking steps to shield low-income and other vulnerable beneficiaries) and the annual inflation adjustments in the tax code;
- Reforming farm price supports; and
- Adhering to Pay-As-You-Go rules for both increases in mandatory programs and tax cuts.

While, taken together, these proposals would have a substantial effect on future deficits, policymakers will need ultimately to enact more extensive measures to achieve long-term fiscal sustainability. But, they need to get started. Working to reach agreement on measures such as those listed here would be much more productive than spending the next several years haggling over the contentious issues that would have to be resolved to turn TBOFF into a concrete plan and implement it, especially since the TBOFF procedures are not likely to lead to significant deficit reduction anyway.

In the following pages, we explain in greater detail why procedural fixes like those proposed in TBOFF would likely do more harm than good, and we elaborate on specific measures to consider that would be more fruitful in helping the nation start to take back its fiscal future.

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