Biden’s Budget Is an Unserious Attempt at Reining in Runaway Deficits

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In the last few months, Americans have begun to experience the long-tail effects of runaway deficit spending and the option-killing power of excessive national debt. Spending-fueled inflation and the Fed’s subsequent chokehold are the pillar and post of our economic future. And although you would not know it from the way U.S. politicians speak about it, the chief culprit behind this dystopian destiny is the unsustainable burden of Medicare.

Fix Medicare, and you’ve just about fixed our fiscal future. Fix everything else, and it will barely matter.

But Americans are being shielded from this reality by the people they have hired to look out for them. Republicans and Democrats are competing for who can insist more loudly that they are the real defenders of Social Security and Medicare.

With politicians declaring entitlement reform off the table, few options to stabilize the debt remain. Proposals to rich-tax our way out of the problem are fantasies; there’s not enough meat on the bone, even assuming that doubling or maxing the marginal tax rate on wealthy payers would have no downstream effects on productivity.

Nor can we hope to grow our way out of it. Social Security was designed to expand with wage growth and healthcare, so spending is always one step ahead, even when the economy is booming. Cuts to discretionary spending — defense and domestic — amount to long-term rounding errors. And any fiscal restraint gets thrown out the window as soon as politicians smell a crisis. Be it a natural disaster, a pandemic, or banking system volatility, the answer in Washington is always more spending.

But with the largest deficit driver removed from the discussion, where are we to turn for responsible stewardship of our country’s worsening fiscal situation?

The closest thing to a proposed democratic solution is President Biden’s budget proposal, which is utterly unserious in its approach to the problem Medicare poses. The president claims to extend the solvency window for the Hospital Insurance Trust Fund by 25 years without touching benefits at all.

The second part of Biden’s proposal presents the danger that aggressive price-capping of Part D drugs will change the economics of drug production in a way that slows needed innovation.

Still, one virtue of the president’s drug pricing proposal is that it reduces actual Medicare spending by addressing the underlying cost structure. It also signals an open avenue to Congress for negotiations with the White House over Medicare reforms that save money without cutting benefits directly.

Several similar proposals would decrease Medicare spending while following this blueprint — sparing beneficiaries and attacking runaway costs, which means such proposals could get somewhere with the White House.

Reducing risk factor adjustments to Medicare Advantage Plans to reflect the cost implications of actual risks more adequately would save taxpayer dollars while preserving access to care. Bipartisan research has shown that the current risk factor adjustments — to ensure Medicare Advantage plans receive adequate funding for less healthy populations — overestimate the cost increases those risk factors imply. Currently, the Centers for Medicare and Medicaid Services adjusts total payments downward by 5.9 percent to compensate for that overestimation. But the Medicare Payment Advisory Commission estimates CMS is still overpaying by nearly one-third.

Increasing the footprint of reforms like Biden's Part D proposal to extend to drugs administered in outpatient settings could save $120 billion over the next 10 years, according to the Committee for a Responsible Federal Budget. This proposal would change provider reimbursements for Medicare Part B to incentivize the selection of lower-cost drugs.

These reforms leave benefits largely untouched while improving Medicare solvency and reducing Medicare spending. Refusing to consider structural and benefit reforms is a de facto stance against the poor (who will suffer most from the benefit-slashing that insolvency will bring about) and against the middle class (who will pay the bulk of the taxes that will have to be raised). Rejecting reform now is choosing chaotic program-slashing later, and we should remember — when elected officials inevitably act as if no one could have seen it coming — they ignored warning after warning.

Still, these moderate proposals have the unique benefit of being possible, which is some reason for hope — if Congress and the president aren't too busy taking credit for saving Medicare to actually do it.

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