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# Policymakers take a look at inflation change in debt talks

By Bernie Becker - 07/07/11 12:58 PM ET

How the government measures inflation may sound exceedingly wonky. But policymakers are taking a look in just that direction in their search for ways to roll back deficits – possibly to the tune of hundreds of billions of dollars.

As it stands, the government ties the consumer price index to the payout of entitlement benefits and individuals' income tax bills, among other things. With that in mind, using a slower measure of inflation called the "chained" CPI could save the government billions of dollars on both the spending and revenue side.

Economists across the ideological spectrum have endorsed using chained CPI, saying it is a more accurate measure, as did President Obama's own fiscal commission.

In short, those supporters say chained CPI **better** tracks how households spend their money – taking more into account, for example, the idea that consumers will switch to oranges if the price of apples rises.

But activists and lawmakers on both sides of the aisle have also voiced loud opposition to the idea – progressives because it would lead to lower Social Security payouts, and conservatives due to the increased taxes some would have to pay.

The idea appeared to possibly get fresh momentum in the last day or so, with reports that the Obama administration was more willing to take a serious look at Social Security in the discussion aimed at finding a deficit deal to raise the debt ceiling by Aug. 2.

But the White House pushed back on that notion on Thursday, with Jay Carney, the press secretary, reiterating the president's view that Social Security was not a major deficit driver.

"We do need to strengthen the program and the President said in the State of the Union Address that he wanted to work with both parties to do so in a balanced way that preserves the promise of the program and doesn't slash benefits," Carney said in a statement.

Still, lobbyists on K Street have said in recent weeks that chained CPI remains on the table – in part because, at perhaps as much as $300 billion in savings over a decade, it could play a major role in a deal to reduce deficits by trillions of dollars.

Just how much money it could save is another question: The Moment of Truth Project, which backs the fiscal commission's findings, has used the **$300 billion** figure.

The Congressional Budget Office, meanwhile, said in **estimates** from this year that tying chained CPI to some income tax parameters would bring in close to $72 billion over 10 years, while linking it to Social Security cost-of-living-adjustments would slow spending on the entitlement program by $112 billion. It also projected that chained CPI could lead to $24 billion in savings in other government pension programs.

That would roughly mean $2 worth of spending reductions for each dollar of new revenue. And given the tenor of the current conversation, at least one tax lobbyist said that sort of trade-off might appeal to Democrats.

"That's a better deal than they might otherwise expect," the lobbyist said.

But other Democrats, and the AARP and other interest groups, have pushed back against chained CPI because of it would lead to decreased benefits for Social Security recipients.

Groups like the National Women's Law Center have also **argued** that the current CPI measurement for Social Security COLA is more accurate for those receiving the benefits than the chained CPI.

For his part, Sen. Bernie Sanders (I-Vt.) told The Hill this week that, even with the increased revenues, the chained CPI was not a fair trade because of its impact on Social Security. And some House Democrats labeled the measurement the "chainsaw CPI" in June for its effect on benefits.

Grover Norquist's Americans for Tax Reform and the libertarian Cato Institute also **oppose** the chained CPI because it would decrease the speed at which income tax deductions rise – thus causing some to pay more in taxes.

CPI is used to prevent something called "bracket creep," in which a taxpayer's rates rise because inflation moves more quickly than income.

Some Democrats are also skeptical of chained CPI's effect on middle-income taxpayers. Rep. Sandy Levin of Michigan, the ranking member at House Ways and Means, this week **touted** a Joint Committee on Taxation study that said those making under $100,000 a year would eventually pay most of the new revenues that would come from a switch to chained CPI.

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