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Challenge Could Overwhelm Congressional Super-Committee

Growing budget puts deficit-cutting target at risk

by: Tamara Lytle | from: AARP Bulletin | August 11, 2011

A mere 12 lawmakers start work now on the daunting task of finding 1.5 trillion ways to cut the federal deficit. The outcome of that effort could affect Medicare, taxes, social service programs and other federal spending of interest to older Americans.

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The dozen members of the new Joint Select Committee on Deficit Reduction — dubbed the super-committee — are charged with trimming the projected federal budget gap by $1.5 trillion by Thanksgiving through some combination of raising taxes, changing entitlements like Social Security and Medicare and cutting spending programs.

"I'm scared to death of future cuts having catastrophic consequences for older Americans," says AARP senior lobbyist Tim Gearan. "It has a real impact."

The mood in Washington ranges from optimism that the committee will cut the deficit because of the pressure from bondholders and financial markets, to pessimism that Congress won't fulfill the debt-cutting promises it has made no matter what the super-committee does.

Taxes are on the table

One option on the table is to reform the nation's income and corporate tax codes. But the process of eliminating tax breaks in exchange for lowering the overall rate — something both parties are interested in — is time-consuming and complicated, says Bill Frenzel of the Brookings Institution, a former top Republican on the House Budget Committee.

Robert Bixby, head of the Concord Coalition, a nonpartisan organization that advocates for a reduced federal deficit, says a lot of groundwork has been laid. "It's not as if they haven't been thinking about this."

Michael Franc, vice president of government studies at the Heritage Foundation, says it's possible that a major tax change could come out of the committee. Getting rid of tax breaks in exchange for lower overall rates could spur the economy, he says. "Of all the big issues facing the committee, the one that garners the most bipartisan support is on tax reform," Franc says. "If the dynamic seems to be right, you can cobble together a very ambitious tax reform proposal."

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Cutting entitlement programs like Social Security and Medicare gets less bipartisan support. Supporters of the programs say they shouldn't be swept into the larger debt debate, and their long-term problems should be solved separately. But others disagree.

"Something has to give with the entitlement programs. It's the 800-pound gorilla in the room. They are the programs that are unsustainable," says Tad DeHaven, budget analyst at the Cato Institute, a libertarian think tank.

Franc wonders whether the Standard & Poor's downgrade will be the fire that's needed to really tackle Social Security, Medicare and Medicaid — the big programs whose growth he sees as a major factor in the long-term debt. Debates about changing retirement programs have usually assumed that changes to those programs would exempt people 55 and older because they are close to retirement age. But Franc says it's time to make changes to that age group, too, because exempting those boomers would mean not enough could be shaved from the deficit.

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"If you don't fundamentally change that relationship of the citizen to the federal government during retirement, you can't pull us out of a fiscal spiral," Franc says. "The consequence is to basically tell the next generation: 'You're screwed.' "

The challenges facing the super-committee include: a tight timeline, a polarized Congress, a public that is fed up with overspending but not eager to give up aid that helps them personally, and financial markets that will raise interest rates for everyone if they think Washington isn't doing enough about the problem.

Six Democrats, six Republicans, one big job

The members of the committee were named this week by congressional leaders. Representing the Democrats will be Patty Murray, Wash., Finance Committee Chairman Max Baucus, Mont., and John Kerry, Mass., in the Senate, and James Clyburn, S.C., Xavier Becerra, Calif., and Chris Van Hollen, Md., in the House. Republican committee members are Sens. Jon Kyl, Ariz., Rob Portman, Ohio, and Pat Toomey, Pa., and in the House Jeb Hensarling, Texas, Ways and Means Committee Chairman David Camp, Mich., and Fred Upton, Mich.

The super-committee was created in a last-minute deal to break the political impasse that almost led to a historic default when Congress had trouble raising the debt ceiling. The deal promised cuts over the next 10 years of more than $900 billion in domestic and defense programs, followed by $1.5 trillion to be determined by the new committee.

For Congress that's a tall order. But financial markets have been watching Washington closely, especially after Standard & Poor's downgraded the country's credit rating because of the political squabbling over how to solve the long-term debt problem.

The super-committee takes on a challenge that a host of others have failed at this year, including two bipartisan deficit commissions, a "gang of six" bipartisan senators, and President Obama in his negotiations with House Speaker John Boehner.

"There are a lot of raw nerves around Washington right now. They've been fighting all year about the budget," says Bixby. "I imagine they're all pretty sick of each other. For all the fighting, the situation has gotten worse and worse."

A tight timetable with a big agenda

The super-committee must complete its recommended reductions in November, followed by votes in the House and Senate just before Christmas. Congress must vote on the proposal as is; amendments and changes will not be permitted. If nothing passes, an automatic cut of $1.2 trillion will hit defense budgets, other spending programs and Medicare. The Medicare impact would be a 2 percent cut in payments to providers, including the reimbursement rate for doctors. Advocates for older people say that could lead to doctors refusing to accept new Medicare patients.

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"They have an extraordinary time frame to do this," says Gearan, who worries that major changes will be made without full public hearings. "The rush to judgment is very troubling."

Finding compromise has become increasingly difficult as the nation and Congress have become more polarized, says Frenzel. "Their policies have almost become theologies."

The public, meanwhile, has watched in dismay as Washington can't balance its own checkbook.

"The public says we are overspending," Frenzel says. "But [they also say] don't cut my stuff. And don't raise my taxes."

In order to compromise, both parties must decide they are better off solving the debt problem than using the issue against the other side in next year's presidential and congressional elections.

"The 2012 election has been hovering over this thing. That spotlight only gets more intense as you get into September and October of this year," says DeHaven.

Will market chaos prompt compromise?

The financial markets also hover. Ratings downgrades, like the one from Standard & Poor's, generally lead to more expensive interest costs for the government but also for consumers who borrow for homes, cars and credit card spending.

Frenzel says the markets want to see more than just the cuts now being considered. The nation needs to reduce spending by $4 trillion to $5 trillion to really get the size of the debt down in proportion to the economy, he says.

"I think Congress has really got to get serious. They've got to give up things they don't want to give up," Frenzel says.

The first round of spending cuts already passed by Congress only set the total saved, not which particular programs will get a haircut. But DeHaven says he doesn't expect much impact. It's supposed to cut $900 billion over 10 years, and much of it comes later in that time frame. Next year, $25 billion less will be spent than would have, he says. "We're not talking about a whole heck of a lot of money in the vast scheme of things."

But Paul Van de Water, a senior fellow at the Center on Budget and Policy Priorities, disagrees. "It's going to eat into a lot of important federal functions," he says, rattling off examples like staffing levels at Social Security offices, health research into diseases, repairing highways and keeping the food supply safe.

But budget hawks worry that Congress won't stick to the promises it has made to cut spending. Congress can't force future lawmakers not to repeal the cuts.

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"What are the odds that nine years from now — even next year — they are going to stick to any of this stuff?" DeHaven says.

Congress created incentives for enacting the super-committee's proposals by setting up cuts that would be automatically triggered if the legislative branch balks at the panel's proposals. The automatic cuts include the security spending dear to Republicans and the domestic spending and Medicare that Democrats don't want to see cut.

But Franc predicts that if those automatic cuts are triggered, lobbyists will fight them, and Congress could easily waive any or all reductions. "They've set in place forces that will ensure the end result is zero."

Franc and others point out that Congress has often swept nettlesome problems under the rug. Medicare payment levels to doctors that were supposed to be slashed after a 1997 balanced budget agreement, for instance, have been saved year after year by Congress.

"They turn off lots of things," says Bixby, who warns that Congress will breed political cynicism if it doesn't stick to the cuts it promised.

If the automatic cuts do take place, they will compound that issue when it comes up again at the end of the year. Without a so-called doc fix, doctors would see their payments for Medicare patients reduced by about 30 percent.

Pete Sepp, executive vice president of the National Taxpayers Union, says everyone agrees that Medicare needs to be changed, but nothing happens.

He'd like to see Congress adopt an amendment to the Constitution to require a balanced federal budget as a way to force spending to stay in line. He is worried that, instead, Congress will pass spending cuts that are more creative accounting than real attacks on the nation's deficit.

Bixby wonders whether Congress is getting the message. "The markets and the public are pretty much telling them: Do something."

Tamara Lytle is a veteran Washington reporter.

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