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How to fix the federal debt: Budget analysts say it's only politics that stand in the way

David Sherfinski

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Congress will take up the 2018 budget next week, belatedly beginning work on a blueprint for the country's borrowing and spending over the next decade, with a laser focus on tax cuts.

Republicans' first draft of their tax overhaul, revealed this week, could cut government revenue by more than $2 trillion over the next decade. As for the spending side, President Trump has said the big entitlement programs of Social Security and Medicare can't be touched, and Democrats said they want benefit increases, particularly for Social Security.

All of that would put upward pressure on deficits already projected to rise back to $1 trillion a year and on a cumulative debt that has topped $20 trillion.

The Washington Times spoke with budget analysts across the political spectrum, who say the solutions to soaring debt are fairly clear, even if the political will to follow through on them remains elusive.

'Free lunch politics'

Maya MacGuineas, president of the Committee for a Responsible Federal Budget, said it's a matter of math.

An aging population is increasingly straining the government's public pensions program, Social Security, and its seniors health care program, Medicare, to the point where they will be exhausted within the next 20 years if policies don't change.

But with fewer people working as a percentage of the overall population, fewer people are paying into the system to keep it afloat. In 1950, there were 16 workers for every retiree. Today, that stands at 3-to-1, and by 2035, it will be just two workers per retiree.

"It still comes down to the aging of the population, health care costs that are growing faster than the budget or the economy, and an unwillingness to provide enough revenue to pay for all our commitments," Ms. MacGuineas said. "And there are fewer people working, which puts a huge constraint on how much we can grow the economy."

Those trends have accelerated in recent years, but they have been clear for decades. Yet no matter the political makeup of Washington, little has been done.

The one exception was when a divided government in the 1990s produced balanced budgets from 1998 through 2001. But one-party Republican rule during the George W. Bush administration brought only small efforts at reforms, and one-party rule under President Obama carried deficits to record levels. Divided government under both presidents also yielded only sporadic successes.

But Mr. Obama never could strike a massive “grand bargain” with then-House Speaker John A. Boehner, Ohio Republican, for a long-term fix. And President Trump, with a Republican-controlled Congress, has yet to push for changes to the big two entitlement programs.

“There’s no willingness to talk about tough choices. I really think that kind of free lunch politics has taken this country in a terribly dangerous direction,” Ms. MacGuineas said.

‘Really not complicated’

Douglas Holtz-Eakin, a former director of the Congressional Budget Office, said Washington was able to balance its books for most of the country’s history, with exceptions for economic upheavals or wartime emergencies.

That all changed with the advent of entitlement programs, which were shunted off into a separate “mandatory” part of the budget, meaning they are funded outside of the yearly appropriations process. Their costs rise, but they don’t have to compete for funding with other basic programs such as those for the military, education and the environment.

“This is really not complicated. There are many budgetary transgressions that have occurred, but the original sin was the creation of mandatory spending, also known as entitlement programs, and all problems stem from that decision,” said Mr. Holtz-Eakin, who is now president of the right-leaning American Action Forum.

CBO projects that public debt will increase from 77 percent of gross domestic product at the end of 2017 to 91 percent in 10 years — more than double the average of about 40 percent over the past 50 years — without major policy changes.

If laws go basically unchanged, that ratio will ultimately surpass the previous high of 106 percent, set in 1946, by 2035.

Mr. Holtz-Eakin said the big offending programs began with Social Security, grew with Medicare and Medicaid, and were joined by Mr. Obama’s Affordable Care Act — known colloquially as Obamacare. Medicare alone is responsible for a third of federal debt, he said.

“So the things they don’t want to do are the things they are going to have to do — that’s the ugly reality,” he said. “They don’t have 20 years — five, tops.”

‘Day of reckoning’

Brian Riedl, a senior fellow at the right-leaning Manhattan Institute, gave the government a slightly longer window.

“The day of reckoning is coming within the next 10 years,” he said.

Republicans tried to control spending during Mr. Obama’s tenure by forcing what Mr. Boehner called an “adult conversation” on debt. It paid off with the 2011 debt deal, which imposed strict caps on discretionary spending — the part of the budget that goes to military, education and other basic domestic government operations.

Indeed, discretionary spending measured as a percentage of the economy has held steady at about 9 percent, and the government's chief actuary says it will remain at that level for decades. Social Security spending will grow modestly. But federal health care spending — driven by Medicare, Medicaid and other Obamacare programs — will rise from 5.4 percent of GDP now to 8.6 percent in 30 years.

As debt piles up, so will interest payments, which will quadruple from about 1.5 percent of GDP now to more than 6 percent in 2045.

"Lawmakers will likely look for every alternative to reforming entitlements, but they'll eventually run out of other offsets and be forced to confront these trends," said Mr. Riedl, a former chief economist for Sen. Rob Portman, Ohio Republican.

Mr. Riedl said a big reason that Mr. Trump's 2018 budget blueprint cuts so deeply into anti-poverty spending and other nondiscretionary spending is that it becomes almost impossible to balance the federal budget without touching entitlement programs.

"Eventually, you could eliminate every other program and it still wouldn't save you," he said.

'A big chunk of money'

While the big entitlements will have to be part of the solution, there is still some ground to be made elsewhere in the budget, said Chris Edwards, director of tax policy studies at the Cato Institute, a libertarian-leaning think tank.

He said that while the focus is usually on Social Security, Medicare and Medicaid, other smaller entitlements such as food stamps, veterans health care spending and tax breaks such as the earned income tax credit that pays the working poor deserve reform. The tax credit alone accounts for $70 billion a year in government expenses.

"If you add them all together, you get a big chunk of money," he said.

Mr. Edwards said national politicians have been too eager to have the federal government offer solutions when states are better at making decisions about how and what to spend.

"So it seems to me if you started taking off the federal plate a lot of these programs and giving them back down to state government, then federal policymakers would have more time to more carefully scrutinize Pentagon spending and Social Security spending," he said.

The revenue side

Paul Van de Water, a senior fellow at the left-leaning Center on Budget and Policy Priorities, said Republicans in Washington are too focused on cutting spending to try to balance the budget. He also said voters have grown accustomed to higher levels of spending.

They want the social safety net to remain strong, even as they also want more funding for basic road-building, for the Pentagon and for education.

“That’s not to say that there aren’t areas where we can spend money more efficiently and reap some savings. Obviously, we have to pursue every avenue we can.”

Though the exact numbers fluctuated, average federal spending in recent decades worked out to about 20 percent of GDP, while revenue averaged about 18 percent. That 2 percentage point difference was the annual deficit — a burden that, while large, wasn’t impossible to bear.

During the depths of the Great Recession, though, spending ballooned to 24.4 percent of GDP while revenue dipped to 14.6 percent.

Revenue has bounced back to about 18 percent, but spending remains elevated at 21 percent and is projected to rise as the population ages.

“Given the popularity of Social Security and Medicare, given the desire to protect health coverage as we’ve seen evidenced in the debate over the past several months, given the needs in infrastructure [a] desire to make sure that our defense remains strong — given all those factors, I think the real potential for cutting spending is not great and we need to look on the revenue side,” Mr. Van de Water said.

Nothing ‘politically plausible’

Robert Bixby, executive director of the Concord Coalition, a group that tries to advocate for middle-ground approaches to tackling the debt, said more revenue can be a part of the conversation — but the money needs to be dedicated to paying down the debt, not to expanding spending.

He said Congress will have a chance to sweat out more money in the looming debate over tax reform, which Republicans want to make the focus for the rest of this year.

“Myself and others on the debt reduction side would say that we should use some of the added revenue for deficit reduction, and you get others who would say, ‘No, no, it should all go into lower rates,’” Mr. Bixby said. “That’s a fine debate to have, but we ought to be at least enacting the reforms.”

The Simpson-Bowles commission formed by Mr. Obama in 2010 to try to solve long-term fiscal woes recommended a mix of major cuts to discretionary spending, limiting the growth of Social Security, Medicare and federal personnel costs, and raising revenue through tax reforms.

The tax overhaul would have shut down tax breaks and used some of the money to lower rates — just as Republicans now suggest — but would have earmarked some $800 billion over a decade for debt reduction.

In the end, the commission was unable to muster the votes to adopt its report — with hard-line leaders on both wings of the political spectrum dooming the plan to defeat.

A year later, Mr. Obama and Mr. Boehner tried for a deal, with the Republican leader offering some $800 billion more in revenue in exchange for the first major entitlement spending reductions in a generation. They reportedly shook hands on the deal, but Mr. Boehner said Mr. Obama demanded 50 percent more in revenue at the last moment.

“[Whether] you’re talking about taxes or entitlement programs, no changes appear politically plausible on their face,” Mr. Bixby said.

But he said the sooner Washington revisits the debate, the better for all sides.

“If you were going to make any sort of changes to Social Security, for example, you certainly would want to phase those in over a very long period of time,” he said.

Not just about spending

Congress has had plenty of time to see the looming problems, said Doug Elmendorf, dean of Harvard University’s Kennedy School of Government and past director of the CBO. The aging population and its effects on big programs are obvious.

But he said another driver of government spending is the rise in health care costs overall. In 1995, the average American accounted for $3,778 in health care costs. That figure nearly tripled to $10,345 by 2016.

“We also need to bring down, or at least stop the growth of, health spending per person,” he said.

The federal government accounts for 29 percent of all health care spending in the U.S., while state and local governments pony up another 17 percent — nearly equal to the 48 percent paid for by households and businesses.

Mr. Elmendorf said Mr. Obama’s health care law took some steps to try to limit the growth of spending, but “Congress could push that forward more aggressively.”

“That’s not about just stopping federal spending. It’s easy enough mechanically to just cut back on federal subsidies. The challenge is to slow the growth of underlying spending — not just to shift spending [from] the federal government to the states, to businesses or to families,” he said.

Small changes such as expanding the universe of health care providers able to prescribe medicine could lower costs for patients, who would no longer have to foot the bill for a full doctor’s visit.

“We tend to restrict who can prescribe medicine, who can do what sorts of things to you, more tightly than we need,” he said.

‘The more efficient manager’

Josh Bivens, director of research at the left-leaning Economic Policy Institute, said that while Congress is worried about finding cash, it should instead be looking at who is controlling the spending. In health care, he said, the government itself is more efficient, so a national health care system could produce major savings.

“To my mind, if you look at how well the government has handled health care cost inflation versus the private sector, it has actually done a better job,” he said.

He pointed to Medicare, which he said has controlled costs better than private insurance over the past 30 years. Going the other way — trying to reduce federal health care rolls and “offloading” Americans onto private insurers — will only balloon health care expenditures.

From 1991 to 2016, Medicare spending per enrollee grew at an average annual rate of 5.0 percent, slightly slower than the average 5.7 percent rate for private insurance spending over that period, according to a recent report from the Kaiser Family Foundation.

“So, yes, you should try to control health costs, but then in the end, you should probably just raise taxes to pay for them after you’ve done everything you can, because it turns out the government is the more efficient manager of those,” he said.

“And once you sort of recognize that, to me, government has the comparative advantage in managing these costs and so if they’re going to rise faster than GDP, we should probably just make sure we pay for it, and then the way I would pay for it from my perspective is progressive tax increases.”