

Will Republicans Bargain Away Entitlement Reform in the Fiscal Cliff Deal?

Peter Suderman - Nov. 27, 2012

There are a large number of policies that make up the fiscal cliff: the expiration of the Bush-era income tax cuts, the end of a temporary payroll tax cut, budgetary caps on discretionary spending imposed by last year's debt deal, a reduction in planned spending on defense as a result the sequestration process, the so-called "doc fix" which governs physician's Medicare reimbursements. All of these policies are set to change automatically if Congress does nothing.

What won't change automatically is the fundamental shape and structure of any of the country's major entitlements: Medicare, Medicaid, and Social Security. Yet Republicans are hoping to negotiate changes to those programs as part of a fiscal cliff deal.

That's a good thing, at least in theory, because entitlements—Medicare and Medicaid in particular—are the biggest drivers of the long term debt. And the sooner that Congress starts looking for ways to restrain them, the better.

Republicans have indicated that they might be willing to bargain: They'll accept hikes in tax revenue in exchange for cuts or changes to entitlements. But the problem is that Republicans don't seem clear about what they're bargaining for. And the hints that they've been dropping about what sort of reforms they might accept in a trade suggest that they might be willing to give on taxes in exchange for not much in return.

Republicans have said they want "structural reforms" to Medicare, but haven't said what, exactly, that might mean.

That's a familiar dodge. Republican leaders supposedly seeking entitlement reform have spent the last few years saying they're for it, in vague terms, without giving any real hints about what they might mean. Mitt Romney offered a

Medicare reform plan that lacked crucial details. In the weeks before the 2010 midterm election, top GOP House Representative John Boehner would say only that he wanted to have “an adult conversation” about reforming entitlements—but refused to provide any specifics.

It often seems as if Republicans are for the idea of entitlement reform—but not for any specific plan to accomplish it.

And sometimes the proposals they hint at would barely reform the system at all.

Over the weekend, Republican Senate Minority Leader Mitch McConnell took a step toward suggesting the kind of reform he’d like to see: Means testing of entitlements. Via The Wall Street Journal:

The senator's top priority is long-term entitlement reform.

"Changing the eligibility for entitlements is the only thing that can possibly fix the country long term." He wants means-testing for programs like Medicare. "Warren Buffett's always complaining about not paying enough in taxes," he says. "What really irritates me is I'm paying for his Medicare."

Here’s the thing: Medicare is already means tested, as the Cato Institute’s Alan Reynolds points out. Thanks to rules put in place by the Obama administration, he writes, “monthly Medicare premiums now rise from \$99.90 on single seniors with less than \$85,000 in income to \$229.70 (including drug coverage) at incomes from \$107,000 to \$160,000, and to \$386.10 above \$214,000.”

More to the point, the possible savings from reducing Medicare spending on the wealthy are quite slim. According to Reynolds, denying Medicare benefits to the top 1 percent of earners would save just 1 percent, at most, out of Medicare’s budget. And if the wealthy were denied benefits entirely, Medicare would actually lose the money raised from their higher premiums. At best this sort of meaningless means testing would provide Republicans with a fig leaf to cover a deal to raise tax revenues. But it wouldn’t fix Medicare. It wouldn’t fix the budget. It wouldn’t fix much of anything.

But it does allow Republicans to talk about entitlement reform without actually describing anything that resembles meaningful entitlement reform. And it allows them to do it in a politically safe way that targets a narrow group of extremely wealthy individuals.

Indeed, there's a remarkable symmetry between Republican rhetoric about cutting benefits for super-earners like Warren Buffett and Democratic rhetoric about raising taxes on the rich. Neither will actually fix the problem they're supposedly intended to address. And they both allow their respective parties to maintain the fictions that the vast majority of voters in the middle and even upper middle classes can continue to enjoy the current mix of entitlement benefits and federal taxes.

That's just not the reality of the situation. As the Congressional Budget Office has made clear, a tax-centric approach to closing the budget gap would require "raising taxes substantially...for a broad segment of the population." If that's what Democrats really want, they should say so. But they don't. Averting unsustainable growth in the entitlement system, meanwhile, would entail "significant changes in the laws governing Social Security, Medicare, and Medicaid." Republicans, though, seem ready to make a deal that wouldn't come close to making the entitlement changes that are necessary. Making the changes needed to put the budget on a sustainable course will be difficult no matter what. But it will be even more difficult given that neither party wants to say how big the necessary changes really are.