

## **THE CASE FOR SHARED SACRIFICE**

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### **Introduction**

No one more than President Obama wants to ensure that as part of a comprehensive jobs, competitiveness, and economic growth agenda, our nation can come together on long-term deficit reduction based on the principles of shared sacrifice and shared prosperity.

Because so many in our nation share his desire to see Washington overcome differences to move us forward on economic growth and long-term fiscal discipline – there is understandable disappointment when those of us who engage in budget dialogues remain far apart.

This understandable frustration however has at times led to a few unfortunate tendencies among some commentators that I feel work against our eventual movement toward a bipartisan budget agreement based on shared sacrifice and shared prosperity.

One is the tendency to engage in a “pox on both your houses” analysis. Under this view, if the parties are far apart, it is assumed that each side must be equally at fault and deserve equal criticism – without any underlying analysis to see if that is true.

While this may be a way for commentators to sound neutral or non-partisan, it penalizes those who start out from a more balanced position and rewards those who stake out and cling to extreme positions. As a result, it undermines rather than fosters progress toward a balanced agreement on sound fiscal reforms.

Today, I will explicitly go through the numbers and analysis so that any one of you can – if he or she chooses – analyze the claims and make an informed judgment of who is seeking a budget that represents balance and shared sacrifice and who does not.

First, I will discuss the President’s budget and why it does represent those values, and how it lays out detailed spending, entitlement and specific revenue measures<sup>1</sup> that the Congressional Budget Office scores as reducing deficits and stabilizing our debt as a percentage of our economy.<sup>2</sup> Next, I will discuss the facts that demonstrate why the House Republican budget unfortunately fails any basic test of balance or shared sacrifice – and that in particular, its claimed savings come from imposing an unprecedented amount of hardship on the middle class and particularly the most vulnerable in our society.

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<sup>1</sup> The White House. Office of Management and Budget. “Fiscal Year 2013 Budget of the U.S. Government.” February 2012. <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/budget.pdf>.

<sup>2</sup> Congressional Budget Office. “An analysis of the President’s 2013 Budget.” March 2012. Table 1, p. 2. <http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-16-APB1.pdf>.

I make this point with disappointment but without partisanship. I know well that there are many Republicans in the United States Congress who do understand the need for a more balanced and fair approach to deficit reduction that includes revenues, and who find it highly unfortunate that their willingness to compromise finds no home in the House Republican budget.

Let me start the discussion with the details of the President's budget and how it has been judged and scored by the independent Congressional Budget Office. A budget of course is more than a set of numbers; it is a statement of not only an economic vision but the values behind it. The President's budget aims to promote the values of every child having a fair start instead of a destiny determined by the accident of their birth, of every family being able to work hard and make a better life for their children, and of a growing and more inclusive middle class that allows more hard-working Americans a sense of dignity at work, dignity in providing for their children, and dignity in a well-earned retirement.

Ensuring that we protect and strengthen our core guarantees that ensure a dignified and healthy retirement, as well as basic protections for those who fall on hard times or face disadvantages, and measures to reward work for the most hard-pressed working families in our nation are critical to those fundamental values. Investments in areas such as early childhood education for disadvantaged children, community colleges, higher education assistance, quality training, and medical research are critical to those values as well as the productivity and inclusiveness of our economy. Integral to those goals of shared prosperity are policies that both ensure a stronger recovery with stronger job growth, and act in the context of long-term deficit reduction that instills confidence in entrepreneurs, job creators, and investors that the United States remains the best place to create jobs by investing in the future.

### **The President's Budget**

So that we all are clear on the seriousness of the President's budget plan, let me go through five things that the Congressional Budget Office found when reviewing its impact on the deficit:

1. The President's budget sticks by the tight caps he signed into law in the Budget Control Act that by 2015 bring non-defense discretionary spending to its lowest level (as a share of the economy) in more than 50 years.

In 2009, faced with the worst recession since the Great Depression, the President and Congress enacted a temporary increase in domestic spending designed to halt the economy's rapid slide and prevent it from potentially deteriorating into another Depression. Following this one-time increase, the President worked with Congress to enact a total of \$1.5 trillion in lower-than-projected spending that brings non-defense spending to its lowest levels on record, measured as a share of the economy, since the Eisenhower Administration.

Compared to the levels projected by the Congressional Budget Office in January 2011, these funding caps represent a cut of over \$660 billion in the category of non-security annual funding — \$142 billion larger than that proposed by the bipartisan Bowles-Simpson Fiscal Commission. As a result of this legislation and previous cuts signed into law by this President, non-defense spending outside of transportation is projected to reach just 2.7 percent of GDP by 2015 — the lowest rate of adjusted non-defense discretionary spending in 50 years. Spending levels will then decline even further by end of the decade, to just 2.3 percent of GDP in 2021.<sup>3</sup>

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<sup>3</sup> Throughout this address, where I refer to domestic discretionary spending levels as a share of GDP, those figures are stated in terms of non-defense outlays outside of the transportation budget function. Transportation funding is

As this was the area of government spending that was already not seen as a likely future contributor to rising deficits, and as it makes up the fraction of government spending where we must maintain so many critical areas of investment – such as early childhood, basic research, higher education aid, housing assistance, border security, immunizations for poor families – cutting spending to these levels will require very difficult decisions over the years ahead.

2. The President’s budget reduces non-war security spending by \$420 billion over ten years (while also phasing down war spending).

During the previous decade, defense spending increased by nearly two-thirds as a share of the economy, growing from 2.7 percent of GDP in 2000 to 4.5 percent in 2010. Through the Budget Control Act, the President imposed firewalls on security spending for the first time since the early 1990s and reduced projected security spending by \$420 billion.

3. The President’s budget also sets out specific proposals to achieve \$272 billion in savings — similar to the amount proposed by Bowles-Simpson — in entitlements and mandatory benefit spending beyond Medicare, Medicaid, and Social Security.

Here, the President’s budget details very significant, and specific, mandatory entitlement savings. Rarely, if ever, has a President proposed in such detail mandatory savings in these difficult and sensitive areas and accompanied them all with exact language spelling out how the savings would be achieved. Those specific savings include:<sup>4</sup>

- Over \$30 billion in agriculture subsidies, including ending direct farm payments;
- \$47 billion from strengthening the solvency of the unemployment insurance system;
- Nearly \$16 billion in savings from improving the solvency of the Pension Benefit Guaranty Corporation;
- \$25 billion in savings from giving the Post Office greater ability to raise revenues and improve efficiency;
- \$18 billion from reforming the aviation passenger security user fee to more accurately reflect the costs of aviation security;
- \$27 billion in savings – most of which were already enacted earlier this year - from increasing civil service and federal employee retirement contributions.

As those selected examples show, none of these savings would be pain-free or a politically easy lift. But these are only a share of the President’s proposed entitlement savings.

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categorized differently in the President’s budget and House Republican budget, and is therefore not comparable between the two budgets.

<sup>4</sup> The White House. Office of Management and Budget. “Fiscal Year 2013 Budget of the U.S. Government: Cutting waste, reducing the deficit, and asking all to pay their fair share.” February 2012. <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/cutting.pdf>.

4. The President has put forward detailed and specific Medicare and Medicaid savings totaling more than \$300 billion, all verified by the CBO in their March analysis of the President's budget.

By 2022, indeed, the detailed Medicare savings in the President's budget are higher than the Bowles-Simpson Commission (\$59 billion versus \$53 billion), as are his Medicaid reforms (\$11 billion versus \$10 billion). Some of the Medicare reforms, which you can read in detail in the President's budget include:

- Increasing income-related premiums for higher-income beneficiaries in Medicare Parts B and D beginning in 2017;
- Cutting Medicare payments for bad debts;
- A surcharge of 15 percent of the average Part B premium on supplemental Medicare or "Medigap" plans with low cost-sharing for new beneficiaries to encourage more efficient spending;
- Increasing the Medicare Part B deductible for new beneficiaries beginning in 2017;
- Introducing a home health copayment for certain episodes that do not follow a hospital visit to prevent overutilization for new beneficiaries starting in 2017, a change recommended by the Medicare Payment Advisory Commission;
- Requiring new Medicare Part D drug rebates for drugs provided to low-income beneficiaries.

Because these structural reforms primarily affect new beneficiaries and begin in 2017 – and are still phasing in by 2022 – their savings grow in the out-years. Not only would the Medicare savings in the President's budget exceed Bowles-Simpson by the end of the budget window, savings in his budget are growing faster in the final year of the decade (more than 10 percent per year, compared to 4 percent per year). Extrapolating forward, a conservative estimate of the growth rate in savings for the second decade shows that the President's plan would save around \$1 trillion, compared to around \$660 billion in Bowles-Simpson.

5. Finally, because the President believes that comprehensive deficit reduction must be done in a balanced way that is consistent with the principle of shared sacrifice, his budget includes \$1.5 trillion in explicit proposals for new revenues, including over \$500 billion in savings from limiting tax expenditures for high-income households.

The budget achieves these savings even while providing new tax cuts for middle-class families and businesses investing in our economy. They also include savings from closing unjustified corporate loopholes and corporate tax expenditures. Though these revenues represent a significant contribution toward deficit reduction, they represent just under a third of the total deficit reduction from what was enacted in 2011 to what is being proposed in this budget.

**Here's the bottom line:** The independent Congressional Budget Office, looking line-by-line at the President's public and detailed budget plan, found that his proposals would bring the deficit down to three percent of GDP by the end of the decade. As a consequence, CBO finds that debt held by the public would fall for six years in a row and stabilize at about 77 percent of GDP.<sup>5</sup> When one examines – as the Office of Management and Budget does – the more economically relevant statistic of debt net of the government's financial assets, the debt as a percentage of GDP falls to 68 percent by 2017.<sup>6</sup>

<sup>5</sup> Congressional Budget Office. "An analysis of the President's 2013 Budget." March 2012. Table 1, p. 2. <http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-16-APB1.pdf>.

<sup>6</sup> The White House. Office of Management and Budget. "Fiscal Year 2013 Budget of the U.S. Government: Summary Tables." February 2012. Table S-1, p. 205. <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/tables.pdf>.

Does this budget solve all our problems? Of course not. Will there be more to do? Of course. But the notion that the President has not outlined a serious and specific deficit reduction plan that has been independently validated as significantly reducing our deficit is simply not accurate.

I wish I could say that the House Republican budget reflected, in perhaps a more conservative way, some of the sense of balance and shared sacrifice that would allow it to be an honorable step forward in reaching bipartisan budget agreement. But unfortunately, as I will explain and walk through, it represents a budget that on its own terms, and by its own numbers, fundamentally offers no balance between revenues and spending. And to the degree it reaches even higher levels of spending reductions, it does so solely by putting forward spending cuts that fall disproportionately on the middle class and, even worse, on the most vulnerable – more so than any major budget proposal that we have seen over the last generation, even including the most severe budgets put forward in the 1990s by the Gingrich-led House Republicans.

## Revenues

On revenues, here's what is undisputed: the House Republican Budget is explicit in not raising a single penny of revenue. Not one single penny. Indeed, they would lose \$224 billion in revenues – and even that number seems to be low by hundreds of billions when you consider their complete repeal of all the tax provisions in the Affordable Care Act that apply to high-income households.

This fundamental element of the House Republican plan – an ideological and political commitment to not allow for a penny of revenue to be part of a comprehensive deficit reduction plan – is a signature part of their budget and political message and without question the number one obstacle to common sense budget compromise in our nation.

This is extremely unfortunate because so many thoughtful Republicans and Democrats recognize that there is no way to go forward without revenues:

- In the fall of 2010, a bipartisan panel of notable experts and former policymakers, chaired by Alice Rivlin and former Republican Senate Budget Committee Chair Pete Domenici, outlined a plan that would have achieved half of its over \$7 trillion in deficit reduction, measured against current policies, through higher revenues.
- Independent experts have rightly defined the Bowles-Simpson Commission as having called for over \$2 trillion in revenues above what our tax code is taking in right now.
- The Senate's "Gang of 6" – including three Republican Senators – called for around \$2 trillion in revenues as part of a bipartisan deficit reduction plan.
- While they did not provide a number, the basic framework of balanced entitlement savings and revenues under Bowles-Simpson was then recommended by a group of ten former chairs of the Council of Economic Advisers who had served under Presidents from both parties — among them Greg Mankiw, Glenn Hubbard, and Martin Feldstein.
- Note that even United Kingdom Prime Minister Cameron and Chancellor Osborne included one-third revenues in a budget best known for its spending austerity.

It is highly disappointing that after all we have been trying to accomplish over the last two years of negotiations that the House Republican leadership would come back this spring, clinging to the position that even as part of a comprehensive deficit reduction plan, any net increase in revenue is a non-starter, and that indeed, it is commonly described as “job killing.”

In fact, the House Republican plan’s discussion of tax reform is even worse than revenue-neutral. It starts with assuming that the entire Bush tax cuts including the tax cuts for those over \$250,000 is extended permanently and repeals the Affordable Care Act tax changes for those in the same upper income brackets.

And then they promise, and seek to create a general expectation of, tax cuts that would lower individual income rates to 25 percent and 10 percent. According to the Urban-Brookings Tax Policy Center,<sup>7</sup> these rate reductions would cost \$4.6 trillion over the next ten years, much of it for high-income households — which would come on top of the \$1 trillion in high-income tax cuts that the House Budget takes as its starting point — while providing no detail whatsoever on how they would pay for it, while also stressing that they would want to maintain preferential tax rates for capital gains.

This would be like if the Administration approached our country’s need for bipartisan deficit reduction by first declaring that not even a penny of deficit reduction would ever be needed from Medicare. Then, we further stated that we supported and promised \$4.6 trillion in extra benefits to every Medicare beneficiary. And then when asked how we would pay for it, refused to give a single detail, and instead simply assured everyone that the House Ways and Means Committee would identify undefined spending reductions to pay for it in a process that would be “out in the open” and “with a dialogue.”<sup>8</sup> I imagine you would laugh us out of the room if we proposed that, and there is no reason why their actual proposal on fiscal responsibility and tax reform deserves a different reaction.

The House Republican approach not only is outside of the mainstream of every bipartisan effort, it cannot be justified on any responsible policy basis. Let me offer three basic reasons why this is the case:

First, fiscally irresponsible policies on revenues have contributed significantly to the deficit challenge our country now faces.

Some pressure on the long-term budget comes from overall growth of health spending in our economy, as well as the fact that due to the retirement of the baby boom the number of beneficiaries on Social Security will grow by nearly two-thirds, from 45 million to 70 million between 2000 and 2020 while at the same time, the number of Medicare beneficiaries will grow from approximately 40 million to 64 million. Together, these numbers mean that over the next several decades we will spend substantially more to provide the same level of benefits, even as spending on Federal health programs grows slower per-capita than costs in the private sector.<sup>9</sup>

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<sup>7</sup> Urban-Brookings Tax Policy Center. Table T12-0075. “2013 House Republican Budget Proposal (Excluding Unspecified Base Broadeners): Impact on Tax Revenues, 2012-2022.” March 2012. <http://www.taxpolicycenter.org/numbers/Content/PDF/T12-0075.pdf>.

<sup>8</sup> Representative Paul Ryan. Interviewed on CNBC Squawk Box. April 10, 2012. <http://video.cnbc.com/gallery/?video=3000083256>.

<sup>9</sup> The figures referenced in this paragraph have been updated to reflect the most recent enrollment projections – published on April 24, 2012 – from the Medicare and Social Security trust fund reports.

But let's remember that all – and I mean all – of those demographic realities were clear and predictable twelve years ago, when our nation was running surpluses as far as the eye could see. Indeed, much of the motivation for experts like Pete Peterson and those in government from all sides who at the time pushed for deficit reduction was to tame our debt and deficit in the 1990s and first decade of the 2000s so that we were positioned to handle the increased costs that would come from the baby boom retirement. So when some of us left the Clinton Administration in 2000 – even with everything known today being known then about the baby boom retirement – the fiscal issue of that moment many were raising was whether we were in the process of paying down the entire national debt too fast!

So what changed? While the enormous costs of the Great Recession, two wars, and a new prescription drug benefit in Medicare that was unpaid for unquestionably played a major role in the swing from surpluses to historic deficits that President Obama inherited, a major contributor was the fact that the Bush Administration passed ongoing major tax cuts that favored the most fortunate without paying a single cent for them. While we strongly support the middle-class tax cuts, the decision to pass such deficit-increasing tax cuts with no offsets is a major reason why we face a deficit and debt challenge today.

Consider the following: when you look at the costs those unpaid-for tax cuts have already had on our debt and ongoing interest costs – plus the cost they would impose on the deficit each year if fully extended – it comes to a whopping \$500 billion a year.

**Bottom Line:** Had President Bush paid for his signature tax cuts in the full and complete way that President Obama insisted on paying for his signature Affordable Care Act, projected deficits from 2014 onwards would fall by more than 50 percent and we would be facing a fairly strong and stable deficit path at the moment.

Second, anyone committed to the principle of balanced deficit reduction must know that balance has been a hallmark of all the recent bipartisan commissions in the past few years as well as past bipartisan efforts to tackle our nation's deficits and debt.

- Ronald Reagan and Tip O'Neill: In 1982, Ronald Reagan raised revenues to help deal with the deficit. Around 90 percent of the deficit reduction in the 1982 Tax Equity and Fiscal Responsibility Act (TEFRA) was derived from revenues. In 1983, revenues made up around 40 percent of the Social Security deal between Ronald Reagan and Tip O'Neill.
- President George H.W. Bush: In 1990, the elder President Bush worked together with Democratic leaders to get a bipartisan agreement that was made up of significant revenue increases, along with spending cuts to reduce the deficit.
- President Clinton and Republicans in Congress: While the balanced package of 1993 included only Democrats, the Bipartisan Balanced Budget Agreement of 1997 was achieved with a Republican majority agreeing to leave in and continue the significant revenue increases from both the 1990 and 1993 deficit reduction plans even after they initially insisted on massive across the board tax cuts.

Third, asking the most fortunate among us to at least contribute to the cause of deficit reduction is essential for the sense of shared sacrifice that is necessary for a broad-based commitment to long-term deficit reduction. We are a nation of people who are willing to contribute if we feel we are sharing the burden as well as the opportunities with everyone else.

When the President goes to the American public and makes the case that in order to bring down the deficits he inherited, there will need to be sacrifice from Medicare providers and enrollees, civil servants, those benefiting from agriculture subsidies, and from those impacted by cuts in countless spending programs, it is essential that those Americans feel we are all in this together and that we are all doing our share.

But how is that possible if, at the same time, we lock in an iron principle that we cannot ask for one cent of new net revenues from those who are most fortunate? To make such a pledge breaks the sense of social compact necessary for broad-based deficit reduction because those middle class and working poor families who feel they are being asked to do with less rightly feel their sacrifice is necessary solely to ensure that the most well-off get off scot-free, or worse, to simply support extending relief for them. That is no way to build the sense of shared sacrifice in the pursuit of shared prosperity that is necessary for a broad-based national effort to make the hard choices necessary for a long-term deficit reduction policy.

### **What Defines the House Budget Resolution**

So, as the House Republican Budget resolution starts by losing revenues, how do they get to the levels of deficit reduction they claim beyond those that President Obama proposes? How does the House Budget achieve deficit reduction to compensate for the lack, indeed the loss, of revenues? The answer is a set of spending cuts that are distinguished in two ways:

- First, for putting an excessive – indeed unprecedented – amount of hardship on the middle class, and especially on the most vulnerable in our society.
- And second, for being excessively vague about what those impacts would mean if they were ever to be passed and implemented.

### **Medicaid**

There's no question that among the harshest and most unjustified cuts in the House Republican budget are the \$810 billion in Medicaid savings. Let me make three points:

First, do not be confused. The \$810 billion is on top of the reduction in Medicaid that would come through the repeal of the Affordable Care Act. After they have repealed the new health care law, which I will discuss, they cut an additional \$810 billion by “converting the Federal share of Medicaid spending into a block grant.” This is not my estimate – the last paragraph on page 42 of the House Republican Budget Blueprint states that the plan involves “constraining Medicaid’s growing cost trajectory by \$810 billion over ten years.” To understand the significance of this cut, understand that even after repealing the ACA coverage expansion, remaining Medicaid spending would be further cut from an estimated \$486 billion to \$323 billion in 2022 – a cut of \$163 billion, or 33.5 percent.<sup>10</sup>

Second, there are always opportunities to reduce costs and strengthen health care outcomes – that’s why the President’s budget streamlines Medicaid spending to save costs. But it’s important to note that Medicaid costs are not spinning out of control. In fact, according to the Congressional Budget Office’s Long-term Budget Outlook, excess cost growth in Medicaid (how much per-capita, demographic-adjusted spending exceeds nominal GDP growth) has been 1.3 percent over the past two decades, comparable to

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<sup>10</sup> U.S. House of Representatives. Committee on the Budget. Fiscal Year 2013 Budget. “The Path to Prosperity: A Blueprint for American Renewal.” March 2012. p. 42.  
<http://budget.house.gov/UploadedFiles/Pathtoprosperity2013.pdf>



Medicare at 1.4 percent, and lower than all other health spending at 1.9 percent.<sup>11</sup> There is no evidence that a block grant would substantially reduce spending through more efficiency or less overhead – and it’s completely implausible to think that such efficiencies would be large enough to make up for the massive cuts in the Republican budget. When the CBO examined the long-term effects of the Ryan budget in March, they concluded that, “even [if states achieved] significant efficiency gains, the magnitude of the reduction in spending relative to such spending [under current law or current policy] means that states would need to increase their spending...make considerable cutbacks...or both.”<sup>12</sup>

Third, as a result, there is no way to implement the proposed reduction in Medicaid spending without dramatic reductions in health care to the poor, to children, to people in nursing homes, and to people with disabilities.

While I do not question the motives of those who designed and voted for these Medicaid cuts, the tyranny of the math leaves no option other than harsh cuts in coverage for the most vulnerable in our society. Consider the following: if all 33 million kids currently enrolled in Medicaid were cut from the program, it would only save 21.5 percent of the program’s spending. In other words, if you force every child off Medicaid, you would only get around two-thirds of the savings the House Republican Budget calls for. The reason is that nearly two-thirds of the cost of Medicaid – around 64 percent – is dedicated to coverage for patients in nursing homes, the elderly, and for those with disabilities or families including children with disabilities. A 2012 study by the Kaiser Foundation found that half of all women with disabilities were covered by Medicaid.<sup>13</sup>

Thus, while many of our Republican colleagues resist our characterization of this proposal as leading to very severe consequences for those in nursing homes, vulnerable women, or children with disabilities, the tyranny of the math does not allow for any other outcome. Indeed, if lawmakers tried to protect health care for the 33 million poor children Medicaid now covers, they would have to impose even deeper cuts on those in nursing homes and with disabilities. It is hard to overstate the harm this could cause those in need.

At especially great risk would be the optional Medicaid programs that provide coverage for “medically needy” families, those families with modest incomes but who face high health costs because they have a child with a serious disability. Programs like the Family Opportunity Act or the Katie Beckett option appropriately recognize that devoted middle-class parents trying to provide the very best to a child with Autism or Down Syndrome need help. But, these are exactly the essential, yet extra and optional, programs that could be most at risk with a 33 percent cut in funding. And — had the House Republican plan included even half the revenues of President Obama’s budget — all this heart-ache, all these potential heart-wrenching choices between poor children, older Americans in nursing homes, and families with someone with a serious disability would all be unnecessary to hit their deficit reduction target.

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<sup>11</sup> Congressional Budget Office. “Long-term budget outlook.” June 2011. Table 3-1, p. 42.

[http://cbo.gov/sites/default/files/cbofiles/attachments/06-21-Long-Term\\_Budget\\_Outlook.pdf](http://cbo.gov/sites/default/files/cbofiles/attachments/06-21-Long-Term_Budget_Outlook.pdf).

<sup>12</sup> Congressional Budget Office. “Long-term budgetary impact of paths specified by Chairman Ryan.” March 2012. p. 9. [http://cbo.gov/sites/default/files/cbofiles/attachments/03-20-Ryan\\_Specified\\_Paths\\_2.pdf](http://cbo.gov/sites/default/files/cbofiles/attachments/03-20-Ryan_Specified_Paths_2.pdf).

<sup>13</sup> Kaiser Family Foundation. “Medicaid’s Role for Women Across the Lifespan.” January 2012. Figure 10, p. 4. <http://www.kff.org/womenshealth/upload/7213-03.pdf>.

A 2011 analysis by the Kaiser Family Foundation and the Urban Institute of last year's House Republican Budget – which had an equivalent Medicaid block grant proposal – found that it would result in 19 million people losing coverage.<sup>14</sup> This means that after the House Republican budget completely eliminates the Affordable Care Act, it cuts an additional 19 million people off their health coverage through Medicaid. Surely, there must be many members of the Republican caucus in the House who voted for this provision who would not support this if they took the time to consider these harsh consequences.

### **Affordable Care Act**

I'm not going to discuss the Affordable Care Act at great length, but three points are essential to note to further understand the math and human impact of the House Republican budget.

One, the latest analysis by the CBO, published in March 2012, estimates that the Affordable Care Act will cover 33 million uninsured people annually by the end of the budget window, while still reducing the deficit.<sup>15</sup>

Two, the House Republican Budget obtains a substantial share of its budget savings from completely repealing the Medicaid expansion and the tax credits and support for private coverage in the Affordable Care Act.

Three, the Republicans do not propose a “repeal and replace” bill. You might be under the impression that any plan that calls for complete repeal of the coverage provisions of the health care law must be paired with some alternative policy to improve access to health insurance. But that is not the case. There is nothing. No proposal. No alternative strategy. Nada. Nothing. Just a complete repeal of health coverage for 33 million Americans. Just a cancellation of the policies with a track record of making health care more affordable. And, to be sure, just about any family could be one of the 33 million needing coverage in a given year. As Alan Krueger and I wrote in a report when we were at the Treasury Department, as many as half of all Americans today could at some point in a given decade be among those who would find themselves without health care for some period of time.<sup>16</sup>

**The bottom line:** the House Republican Budget repeals the Affordable Care Act's coverage of 33 million Americans, and then on top of that proposes Medicaid cuts that, according to the Kaiser Family Foundation, would lead another 19 million people to lose their health insurance. So, when someone states that the House Republican budget would cause over 50 million Americans to lose their health coverage compared to not just the President's budget but to the current law of the land – that is as much an explanation as it is a criticism of their plan. Perhaps it is somewhat more than 50 million; perhaps it is somewhat less: but I have not yet seen a credible analysis of the House Republican budget that does not project coverage losses of roughly that magnitude.

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<sup>14</sup> Holahan, J., M. Buettgens, V. Chen, C. Carroll and E. Lawton. “House Republican Budget Plan: State-by-State Impact of Changes in Medicaid Financing.” Kaiser Family Foundation. May 2011. Figure 5, p. 9. <http://www.kff.org/medicaid/upload/8185.pdf>.

<sup>15</sup> Congressional Budget Office. “Updated Estimates for the Insurance Coverage Provisions of the Affordable Care Act.” March 2012. Table 3, p. 12. <http://www.cbo.gov/sites/default/files/cbofiles/attachments/03-13-Coverage%20Estimates.pdf>.

<sup>16</sup> A. Krueger and G. Sperling. “The Risk of Losing Health Insurance Over a Decade: New Findings from Longitudinal Data.” September 2009. <http://www.treasury.gov/press-center/press-releases/Documents/final-hc-report092009.pdf>.

## **Mandatory Spending Focused on the Most Vulnerable**

Another very troubling aspect of the House Republican budget is how it deals with mandatory programs outside of health care and Social Security. There is no question that there are some opportunities for savings in this area. As I explained before, the President's budget and the Bowles-Simpson Commission each endorse more than \$200 billion in cuts from these programs. But the House Republican budget adds almost \$1 trillion in additional cuts above the levels the President and the Bowles-Simpson Commission propose.

The Republican budget declines to specify exactly what programs would be cut. But those few details that have emerged are illuminating:

- According to House Republican Budget Committee staff, their budget would cut the SNAP program (formerly known as food stamps) by \$134 billion,<sup>17</sup> or more than 17 percent, undermining food security for millions of Americans. House Republican leaders have argued that these cuts are needed because of rapid growth in the program in recent years – in the words of their budget blueprint, “relentless and unsustainable.” But this growth was a natural and temporary result of the increase in hardship caused by the Great Recession. CBO projects that as the economy recovers, food stamp caseloads will shrink by millions on their own – peaking at 47 million in 2014, and shrinking by more than 13 million to 33.7 million by the end of the next ten years – and the food stamp budget will return to pre-recession levels as a share of the economy. The Center on Budget and Policy Priorities has calculated that, if these cuts were to be achieved entirely through caseload reductions, they would require cutting more than 8 million people from the program, or if all households continued to get help, they would require across-the-board cuts of 14 percentage points in the maximum benefit.<sup>18</sup>
- Of the remaining mandatory savings, more than half comes from the “income security” portion of the budget, an area that includes the Supplemental Security Income (SSI) program, which provides assistance to the very low-income disabled and elderly, as well as child care programs, child nutrition, and unemployment insurance. One of the largest components of this area of the budget is tax credits for hard-pressed working families with children. It is remarkable that even as it extends every dollar of tax cuts for high-income households, the Republican budget targets tax benefits for low-income families for cuts.
- Nor is there reason to think that the budget would spare low-income programs outside the income security area. In particular, the budget singles out the Pell Grant program for large cuts; in fact, it calls for eliminating mandatory funding for the Pell Grant program.

## **Domestic Non-Defense Discretionary Spending**

On top of the dramatic cuts in Medicaid and income security, the House Republican Budget adds an additional \$1 trillion in cuts to non-defense discretionary spending. This amounts to a 20 percent cut to an area of the budget that includes critical areas such as medical research, higher education, early childhood education, veterans' programs, border control, and clean energy.

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<sup>17</sup> McCann, T., Budget Analyst for the House Committee on the Budget. Statement in response to question from Representative Chris Van Hollen. House Committee on the Budget Markup on FY2013 Concurrent Budget Resolution. March 21, 2012.

<sup>18</sup> Rosenbaum, D. “Ryan Budget would Slash SNAP funding by \$134 billion over ten years.” Center on Budget and Policy Priorities. April 18, 2012. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3717>.

To understand the unprecedented and extreme nature of this piece of their budget – and the damage it would do – consider four basic facts:

1. There is no evidence that this critical portion of the budget is a driver of long-term deficits. The non-defense portion of discretionary spending makes up only 16 percent of this year's budget and, as a percentage of GDP, it has not significantly grown over successive years since the 1970s. While certainly, there was a temporary increase in 2009 and 2010 as part of the emergency effort to ensure that our economy did not spin into another depression or even a steeper recession after our economy lost 7.8 percent of GDP annualized between the fourth quarter of 2008 and the first quarter of 2009, this category of spending was not a source of the initial increase in the deficit following the years of surplus, nor was it seen as a contributor to long-term deficit increases.
2. Despite these trends, President Obama was willing to sign into law deep spending constraints that will bring non-defense spending to its lowest levels of spending as a percentage of GDP since the Eisenhower Administration. By 2015 we are projected to reach our lowest rate of non-defense spending in 50 years – and one that will decline even further by end of the decade. As a result of legislation signed into law by this President, non-defense spending outside of transportation is projected to reach just 2.7 percent of GDP by 2015 – our lowest rate of adjusted non-defense discretionary spending in 50 years. Spending levels will then decline even further by the end of the decade, to just 2.3 percent of GDP in 2021. These extremely tight constraints on this critical area of government investment – which had not previously been or was projected to be a source of future deficit increases – make clear why additional deficit reduction must come from other areas of the budget.
3. The House Budget Resolution cuts non-defense discretionary spending by an additional 20 percent from these historic cuts – a full \$1.2 trillion more than recommended by Bowles-Simpson. It is hard to describe what a severe impact this would have when added to the cuts already in law. The House Republican plan would cut this critical part of the budget that deals with research, education, non-transportation infrastructure, and other investments to 1.9 percent of GDP by the end of the budget window – a nearly 50 percent cut from its average during the Reagan Administration. This is not a cut from some imaginary growth rate: it means a 20 percent cut from the amount of non-defense discretionary spending that we enacted this year – even before adjusting for the effect of economy-wide price increases over that period. It means that this category of spending will go from \$540 billion to \$477 billion over ten years (which after adjusting for inflation is about a 30 percent cut).
4. Any way you slice it, the additional \$1 trillion in cuts would be indefensible if they were actually identified. The most disingenuous aspect of this proposal is that nowhere does the House Budget Resolution specify where these cuts would fall or even acknowledge the severity of the cuts to top national priorities – perhaps because House Republican leaders did not want to publicly defend such deep cuts in specific programs. In order to give a sense of what such cuts would mean, President Obama's Acting Budget Director Jeff Zients and Deputy OMB Director Heather Higginbottom displayed the impact of distributing the 19.4 percent cut evenly across the board. Those who proposed this severe reduction then cried foul. Yet, the tyranny of the math again makes clear if they wanted to spare the 200,000 children who would lose Head Start or the 10 million young people who would lose an average of \$1000 in Pell Grants if they imposed their cuts across the board, then the walling off such significant areas would mean even deeper than 19 percent cuts in other priority areas like NIH, the National Science Foundation, border control, training, immunizations, food safety or other priorities. Instead of standing up and defending or detailing such cuts, the budget document hides the implications of this plan by offering no details on the distribution of their cuts and then protesting when others offer any suggestions of the unavoidable harshness of their plan.

## Cumulative Impact

These sections make clear that the core spending cuts in the House Republican budget come primarily from major reductions in spending on domestic investments, deep cuts that impact the most vulnerable families, and, in the health area, large reductions in the number of people with health insurance coverage. The four areas just discussed – the House Republican budget’s Medicaid cuts, its repeal of the Affordable Care Act, other mandatory spending made up largely of basic income security programs for our poorest families, and discretionary cuts that go well beyond the already austere Budget Control Act caps – account for \$4.5 trillion of the budget’s spending cuts. This reality helps to explain the finding by the Center on Budget and Policy Priorities that the House Republican Budget gets 62 percent of its non-defense spending cuts from programs for lower-income Americans.<sup>19</sup>

## Long-term projections

The excessively deep, harsh and perhaps unimaginable reduction in Medicaid, health care coverage, safety net programs, and domestic discretionary investments are not side aspects of the House Republican Budget. Rather, they define its core capacity to claim deeper deficit reduction. Moreover, the extrapolation of these trends to deeper and even less credible assumptions is key to the Republican assertion that their plan can lower our debt as a percentage of GDP dramatically by 2050.

To give just one example of how absurd these assumptions are, according to the CBO’s long-run analysis of the Republican budget, based on numbers provided by the House Budget Committee majority staff, spending on all discretionary programs as well as mandatory programs outside of health care and Social Security will fall to 3.75 percent of GDP in 2050.<sup>20</sup> Last year, spending on those programs amounted to 12.6 percent of GDP. If it were put in place this year, a cut of that magnitude would translate into a \$1.3 trillion cut in these programs. Consider the following: over the past 50 years, discretionary spending alone has averaged 9.4 percent of GDP, and defense spending has never fallen below 3.0 percent. Other mandatory spending alone has averaged 2.8 percent of GDP, and has never fallen below 1.8 percent (which it reached in 1968).

This means that the projections on which the House Budget Committee relies to meet their deficit reduction claims in 2050 would mean that even if defense spending was at a historic low of 3.0 percent, they would have to spend only 0.75 percent on everything else. That means that even if you completely eliminated all unemployment insurance and all food stamps, you would still have to completely wipe out all non-defense spending completely to make these ludicrous assumptions work.

## Medicare

The final major difference between the President’s budget and the House Republican plan is the fate of Medicare. I know honorable people have differences of opinion on this question. But it is important for those quick to criticize opponents of premium support to recognize the compelling and well-justified reasons for their beliefs that it threatens the core of Medicare as we know it, and why it should be rejected in favor of more sound proposals for shoring up Medicare solvency.

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<sup>19</sup> Merrick, K. and J. Horney. “Chairman Ryan gets 62 Percent of His Huge Budget Cuts from Programs for Lower-Income Americans.” Center on Budget and Policy Priorities. March 2012. <http://www.cbpp.org/cms/index.cfm?fa=view&id=3723>.

<sup>20</sup> Congressional Budget Office. “Long-term budgetary impact of paths specified by Chairman Ryan.” March 2012. p. 1. [http://cbo.gov/sites/default/files/cbofiles/attachments/03-20-Ryan\\_Specified\\_Paths\\_2.pdf](http://cbo.gov/sites/default/files/cbofiles/attachments/03-20-Ryan_Specified_Paths_2.pdf).

Today, Medicare provides a universal guarantee; it covers the sickest and the oldest without discrimination, and uses its purchasing power to get the best prices possible, with low administrative costs. As the aging of the population and the system-wide growth of health care costs put pressure on Medicare spending and the fiscal system, the President's budget seeks to protect the basic Medicare guarantee as we know it while lowering costs through structural reforms including income-related premiums for higher-income beneficiaries, a surcharge on plans with low-cost sharing, and home health copayments. Moreover, the savings in the President's budget are beyond those already achieved through the Affordable Care Act, which put into place mechanisms that the Congressional Budget Office and the Joint Committee on Taxation believe will reduce health spending in the long run, including an excise tax on high-premium plans and delivery system reforms designed to bend the curve of system-wide health care cost growth. The Congressional Budget Office has estimated that those reforms would "substantially reduce the growth of Medicare's payment rates for most services (relative to the growth rates projected under current law),"<sup>21</sup> and that the Affordable Care Act would reduce the deficit both this decade and the next.

The premium support model takes the basic guarantee of Medicare and replaces it with a process that, on an annualized basis, determines a fixed voucher for seniors and persons with disabilities on Medicare based on the price of the second-lowest cost private plan. It is flawed for several reasons:

First, this approach fundamentally gets savings by shifting costs to seniors, and actually driving up national health expenditures, because traditional Medicare has less overhead and cost growth than private plans:

- While Chairman Ryan has changed his plan from last year, the basic logic of the CBO analysis of the plan in 2011 remains a powerful warning: forcing more Medicare recipients away from a system with low administrative costs and strong purchasing power to one where there is excessive overhead costs and profits, marketing, and selection of a lower-cost pool is likely to add to our overall national health care costs. The CBO analysis found that "A private health insurance plan covering the standardized benefit would, CBO estimates, be more expensive currently than traditional Medicare. Both administrative costs (including profits) and payment rates to providers are higher for private plans than for Medicare." As a result, CBO found that when the plan began in 2022, traditional Medicare would have delivered benefits at 66 percent of the cost of private plans, and that the plan shifted \$6,400 in costs to seniors.<sup>22</sup>
- The finding of higher costs in Medicare versus private-sector plans is consistent with earlier CBO analyses. As described in a 2006 CBO report, "administrative costs and returns on investment account for about 11 percent of private plans' costs of delivering Medicare benefits, whereas the administrative costs of the fee-for-service Medicare program (as reported by the Centers on Medicare and Medicaid Services) account for less than 2 percent of its expenditures."<sup>23</sup>

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<sup>21</sup> D. W. Elmendorf. "Letter to the Honorable Nancy Pelosi." Congressional Budget Office. March 20, 2011.

<sup>22</sup> Congressional Budget Office. "Long-term Analysis of a Budget Proposal by Chairman Ryan." April 5, 2011. <http://cbo.gov/publication/22085>.

<sup>23</sup> Congressional Budget Office. "Designing a Premium Support System for Medicare." December 2006. <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/76xx/doc7697/12-08-medicare.pdf>.



- The Medicare Payment Advisory Commission (MedPAC)'s March 2012 Report to Congress estimates that Medicare overpayments to private Medicare Advantage plans will average 107 percent of the cost of traditional, fee-for-service Medicare plans in 2012.<sup>24</sup>
- According to historical data from CMS, a comparison of the expense of delivering the same benefits in Medicare versus private plans shows that over the past decade per-enrollee cost has grown faster in private plans (at a rate of 7.0 percent per year) than Medicare (4.7 percent per year).<sup>25</sup>

And, even worse, this creates a two-tier system in which the overwhelming economic incentive of health plans is not to compete on value but on success in siphoning off the healthiest seniors in the population. That leaves the sickest and least healthy in traditional Medicare facing higher costs. Once this risk segmentation begins to occur, it creates what health economists term a “death spiral” – as healthier people move to private plans, costs for those remaining in traditional Medicare rise, forcing them out of this program in increasing numbers.

Some have disputed this projection, claiming that the imposition of regulations and risk adjustment would fully offset this type of cherry picking. This is ironic because normally, these very Republican members of Congress fight tooth and nail against these types of regulations. But even if these types of regulations were in place, given the nature of the Medicare population, risk adjustment may not prevent this type of selection:

- A 2012 analysis by MedPAC of the risk adjustment system currently used to determine payments to private Medicare Advantage plans concludes that “CMS-HCC [the risk adjustment system] explains about 11 percent of the variation in Medicare spending; research indicates at least 20-25 percent of variation can be predicted.”<sup>26</sup>
- A 2011 analysis by Brown, Duggan, Kuziemko, and Woolston confirms that risk adjustment in private Medicare Advantage plans today does not correct for cream skimming to select healthier enrollees, leading to government overpayments. The authors found that “after risk adjustment, individuals switching into Medicare Advantage are over \$1,200 cheaper than their risk scores predict them to be,” and “individuals enrolling in Medicare Advantage had lower costs than those remaining in fee-for-service, suggest[ing] that this imperfect pricing not only causes the government to overpay for MA enrollees, but also shifts relative Medicare expenditure from high-cost to low-cost beneficiaries.”<sup>27</sup>

Given the challenges of risk adjustment for the unique population in Medicare, shifting to premium support could lead to a cycle of higher premiums and lower enrollment:

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<sup>24</sup> Medicare Payment Advisory Commission. “Report to the Congress: Medicare Payment Policy.” March 2012. Table 12-3, p. 319. [http://www.medpac.gov/documents/Mar12\\_EntireReport.pdf](http://www.medpac.gov/documents/Mar12_EntireReport.pdf).

<sup>25</sup> Centers on Medicare and Medicaid Services. National Health Expenditure Data. Historical. NHE Tables, Table 16. <http://www.cms.hhs.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/tables.pdf>.

<sup>26</sup> Zabinski, D. “Issues for risk adjustment in Medicare Advantage.” Medicare Payment Advisory Commission (MedPAC). March 9, 2012. [http://www.medpac.gov/transcripts/RiskAdj\\_Mar\\_2012.pdf](http://www.medpac.gov/transcripts/RiskAdj_Mar_2012.pdf).

<sup>27</sup> Brown, J., Duggan, M., Kuziemko, I., and Woolston, W. “Will risk adjustment decrease health care costs? New evidence from the Medicare Advantage Program.” Working Paper; revise and resubmit, *American Economic Review*. August 2011. [http://www.princeton.edu/~kuziemko/ma\\_draft\\_16aug2011\\_ik.pdf](http://www.princeton.edu/~kuziemko/ma_draft_16aug2011_ik.pdf).

- According to a 2006 report by CBO, which analyzed a plan that set the voucher amount at the lowest private plan bid, premiums and cost sharing would increase for 85 percent of Medicare beneficiaries, because the lowest bid in their area would fall below the cost for traditional Medicare.<sup>28</sup> The same study found that, on average, Medicare would pay 6 percent less, but seniors wishing to stay in traditional Medicare would see their premiums increase by 49 to 64 percent on average. While the House Republican budget may mitigate a portion of these effects by setting the voucher at the second-lowest private plan bid rather than the lowest, there is no reason to believe the overall trajectory for the program would be different.
- A 2004 study published in the *Journal of Health Politics, Policy, and Law* found that if risk-adjustment is 50 percent effective (which is more than four times as effective as MedPAC estimates it is today), by the 20th year of the program, 76 percent of seniors would be pushed out of traditional Medicare.<sup>29</sup>

For all of these reasons, writing in the pages of the *New England Journal of Medicine* in March of this year, Henry Aaron, a co-author of the term “premium support,” said, “serious efforts to control the growth in Medicare expenditures should begin with resolute implementation of the Affordable Care Act and include measures to strengthen Medicare — both the traditional program and the existing competitive structure. Whatever the future may hold, now is not the time to expose Medicare beneficiaries to the upheaval of a shift to premium support.”

A program that no longer provides a universal guarantee – without price discrimination – for everyone regardless of their age or health status, while setting up a two-tiered system where sicker people could be forced by higher and higher prices out of traditional Medicare and into private plans, is simply put a program that puts an end to the basic guarantee of Medicare as we know it today.

### **Comparison to the Bowles-Simpson Plan**

As a final note, there is no question that one issue that is often raised is the consistency or lack of consistency with the President’s plan and House Republican plan as compared to Bowles-Simpson. I hope the answer to this is now clear-cut.

First, it is important to remember two core principles in Bowles-Simpson:

1. There needs to be a very significant balance between revenues and entitlement savings.
2. There needs to be a commitment to having a deficit reduction plan that does not place a significant burden on those who are the poor, or the most vulnerable in our society. As the Bowles-Simpson Report says regarding mandatory programs for the most disadvantaged, “these programs provide vital means of support for the disadvantaged, and this report does not recommend any fundamental policy changes to these programs.”<sup>30</sup>

<sup>28</sup> Congressional Budget Office. “Designing a Premium Support System for Medicare.” December 2006. <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/76xx/doc7697/12-08-medicare.pdf>.

<sup>29</sup> Rice, T. and K.A. Desmond. “The distributional consequences of a Medicare premium support proposal.” *Journal of Health Politics, Policy, and Law*. December 2004.

<sup>30</sup> National Commission on Fiscal Responsibility and Reform. “The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform.” December 2010. p. 39. <http://www.usatoday.com/news/photos/2010/12/01/TheMomentofTruth.pdf>.



The House Republican budget unambiguously contradicts both of these principles. It includes not a single penny of revenue, and finds the overwhelming majority of its additional spending cuts not through taking on powerful interests but by dramatic and disproportionate reductions in those programs that most protect and invest in the most vulnerable.

On the other hand, while the President does not agree with all the recommendations in the Bowles-Simpson plan – such as those on Social Security – his budget plan is significantly aligned with the overall core of the proposal:

- As I've mentioned, the President's plan includes over \$100 billion more in non-security discretionary savings than Bowles-Simpson.
- Medicare and Medicaid savings that by the end of the decade are larger (\$71 billion versus \$63 billion in 2022), and growing faster.
- The President's plan includes a comparable amount of mandatory savings from entitlement programs other than Medicare, Medicaid, and Social Security – more than \$200 billion.
- And at its core, both plans include a basic balance between around two-thirds discretionary spending cuts and entitlement savings, and one-third revenues.

Indeed, perhaps the two most significant areas of difference between the Obama deficit reduction plan and Bowles-Simpson make it easier, not harder, to reach bipartisan agreement. While the President's plan calls for \$600 billion less in revenues, and about \$600 billion less in security savings (cuts which represent \$50 billion more than the security sequester), than Bowles-Simpson recommended – these are not rigid ideological differences that prevent compromise, but rather positions that actually make a bipartisan agreement more possible.

**Conclusion:** There is a growing awareness and emerging national consensus that we both need to reduce our long-term deficits and do so in a way that asks for shared sacrifice including revenues from those who are most fortunate in our society. This will need to be done in a thoughtful way that neither sacrifices the need to strengthen our current recovery nor our national imperative to make investments in the skills and potential of all of our people. It will, as President Obama has often said, mean that everyone must be willing to avoid clinging to every fiscal sacred cow or ideological claim. If we work in good faith, it will not mean being forced to sacrifice our commitment to looking out for those most in need, investing in all our children, protecting the dignity of work and retirement, competing for a better future and a commitment to shared sacrifice in pursuit of shared prosperity.

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