

STATEMENT OF COMMISSIONER ROBERT E. DENHAM

Although as a Commission we were not able to reach agreement on a specific proposal for entitlement reform, I believe that as a member of the Commission who strongly agrees with the description of the entitlement problem that is set forth in our Interim Report, it is incumbent on me to express my views, in specific terms, about solutions.

While the conventional wisdom today is that the largest entitlement programs, Medicare and Social Security, are “off the table,” I am convinced that the American people are increasingly realistic in contemplating the economic choices we face. Those who persist too long in proclaiming that critical entitlements programs are “off the table” may find the seats at the table have been rearranged by others who want to get on with the business of reclaiming America’s future. These matters *will* be dealt with; the question is when, not if.

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The choices that are available to us when we deal with entitlements are relatively simple. Pete Peterson summed them up well at the final meeting of the Commission —

- We can increase retirement ages for various benefit programs;
- We can reduce benefits progressively for the more well-to-do;
- We can reduce various tax benefits; and
- We can spread reductions across a broad range of programs.

Each of these can be done to a greater or lesser extent, and in various combinations. But all need to be done to some extent if we are to meet the objective of reform and do so in a way that strengthens, rather than weakens, the economy.

I have carefully reviewed the proposal put forward by you (“Kerrey-Danforth proposal”) and believe that it represents a reasonable and credible approach to entitlements reform. Moreover, the 1.5 percent payroll tax decrease matched with a mandatory private savings plan is a sound and creative way to encourage savings and provide a means for accumulating retirement assets outside the Social Security system.

While I endorse the Kerrey-Danforth proposal, there are, in the details, a few things I would do differently. First, I would speed up implementation in the fashion recommended by Pete Peterson in his December 14 memo (“Peterson proposal”) to the Commission. The credibility of reform is enhanced, generational equity is better served, and the burden of interest payments on the debt is reduced if we

move sooner instead of later. Additionally, I would not retain the age of eligibility for “early retirement” at 62, creating a growing gap between early retirement and normal retirement as the Normal Retirement Age is moved back. Early retirement is extremely costly to the economy in lost production and to the government in lost taxes. I would increase the Early Retirement Age according to the same schedule applied to normal retirement, so that early retirement would reach 67 when normal retirement reaches 70. In 2019 (the date normal retirement reaches 70 under the Peterson proposal) or 2029 (the date provided in the Kerrey-Danforth proposal), the vitality and life expectancy for 67-year-olds can be expected to be similar to that for 62-year-olds when the early retirement option was first introduced in the 1960s.

I agree with Peterson that means testing of Social Security is preferable to the bend-point changes of the Kerrey-Danforth proposal. The proposals are not necessarily mutually exclusive, however. In particular, the first of the bend-point proposals (indexing bend points for CPI instead of average wage growth) might be combined with means testing as a better way to increase progressivity of benefits than the introduction of a third bend point.

With respect to health care, I would begin to tax Medicare benefits on the same basis as applied to Social Security, *i.e.*, with the same inclusion thresholds and percentages. I would also introduce global budgeting for Federal health benefit spending (Medicare and Medicaid), and provide benefits through coverage vouchers that both limit and define the government’s cost and allow the government to receive the same benefits that industry has been achieving by using competition among providers to reduce health care costs. I believe this approach is preferable to the Kerrey-Danforth suggestion of reducing Medicare provider payments. As most other developed countries do, we should have to decide annually how much money we are willing to spend for Federal health care programs. Then we should spend that money in the most efficient, competition-inducing way, which I believe means vouchers.

While I do not have budget “scoring” available for all these proposed changes to the Kerrey-Danforth proposal, I am confident that they would not meaningfully change its bottom line.

The foregoing may fairly be viewed as a quibbling about details when compared to the overwhelmingly more important objective of quickly obtaining entitlement reform that meets the criteria set forth in the Commission’s letter to the President, *i.e.*, matching our capabilities with our commitments over a 30-year forward horizon. The Kerrey-Danforth proposal, the Peterson proposal, or my own modest amendment of the Kerrey-Danforth proposal, would all achieve this objective. When this objective is achieved, we can expect an immediate dividend for the economy and for all Americans in the form of lower long-term interest rates that reflect market expectations for significantly lower inflation risk. Capturing this “entitlements dividend” is the best reason for acting now. ★