STATEMENT BY COMMISSIONER ROBERT GREENSTEIN

The letter that the majority of the Commission has transmitted emphasizes the importance of looking at the impact of spending and tax decisions for periods longer than five years. I would like to underscore this point.

A few days after we approved this letter, a Treasury Department analysis found that the tax cuts in the Contract With America would cost \$197 billion over the first five years, but cost \$515 billion over the following five years. The tax cuts proposed by the President also become significantly more expensive outside the traditional five-year budget window, although both their cost and the amount by which that cost grows over time are much smaller than is the case for the Contract's tax cuts. (The Clinton tax cuts would lose \$60 billion in the first five years, and \$114 billion in the second five years.)

The Commission's Interim Report demonstrated that even without tax cuts, the deficit picture darkens after the five-year point. If discretionary spending remains constant as a share of the Gross Domestic Product, the deficit will rise from about 2 percent of GDP today to more than 15 percent of GDP in the year 2030. Consequently, policies that worsen the deficit after the five-year mark raise serious concerns. When policymakers make budget and tax decisions, discussion of the longer-term impacts of the policies they are debating needs to be a basic part of their deliberations.

To be sure, efforts can be made to "pay for" new tax cuts and spending increases that grow in cost after the five-year point. Such tax cuts and spending increases can be accompanied by savings measures that themselves grow over time. But savings measures which are used to pay for policies whose costs mount as the years pass are savings measures no longer available to alleviate the long-term deficit problem.

The importance of these matters is heightened by the upcoming debate on a constitutional amendment to balance the budget. There is now serious talk of mandating budget balance by fiscal year 2002 while cutting taxes, increasing defense spending, and shielding Social Security. The consequences of such a course are striking. To balance the budget by that point and keep it balanced thereafter — while instituting the tax cuts called for in the Contract — entails about \$2.5 trillion in spending reductions over the next 10 years, exclusive of the savings that will accrue from lower interest payments.

If defense and Social Security (and interest payments on the debt) are moved to the side, about half of the budget is taken off the table. To cut \$2.5 trillion over 10 years from the half of the budget that remains would require draconian cuts in aid for the poor, sharp retrenchment in the type of public investments that can help the economy grow over the long term (such as education, infrastructure, research and development, and effective early intervention programs for children), and severe reductions in Federal aid for States and local governments. State and local taxes on middle-class households are likely to rise sharply under such a scenario.

This leads me to three conclusions. First, those parts of the budget which the Entitlement Commission attempted to examine but that are now off the table — such as restoring actuarial balance to Social Security and restraining tax expenditures — need to be put back on the table as soon as is politically feasible. Second, we need to avoid a tax cut bidding war that would make an already-grim picture worse. Any tax cuts approved this year should be as modest as possible, particularly in the years after the five-year mark passes. Third, as the Commission's letter states, we need to have a horizon of longer than five years when considering tax and budget issues. At a minimum, policymakers of both parties should eschew policies that take the long-term problems the Commission has described and make them more serious.

EDUCATING THE PUBLIC ABOUT THE PROBLEM

Many Americans believe part of our budget problem is related to growth in some vague budget category called "entitlements," without understanding what entitlement programs actually are. Many who support restraining entitlements in the abstract oppose reductions in the specific programs that constitute the major entitlements and that are the principal sources of growth in overall entitlement costs.

I regret the Commission did not do more to cut through this fog. Most — although certainly not all — of the "entitlement problem" stems from two factors: sharply rising health care costs in the public and private sectors alike and the aging of the population, especially once the Baby Boom generation begins to retire. These two factors will drive up Medicare, Medicaid, and Social Security costs in the next century. They are the heart of the "entitlement problem."

The long-term forecast for health care costs is the single greatest problem. Tackling this problem will not, by itself, fully address the long-term fiscal problems we face. But unless we do tackle this problem, only modest progress can be made. Health care reform is a necessary but not sufficient condition to addressing the long-term deficit problem.

Furthermore, no one should be fooled into thinking that tough action to cut Medicare and Medicaid costs alone, without reforming the U.S. health care systems as a whole, is a solution. Among the most important testimony the Commission received was that of Robert Reischauer, director of the Congressional Budget Office. Dr. Reischauer told us that if we make large cuts in Medicare and Medicaid without private sector reforms, there will be substantial cost shifting to the private sector. Costs paid by employers in particular will mount further, resulting in lower wages to employees — and reduced health care coverage offered by employers — than would otherwise be the case.

THE PURPOSE OF ENTITLEMENTS

While failing to act on health care reform and rushing headlong to embrace large tax cuts, some policymakers are beginning to talk of another way of addressing entitlement issues — ending entitlement status for most benefits for the poor.

Some government programs are not entitlements; others are. There are cases where entitlement status is appropriate and necessary, and cases where it is not. Unfortunately, the emerging debate on de-entitling safety net programs is not based on a careful examination of these issues.

Basic means-tested benefit programs like the Food Stamp program need to be structured as entitlements. In recessions, more people are out of work and are poor. Food Stamp rolls increase. The expansion of the Food Stamp program during recessions both alleviates hardship and pumps more purchasing power into the economy, helping to keep the economy from sinking further.

This is why programs like Food Stamps are considered by liberal and conservative economists alike to be "automatic stabilizers" that help bolster the economy during downturns. If entitlement status were withdrawn and the program were made a discretionary block grant, as some now suggest, it would no longer respond to recessions, and its role in easing hardship and bolstering the economy during downturns would be lost.

In short, there are good reasons that some programs — including means-tested entitlements that provide cash, food, and medical assistance for poor families and poor elderly and disabled people — are structured as entitlements. This does not mean their costs cannot be controlled. Changes in eligibility and benefit rules can be instituted to restrain or reduce the cost of entitlements. Various entitlement programs, including means-tested entitlements, have been cut in this manner on a number of occasions over the past 15 years. Where entitlement status is appropriate for a program, removing that status is not the way to address issues of entitlement spending. I wish the Commission had devoted time to exploring the circumstances in which entitlement status is and is not appropriate and had begun to illuminate the debate on these issues.

BENEFITS FOR AFFLUENT RETIREES

During our deliberations, many Commission members spoke — sometimes passionately — about the need to scale back the Social Security benefits received by affluent retirees. Yet Congress now seems poised to move in the opposite direction and increase benefits to affluent retirees.

Congress and the President have twice acted to scale back modestly the benefits for such retirees. In 1983, some 50 percent of benefits received by those above certain income levels were made subject to taxation. In 1993, the percentage of benefits made subject to taxation was raised to 85 percent for the one-eighth of retirees with the highest incomes.

This is eminently reasonable. Under Federal tax law, the private pension payments received by a retiree are counted as taxable income to the extent these payments exceed the amounts the retiree earlier paid into the pension system. If the same principle were applied to Social Security, an average of somewhat more than 85 percent of benefits would be taxable. The 1993 provision essentially applied to

Social Security a treatment similar to that applied to private pensions and it did so only for retirees at relatively high income levels.

Using the tax system in this manner is the only efficient way of recapturing a portion of benefits paid to more affluent retirees. Social Security offices cannot perform this task; they have no information on beneficiaries' current incomes.

To repeal the provision passed in 1993, as some are suggesting, would represent a step backward. It would increase Social Security benefits for the more affluent.

Moreover, it would deepen the Medicare financing crisis. The Medicare Hospital Insurance Trust Fund is in bad shape; it is projected to become insolvent in 2001. The revenues raised by the 1993 provision that increases the portion of Social Security benefits counted in taxable income are deposited in the Medicare Trust Fund. If the provision is repealed, the Medicare financing crisis will grow more serious, and bankruptcy will occur sooner in the Medicare program.

CONCLUSION

The Commission has outlined a grim long-term forecast. I am deeply concerned that Congress is about to embark on a course that takes this situation and makes it significantly worse. The Commission did not succeed in agreeing on specific recommendations to address the long-term problem. I appeal to my fellow Commission members — particularly those who are Members of Congress — to work in the months ahead at least to help prevent the situation from deteriorating further. ★