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**THE FAILURE TO ESTABLISH
EFFECTIVE RULES FOR FINANCING
U.S. FEDERAL ENTITLEMENT
PROGRAMS**

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INTRODUCTION: THE CENTRALITY OF ENTITLEMENT REFORM TO FISCAL REFORM

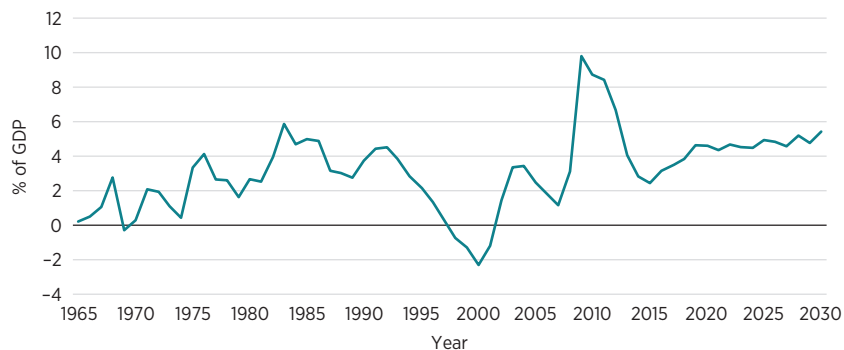
Understanding the fiscal practices of the U.S. government requires in turn an understanding of how its federal mandatory spending programs, otherwise known as entitlements, have largely eluded effective financial controls.¹ The U.S. federal government's structural budget deficit has grown persistently over the past several decades, driven principally by spending growth in these entitlement programs. While other aspects of federal budgeting ranging from tax policy to discretionary appropriated spending are frequently a focus of political debate, non-partisan examinations of the federal fiscal imbalance consistently conclude that its primary cause is the growth of entitlement program spending, with the largest amounts occurring in Social Security, Medicare, and Medicaid (Congressional Budget Office 2019, 20; Riedl 2018; Blahous 2013).²

Figure 1 shows Congressional Budget Office (CBO) projections for federal deficits, published just prior to the onset of the COVID-19 crisis (Congressional Budget Office 2020).³ Figure 1 as well as other figures in this chapter are based on CBO's pre-COVID projections for the following reasons. First and foremost, this study was conducted in 2020 before the budgetary effects

of COVID-19 were fully known, including both direct budgetary effects of the economic downturn, as well as the effects of multiple economic relief bills, which continue to move through Congress at the time this article is going to press. These various economic relief bills have both worsened and complicated the near-term budget outlook. However, irrespective of this ongoing legislation, the long-term story remains one of spiraling federal deficits and debt, with the situation deteriorating dramatically over the last decade and projected to grow out of control in the years to come. With the exceptions of a brief period of fiscal consolidation in the late 1990s, and surges in annual deficits during two recent recessions, the picture looks remarkably consistent across time. Deficits in individual years rise and fall, but the midpoint of the fluctuations has persistently grown faster than Gross Domestic Product since the 1970s. As a consequence, federal debt has been accumulating faster than growth in U.S. economic output, again excepting a brief period in the late 1990s and mid-2000s (Congressional Budget Office 2020).

The federal policies that have led to these results have not evolved according to any particular fiscal rule, whether automatically implemented or otherwise. The accumulation of red ink has transpired in good economic times and

FIGURE 1. HISTORICAL/PROJECTED FEDERAL BUDGET DEFICITS



Congressional Budget Office, Historical Budget Data, January 2020, and Congressional Budget Office, Long-Term Budget Projections, January 2020, <https://www.cbo.gov/about/products/budget-economic-data#2>.

bad, in periods of market declines and recoveries, and during both Democratic and Republican control of the presidency and of Congress.⁴ The imbalance directly reflects the collective unwillingness of lawmakers to limit federal spending to amounts more closely approximating federal revenue collections.

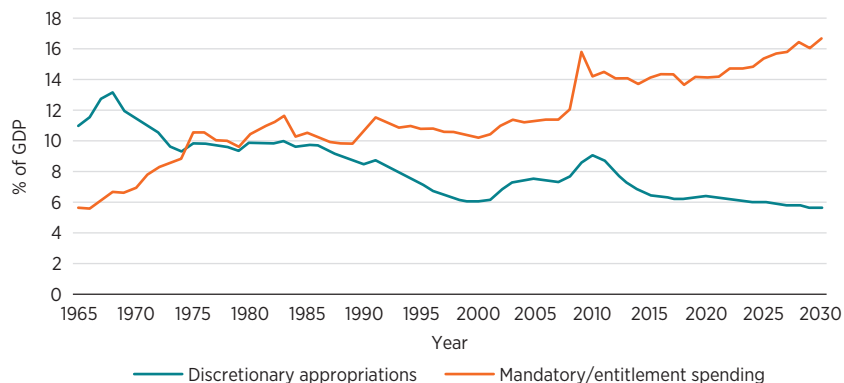
More specifically, the imbalance derives from the growth of federal entitlement spending. Figure 2 illustrates a counterintuitive reality, that the growth of federal deficits has coincided with relative declines in total annually appropriated (discretionary) spending, including both defense and domestic discretionary spending. In contrast, the growth of entitlement spending, also shown in figure 2, corresponds closely to the concurrent growth of federal deficits and debt (Congressional Budget Office 2020; Blahous 2012).⁵

Trends in federal tax collections contrast markedly with the patterns displayed in figure 2. Unlike entitlement spending, tax collection levels have no clear relationship to the persistent rise in federal debt. To the contrary, federal tax collections as a share of GDP have remained remarkably stable across the decades, neither

rising nor falling with consistency nor to large degrees (Congressional Budget Office 2020). Indeed, federal deficits and debt are projected to increase through the late 2020s despite projected tax collections also increasing relative to the size of the economy and relative to historical norms (Congressional Budget Office 2020). The conclusion is straightforward and inescapable: the federal fiscal imbalance is not primarily rooted in either annually appropriated spending or tax policy, but is predominantly a consequence of uncontrolled entitlement spending growth.⁶

Federal mandatory (entitlement) spending is defined as spending that is automatically authorized under continuing statute, without requiring an intervening vote by lawmakers, whether on a new budget resolution, budget reconciliation bill, or any other new authorizing legislation. Because such spending continues on autopilot unless a vote is held to discontinue or reduce it, it creates a powerful procedural bias toward rising spending relative to government restraint. If in addition the spending is indexed to automatically increase relative to economic growth and/or to tax collections, as is the case

FIGURE 2. HISTORICAL/PROJECTED FEDERAL SPENDING, BY TYPE



Source: Congressional Budget Office, Historical Budget Data, January 2020, and Congressional Budget Office, 10-Year Budget Projections, January, 2020, <https://www.cbo.gov/about/products/budget-economic-data#2>.

under current law, there results a powerful impetus toward escalating deficits and debt.

As long as current budgetary processes persist, it is difficult to posit that an enduring solution to the federal fiscal shortfall is even reasonably likely. Without fundamental restructuring of federal entitlement programs, fiscal improvements can only be episodic and temporary, after which the budget must return to its persistently destabilizing trajectory. Lasting fiscal corrections are unlikely until federal finances are placed on a course that is sustainable without requiring repeated legislative interventions.

Additional political economy factors only accentuate the unworkability of leaving automatic entitlement spending growth mechanisms in place, while relying perpetually on periodic legislation to ameliorate the resulting fiscal problems. Legislators’ policy views span a wide spectrum of preferences with respect to deficit-reduction strategies, ranging from reliance entirely on tax increases to reliance entirely on spending restraints.⁷ As long as a critical mass of diverse legislators must agree on new legislation to stabi-

lize federal budgets, a worsening fiscal imbalance remains the most likely outcome.

In addition, lasting fiscal improvements are precluded under current law unless legislators overcome the powerful psychological force of “loss aversion” (Kahneman 2011, 282–286). That is, as long as the no-action scenario appears to provide that Americans will receive benefits without the necessity of financing them, then legislation to correct federal finances will be perceived by voters as an income loss, and resisted accordingly.⁸ Only if the baseline scenario is one in which the budget is in balance or in surplus are legislators likely to find common ground on future adjustments that can receive public support. Hence, a one-time, permanent correction of the federal fiscal trajectory could have an enormously powerful effect in enabling future bipartisan cooperation and problem solving. Such a correction would itself face formidable political obstacles, but it is more realistic to overcome them a single time than repeatedly.

A lasting correction to federal budget policy and processes could be achieved by making

mandatory spending programs subject to automatic corrections that ensure their continued financial balance without requiring repeated rescues by federal legislators. The following sections of this chapter present an abbreviated history of the largest such programs, and how they have come to lack such automatic correction mechanisms.

THE HISTORICAL ROOTS OF SOCIAL SECURITY'S FINANCING SHORTFALL

Social Security, the federal government's largest and costliest program, pays old-age, disability, and survivor benefits to qualifying workers and their dependents. The program is funded primarily by payroll taxes collected from participating workers' wages, which are credited to a pair of trust funds (one for old-age and survivor benefits, the other for disability benefits), from which all benefit payments must be made. Social Security's costs are persistently growing faster than its revenue base and thus contribute significantly to the federal government's structural fiscal imbalance described in the previous section. This section provides an historical overview of how Social Security came to lack effective financial controls.

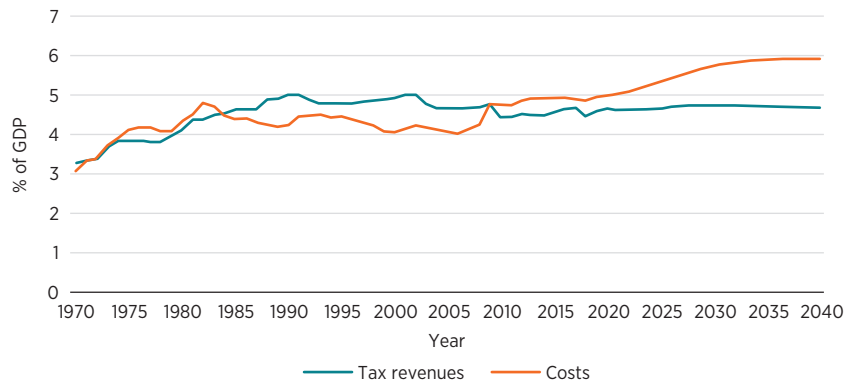
Because Social Security's spending authority is limited to the resources held by its trust funds, there is a widely shared perception that corrections to its financial operations must occur automatically. That is to say, if benefit obligations grow beyond what the program's dedicated revenues can finance, then either legislators will realign benefit and tax schedules before the trust funds run dry, or else benefit payments will be restrained automatically to affordable levels. However, a closer examination of Social Security's history reveals a more complicated and less reassuring picture. Historically, no

Social Security trust fund has been allowed to be depleted in a manner that limited benefit payments, and the few instances of legislative action to correct a programmatic financial imbalance are sufficiently rare that it remains unclear whether they are operative precedents or were instead outlier political events. Additionally, previous financial corrections were enacted in an era when the program's annual operations were not nearly as imbalanced as they will be when trust fund depletion nears again (Social Security Administration Office of the Chief Actuary 2020, Table VI. G2).

Perhaps most importantly, the few historical instances of lawmakers successfully addressing a Social Security financing imbalance reflected the policy scruples of a handful of influential policymakers of an earlier time, who were personally invested in the principle of Social Security self-financing. As the following paragraphs will detail, there is reason for skepticism that the principles that animated prior corrections still receive the allegiance of a critical mass of lawmakers.

Social Security's current trust fund system was essentially created in the 1939 Social Security amendments pursuant to the recommendations of a 1938 Social Security Advisory Council (Social Security Advisory Council 1938). Per the language of the Social Security Act as later amended in 1956, disability benefit payments "shall be made only" from Social Security's disability insurance (DI) trust fund, and all other program benefits "shall be made only" from the old-age and survivors' (OASI) insurance trust fund (Social Security Administration 2021). The most common legal interpretation of this language is that the Social Security Administration cannot send benefit payments in amounts exceeding the assets credited to Social Security's trust funds (Social Security

FIGURE 3. HISTORICAL/PROJECTED SOCIAL SECURITY COSTS AND TAX REVENUES



Social Security Office of the Chief Actuary, Single-Year Tables Consistent with the 2020 OASDI Trustees Report, Table VI. G4, Table VI. G5, <https://www.ssa.gov/OACT/TR/2020/lr6g4.html>, <https://www.ssa.gov/OACT/TR/2020/lr6g5.html>.

Board of Trustees 2020, 65). This can be, and often is, thought of as a mechanism that both requires and enforces financial corrections; specifically, if lawmakers fail to maintain the alignment of Social Security’s dedicated revenues with its benefit obligations, then when the eventual trust fund depletion occurs, outgoing benefit payments will be halted until sufficient revenue arrives to finance them, effectively reducing total benefits via the mechanism of delay.

This mechanism for ensuring financial balance is, however, surprisingly weak, easily circumvented, and is proving inadequate to prevent future Social Security obligations from far surpassing its projected revenues. As figure 3 shows, the growth of Social Security benefit obligations has persistently outstripped growth in the U.S. economy that provides its revenue base. Lawmakers have facilitated this cost growth in various ways, most significantly by automatically indexing initial benefit levels so that per-capita benefits grow in real (inflation-adjusted) terms, and by paying them over more years as program eligibility ages have not been adjusted sufficiently to reflect trends in population aging. Under the trust-

ees’ most recent projections, the combined Social Security trust funds will be depleted in 2035, and the gap between annual income and obligations in that year will be more than twice as large, relative to the U.S. economy, than lawmakers have ever successfully closed with short-term actions in the past (Social Security Administration Office of the Chief Actuary 2020, Tables VI. G4 and VI. G5, Social Security Board of Trustees 1982).⁹

Social Security’s financial imbalance has been repeatedly documented for over three decades, most notably in the annual reports of the program’s trustees, and yet lawmakers have conspicuously declined to correct it. This is not because the last rescue enacted in 1983, when the trust funds were last on the verge of depletion, can be readily duplicated in 2035, when they are next projected to be. The trustees and other experts have repeatedly advised lawmakers that by the time the trust funds are nearing depletion in the 2030s, the short-term adjustments required to preserve solvency will be prohibitively severe. As the public trustees warned in their annual message in 2015, “continued inaction to the point where the combined trust funds near depletion would—unlike

the situation in 1983—likely preclude any plausible opportunity to preserve Social Security’s historical financing structure” (Social Security Board of Trustees 2015).¹⁰

For example, even if 100% of new benefit claims are eliminated when 2035 arrives, this extreme measure would still be insufficient to prevent Social Security’s combined trust funds from being depleted. Consider also that federal lawmakers have never permitted sudden across-the-board benefit cuts as a result of trust fund depletion, let alone the immediate 21% reductions that would be required in 2035 (Social Security Board of Trustees 2020, 13).¹¹ Hence, the mere requirement that all benefits be paid from Social Security trust fund assets is not necessarily a sufficient spur to preserve Social Security’s financial integrity. Under current law, realistic financial corrections depend on lawmakers taking it upon themselves to act while there is still time and space for success, which is far earlier than a trust fund’s impending depletion compels by itself.

A closer examination of Social Security policy history reveals that to date, the program has operated without automatic, effective, durable financial correction mechanisms, its finances instead depending on key lawmakers acting upon particular policy principles. President Franklin D. Roosevelt strongly favored a funded Social Security system, and personally intervened to ensure that his legislative proposals to Congress anticipated no future deficits requiring future lawmakers to enact future revenue increases, even after 1980, which was then more than four decades into the future (Schieber and Shoven 1999, 36–37). The original 1935 Act largely conformed to FDR’s wishes in projecting to collect substantially more in taxes than would be needed to pay benefits in the program’s early years, which would have led

to a buildup of trust fund assets, and interest earnings thereupon, to be drawn upon in later decades to finance benefit payments that significantly exceeded payroll tax collections.

The 1935 Social Security financing framework was almost immediately dismantled under simultaneous pressure from both the political left and the political right. The left was concerned that the schedules contained in the 1935 law would have Social Security paying only very small benefits in its early years, relative to the tax burdens it was imposing and relative to the more generous pension benefits paid in the private sector. The political right for its part was also troubled by the original 1935 design, as it envisioned the federal government completely buying down the public debt and managing a massive accumulation of savings through Social Security. As Sylvester Schieber and John Shoven have put it, in such a circumstance the government would either “have to create added debt just to accommodate the Social Security funding,” or would have to invent new spending projects in which the trust fund would be invested (Schieber and Shoven 1999, 53). Conservatives disliked either option.

The concerns shared by left and right led to amendments enacted in 1939 to convert Social Security to a largely pay-as-you-go system—that is, a system in which current participants’ benefits were financed by tax contributions of younger workers, rather than having been funded previously by the beneficiaries themselves. Accordingly, near-term benefit payments were increased, and previously scheduled payroll tax increases were delayed. Thereby turning away from fully funding Social Security, the 1939 amendments attempted to enforce the opposite: that its trust fund be inhibited from growing to exceed three years’ worth of benefit expenditures. Known as the “Morgenthau Rule”

after the then-Secretary of the Treasury, it was reflected in a provision in the 1939 legislation requiring that the program's trustees immediately report to Congress whenever the trust fund breached this ceiling.

The 1939 amendments placed Social Security on a course whereby future promised benefits were likely to exceed future program revenues over the long term. The 1942 trustees' report presented two projection scenarios lasting through 1990; under both of them the growth of benefit payments would surpass the growth of tax collections, and in one scenario the deficits would become so large that the trust funds would be depleted circa 1970 in the absence of further legislation (Social Security Board of Trustees 1942). Thus, virtually from its inception, Social Security was constructed to require legislators to intervene periodically to maintain its financial stability.

Social Security's finances would probably have destabilized earlier than they did historically were it not for certain judgments made by particularly influential individuals. One of them was Robert Myers, who was a central player throughout Social Security's history, working with the Committee on Economic Security that developed the initial legislative proposals, becoming a Social Security actuary in 1936, serving as chief actuary from 1947 to 1970, and later being the executive director of the 1981–1983 Greenspan commission (Social Security Administration 2010). The 75-year projection window the Social Security trustees use today was developed by Myers, who also favored the inclusion of “infinite horizon” projections, which are currently provided in the annual reports' appendices (Social Security Administration 2021).¹²

Throughout Myers's tenure as chief actuary, SSA's actuarial estimates did not project future

wage growth, instead assuming both that average benefits and average wages would remain constant. This assumption does not align with real-world patterns of economic growth in which, over time, real wage levels rise. The assumptions employed by Myers's actuarial shop came under increasing criticism from outside analysts for underestimating likely future program revenues (and future benefit payments as well, though to a lesser extent), criticism that reached a critical mass by the late 1960s. The 1971 Social Security Advisory Council recommended that the actuarial methodology be revised to reflect projected wage growth, thereby improving the program's reported financial outlook. The 1972 trustees' report accordingly contained two sets of long-term projections, one using the old method and a second using the Council's recommended “dynamic” method. The latter of these showed a considerable long-range surplus, which gave impetus to the passage of a substantial, permanent benefit increase in 1972 (Social Security Board of Trustees 1972, 23–32).

It seems straightforward to hold that Myers's longstanding methodology, which assumed that future earnings would not rise, warranted changing because it was clearly incorrect: over the long term, wages do tend to rise. But it should also be recognized that its use throughout Myers's tenure in effect acted as an automatic financial correction mechanism for Social Security. Each year during that period, the trustees reported on how system finances would evolve if wages did not rise. Then instead, over time, wages did rise, creating a financing surplus, which legislators were then able to spend on benefit increases of their own design. As Schieber and Shoven put it, “The way the Social Security system's cost rate was estimated in combination with the phenomenon of steady wage growth allowed Congress to

become a public Santa Claus. It could regularly increase benefits without having to increase the payroll tax rate to do so. If Congress could act like Santa Claus, the Social Security actuaries were the elves that supplied them with gifts to distribute regularly to the voting public” (Schieber and Shoven 1999, 154). But that all changed when SSA’s actuarial assumptions were modified, whereupon lawmakers increased benefits beyond the levels future tax collections could finance. Though Myers’s actuarial methods’ use and abandonment were a mere happenstance of program history, once they were no longer employed there was no longer any effective barrier against Social Security’s future cost growth outpacing its affordability.

The change in actuarial methods opened the door to program expansionists overreaching, which occurred almost immediately in 1972. Before 1972, Social Security’s revenue growth generally outpaced its cost growth in the absence of further legislation, allowing lawmakers to periodically intervene to increase benefits. But ever since the 1972 amendments were implemented, automatic program cost growth has generally exceeded revenue growth, forcing lawmakers to periodically enact financing corrections, which is proving progressively more difficult to do. Indeed, a significant part of the larger federal government’s transition from sustainable to unsustainable budget practices is attributable to changes in how mandatory spending programs grow, with the most significant such change in Social Security occurring in 1972.

The 1972 Social Security amendments instituted an across-the-board benefit increase of 20% and, more significantly for Social Security’s financial future, automatic annual Cost-of-Living-Adjustments based on growth in the Consumer Price Index (CPI-W). A technical error in the application of this CPI indexing caused Social

Security benefit awards for succeeding cohorts of claimants to grow much faster than lawmakers intended, in turn causing Social Security replacement rates to soar and threatening to plunge the program rapidly into insolvency. The erroneous formula was phased out in the 1977 Social Security amendments, which henceforth tied growth in initial benefit awards, from one cohort to the next, to growth in the national Average Wage Index (AWI) (Blahous 2010, 33–34, Social Security Administration 2021).¹³

Although the 1977 amendments corrected the major technical mistake in the 1972 amendments, they did not eliminate Social Security’s newly created financing shortfall. The program immediately drifted back toward insolvency again, leading to the appointment of the Greenspan Social Security Commission in 1981 and necessitating the passage of the 1983 Social Security amendments, which rescued the program from insolvency with just a few months to spare. The 1983 amendments were intensely controversial, exposing Social Security benefits to income taxation for the first time, delaying annual COLAs by six months, bringing all newly hired federal employees (and thus new payroll tax contributions) into the program, gradually raising the full eligibility age, and accelerating a previously enacted payroll tax rate increase. Passage of the amendments required lawmakers to join forces across party lines, to accept substantial political cost, and to overcome the fierce lobbying pressure of advocacy groups such as the American Association of Retired Persons (AARP).

More significantly for our purposes here, the legislative changes to Social Security in the 1970s produced the near opposite of an automatic financial correction mechanism, in the sense that provisions of law now automatically adjust Social Security operations so that the program

remains *out* of financial balance. As previously explained, initial benefit levels are indexed to the AWI, which means that whenever growth in the economy, wages, and tax collections accelerate, this otherwise beneficial revenue growth cannot close Social Security’s shortfall because benefit obligations automatically grow faster as well (Social Security Board of Trustees, 2020, 185).¹⁴ A consultant panel informed Congress of this flaw prior to the passage of the 1977 amendments, pointing out that wage-indexing “must commit our sons and daughters to a higher tax rate than we ourselves are willing to pay” (Consultant Panel on Social Security 1976). However, lawmakers failed then to muster the political will to restrain the automatic growth of benefit obligations to levels affordable without future legislative interventions.

PERSISTENT FAILURE TO STABILIZE SOCIAL SECURITY FINANCES

Social Security’s 1983 rescue is often held up as a model for bipartisan compromise and for possible future financial corrections, but over time it has become more apparent that the achievement reflected fleeting circumstances, and that the processes that were successful in 1983 are unlikely to work next time around. There are several reasons why the 1983 experience does not embody a reliable precedent for keeping Social Security solvent via similar, repeated legislative interventions in the future.

First, there is the simple empirical fact that the 1983 action has not been replicated, despite repeat warnings from Social Security’s trustees of the growing urgency of repairing program finances. As more time passes, legislative gridlock with respect to Social Security is increasingly the established norm, while the bipartisan

1983 reforms become an increasingly exceptional event.

Second, Social Security’s long-term shortfall is now substantially larger than the one corrected in 1983, and is growing. This means that enacting financial corrections either today or in the future would require opponents of tax increases to accept far larger tax increases, opponents of benefit restraints to accept far greater restraints, or (more likely) both, than were required in 1983.

Third, although the 1983 rescue required short-term changes that were highly controversial, these were but a small fraction as severe as the immediate, sudden changes that will be required if lawmakers again wait until the brink of insolvency to act. In 1983, legislators only needed to correct a period of relatively surmountable near-term deficits before program operations reverted to surplus, according to projections before the 1983 reforms were enacted (Social Security Board of Trustees 1982). By contrast, in 2034, the year before Social Security’s combined trust funds are projected to next be depleted, its annual cash deficit is estimated as being nearly three times as large as it was in 1982 as a percentage of GDP (Social Security Office of the Chief Actuary 2020, Table VI. G4).

Social Security’s comparatively surmountable operating deficits in the early 1980s reflected the historical application of the Morgenthau Rule, which previously limited the size of its trust funds’ build-up and kept the program operating mostly on a pay-as-you-go basis. That pay-as-you-go financing meant in turn that any downturn that threatened insolvency must be dealt with quickly, before the relatively small trust fund was depleted, but also before annual deficits had grown too large. However, the 1983 amendments banished any lingering effects of the old Morgenthau Rule to the past, as Social Security

thereafter ran several years of large surpluses before experiencing increasingly large deficits beginning in 2010. By the time 2035 approaches, Social Security's annual cash deficit will be so large that, as previously mentioned, even zeroing out all new benefit claims would be insufficient to avert insolvency (Committee for a Responsible Federal Budget 2020).

Fourth, while it is difficult to measure the phenomenon with precision, it is widely adjudged that since the 1980s, Congressional behavior has become more partisan and polarized, reducing the likelihood of bipartisan compromise on the scale of 1983 (Blahous 2019, 7–8).

Fifth, federal economic policy has traveled a great distance since the Great Moderation of fiscal and monetary policy that began in the mid-1980s, to which the 1983 Social Security amendments might be seen as a prelude. During that roughly 20-year moderation period, government took recurring actions to reduce public-sector deficits in a manner the United States has not practiced more recently. It is unclear whether and when Social Security policymaking will again transpire in a general policy environment favorable to fiscal consolidation.

Perhaps most importantly, just as early Social Security finances had been kept in check largely via the conservative actuarial assumptions of Robert Myers, the corrections of 1983 were only made possible by subjective policy values ascendant among influential policymakers of that time, but which have experienced declining attachment in subsequent decades. These values may no longer enjoy sufficient support to guide future legislation. Central among them is that Social Security should remain self-financing and funded by participating worker tax contributions, without subsidies from the general fund of

the U.S. treasury. Though this reflects an inherently subjective value judgment, it is an essential principle for the analytical purposes of this chapter, because without it, corrections to the finances of a major federal entitlement program such as Social Security might simply come at the expense of the rest of the federal budget without ameliorating the broader fiscal imbalance.

At the time of the 1983 amendments, commitment to Social Security being self-supporting without general fund subsidies was deep, wide, and bipartisan. This principle was viewed as essential to maintaining FDR's vision of Social Security as a contributory insurance program as opposed to welfare. It undergirded shared perceptions that participants (at least in the aggregate) had earned and paid for their benefits, while also providing the basis for the program's financial discipline. Across the decades it was endorsed by countless policy experts, including among many others the 1957–1959 Social Security Advisory Council (“We believe that the experience of the past 22 years has shown the advantages of contributory social insurance over grants from general tax funds”) and the 1981 National Social Security Commission (“The primary source of funds to pay Social Security benefits has been, and the Commission believes should remain, the payroll tax”) (Social Security Advisory Council 1959, Social Security National Commission 1981, 65). Upholding the principle required, however, that legislators be willing to limit benefit obligations to the levels that workers' tax contributions could finance.

There is substantial evidence that Social Security's self-financing principle no longer receives the same deference today that it long received from policy influencers across the U.S. political spectrum. Increasingly, proposals are floated to

use general fund (income tax) revenues to eliminate the Social Security trust fund financing shortfall (Munnell 2016). Policy advocates increasingly express support for abandoning the restrictions of self-financing and allowing Social Security to draw from the general government fund (Social Security Administration Office of the Chief Actuary 2020, Klein 2010). In 2011–2012, lawmakers temporarily reduced the Social Security payroll tax, and granted the program over \$200 billion in general revenues to make up the loss, thereby substantially subsidizing Social Security benefits over and above what participant contributions could finance (Blahous 2012).

Lawmakers have also displayed a willingness to enact the fiscal equivalent of a general revenue bailout in parallel situations and via other methods, such as in 2010 when the proceeds of financial corrections to Medicare Hospital Insurance included in the Affordable Care Act were spent—in the very same law—on a new federal health insurance program (Blahous 2012).¹⁵ If these recent trends are more indicative of future events than are the actions of 1983, we should not expect the existence of a trust fund financing structure to, by itself, compel lawmakers to mitigate the federal fiscal imbalance through entitlement program reforms.

For all of the reasons described in the previous paragraphs, it there are now large and growing barriers to repeating the successful 1983 experience of closing Social Security’s actuarial shortfall, while simultaneously improving the federal budget outlook.

During the period since 1983 that Social Security’s financial imbalance has worsened, there have been episodes when the impending depletion of a trust fund might well have compelled financing corrections. There have also been separate

attempts to establish special processes to force or at least expedite such corrections. None have proved effective in stabilizing Social Security program finances.

In the early 1990s, Social Security’s DI fund faced impending insolvency. Instead of raising payroll taxes or slowing the growth of disability benefit awards or levels to address the shortfall, lawmakers opted to simply play for time, reallocating taxes from Social Security’s Old-Age and Survivors Insurance (OASI) fund to its DI fund, essentially patching the DI problem at the expense of Social Security’s retirement benefit program. Social Security’s public trustees acquiesced to these dilatory tactics, but cautioned that “this necessary action should be viewed as only providing time and opportunity to design and implement substantive reforms that can lead to long-term financial stability” of disability insurance, also expressing the hope that “Congress will take action over the next few years to make this program financially stable over the long term” (Social Security Board of Trustees 1995). The legislative action urged by the trustees was not taken.

A similar process transpired in 2015. Again, the DI trust fund faced impending insolvency and again, legislators responded by reallocating taxes to DI from Social Security’s OASI trust fund (Blahous 2015). This time lawmakers acted with greater prudence, reallocating tax rates only temporarily, and combining the reallocation with other minor reforms of DI benefit awards so that the legislation on balance very slightly improved Social Security’s financial outlook (Social Security Board of Trustees 2016). More than in 1994, the 2015 action was in keeping with the historical purpose of the trust fund system to compel occasional financing corrections, although again the principal effect of the

2015 legislation was to postpone the necessity of dealing with the program's persistently worsening financial shortfalls.

Debate over the 2015 DI fix fostered an unfortunate side effect, as policy advocates sought to give cover to procrastinating lawmakers by portraying periodic OASI/DI tax reallocations as the usual method of avoiding imminent trust fund depletion. This was untrue; most previous tax reallocations had been enacted in the context of broader measures to strengthen Social Security program finances (Committee for a Responsible Federal Budget 2015, Blahous 2015). Through an incorrect representation of historical practices, the claim was widely promoted, politically convenient, and thus accepted by many, calling into further question whether henceforth a trust fund's impending depletion will be a forcing event that induces lawmakers to enact meaningful financial corrections.

While federal lawmakers have not heeded the Social Security trustees' increasingly urgent calls for legislative reforms to repair Social Security's finances, there have been countless attempts to set up alternative processes to force corrective action. Most of these were built upon the 1981–1983 model of a bipartisan commission making recommendations, followed by legislation. None have succeeded, suggesting that if Social Security's finances are to be stabilized, it must likely be through adjustments to benefits, taxes, and eligibility ages written directly into Social Security law after a regular process of congressional negotiation and debate, rather than by establishing new correction-forcing processes ostensibly independent of Congress.

The examples of process-based failures to reform Social Security since 1983 are numerous enough that any attempt to list them all risks being incomplete. The Social Security Act itself

established multiple quadrennial Social Security advisory councils, whose charges included making recommendations for protecting program finances (Social Security Administration Office of the Historian 2021). The last of these deliberated throughout 1994–1996 and split into three factions, each offering a different solvency plan, none supported by a majority of the council (Social Security Advisory Council 1997). The advisory councils were discontinued and replaced in law with the Social Security Advisory Board, which has generally steered clear of offering recommendations on how to preserve program solvency. President George W. Bush appointed a bipartisan commission in 2001 which reported options for maintaining program solvency, all of which were ignored by Congress (President's Commission to Strengthen Social Security 2001).

Another section of this chapter will review multiple attempts to establish new processes or committees to expedite improvements to the broader federal budget, including the Kerrey-Danforth Bipartisan Commission on Entitlement and Tax Reform (1994, appointed by President Clinton), the Cooper-Wolf SAFE Commission proposal (2009), the Conrad-Gregg Deficit Reduction Commission proposal (2010), the National Commission on Fiscal Responsibility and Reform (also known as Simpson-Bowles, 2010, appointed by President Obama), the Joint Select Committee on Deficit Reduction established in the Budget Control Act (BCA, 2011), and more recently the TRUST Act introduced by Senator Mitt Romney (2019) (Social Security Administration 1994, Cooper 2009, Lightman 2010, National Commission on Fiscal Responsibility and Reform 2010, Barrett, Bolduan and Walsh 2011, Romney 2019). Each of these would facilitate and in some cases require congressional consideration of

Social Security financing reforms recommended by a commission, but none have even succeeded in getting such reforms passed even through the commission itself, let alone through Congress.

STRENGTHENING SOCIAL SECURITY'S FINANCES THROUGH AUTOMATIC ADJUSTMENT MECHANISMS

Far more effective than process-based reforms have been indexation and other adjustment factors written into statute through regular congressional order, including both those that gradually strengthen Social Security finances, and those that worsen them. As previously mentioned, prior to 1972, provisions of Social Security law tended to cause program revenues to grow faster than program outlays, in effect serving as an automatic financial stabilization mechanism. By contrast, the benefit indexation mechanisms enacted in 1972 and later revised in 1977 acted as automatic destabilization mechanisms, in that they tended to push Social Security further out of financial balance over time, regardless of national economic performance. Other provisions to gradually adjust Social Security's full eligibility age, enacted in 1983, only removed a small fraction of the actuarial imbalance that would otherwise exist, but they have remained in force over time and have improved program finances as intended. This experience suggests that enduring improvements to Social Security finances might be achieved by enacting automatic, gradually implemented financing correction mechanisms.

Some experts have offered specific proposals to stabilize Social Security finances through such automatic statutory adjustments safeguarding against unanticipated changes in demographic and/or economic conditions. Economist Jason

Furman, for example, proposed “dependency indexing” of either the payroll tax rate or Social Security's benefit formula factors, automatically adjusting these to reflect changes in the ratio of beneficiaries to workers (Furman 2007). Furman's insights included that Social Security finances are governed more by the worker-collector ratio than by virtually any other factor, that uncertainty as to the long-term demographic and economic outlook (specifically, interest groups' fears of overcorrection) is a substantial political barrier to reforms, and that program finances are more likely to remain stable if lawmakers need not repeatedly regenerate legislative majorities to enact corrections. All of these obstacles could be overcome with automatic adjustments designed to maintain Social Security solvency in the event that the future dependency ratio deviates from projections operative at the time of legislation.

The Furman framework was not free of imperfections. It was premised on a few analytical judgments that have not borne out, including the assumption that demographic projection uncertainty is the primary stumbling block to Social Security reform. Social Security's current shortfall actually would have arisen even if the demographic assumptions underlying the 1983 amendments had been perfectly accurate; in fact, demographic projection error in 1983 accounts for none of the actuarial deterioration since then (Chu and Burkhalter 2020).¹⁶ The real problem with the 1983 reforms was that they were insufficient to withstand the passage of time even under the assumptions then in use, primarily because the 1981–1983 Greenspan Commission had embraced a weaker goal of average actuarial balance rather than the stronger one of permanently sustainable solvency (Social Security Administration 2021).¹⁷

Moreover, while automatic stabilizers may be a policy idea whose time has come, this is not

because projection uncertainty is the largest impediment to Social Security reform. To the contrary, political resistance to Social Security corrections has persisted even as the program's impending insolvency has grown closer and more certain. Plus, while it is true that demographic ratios are among the most important variables affecting Social Security's financial balance, it is comparatively easy to anticipate their effects, relative to less-predictable economic growth. Accordingly, there is less need for demographic adjustments to be instituted automatically; lawmakers already have decades of lead time to adjust for demographic change.¹⁸ A final technical note is warranted with respect to the Furman dependency-indexing proposal, which envisions adjusting either Social Security's tax rate or its benefit formula factors as dependency ratios change: it would be more directly responsive to index the eligibility age, which unlike tax and benefit factor changes would alter the dependency ratio itself, and would create savings on both the outlay and revenue sides of the equation.

Eugene Steuerle and Rudy Penner have also embraced the principle of automatic stabilizers in Social Security and other parts of the federal budget, noting that adjusting the retirement age is "a combined spending and revenue reform" (Penner and Steuerle 2016). Steuerle and Penner, as this chapter has done, distinguish between two types of budgetary correction triggers, the first type of which sets in motion a process forcing Congress and/or the president to take action, the second of which "automatically lowers spending growth or increases revenues if some condition is violated and Congress does not respond" (Penner and Steuerle 2016). The evidence cited in this chapter points to the conclusion that the second type of trigger has far greater potential to be effective. Elsewhere, Steuerle, Favreault,

and Mermin also suggested that "indexing the NRA (normal retirement age) and EEA (early eligibility age) to changes in life expectancy" is a Social Security (and Medicare) reform worth considering (Papadimitriou 2007). This is certainly true, although it is also true that eligibility age changes alone would likely be insufficient to restore Social Security to long-term balance (Social Security Administration Office of the Chief Actuary 2020).

In summary, Social Security's growing costs and financial imbalance are major contributors to the growing federal budget imbalance, which in turn reflects the lack of automatic financial correction mechanisms within Social Security itself.¹⁹ Correcting Social Security's financing balance under current law requires lawmakers to act repeatedly to overcome formidable political obstacles, an outcome that has not been achieved since 1983. With time, it is becoming clearer that 1983 was a historically atypical event, that legislative action to reduce Social Security benefit obligations and/or increase program taxes is rare, and should be treated as unlikely at any given time. The conclusion is inescapable, that the longer Social Security operates without automatic financial correction mechanisms written into law, the less likely it is that lawmakers will be able to constrain its cost growth to affordable rates.

BUDGET IMPLICATIONS OF MEDICARE TRUST FUND FINANCING

As with Social Security, the lack of effective financial controls in Medicare is a major contributor to a worsening federal budget outlook. Medicare's finances are more complex than Social Security's, and lend themselves less to requiring and enforcing financial corrections. Like Social Security, Medicare is financed from two trust

funds: Hospital Insurance (HI) and Supplementary Medical Insurance (SMI). The first of these two trust funds, Medicare HI, is financed in many ways analogous to Social Security. Its funding comes principally from a payroll tax paid by workers, with a small amount of revenue from the income taxation of Social Security benefits as well as interest earnings on trust fund reserves. And, as with Social Security, Medicare HI's finances are monitored by the program's trustees to determine whether projected revenues are adequate to meet program obligations, or whether instead financial corrections are in order.

Medicare's SMI trust fund, which pays for physician services and prescription drugs among other benefits, operates differently. One-quarter of SMI funding comes from premiums paid by or on behalf of participants, the other three-quarters coming from the federal government's general fund. Importantly, these premium assessments and general revenue contributions are automatically adjusted each year, such that SMI is kept solvent by statutory construction. Thus, in one important respect SMI finances are self-correcting; those parts of Medicare can never go insolvent unless the federal government does.

In other important respects, however, the enforcement of financial limits is weaker within SMI than it is in HI or in Social Security. Specifically, SMI outlays are not limited to what particular tax collections can finance; rather, program revenues are automatically adjusted to grow to whatever amounts are needed to meet current spending. This allows SMI spending to absorb a persistently increasing share of federal tax revenues as well as of premium-paying beneficiaries' incomes, which indeed is what occurs (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds 2020, 38).

Aside from the political resistance that arises from participants' premiums rising over time, there is little more institutionalized restraint upon Medicare SMI spending growth than there is upon any other part of the federal budget. Nothing strictly requires lawmakers to limit the growth of SMI spending, or even to collect sufficient tax revenue to finance it without running additional debt. To the contrary, SMI spending is automatically authorized to grow in the absence of further legislation, and thus to add by growing amounts to federal indebtedness.

Given that SMI spending growth is less constrained than HI's, we would expect SMI to grow more rapidly of the two sides of Medicare. Indeed, this has also been observed historically (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds 2020, 174).

Lacking HI's restraints on the limits of its spending authority, Medicare SMI has grown relatively more rapidly in the past and is projected to continue to do so into the indefinite future. SMI surpassed HI in size in 2006 partly because of the addition of a prescription drug benefit to SMI in 2003 legislation, which became effective in 2006. It was politically easier for legislators to finance the prescription drug benefit from the SMI trust fund than from the HI trust fund, the latter of which would have required a substantial increase in the Medicare payroll tax. However, even separate and apart from the prescription drug benefit, SMI has been the more rapidly growing side of Medicare. As recently as 1985, Medicare HI spending was still more than twice as great as SMI spending, while SMI spending, minus spending on prescription drugs, surpassed HI's in 2015 (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds 2020, 174).

The relative lack of restraints upon SMI relative to HI spending sometimes tempts legislators to shift costs between the funds, as occurred in 1997 when the Balanced Budget Act (BBA) shifted home health spending from the HI trust fund to the SMI trust fund. As then-Comptroller General David Walker pointed out, “although this shift extended HI Trust Fund solvency, it increased the draw on general revenues and beneficiary SMI premiums while generating little net savings” (Walker 2003). SMI’s open tap on general revenues effectively creates an escape hatch for legislators to improve the apparent finances of Medicare without improving total program or federal finances in any meaningful way.

This said, legislators have periodically enacted cost savings measures in both Medicare trust funds that have not only extended HI trust fund solvency but improved the larger federal budget balance. The 1997 BBA that shifted costs from HI to SMI also contained other SMI cost-containment provisions, such that lower costs were projected for SMI after the BBA than before it (Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund 1997, 32, Board of Trustees of the Federal Supplementary Medical Insurance Trust Fund 1998, 42). Legislators have also enacted cost savings mechanisms within Medicare HI to extend its solvency without transferring costs to SMI, such as the provider payment growth restraints included in the Affordable Care Act (ACA) of 2010.

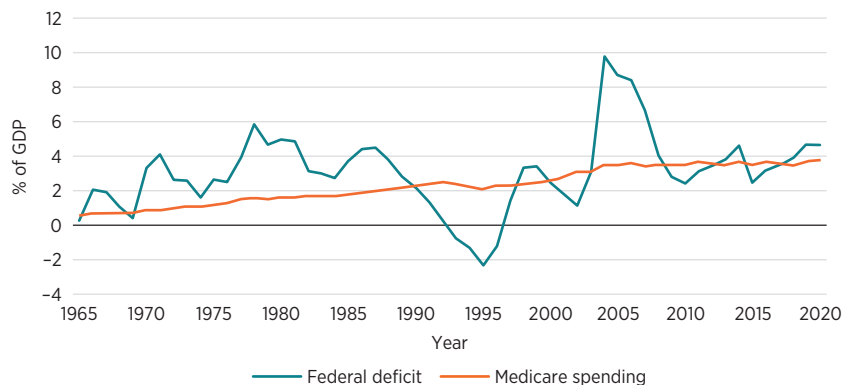
Though HI’s financing basis is theoretically similar to Social Security’s, and features tighter restraints than SMI’s, it has in practice been operated with looser financial standards than Social Security has. The differences between the two patterns demonstrate how much each program’s financial evolution has depended on the

subjective judgments of influential lawmakers. Whereas Social Security has been managed in the past with an eye toward maintaining its long-range (75-year) solvency, lawmakers have not been nearly so fastidious with Medicare, despite the two programs’ financing bases being essentially similar under law.

There are multiple reasons why Medicare’s finances have been managed with a more short-term view than Social Security’s have been. One is that the contours of Medicare finances are much more uncertain over 75 years, due to the difficulty of projecting health-care cost inflation over such long periods (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Insurance Trust Funds 2004, 64, Congressional Research Service 2020).²⁰ A second is that Medicare HI is but one part of Medicare as a whole: lawmakers have already—unlike with Social Security—accepted the fact that many Medicare benefits will either be financed by income tax payers or by adding to federal debt. Accordingly, it would represent an extreme disjuncture between one side of Medicare and the other, for lawmakers to require that payroll taxes be adequate to fund HI benefits for the next 75 years, while imposing no such requirements on SMI for even one year. This inevitably relaxes long-term vigilance over Medicare finances relative to Social Security’s.

Finally, unlike with Social Security, there is no pervasive sentiment with Medicare that one’s benefits should be proportional to one’s contributions. It is in the nature of health insurance that net benefits will flow to those with health service needs, irrespective of their own individual contributions. As a result, lawmakers have not traditionally focused on constraining Medicare cost burdens sufficiently to ensure that each generation gets its “money’s worth” from the program.

FIGURE 4. FEDERAL BUDGET DEFICITS VS. MEDICARE SPENDING



Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, 2020 Annual Report, and Congressional Budget Office, Historical Budget Data, January 2020.

For all of the above as well as other reasons, lawmakers have simply patched Medicare HI finances every few years to maintain its solvency just until the next legislated fix. Unlike with Social Security, the long-term solvency of Medicare is never pursued. In all the trustees’ reports since 1990, the average amount of time remaining until HI’s projected insolvency has been a mere 13 years (Congressional Research Service 2020, 4). As of this writing, HI is projected to be insolvent in a mere six years, in 2026 (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Insurance Trust Funds 2020, 4). Again, it bears mentioning that this projection was made prior to the economic contraction precipitated by the COVID-19 pandemic.

This short-term approach to Medicare HI finances paradoxically carries some financial benefits relative to Social Security’s long-term management, because it prevents Medicare HI from developing annual deficits anywhere near as large as Social Security’s are currently becoming. The dynamic also permits Medicare benefit payments to be adjusted more frequently than

has been the case in Social Security. On the other hand, it also means that very little attention is paid to whether Medicare cost growth is stabilized relative to the growth of the federal government’s tax base or to U.S. GDP.

In sum, as the story of worsening federal finances is the story of rising entitlement program costs, Medicare’s lack of effective cost controls is a large part of the underlying cause, as figure 4 illustrates.

PERSISTENT FAILURE TO STABILIZE MEDICARE FINANCES

Over the years there have been many efforts to control the growth of Medicare costs and, as with Social Security, these can be divided into process-based reform efforts vs. automatic financial corrections written into Medicare’s payment and/or revenue collection formulas. It is fair to say that the approach of automatically adjusting Medicare finances has exhibited occasional successes, although many more such successes would be needed to stabilize Medicare’s finances

for the long term. Attempts to facilitate reforms by bypassing normal legislative processes, however, have consistently failed.

Among the more successful automatic adjustment mechanisms in Medicare are the provisions enacted in the 1997 Balanced Budget Act indexing Medicare Part B premiums to cover 25% of costs. Prior to 1997 there had been a steady erosion of the share of Part B costs financed through beneficiary premiums, which had started at covering 50% of costs but declined to 23.9% by 1991 (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds 2020, 79). A legislative proposal by Congressional Republicans to stabilize the percentage at 31.5%, contained first in the 1995 draft version of the BBA and then in a continuing resolution (CR) later that same year, was one of the reasons cited by President Clinton for his veto of the CR, precipitating a government shutdown (Kahn and Kuttner 1999). Republicans retreated on the premium percentage required of beneficiaries (from 31.5% to 25%) in the 1997 BBA ultimately enacted into law, but the principle of indexing was retained.

The indexing of Part B premiums to hold constant at 25% of total Part B costs is not without its quirks and loopholes, but has proved notably successful in several respects.²¹ First and most obviously, it has remained on the books; lawmakers have not acted to shift more costs from beneficiaries to the federal budget by modifying the statute to allow the 25% share to decline. Second, it served as a successful precedent for Medicare's Part D prescription drug benefit, where beneficiaries' premiums are also maintained at a constant percentage of standard drug coverage (25.5%) (Kaiser Family Foundation 2019). Third and perhaps most importantly, it has acted as a rare source of political pressure in the direction

of cost containment within a federal entitlement program. Specifically, indexing of beneficiary premiums to overall program costs gives senior advocates a reason to oppose legislative actions (such as increasing provider payments) that raise program costs. The inclusion of beneficiaries among those who feel it when costs rise has proved essential to preventing political pressures on lawmakers from being exerted almost exclusively in a cost-increasing direction.

Similarly durable as an automatic financial maintenance mechanism has been the indexing of Part B deductibles to grow at the same rate as the Part B premiums charged to participating seniors. This indexing was established as part of the 2003 Medicare Modernization Act (MMA), and became effective in 2006 (Centers for Medicare and Medicaid Services 2020).

Other Medicare financing correction provisions that have endured include the income-relating of Part B premiums—that is, requiring higher-income beneficiaries to pay larger premiums for Part B coverage. This income-relating was established in the 2003 MMA, becoming effective in 2007 (Cubanski and Newman 2017). Medicare Part D also has a similar system of premiums, deductibles, and income-relating thresholds, all of which are adjusted annually according to methods set in statute (Kaiser Family Foundation 2019, Centers for Medicare and Medicaid Services 2019).

The unifying principle underlying these various provisions of law is to ensure that the percentage of certain system costs financed by beneficiaries remains relatively constant over time. Such provisions act as a partial brake on federal budget cost growth, even though they are nowhere near strong enough to prevent Medicare from exerting increasing pressure on federal finances. Significantly, these indexing provisions have proved far

more durable and successful than simply depending on lawmakers to vote periodically to require additional financial sacrifices of program participants. It is reasonable to surmise that Medicare's as well as Social Security's finances could be further stabilized if additional automatic financing corrections were enacted within each program.

A related approach in recent law, of automatic corrections to the growth of Medicare provider payments, has had mixed results. Among the most notable of these provisions are the provider payment updates under the ACA, currently projected by the Medicare trustees to subtract 1 percentage point each year from the growth of provider payments, compounding to large savings over time (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds 2020, 4).

At the time the ACA's provider payment restraints were enacted, some analysts expressed skepticism that they would be upheld over the long term, as they were deemed likely to push rising numbers of health facilities into negative margins (Foster 2011). But the restraints have been upheld over their first decade, even as other controversial provisions of the ACA, such as the Cadillac plan tax and individual insurance purchase mandate, have been repealed (Maurer 2019, Mangan 2018). Even when Congressional Republicans sought to repeal many of the provisions of the ACA in the American Health Care Act in 2017, they did not include the ACA's provider payment updates among those to be repealed (Henry J. Kaiser Foundation 2017). The ACA's provider payment restraints are not by themselves sufficient to stabilize HI costs or prevent HI trust fund insolvency, but they are an example of automatic, gradual adjustments being successfully implemented.

Another provision to gradually constrain provider payment growth, the Sustainable

Growth Rate (SGR) formula for Medicare physician payments, is widely regarded as having failed to achieve its cost-containment purposes before it was finally repealed in 2015. Lawmakers began to routinely override the SGR, enacted as part of the 1997 BBA, almost as soon as it began to bite, starting the overrides when the cuts would have been 4–5%, and continuing the overrides past the point where they negated net annual savings of over 25% (Blahous 2019). On the other hand, the Committee for a Responsible Federal Budget has found that SGR successfully forced a nearly equivalent amount of Medicare savings, as lawmakers adopted a habit of legislating offsetting savings whenever SGR was overridden (Committee for a Responsible Federal Budget 2014). In 2015, the SGR was repealed and replaced with an alternative physician payment growth formula under the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), which eliminated the short-term cuts that would have been required under SGR, but promised even tighter restraints on physician payment growth over the long run (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds 2016, 2).

It remains unclear whether a strategy of controlling Medicare cost growth primarily by constraining provider payment growth, without requiring further contributions from beneficiaries, is sustainable over the long term. MACRA's tight long-term restrictions on physician payment growth remain untested. Moreover, the historical pattern of lawmakers offsetting SGR overrides with other payment cuts depended on Congress upholding a policy principle of not simply financing such overrides with federal debt. As these words are being written there is no guarantee that this principle would be upheld in the future, as Congress is currently evincing

substantially less concern for debt management than during the years SGR overrides were offset (Congressional Budget Office 2020). In any case, Medicare's financial improvement mechanisms have had their greatest long-term staying power when participating beneficiaries have felt a direct stake in limiting system cost growth.

Automatic adjustments now in place within Medicare are currently insufficient to prevent Medicare HI insolvency or to constrain program cost growth relative to GDP. Accordingly, many experts have developed proposals for additional mechanisms that might stabilize Medicare finances for the long term without relying on perpetually revisited, politically treacherous legislating.

Rudy Penner and Eugene Steuerle have suggested indexing Medicare's eligibility age for changing life expectancy, though savings from this mechanism would be limited unless certain ACA subsidies are simultaneously reformed (Penner and Steuerle 2016).²² Throughout the years many experts have also voiced support for shifting Medicare to a "premium support" model, in which the federal government would provide a capitated subsidy for each individual as they select from a variety of coverage plans (including privately administered plans), such that the individual faces lower premiums if they opt for a lower-cost plan, and higher premiums if they opt for a higher-cost plan. Variations on the premium support idea have been put forward by former House Speaker Paul Ryan, Senator Ron Wyden, and before them Senator John Breaux and Congressman Bill Thomas (co-chairs of a bipartisan Medicare commission in 1999), as well as by James Capretta (Jacobson and Neuman 2016, Wyden and Ryan 2011, Bettelheim 2018, Nelson 1999, Capretta 2011).

Though for many years premium support was the principle at the core of most biparti-

san Medicare financing reform proposals, the concept became intensely politicized in the mid-2010s as opponents equated it with "cutting," "privatizing," or even "killing" or "gutting" Medicare (Kliff 2016, Vinik 2016, Hiltzik 2016). It is unclear whether premium support models can regain the bipartisan support that they once had. It is clear, however, that Medicare's current Fee For Service (FFS) model produces program cost growth that exceeds growth in available financing resources, and further clear that future cost-stabilization mechanisms are unlikely to endure unless they involve participating beneficiaries experiencing at least some of the costs of higher program spending (or put more positively, receiving some of the savings of decelerated program spending).

The enactment, failure, and eventual repeal of the ACA's Independent Payment Advisory Board (IPAB) is emblematic of the failure of the process-based approach to entitlement reform. IPAB was born of policymakers' mounting frustration with repeated failures to contain the growth of Medicare costs, coupled with the hope that lasting savings could be realized if the process could somehow be moved outside of regular legislative channels. Peter Orszag, an influential advocate for IPAB as Director of the White House Office of Management and Budget when the ACA was enacted, expressed hopeful optimism that IPAB would "take some of the politics out" of necessary efforts to reform Medicare to slow cost growth (Orszag 2011). Similar hopes of transcending politics underpinned the establishments of the Breaux-Thomas National Bipartisan Commission on the Future of Medicare, the Obama administration's Simpson-Bowles commission, and the subsequent Deficit Reduction committee established under the 2011 BCA, which also ended in failure.

There is a contradiction at the heart of all similar efforts, in that they all involve elected legislators seeking to retain credit for preserving the benefits that federal entitlement programs offer, while outsourcing blame for any cost-containment measures required in the course of operating them. What happens instead is that the political pressures, instead of dissipating, are simply transmuted into a different form: into clashes over the rules by which such commissions and boards will operate, and over who will be appointed to them. Consequently, such processes tend to replicate the partisan gridlock within Congress that caused the board or commission to be appointed in the first place. The Breaux-Thomas, Simpson-Bowles, and BCA commissions all failed to report recommendations with the levels of support their respective charters required, while IPAB's membership was never even appointed before its repeal (Spatz 2018).

Long before its demise, the IPAB as enacted into law was hardly untouched by politics. The statutory text establishing IPAB specified that it not make any recommendations that would “increase Medicare beneficiary cost-sharing (including deductibles, coinsurance, and copayments), or otherwise restrict benefits or modify eligibility criteria,” even if IPAB's members concluded that such measures were necessary (Patient Protection and Affordable Care Act Text 2010, 372). Thus, from its outset, IPAB reflected the policy and political preferences of its authors, rather than freeing the process of containing Medicare costs from political pressures and considerations.

As a political gambit IPAB failed for many reasons, among them the fact that both Republicans and Democrats feared that IPAB would ultimately embody a fast-track for implementing policies they opposed (U.S. Court of Appeals,

Ninth Circuit 2014).²³ These bipartisan fears reinforced one another, even if the specific policies feared may have been entirely different on the Republican and Democratic sides. The intensifying bipartisan opposition to IPAB contrasted with a relative lack of resistance to the provider payment restraints also contained in the ACA. Those restraints, once enacted into law, represented a specific policy choice in which a congressional majority had already invested itself, accepted and had less reason to revisit.

Ian Spatz puts it well in a *Health Affairs* article:

at their core, “good government” ideas to evade the messiness of the political process in the interest of better and more efficient governance (such as IPAB) are felled by the sharp knives of the political process itself. Powerful interests—whether they be providers or beneficiaries—do not want to relinquish their ability to appeal to political actors for relief. (Spatz 2018)

Moreover, in the case of IPAB, some doubted that Congress could constitutionally outsource these powers in the first place (U.S. Court of Appeals, Ninth Circuit 2014). Regardless of the reasons for opposition, the same fate has met multiple efforts to create channels to bypass political processes in the course of developing and implementing Medicare cost-saving policies, including not only IPAB but also the Breaux-Thomas National Bipartisan Commission on the Future of Medicare, or the recommendations of the Medicare Payment Advisory Commission (MedPac), which Congress “generally ignores” (Penner and Steuerle 2016). In sum, no reliable way has been discovered to remove politics from the administration of government-run health-care programs. The

only apparent way to do so is to directly limit the government health program itself.

Another example of a frustrated effort to create an expedited process for producing and implementing Medicare cost savings is the trustees' funding warning. By law, the Medicare trustees must determine whether more than 45% of Medicare's total revenues are projected to come from general revenues in any of the next seven years, with such findings in two consecutive years producing a warning (Blahous 2014). In the event of such a warning, the law specifies that the president must submit a proposal in response, unless Congress enacts legislation to eliminate the excess general revenue funding. Congress must then give expedited consideration to the president's proposal. Despite the trustees repeatedly issuing such warnings—in each of the years of 2007–2013 as well as 2017–2020—only one presidential proposal has been submitted in response (by President George W. Bush in 2007), and presidential administrations have generally ignored them while arguing that requiring such a proposal is unconstitutional (Congressional Research Service 2020, Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Insurance Trust Funds 2020, 7).

In sum, the lack of fiscal rules governing the larger federal budget is partially reflective of the absence of rules constraining the growth of Medicare. The different sides of Medicare operate under different financing principles, with Medicare HI managed with an eye toward preserving its solvency for only a few years at a time, and almost no meaningful constraints operating on SMI cost growth at all.

Automatic financial correction mechanisms somewhat constrain the growth of Medicare costs, but not nearly enough to stabilize them as a share of U.S. economic output. Some automatic

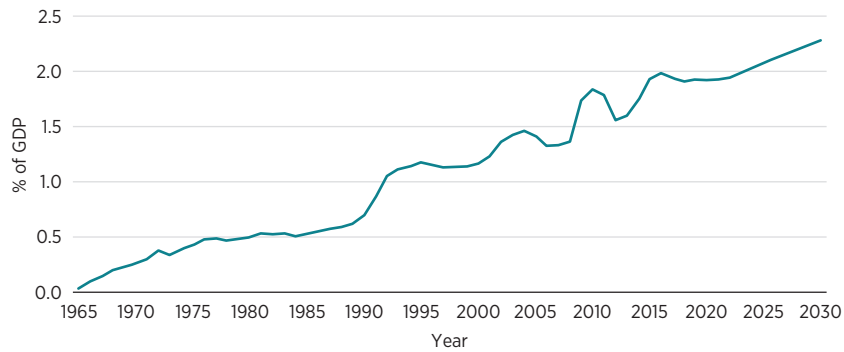
adjustment mechanisms, such as indexing Part B premiums to the growth of program costs, have proved sustainable, while there have been mixed results with provisions to gradually slow the growth of payments to health providers. Efforts to shift political responsibility for cost savings decisions to independent boards and commissions have consistently failed. Unless and until Medicare finances are subject to automatic correction mechanisms written into law, which limit program cost growth so as not to exceed the rate of growth in the U.S. government's revenue base, Medicare will continue to exert a worsening influence on the federal fiscal imbalance.

MEDICAID

Medicaid is a health insurance program covering low-income individuals, established in federal law, administered by the states, and jointly financed by federal and state governments. It is the third largest federal entitlement program after Social Security and Medicare. CBO identifies Medicaid, along with Social Security and Medicare, as one of the leading drivers of the structural federal deficit (Congressional Budget Office 2019, 20).

Unlike Social Security and Medicare HI, spending in Medicaid is not limited to the assets credited to any particular trust fund. As with Medicare SMI, Medicaid spending may exceed the amounts that particular tax collections can finance, meaning that rising Medicaid spending can be (and is) added to federal deficits. Unlike with Medicare, Medicaid's low-income participants are typically exempted from premiums and out-of-pocket costs (Medicaid.gov 2021). Although states make expansion decisions and are responsible for enrollment, the majority of Medicaid costs are borne by the federal government:

FIGURE 5. HISTORICAL/PROJECTED MEDICAID SPENDING



Congressional Budget Office, Historical Budget Data, January 2020, and Congressional Budget Office, 10-Year Budget Projections, January, 2020, <https://www.cbo.gov/about/products/budget-economic-data#2>.

specifically, the federal government shouldered an average of 57% of the costs of insuring individuals who were eligible before the ACA’s Medicaid expansion, and it funds 90% of the costs of insuring the ACA’s expansion population (Blahous 2013). This cost-sharing creates enormous incentives for the states to enroll individuals in Medicaid in the manner that maximizes federal support.

These incentives and financing structure have led to a predictable result: Medicaid spending has grown persistently relative to growth in U.S. GDP, and occasional program expansions have only added to that growth (Blahous 2013, 32–33). Because Medicaid spending growth is not generally accompanied by growth in revenues from any particular tax, rising Medicaid spending places intensifying pressure on the federal budget (see figure 5).

More specifically, the skewed incentives and complex structure of Medicaid have been shown to be inhospitable to conscientious fiscal stewardship. Administrative costs are much higher in Medicaid than they are in Medicare, while Medicaid history encompasses a long-running battle between the federal and state governments over the techniques states employ to shift costs to the

federal ledger (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds 2020, 10, Department of Health and Human Services 2018, 13, Blase 2016). The ACA’s 90% federal match rate for the expansion population exacerbated many of these incentive problems, leading to per-capita spending on the expansion population exceeding prior projections by more than 50%, and to an estimated 18–27% of those covered under expansion being improperly enrolled, ineligible individuals (Blahous and Amez-Droz 2020, Blase and Yelowitz 2019, 9). These trends result simultaneously in inefficiencies in how well the program serves vulnerable populations, and in rising costs to the federal budget.

These various forces contribute to Medicaid’s role in a worsening federal budget picture. No requirement of actuarial balance, no limitation on spending authority, compels Medicaid financing corrections, while elected officials are often reluctant to seek savings from a program that serves the poor. Medicaid spending was already growing at unsustainable rates even before expansion under the ACA but still Congressional Republicans, who had previously opposed the expansion, were

unable to muster the votes to repeal it once they gained the congressional majority (Pear, Kaplan and Cochrane 2017). When Congress and the Obama administration later set up a special Deficit Reduction Committee along with a process to automatically cut (“sequester”) federal spending if it could not reach agreement, Medicaid was conspicuously exempted from the sequestration process (Kogan 2012).

This is not to say that legislators have never agreed on the need to control Medicaid spending growth. More typically, they simply disagree on how to do so, with the positions of the political parties often shifting as they assume different responsibilities. During the Clinton administration, congressional Republicans supported converting Medicaid funding to state block grants, which would have provided states a specified amount of funding to provide low-income health insurance, while eliminating the individual entitlement to benefits. The Clinton administration countered with a proposal to cap Medicaid spending per capita, while retaining the individual entitlement to benefits. Both sides agreed on the need to cap the growth of federal Medicaid spending, while they strongly disagreed on how to do it.

By the time of the Obama administration, congressional Republicans had gravitated to supporting per-capita Medicaid spending growth caps, which the Obama administration opposed (Badger 2017). The shift of each party relative to its previous position is reflective of the general political trend of recent years, of declining commitment to containing the growth of federal spending and deficits. In recent months, some have even called for further increasing federal support for Medicaid to help states during the pandemic, treating the federal government’s relative lack of fiscal boundaries as a policy advantage (Fiedler and Powell 2020).

As the third largest federal entitlement program, and one which tends to grow significantly faster than U.S. economic output, Medicaid is a major contributor to the worsening federal fiscal imbalance, with even fewer financial constraints upon it than either Social Security or Medicare has. It is unlikely that the federal budget picture can be stabilized without reforms to contain the growth of federal Medicaid costs.

TAX EXPENDITURES AND OTHER ENTITLEMENT PROGRAMS

In principle, the lack of constraints on the growth of spending in any federal entitlement program is a fiscal problem. In practice, mandatory spending apart from Social Security and the major health entitlements has declined relative to GDP in recent years, and CBO projects it will continue to decline in the future. This is primarily because, while many of these other entitlement programs are indexed to grow automatically under current law, they do not tend to grow as rapidly as U.S. economic output. If similar policies governed the larger federal entitlement programs of Social Security, Medicare, and Medicaid, the federal fiscal imbalance would become manageable (Congressional Budget Office 2019, 27).

The growth of tax expenditures (defined as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability”) also contributes to the federal fiscal imbalance (U.S. Department of the Treasury 2021). Tax expenditures can act as the functional equivalent of spending through the tax code, steering financial benefits to politically favored constituencies and activities, worsening federal deficits, and

increasing the tax rates necessary to finance a given level of federal spending. Lawmakers representing constituencies who oppose increases in direct federal spending sometimes find it politically convenient to deliver the same benefits through the tax code. Since the 1986 tax reforms that clamped down on tax expenditures by lowering rates and eliminating loopholes, tax expenditures have grown faster than GDP (Marples 2015, 7–8).

The persistent growth of tax expenditures and their worsening effects on the federal fiscal imbalance have led some budget reformers to propose automatically constraining their growth. Penner and Steuerle suggest that “in addition to applying triggers to spending programs, policymakers can apply them to tax expenditures” (Penner and Steuerle 2016). Regardless of how federal legislators choose to deal with this issue, it is clear that to the extent federal tax expenditures automatically grow faster than GDP in the absence of future legislation, it will become progressively more difficult to stabilize the federal budget. The absence of automatic fiscal correction mechanisms in tax expenditures, as with mandatory spending, is an impediment to a sustainable fiscal policy.

AUTOMATIC STABILIZERS IN THE GENERAL FEDERAL BUDGET

Although the focus of this chapter is the lack of automatic correction mechanisms in federal entitlement programs, this treatment of the subject cannot be complete without discussing efforts to establish automatic corrections for the larger federal budget, and how these have treated entitlements.

Brian Riedl identifies a “penalty default” (i.e., fiscal corrections that will automatically

occur in the absence of new legislation) as a key ingredient in successful budget deals (Riedl 2019). Over the years, various deficit reduction agreements have conspicuously exempted most entitlements from such automatic spending-cut “penalty defaults” that enforce agreed-upon budget targets.

For example, Riedl identifies the 1985 Gramm-Rudman-Hollings (GRH) law as achieving more savings relative to GDP (1.7%) than any other budget deal in the last 40 years. This legislation established an automatic correction mechanism consisting of across-the-board spending cuts (known as “sequestration”) which would take effect to hit prescribed budget targets unless legislators enacted other legislation to do the job. The sequestration process exempted most entitlements as well as taxes, which meant that the automatic enforcement mechanism almost exclusively targeted annually appropriated spending. Though GRH was successful in the context of its time, it stands as an example of, rather than a corrective to, current trends in which entitlement spending growth drives federal deficit growth, while annually appropriated spending shrinks in relative terms.²⁴

The sequestration required under GRH was eventually terminated pursuant to the 1990 budget deal, which raised taxes (breaking President George H.W. Bush’s “no new taxes” campaign pledge) and created new “pay-go” rules requiring that any new tax cuts or entitlement expansions be offset, but which did not enforce prescribed fiscal targets (Riedl 2019). In most subsequent years there has been a similar absence of automatic fiscal corrections, contributing to the mounting budget deficits seen today.

After Republicans assumed control of both chambers of Congress in 1995 for the first time in 40 years, thereupon ensued an unusual effort to

enact a BBA, which many of the new officeholders had endorsed during their 1994 election campaigns. Despite its name, and due to constitutional constraints, the BBA as introduced was less a system of automatic corrections to the budget than it was a set of process requirements, and so will be discussed in the next section of this chapter.

Here it is worth noting that when efforts to enact the BBA began, it almost immediately became entangled with Social Security politics. Several Senators who had campaigned in favor of the BBA switched their votes to oppose the version that was introduced, based on the argument that unless Social Security was explicitly excluded, the BBA would tempt Congress to cut Social Security benefits. This led to the introduction of an alternative BBA proposal excluding the Social Security trust fund “from the balanced budget calculation” (Strahilevitz 1998).

In the end, the BBA failed to receive the necessary two-thirds vote in the Senate (Congressional Research Service 2018). It is not important here to settle the issue of whether Social Security should have been included or excluded in the BBA, or whether it is even permissible to reference a specific statutory program in the Constitution. The critical point for our purposes is that the BBA, like so many other attempts at establishing automatic fiscal corrections, foundered in large part on the issue of excluding entitlement programs from enforcement mechanisms.

The peculiar relationship between entitlement program finances and those of the larger federal budget was further reflected in a subsequent echo of the BBA/Social Security debate, when the Clinton administration later proposed to devote an impending federal budget surplus to “save Social Security first” (Clinton 1998). The Clinton proposal was essentially a political maneuver to block congressional Republicans

from enacting tax cuts; specifically, the administration proposed to credit federal surplus revenues to the Social Security trust funds. There were a number of substantive flaws in the Clinton approach, one being that it effectively double-credited Social Security for its surplus’ role in improving the federal budget balance, another being that it would not have improved the financial operations of Social Security itself (for a fuller explanation, see the contemporaneous testimony of Comptroller General David Walker, which among other things noted that “benefit costs and revenues currently associated with (Social Security) will not be affected by even 1 cent” under the Clinton proposal) (Walker 1999). It was innovative, however, in that it attempted to harness the political sensitivities surrounding entitlement programs, which usually worsen the federal fiscal position, to improve it instead.

The Clinton administration proposal would not have constituted an automatic fiscal correction mechanism of the type explored in this chapter. It was merely a proposal to run federal budget surpluses, reduce publicly held debt, and to issue additional debt to the Social Security trust funds—all discretionary policies that could have been altered or discontinued at any time without triggering automatic alternative fiscal corrections. Most importantly for purposes of this chapter, the Clinton administration proposal would have attempted to improve the federal budget outlook without addressing its underlying stressor in the form of cost growth of the largest federal entitlements.

For several years afterward there was an absence of widely supported proposals for mechanisms to automatically reduce federal budget deficits. The most significant one was the automatic sequestration enacted along with the Joint Select Committee on Deficit Reduction, established as

part of the 2011 BCA (House Committee on the Budget 2011). The Obama administration and congressional Republican majorities had been unable to agree on policies to reduce projected federal deficits, so instead they deputized a bipartisan commission to negotiate fiscal corrections. The automatic sequestration mechanism was established as a backup process, a means of ensuring that the deficit reduction would still occur even if the committee failed.

Neither political party hoped or intended that sequestration would actually be the means of achieving fiscal corrections in 2011. Sequestration was developed as a deliberately unpalatable outcome, to motivate the members of the committee to overcome their differences and generate an agreement (Khim 2012).²⁵ Once again, this sequestration largely exempted the entitlement programs that are driving mounting federal deficits (Riedl 2019). For this reason and many others, deficit hawks were largely unenthusiastic about relying on sequestration to improve the fiscal outlook (Committee for a Responsible Federal Budget 2013). Former CBO director Doug Holtz-Eakin, when testifying tepidly in favor of the sequestration mechanism, referred to it as “a bad idea whose time has come” (Holtz-Eakin 2013).

The BCA did succeed in temporarily reducing budget deficits, but given the lack of enthusiasm for the BCA’s sequestration mechanism, it is unsurprising that its spending caps were later raised in subsequent budget deals, most notably the Bipartisan Budget Act of 2019 (Committee for a Responsible Federal Budget 2020). No current law compels that spending on entitlements or in other areas of the budget be constrained sufficiently to move the federal budget toward a sustainable trajectory.

These historical episodes serve to remind that analysts confront a difficult “chicken and

egg” problem when identifying causes and solutions for the federal government’s increasing fiscal imprudence. It is impossible to know with certainty whether the failure to control the growth of entitlement spending is more of a cause or a symptom of federal lawmakers’ broader failure to contain mounting federal deficits. These alternative possibilities are not mutually exclusive; indeed, rising entitlement spending is likely both a cause and a symptom of deepening fiscal lassitude.

That said, the history is suggestive that the uncontrolled growth of federal entitlement programs contributes directly to sapping federal lawmakers’ commitment to maintaining fiscal balance. For example, lawmakers remained willing to persistently diminish annually appropriated spending, including both defense and domestic spending, as a percentage of both the federal budget and the U.S. economy. Federal deficits nevertheless rose despite these restraints, due to the increasing share of federal spending that transpired automatically through entitlement spending programs.

In addition, multiple attempts to impose overarching budget constraints, such as the sequestration mechanisms in the GRH law, and those which followed the failure of the 2011 Deficit Reduction committee, have largely exempted entitlement spending. Such exemptions led to the temporary fiscal gains under these processes being unraveled later, largely because the mechanisms depended unrealistically on the required cuts all being concentrated within an already shrinking portion of federal spending. A different attempt to impose overarching fiscal targets, the balanced budget amendment initiative of the 1990s, also foundered largely on the issue of whether to exempt the largest federal entitlement program, Social Security. Taken together,

this history is highly suggestive that successful entitlement program reforms may be more likely to increase the likelihood of lawmakers setting and maintaining general fiscal policy rules, than that setting global fiscal targets is by itself likely to spur overdue entitlement program reforms.

Some experts have proposed that entitlement spending caps be enacted as part of general budget reform, to be enforced by sequestration if necessary. James Capretta correctly observes that currently “entitlement spending is never held to a firm budget,” and that, despite the federal government’s successfully holding down spending on appropriated/discretionary spending over the years (see figure 2), the federal budget imbalance is worsening because no similar discipline has been applied to entitlement programs. Because of this, he argues for a new joint budget resolution process which makes “caps on spending binding, including on entitlement spending” (Capretta 2015).²⁶

Brian Riedl has proposed the creation of a two-sided automatic fiscal stabilization process—one that automatically generates additional stimulus spending during recessions, coupled with automatic fiscal consolidation provisions that would take effect during good economic times (Riedl 2020). Riedl notes several advantages of such an approach, including lessening temptations for legislators to derail “must-pass” recession relief bills with unrelated spending wants and other policy fights, and locking in deficit reduction during boom times instead of merely hoping that legislators will eventually get around to it.

Irrespective of the advantages and disadvantages of any specific approach, it is clear from this historical review that fiscal correction mechanisms are more likely to be implemented when they occur on autopilot, and when they do not depend on repeated, increasingly elusive success

in cobbling together a legislative coalition for deficit reduction. This is likely to be even truer going forward, when our politics are so polarized and when partisan advocates often have louder megaphones on social media than non-partisan budget analysts (Opensecrets.org 2021, Congressional Budget Office 2019). A well-crafted automatic fiscal correction mechanism in law would probably do more to stabilize federal budgets than the sum of all future persuasion by deficit-reduction advocates.

AUTOMATIC PROCESS SOLUTIONS

In recent decades, there have been countless attempts to establish processes to expedite fiscal corrections while bypassing the normal legislative order. These efforts have consistently failed.

The 1983 Social Security amendments are often held up as a process success story, in which a special bipartisan commission paved the way for legislative action to shore up Social Security finances and, as a byproduct, to improve the federal fiscal outlook. Certain caveats must be raised about what the 1983 experience tells us about the utility of process-based solutions. First, the commission’s approach has been persistently unsuccessful with respect to the larger federal budget and, as described in an earlier section of this chapter, was only able to facilitate action in 1983 because of the personal policy values of key legislators, and also because Social Security’s operating deficits at that time were small enough to be surmountable.

In addition, the 1983 amendments were not enacted by circumventing the normal rules of legislative consideration. The Senate debated the amendments under an “informal rule” imposed by Majority Leader Robert Dole (R-KS, requiring that the pending legislation could only be amended by another plan equally effective in

improving long-term solvency (Penner 2014). Apart from such informal restrictions, normal legislative procedures were followed. Thus, even in the 1983 experience, there is nothing to suggest that creating special fast-track legislative procedures will enable the messy process of bipartisan negotiation to be outsourced to a body independent of Congress (Mann 2019).²⁷

Efforts to set up expedited processes for deficit reduction have been legion over the last few decades. In 1993, Senator Robert Kerrey (D-NE) extracted a promise from President Clinton to appoint a commission on entitlement and tax reform, when Kerrey voted for President Clinton's budget proposal despite regarding it as omitting critical entitlement reforms (Rosenbaum 1993). The resulting Bipartisan Commission on Entitlement and Tax Reform had no especial legislative authority and required a three-fifths vote to report recommendations (Clinton 1993). The commission, working throughout 1994, was unable to reach agreement on a reform plan (Social Security Bulletin 1995).

As previously mentioned, the BBA that failed of passage in 1995 was less an automatically self-correcting mechanism than an elaborate process for attaining budget balance. It simply declared that federal debt held by the public should not increase, and that outlays should not exceed receipts, except in certain special circumstances (e.g., war) or unless a supermajority (3/5) of each chamber of Congress so voted (Congressional Record 1995). Significantly, the text of the amendment did not specify what kind of corrections would occur to bring the budget into balance; it would simply have established new processes making it more difficult for Congress to run federal deficits. The amendment was defeated when it failed to receive the necessary two-thirds support in the U.S. Senate.

The 1999 Breaux-Thomas National Bipartisan Commission on the Future of Medicare was not a general budget reform commission, and was instead dedicated specifically to Medicare reform. The commission was established by the 1997 Balanced Budget Act and directed to report such recommendations as were supported by 11 of its 17 members (Congressional Research Service 1997). It concluded in failure when the Clinton administration instructed its representatives on the commission to vote against the plan it had developed (Pear 1999).

As deficits mounted during the Great Recession of 2007–2009, proposals arose to establish a bipartisan deficit reduction commission. Congressmen Frank Wolf (R-VA) and Jim Cooper (D-TN) introduced one such proposal, the “SAFE Commission,” while in the Senate, Senators Judd Gregg (R-NH) and Kent Conrad (D-ND) proposed their own Deficit Reduction Commission early in 2010 (Committee for a Responsible Federal Budget 2009, NPR 2010). The common denominator of these proposals was to establish a bipartisan commission including members of Congress as well as some representatives of the federal executive branch, whose recommendations would automatically be granted expedited consideration by Congress.

As President Clinton had done in response to coaxing by Senator Kerrey, President Obama appointed a bipartisan commission largely reflective of the Conrad-Gregg approach. The National Commission on Fiscal Responsibility and Reform, co-chaired by former Senator Alan Simpson and Erskine Bowles, needed to garner support from 14 of its 18 members to approve recommendations to Congress (Obama 2010). It failed to do so, with 11 members of the committee supporting the chairmen's proposal on its final vote in December 2010 (Sahadi 2010).

The earlier mentioned Joint Select Committee on Deficit Reduction, created in 2011, also failed to pass a deficit-reduction plan, bringing into effect a fail-safe sequestration of discretionary appropriations that neither Republicans nor Democrats favored (Barrett, Bolduan, and Walsh 2011).

In the current Congress, another bipartisan process approach has been introduced: the TRUST Act, authored principally by Senator Mitt Romney with companion sponsors in both parties and both chambers (Romney 2019). The TRUST act differs from several of its predecessors in focusing specifically on trust fund spending programs such as Social Security and Medicare, whose growth correlates with the growth of federal deficits. It may be that by focusing on the concept of trust fund solvency, the cosponsors of the TRUST Act hope to ward off accusations of balancing the federal budget on the backs of vulnerable beneficiaries of the federal safety net, which have undercut previous fiscal commissions. Regardless, the TRUST Act has not advanced to floor consideration in either chamber of Congress.

A notable feature common to many of the failed commissions is a supermajority vote requirement: such a requirement helped cause the defeat of proposals developed by the Kerrey-Danforth commission, the Breaux-Thomas commission, and the Simpson-Bowles commission.²⁸ Though undoubtedly included to ensure that any proposal developed by these commissions would have bipartisan support, the result is that it has been even more difficult to move budget proposals through the commissions than it has been through Congress. On the other hand, the 2011 Deficit Reduction Committee had only a majority-vote requirement, and it also failed.

No lasting corrections to the structural fiscal imbalance can avoid slowing the growth of enti-

tlement programs, which means that there must either be a reliable process for reducing federal deficits that facilitates restraints on entitlement spending growth, or there must be statutory corrections embedded in the laws governing federal entitlement programs themselves. Without one of these two mechanisms in place, it seems apparent that no purely process-based approach to fiscal reform will succeed in correcting the worsening budget imbalance.

CONCLUSION

There is an absence of fiscal rules guiding U.S. federal budget policy. The worsening federal fiscal imbalance reflects no deliberate policy plan to run increasing federal deficits. It is simply an artifact of the asymmetric structure of the federal budget process: specifically, a process in which automatic growth in federal entitlement spending can drive worsening federal budgets without any intervening votes by lawmakers—and does. It is also a process in which there are substantial procedural barriers to reducing federal deficits, barriers that are only becoming taller as politics become more polarized and bipartisan agreements more elusive. It is probably not a coincidence that partisan divisions have become wider as the gap between federal revenues and outlays has become wider. The widening fiscal gap makes bipartisan compromise more difficult.

U.S. budget deficits have worsened as federal entitlement spending has grown, and are projected to become uncontrollable—while at the same time, federal revenue collections are projected to exceed historical norms, and annually appropriated federal spending is shrinking far below historical norms relative to GDP. The only paths to sustainable federal finances involve slowing the growth of the largest federal entitlement

programs of Social Security, Medicare, and Medicaid.

At present, there are no guarantees that Social Security and Medicare's trust fund financing structures will by themselves ensure that lawmakers act effectively to stabilize the rising costs of those programs. Medicare's financing construct permits lawmakers to shift rising program costs increasingly to premium-paying beneficiaries and to federal taxpayers, without constraining the worsening pressure Medicare places on federal finances. Social Security's finances have not been corrected in 37 years, and federal lawmakers are showing increased willingness to evade historical restraints on shifting costs from Social Security's payroll tax base to the larger federal budget. Medicaid spending growth is virtually unbound by any meaningful restraints.

The historical evidence indicates that the problem of rising federal entitlement cost growth will likely remain insoluble so long as solutions depend on lawmakers repeatedly cobbling together legislative majorities to enact financing corrections piecemeal. As the historical review in this chapter shows, fiscal corrections are more likely to hold if they are implemented automatically and gradually, such that legislative

negotiations henceforth can focus on improving the operations of these programs rather than on the politically difficult tasks of raising taxes and slowing the growth of costs. This approach would flip the "default" outcome to a path of fiscal stability rather than instability, potentially transforming the political economy dynamics governing U.S. budget policy. More specifically, the evidence indicates that corrections are more likely to endure if program beneficiaries as well as taxpayers feel a financial stake in constraining program cost growth (as with, for example, the successful indexation of Medicare Part B and D premiums to overall program cost growth).

Promising approaches to fiscal improvement include enacting automatic stabilizers to index such factors as payroll tax rates, benefit formula growth rates, eligibility ages, and participation criteria so that specific entitlement program costs and revenues remain stable as a percentage of GDP.

Far less promising as an approach are purely process-based reforms, such as outsourcing the task of developing fiscal reforms to independent boards and commissions. The historical evidence suggests that these avenues simply replicate partisan divides in Congress rather than bypassing them.

NOTES

1. The author wishes to thank Brian Riedl, Doug Badger, Keith Hennessey, Barry Poulson, and Marvin Phaup for useful comments on a previous draft of this chapter.
2. Although the three programs of Social Security, Medicare, and Medicaid are the principal drivers of this spending growth, for purposes of simplification certain graphs in this chapter separate federal spending components into the broad categories of mandatory/entitlement spending and discretionary/appropriated spending. As explained later in this chapter, mandatory spending apart from Social Security, Medicare, and Medicaid has declined relative to GDP in recent years, and CBO projects it will continue to decline in the future. In its long-term budget projections, CBO focuses on Social Security and the “major health care programs” as the main drivers of the structural deficit.
3. January 2020 figures have been used in all instances to preserve consistency.
4. Every combination of partisan control of the presidency and Congress (R/R, D/D, D/R and R/D) has resulted in rising debt, such that it would be ill-founded to assign responsibility to one party more than the other. This said, in the interest of adequately qualifying the statement in the main text about the persistence of debt accumulation, it should be noted that the most recent period during which the federal debt declined substantially relative to GDP was during the second term of the Clinton administration (1997–2001), when a Democratic president worked with a Republican Congress. The last period during which federal debt stabilized as a percentage of GDP (2004–2007) was mostly in the second term of the George W. Bush administration, when a Republican president served with a Republican Congress, before the onset of the Great Recession. Lest one is tempted to derive a pattern from these brief periods of fiscal stability under Republican Congresses, it should be noted that the most recent two years of Republican control of both branches (2017–2019) are among the many periods of rising federal debt.
5. January 2020 projections have been used throughout this chapter to preserve consistency. Mandatory spending shown on the graph represents gross spending, without subtracting offsetting revenues such as Medicare premium collections. Pursuant to congressional scorekeeping practices, CBO projections for the federal budget do not strictly reflect actual law, because they do not incorporate the substantial reductions in Social Security and Medicare spending that would occur upon the projected depletions of their respected trust funds. CBO projections are nevertheless reflective of these entitlement programs’ contributions to the federal fiscal imbalance, because they reflect the substantial imbalance between these programs’ benefit obligations and their revenues, and also because there is no assurance that these programs’ trust fund shortfalls will be closed without recourse to general revenue subsidies or without spending the proceeds of such savings on other programs, as congressional budget rules permit.

Indeed, federal budget practice over the last decade exhibits a declining commitment to financing these entitlement programs without recourse to such maneuvers, as for example with the Affordable Care Act of 2010 and the Social Security payroll tax cut of 2011–2012.

6. Short-term increases in annual deficits can and do result from occasional tax cuts or increases in annually appropriated discretionary spending. Examining the long-term trend, however, renders it clear that structural deficit growth is driven by the rise of entitlement spending rather than by discretionary spending or tax policy.
7. The spectrum of legislators' policy views also includes a growing number who question the imperative of addressing fiscal imbalances at all. This adds to the difficulty of repeatedly forging legislative coalitions to achieve deficit reduction.
8. This is even more true for believers in Modern Monetary Theory (MMT), which holds that most deficit-reduction efforts are inherently misguided and literally do result in income losses for individual Americans, relative to the standards of living they could enjoy if the federal government borrowed and spent more. It exceeds the scope of this chapter to settle the escalating argument between MMT supporters and mainstream economists, and the text focuses instead on how any lasting reduction in federal deficits that lawmakers may wish to achieve will require changes in how federal entitlement programs are managed.
9. The 1977 Social Security amendments did eliminate larger annual imbalances that resulted from an error in the indexing formula enacted in 1972, but these were then projected over a far more distant future than lawmakers would face if they waited until the 2030s to act.
10. The author served as a public trustee at that time.
11. Note that Social Security benefit payments must be made from separate and solvent trust funds, and that Social Security's OASI trust fund is projected to become insolvent in 2034. To simplify, the main text refers to dates and numerical effects for Social Security's theoretical combined trust funds, as is done in the annual trustees' report overview.
12. Myers: "I'm still an 'infinity' guy, because even if you have a 75 year period, every year you do a new valuation, you have some slippage. If conditions were exactly the same, the assumptions were not changed, and the experience was just like the assumptions, the evaluation made later would show, if it was in balance in Year One, by Year Two it would be out of balance by a tiny amount, say .05% of payroll."
13. The formula used to calculate initial Social Security benefit levels, known as the Primary Insurance Amount (PIA), is automatically adjusted each year by statute, proportionally with growth in the national AWI as calculated by the Social Security Administration. As a result of this indexing, a beneficiary who has earned the national average wage income, who is eligible to claim benefits in a particular year, would typically expect to have a benefit that is larger than that of another beneficiary who had also earned the national average wage income, who became eligible to claim benefits the previous year. The difference between these two individuals' respective benefit levels reflects intervening growth in the AWI. For purposes of benefit calculation, SSA indexes an individual's prior earnings to the AWI until two years before they are eligible to claim old-age benefits.
14. There is some improvement in Social Security finances under a faster-growth scenario but it is relatively slight; the program's qualitative shortfall persists mostly unchanged under any realistic growth projection scenario. For example, even if future real wage growth is over 50% faster than the trustees currently project, it would still leave the preponderance of the program's actuarial imbalance in place.
15. Enacting financial corrections to a trust fund while simultaneously spending the resultant unified budget savings on a new program, as was done in the ACA, has fiscal effects equivalent to shoring up a trust fund simply by issuing debt from the general fund, without increasing total

revenues, reducing total spending, or improving the unified budget balance. By contrast, entitlement reforms can improve the larger fiscal outlook if trust fund financing corrections are not otherwise spent, a principle that was upheld in 1983.

16. Revisions to demographic data and projections since the 1983 reforms have slightly improved the actuarial balance, by 3% of the current shortfall. Of the existing shortfall, 67% has arisen because Social Security operations under law grow more imbalanced over time, and another 36% because of adjustments in economic projections. These two factors by themselves account for the entirety of the shortfall that has emerged since 1983.
17. Myers: “It wasn’t planned. Nobody said let’s do it this way. It was just the natural result of saying we’ll fix up the long-range situation in 75 years on the average.”
18. Social Security’s long-range actuarial balance is more sensitive to changes in fertility rates than to nearly any other factor, demographic or economic. The approximate effects of changes in fertility rates upon subsequent tax collections and benefit payments can be anticipated many years, if not decades, in advance.
19. It is sometimes argued that Social Security cannot contribute to the federal budget deficit because of its off-budget self-financing trust fund design. This argument is incorrect, for reasons that go beyond the scope of this chapter to explain, but which can be briefly summarized as follows. First, Social Security’s actuarial balance requirement is an average condition over time, and does not speak to Social Security’s effects on the federal budget in individual years. Social Security’s effects on the federal budget were positive throughout most of the 1980s, 1990s, and 2000s, when the program was running cash surpluses, but have been negative since 2010 when it has been running operating deficits. Federal budget deficits have grown accordingly as Social Security has moved from surplus to deficit. Second, lawmakers can act to subsidize Social Security from the general fund, as was done in 2011–2012 when the payroll tax was cut, and which some have proposed be done in the future to prevent trust fund depletion. Third, the federal fiscal imbalance as projected by the Congressional Budget Office, the White House Office and Management and Budget, and others, includes Social Security’s financing shortfall, and so by definition Social Security’s own shortfalls contribute to that larger fiscal imbalance.
20. Due to changes in general health-care cost projections, Medicare’s financial outlook can change markedly from one year to the next. To take but one example, between the 2003 and 2004 trustees’ reports, Medicare HI’s actuarial deficit increased by 30%, and its projected insolvency date moved seven years sooner, primarily because of updated assumptions with respect to hospital spending. Since 1997, there have been six different annual reports in which HI’s projected insolvency date has moved by five or more years relative to the previous year’s projection.
21. Most beneficiaries are held harmless from Part B premium increases that exceed the size of their Social Security COLA, meaning that in zero-COLA years they experience no premium increase at all. But some beneficiaries (those who are subject to income-related premiums, as well as those whose premiums are paid by Medicaid) are not included in these hold-harmless provisions, which means that during low-inflation or zero-inflation years, as aggregate premiums grow to remain 25% of costs, certain beneficiaries’ premiums may grow disproportionately.
22. The reason savings would be relatively small is that some of those who would not be eligible for Medicare under revised age criteria would become eligible for other federal subsidies, such as tax credits for those covered under the ACA’s health insurance marketplace plans.
23. These concerns included beliefs among some that IPAB was an unconstitutional delegation of legislative authority by Congress. The constitutionality of IPAB was challenged in *Coons v. Lew*, dismissed by the Ninth Circuit U.S. Court of

Appeals on the grounds that the challenge to IPAB was “too speculative to satisfy the constitutional requirement of ripeness.” Because IPAB was never formed nor took any actions, its powers were never fully subjected to judicial testing.

24. It should be acknowledged that some of the relative decline in annually appropriated spending reflects occasional shifts of spending from the discretionary side to the mandatory side of the federal budget. However, as this chapter documents, rising spending relative to GDP has been driven primarily by the major entitlement programs of Social Security, Medicare, and Medicaid, rather than by other mandatory spending established to evade appropriations spending caps.
25. Khimm: “The indiscriminate pain is meant to pressure legislators into making a budget deal to avoid the cuts.”
26. Capretta suggests that certain programs serving very-low-income individuals, such as Supplemental Security Income, be exempt from enforcement cuts, though he argues that Medicaid should be “explicitly included in the enforcement mechanism.”
27. The Base Realignment and Closure Commission, or BRAC, is sometimes also cited as a successful example of a bipartisan commission operating outside of standard legislative procedure. Congress established BRAC, restraining its own procedural latitude to amend the commission’s recommendations, to achieve politically treacherous local spending cuts. BRAC, however, was not a mechanism for determining the total amount of appropriations provided for national defense, but for deciding which specific military installations should be closed. BRAC helped Congress to manage the parochial politics of specific military base closures, rather than improving the broader fiscal outlook.
28. Both the Breaux-Thomas and Simpson-Bowles commissions were able to generate majority support for recommendations, but not supermajority support. This was not true of the Kerrey-Danforth commission, but the high hurdle of a two-thirds support requirement helped to induce co-chairs Kerrey and Danforth to give up on trying to generate sufficient support for their own proposal.

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