



Taking Back Our Fiscal Future

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Introduction

- Important debate about how we fund health programs in the future
- Impressive authors
 - Three former CBO Directors
 - Other former high ranking government officials
 - Bipartisan
 - Authors are employed by 7 of the most prestigious think tanks in DC
- Appreciate the effort that went into the paper to get bipartisan support

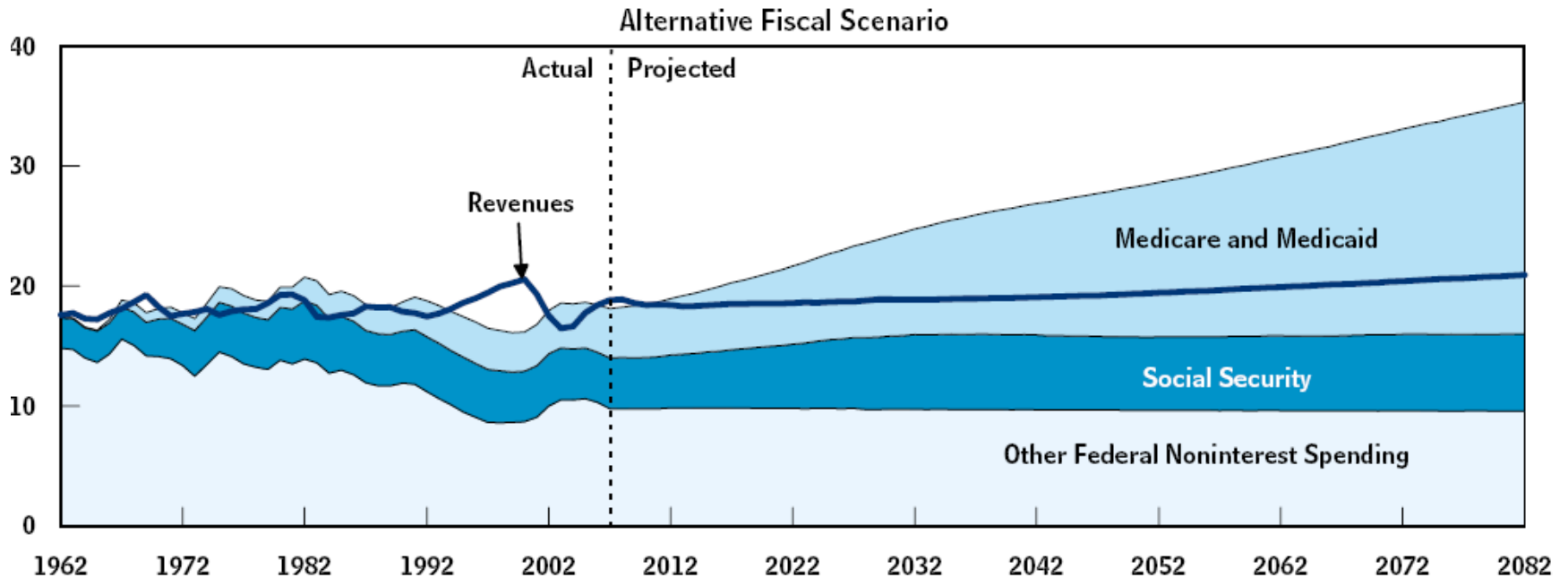
The Problem is Real

- Health care spending rising faster than the GDP – both private and public expenditures
- Not getting much political attention
- Widening gap between spending and revenue
- These deficits threaten the economy – may be a connection to household income

Income Growth of Families with Children

Time period	Deficits	Lowest Q	Middle Q
1979 – 1989	Increased	- 5%	5%
1989 – 2000	Declined	21%	17%
2000 – 2007	Increased	probably negative	probably negative

Health Spending is Primary Problem
Revenues declined sharply after 2000
Spending cut in 1990; increased after 2000



No Basis for Why Proposal Will Work

- Problem/Myth/Solution
- No Review of Budget Process
- No Review of Budget History
- Myths are really strawmen
 - Revenues and tax expenditures have to be part of the solution
 - Extension of Bush Tax cuts has to be balanced against these 3 entitlement programs
 - Health care can be delivered more efficiently
 - Why not tackle a real myth – taxes can go above 20% of GDP without affecting economic growth
 - Will show that their budget proposals will not work
 - Suggest what experts should be doing
- Resorting to Budget process is admitting failure

No Review of Budget Process

- Trust funds
 - Has worked for social security from 1935 - 2040
 - Paper needs to demonstrate why we need to change
 - Has worked for Part A, Should consider for Parts B and D of Medicare
- Gramm Rudman Hollings

While generally considered a failure, in theory there are 2 design principles the paper ignores

 - Incentives to do things by legislative action since both Rs and Ds wanted to avoid consequences
 - Protected low income programs



No Review of Budget Process

- Pay as you go
 - Worked to enforce the budget agreements of 1990 and 1993
 - Do not understand why this was not on the list
 - With one exception, worked last year
 - Not just a revenue raiser – of 4 major bills with gross spending of \$350 billion; 80% was financed by spending cuts
 - Was initially bipartisan
 - Is now a deficit reduction tool or could force a more grand compromise



No Review of Budget Process

- Multi-year Discretionary Appropriation Caps
 - Worked in 1990 and 1993 because agreed upon caps were reasonable
 - Caps did not work in 1997 because caps were unrealistically low and budget surplus returned
 - Lesson: Probably real limits on ability of caps to cut spending substantially



No Review of Budget Process

- Sustainable Growth Rate (SGR)
 - Authors should acknowledge what they recommend is already in place
 - Supposed to cut \$370 billion over the next 10 years
 - Totally ignored by the Bush Administration
 - Does force a periodic review

No Review of Budget History

- 1983 Social Security Reform
 - Status of trust fund forced crisis – could have solved by borrowing but political system did not buy that solution
 - Aborted Reagan proposal/lesson – changes affecting beneficiaries in those programs need a long time lag.
 - Was a combination of tax and spending changes affecting both beneficiaries and payors - low income individuals protected

No Review of Budget History

- Medicare Hospital Trust Fund
 - Wrote an article in 1982 stating this problem was bigger (\$500 billion).
 - Legislated many bills during the 1980s
 - trust fund major driver
- 1990 and 1993 Budget Agreement
 - Huge \$500 and \$400 billion respectively
 - Involved taxes, mandatory and discretionary spending
 - Were progressive
- 1997 Budget Agreement
 - Complete bust
 - Unrealistic



No Review of Budget History

- Analysis of 9 Trillion fiscal turnaround in this decade
 - Paygo was not followed (Tax cuts & MMA)
 - Should have been a decade preparing for retirement of baby boom generation; turned out to be just the opposite
 - Why not automatic surtax if war funding exceeds \$50 billion if not otherwise funded?
 - Why single out the three programs given fiscal behavior of the decade?

Conclusion

- Social Security
 - Not a huge problem
 - Solutions are well known
 - Simply need political will

- Medicaid
 - Should not be on the list
 - Really cannot cut providers or beneficiaries
 - Need a long term care program not a default policy in Medicaid

Conclusion

- Medicare and health
 - Know arbitrary caps will not work
 - Solutions are not well known
 - Experts should spend time putting forth a slew of ideas – both conceptual and detailed.
 - Need to improve access, slow costs and improve quality
 - Control drug costs and enhance price competition.

Conclusion

- Conceptual Ideas/Need Details
 - Health Information Technology (HIT)
 - Comparative Effectiveness
 - Prevention
 - Chronic Care Management
 - Aligning Provider Incentives/Pay for Performance/Medical Home
 - Fund Technology better



Conclusion

David Wessel

A for effort, C for results

My Grade

A for good intentions, B for effort and D for results