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The Deficit and the Debt

Meeting America's Fiscal Challenges

Should Congress Pass S. 2853, to
Establish a Bipartisan Task Force
for Responsible Fiscal Action?

Sen. Kent Conrad (ND-D)
Sen. Max Baucus (MT-D)

and others . . .

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Should Congress Pass S. 2853, to Establish a Bipartisan Task Force for Responsible Fiscal Action?

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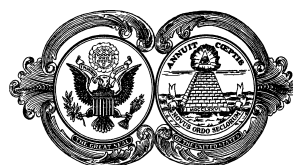
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We are enacting health care reform. And serious people know that controlling the costs of health care is the central path to addressing our long-term budget challenges.

The lion's share of the reason why deficits are projected to grow so much in the long run is the enormous increase in the costs of health care. We are doing something about it. We are doing it the right way. We held open hearings. We legislated in committee. We are voting on amendments. We are legislating.

The Congressional Budget Office says that health care reform will cut the deficit \$130 billion in the first 10 years and \$650 billion in the second 10 years. That's nearly \$800 billion in CBO-certified deficit reduction in health care alone.

And next year, we will legislate fundamental tax reform. But some appear to want to throw in the towel. Some want to punt our responsibilities away.

I can see that a commission may be attractive to some. After all, it's the easy way out. It takes away our accountability for what we do. Senators can blame it all on the commission. Senators can say, "The commission made me do it."

But this is no time to abdicate responsibility. This new administration and this Congress are less than a year old. We should not shirk our responsibility. Rather, we should do the job that our constituents sent us here to do.

And luckily, we already have a process to address the budget. It's called "the congressional budget process."

Here's a novel idea: Why don't we use the budget process to address the budget deficit? If the chairman and ranking Republican member of the Budget Committee are in such broad agreement on their goals, why don't they just skip the commission and go straight to their recommendation? That is exactly why Congress created the budget resolution and the reconciliation bill.

We don't need a commission to do our work. We don't need a new process to solve the problem. To solve the problem, we just need to solve the problem.

I urge my colleagues to reject this commission. Let's get back to solving the problem. Let's get back to enacting real health care reform.

**"Here's a novel idea:
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the budget process
to address the
budget deficit?"**

Eric R. Kingson

Professor, School of Social Work, College of Human Ecology, Syracuse University

Eric Kingson was an advisor to the 1982 National Commission on Social Security Reform and the 1994 Bipartisan Commission on Entitlements and Tax Reform. The following is from a paper titled "A Tale of Three Commissions: The Good, the Bad, and the Ugly," prepared for the National Academy of Social Insurance's December 11, 2009, congressional briefing, "Demystifying the Deficit, Social Security Finances, & Commissions."

I begin with a story from 28 years ago that illustrates the political risks that follow from mischaracterizing Social Security in narrow budgetary terms. In 1981, Ronald Reagan was President and David Stockman, who talked about Social Security as "closet socialism" and as a "coast to coast soup-line," was the President's budget director. Stockman argued successfully that the Reagan Administration should make use of Social Security's projected short- and long-term shortfalls to promote large cuts in the program.

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Rather than work with moderates on the House Ways and Means Committee who were preparing a financing package based primarily on benefit reductions, the administration floated a Social Security package, which called for twice as much long-term savings as needed, all from benefit reductions. Moreover, some of these benefit reductions (i.e., reducing retirement benefits at age 62 from 80 percent to 55 percent of a full) would have fallen very heavily on persons reaching retirement age as early as 1982. Having galvanized a strong and negative public reaction, Democrats were able to capitalize on the President's miscalculation, forcing a withdrawal (of the yet submitted package).

Calling for a commission to study the problem and make recommendations, President Reagan sought to temper the Democrats' political advantage on the issue until after the November 1982 congressional elections. Thus, from David Stockman's political miscalculation, so came the 1982 National Commission on Social Security Reform (a.k.a. the Greenspan Commission [named after its chairman, Alan Greenspan]) and much political benefit to those opposing these misguided cuts.

Fast forward to today: Declaring that "Congress feels entitled to spend with a blank check" and that the Nation is "swimming in a sea of red ink that will drown any chance our children have for ... a decent standard of living," this past Wednesday (December 9), Judd Gregg (R-NH), ranking minority member of the Senate Budget Committee, joined Chairman Kent Conrad (D-ND) in introducing legislation to create a Task Force for Responsible Fiscal Action (a.k.a. "Debt Commission"). The proposed 18-member commission would include 16 Members of Congress, eight each, appointed by the Democratic and Republican congressional leadership, as well as the Treasury Secretary and another administration official appointed by the President.

Empowered to bypass normal legislative channels, if 14 of its members reach agreement on the entire recommendations, each house of Congress would be required to vote yes or no on the entire package. The vote would take place after 2010 elections and before the new Congress is seated. There would be no amendments. Passage would require a supermajority (three-fifths majority) in the House and the Senate. Remarkably, Senators Conrad and Gregg and some of the other cosponsors of this bill, Democratic and Republican, are threatening to vote against raising the Federal ceiling on the Federal debt unless Congress enacts legislation creating their debt commission.

The extent to which everything — tax rates, estate taxes, tax expenditures, unfunded defense liabilities — will be "on the table" if this commission moves forward is unknown. But based on the principal proponents' joint press statements and other pronouncements, there is no doubt that Social Security and Medicare will be front and center. Social Security and Medicare are the only programs mentioned in their press release, with Senators Conrad and Gregg emphasizing that they "are currently cash negative and headed for insolvency. We need to reform these programs."

I am restricting my remarks to the implications of the proposed Conrad-Gregg Commission as related to Social Security policymaking. The experience of two commissions — the 1982 Greenspan Commission and the 1994 Bipartisan Commission on Entitlement and Tax Reform — hold [lessons] for staff and Members of Congress interested in protecting America's families against losses of income due to the death, severe disability, or retirement of a working person.

I characterize the Greenspan Commission as the "good" commission because, as I discuss, it operated within the tradition of broad policymaker support for the program and because it is often presented as the example of a successful commission. However, as

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"The extent to which everything . . . will be 'on the table' . . . is unknown . . . there is no doubt that Social Security and Medicare will be front and center."

the late [former Social Security commissioner] Robert Ball wrote in his forthcoming memoir, there is some mythology surrounding the accomplishments of this commission. Indeed, the Greenspan Commission did not as it is often portrayed “bravely [rise] to the occasion and [come] up with a package of tax increases and benefit cuts that saved Social Security — and, by inference, Congress.”

The 1982 commission helped set the stage for possible agreement. But the heart of the commission’s report — a proposed set of benefit adjustments and revenue increases — was the outcome of last-minute negotiations that took place outside the context of the commission, with the foreknowledge and then endorsement of President Reagan and Speaker of the House “Tip” O’Neill [D-MA]. This package then moved through the normal channels of congressional review and amendment before being enacted.

The history of the 1982 and 1994 commissions provides insight into the likelihood of success or failure that might arise from a fast-track debt commission such as Senators Conrad and Gregg propose. Both the 1982 and the 1994 commissions were created by executive order, both included congressional leadership as well as representatives of those who fund or have funded the program (employers, labor, seniors), both were ably staffed and both ultimately reached consensus on the existence of a problem. While the similarities are interesting, it is the dissimilarities that is most instructive for the type of commission being proposed today.

“The history of the 1982 and 1994 commissions provides insight into the likelihood of success or failure that might arise from a fast-track debt commission . . .”

Dissimilarities with Implications for Conrad–Gregg

A realistic focus on Social Security in 1982; a socially constructed “unified entitlement crisis” in 1994. Clear difference existed in scope of the inquiries in 1982 and 1994. The 1982 Commission narrowed its focus quickly and exclusively to Social Security. At its first meeting, Chairman Greenspan quickly dispensed with the question of whether Medicare’s projected shortfall should be discussed within the context of the financing of Social Security’s cash program. Members agreed that to do so would only confound the problem, making political resolution of the Social Security financing issue far more complex than it need be. Restricting the Commission’s focus to Social Security and later agreeing to stay within the boundaries of the principles that informed OASDI [Old Age, Survivors, and Disability Insurance] facilitated the possibility of a negotiated solution.

In contrast, the Bipartisan Commission [on Entitlements and Tax Reform] addressed a more expanded set of issues (Social Security, Federal deficits, population aging, public/private expenditures, savings and investment) and operated outside the framework of traditional assumptions about Social Security and Medicare, its leadership instead seeking to legitimate a range of ideas that previously had been thought of as the province of the far right (e.g., means-testing Medicare and Social Security, partial privatization of Social Security and Medicare, and large benefit reductions).

Respect for Social Security as an institution by commission members and staff in 1982; far less so in 1994. The 1982 commission and its staff functioned within the framework of serious knowledge and support for Social Security. Alan Greenspan’s appointment of Robert J. Myers, chief actuary of Social Security from 1947 to 1970, as executive director, and Speaker O’Neill’s appointment of Robert M. Ball, Social Security commissioner from 1962 to 1973, to the commission epitomized Republican and Democratic commitment to the institution of Social Security.

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Once agreement was reached on the existence and the size of the financing problem, the battle lines formed around the question of whether tax increases or benefit reductions should be the primary vehicles for reform. As the final report of the commission made clear, there was unanimous agreement that the Congress “should not alter the fundamental structure of the Social Security program or” means-test or privatize the program. As regards the staff, all were Social Security experts — some chosen from among Social Security employees and others appointed at the request of the Republican and Democratic factions within the commission. While bipartisan, by design the politically appointed staff were expected to staff their Democratic or Republican sponsors, a decision consistent with the goal of eventually developing fully informed negotiations.

In contrast and similar to the orientation of many supporting the Conrad–Gregg Commission, the leadership (Senators [Bob] Kerrey [NE-D] and John Danforth [MO-R]) and much of the staff of the 1994 Commission felt far less commitment to Social Security as an institution. While some members of the 32-member commission and some staff were schooled in Social Security, most were not. Staff was not broken into Democratic or Republican factions, or otherwise explicitly organized to support the differing views of the commission members. While acknowledging the importance of Social Security, more often than not, the attention of commission and staff leadership was directed at lowering the wattage running through the “third rail of American politics.” They saw little value in intrinsic value in a universal Social Security program in a time of budget deficits. The “third rail” demanded respect; but it didn’t mean they had to like it. Hence it is not surprising that ultimately the chair and vice chair of the commission advocated a partial privatization of Social Security and the means-testing of two other social insurance programs — Medicare and Unemployment Insurance.

A real short-term financing “crisis” in 1982; not so in 1994. Of even greater importance in terms of the politics of Social Security, unlike 1982, in 1994 there was no short-term financing problem to create incentives for compromise and to prepare the public to shoulder the burden of reform. Without the 1983 legislation, the OASI Trust Fund would have been depleted and monthly shortfalls would have occurred as early as July 1983. In 1994 (and today), it was (and is) clear that Social Security can meet all its obligations for the next 25 years and quite likely more. Congress generally makes policy for the short term. Problems in the distant future — especially redistributive policy matters — create few incentives for congressional action. They can be put off for a future Congress, and the political cost of doing so is likely to be considerably less than what would come from addressing the issue.

As is the case today, the absence of a short-term Social Security financing problem, with a real deadline for political action, presented a serious political obstacle to the 1994 commission. Even the more immediate concerns of Federal deficits and growing Federal debt — likened to slow-growing cancers on the economy — lacked the proximity of Social Security “going broke” within one or two years.

Distributive analysis in 1982; marketing in 1994. In 1982, substantial analytic attention was given to the consequences of reform options on workers and future Social Security beneficiaries, including implications across income classes. In other words, both taxpayer and beneficiary costs were fully assessed. The 1994 commission process was virtually devoid of interest in the distributional impact of various policy options or of what the benefit reductions might mean to individuals and their families.

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“The 1994 commission process was virtually devoid of interest in the distributional impact of various policy options . . .”

This is best exemplified by the elaborate computer game that the commission produced. Here was an exquisitely developed piece of software that claimed to be simply a tool for informing Americans about policy options for reducing the Federal deficit. Unfortunately, there are many unexamined assumptions. The game is structured so that its players cannot touch defense spending or general taxation. But players are encouraged to consider means-testing Social Security and radically reducing benefits through changes in the benefit formula or large cuts in inflation protection. And such options are presented and explained in a most antiseptic — and one-sided — fashion, as if pushing a few buttons could simply make the deficit go away.

Nowhere, in the game or elsewhere in the Commission documents, are serious analyses presented about the distributional impacts of various changes across class, race, and gender — not to mention possible political implications, such as the long-term erosion of political support for the program.

Rather than explore the complexities surrounding important questions such as the declining living standards of many among the young or the increased poverty among children, they offered the pabulum of Federal deficits and spending on the old as cause. Whatever the problem, they had the answer — cutting entitlement spending will lead to increased savings, economic growth, and a better future for all. And so they ignored important concerns, such as the reality that the growing gap between rich and poor and between the middle class and the very well-off increased even during the economic expansion of the 1980s. They failed to acknowledge evidence such as that presented by economists Sheldon Danziger and Peter Gottschalk suggesting that “economic growth in itself” would not necessarily “benefit the average American family and solve the problems of poverty and economic hardship.”

Substantially different outcomes and products in 1982 and 1994. The 1982 commission reached agreement on the size of the short- and long-term financing problems, but was deadlocked with respect to agreement on policy changes. Only after the White House and the speaker of the House anointed a package of changes, worked out in quiet negotiations outside the context of the Commission, did a large majority of the Commission reach agreement on a legislative proposal.

No party involved in the negotiations that led to agreement on a package that the President and speaker could support agreed with each provision of the pact. Neither did the members of the commission. But the bipartisan compromise could be presented as fairly distributing pain across numerous constituents (e.g., the old, the well-off, workers, business, future beneficiaries), and it provided political protection to all participants. Moreover, it really did address a pressing financing problem that Congress could not sweep under the rug. And it provided political cover for the President, who otherwise would have announced a much larger Federal deficit a few weeks hence. Clearly, this was the commission’s most important product. But it also helped to promote public understanding of the financing problem, mainly through the media coverage of its carefully orchestrated public hearings.

As for its written products, the official record contained over 100 typewritten memoranda, primarily on technical matters. The final report consisted of 40 typed (double space) pages summarizing commission recommendations, additional statements of members, and 17 technical appendices. The product of much effort and painfully negotiated agreement, it had all the visual appeal of a doctoral dissertation.

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“The 1982 commission reached agreement on the size of the short- and long-term financing problems, but was deadlocked with respect to agreement on policy changes.”

Though the 1994 Commission process closed with a whimper, it had some success in advancing a new definition of an “entitlements crisis.” Throughout the commission process, great effort was directed at public education. Hearings were structured to maximize press coverage and to maximize the ability of the commission’s leadership to “get their message out” related to media events.

The dissemination of the computer game and later an impressive CD ROM (DOS, Windows, and Mac compatible) produced by the commission staff presented the leadership’s view of entitlements as a threat to the future. Very notably, the commission produced effective and attractive charts, designed to deliver simple messages — “Current trends are not sustainable”; “Falling private savings and rising government deficits mean less private savings available for investment”; “Federal spending on health is projected to triple by 2030”; “An aging population means fewer workers to support each retiree’s benefits”; “Social Security tax collections exceed current benefits, but are not enough to fund future promises,” etc. These charts, along with the commission’s computer game, CD, and final report, were later widely distributed via websites and projects of groups such as the Business Roundtable and the Concord Coalition. They are still regularly referenced and reproduced in press and academic analyses of entitlement and Social Security issues.

Conclusions

Senators Conrad and Gregg are proposing to resurrect the 1994 Bipartisan Commission on Entitlement and Tax Reform. But this time, they want to put it on steroids.

Taking a page out of the 1994 commission leadership and two of its most active members — [former Commerce Secretary] Peter Peterson and Senator Gregg — Social Security is being defined, once again, as part of a unified entitlement problem. As in 1994, assessing the full range of options needed to deal with the Nation’s serious long-term structural deficits and growing debt, it seems secondary to marketing and, this time they hope, achieving radical change in Social Security.

If the operation of the 1994 Bipartisan Commission or the set-up of a November 10, 2009, Senate Budget Committee hearing are any indication, the proposed commission may be “bipartisan,” but it will be structured to achieve narrow, predetermined ends. At this recent hearing, all 10 witnesses testified in favor of the fast-track commission; requests to give testimony or distribute statements from organizations with different views were rejected. In short, there is no desire to risk having the normal congressional processes, public comment, differing views, or the facts get in their way.

Indeed, Senator Max Baucus was not exaggerating when he warned from the Senate floor on December 10 that “It is clear from their press release that Senators Conrad and Gregg have painted a big red target on Social Security and Medicare. That’s what this commission is all about. It’s a big roll of the dice for Social Security and Medicare.”

Moreover, the Conrad–Gregg proposal carries five serious risks:

Mischaracterizing Social Security as part of a unitary entitlement and Federal budgetary problem will ultimately make it more difficult to address a relatively simple policy problem, long-run solvency of Social Security. Strong opposition can be expected from those who see this framing as a fundamental threat to the well-being of many middle-aged and older persons who quite frankly are, and should be, concerned, even frightened, for their and their family’s economic security given job losses, and diminished housing and pension equity.

“. . . the proposed commission may be ‘bipartisan,’ but it will be structured to achieve narrow, predetermined ends.”

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As Senators Conrad and Gregg point out, the consequences of failure could be enormous. Having raised expectations, such failure may increase public cynicism and have deleterious impact with regard to bond markets.

A commission such as the one being proposed is likely to fail. Kent Weaver [of The Brookings Institution] suggests commissions are not likely to succeed 1) without substantial agreement between the Members of Congress and the President regarding the problem and the desired contours of a policy intervention; 2) if a portion of their members are unwilling to compromise; or 3) if a small group of legislators see political advantage in opposing the recommendations of a commission. Given the opposition of the Speaker [Nancy Pelosi (CA-D)] and many other powerful Members of the Congress, a fast-track commission, if enacted, may contain the seeds of its own demise.

A fast-track commission may derail health care reform. Proposing to put Medicare “into play” for a deficit reduction commission may upset the tenuous political compromises that have placed substantial savings from Medicare as a key element of health reform.

By threatening to vote against raising the Federal debt ceiling, senators supporting the Conrad–Gregg proposal are setting a dangerous precedent and incurring huge risks for themselves, their party, and the well-being of the Nation.

In sum, the Conrad–Gregg proposal threatens to implement an unprecedented and deleterious approach to Social Security policymaking. In functioning outside the boundaries of normal congressional review and by mischaracterizing Social Security, it would diminish the economic security of future generations of beneficiaries.

“. . . the Conrad–Gregg proposal threatens to implement an unprecedented and deleterious approach to Social Security policymaking.”

National Commission on Social Security Reform

Staff Members

The 1981–1983 National Commission on Social Security Reform was appointed by Congress and President Ronald Reagan in 1981 to study and make recommendations regarding the short-term financing crisis that Social Security faced at that time. Its report, issued in January 1983, became the basis for the 1983 Social Security Amendments, which resolved the financing problem and made many other significant changes in Social Security law. The following statement is from a November 10, 2009, hearing before the Senate Budget Committee on “Bipartisan Process Proposals for Long-Term Fiscal Stability.” It was submitted by the following commission staff members: Nancy J. Altman, J.D.; Merton C. Bernstein, LL.B.; Suzanne M. Blouin; Patricia E. Dilley, J.D., LL.M.; Elizabeth T. Duskin; Lori L. Hansen; Eric Kingson, Ph.D.; and Bruce D. Schobel.

This statement represents the views of eight individuals who helped craft and secure the enactment of the Social Security Amendments of 1983. Those amendments eliminated Social Security’s then-projected short-range and long-range shortfalls. Our involvement with the commission’s work may provide useful insights into the advisability of using a commission or task force to eliminate, as part of an effort to control the overall Federal deficit, the long-range shortfall now being projected for Social Security. Social Security’s current projected shortfall, it should be noted, is much less immediate and severe than the shortfall Congress eliminated 26 years ago.

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