

The Necessity and Impossibility of Entitlement Reform

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Democrats in Congress have **seized on recent comments** by Senate Majority Leader Mitch McConnell to accuse Republicans of planning to cut Social Security, Medicare, and Medicaid if the GOP holds onto power after the midterm election. If only it were so!

Alas, what McConnell actually said is the opposite of what Democrats are claiming. He didn't say Republicans will move forward with plans to reform entitlements if they win the election. Rather, he said they won't pursue such an agenda on their own because they fear the political consequences of doing so.

In an interview with Bloomberg News, McConnell **was clearly** trying to explain to disappointed fiscal conservatives why Republicans — with control of both Congress and the White House — have done nothing to get government spending, deficits, and debt under better control. McConnell argued, correctly but incompletely, that the primary problem in the federal budget is the steady and rapid growth in spending on entitlement programs over many years. He then conceded that the GOP won't do anything about this problem without the cooperation of some Democrats because an effort led by Republicans alone would be too politically perilous.

On these points, McConnell was speaking more bluntly perhaps than he had previously, but he wasn't breaking new ground. He is right that entitlements are the primary reason for the nation's fiscal challenges, and it's been obvious for some time that reform of the major programs will proceed either on a bipartisan basis or not at all.

So, instead of revealing a secret plot to cut social programs, McConnell was actually signaling to voters that Republicans aren't going to move forward with reform legislation unless some Democrats join them. In the current political environment, that's the same thing as saying nothing is going to happen. As the parties have become more polarized, many Democrats are now adamant that all entitlement adjustments are to be vigorously opposed. In fact, the energy in the party is focused on creating new entitlement commitments, not restraining existing obligations. Moreover, President Trump basically agrees with the Democrats that entitlement benefits should be off the table for consideration; he campaigned against serious changes to Social Security and Medicare benefits.

Taking all of this into account, it is obvious that Congress won't be passing entitlement reform legislation anytime soon. But that's not stopping Democrats from trying to use McConnell's interview to convince voters otherwise. It is a staple of Democratic politics to scare voters just before an election about supposed Republican plans to curb their Social Security and Medicare benefits. This political play has been run so many times that an election without such attacks is the exception, not the rule. McConnell's interview was all the excuse Democrats needed to run this tried-and-true play once again.

The heart of the Democratic argument is that McConnell confirmed what they have been saying over the last year: that Republicans cut taxes in 2017 knowing full well it would lead to larger budget deficits, which the GOP would then use as a rationale to call for cutbacks in Social Security, Medicare, and Medicaid to prevent a run-up in debt that Republican tax cuts had caused.

This line of argument is misleading at best. The 2017 tax law reduced tax rates for corporations and individuals, and will promote more rapid economic growth, [according to the Joint Committee on Taxation \(JCT\)](#). It will also lower federal revenues, by about \$1 trillion over ten years after taking into account the added revenue from higher growth. However, even if this tax cut had not been passed by Congress, the federal government would run massive annual deficits in the years ahead because of the growth in entitlement spending.

The Congressional Budget Office [projected](#) in mid-2017, before the tax law passed, that the government's annual deficits would widen to an average of 6.2 percent of GDP over the period 2028 to 2037, up from 2.9 percent of GDP in 2017, and that cumulative debt would climb from 77 percent of GDP last year to 150 percent of GDP in 2047. The rise in entitlement spending is the reason for these dismal projections. Last year, CBO expected combined spending on Social Security, Medicare, Medicaid, and the health insurance subsidies provided through Affordable Care Act (ACA) would increase from 10.4 percent of GDP in 2017 to an average of 15.2 percent of GDP over the period 2038 to 2047.

CBO's [new long-term projections](#), released earlier this year, show a somewhat worse fiscal outlook, in part because of the tax cut and the appropriations spending increase agreed to by Congress and the president earlier this year. But the basic story is the same as it was last year, and in fact is the same as it's been for a quarter century. The U.S. population is aging, and health-care spending is rising more rapidly than GDP. These are the factors that are driving up the federal government's retirement and health-care entitlement commitments. Tax cuts have nothing to do with this problem.

While McConnell was right that Republicans can't solve the entitlement problem on their own, his comments might lead some sympathetic listeners (however few they may be) to the false conclusion that Republicans really can't be blamed for large and growing deficits because they are essentially powerless to do anything about them.

But that's a misleading view of the current situation, too. The GOP is just as culpable as Democrats for the dismal fiscal outlook because the party engages in excessive and simplistic bombast on the budget when it is out of power and then wastes its time on distractions when it has the opportunity to make progress with incremental reforms.

In 2017, the Trump administration called for deep cuts in domestic appropriations that were intended to create the perception of fiscal restraint. The Republican-controlled Congress all but ignored the proposed cuts. In the end, Republicans worked with Democrats to raise appropriations for defense and non-defense accounts by a combined \$300 billion over two years. This spending isn't why the government is awash in debt, but the process by which it came about it is emblematic of Republican ineptitude on fiscal policy.

McConnell's comments have also revealed that Republicans wouldn't know what to do on entitlements even if they were inclined to pursue serious reforms. Making adjustments to Social Security and Medicare is a complex undertaking that will take many years to complete. It is not possible or advisable to change benefit commitments for those currently on the programs. Big changes will have to be applied prospectively, and the budgetary payoff will come in 15, 20, and 30 years, not before the next election. Further, the needed reforms must strengthen the programs and improve their ability to provide needed security for the elderly and the poor while reducing their overall expenses. The GOP is nowhere close to having an agenda that meets these objectives.

So, we are left with the following. Republicans say they know the problem is entitlement spending but won't do anything about it because they fear the Democrats. The Democrats respond by saying even a politician who thinks entitlement reform is necessary, but does nothing about it, should get thrown out of office. These are the leaders we have entrusted with putting the nation's fiscal affairs in order.

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