

The Politics of Entitlement Reform

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The year of 2016 is a particularly interesting time to be thinking about the politics of entitlement reform. It is a year when the Republican nominee for President has warned voters that “Crooked Hillary supports cutting Medicare and Social Security benefits. . . . She wants to knock the hell out of your Medicare and Medicaid and I'm going to save them.” This is not exactly where the Republican Party, the party that nominated Paul Ryan for Vice President, was in 2012.

We have not gotten here by accident. That the debate about entitlements has become so difficult to start – even within the party of entitlement reform – is a result of three distinct tensions that make gridlock our default starting point despite the time-sensitivity of the problem. These tensions in sum: the tension within our political system between two parties whose visions of reform are wildly at odds; the tensions within the parties when their leaders must accept concessions to reality, as their aspirational goals are tempered by actuarial tables; and the tensions between leaders in Washington their voters, who have almost no faith that reform will yield a better system. The challenge of achieving reform is therefore threefold, resolving all of these tensions together in the service of any reform vision.

Think of a balloon being squeezed in one part as it expands elsewhere. Often it seems to many involved in the debate that any progress on one front is not really progress at all.

This is the problem of entitlement reform: almost no one comes to the debate with the same assumptions about what the status quo represents, what sort of future would be preferable, or what trade-offs might be acceptable between now and then. Reform will prove difficult if not impossible so long as this remains true.

Understanding the Right

In a certain sense, one might say conservatives conceded the game on entitlement reform decades ago, accommodating themselves to the existence of programs they had hoped to kill at their inception. One might trace the moment of defeat to the 1980 presidential debate, when at the height of the conservative ascendancy within the Republican Party, Ronald Reagan used his famous “There you go again” line to deflect from Jimmy Carter’s mention of his past opposition to Medicare, arguing that he had always favored accomplishing the goals of Medicare, just through different means.

When even Ronald Reagan is unable to make the case that a particular entitlement represents government overreach, it’s a sign it has become baked into the cake of American life. But while conservatives today know better than to assume they can turn the public against longstanding entitlements such as Medicare and Social Security that have become embedded in each family’s lifetime financial planning, it is hard to make

the case for limited government and free markets without acknowledging the problematic nature of the programs we have inherited - and the benefits reform might bring.

This is not to say that the programs' insolvency is tangential to conservatives' broader philosophical objections. A choice-based Medicare system offering seniors options and price feedback would encourage saving and yield cost reductions where today's Medicare undermines both by encouraging indiscriminate consumption. An authentically private savings-based Social Security would orient beneficiaries to think first of themselves as savers in relation to the program rather than as passive beneficiaries, promoting, at least on the margins, the kind of sound financial planning that makes reliance on any additional old-age safety net less critical - and therefore reduces the pool of cases requiring additional federal support in a revised system.

So conservative entitlement reformers have tended to connect these issues where possible, aiming to merge the case for solvency and the case for structural reform to improve choice and competition for seniors. The embodiment of this sort of approach was Representative Ryan's premium support reform to Medicare, which would have offered seniors the ability to apply their Medicare dollars to the purchase of private health insurance plans of their choosing, with the ability to pocket savings so as to encourage cost-consciousness.

But the messaging can't always be so clean.

This is a particular problem for Social Security reformers. For Medicare, choice amounts to private provision of what is currently a government administered product: old-age health insurance. In the context of Social Security, though, the benefit in question is not a good but rather a check. Choice in this context cannot mean choice for the senior in the nature of the product received in old age; once he is a recipient the opportunity for choice in retirement savings has long passed. The possibility of choice is only available for those still accumulating pre-retirement savings. But this raises a problem: any effort to carve out private Social Security accounts from existing payroll receipts would create an immediate cash flow problem for the federal government and the Social Security trust fund, generating complications in guaranteeing benefits to current retirees too old to benefit from choice-based reforms themselves, who have already built their plans around the guarantees they assumed their FICA contributions established.

Intimidated by questions of how to make the financing work and unskilled in making the case for a choice-based vision of entitlements on its own merits, conservative reformers tend to trip over themselves in efforts to square the circle. As Peter Ferrara writes of his work on the Bush Administration's failed effort to reform Social Security: "Bush's White House staff in charge of the Social Security reform effort never understood the politics or policy of personal accounts, and proved ineducable on the subject. They were stuck inside the Washington Establishment box that insisted that Social Security reform was all about some combination of tax increases and benefit cuts. In deference to the President's campaign proposals, they lumped personal accounts on top of their tax increase/benefit cut conception of what Social Security reform was all about. ... Under the new White House conception of Social Security reform, personal accounts were 'the dessert' to make palatable the 'spinach' of benefit reductions."

Increasingly even the dessert has been absent from the menu offered by the right, and many entitlement reformers have chosen to abandon the effort to emphasize choice first and foremost. Some, like Andrew Biggs, have called for narrowing the program's financial commitments in the long-term without undermining its short-term cash flow by reorienting Social Security to function more as a welfare program for the neediest seniors and finding ways to encourage those of the means to save to do so on their own. Others, like Governor Chris Christie, have succeeded in carving out images for themselves as extreme entitlement reformers on a platform of little more than actuarial tweaks to factors like eligibility age.

From a budget-cutting perspective there is surely something conservative about these approaches to entitlement reform, and the call to "save" these programs from themselves for those who need them most has political utility, transforming the "spinach" of entitlement reform into the dessert for those seriously concerned that these programs may not exist at all in their present form. But the goal of choice has clearly taken on a role of secondary importance in some corners of the reform community.

Understanding The Left

As on the right, there are those on the left who do believe in entitlement reform. But the left's is a different vision, and liberals face internal tensions all their own in thinking through the problem.

As an illustrative example of the left's approach to reform, take the ideas proposed by the Center for American Progress, which sees our entitlement system as too porous, not too far-reaching, too generous to those who do not need generosity, not progressive enough to balance the needs of the especially poor with the means of wealthier retirees. Its solutions therefore bear a different emphasis. Where the right sees a system in crisis, built on mistaken goals that must be pared back and mistaken assumptions that must be corrected, groups like CAP retain the ambitions of the architects of our system. Their emphasis is generosity first - building a system that can meet its social welfare ambitions, with financing issues serving as instrumental considerations, not central problems.

The progressive vision is most obvious when it comes to Medicare reform, for Medicare is the classic technocratic problem: a program built to solve an acute need, poverty among the elderly, that has come to dominate an enormous proportion of spending in a massive sector of the economy. Thus the left's emphasis in Medicare reform is on sound management of that economic sector - for example, the reining in of "excessive payments" evidenced by healthy provider profits on Medicare patients. Invariably the drive for efficiency entails some concession to the reality that markets do drive efficiencies, and the CAP plan embraces competition in areas like bidding for medical equipment. But these proposals envision markets merely as a means to achieve highly prescriptive targets set by government - for example, bonus dollars for states for hitting Medicare spending targets modeled on Obamacare's "accountable care organization" cost goals. And while the CAP plan often diagnoses precisely the right problems - for example, the inefficiency of fee for service care - its approach is to prescribe particular

remedies like expansion of mandatory inpatient hospital services. The insurance market itself cannot be trusted to drive innovation.

CAP's major consumer-facing financing reform - increased Medicare premiums for high earners - reflects its approach to Social Security, a program where cost problems cannot be erased merely through efficiency. Again, unlike Medicare, Social Security is a government-provided service; it is a cash transfer from young workers to old beneficiaries. The major variables are money in and money out, and absent structural reform, its sustainability depends on which side is tweaked, and how.

On Social Security, the group proposes increasing the program's minimum benefit and benefits for seniors 85 years and older, improving survivor benefits, and to address old-age poverty, progressive indexing of benefits to reduce the relative growth in benefits for high income earners. But acknowledging that "Americans are doubtful about Social Security's future, especially its ability to pay full promised benefits," the group proposes increasing the cap on payroll taxes and imposing payroll taxes on the employer side for contributions to so-called "cafeteria plan" benefits.

There is overlap here with conservative entitlement reformers who care primarily about making the numbers add up rather than market-oriented program restructuring - overlap in openness to treating these programs as welfare initiatives first, not universal entitlements, though on the right the emphasis is narrowing the programs' scope while on the left the emphasis is on increasing generosity in needy populations. But the CAP approach is not universally shared on the left, a fact that reveals deep tensions between the left's aspirations for entitlement reform and the realities within which it must achieve them.

For many on the left, entitlements are not merely a system of redistribution or income security. They are a system of social solidarity. Progressives look to countries like Denmark and see a model of generous universal entitlements that bind the people of their countries together, strengthening both internal comity and public support for program financing. As Joseph Stiglitz argues, "We don't means-test public education because we believe that we want people to have the same opportunities and we lose out on that with means-testing." Ideas like means testing that call that universality into question are therefore anathema to some on the left, transforming the politics of universal entitlements into the politics of welfare.

These progressives would do well to listen to Hillary Clinton, who notes correctly that "We are not Denmark." Our international obligations are different; our social cohesion is lower; we are larger and more diverse. We face circumstances all our own. But the argument for opposing reforms that might call entitlements' politically potent universality into question is powerful given the left's commitment to insulating these programs from public skepticism. Better, these progressives believe, to increase buy-in to the system through generous universal benefits. Addressing program financing should be simple: as Paul Krugman argues, "if you want the well-off to pay more, it's just better to raise their taxes."

The Challenges Imposed By Trust Fund Accounting

One important constraint that informs the tensions I've described on both right and left is that both sides must operate within our system of trust fund accounting – a system whose distortions of our actual budget situation make both the program expansion the hard left would prefer and the choice-based reforms the right might hope to offer extremely difficult to achieve.

The trust fund system has had three major effects on the politics surrounding these programs. First, it has contributed greatly to the perception that these are earned benefits financed by real reserves accumulated personally by individual recipients, despite the fact that the programs are funded in fact on a pay-as-you-go basis and that recipients tend to receive far more than they contribute; second, it has weakened the government's overall fiscal standing, therefore weakening our entitlements themselves by undermining government's long-term capacity to finance their imbalances; third, it creates a perception that the United States has money to spend that we do not, in fact, have.

Social Security and Medicare are dependent on trust funds supported by payroll taxes over Americans' working lives. But these trust funds are accounted for within the unified federal budget, so called because it unifies trust fund and non trust fund financed programs. (Social Security is technically off-budget, but its finances tend to be included in the government's bottom-line aggregate budget totals, silly as that may seem.) These trust funds are more accounting convention than lock box; trust fund surpluses are deposited in the Treasury, and the funds themselves record IOUs on their ledgers. When the IOUs run out, the programs are legally incapable of providing benefits along their statutory schedule, but this is a matter of convention, not physical reality. There is no massive Social Security vault in Washington carting out dollars to recipients until its coffers dry up. Thus these programs do not merely contribute to our nation's fiscal bleeding on their dates of insolvency; they do so the moment they begin running annual shortfalls independent of the rosy estimates of their IOU records.

As my colleague Jacob Reses has written, drawing on the long-term statistical analysis of economists like John Shoven and Sita Nataraj, the general effect of this financing scheme has been to diminish aggregate federal deficits in the boom years thanks to surpluses for programs like Social Security, thereby facilitating increased spending by taking pressure off of Washington to exercise fiscal restraint. As a result of that runaway spending, in our present moment, with these programs' bust years already here and deficits sky high even independent of their future shortfalls, the government is in no position to pay the tab for the promises made over decades.

Finally, our entitlement financing through the unified federal budget poses another challenge, even having already done significant damage, and not only because it tells us we have assets left to spend for years on these programs that do not, in fact, exist. It makes the potential savings that might be yielded through necessary work of entitlement reform appear to be a piggy bank for politicians eager to further *increase* spending. Such was the case in the passage of Obamacare, whose new spending was in large part offset by hundreds of billions of dollars in projected Medicare savings - savings that were

simultaneously claimed as a boon to the Medicare trust. As Reses writes, “even with the bust years imminent, [the unified budget] still gives politicians the opportunity to double-speak in the service of expanding bloated entitlements we cannot afford, claiming that they are ‘saving’ these programs in the course of raiding their supposed ‘trust funds’ to finance other new expansions of the welfare state.”

Generally, Republicans perform well when situated at the nexus of their voters’ desire to preserve “earned benefit” entitlements and the left’s drive to create new redistribution programs, channeling their base’s broad distrust of government and desire to defend the benefits they believe they have earned into a concrete opposition to programs such as Obamacare. The law’s “raid on Medicare” was central to Republican messaging against the health overhaul in 2010 and 2012, and for good reason: it was true.

But this rhetoric serves to reinforce the prevailing - and false - assumption on voters’ part that the trust funds have real meaning, and that maintaining their balances is the essential task of entitlement policy.

That assumption is particularly counterproductive for conservative reformers of entitlements -- both budget hawks and structural reformers. For budget hawks, in arguing that reform is an urgent priority, they find themselves facing liberal critics who argue, seemingly backed by the official numbers of the programs’ trustees, that the day of reckoning is years out, that arguments to the contrary - that conflate the programs’ annual shortfalls with the broader deficit - are scaremongering. And for structural reformers, the problem cuts the other way: the fixation with trust fund balances makes talk of restructuring appear, itself, threatening to beneficiaries, who are bought in after years of FICA payments to the current system and unwilling to see these programs’ revenues diverted to alternative models.

But the model of trust fund accounting for these programs’ finances actually handcuffs both sides, not just one, in making their case. For liberals, the need to demonstrate that the programs can self-finance over an extended period clips their wings, making consideration of broad entitlement expansions politically fraught, as beneficiaries fear that new spending will crowd out old priorities dependent on the same sources of revenue.

For the left, to obsess less on programs’ capacity to self-finance within an outdated financing scheme would allow it the freedom to pursue its ambitions for a more robust universal net for retirees; for the right, it would allow serious consideration of ideas like Social Security carve-out accounts for younger Americans without drawing the ire of current retirees concerned they will lose what is coming to them.

But in our current trust fund debate, neither side can really get what it wants.

The Perspective of the Voters

A third important tension – in some ways a direct byproduct of our system of trust fund accounting - is between would-be reformers in our nation’s political class and the public,

which recognizes the need for entitlement reform in the abstract but is clearly quite skeptical of the solutions Washington is likely to pursue.

In polling conducted at the height of the controversy over the Ryan budget's Medicare changes in 2011, the public demonstrated clear knowledge that the status quo was unsustainable, with 67 percent indicating that they believed a crisis was either already underway or imminent within a decade. Yet the appetite for reform that same month was weak, with only 38 percent supporting complete entitlement overhauls or major changes. This is where the traditional view holds either that the American people are schizophrenic or aware of the incongruence of their views but just inter-generationally selfish. But there's a more charitable potential explanation.

These poll numbers are produced in an environment where trust in large institutions is plummeting and, particularly, trust in our political system is low.

Who is to say these voters are telling us they want to keep consuming rather than just saying they have little trust Washington will not squander whatever savings are produced?

Who is to say voters are unaware of the incongruence of their policy views rather than just utterly convinced the status quo is broken but any attempt by these politicians to fix it will result in a bigger mess?

This is particularly a problem on the right where the general cynicism of public institutions has become more acute this year. I remind you again of Donald Trump's publicly articulated skepticism of Paul Ryan's agenda of entitlement reform.

For some, the emergence of that cynicism is a surprise. The Tea Party, after all, was a movement foundationally committed to limited government and balanced budgets. But in 2016, many conservative voters embraced a candidate who openly campaigned against serious entitlement reform. The voters didn't seem to mind Trump's rebranding of single payer Medicare as a model for conservative health policy.

Why not?

The public may believe entitlements should be reformed, but between the left-right divides about the proper vision of reform and the general incoherence of our parallel-universes financing debate, Americans don't trust the motives or capacity of our institutions to do it properly. There is a reason Congress's approval rating has been capped by a 20 percent ceiling in recent years.

That those on the left with the most daring visions of expansionist reforms to entitlements would contemplate steps so radical - drop fragile fictions of self-financing trust funds built on fairly flat payroll contributions and treat them as we treat all other tax-the-rich redistribution schemes - would not surprise many voters.

They understand intuitively that both conservatives and liberals feel restrained by the limits imposed by the old system they find so appealing themselves, even as they grasp that this system of trust funds is unsustainable on its own terms. And that understanding - that unsustainable as the old entitlement structure may be, the political class feels little sense of obligation to voters who feel they are justified in expecting them to fulfill its implicit commitments - informs the deep cynicism in the country about entitlement reform.

Perhaps the best analysis of Tea Party attitudes on this question is a UCLA Ph.D. [dissertation](#) by Emily Ekins, a scholar affiliated with the Cato Institute. Ekins argues that “the main impulse underlying the tea party movement is a conviction that activist government helps the undeserving at the expense of the truly productive members of society.” Confronting other sociology indicating that Tea Party support for some entitlement programs over others boils down to in-group/out-group bias, Ekins acknowledges that traces of such attitudes appear in the data but are overstated by some. Drawing heavily on surveys, both original and conducted by public pollsters, of Tea Party attitudes, she argues, “When tests are properly conducted, preference for limited government [not in-group bias] is the strongest and most consistent predictor of tea party support.”

Why the seemingly dissonant attitudes on entitlements, then? The answer is rooted in the particular brand of conservatism espoused by Tea Partiers, whose “preference for limited government is itself primarily driven by a ‘reap what you sow’ conception of economic justice, rather than, as much tea party rhetoric proclaims, a desire for individual liberty.” It is a desire not for handouts to favored over disfavored groups but a belief in “basic economic fairness,” that those who work to support themselves see their efforts appropriately recompensed rather than have the fruits of their labors redistributed. On entitlements, Ekins found “tea partiers are in fact supportive of reforming entitlements if they can get back what they put in - consistent with a proportional approach - and are often more supportive of reform than those not supportive of the tea party movement.”

In polling conducted by the Reason Foundation, Ekins found empirical support for the significance of this view in explaining Tea Party skepticism of some models of entitlement reform. Only 51 percent of Tea Partiers surveyed supported cutting their Medicare benefits to address the federal deficit, with only 42 percent supporting reductions in their Social Security benefits toward the same end. But these support numbers jumped to 74 percent and 65 percent respectively when respondents were asked their view of reforms that would assure that they would receive at least the money they had contributed to the programs even after any cuts. The surveys also registered widespread support for opt-outs of both programs.

These are not big-government-for-me-but-not-for-thee views, nor are they unachievable preferences; our entitlement programs, financed on a pay-as-you-go basis in fact if not entirely in theory, pay beneficiaries far more than they put into these systems. As one Tea Party proponent of the take-reform-slowly approach told her, his primary concern was that “the people who paid into them should get something back out of them,” while another argued, “the fact is the people who paid in were forced to and they were promised and expected a *return* on that money.”

Ekins's research complements a 2012 Pew survey indicating that 77 percent of Republicans believe that "When something is run by the government, it is usually inefficient and wasteful." When voters already assume the worst about government management of major programs, proposals to cut spending to the detriment of beneficiaries can actually serve as confirmation of that prior, reinforcing notions of indiscriminate government slashing rather than prudent management. This research casts previous findings by polling firms such as Pew demonstrating differential attitudes among Republican voters between support for aid to the poor and for Social Security and Medicare in a new light. And it accounts for the generational divide between younger supporters of reform, who have not yet "paid in," and older opponents who have.

On the politics, the "reap what you sow" thesis makes coherent Republicans' emphasis in Congress on reducing food stamp waste and Medicaid spending over changes to old-age entitlements. But more fundamentally, it raises a problem, not a solution: For conservative elected officials who recognize that Medicare and Social Security are special cases but not sacred cows, the politics of bringing their Tea Party supporters along in the effort hinge entirely on persuading voters that their intentions are noble, that their reforms will be fair, and that they will not be squandered. And in the year of Trump, the trust on which such an understanding must be built is in shorter supply than ever before.

The Path Forward

For conservatives committed to entitlement reform, then, the urgent task is not to find common ground with a progressive left whose goals are entirely at odds with our own. Nor is it to find any and all tweaks that can be made on the margins of a system, which will feel to beneficiaries like an effort to nickel and dime them out of benefits they have earned.

Our goal should be the opposite: to close the trust gap among conservatives and the broader public, first by explaining with greater clarity the flaws of our existing system, and second by demonstrating our good intentions as reformers not to undermine their hard work but to give them and their children the opportunity to receive all that they have paid in, and more, without bankrupting the country. The model for such a conversation, as is often the case when it comes to entitlement reform, is the heroic effort undertaken by Paul Ryan over the early years of the Obama Administration to pair a message of structural reform with the effort to sound the alarm bells of an impending fiscal crisis, to convince seniors that our task is to preserve these programs for future generations in improved form, not to undermine what is already theirs.

Counter-intuitively, piecemeal efforts at reform actually complicate that conversation relative to more comprehensive ideas, maintaining the incoherence of our current policy mix and preventing serious explanation by policymakers of their real intentions in pursuing reform. In outlining more comprehensive reforms of our entire system, including changes both to specific spending programs to the tax code that finances them, we might better understand for ourselves, and explain to the country, what sorts of

changes would constitute real progress, and what changes would undermine our shared priorities.

Comprehensive reform need not be a quixotic call to end old-age entitlements altogether, nor need it be a total acquiescence to the left's model of government confiscation and prescription. It can begin on the understanding that our commitments must be met but that we must shed the fictions that expand them further beyond what is sustainable, with a recognition that the best way to do justice to those who pay into our system is to give them some measure of choice, but that choice alone is not enough to guarantee the security that has become the built-in expectation of our entitlement debate. The dance is complicated, and no balance is perfect, but balance is possible if we treat our reforms as interlocking steps, not sudden and separate leaps in different directions.

One model for such a comprehensive approach might be the Saving the American Dream plan offered by The Heritage Foundation in 2011. That plan addressed comprehensive tax reform, Medicare, and Social Security all at once. One benefit: in folding payroll taxes into a more broadly reformed tax system, it began the work of unwinding that longstanding assumption that payroll taxes are locked away in trust, available eventually to pay long-term obligations when in truth they will long before that have been spent down. Again, such a first step in theory is valuable both to conservative and liberal reformers, allowing both sides to talk honestly about our real priorities in providing entitlements like Social Security unshackled by budget fictions that have outlived their utility.

For conservative reformers like the scholars at Heritage, it opened the possibility of reframing our entitlements as real insurance against indigence, not as universal sources of old-age income. And because of this reframing of the program's priorities, the proposal was able to cut spending on Social Security significantly through means testing, and to do so honestly, presenting those reforms in the context of a broader reframing of the federally administered program's new goals.

But the proposal did not give up on the goal of enabling choice. It was not just one more scheme of confiscatory taxes and redistribution. In transforming Social Security into a safety net rather than universal entitlement, it saved enough to give something back to taxpayers paying into the system, returning to them their own dollars for personal savings mechanisms - freed from double taxation thanks to the plan's broader tax reforms. Choice, in other words, was not in the back seat; the refocusing of the federal Social Security program provided the space for choice to take its proper place in any conservative reform vision, front and center.

I don't mean to suggest the Saving the American Dream proposal is the only way or even the best way to reform Social Security and other old-age entitlement programs. One could quibble over any number of details, from whether to auto-enroll workers in any new savings vehicles to when to begin the process of transition from the old system to the new. And surely any new proposals will need to be tweaked to make them palatable given more modern budget realities, so that we can say honestly to as many seniors as possible that at the very least, they will get back out of a new system what they put into the old. But such decisions depend on basic, easy-to-understand tradeoffs both political

and mathematical, which can be debated openly and honestly once one understands the clear intentions of any reform plan's designers and the basic financial realities underpinning any new reform proposal. Such clarity is missing in today's debate, and any reform vision must seek to replace it, starting from a place of candor - candor that our old trust funds are meaningless, candor that despite this we have made real commitments, candor about the new direction in which we want to travel.

With candor will come opportunities that are less obvious so long as we continue playing the shell game forced on us by the flawed system of trust fund accounting - a system that suggests our status quo is more sustainable than is actually the case, and that unfairly biases the playing field against some ideas centered around choice and competition.

And with candor will come a more honest assessment on our own part of the nature of the alternative presented by the left - an alternative that should sharpen our arguments and help us explain the real choice available to the American people in the entitlement reform debate.

The work will not be easy. That is because the central task we have ahead is not to force our will but to generate consensus, to persuade. Only in doing that can we close the trust gap and make real entitlement reform possible.