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# MSW v. CW

Michael Sean Winters | Oct. 21, 2013 Distinctly Catholic

The conventional wisdom within the Beltway emerged loudly and clearly this weekend: The Democrats, led by President Obama, should reconsider a grand bargain on budgetary matters, not a small bargain, in an effort to reach agreement with the Republicans. The definition of ?grand bargain? seems to mean entitlement reform.

The editors of the Washington Post suggested that the Democrats should agree to a reform in entitlement spending in exchange for a GOP agreement to end sequestration, which mandates across-the-board cuts in discretionary spending. Ruth Marcus, an op-ed columnist for the Post, suggests that Democrats drop their demands for tax increases to pay for entitlement reforms. This morning, Robert Samuelson joins the chorus, offering the hope that ?huge savings can result from modest shifts in eligibility requirements and benefit levels.? Wrong. Wrong. Wrong.

There is no doubt that the government?s long-term debt problem is driven almost completely by our aging population. Consequently, programs that target the elderly such as Social Security and Medicare, need adjustment. But, there are two ways to adjust an entitlement program: You can curtail benefits or you can increase the revenue stream that pays for the benefits. Democrats should agree to a modification in the benefit structure only, repeat only, in exchange for a modification in the funding structure.

Whatever changes to entitlements are put on the table, a couple of things need to be kept in mind. First, many Americans are living longer and many Americans can no longer count on guaranteed pension benefits from their jobs. 401(k)s are volatile, but they also may not have been structured to provide income in to a retirees? late 80?s or 90?s. So, a relatively modest and seemingly innocuous change in the cost-of-living adjustments to Social Security may work for those aged 65-85, when they have supplemental income from their retirement accounts, but could prove very painful for those who live longer and exhaust their retirement savings. Some version of a two-tier system of benefits needs to be considered.

Second, there is simply no way to solve the nation?s budget problems unless we find a way to control health care costs. It is hoped that the Affordable Care Act will help restrain the exploding cost of health care and, consequently, the untenable cost of Medicare and Medicaid. It is scandalous that our nation spends so much and gets so little for its spending in terms of health care results. Most of health care spending comes in the last six months of a person?s life and, Lord knows, no one wants to tell their Mom that there is no money to pay for that expensive surgery that may extend her life by a few months. But, I do sense that there is a cultural sea change in people?s attitudes to the dying process. More and more people recoil from the idea of being hooked up to a bunch of machines in their final months. This realization could lead us down a dark path, towards legalized euthanasia, or it could lead us down a more spiritually healthy path, one already being charted by hospice. I have known many people who have entered hospice in the last months, and not one has complained, nor have their families.

Third, the funding structure for entitlements remains highly regressive. Payroll taxes are regressive to begin with, but the Social Security tax is even more so because the tax only applies to the first $100k or so of income. Lifting the cap would make it more equitable, to be sure, but doing so would not only unite Republicans in opposition, it would force President Obama to break his pledge to not raise taxes on those making less than $250k. Negotiators could provide a doughnut hole, but it still makes no sense to expect a poor elderly person to accept fewer benefits so that someone making $175k will not see her taxes go up.

President Obama called for action on three items the morning after the shutdown: the budget, immigration reform and a farm bill. These last two have the added benefit for Obama of dividing the Republican Party. But, if you want to unite Republicans, suggest a tax increase. The same proposal is likely to divide Democrats. What then should we do on the budget?

I would set entitlements aside until sanity returns to the GOP and they are willing to exchange a benefit cut for a tax increase. Until that time, Democrats and Republicans should turn their attention to tax reform. Simplifying the tax code has always garnered wide bipartisan support and the last major whack at the tax code was in 1986. It is time to greatly simplify the code, eliminating special tax treatments, and lowering rates. Not the last word there ? lowering rates. One of the ways to help fix the government?s long-term fiscal issues is to lower the rates gradually over, say, three to five years. It is still a tax cut, even in the first year, for the vast majority of companies. Only those companies that get obscenely generous treatment from the tax code might see their rates go up for a year or two before reaching equilibrium when the lower rates are fully implemented. Whatever additional savings are generated should go into the Social Security trust fund.

If the President were to work out an agreement for major tax reform with the GOP, he might lay the groundwork to pass immigration reform and the farm bill, both of which are urgent matters. The long term economic advantages of immigration reform are also likely to improve the budget picture. But, as for entitlements, ne touche pas!

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