

UPDATE

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THE BUDGET SUMMIT AGREEMENT: PART IV THE MYTH OF ENTITLEMENT REFORM

(Updating *Backgrounder Update* No. 142, "The Budget Summit Agreement: Part III, No New Taxes Needed" October 3, 1990; *Backgrounder Update* No. 141, "The Budget Summit Agreement: Serious Damage to the Economy, Part II," October 2, 1990; *Backgrounder Update* No. 141, "The Budget Summit Agreement: Serious Damage to the Economy, Part I," October 1, 1990; and *Backgrounder* 787, "Rx for the Federal Deficit: The Four Percent Solution," September 4, 1990.)

George Bush and congressional leaders are urging proponents of fiscal responsibility to support the budget summit agreement. Their reason: the benefits of alleged savings in entitlement spending outweigh the economic cost associated with the largest first-year tax increase in America's history. The entitlement savings, however, turn out to be a mirage, while the tax hike is very real. The few genuine savings in the agreement are more than outweighed by tax increases and budget gimmicks masquerading as entitlement reforms.

Among the provisions spuriously claimed to be entitlement savings:

- ◆ Medicare savings are said to produce \$4.6 billion of savings in 1991 and \$60 billion savings over the five year period. In reality, these "cuts" are simply reductions in already projected increases. Actual Medicare spending will still climb by at least \$15 billion between 1990 and 1995.
- ◆ A large portion of the Medicare "savings" are not savings in outlays at all. They are accomplished by raising the monthly premium that senior citizens must pay into the Medicare system. This would rise from less than \$29 today to more than \$54 in 1995. The billions of dollars in new revenue from this provision are counted as a "spending cut."
- ◆ The agreement eliminates the lump sum civil service retirement option, which allows retirees to withdraw part of their pension in a lump sum payment disbursed over two years. Doing away with this option "saves" \$1 billion in the first year and \$8.1 billion over five years. But total spending on these pensions remains unchanged over time. Thus while the Administration portrays this provision as a fundamental reform in entitlement spending, there are no permanent savings as a result of this change. All that changes in the entitlement is the timing of the payoff.
- ◆ A budget gimmick enacted last year moved the U.S. Postal Service (USPS) off-budget because the USPS annual operating deficits were raising the overall budget deficit. This year's budget agreement adds to the gimmickry by requiring the Postal Service to transfer to the Treasury nearly \$700 million in 1991 and almost \$5.4 billion over the next five years. Since the Postal Service is now off-budget, this provision generates a paper savings even though the ac-

tual overall financial obligations of the federal government are unchanged. Thus, the sum-miteers would take money from a loss-making government institution and pretend that doing so would reduce the deficit. Postmaster General Anthony Frank correctly referred to this sleight-of-hand as a "stamp tax," since the Postal Service would have to raise stamp prices by five cents to make up for the lost funds. To add insult to injury, these revenues transferred into the Treasury are counted as a "cut" in entitlement spending.

- ◆ Unspecified changes in veterans programs are assumed to yield \$500 million in savings in 1991 and \$2.7 billion in savings over five years. Specific policies are not listed, however, raising serious doubts as to whether the savings will actually be forthcoming.
- ◆ The \$13 billion savings, over five years, supposedly coming from farm subsidy programs is similarly vague. The agreement "presume[s] that these savings would be achieved through a combination of target price and/or base acre reduction programs." If past agreements are any guide, these savings will fail to materialize.
- ◆ The agreement claims \$600 million in 1991 savings and \$3 billion in savings over the next five years from "Miscellaneous Other Mandatory – Entitlements/Fees." There is no suggestion as to how these phantom savings will be realized other than asserting the negotiators will present them at some later point.
- ◆ It turns out that \$14.2 billion of the five-year "savings in entitlements" actually comes from new revenue generated by establishing or increasing 17 different "user fees." A large number of these provisions are of course little more than hidden tax increases.

All told, at least \$36.5 billion of the supposed "real savings" from entitlement programs actually come from either new revenues or budget gimmicks. Another \$23.8 billion of the total is unspecified, optimistically relying on congressional committees to produce real savings.

Even if the negotiators were truthful in claiming that their proposed changes did affect entitlements, the misleading current services budget that is used as the benchmark in the budget agreement means almost all the entitlement "cuts" would be no more than reductions in projected increases. Under the agreement, actual entitlement spending will jump from \$523 billion in 1990 to more than \$715 billion in 1995, increasing at an annual rate of 6.5 percent. Thus once the phony reforms and hidden taxes are eliminated from the calculation, it is clear that the budget agreement completely fails to rein in the expansion of entitlement programs.

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