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The Wolf SAFE Commission Act: A Chance to Get the Budget Back on Track

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The recent Mid-Session Review by the Office of Management and Budget underscores the facts that sensible tax reform stimulates the economy and that faster growth swells revenue to the government as a byproduct of new jobs and extra income for Americans. The review also confirms the overall, disturbing long-term budget picture indicated in the Congressional Budget Office's (CBO) long-term forecast. Under current law, both taxes and spending will rise rapidly during future decades towards European levels, with an ever-growing government taking a larger and larger proportion of the nation's income and threatening America's future economic growth. Decisive action is needed.

But faced with this threat, Washington is paralyzed. Rather than seriously tackling the tsunami of entitlement spending that will hit the budget after the baby boomers begin to retire, Congress actually made the situation far worse by enacting the huge Medicare prescription drug benefit. And while the Bush tax reforms have significantly helped in the short term, even if made permanent they would shave only about one percentage point from the future growth in taxes. Absent any additional reforms, the CBO forecasts that, with the Bush tax cuts extended, federal taxes will top 20 percent of GDP by about 2025 and approach 23 percent of GDP by 2045. The historical average, and today's level, is just over 18 percent of GDP.

With Congress polarized and paralyzed, some Members of Congress, along with President Bush, are exploring the idea of a bipartisan commission as a way to break away from the path of rapidly rising spending and taxes. President Bush pressed for an entitlements commission in his State of the Union address. Senator Judd Gregg (R-NH) has sponsored legislation (S. 3521) that includes a commission to review the long-term solvency of Social Security and Medicare. Meanwhile, Representative Frank Wolf (R-VA) has crafted a commission bill ("The SAFE Commission Act," H.R. 5552) specifically intended to win bipartisan support for bold action to secure the country's fiscal and economic future. Senator George Voinovich (R-OH) has introduced that bill in the Senate (S. 3491).

Commissions can help break a political logjam. They can also become vehicles for action that achieves a short-tem political fix and yet does little in the long term or even makes things worse. So the political dynamics and mandate of a commission are critical. Fortunately, the Wolf commission bill recognizes these facts of political life and offers real

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hope for sensible action. A reason for this is that in its instructions to the commission, the bill wisely combines reform with fiscal changes in a manner that could achieve a breakthrough.

The core of the fiscal problem is the sharp projected rise in future entitlement spending, especially spending on programs for middle-class retirees. Contrary to many people's perception, taxes are not falling—as noted, taxes are projected to rise steadily to record levels under current law, in real terms and as a percentage of GDP. Still, in today's political deadlock many lawmakers maintain that tax revenue must be part of the equation if they are to have the political "cover" to accept curbs on popular entitlements.

But for good reasons, conservatives strongly resist the idea of raising taxes. For one thing, taxes are not the problem—spending is. Moreover, raising tax rates or instituting new taxes would threaten economic growth, compounding the economic harm associated with government spending. Further, raising taxes likely would reduce the pressure on Congress to curb spending or, worse still, encourage lawmakers increase their spending promises.

The Wolf bill seeks a solution to this political equation. It creates a bipartisan commission intended to address the "unsustainable imbalance" between federal commitments and revenues while increasing national savings and making the budget process give greater emphasis to long-term fiscal issues. While the commission could consider a range of approaches, the bill places emphasis on two: reforms that would limit the growth of entitlements while strengthening the safety net and tax reforms that would make the tax system more economically efficient and improve economic growth. The commission would hold public hearings around the country to discuss the long-term fiscal problem, and its recommendations would receive "fast-track" consideration by Congress.

By combining a slowdown in entitlement spending with reforms to strengthen assistance to the needy, a commission proposal could win support of liberals and others who worry that surging middle-class retiree spending in the future will crowd out safety net spending. And by placing an emphasis on pro-growth tax reform, a commission proposal could also lead to some additional revenues not by raising taxes but thanks instead to faster economic growth—just as the Bush tax reforms produced the recent sharp increase in federal revenues. Combining these features in a commission proposal could lead to a package that conservatives, liberals, and moderates all believe would advance their agendas—a necessary result for an economically sound agreement to succeed in a polarized Congress.

Some might argue that appointing a commission to address the long-term fiscal situation is an abrogation of responsibility by Congress. In an obvious sense, it is. But the Wolf bill also shows that lawmakers recognize that America's budgeting system is broken and in the current environment cannot lead to a responsible long-term federal budget. Representative Wolf's commission proposal seeks to alter those destructive dynamics in order to secure a sound economy for future generations.

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