

# WebMemo



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## The Debt Commission, Health Care, and Obama's Budgetary Game Plan

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When the President's National Commission on Fiscal Responsibility and Reform (commonly referred to as the "debt commission") held its first official meeting in April (the second meeting was held last week), all of the talk was of getting serious about putting the nation's fiscal house in order and that everything would be "on the table" for consideration.<sup>1</sup>

Unfortunately, the timeline for the United States to take corrective action may have already been shortened in just the past few weeks. What began as a slow-motion crumble of Greece's economic house of cards has now quite clearly become the triggering point for full-fledged examination of the risks posed by massive increases in governmental debt combined with aging populations around the developed world. No country is exempt from the scrutiny of the bond markets, including the U.S. Moreover, if Europe's economy slides back again into a deep recession as the debt crisis spreads, no part of the global economy will be completely spared from the fallout, including the U.S. The new health care law will only worsen the nation's fiscal situation, and despite President Obama's claim that "everything is on the table," it is clear that the Administration wants to lock in Obamacare and force the commission to look elsewhere.

**Stacking the Deck.** Given the serious risks to growth posed by rising debt and continued deficit spending, one might have thought that the first order of business for a newly elected President of the U.S. would be to address the budgetary challenge and put the nation's fiscal house in order. But

that was not what happened when Barack Obama was sworn in as the nation's 44th President in January 2009. Instead, he chose to spend all of 2009 and the early part of 2010 pressing Congress to pass the largest entitlement expansion in decades.

The Administration's decision to press for an expansion without a clear and credible plan to rein in cost escalation proved to be highly polarizing. In the end, the health law passed with votes entirely from the President's political party.

Now, with the health legislation signed into law, the President says he wants bipartisan cooperation on a budget plan, which is the reason he created the debt commission. Commission recommendations require approval from 14 of the 18 members. President Obama and his congressional allies chose 12 of the commissioners. Thus, if these appointees agree on recommendations, they need only two Republican appointees to secure a formal recommendation from the full commission. If the Republican appointees do not agree to such a plan, one can expect to see the Administration blame "stonewalling by the minority."

The commission's reporting deadline is December 1, 2010, a few weeks after a critical mid-term

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election. Consequently, voters will not have the benefit of seeing the panel's proposed tax hikes and benefit cuts prior to casting their ballots this November. Candidates for House and Senate seats will thus have a convenient excuse for not taking a stand on the budget and tax hikes: They can simply say they are waiting to see what the commission recommends before stating their views.

**The Budget Debate Is Still a Health Care Debate.** For the commission itself, the elephant in the room is still health care—and specifically the recently enacted health care law. Former Senator Alan Simpson, the co-chair of the commission, says the President's statement that "everything is on the table" means the new health entitlement program can be revisited by the panel's membership.<sup>2</sup> That is good, if the President really means it.

On paper, the new health law makes large cuts in Medicare. But all of the supposed savings (which the Chief Actuary of the program doubts can be sustained<sup>3</sup>) would go toward standing up the new entitlement program that costs even more than what will be saved in Medicare. So, health entitlement spending will expand if the new health law is allowed to become operational.

Moreover, the Medicare savings are from arbitrary payment rate reductions. White House Budget Director Peter Orszag says the health law lays the predicate for cost-control through painless efficiency improvement in the delivery of medical services.<sup>4</sup> But there is no evidence to support that contention. The "delivery system reforms" in the legislation are at best small pilot projects. CBO assumed no savings from them, and neither did the Chief Actuary of the Medicare program.

The real cuts in Medicare in the new health law come from reductions in payment rates. The cuts apply to all providers across the board. There is no attempt to calibrate based on the quality of care or performance. If the debt commission takes the new health law as a given when looking for additional savings in health care, they will inevitably fall into the same trap. To find quick and "scoreable" savings, the easiest thing to do will be to further ratchet down payment rates and pretend the cuts will solve the budget problem. Going down that road would be a disaster for the quality of American medicine, as it would drive out willing suppliers of medical services and thus lead to access problems.

**A Budget First, Then Health Care.** President Obama is of course trying to lock in his health care ambitions even as he is also trying to maneuver his political opponents into cooperation on a budget plan that incorporates the massive new health spending obligations he favors and pushed through Congress. Republicans should insist on an entirely different sequencing. To get agreement on a bipartisan budget plan, health care has to be bipartisan, too.

That means starting over on health care, repealing what has been passed, and building a bipartisan health care reform program into a larger budget plan that does not add to the deficit. In other words, the President cannot expect to get broad bipartisan support in Congress for a budget that locks in place the just-completed and highly partisan health care plan, which would remake one-sixth of the economy. It just does not work that way.

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1. See Jackie Calmes, "Obama Tells Debt Commission 'Everything Has to Be on the Table,'" *The New York Times*, April 27, 2010, at <http://www.nytimes.com/2010/04/28/business/economy/28fiscal.html> (June 1, 2010).
2. Christina Bellantoni, "Debt Commission Leaders: Everything—Even New Health Care Law—on Table for Cuts," Talking Points Memo, April 26, 2010, at <http://tpmdc.talkingpointsmemo.com/2010/04/debt-commission-leaders-everything---even-new-health-care-bill---on-table-for-cuts.php> (June 2, 2010).
3. Richard S. Foster, Chief Actuary, Centers for Medicare and Medicaid Services, "Estimated Financial Effects of the 'Patient Protection and Affordable Care Act,' As Amended," April 22, 2010, at [http://www.politico.com/static/PPM130\\_oact\\_memorandum\\_on\\_financial\\_impact\\_of\\_ppaca\\_as\\_enacted.html](http://www.politico.com/static/PPM130_oact_memorandum_on_financial_impact_of_ppaca_as_enacted.html) (May 28, 2010).
4. Walter Alarikon, "Orszag: CBO Lowballs Savings from Obama's Healthcare Reform," *The Hill*, April 11, 2010, at <http://thehill.com/homenews/administration/91527-orszag-cbo-underestimates-savings-from-obamas-healthcare-bill> (June 2, 2010).