

BROOKINGS

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Both Democrats and Republicans Must Convince Americans that Medicare Is Unsustainable

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Over the past decade, both Democrats and Republicans have pushed major initiatives to restructure our health and entitlement systems, arguing that significant changes were necessary in order to keep them afloat. So far, their proposals have consistently lurched too far either to the left or to the right of the median voter, and they've paid for it dearly each time at the polls. But both parties are right about one thing: The status quo *is* unsustainable. And until they can persuade average voters of this basic fact, the chances that our country will rise to meet this latest challenge look grim.

In 2004, President George W. Bush interpreted his reelection as a mandate to take on Social Security. Middle-of-the-road voters who had given Republicans their majorities in 2002 and 2004 didn't agree, and they administered a stinging rebuke in the 2006 midterms. When Democrats regained unified control of the executive and legislative branches in November 2008, they took their success as a license to expand the size and scope of the federal government beyond what coping with the financial crisis required. Again, the voters in the middle didn't agree, and they handed Democrats their worst midterm drubbing in decades.

Now this cycle of over-reaching is recurring yet again. Incoming House Republicans interpreted their victory as a mandate to dramatically shrink the size and scope of the federal government, and they voted for the Ryan budget with near-unanimity. Then came their defeat in New York's 26th congressional district, a long-time Republican seat once occupied by Jack Kemp.

In January 2010, most Democrats attributed Scott Brown's senate victory to the flawed personality and tactics of their party's nominee—even though Brown had placed a single national issue at the center of his campaign. They learned last November that public discontent ran far deeper than that. In the wake of NY 26, some Republicans have been tempted to repeat the Democrats' mistake, claiming that the phony Tea Party candidate drained support from their candidate. (If anything, the evidence suggests the reverse: The self-styled Tea Party candidate was a three-time former *Democratic* nominee for the seat, and as his support collapsed in the final weeks of the campaign, most of it went to the Democrat.)

Wiser Republicans know better: The central issue in the campaign was Ryan's Medicare proposal, and that's why they lost. But they still haven't faced the full truth. In the previous cycle, Democrats made two claims: Republicans were misrepresenting their health care plan, and the people would change their minds when they learned more

about it. The first was true, but the second wasn't, and surveys show that it still isn't. Now Republicans are offering the same two claims, and again, while the first is true, the second isn't. The unpopularity of the Ryan Medicare proposal reflects a public judgment about its substance that isn't likely to change very much. If Ryan himself had been running in NY 26 this year, he might have lost. And I don't see how Republicans can "reframe" the unpopular facts away by next year. Just how, exactly, do you spin a plan that over the next two decades, according to CBO, will shift more than two-thirds of total costs to future Medicare beneficiaries?

But Democrats made a third argument in favor of their health care reform: The status quo wasn't an option, and the Republicans hadn't offered a serious alternative. They were right. Now Republicans are saying the same thing about Medicare, and they're right too. Democrats haven't faced the hard truth that the current program isn't close to being sustainable and that we've run out of easy answers. But don't take my word for it; read [the 2011 report of the six Medicare Trustees](#), four of whom are members of Obama's cabinet.

One of its findings has been widely reported: The Medicare Part A (Hospital Insurance) Trust Fund will be exhausted in 2024, five years sooner than the 2010 report anticipated, and that Medicare's long-term deficit has increased. Believe it or not, that's the good news. The Trustees emphasize—firmly and repeatedly—that they are required to base their projections on current law, key provisions of which are unrealistic. In the first place, current law mandates a 29 percent cut in reimbursements to physicians as of January 2012. Congress has overridden similar requirements every year since 2003, and few expect a different outcome this time around. Second, current law assumes unprecedented improvements in health care productivity, resulting in significant reductions for Medicare outlays. The Trustees cite the "strong possibility" that these productivity gains won't materialize and that "actual future Medicare expenditures are likely to exceed the ... projections shown in this report, possibly by quite large amounts." The alternative, they say, is inadequate reimbursements to hospitals, nursing facilities, and home health agencies that would force 15 percent of them to run at a loss by 2019. In that case, they would have to "withdraw from providing services to Medicare beneficiaries, merge with other provider groups, or shift substantial portions of their Medicare costs to their non-Medicare, non-Medicaid payers."

Many Democrats are dead-set against cuts to Medicare beneficiaries. The Trustees find that even using the assumptions of current law, closing the gap with revenues alone would require an immediate increase of 24 percent in the tax rate. Using assumptions they regard as far more realistic, that figure rises to 74 percent. (Conversely, closing the gap by reducing benefits would require a cut of 17 percent, assuming current law, or 36 percent with more plausible assumptions.)

It's much harder to save Medicare with revenues than it would be for Social Security. First, while there's a cap on taxable earnings under Social Security that could be raised or eliminated, there's no such cap for Medicare. Second, starting in 2013, high-income taxpayers are already scheduled to pay a healthy surtax of 0.9 percent on everything they earn above \$200 thousand (for individuals) and \$250 thousand (for married couples.) And as the Trustees point out, because these thresholds aren't indexed for inflation, more and more workers over time will end up paying the higher rate.

Benefit-cut averse Democrats might concede, of course, that there is a problem, but we have more than a decade to solve it. In the meantime, we still have the Hospital Insurance Trust Fund to keep the benefits flowing. But there are two difficulties with this strategy of delay. First, with every year of inaction, the problem gets bigger and the options less palatable. And second, as the Trustees point out, the Trust Fund is an accounting device with real-world fiscal consequences. The Hospital Insurance part of Medicare is already paying out more in benefits each year that it receives in revenues, and the difference is made up by interest earnings on trust fund assets and by redemption of

those assets. But because those assets are in fact U.S. government debt obligations, “Both of these financial resources for the HI trust fund require cash transfers from the general fund of the Treasury, placing a further obligation on the budget.”

If Ryan’s proposal is unacceptable, but the status quo is unsustainable, what is to be done? To begin answering that question, we can’t do much better than taking [the bipartisan Domenici-Rivlin proposal](#) as our point of departure and figure out ways of refining and improving it. But there’s a huge stumbling-block at the threshold: *the American people don’t believe that the status quo is unsustainable*. Until they do, they’ll reject not only the Ryan plan, but also alternatives that are far more balanced and less draconian. So both political parties face, and cannot avoid, the bedrock challenge of every democracy: persuading the people, who are the ultimate arbiters of what’s possible, to accept a bitter truth and its necessary consequences.