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Opinions

A fair trade for entitlement reform includes increased revenue



(J. Scott Applewhite/Associated Press) - The Capitol on Oct. 14.

By Kent Conrad, Published: October 24, 2013

Kent Conrad, a Democrat, represented North Dakota in the Senate from 1987 to 2013.

The Post's Oct. 20 editorial on the budget challenge [“A fiscal quid pro quo”] made important points but was way off-base on the issue of revenue. It suggested that a fair trade would be reductions to the “sequester” budget cuts in exchange for reforms to Medicare and Social Security and said that Democrats should not insist on additional revenue because that’s a non-starter with many Republicans. Democrats would make a serious mistake by following that advice.

Our country needs more revenue to help us get back on track. Citing Congressional Budget Office calculations, The Post said that “federal revenue as a share of [gross domestic product (GDP)] will hit 18.5 percent by 2023, near the upper-end of the postwar range.” That’s true, but the last five times our country had a balanced budget, revenue averaged 20 percent of GDP. The Bowles-Simpson plan, which The Post strongly endorsed, achieved revenue of 20.6 percent of GDP — not by raising tax rates but by broadening the tax base and lowering tax rates.

Tax reform should be part of any budget deal. Tax reform is necessary to unlock the full potential of our economy. The current tax system is not fair and damages U.S. competitiveness. A five-story building in the Cayman Islands claims to be home to more than 18,000 companies. Is it the most efficient building in the world? No! That and other tax scams cost our country more than \$100 billion each year, the Senate Permanent Subcommittee on Investigations has found.

If we don’t fix the revenue side of the equation at the same time as we repair Social Security and Medicare, it will never happen. To suggest, as The Post does, that Democrats should trade adjustments to the sequester for reforms to these programs assumes that the sequester affects only Democratic priorities. More than half of the \$1.2 trillion in sequester cuts are to defense, long a Republican priority.

A fair trade would be modest additions to revenue as part of a balanced plan. A revenue increase of \$300 billion to \$400 billion over 10 years would amount to only 1 percent of the \$37 trillion the federal government is expected to collect over that time. We can’t do 1 percent? Of course we can. And by reforming the tax code, we could do it without raising tax rates on a single American.

A similar \$300 billion to \$400 billion in savings out of Medicare and Medicaid would amount to about 3 percent of the \$11 trillion the federal government is expected to spend on health care over that time. We can’t do 3 percent? Of course we can. And we must: Health spending is the fastest-growing part of the federal budget, projected to increase from 1 percent of GDP in 1971 to more than 12 percent of GDP in 2050. And the trustees of the Medicare system say it will be insolvent by 2026.

The Post was correct that adoption of a “chained CPI,” or consumer price index, system of measuring inflation should be part of any agreement. Most economists say that chained CPI, which accounts for behavioral changes people make when faced with increasing prices, is a more accurate way of measuring inflation. Going to chained CPI would raise revenue because our tax system is indexed for inflation, and it would cut spending because many programs, including Social Security, are indexed for inflation.

Federal spending has been cut by \$900 billion in the Budget Control Act, by \$1.2 trillion in the sequester and by more than \$500 billion in the 2010 continuing resolution. That is spending cuts of \$2.6 trillion, while only \$600 billion in revenue has been added. That is hardly balanced.

To suggest that Democrats should give up on revenue because it’s a non-starter with many Republicans is like telling Republicans they should give up on entitlement reform because it is a non-starter with many Democrats. The truth is, both sides need to give a little ground on their must-haves for real progress to be made.

A mini-“grand bargain” would require all of these elements: changes to Social Security and Medicare to ensure their solvency for future generations; a modest increase in revenue so all parts of society participate in getting our country back on track; and changes to the sequester cuts that force nearly all of the deficit savings on less than 30 percent of the budget.

We can do this, but everyone must be prepared to give a little so that our nation can gain a lot.

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