THIRD WAY

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Democrats Should Not Make Safety Net Fixes a Defeat

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If there is to be a major fiscal deal in the lame duck, it is inevitable that at least one of the principal safety net programs, Medicare, will face some spending reductions. In addition, the next few years will likely see broader changes to other safety net programs. Yet, despite this certainty, many congressional Democrats are framing cuts as being forced upon them by Republicans as part of a deal, and many progressive organizations have decreed that such fixes would constitute a betrayal. But this thinking has it backwards.

Rather than treat cuts to safety net programs as a grudging concession to the GOP, Democrats should support the right fixes as part of a deal. By doing so, Democrats can make the case that they are preserving the safety net for future generations by enacting responsible fixes and protecting crucial investments—while beating back conservative ideas that seek to fundamentally restructure these programs.

Fix Them With Today's Leaders... Or Risk Them With Tomorrow's?

Voters are clearly hesitant about spending cuts to Social Security and Medicare, but they don't have their heads in the sand either. They know these programs are in trouble and that they must be fixed, with some sacrifice involved.

Together with Peter Brodnitz of Benenson Strategy Group, Third Way conducted a post-election poll of 800 Obama voters, and the message was clear: Social Security and Medicare are in financial trouble and should be fixed. An overwhelming 89% of Obama voters believe Social Security and Medicare are in trouble—with 53% saying the programs have major problems, 36% identifying minor problems, and only 6% saying they have no problems. [1]

In this poll (as well as our 2012 focus groups with Democrats and Independents), participants were more fearful that Congress would take no action to fix Social Security and Medicare than Congress would take some kind of action that would affect the programs negatively or be viewed as too extreme.

Respondents said that these programs will run out of money and checks will actually start bouncing in the near future, with one participant plainly stating "the consequence of inaction is bankruptcy." Another agreed, noting, "We do need something to get done because it can't go on the way it is." [2] There wasn't a single person in our four sets of focus groups who thought Social Security and Medicare would survive on their respective paths. And of course, they are right.

The problems facing Social Security and Medicare are not so large as to require an overhaul involving privatization, vouchers, or draconian benefits cuts. Instead, modest course corrections taken now can preserve these programs for future generations. The critical question facing Democrats is: do you want changes made under a Democratic president and Democratic-led Senate who care deeply about these programs? Or would you prefer this be done under a president-to-be-named later and future congressional leaders who may have completely different visions for the safety net?

We know from history that safety net fixes only occur under divided government, because no one wants to carry the load alone. Will there ever be a better roster to negotiate these fixes than President Obama and today's Democratic leaders in Congress?

Make Modest Spending Cuts Today... Or Raise Middle Class Taxes Later?

Increasing tax rates on the wealthy can—and should—make up an important portion of a fiscal deal. But raising taxes on the wealthy alone cannot deliver the revenue needed to save these programs on their current trajectory.

In 2008, Medicare began to spend more than it takes in. Social Security will do the same in 2015, and the picture gets worse in the next two decades. Retiring Boomers will bankrupt Medicare in 2024 and Social Security nine years later. [3]

Even if we tax the wealthy at levels being sought by the majority of Democrats, we would fall way short. So the burden would eventually fall on the middle class. Indeed, the additional tax hikes needed to cover these programs as Boomers retire would come to cost the typical middle class family $6,200 (in today's dollars). [4]

There are numerous other ways to reach the target through taxes. However, it's hard to keep the middle class from harm. For example, acclaimed liberal economist Simon Johnson advocates only minor trims to entitlement programs but calls for numerous tax increases, many of which fall directly on the middle class. In the latest issue of *Democracy: A Journal of Ideas*, Brookings Institution scholar Henry Aaron (a respected voice on safety net programs) calls for an across-the-board 0.8% increase in the payroll tax, along with other revenue measures to extend Social Security's solvency. Perhaps some payroll tax increase will be needed, but understand the Aaron proposal is a $400 a year tax increase on every working person making $50,000, as well as a similar tax on the employer. Jared Bernstein, an esteemed progressive economist who was formerly with the Obama Administration and is now a senior fellow at the Center for Budget and Policy Priorities, said that "ultimately we can't raise the revenue we need only on the top 2 percent." [5]

Regardless of the approach, one thing is certain: making these programs solvent without cutting some spending would require major tax increases on the middle class.

Do Right By Younger Voters...Or Betray Them with Insolvency?

If young adults are among the heart of the new Democratic majority, why are they being ignored in the safety net debate?

- President Obama won 18 to 29 year olds by 34 points in 2008 and by 23 points in 2012. He won voters in their 30s by 10 points in 2008 and 13 points in 2012.

- In Congressional races, Democrats won 18 to 29 year olds by 29 points in 2008 and by 22 points in 2012. They won voters in their 30s by 9 points in 2008 and 11 points in 2012.

So what do these under-40 voters think of the safety net? According to the Pew Research Center, there is broad agreement that Medicare and Social Security are not on sound financial footing. Seventy-two percent of voters under 30 years old do not expect Social Security to be their main source of retirement income, and 42% of this group expects that they will get no retirement income from Social Security at all. [6]

And while young Democratic voters are more and more concerned about their retirement security, seniors are leaving the Democratic coalition.

- Despite his plan to privatize Social Security, seniors picked President Bush by 5 points in 2004.

- Governor Romney won seniors by 12 points while wearing Rep. Ryan's premium support Medicare plan around his neck; Obama's share of seniors actually went down from 2008.

- Likewise, congressional Democrats have fared worse among seniors (+1 in 2008 and -11 in 2012) than any other age demographic.

The political strategy of pledging to stop any changes in Social Security and Medicare is not winning senior voters. Also, it guarantees that those under 40—the future base of the Party—pay either significantly more in taxes or face a less secure retirement.

Make Small Safety Net Fixes…Or Gut the Investment Agenda?

The modern Democratic economic legacy has two great components: the Great Society safety net programs and the New Frontier investment programs. While one is fat and happy, the other is starving.

Safety net costs are consuming an ever-increasing portion of our federal dollars, and an aging population will push Social Security and Medicare spending to even greater heights. The result of this dramatic expansion? These social programs are squeezing out critical public investments.

In the mid-1960's, spending on investments was three times that of entitlements. But today, entitlement spending is three times that of investments. By 2022, that ratio will be six-to-one. [7] And this trend will only accelerate as the Boomers retire, forcing us to spend less and less to educate kids, build roads, and cure disease. This fiscal path translates to a less-skilled workforce, lower rates of job creation, and an infrastructure unfit for a 21st-Century economy.

Great Society safety net programs and New Frontier investment programs are each central to a successful Democratic legacy. But in a time of economic sluggishness and high deficits, we simply cannot pretend that when one gets more, the other doesn't suffer.

Conclusion

Our hope is for a bipartisan deal that sets the nation on a fiscal course conducive to faster economic growth and greater economic opportunity. Without a deal, we cannot achieve these goals, because revenue is too low and our spending trajectory is too high. The fact that our major safety net pillars are heading for insolvency means that the creators and protectors of those programs must act, and they must act now. Democrats rightfully take pride in these extraordinarily successful and important programs, and Democrats should be the ones to take the lead in fixing them the right way.

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END NOTES

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