

The Case for Taking Up Entitlement Reform

GOP wins first budget skirmish, bigger fight looms



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President

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This memo is not about winning the next 21 days, but the next 21 months. The 2012 election will likely be about two things: jobs and debt. While Democrats must continue to do everything they can to foster job growth, the economy is likely to be in a gray zone—neither good enough to ensure the success of a “stay the course” narrative, nor weak enough that voters demand change. That leaves the debt. If Democrats can lead on addressing the structural deficit, Republicans will have little case to make for retaking the Senate, White House, or capturing swing House districts

Section I lays out the case for tackling entitlements—from Social Security to Medicare, Medicaid, and federal pensions—in a bipartisan fashion. We argue that, counter to conventional wisdom, entitlements are unlikely to be the Republicans’ Waterloo. First, the electorate is extremely deficit-sensitive and is likely to remain so. Second, even after President Bush and congressional Republicans sought to privatize Social Security in 2005, Republicans *still* fared better among seniors in the 2006, 2008, and 2010 than any other age group.

We also argue that entitlement reform is urgently needed for our economy and, if done correctly, is progressive. Soon, two of every three federal dollars will go toward Social Security, Medicare, Medicaid, and interest on the debt. Investments in education, infrastructure, pure research, innovation, teen pregnancy reduction, energy innovation, and the arts will

dwindle because there will be no room in the budget (essentially the misguided fight today over a mere one-sixth of federal spending).¹

Section II recommends a new way to talk about entitlement reform using a *security and growth* framework. We suggest ditching the “sacrifice” narrative which vastly overstates the incremental adjustments needed to solve our long-term entitlement crisis. We see far greater potential in appealing to aspiration: to ensure that Social Security, Medicare, and Medicaid will always be there so tomorrow’s seniors can retire with security and dignity. It’s to ensure economic growth, jobs, and middle class success.

SECTION I

Why Democrats Must Lead on Entitlements

1. The deficit will be one of two defining 2012 issues.

As stated above, the 2012 elections will likely be about jobs and debt. Hopefully, the economy will be strong and create millions of new private sector jobs, but events like the debt crisis in Europe and the disaster in Japan illustrate that things outside of our control can alter our economic trajectory in an instant. Obviously, Democrats must continue to aggressively push policies for job creation and growth. However, the likelihood is that the economy will be better, but still in a gray zone. That means the battle will also be fought on fiscal issues. Our belief is that—like the passage of welfare reform in 1996—if there is an agreement on the structural deficit, Republicans will have nothing compelling to run on in 2012. In short, if the economy is a draw, then whoever wins the deficit fight is on the offense. An agreement goes to the benefit of the governing party.

2. Americans are at an unprecedented level of deficit sensitivity.

In poll after poll, the overall state of the economy and size of the deficit are the top two concerns on voters' minds. *But to most voters, shoring up the economy and reducing the deficit are not seen as separate, but as related goals.*

- In 2011 polling, 50% of respondents designated *deficit reduction as a priority for improving the economy*, as opposed to 40% who cited investments in infrastructure, clean energy, and other areas. ²
- In our November poll of 1,000 Obama voters—500 of whom stayed home (“droppers”) and 500 of whom voted Republican (“switchers”) in 2010, 50% of “droppers” and 64% of “switchers” said that, “deficits are a serious problem that is weakening the economy.” ³ Among “switchers,” 66% cited “too much government spending” as a major factor in their voting switch. ⁴
- In another 2011 survey, 50% said they would be more concerned if their Senator *didn't go far enough to reduce the federal deficit*, as opposed to 40% who would be more disappointed if their Senator *went too far by cutting Social Security and Medicare*. ⁵

As we make clear below, voters' views on specific entitlement cuts are more nuanced. But on the big question of controlling the deficit, the numbers are clear.

3. Republicans Are Winning the Biggest Issue of the Cycle.

In a recent speech to conservative activists, Indiana Governor Mitch Daniels warned of the nation going over a “financial Niagara” and referred to the national debt as the “new red menace.” ⁶ The deficit and government spending were key rallying points in the House Republicans' “Pledge to America,” and they have been centerpieces of the new majority's early legislative agenda. In our view, Republicans are winning this fight. They are winning by taking on an issue that voters believe is serious; they are winning on candor; and they are winning by being on the side of reform.

Democrats—who ran on change—are quickly becoming the status quo party on the budget. This is despite the President’s insistence on creating the Bipartisan Fiscal Commission after Republicans walked away, and it is despite \$455 billion in Medicare and Medicaid savings gleaned from the Affordable Care Act.⁷ It’s crucial to remember that Democrats do not have the deficit credibility Clinton had in 1994—after he’d passed a major deficit-reduction package.

- In February, congressional Republicans possessed a 12% edge on the question of having “the right priorities in dealing with the federal budget.”⁸
- Also in February, 63% feared Democrats in Congress would not go far enough “in cutting programs and reducing federal spending to deal with the budget deficit.”⁹

4. Entitlements Are Unlikely to be Republicans’ Waterloo.

In 2005, President George W. Bush and congressional Republican leaders promoted a horrible idea: the privatization of Social Security. It was a high-profile fight that Democrats won decisively.

Yet despite this defeat, Republicans fared better among the elderly than any other demographic group in subsequent elections.

- In the 2006 wave election, Democrats only split seniors 49-49%. They won the age 45-59 crowd by 7-points, the 30-44 cohort by 8-points, and the under 30 voters by 22-points.¹⁰
- In 2008, Barack Obama took 53% of the national vote, yet John McCain won 53% of seniors.¹¹
- In 2010, Republicans won seniors by 21-points, but lost those under 40 by 6-points and won those between 40 and 64 by 8-points.¹²

Republicans made a huge political gaffe—calling for the dismantling of the most popular social safety net program in America. Progressives ran blistering ads aimed at seniors. Yet, Republicans still fared best among seniors in subsequent races.

Some Democrats are waiting for Republicans to take the lead on Medicare, Medicaid, and Social Security to win back seniors. But today's seniors were a large part of the Reagan coalition, and it is questionable that this strategy will work, particularly if Democrats are not part of an alternative reform plan.

5. Young Voters Do Not Think The Safety Net Will Be There For Them.

Taking up entitlement reform provides a unique opportunity to appeal to voters who are under 45. These voters are already a part of the Democratic coalition.

- In 2006, voters under 45 handed Democrats a 13-point margin.¹³
- In 2008, voters under 45 voted with Obama by 17-points.¹⁴
- In 2010, Democrats won those under 45 by 2-points.¹⁵

These younger to youngish voters are concerned about the future of entitlements. 33% of Millennials and 32% of Gen-Xers are “very worried” about the impact of Baby Boomers on Social Security, making them the most concerned groups.¹⁶ According to Gallup, those aged 18–34 are the least likely to believe that they will receive Social Security benefits when they retire, with 76% expressing skepticism that the program will be there for them when they need it.¹⁷

These concerns extend to the health care system, with implications for Medicare. 62% of Generation X is worried that aging Baby Boomers will overload the health care system.¹⁸

By taking up entitlement reform—making it about ensuring that these entitlements are there for the next generations as they were for the last generations—Democrats can be seen as leaders on a generationally defined issue and demonstrate a commitment to addressing the concerns of a key demographic.

6. The Public Holds Nuanced Views on the Future of Entitlements.

Let's be clear, there is ample polling data that argues *not* to touch either of these programs. For example, in our June poll on the economy, three-quarters of voters thought the budget could be balanced without touching Social Security and Medicare.¹⁹

In the most recent NBC News/*Wall Street Journal* poll, 54% of those asked said that it would not be necessary to cut Medicare in order to reduce the budget deficit, while 49% felt that cutting Social Security would not be necessary.²⁰ When asked about the acceptability of cutting certain programs in order to reign in the deficit:

- Only 32% found cutting Medicaid to be totally or mostly acceptable.
- Only 23% found cutting Medicare to be totally or mostly acceptable.
- Only 22% found cutting Social Security to be totally or mostly acceptable.²¹

But there is a nuance that we feel is being missed.

First, the public as a whole is aware that there is a burgeoning entitlement financing crisis. In the March 2011 ABC News/*Washington Post* poll, 81% said that without changes, Social Security is headed for a crisis, up 10% from 2005.²²

Last summer, Gallup found that a record high 60% Americans do not believe that Social Security will be able to pay them a benefit when they retire.²³ Of those polled, 56% indicated that they expect cuts in benefits.²⁴

Second, voters don't define cuts the way Washington does.

- 62% found reducing Medicare and Social Security benefits for wealthier retirees to be totally or mostly acceptable.
- 56% found gradually raising the retirement age to 69 by 2075 to be totally or mostly acceptable. ²⁵

Even in polling where such proposals do not show a majority of support, there is a clear uptick in support of these remedies as the nation's fiscal situation grows dire. Recently, the *Washington Post*/ABC News Poll compared support with several options to their popularity in 2005. They found that:

- Raising the retirement age from 67 to 68 was favored by 42%, up from 33% in 2005.
- Further reducing benefits for those who retire early was favored by 46%, up from 36% in 2005.
- Changing benefit calculations to grow at a slower rate was favored by 45%, up from 37% in 2005.
- Support for eliminating the income cap on payroll taxes remained relatively steady at 53%, down from 56% in 2005. ²⁶

The public's views on entitlements are complicated and in some cases confused. But that's all the more reason for decisive leadership in Washington.

7. Entitlement Reform is Progressive.

The progressive imperative can be summarized by two numbers: 46-cents and 70-cents. In 1990, 46-cents of every federal dollar was spent on Medicare, Medicaid, Social Security, and interest on the debt. In 2030, it will be 70-cents. ²⁷

Winning the economic future depends on progressive public investments—in innovation, children's health, education, pure research, teen pregnancy prevention, space exploration, medical research, infrastructure, school lunches, and the arts

and humanities. But left on autopilot, the nation's budget will be swamped by entitlement and debt obligations that will crowd out everything. Scraps will be left for defense and domestic discretionary spending to fight over, and we know who wins that battle.

- By 2029, the Congressional Budget Office projects that Security, Medicare, Medicaid and interest on the debt will consume 18.1% of total U.S. economic output.²⁸ The significance of this figure is that over the last 40 years, the United States has collected an average of 18.0% of GDP in federal income taxes, FICA, and all other revenue.²⁹
- Thus, by 2029, these three entitlements and net interest will consume the amount of taxes that we normally collect in a year.

As entitlement spending grows, the resulting debt overhang and foregone investments will act as a drag on America's prosperity. Economists predict that, partially as a result of our debt and other demographic factors, average long-term American economic growth will be a full percentage point lower than in the period between World War II and the Great Recession.

This one-point gap in economic growth would make a tremendous difference to our nation, to its government and place in the world and to the lives of average Americans. It would mean trillions in forgone economic output, stagnant incomes, and diminished American stature. That is not a progressive vision for America.

SECTION II

Security and Growth: How to Talk About Entitlement Reform

Below are what we see as the key components of a winning strategy on how to make the public case for entitlement reform.

1. Use an aspirational “security and growth” frame.

Rather than simply approaching this from a “green eye-shades” perspective, Democrats should articulate the deep aspiration behind why we are taking up entitlement reform. It’s not to reach an arbitrary budget target but to ensure that Social Security, Medicare, and Medicaid will always be there for those who need it. We want senior citizens to be able to retire with the security, dignity, and peace of mind that they deserve.

Second, we need our economy to grow and create jobs that support our middle class and generate enough growth to pay for the safety net we spent 85 years constructing. The promise to our seniors, the growth in our economy and the success of our middle class are not assured unless we reform our entitlements.

2. Offer a simple explanation of the problem.

It actually is quite simple. There are too many people getting on the wagon and far *too few* horses hitching up to pull the load.

From 2010 to 2050, the number of people receiving Social Security and Medicare benefits will basically double (from 44 million to 83 million people). The typical combined lifetime Social Security and Medicare benefit for each retiree will also roughly double in real dollars.³⁰ But the number of working taxpayers to support each retiree will grow by only one-third (155 million to 203 million working taxpayers). This is the double, double, one-third conundrum. The burden on future generations to pay for today’s and tomorrow’s retirees is immense.

3. Make it about small adjustments, not major sacrifice.

Democrats should invert the traditional messaging on entitlement reform, which has tended to emphasize the

heroic, major sacrifices being proposed, and thus serves only to make it more politically painful and scary. Rather than being framed as belt-tightening or a painful reckoning, entitlement reform should be described as what it actually is—small adjustments that will preserve these programs for future generations.

Current retirees will see little or no affect from any of the major reform proposals. Raising the retirement age by a year for today's thirty-somethings, reducing COLAs on average by 0.3%, means-testing Medicare and Social Security benefits for very high income seniors, gradually bumping up FICA contributions for wealthier workers—these are pretty modest changes. And what they get is a safety net that will outlive them and their grandchildren.

4. Make it clear that Washington must do its share.

Democrats must couple entitlement reform with a credible set of proposals to demonstrate that government is taking the first and the deeper cut. A place to start is the financing of federal pensions, which is completely out-of-kilter with the way private sector retirement works. Voters need to see Washington give its share.

5. Make it bipartisan from the start to the finish.

Leading doesn't mean leading alone. The nation will be comforted by an adult, bipartisan conversation on the deficit and entitlements—including taxes. There are already several bipartisan efforts with which to join: The President's Bowles-Simpson commission, the "Gang of Six" in the Senate, led by Senators Conrad, Durbin, and Warner, Coburn, Crapo, and Chambliss, the recent Bennet-Johanns letter co-signed by a bipartisan supermajority in the Senate, the Blue Dog coalition budget and New Dem ideas each have bipartisan elements, and remarks by House Minority Whip Steny Hoyer and Senator Charles Schumer in support of entitlement reform.

6. Create a contrast with the wrong ideas.

Adding a small co-pay to Medicaid isn't radical; privatizing Social Security is. If entitlement reform dissolves into a partisan battle, it's important that the fight is over whose plan is better—not over whether one side has a plan and the other side doesn't. As we stated earlier, we do not believe that even a radical Republican plan will hurt them because they will be seen as at least doing something. In this environment, that may be enough to win them the day. But if Democrats have a credible plan or are part of a bipartisan plan, contrasts with a radical plan should work. And a credible Democratic plan should expand the field to include tax earmarks, Pentagon reform, and revenue.

Conclusion

When asked who is showing more leadership in Washington, 46% of Americans named Republicans in Congress as opposed to 39% for President Obama. Rightly or wrongly, the GOP is scoring points with its hard line on spending cuts and pledges to deal with entitlements. While the President broke the ice with the Fiscal Commission and some other Democrats stepped up to the plate, Democrats as a whole are seen as being left behind in the debate.

By shifting the debate from “Who wants to solve the problem?” to “How do we solve the problem?” Democrats can inoculate themselves against charges of fiscal recklessness and make the entitlement reform debate about a contrast between progressive and conservative solutions and values. They can also armor themselves against charges that they are resistant to any spending cuts as they oppose specific Republican, non-defense discretionary spending cuts that would slash vital programs and undermine the economic recovery. And ultimately, if there is a major budget agreement, they will be rewarded politically and with the knowledge that Democrats have preserved America's safety net and set the nation on a course for robust economic growth

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