Memo to: Board, Members and Media
From: Carol Wait and Susan Tanaka
Date: January 21, 1999

Subject: The State of the Union and Congressional Budget Proposals
Whatever Happened to Hard Choices?

We just returned from an ***Exercise in Hard Choices*** in Dallas, where more than 700 people worked hard for an entire day to reach agreement on approaches to Social Security reform, Medicare reform, and other longer-term challenges facing the country as our population ages.

The contrast between our ***Exercise*** participants—in Dallas and the six cities where we hosted meetings in 1998—and their elected leaders in Washington, is confusing at best. At worst, it is downright depressing.

Huge majorities of our ***Exercise*** groups would use short-term budget surpluses to buy down public debt. That could make it easier to meet longer-term challenges facing the country—including Social Security reform, Medicare reform, other spending priorities and tax policies.

But those short-term surpluses seem to be burning holes in everyone's pocket in Washington DC.

- The President's State of the Union address contained a catalogue of new and expanded programs, benefits and tax expenditures. Many Congressional Republicans are pushing a 10% across-the-board tax cut.

- The President, and proponents of the 10% rate reduction, say they can implement their preferred policies and "save the Social Security surplus". But they cannot.

- In the near-term, the huge majority of projected surpluses are due to Social Security. The lion's share of off-sets for new spending and tax cuts, in the near-term, will therefore come from Social Security surpluses.

- Farther out in time, economic and budget projections become less dependable.

- Prudence demands that we bank any surpluses before we spend the money.

- New and expanded spending programs—and consumption oriented tax cuts—can only make our long-term challenges more difficult.

- Every time a politician goes on television or makes a speech—and promises a lot of goodies without explaining how the bills will be paid—they make it harder to fashion real compromises, that involve hard choices, to solve serious problems.

- Saving short term surpluses would reduce interest costs in the budget and increase net national saving. Increased saving is necessary to increased growth and real productivity increases. Thus, using short term surpluses to retire debt can help to address longer-term challenges in two ways:

  It frees up money for programs and benefits (instead of interest); and

  it can contribute significantly to economic growth.

  Increased economic growth is absolutely essential to rising standards of living, and to enable government to meet the needs of all groups in the population, when the baby boom generation retires. Thus, any alternative policy should be weighed against the debt reduction option. Doing nothing is preferable to less promising approaches.

- We spent much of last year arguing for gridlock. We were concerned that any agreement that Congress and the President might reach would be much worse. Clearly, we were right. Gridlock would have been vastly preferable to the so-called "emergency" spending spree which was the final compromise between the President and the last Congress.

- The opening rounds in this year's budget debate are not promising. If the President and Congressional leaders continue to offer up attractive programs, benefits and tax cuts (without explaining what would be necessary to pay for them), we won't want them to compromise their differences because, if past is prologue, they way they do so could prove to be very costly indeed.