
The Economy, the Budget and Health Care Reform:
An Exercise in Hard Choices

On the Road 1994



A Joint Project of:

The Committee for a Responsible Federal Budget
and

The Robert Wood Johnson Foundation

Through the winter of 1993-94, health care reform seemed certain to dominate Federal budget and policy debates in Calendar 1994 (for Fiscal Year 1995). Indeed, many thought 1995 would be the year America changed fundamentally our health care delivery and financing systems.

The Committee for a Responsible Federal Budget expanded our *Exercise in Hard Choices: On the Road* project to address health care reform in the context of overall economic and budget realities. The Robert Wood Johnson Foundation made that possible. We are very grateful to the Foundation. RWJ is committed to educating the public about health care issues. They financed this project even though they were not sure they would agree with the outcomes.

As it turned out, the *Exercise* results mirrored with astounding accuracy the complex combination of information, opinion and emotion that permeated the health care debate last year. Early in the year, most audiences chose a "comprehensive" approach to health care reform. By June, audiences had begun to fear what government would do *to them*, rather than anticipate what health care reform could do *for them*. By the end of the year, the majority of audiences played it safe. They confined themselves to changes in Federal health care programs and policies. Clearly, participants wanted to provide basic health care for everyone. But it was equally clear, our participants were willing to *pay for* only "good basic health care" for those less fortunate than they.

Ironically, early in 1995, folks seemed to come full circle. Once again, our audience supported comprehensive health care reform. We don't know whether that is unique to the venue -- Montgomery County, Maryland. There is a possible alternative explanation: The public seems to be more enthusiastic about health care reform when the debate is more general, and less so as the debate gets specific, when costs and trade-offs are more explicit.

The Board of Directors of the Committee for a Responsible Federal Budget takes this opportunity to thank the Robert Wood Johnson Foundation once again for their support. We believe this project made a major contribution to the Health Care Reform debate and the broader debates about the Federal budget and overall economic policy.



Henry Bellmon
Co-Chairman



Carol Cox Wait
President



Robert Giaimo
Co-Chairman

1994 Exercise in Hard Choices

The Committee for a Responsible Federal Budget is a bipartisan, non-profit organization committed to educating the public about budget and fiscal policy issues. We designed the *Exercise in Hard Choices* to provide participants with the opportunity to confront the actual budget issues and options facing Congress and the Administration.

The *Exercise* was first developed in 1982 to help educate members of Congress about budget issues and process. We began to offer it to the public in Washington in 1983, and started taking the *Exercise* on the road to locations around the country beginning in 1988. Most *Exercises* are co-sponsored by a Member of the House or Senate and are held in their home districts. Some *Exercises* are sponsored by Governors.

The *Exercise* is updated annually to reflect the current year's debate. Each *Exercise* is open to the public. We send invitations to individuals randomly selected from voter registration lists. Based upon information provided by registrants, participants are assigned to groups composed of members who are likely to have different perspectives, views and priorities. Conservatives and liberals, old and young, representatives of business, labor, agriculture and education, homemakers, retirees, registered Democrats, Republicans and Independents, work together to address the problem.

Each group has the task of producing one budget. They begin by setting a deficit reduction goal and a timetable for getting there. Then groups work through an

Exercise booklet that reflects that year's budget options and debate. It includes proposals both to increase and decrease spending and revenues.

During the *Exercise*, co-sponsors (members of Congress, Governors, and their staff) listen and respond to their constituents deliberations. At the end of each meeting, groups report on their results to the entire audience. Then there is general discussion, questions, and answers.

We compile the results of each year's *Exercises* in an annual report. This report is distributed to every member of Congress, Administration officials, the national media, and *Exercise* participants.

What We Have Learned

Over the years, the results of the *Exercise in Hard Choices* are remarkably consistent. Across the country, in urban and rural areas, Democratic and Republican constituencies want to solve this problem. Their choices show that they are willing to pay the price — through reduced programs and benefits and higher taxes — if only we would really balance the budget.

Beyond making the tough choices, our groups show that people are willing to work together, listen to and learn from each other, and compromise their differences in order to get the job done. And they expect their elected representatives to do the same.

Public opinion polls indicate strong support for a balanced budget. However, pollsters

tell us that this support evaporates once specific policies to balance the budget are identified. In Washington, wisdom holds that voters oppose spending cuts and increased taxes that affect them.

Both are wrong. The results from our *Exercises* over the years consistently show that voters are willing to accept hard budget choices even if these choices affect them directly.

Exercise in Hard Choices — The FY 1995 Budget

We conducted ten *Exercises* this year, half with Democratic co-hosts and half with Republican co-sponsors. In all, nine Members of the House or Senate and two Governors co-hosted *Exercises*. Over a thousand people gave up a full day of their time to participate.

In 1994, the budget debate was dominated by the health care reform debate. To provide participants with sufficient information and opportunity to understand the major issues and options in health care reform, the *Exercise* was expanded to a full day-session. It included briefings on the economic and budget outlook and health care reform. These briefings gave participants an opportunity to question expert panelists and discuss the issues with them.

Exercise participants considered options affecting discretionary and mandatory spending, as well as revenues. They also deliberated over the major approaches to health care reform and were presented with information about how these options affected not only the federal budget, but also State and local and private health spending. Their decisions about what to

do about health care were made within the context of the overall Federal budget and competing priorities.

What should be the goal?

Our participant groups want to balance the budget, most often to balance the budget without taking into account the Social Security surpluses.

Exercise Results

On average, over five years, our groups reduced the deficit by *\$900 billion* below capped baseline projections. (This baseline assumes the caps on discretionary spending through 1998.) Our audiences met or exceeded their goals.

Generally, groups who exceeded their goals agreed that given more time they would probably pare back some cuts and revenue increases, but they stood by their goals and the decisions they made to get there. Participants recognize that they are not facing re-election. Nor are they subjected to lobbying. But, they report that they would vote for politicians who would make the same choices their groups made to balance the budget.

Participant groups seem to observe two basic principles — the problem must be solved (that is, the budget must be balanced) and everyone must contribute to the solution.

- ▶ Participants rely more on spending cuts than on tax increases to accomplish their deficit reduction goals. In 1994, 65% of the average group's total policy change was composed of spending cuts and approximately 35% was made up through revenue increases.

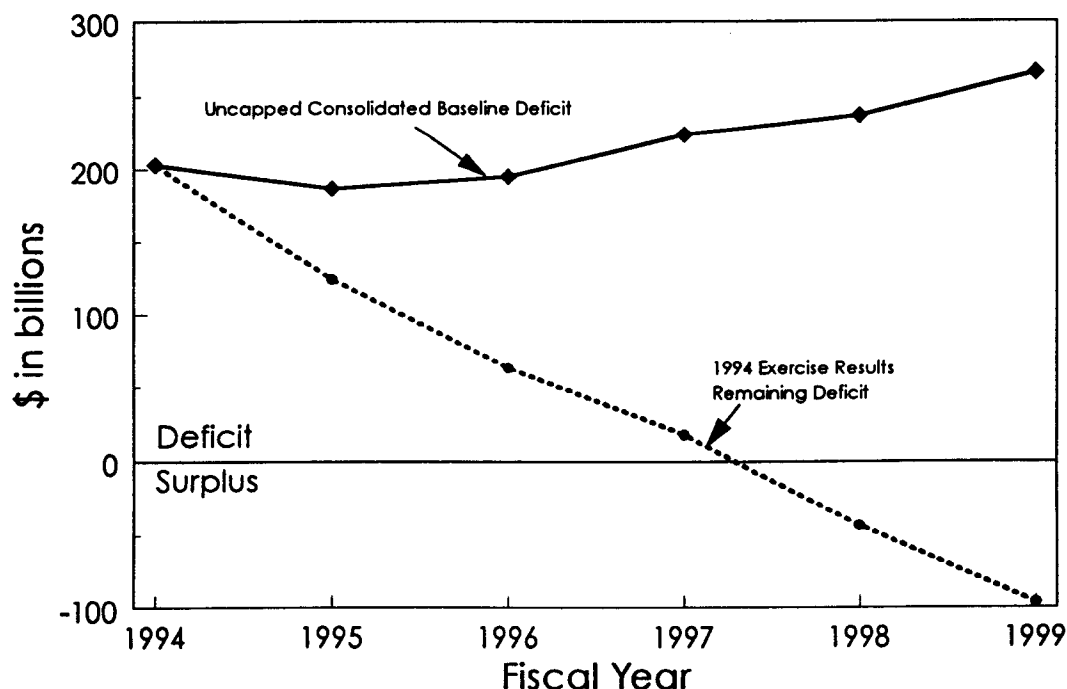
The 1993 results were similar — 63% of deficit reduction came from spending cuts and 37% percent from revenue increases.

- ▶ Groups across the country understand that the package must be "fair." "Fairness" means that the burden is spread across interest groups and across regions. Our participant groups knowingly look for and choose options that directly affect them and their communities.
- ▶ Many budget and public policy analysts would spare the poorest in society from program cuts and revenue increases. However, our audiences feel that everyone must share the burden of deficit reduction. Participants don't ask much of the poor, but they would tighten eligibility

standards and target assistance to the neediest to achieve savings.

- ▶ Participants cut virtually every part of the budget. They generally begin with the President's reduction proposals, but go much further. Some of the savings are used to offset higher spending in a few areas — notably education and job training, environmental programs, and law and justice. However, dollar cuts to discretionary programs outnumber dollar spending increases by five to one. Participants do not choose to increase spending for entitlements. Therefore, the vast majority of savings are used for deficit reduction, not to finance new spending.
- ▶ The conventional political wisdom is that Social Security is untouchable.

Exercise Participants Balance the Non-Social Security Budget in 5 years



Our groups prove otherwise. Over 90% would cut Social Security cost-of living adjustments. Almost half are willing to scale back benefits for future retirees.

- ▶ While politicians hesitate to means-test entitlements, almost all of our groups would reduce middle-class benefits. *Exercise* participants believe that these programs, like all others, must contribute towards deficit reduction.
- ▶ Then participants turn to the revenue side of the budget. Slightly more than half of our audiences would raise gas taxes and corporate income taxes. Slightly fewer than half would raise individual income taxes. Two-thirds of the groups would limit further the deduction for home mortgage interest. Even stronger majorities would raise pollution taxes.
- ▶ While our audiences are not enthusiastic about raising taxes, neither are they interested in cutting them. Although the capital gains tax cut and extensions of expiring business tax credits came close, none of the options to cut taxes received majority support.

Health Care Reform

Exercise participants were as divided over health care reform options as was Congress. Participants were first asked to decide if they wanted to pursue a comprehensive (economy-wide) approach or to limit themselves to modifications of existing Federal health care programs and tax provisions.

A majority of groups (56%) chose a comprehensive approach to reforming health care.

- ▶ Half of the groups choosing a comprehensive strategy (but only 28% of all groups) chose an option containing the common elements of major reform proposals. This hypothetical, voluntary plan would have expanded coverage through individual subsidies for lower-income families, raised taxes on Medicare and employer paid health benefits, and cut the deficit. (While it increased taxes and cut the deficit more, it had much in common with the eventual Senate Mainstream Coalition and House Bipartisan plans.)
- ▶ The single-payer plan was the second most frequently chosen option. One third of the groups choosing a comprehensive approach (18% of all groups) selected this proposal. Under this approach the Federal government would achieve universal coverage by taking over responsibility for financing for health care.

Over one-third of all groups rejected comprehensive reform and chose instead to modify existing Federal health programs and taxes. Of these groups, three-fourths would stop fee-for-service payments and move Medicare and Medicaid beneficiaries into managed care, capitated payment systems.

As the year progressed and as the health care reform debate wore on, groups became markedly more cautious and less willing to select any comprehensive option. Participants indicated that they were interested in providing access to a basic level of health care for everyone, but were concerned that the major reform plans would jeopardize their own health care coverage. By the end of the year, a majority of groups were rejecting comprehensive reform and choosing instead to tinker with existing programs.

1994 Participants

Approximately 1,000 citizens, forming 123 groups nationwide, participated in these day-long exercises. Of the ten exercises, half were co-hosted by Republican sponsors and the other half by Democratic sponsors.

Participants were about equally divided between men and women. Except for registered voters under the age of 35, who were under-represented at the *Exercises*, they were fairly representative of the population of registered voters.

What participants say about the *Exercise in Hard Choices* —

Excellent program. More of this should be done in order for taxpayers to understand the issues.

— Minneapolis MN

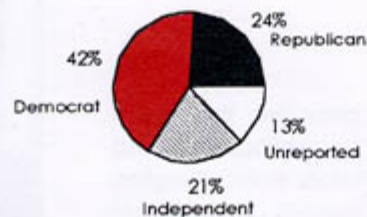
Enjoyed the experience. We only hope that the politicians get the message: we are serious about the debt and (they should) quit playing games.

— Oklahoma City OK

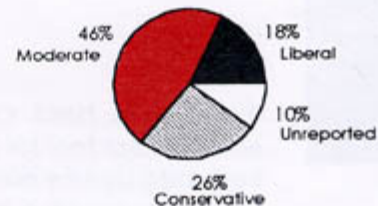
Message to Congress: We did it. Why can't you?

— Middletown OH

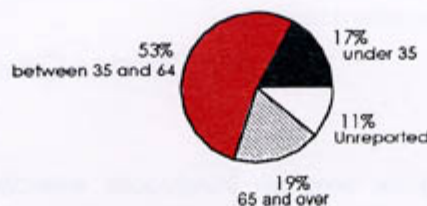
Exercise Participants: Who We Are



Political Party



Position



Age Ranges



"If politics is who gets what, where, when, and why, the Hard Choices program is about as enlightening a crash course in the world of politics as I could imagine."

Representative Pat Schroeder

"There are few chances for citizens to get involved in the federal budget debate. The Exercise in Hard Choices shows that if you're willing to make the tough choices to balance the budget, we can put our economic house in order. I only wish more people could participate."

Representative Elizabeth Furse



"Congressional debate over the Balanced Budget Amendment and the line-item veto has moved the federal budget to center stage. Now more than ever it is important to understand the budget process, and its difficult choices we have to start making to get our fiscal house in order."

Senator Herb Kohl

"Exercise in Hard Choices provides the ideal educational tool for a citizenry confounded and frustrated by why elected officials in Washington cannot balance a budget. Iowans gathered in Des Moines and made thoughtful and difficult choices to do what Washington has failed to do. This is an excellent exercise."

Senator Charles Grassley



"Your program was an invaluable exercise in teaching constituents that Government must learn to live within its means. It resulted in unanimity for trimming the fat, cutting the waste and making the tough choices necessary to control spending...It underscored that it will take all of us working together, no matter where we are from, what party or what philosophy to remedy our fiscal situation."

Representative Edolphus Towns

"The participants in our exercise were a wonderful cross section of Oklahoma citizens. Young, married couples, business leaders, senior citizens, political and social activists...all gathered together for a long and productive day of working together to write a budget that makes sense. Our participants were much more aggressive toward balancing the budget than Washington is. I know of at least 535 people inside the Beltway who would benefit from such an experience."

Representative Frank Lucas



"This was a wonderful opportunity for my constituents in Ohio to understand the decisions that are made every day in Washington. During the 104th Congress, I hope that we are able to follow their lead in balancing the budget and look into some of their ideas as potential solutions."

Representative John Boehner



"Faced with the hard truths about the nature of the deficit problem, a cross-section of Minnesota voters demonstrated a willingness to make the hard choices. It was an inspiration to see a diverse group of Minnesotans succeed where Congress failed."

Former Representative Tim Penny

"This is an excellent way for citizens to come to understand a process that is often viewed as incomprehensible to the average citizen. How and what does a legislator choose to cut. How can you do so and protect the most vulnerable among us? How do you make those very difficult decisions that no one will like?"

Representative Connie Morella



DISCRETIONARY

Average savings of \$304 billion below the inflation-adjusted "uncapped" CBO baseline for 1995-1999 or \$161 billion below CBO's capped discretionary baseline). Savings below are relative to the uncapped baseline.

DEFENSE \$157 billion in savings, or 11% below the uncapped, or inflation-adjusted, defense baseline over 5 years.

- 72% of all groups choose to cut defense more than the President proposed. A total of 28% supported the President's proposed "Bottom-Up Review" force structure – 17% voted his budget amount; 11% added funds to fund fully the President's policy.

INTERNATIONAL \$7 billion in savings, or 6% over 5 years

- 42% vote in favor of the President's proposed policy. 37% of groups would offset lost revenues from GATT and the GSP. 88% vote savings through a 10% cut in foreign aid. 44% of the groups would terminate the Export-Import Bank.

DOMESTIC \$141 billion in savings, or 10% below the 5-year CBO uncapped baseline for domestic programs

Infrastructure

Average 5-year net impact: \$6 billion in savings. 47% support the President's budget cuts in local mass transit operating subsidies, recreational boating programs, and subsidies for railroads carrying local freight. One-third support the President's investments in mass transit capital grants, AMTRAK equipment, and water treatment and supply programs while 46% favor *eliminating* grants to states and *reducing* federal aid for water treatment plants and mass transit. Additional savings achieved through elimination of airport grants (support by 93% of groups) and termination of AMTRAK operating subsidies (83% approval).

Human Resources

Average 5-year net impact: \$3 billion in spending *increases*. 94% vote in favor of the President's proposed savings from the elimination of impact aid and small, low priority education programs. 61% vote for his proposed funding increases in childhood immunizations, education programs to support Goals 2000, worker education and training programs, and national and community service program for college students. 73% support elimination of untargeted funding for math and science education. 79% would end senior community service employment. 43% support elimination of funding for the arts and humanities (e.g., National Endowment for the Arts, National Endowment for the Humanities, Smithsonian Institution, Corporation for Public Broadcasting, National Gallery of Art).

HARD CHOICES: WHAT WE CHOSE



Average 5-year net savings: \$18 billion. 95% accept the President's proposals to cut spending by freezing overhead and administrative costs for Federal research grants and contracts and by reducing funding for weather radars and space programs. 34% support his proposed increases for the National Science Foundation, research and development programs, the information superhighway, high performance computing, and small and medium sized business development programs. Over half (57%) would cancel the space station.

*Science and
Technology*

Average 5-year net savings: \$64 billion. 97% agree with the President's proposals to reduce spending for smaller programs operated by the Departments of commerce, Interior, and Energy and the Environmental Protection Agency. 53% agree with increases for EPA regulatory programs, environmental programs related to implementation of the North American Free Trade Agreement, ecosystem management pilot projects, and hazardous waste clean-up. Almost all (98%) would abolish the Bureau of Mines and would eliminate below-cost timber sales.

Environment

Average 5-year net savings: \$42 billion. 90% agree with the President's reductions to Custom Service drug interdiction programs. More than half (54%) agree with his proposed increases for community policing, funding for States to improve records systems as required by the Brady Act, and to augment Immigration and Naturalization Service efforts. In addition, 89% would cut drug enforcement programs and over half (65%) would reduce spending for Justice assistance grants to States.

Law and Justice

Average 5-year net savings: \$42 billion. 90% agree with the President's proposed elimination of small, low priority agriculture and small business programs and reductions in funding for low income home energy assistance, housing and agriculture support programs. Almost half (48%) support the President's proposed investments, including additional funding for urban and rural community development efforts, low-income housing and homeless assistance programs, food safety, legal services for the poor, and Small Business Administration programs. Most groups would go beyond the President's proposals to achieve savings. Approximately four-fifths (83%) would eliminate small business lending programs; another 83% would abolish the Economic Development Administration, 97% would either reduce (66%) or eliminate altogether (31%) Community Development Block Grant funding. Almost all would charge Federal employees for parking (92%) and would reduce the number of political appointees by 30% (98%). Only 39% would achieve savings by skipping Federal employee raises.

Other

PAY-AS-YOU-GO

NON-HEALTH ENTITLEMENTS AND OTHER MANDATORY SPENDING

\$216 billion, or 7% in savings relative to the CBO baseline over 5 years.

Options to Means Test Entitlement Programs

98% support an option to means-test entitlement programs. Most (58%) would reduce benefits to middle- and upper-income beneficiaries as proposed by the Concord Coalition. 24% would tax benefits. 15% would eliminate benefits for high-income recipients. 94% vote in favor of cutting farm subsidy payments from a maximum of \$100,000 per person to \$40,000. Over half the groups (59%) would support better targeting of child nutrition subsidies.

Social Security and Other Retirement Programs

94% would cut the cost of Federal employee retirement programs with most (76%) supporting the option to defer retirees' cost of living (COLA) increases until they reach age 62.

92% would achieve savings in Social Security through COLA reductions, but disagreed over the option. 29% would eliminate COLAs for one year, 43% would limit COLAs to CPI minus 2% for 5 years. The remainder would limit COLAs to two-thirds of CPI for 5 years. Fewer than half the groups (42%) would reduce benefits for future retirees.

Other Entitlements

88% agree with the President's proposed user fees for recreational facilities, hardrock royalties, firearms dealer licenses, alcohol and tobacco permit applications, etc. 87% would replace crop insurance with disaster assistance. 88% would cut farm deficiency payments. 79% would end payments to veterans with low-rated and non-service-related disabilities, and 80% would charge for airport landing and take-off slots and air traffic control services. 47% would support accruing interest on student loans while students are in school.

Proposals to Increase Entitlement Spending

Fewer than half the groups (42%) vote additional, "placeholder" funds for welfare reform (\$13 billion over 5 years). 47% vote for increased funding for child care assistance for low-income families while parents are in school, receiving job-related training, or working.

REVENUES

\$323 billion in net tax increases

Income Taxes

43% support increasing individual tax rates — 27% would raise all rates; and 16% would raise only the top tax rate. 55% vote for increases in corporate rates, with most (52%) favoring an increase in only the top rate.

HARD CHOICES: WHAT WE CHOSE



28% of the groups favor increased taxes on consumption – 13% favor a 5% value added tax and 15% support scrapping entirely the current income tax system in favor of a consumption-based income tax as proposed by Senators Domenici and Nunn and the Center for Strategic and International Studies.

Consumption Tax

Half of the groups (53%) vote in favor of increased taxes on oil – 38% would tax imported oil only; and 15% would tax both domestic and imported oil. In addition, 51% of the groups agree with a 10¢/gallon/year motor fuel tax increase (reaching 50¢/gallon in 5 years). Only 22% supported a BTU tax.

Energy Tax

87% of all groups supported taxing toxic water pollutant. 79% would impose excise taxes on air pollutants, while only 30% were in favor of a one-time emission tax on new cars and light trucks.

Pollution Tax

67% agree to limit the deductibility of mortgage interest to amounts incurred on up to \$300,000 in principal. 73% would repeal the tax deductions for extractive industries. Only 10% support limiting the deductibility of State and local taxes.

Mortgage Interest & Other Tax Expenditures

45% support a one year extension of expiring tax credit. Almost half (46%) favor former President Bush's capital gains tax cut proposal.

Tax Cuts

No single health care reform approach receives the support of a majority of groups. 56% of the groups support undertaking comprehensive, or omnibus, package reform, while 35% would "tinker" with existing programs and revenues and 11% would do nothing.

HEALTH CARE REFORM

Half of the groups choosing comprehensive reform – 28% of all groups – support a hypothetical approach resembling those proposed by the Senate "Mainstream Coalition" and the House Bipartisan Group. One-third of comprehensive reform supporters – 18% of all groups – support a single-payer approach. The exercise option includes reforms common to many legislative proposals (malpractice and anti-trust reform, administrative streamlining, voluntary purchase pooling for small groups and individuals, insurance market reform to improve portability of coverage, and direct Federal subsidies for low-income families). In this option, subsidies are financed by taxing Medicare and private insurance benefits. Only 6% of the groups support the President's Health Security Act. 2% of the groups support the managed competition proposal.

Comprehensive Reform

35% would proceed as Congress has in the past, modifying Medicare and Medicaid provisions to reduce spending and increasing excise taxes on alcohol and tobacco to raise revenues. Of groups that choose this route, three-fourths support increased use of health maintenance organizations in Medicare (73% approval) and Medicaid (76% support).

Incremental Reform

OUR BUDGET COMMITTEES



The Economy, the Budget and Health Care Reform: An Exercise in Hard Choices

May 6, 1994	Denver, Colorado with Governor Roy Romer and Representative Patricia Schroeder
May 31, 1994	Portland, Oregon with Representative Elizabeth Furse and the American Association of University Women, Tigard Branch
June 11, 1994	Brooklyn, New York with Representative Edolphus Towns and Councilwoman Joan McCabe
June 18, 1994	Milwaukee, Wisconsin with Senator Herb Kohl
June 20, 1994	Detroit, Michigan with Governor John Engler
August 27, 1994	Des Moines, Iowa with Senator Charles Grassley
August 29, 1994	Middletown, Ohio with Representative John Boehner
September 10, 1994	Oklahoma City, Oklahoma with Representative Frank Lucas and Former Governor Henry Bellmon
December 2, 1994	Minneapolis, Minnesota with Representative Tim Penny
January 23, 1995	Bethesda, Maryland with Representative Connie Morella

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