



**The Daily Dish**

## July 24th Edition

DOUGLAS HOLTZ-EAKIN | JULY 24, 2015

ICYMI here are the two numbers you need to remember this week:

**\$175 billion:** [the amount of economic activity lost due to the 7 year delay of Keystone XL.](#)

**\$2 trillion:** [the amount that Medicare and Medicaid will cost over the next 8 years.](#)

[Yesterday a Senate panel advanced changes to Dodd-Frank](#) that would ease requirements on smaller banks and give lenders greater freedom from mortgage lending rules. [Dodd-Frank has caused issues with everything](#) from consumer costs to onerous regulatory requirements. In total, AAF found that the legislation will reduce economic growth by \$895 billion over the next decade.

### ***Eakinomics: The Future of Entitlement Reform***

Wednesday the Trustees released their assessment of the Medicare and Social Security programs. AAF's [review](#) indicates it is not a pretty sight. The short version is that these programs are enormous sources of red ink. Medicare had a cash-flow deficit of \$308.9 billion — 60 percent of the 2014 overall deficit — while Social Security had a deficit of \$73.1 billion — another nearly 15 percent of the total.

The long version is that these shortfalls cannot reasonably be dealt with by raising taxes. Social Security taxes would have to rise by 21.1 percent, Medicare payroll taxes by 18 percent, and Medicare premiums by 405 percent. As the baby boom generation retires, 10,000 new beneficiaries enter these programs each day. Spending explodes over the next decade, fueling an ever-rising debt increase that leads to an unsustainable debt spiral.

The longer version is that the problem must be addressed now. Those in denial will argue that the Medicare trust fund will last until 2030, and Social Security trust fund until 2034 (a year later than last year's projection). Perhaps, but the Disability Insurance fund will be bankrupt in 2016. Moreover, the remainder of the programs cover their cash-flow deficits by borrowing elsewhere in the budget. The result is that annual discretionary spending on defense and other programs must be held to historically low levels (as a fraction of Gross Domestic Product or GDP).

The complete version is that there is hope that the politics of reform will be better in the future than in the past. Historically, entitlement reform has been the third rail of politics; avoided by nearly all. In the future, there will be grassroots constituencies in the non-defense and defense communities supporting entitlement reform to ease the budgetary pressures that threaten their programs. Meanwhile, the next president will not have the luxury of avoiding changes to the growing entitlement spending. This will create White House leadership that is necessary for large reforms. Leadership from the top and support from the grassroots are a very different setting for entitlement reform than in the past.

### ***From the Forum***

[The Future of America's Entitlements: What You Need to Know About the Medicare Trustees Report](#) by Douglas Holtz-Eakin, AAF President; Jonathan Keisling, AAF Health Care Data Analyst; and Gordon Gray, AAF Director of Fiscal Policy

### ***Fact of the Day***

[Under the ACA, where you live affects your health care premiums.](#)