The Daily Dish

Unleashing U.S. Growth Potential

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Eakinomics: Unleashing U.S. Growth Potential

I testified yesterday at a hearing of the Joint Economic Committee (JEC) on the topic of "Unleashing America's Economic Potential." The message was short and sweet: (1) the U.S. entered 2017 with a serious growth problem as there was no real income growth in 2016 for those households who worked full time for the full year; (2) the regulatory freeze and tax legislation in 2017 have had a significant positive impact on the growth outlook; and (3) there remain serious challenges that harm growth prospects, namely the fiscal outlook and the administration's approaches to trade and immigration.

Regarding the budget outlook, I made my familiar-to-readers-of-Eakinomics case that the major entitlement programs — Social Security, Medicare, Medicaid, and the Affordable Care Act — simply must be reformed as a matter of getting the budget on a sustainable track. (I also stressed that it is entirely unacceptable that the U.S. social safety net is financially unsustainable and creates risk for beneficiaries instead of reducing risk as intended.) A JEC member asked me how I could hold my position when five former Chairs of the Council of Economic Advisers had just published an op-ed that asserted "A debt crisis is coming. But don't blame entitlements." Instead, they point the finger at the 2017 Tax Cuts and Jobs Act (TCJA) and wartime expenditures.

A full rebuttal would be unfair to those readers who are not yet fully caffeinated, but let me make three points. (1) They are wrong. (2) The easy way to see (1) is to look at the January 2017 Budget and Economic Outlook by the Congressional Budget Office (CBO). That budget projection precedes the TCJA, so it can't affect the outlook. It also takes place before the Bipartisan Budget Act of 2018 that lifted the caps on defense spending, so it can't be defense outlays either. The projections show $10 trillion of <u>additional</u> deficits between 2017 and 2027. Why? Social Security grows at an average annual rate of 6.0 percent, Medicare at 6.5 percent, Medicaid at 5.4 percent and the Affordable Care Act at 8.9 percent. Revenues grow at 4.2 percent annually over this horizon. It is simple arithmetic that the entitlements are driving the deficits and debt.

Point (3) is that the authors are playing fast and loose with the numbers. For example, they argue that the impact of the TCJA "exceeds the Medicare Trustees' projections of a 0.3 percent of GDP shortfall in Medicare hospital insurance over the next 75 years." Medicare <u>hospital</u> insurance (emphasis added), also known as Part A, doesn't include Part B (outpatient care), Part D (outpatient drugs), or Part C (Medicare Advantage). The latter are among the reasons that Medicare runs a $300 billion annual cash-flow deficit. It is a knowingly misleading comparison.

The House started out with a plan for revenue-neutral tax reform — a good idea. Had that been the final product, there still would be a threat to growth in debt and deficits. To address that threat requires reforms to the entitlements.