Insight

Not All Savings Are Created Equal

GORDON GRAY | DECEMBER 12, 2013

The Bipartisan Budget Act of 2013 is a reflection of the achievable: it is incremental and the product of a deeply divided government. For those concerned with the fiscal trajectory of the nation, there is more to like than dislike. In general, policy matters more than mere dollars. Yes, a dollar saved is a dollar not borrowed, and all else being equal, that's a fiscally sound approach. But a dollar saved from a single year cut that is quickly replaced the following year is a poor substitute for policy changes that continue to build over time. That is the essential bargain that is made with the Bipartisan Budget Act, which trades increases in discretionary spending (essentially core functions of the federal government) with savings in transfer programs and other mandatory programs.

The Act would smooth out the precipitous drops to discretionary spending in the next two years scheduled to occur under current law, and averting a $20 billion sequester falling exclusively on the defense side of the budget that would have an immediate effect on the nation's capacity to defend itself and its interests. That's also bad budget policy when you consider that all twenty billion would go right back in to defense spending by 2016. The price tag for smoothing out discretionary spending is an increase in spending by $63 billion over two years.

Ultimately, discretionary spending will hew to the trajectory set forth under the spending caps put in place in 2011, but do so without an immediate steep decline followed by an increase – a budget gimmick in its own right.

In exchange for this new spending, the Act would put in place a number of policy changes to mandatory programs. Like the deal itself, the changes are modest, but well tailored. Unlike the spending caps in current law, the policy changes in the Act persist and accrue over time. The discretionary spending caps expire after 2021, after which, discretionary spending is unbound by threat of sequestration.

Policy changes, like changes to civilian and military retirement, Medicaid liability changes, and others are changes in law, and are therefore immediate. The savings take time to accrue, but unlike spending caps, they aren't a future promise to save money. And once set in place, even modest changes can offer significant savings over time. Asking new federal employees to kick in a bit more to their own retirement is not major policy shift, and it offers relatively modest savings, at least at first. In year one of the new policy, it would only save about $24 million, a virtual blink of the eye in terms of how much the federal government spends. By year 2023, that modest savings will grow to nearly $1.2 billion. These savings will continue to grow. Extrapolating this policy change over following decade will see the savings reach over $2.5 billion by 2033, saving an additional $20 billion along the way.

This is a model for the types of policy changes the nation needs now to avert the debt crisis that mandatory spending poses. Mandatory spending is already crowding out the budget, and will continue to do so. Medicare is running cash deficits of $300 billion. These numbers only get worse over time. Social Security is now in cash-deficit and will continue to drive up federal borrowing until 2033, when the Trust Fund runs dry, forcing a 23 percent cut to retiree benefits. These are critical safety net programs, and with modest changes can put on solid footing over time. The Bipartisan Budget Act does not accomplish these changes, and no one claims it does, but it offers a model for how these changes can be made. Let's hope it's a lesson Congress can learn soon.