Insight

# The Trap of Budget Myopia

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Tuesday at midnight doctors seeing Medicare patients face the double-digit consequences of the price-fixing on autopilot of the Sustainable Growth Rate (SGR) mechanism. Accordingly, upon its return from recess the Senate should take up, pass, and send to the president the SGR repeal bill (HR 2). Unfortunately, a letter is being circulated proposing a damaging amendment that threatens to derail the process.

It observes "Section 525 of the bill would exclude this increase in the deficit from being subjected to the requirements of the Statutory Pay-As-You-Go Act of 2010 and section 201 of S. Con. Res. 21 or Senate PAYGO." It then argues "The fiscally responsible position would be to strike section 525 from H.R. 2."

Uh, no.

This is a narrow, myopic, penny-wise and pound-foolish argument. Fee-for-service Medicare *is* the fiscal problem. Medicare is at the heart of the spending explosion built into the federal budget over the next decade, rising from $603 billion in 2014 to $1.04 trillion in 2024 – an average annual growth rate of 5.6 percent.

The spending explosion, in turn, is the core source of the projected additional $7.8 trillion in federal debt held by the public, bringing the total to $20.8 trillion, or 77.2 percent, of Gross Domestic Product (GDP) – and rising.

To top it off, the expensive, debt-inducing Medicare program is not delivering top-quality medicine to its deserving beneficiaries. Fee-for-service Medicare pays doctors, hospitals, and other providers to do things to patients, instead of rewarding those that deliver quality outcomes through prevention, coordination, and acute care. Because Medicare is the largest payer of medical bills in the United States, the poor incentives embedded in fee-for-service set the (subpar) standard for care throughout the health sector.

The first step to modernizing Medicare and moving away from fee-for-service is repealing the SGR. Blowing up the House-passed bill would miss the opportunity to make Medicare better and begin to address the projected debt explosion.

Blowing up the House-passed bill – which adopting this amendment surely would – is fiscally *irresponsible*.

Moreover, the PAYGO rules are as valuable and realistic as the baseline against which they are imposed. The SGR and annual "doc fixes" drove the Medicare baseline into fantasyland years ago. Nobody should pretend that – in the absence of the proposed fix – Congress would stand idly by and permit savage, double-digit cuts to doctors totaling $140 billion.

Finally, the objections miss the longer-term implications of HR 2. The proposed bill contains structural reforms that will continue to reap benefits in the years beyond the budget window. A rough projection is that these will cut Medicare outlays by $230 billion over the second 10 years, 2026-2035. Put differently, one could imagine issuing the $140 billion as a Treasury security. The additional savings from these structural reforms would be sufficient to pay off the IOU *and* interest by the end of the second 10 years.

The Senate has the opportunity to join the House in moving away from bad medicine and bad budget policy. It should pass HR 2 as it stands.