

The Scouting Report: Sparring Over Obama's First Budget

As soon as President Obama sent his detailed budget to Capitol Hill last week, political battles erupted over spending increases, proposed cuts and the increasing load of debt and deficits.

Brookings expert Isabel Sawhill – former associate director of the Office of Management and Budget – took questions on the hard budget choices and consequences with moderator Fred Barbash, *Politico* senior editor, on May 13. The transcript of this chat follows.

Fred Barbash-Moderator: Welcome all.

Isabel V. Sawhill is a senior fellow in Economic Studies at the Brookings Institution. She serves as director of the Budgeting for National Priorities project and co-director of the Center on Children and Families. She holds the Cabot Family Chair. She served as Vice President and Director of the Economic Studies program from 2003 to 2006. Prior to joining Brookings, Dr. Sawhill was a senior fellow at The Urban Institute. She also served as an associate director at the Office of Management and Budget from 1993 to 1995, where her responsibilities included all of the human resource programs of the federal government, accounting for one third of the federal budget.

Welcome Isabel. Let's get started.

12:41 [Comment From Laurie] Many economists argue that it's more important to use federal money to stimulate the economy now, and worry about rising deficits later. What's your view?

12:42 Isabel Sawhill: It is important to stimulate the economy now and not worry about the deficits needed to do this but we should simultaneously be enacting legislation that will gradually phase in spending cuts and revenue increases over the next decade.

12:42 Fred Barbash-Moderator: You wrote in February that:

"The US may be courting a fiscal disaster down the road" because of the debt we're accumulating, barring some fairly dramatic steps on a broad variety of fronts.

It's now May, going on June. Do you still feel that way?

12:43 Isabel Sawhill: Yes, most definitely. We should act BEFORE there is a crisis instead of waiting for one to happen.

12:44 [Comment From Jason] What are the keys to reducing the federal deficit?

12:45 Isabel Sawhill: The big problem is rising costs for entitlement programs -- social security, Medicare, and Medicaid. This is a result of the aging of the population and rising health care costs per capita. But we are also going to need some new revenues.

12:45 [Comment From Gene] How significant were the trustees' findings yesterday pushing up the dates for insolvency on Social Security and Medicare?

12:47 Isabel Sawhill: They should be a wake up call. We need to reform these programs. The problem is not that we don't know what to do. The problem is that we don't have the political will to do it. Medicare is the biggest problem and it may be addressed as part of health care reform although I'm not very optimistic about that right now.

12:48 [Comment From Dan] With all the spending going on between the Bush and Obama administrations, do you think we will be able to balance the national budget, or is it fast becoming a pipe dream?

12:49 Isabel Sawhill: It does seem like a pipe dream right now. The new administration isn't even talking about balancing the budget. They've set as a goal to get it down to 3% of GDP and even that is something they will have great difficulty achieving.

12:49 [Comment From david] Is it too bold to put Medicare reform in with a broader health care reform?

12:50 Isabel Sawhill: No, not at all. Government pays for roughly half of all health care so the public programs must be addressed. Indeed, in my view they can lead the way toward reform of the private health care system if we use them to change the way we deliver and pay for health care.

12:51 [Comment From david] How much is this budget a departure in priorities from say the last Bush or even the last Clinton budget?

12:53 Isabel Sawhill: The Clinton administration ended with a string of budget surpluses. But since that time, under Bush, we have been racking up one deficit after another, putting the tax cuts, the war, the Medicare drug bill all on the national credit card. But I can't say that the Obama administration has bitten the bullet yet in terms of tackling the longer-term problem. They inherited a huge deficit but they are not making things better.

12:53 [Comment From Gene] Is fiscal concern a partisan issue?

12:55 Isabel Sawhill: I don't think it is. I believe both parties are concerned about leaving a mountain of debt to our children but they don't agree on the solution. Republicans are worried that any increase in revenues will just get spent on funding a bigger government and Democrats are worried that if they reduce entitlements it will undermine the safety net and that the savings may just be used to keep taxes low. So we need a grand compromise.

12:56 [Comment From Jen] There was considerable controversy about the assumptions behind the Obama budget--that they were completely unrealistic. In fact I believe Barry Bosworth said just that in one of these chats. Do you agree?

12:57 Isabel Sawhill: If you mean that the economic assumptions were too rosy, yes I agree. The administration also used a budget baseline that enabled them to claim a lot of savings that most people would not want to credit with the savings they claimed. But they did try to introduce some other assumptions that were an improvement on Bush.

12:58 [Comment From david] What priorities do you feel were missed in this year's budget?

12:59 Isabel Sawhill: The need to reform Social Security and Medicare along with the tax system. There are about \$1 trillion in revenues that could be raised if we did away with all current deductions and preferences in the tax system. But these are politically difficult things to do. Very challenging.

1:00 [Comment From Renee] How do you put into context the Obama Administration's response to the recession (and avoid a full-on depression)? Yes--the spending continues to go up, but how can cutting programs and taxes address the recession we're in?

1:01 Isabel Sawhill: They can't. We need to spend more and reduce taxes as long as the economy is depressed. In fact, I think the stimulus needs to be even larger. Government is the spender of last resort when consumers and businesses aren't spending. But we need to rebuild confidence among our creditors that we know how to get our fiscal house in order over the longer term by taking action now that won't take effect until the recession is over.

1:02 [Comment From Gene] Is there any way to ensure that certain programs for youth and children don't get squeezed out of the budget in any belt tightening?

1:04 Isabel Sawhill: This is a huge interest or concern of mine so thanks for the question. I have argued that what we need to do is revise the intergenerational contract between the elderly and the young -- basically gradually reallocating resources over the life cycle. You can find the details of my argument in a paper on the Brookings website called "Paying for Investments in Children" or "Old New".

1:04 [Comment From Alan] You said that fiscal concern was not a "partisan concern." But isn't it a fact that basically the Democrats want to spend it--albeit on aims they consider worthy and essential, whereas the Republicans do not, or at least, they say they do not. In that sense isn't it intrinsically partisan. If you ask a Democrat would he rather have universal care or a balanced budget, he's going to say "universal care", while the Republican will not.

1:06 Isabel Sawhill: I agree with your argument as far as it goes but Republicans want to cut taxes -- and have -- and that creates as much of a fiscal problem as increasing spending. Democrats actually have a better record on fiscal responsibility than Republicans. Look at the postwar record of who's run up the biggest deficits.

1:07 [Comment From Fred (reston va)] It seems like Obama hit a buzz saw of Republican opposition to his new budget, mostly around high deficits. Now the GOP will play against that for the next few elections. Why did the Obama admin. fall into what seems to be a trap?

1:09 Isabel Sawhill: I think the administration could have done more to address long-term deficits but they have been handicapped by 1) the big deficit and debt they inherited, 2) the need to deal with the recession, and 3) the need to make good on campaign promises. Many people think they should have worried less about (3). Their budget was very ambitious in trying to tackle energy, health care, and education, etc.

1:09 [Comment From Gene] Martin Feldstein wrote in an opinion piece today that raising taxes will hurt the recovery effort. Do you agree?

1:11 Isabel Sawhill: I haven't seen his comments but I agree they would hurt the recovery if introduced before the economy is out of the woods. But I don't agree that announcing or even enacting some changes now to be implemented once the recovery has reached a sustained level is a problem.

1:11 [Comment From Jen] Don't you think part of the deficit problem is that basically most Americans, while complaining about deficits, don't really understand how much they cost them, despite all the charts and graphs. So it has never been an issue that really hits home. Is there a way to make deficits "real" to voters?

1:14 Isabel Sawhill: This is a very good question but tough to answer. I have been going around the country as part of the fiscal wake up tour and we get that question a lot. My answer: we are courting another fiscal crisis triggered by the unwillingness of foreigners to continue to lend us all the money, we are also passing on a lower standard of living to our children since you either pay for what you're buying now or you pay for it later. Finally, interest on the debt is a terrible "tax" for which we get nothing. A decade from now interest on the debt will cost American taxpayers \$800 billion according to CBO.

1:14 [Comment From Christine Pelosi] You referenced "reform of the private health care system if we use them to change the way we deliver and pay for health care." - What is your vision for that change? What should it look like to the average consumer?

1:16 Isabel Sawhill: I think the most important thing we could do would be to collect the evidence on what works in health care -- so-called evidence-based medicine. We then need to use that information to base reimbursement rates to providers on what works. Right now, we know we are not getting good value for our health dollar. We spend far more than other countries per person and don't get better health outcomes as a result. The system is broken, in my view.

1:16 Fred Barbash-Moderator: On Jen's question--about making "deficits" real to people: What if there were an income tax "surcharge" that went up and down to reflect the debt service. That would bring it home would it not? Maybe not politically doable but has it ever been considered?

1:19 Isabel Sawhill: Interesting idea. We need some device that affects people when politicians act irresponsibly so that the public will bring pressure on them to rein in spending or raise revenues. Another option that I have written about similar to your idea is to make the "indexing" of both benefits and taxes conditional on prior year deficits. Social security recipients wouldn't get their full cost of living adjustments, for example, in years when we weren't making progress on the deficit.

1:20 [Comment From Jack B] How does the Orzag OMB differ from previous OMB's in your opinion?

1:21 Isabel Sawhill: The career staff in OMB have always been terrific, in my view, and they are there whoever is in power but Orszag is a very good Director and has brought in a good team with lots of good ideas. I give them high marks.

1:21 [Comment From Steven] What ever happened to the "paygo" rules and Gramm-Rudman (sp?) and all those measures that were supposed to impose discipline on Congress?

1:23 Isabel Sawhill: Paygo ended -- unfortunately -- in 2002 and was ignored once we began running surpluses in the late 1990s. We very much need this kind of discipline to be brought back and put into law. The only good news on this front right now is that there seems to be an agreement that health care reform has to be done on a budget-neutral basis.

1:23 Fred Barbash-Moderator: That's it for today. Thanks so much to Isabel Sawhill for taking our questions and thanks to all the readers for participating. We'll be back with Brookings next Wednesday, same time, same place.

And tomorrow at 3 PM on Arena, we'll have a live chat about the politics of pandemics with Dr. Georges Benjamin, President of the American Public Health Association, and Dr. Greg Dworkin, who has worked at ground level on pandemic preparedness.

That's it for now