America's Economy: Headed for Crisis
Realistic Approaches Are Essential

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Summary

An honest assessment of the nation's long-term fiscal outlook almost makes one wonder why, in 2008, so many people are interested in being elected President. And why so little attention is being paid to a problem that budget analysts of diverse perspectives routinely describe as "unsustainable."

One thing is clear: the status quo is not acceptable. The next President will inherit a fiscally lethal combination of changing demographics, rising heath care costs, and falling national savings. The public should take care not to buy the proposals of Presidential candidates that either ignore the magnitude of the long-term fiscal challenge or lock candidates into positions that make the problems insoluble. Improving the nation's long-term fiscal outlook will require hard choices on spending and tax policy. Presidential candidates and their consultants might shy away from endorsing such choices on the campaign trail, but they should not rule them out.

The next administration must enter office with a mandate to act on this problem. Doing so will likely require a mix of options arrived at through bipartisan negotiations. The more options taken off the table through ironclad campaign promises, the more difficult it will be to find meaningful solutions once the campaigns are over and the time for governing begins. Candidates must acknowledge the magnitude of the problem, the need for trade-offs and the necessity for prompt action. Vague promises

of "fiscal responsibility" give the public insufficient insight into how well candidates understand the task at hand.

Comprehensive solutions may take considerable time to develop, and once implemented, should be subject to periodic review. However, as a framework for action the next President should:

- Commit to a balanced budget
- Take every reasonable step to constrain the rising cost of heath care and retirement programs—Social Security and, most especially, Medicare
- Make clear to Americans that taxes cannot be cut over the long-term unless programs are cut commensurately, and
- Prevent total spending, taxes, or debt from reaching levels that could reduce economic growth and future standards of living.

Context

The basic facts are not in dispute. What they portend is not just a short-term budget crunch but the long-term budgetary impact of an unprecedented demographic shift to an older society—one that will exert great pressure on the economy from programs such as Social Security, Medicare, and Medicaid. Key features driving the impending fiscal crisis are as follows:

- Social Security, Medicare, and Medicaid already constitute 40 percent of the federal budget—before the baby boomers have begun to retire in any numbers.
- Over the next 25 years, the number of Americans ages 65 and over is expected to grow from 12 to 20 percent of the population. The ratio of workers paying into Social Security and Medicare relative to the number of beneficiaries will fall by roughly one-third.
- For the past 40 years, health care spending has consistently grown faster than the economy. If the same growth rate continues over the next 40 years, Medicare and Medicaid alone will absorb as much of our nation's economy as the entire federal budget does today.

- Higher saving levels today would contribute to a larger economy tomorrow, and that would make the looming fiscal burden more affordable. Unfortunately, Americans' personal saving rate as a percentage of disposable income has steadily declined—from more than 7 percent in the early 1990's to *negative* one percent in 2006. Net national saving, public and private combined, has plummeted from 8.5 percent of gross national income 25 years ago to less than 2 percent today.
- In the absence of domestic saving, foreign sources have taken up the slack. The portion of the government's privately held debt owned by foreign investors has risen from 37 to 54 percent since 2001.[1] Reliance on foreign borrowing increases the budget's exposure to international capital markets and decisions made by foreign interests. Moreover, interest payments on the national debt go to bond holders from abroad—a growing mortgage on our future national income.
- Raising tax revenues to cover projected government spending would require today's tax levels to increase by a third to a half by 2030, depending on the growth of health care costs. If we try to keep government revenues at today's level and pay for the increase in Social Security, Medicare, and Medicaid by reducing spending on other programs, it would require a cut of between one-half to four-fifths by 2030—again depending on the path of health care spending.

Another way to look at the size of the problem is to total up the government's explicit liabilities, such as the national debt, and its implicit obligations, such as future Social Security and Medicare benefits. According to the Government Accountability Office, all such "fiscal exposures" have a present value of $50 trillion—almost as much as today's net worth of all household assets and far more than the commonly cited national debt, which is approaching $9 trillion.[2]

No one can say when all this might end up in a crisis, nor what a crisis would look like. Indeed, there might be no crisis at all—just a long, slow erosion in our nation's

[1] Measured from June 30, 2001, through December 31, 2006. Table OFS-2, U.S. Department of the Treasury, *Monthly Treasury Bulletin*, March 2007.
[2] Financial Report of the United States Government 2006, Government Accountability Office Statement, December 15, 2006.

standard of living. In either case, it's a dismal future, and doing nothing now to avoid it would be an act of fiscal and generational irresponsibility.

Despite the clear warning signals, Presidential candidates will face enormous pressure to look the other way. The problem is not that the public cannot handle the truth –we believe they can—the problem is the poisonous political environment in Washington and a process for nominating candidates that rewards the most obstinate forms of partisanship. The very idea of bipartisan cooperation seems highly offensive to ideological purists of both left and right. Politicians who truly wish to seek consensus solutions are confronted with the double burden of working out their differences, which can be substantial, while fending off their ideological guardians who insist that any compromise is both unnecessary and unwise.

Campaign platforms will therefore burst with "base"-pleasing pledges. If history is a guide, Democrats will tout plans to expand entitlement benefits, not just for those in need, but for middle and upper middle-income people as well. They will be much less forthcoming about where the money will be found. For their part, Republicans will likely insist that all of the Bush tax cuts must be made permanent and that more tax cuts would be even better.[3] They, in turn, will have little to say about the specific spending cuts that would be needed in order to accommodate the revenue loss. These are politically convenient evasions. The real choices require scaling back federal expenditures for health care and Social Security, raising revenues, or some combination.

Some people might believe that the federal government should both tax and spend at about 18 percent of the Gross Domestic Product (GDP), while others might believe it should tax and spend at about 30 percent of GDP. No reasonable person, however, would argue that the government should tax at 18 percent and spend at 30 percent. The resulting annual deficits and accumulated debt would shatter the economy. Yet, this is the future we will get if we try to fund the spending *required by current law* with today's level of taxation.

[3] The tax cuts enacted in 2001 and 2003 were written with "sunset" dates that cause them to expire by 2011. The estimated revenue loss of extending them is $1.89 trillion trough 2017, not including an additional $300 billion in higher debt service costs.

While candidates will not necessarily agree on specific solutions, even within their respective political parties, they can prepare the ground for action in the next administration by acknowledging that each of the realistic options comes with economic and political consequences. There must be tradeoffs:

- Those who want to raise taxes must consider what level of taxation they are willing to support and how the new revenue should be raised.
- Those who believe that spending must come down must consider which programs they would target for reduction and how the savings would be achieved.
- Those who are unwilling to do either must consider how much debt they are willing to impose on future generations.

Toward a Brighter Future

There is no quick fix. There are, however, actions we can begin taking now that will improve the economic prospects for future generations.

Commitment to a balanced budget is a good first step. Restoring a balanced budget would increase national savings, lower future interest costs, signal to world financial markets that we are serious about getting our fiscal house in order, and reduce our dependence on foreign lenders. Yet, even with a near-term balanced budget plan, current fiscal policy would remain unsustainable over the long term.

The most effective long-range solutions would be to *constrain the rising cost of heath care and retirement programs— primarily Medicare and Social Security*. This will require difficult choices regarding who should receive benefits, what level of benefits can be provided, and how those benefits should be delivered.

Raising future taxes to meet rising costs of government programs is another option, but conceptually this would be similar to borrowing, in that it would place a claim on the expected earnings of today's children—in effect confiscating their economic futures. There is, however, a necessary corollary: if spending does not come down, taxes will have to go up. Trying to borrow our way through the problem does not reduce the tax burden; it would simply impose even *higher* taxes on future generations who would be saddled with the rising costs of entitlement programs plus exploding interest costs.

Treating taxes and spending as "separate deals" is an economic fantasy. To be sure, low taxes theoretically encourage economic growth by providing incentives for work, saving, and investment. However, if taxes fall too far below government spending for too long, the resulting deficits will eventually cancel out any positive economic gains. In the final analysis, government revenues must be sufficient to pay its costs. Tax cuts make attractive campaign rhetoric, but unless they are accompanied by reduced spending over the long-term, we are merely shifting the tax burden from ourselves to our children. Debt is not a painless alternative to taxation.

The best fiscal policy is one that aims to *prevent total spending, taxes, or debt from reaching levels that could reduce economic growth and future standards of living*. For that reason, we do not favor a blanket extension of the expiring 2001 and 2003 tax cuts. Instead, the decision on whether to extend them should be made within the context of sustainable, long-term fiscal policy. Adhering to the "pay-as-you-go" (paygo) budget rules now in effect in the House and Senate would facilitate the necessary balancing of tax and spending priorities.

Social Security Reform

Basic Principles

We believe that Social Security reform plans should meet three fundamental objectives—ensuring Social Security's long-term fiscal sustainability, raising national saving rates, and improving the system's generational equity:

- **Long-term fiscal sustainability.** The first goal of reform should be to close Social Security's financing gap over the lifetimes of our children and beyond. The only way to do so without burdening tomorrow's workers and taxpayers is to reduce Social Security's long-term cost.

- **Increased national saving.** As America ages, the economy will inevitably have to transfer a rising share of real resources from workers to retirees. This burden can be made more bearable by increasing the size of tomorrow's economy. The surest way to do this is by raising national saving rates and hence, ultimately, productivity growth. Without new saving, reform is a zero-sum game.
- **Generational equity.** As currently structured, Social Security benefits offer each new generation of workers declining value on their contributions. Reform must not exacerbate—and ideally should improve—the generational inequity underlying the current system.

Paths to Avoid

Candidates tempted to take the path of least resistance may rely on criteria that minimize the size of the problem or on options that merely shift and conceal the cost. Here are a few examples of such shortsighted approaches:

Trust-fund accounting. The traditional method of measuring Social Security's future is the 75-year actuarial balance of its trust funds. By this measure, Social Security is said to be "solvent" until 2041. That may sound reassuring, but all it really means is that the government owes itself a great deal of money. Trust-fund accounting obscures the magnitude and timing of Social Security's financing gap by assuming that trust-fund surpluses accumulated in prior years can be drawn down to defray deficits incurred in future years. However, the trust funds are bookkeeping devices, not a mechanism for savings. The special issue U.S. Treasury bonds they contain represent a promise from one arm of government (Treasury) to satisfy claims held by another arm of government (Social Security). They do not indicate how these claims will be satisfied or whether real resources are being set aside to match future obligations. Thus, their existence does not, alone, ease the burden of paying future benefits. The real test of fiscal sustainability is whether reform closes Social Security's long-term gap between outlays and dedicated tax revenues.

Reliance on new debt. Paying for promised benefits or financing private account options by issuing new debt defeats the objective of increasing savings. To the extent that reform relies on debt financing, it will not boost net savings and may result in a decline. Without new savings, any gain for the Social Security system must come at the expense of the rest of the budget, the economy, and future generations. When we resort to borrowing, we are ultimately increasing taxes for our kids.

Reliance on outside financing. Ideally, reform should achieve all necessary fiscal savings within the Social Security system itself. Unrelated tax increases and spending cuts may never be enacted, or if enacted, may at any point be neutralized by other measures.

Realistic Reform Strategies

There is no one right answer to Social Security reform. However, adjusting the program for Americans' increasing longevity and constraining the growing value of its scheduled monthly benefits are the two most logical steps for constraining growth in the program's cost. Personal accounts would help improve generational equity and improve savings—if the accounts are fully funded and mandatory.

Longevity adjustments. Raising the age at which retirees are eligible for full benefits (now 66 and scheduled to go up to 67 by 2025) makes good sense for several reasons:

- Longevity is increasing steadily, and longer life spans mean longer, and more costly, lifetime benefits.
- Older Americans are generally healthier than in the past and can work more years, especially as jobs have become less physically demanding.
- In coming decades, the pool of working-age Americans will virtually stop growing, depriving our nation of this engine of economic growth. Raising the full benefit-eligibility age could help augment the labor force by encouraging older people to remain at work for a few more years.

Some proposals would raise the full-benefit age in the future. Others would set up an automatic provision, referred to as "longevity indexing," that would have the full-benefit or initial age rise periodically if longevity continues to rise. As a practical matter, these options should be combined. Raising the eligibility age to a higher fixed target may balance the system for a while. But without longevity indexing, the system will again drift out of balance.

***Price indexing**.* Another good option would be to index initial benefits to the growth in prices for commonly used goods and services, as measured by the Consumer Price Index.[4] This reform has two advantages: it is simple, and it creates large savings. According to the most recent estimate by the Social Security program's actuaries, moving to price indexing would more than close the program's projected gap. Assuming this change took effect in 2012, the actuaries estimate that the system's annual shortfall would peak in 2032 at 2.33 percent of taxable payroll. By 2055, the system would show a positive balance, and by 2080, it would be running a surplus equal to 2.23 of taxable payroll.

Under the rules by which Social Security operates today, it is virtually impossible to close its deficit by increasing national productivity. True, higher productivity would result in higher wages and thereby boost payroll tax revenue. But higher wages also would result in higher benefits that would largely cancel out the gain. With price-indexing, however, benefits would shrink indefinitely relative to taxable payroll and GDP—and the faster wages grow, the more benefits would shrink as a share of the economy.

This dynamic, of course, means that retirees would receive smaller benefits, relative to the wages of the working population. To the extent that Social Security is viewed as a type of "safety-net" program, this does not pose a public policy problem. To the extent that Social Security is viewed as an income replacement program, it does.

For this reason, price-indexing makes the most sense as part of an overall reform that also incorporates funded benefits like personal accounts. On one hand, the price-

[4] Under current law, initial benefit awards are indexed not to prices but to wages—that is, the wage history on which benefits are based is updated at the time of retirement to reflect the rise in the economy's overall wage level over the course of the beneficiary's working career.

indexed pay-as-you-go benefit would ensure that the purchasing power of benefits would remain the same for each new generation of retirees. On the other, the funded benefits would help ensure that the relative living standard of retirees is not eroded.

Another approach, called "progressive price indexing" would mitigate the effects of reform on low and moderately low-income workers by wage-indexing benefits for the lowest third of benefits (as under current law), phasing in an element of price-indexing for the middle third, and fully price-indexing benefits for the top third. This would generate program savings from moderate and high-income workers but protect lower-income workers. According to the Social Security actuaries, this reform would close roughly 80 percent of the cash deficit by 2080.

While this change alone would not be enough to close the system's financing gap, Congress should give it serious consideration as part of an overall reform plan. It would substantially improve the system's fiscal sustainability while preserving all promised benefits for those who rely on them most.

Tax options. Raising the payroll tax rate to meet benefit obligations would be neither economically sound nor generationally equitable. The burden would fall most heavily on lower and middle-income workers and on future generations. A popular alternative to an across-the-board increase is to make more of the earnings of higher-income workers taxable, by raising the cap on taxable wages. Currently, the Social Security payroll tax (12.4 percent) is levied on wages up to $97,500. Raising this cap would bring in more money, but as a means of assuring the program's sustainability, it would be considerably less effective than its proponents allege. It would provide only a few more years of positive cash flow to the system and, unless the link between taxable earnings and benefits were to be eliminated, it would add to the system's long-term cost, by providing higher benefits to those who need them least.

Certainly, raising taxes in some form would be more fiscally responsible than unlimited borrowing. It may also be a necessary component in any plan that is capable of winning broad bipartisan support. But before resorting to this option, policymakers must carefully weigh the magnitude of the looming demands that Social Security and health care entitlements will place on the income of future workers and the economy overall. Levying higher taxes to meet rising costs could hinder an economy that will also have to cope with near stagnant workforce growth. Moreover, a Social Security tax increase now would simply be used to support other governmental operations and perhaps would even encourage higher government spending, while pretending that we are “shoring up” the trust fund.

In short, increasing Social Security revenues today will not reduce the program’s future burden unless a mechanism is in place to ensure that the extra money generates increased personal saving and a larger future economy.

Personal accounts. One way that higher Social Security contributions could generate new saving would be if they were used to create personally owned accounts within the Social Security system. This reform could increase saving by providing a more reliable method of pre-funding promised benefits than government trust funds can ensure. The funds would be beyond the reach of government, and Congress could not double-count personal account assets in the federal budget. In other words, they would provide a “lockbox” no politician could pick.

However, the money to establish personal accounts must come from somewhere. To the extent that the source of funding is additional government borrowing, no new savings for the economy will result, because the increase in government borrowing would cancel it out. Moreover, personal accounts alone do nothing to close the existing gap between dedicated revenues and promised benefits. In any true transition to a funded system, workers will have to pay more, retirees will have to receive less, or both. Reform plans that do not face up to this transition cost will not result in new net saving or a larger economy.

It thus makes sense to use the “add-on” approach to personal accounts, meaning that they should be funded from additional worker contributions. These contributions would be personally owned savings, and so would not function as a “tax increase.” They would increase national and personal savings rather than increase the size of government.

Such accounts should be a mandatory part of the system. The government has a legitimate interest in seeing that people do not under-save during their working lives and become reliant on the safety net in retirement.

Medicare Reform

Medicare is a much bigger problem than Social Security, not just fiscally but also politically and ethically. Its costs are projected to grow faster than the economy and faster than can be reasonably supported by the federal budget. Health care prices have outpaced overall economic growth since 1960. This phenomenon greatly compounds the growing fiscal problems associated with the rising number of aged Americans. Unless health costs slow, by 2050, the share of the Gross Domestic Product consumed by Medicare and Medicaid will be nearly five times what it is today. Most of that increase would come from the rising cost of health care rather than the larger number of elderly Americans.

Before thinking about specific ways to address the Medicare problem, here are criteria for evaluating Presidential candidates' Medicare reform proposals:

- **Scope of benefits**: Medicare should cover a level of care commensurate with the care available to working-age people. This does not mean that taxpayers must be expected to finance a "high option" insurance plan for all seniors.
- **Fiscally responsible**: A fiscally responsible program is one that can reasonably be expected to operate within the resources available to finance it. A program that assumes a perpetually open spigot from the Treasury is not fiscally responsible.
- **Income-related cost sharing**: As a group, seniors enjoy a better income and less poverty than other age groups, particularly children. Therefore, Medicare's premiums, which help fund Parts B (physician care) and D (prescription drugs), should be geared to income levels. Currently, premiums cover only 25 percent of program costs. General tax revenues cover the rest. Given this large subsidy

and the need for long-term program savings, beneficiaries who can afford to pay more of their fair share should do so.

- **Efficient provision of medical care**: Whatever new system of medical insurance for the elderly is devised, it should contain incentives for both providers and patients to use resources cost-effectively. Treatments that have little or no promise of achieving any appreciable improvement in a patient's well-being should not be financed with taxpayer dollars.

Political leaders like to pretend that there are simple fixes to Medicare that won't require anyone to give up anything. Just clamp down on "fraud and abuse," or cut back on excessive paperwork, and the problem will be solved. Health policy experts see it differently. Pure "waste" is no easier to pinpoint in the health system than it is in the federal budget. And, even if we could identify and eliminate all of it, the underlying cost drivers—from technology to expectations of good health to aging—would soon cause spending to grow again as fast or faster than before.

The hard truth is that there are only two direct ways to reduce the growth in Medicare costs: pay health care providers less or reduce the amount of health care that patients consume. Although both political parties agree that the goal is to deliver better quality of care while controlling costs, that goal is much easier enunciated than achieved.

The United States has the only open–ended, cost–plus health care financing system in the world. As a result, we spend more than twice as much per capita as do other developed countries. Yet there is very little evidence that our overall health outcomes are any better—and on some key measures, they are worse. Following are described some of the more significant contributing factors.

***Resource intensity*.** America's resource-intensive style of medicine is the single most important reason we spend so much more on health care than do other nations. Some of the resource-intensity comes from new technology and some from simply doing more—more tests, visits, procedures, administrative costs, and so on. Society's definition of health itself has also expanded. In recent decades, we have steadily broadened the definition of insurable health care to include whole new realms of social life.

Lack of cost containment incentives. "Good health" is a subjective standard and one that naturally rises as society becomes more affluent. As these trends interact with technological progress, they are transforming the practice of health care. While once health care meant an occasional visit to the doctor or hospital, it is fast becoming a lifelong process of diagnostics and fine-tuning in which any extra dollar spent is expected to confer some perceived benefit. And with consumers' out-of-pocket share of their personal health care costs having fallen from more than 30 percent in 1975 to 15 percent in 2005, they have little incentive to demand the most cost-effective treatments. Moreover, fee-for-service reimbursement and fear of malpractice claims give providers every incentive to prescribe any additional treatment regardless of its relative cost-effectiveness.

Aging society. Then again, there is the aging of America's population. Nearly every measure of illness, disability, and health-care utilization rises with age. On average, each older American consumes about four times as much in medical services as a younger adult and about seven times a much as a child. Although the elderly now are just 12 percent of the U.S. population, they account for nearly 40 percent of U.S. medical bills.

No cost-effectiveness standards. Businesses run on "best practices." Medicare does not. Many studies have shown that comparable patients receive very different care—at very different costs—depending on where they get care, because of different styles of practice from one region to another, or even from one hospital to another. For example, comparable patients are six times as likely to have back surgery if they live in some areas of Oregon than if they live in Indiana. One reason for this is that insufficient data exist to guide caregivers and patients on which treatments work best. Any package of reforms should include greater attention to research on the comparative effectiveness of treatments, as well as incentives for patients and providers to use the results of such research in making decisions on the best care.

Better targeting of resources could lead to substantial savings. It is well documented, for example, that cost variations are dramatic for care near the end of life. A recent study of large California hospitals found that Medicare spending per patient in the last two years of life ranged from $24,722 to $106,254—*with no demonstrable difference in health status, quality of health care, or longevity.* Over the five-year study period, Medicare could have saved $1.7 billion in the Los Angeles area alone, if the resource-intense hospital care there matched the pattern of care in lower-cost areas of the state.[5] With more than a quarter of Medicare spending annually going for beneficiaries in the last year of life, policymakers must begin asking some tough questions about the causes and potential cures for such anomalies in cost patterns.

The most striking finding from these comparisons of costs among regions is that higher spending and more resource-intensive care *does not* produce better patient outcomes. For policymakers, the key point is that there are choices in the way care is delivered and that the most expensive choice is not necessarily the best—not for patients, and not for society.

Americans have yet to confront these choices, but in other countries they have been dealing with them for years. Go through the intensive care unit of New York Hospital and count the number of octogenarians who are there with heroic intervention techniques and a dismal quality of life. Then go to a hospital in London and observe the difference in the age composition. What is it they do in Great Britain? They have capped their medical costs. A neurologist caring for stroke patients with a dismal prognosis turns them over to their general practitioner who sends them home to die quietly of pneumonia, "the old man's friend." Would Americans accept the level of health care "rationing" this implies? Maybe not. But we will soon need to face the question.

[5] See, Dartmouth Atlas Project, *Supply-Sensitive Care*, January 2007, http://www.dartmouthatlas.org/topics/supply_sensitive.pdf.

Spending on health care for the elderly will continue to grow far faster than the economy so long as we pretend that costs can be controlled without any sacrifice. Costs aren't rising because of the proliferation of completely useless medical services. They're rising because medical science can do more for more people—and because what it can do is often very expensive, even if the benefit is incremental. Ultimately our nation must decide what level of health care we wish to provide as an entitlement and how much we are willing to pay for it. Setting limits in Medicare will mean moving toward a whole new paradigm—one in which prospective budgets at the program level and capitation at the beneficiary level finally compel us to make tradeoffs between health care and other national priorities.

In short, Medicare should be put on a budget. If program costs exceed targeted levels, Congress and the President should be required to take corrective action. If they decide that program costs should be permitted to increase (for example, by filling the prescription drug "donut hole" or adding long-term care coverage), then fiscal responsibility demands that they identify a commensurate stream of revenue to pay for the expanded coverage.

No matter what vision of health care reform we adopt, it would make sense to end the current open-ended tax exclusion for employer-paid health benefits. According to the Government Accountability Office, this exclusion cost the federal government an estimated $125 billion in forgone revenues in fiscal year 2006 alone. Subsidized health insurance is also one of the main reasons Americans spend so much on health care. It encourages employees to choose more generous coverage than they otherwise would, channeling resources toward health care consumption and away from other priorities. It also gives the same preferential tax treatment to the last dollar spent on health care as to the first and thus subsidizes not just basic coverage, but "gold-plated" health benefit plans.

The tax exclusion thus adds to the deficit and drives up health care costs. It would be counterproductive in a single-payer national health system. It even would be counterproductive in a system that mandated employer-based coverage. If desired, to maximize coverage, it would be possible to reform this tax exclusion so that much, or even all, of the benefits went to lower earners. This could be done by using a flat refundable tax credit or a sliding-scale credit.

Ultimately, the growth in Medicare costs must be addressed through fundamental health care reform. That is no reason, however, to avoid incremental steps that make sense on their own and that can achieve substantial savings. Medicare is quite influential, accounting for 20 percent of the nation's total spending on health care. If the next President, with the help of Congress, can agree on meaningful Medicare reforms, it may well lead the way for necessary reforms of the broader health care system.

Conclusion

Daunting as the long-term projections for the U.S. economy are, there is nothing inevitable about a fiscal crisis. The problems we face—essentially a structural imbalance between what government promises and how much it collects in taxes to pay for those promises—is one that can be cured if we begin to address it now.

Fundamentally, this is not about numbers. There are basic philosophical questions:

- Is it morally acceptable to pursue a fiscal policy that threatens to place ever-tighter constraints on future generations' ability to determine their own priorities or to meet new challenges?
- Have we become so insistent on our own claims to government benefits, regardless of need, that we have forgotten about the well-being of the very people we expect to pay for those benefits—our children and grandchildren?
- Can any modern media–dominated society, fixated on the short–term and the next election, deal on a timely basis with silent, slow–motion, long–term challenges, or is a costly crisis needed to spur action?

These are not easy questions, but they are ones that all of the 2008 presidential candidates should confront, publicly and explicitly.

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