*Bipartisan Commission on Entitlement and Tax Reform**

On November 5, 1993, President Clinton issued Executive Order 12878 establishing the Bipartisan Commission on Entitlement Reform, charged with recommending long-term budget saving measures involving (1) revisions to statutory entitlement and other mandatory programs, and (2) alternative tax reform proposals. The Commission later came to be known as the Bipartisan Commission on Entitlement and Tax Reform.

The Commission was created in response to widespread and growing concern about the size of the budget deficit and the role that entitlement programs, as defined by the Commission, play in creating it. In general, the Entitlement Commission defined a government program as an entitlement if a court found that a public law legally obligates the government to make payments to persons meeting the program's eligibility criteria. Congress has included a series of definitions in the Congressional Budget Act (for example, direct spending) that largely correspond to the general concept of "entitlements." Tax expenditures, as defined under the Congressional Budget Act, are reductions in individual and corporate income tax liabilities that result from special tax provisions or regulations that provide tax benefits to qualifying individuals. Some Commission members have suggested that tax expenditures are therefore the revenue equivalent of entitlements, and others believe they are not. Some also believe that Social Security benefits are not entitlements because they are based on earnings and thus they are an earned right.

The Social Security programs were considered by the Commission to be very much within its mandate and received a considerable amount of its attention. This note reviews the work of the Commission, with a particular focus on the part played by Social Security in its deliberations.

The panel was composed of 30 members appointed by the President (who also designated a Chair- and Vice-Chairperson). Ten Members were appointed from the Senate (5 from each political party), 10 Members from the House of Representatives (5 from each political party), and 10 members from the public and private sectors with experience and expertise in the areas to be considered by the Commission. On December 23, 1993, Executive Order 12887 increased the Commission membership to 32, with 2 additional persons added to the Senate list. A list of the names and organizations represented by the Commission members appears in Appendix A.

During 1994, nine meetings of the Entitlement Commission were held in Washington, DC, of which four were hearings at which witnesses testified.

Interim Report

At a meeting on August 8, 1994, the Entitlement Commission adopted the *Interim Report to the President*[1] and sent it to the President and the Congressional Leadership, as well as releasing it to the public. The report, adopted by a vote of 30 to 1 (with 1 member not voting), made a number of "findings" about the nature of the problem, that Social Security and Medicare spending and revenues must be brought into balance to keep these programs solvent. The interim findings—which outlined the economic and budget problems likely if lawmakers did nothing to fix imbalances in entitlement programs—marked the Commission's first attempt aimed at producing specific reform recommendations. A vote in early December was scheduled. The findings are located below [note: finding numbers 5 and 7, which bear directly on Social Security, are reproduced below in full; summaries only of the other findings appear]:

Finding number 1: To ensure that today's debt and spending commitments do not unfairly burden America's children, the government must act now. A bipartisan coalition of Congress, led by the President, must resolve the long-term imbalance between the government's entitlement promises and the funds it will have available to pay for them.

Finding number 2: To ensure the level of private investment necessary for long-term economic growth and prosperity, national savings must be raised substantially.

Finding number 3: To ensure that funds are available for essential and appropriate government programs, the Nation cannot continue to allow entitlements to consume a rapidly increasing share of the Federal budget.

Finding number 4: To be effective, any attempt to control long-term entitlement growth must take into account the projected increases in health care costs.

Finding number 5: To be effective, any attempt to control long-term entitlement growth must also take into account fundamental demographic changes.

- America's population is growing older because of longer life expectancies and the aging of the baby boom generation. Today, there are almost five working-age persons for each person older than age 65. In 2030, when today's workers have retired and today's children are in their prime working years, the Social Security Trustees project that there will be

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fewer than three working-age persons for each person older than age 65.

- The aging of the population will strain major entitlement programs, making it difficult to provide health and income security to seniors and disabled citizens. Even if the extraordinary increases in health care costs were eliminated after 1999 (so that costs for each person of a given age grew no faster than the economy), Federal outlays for Medicare and Medicaid would still double as a percentage of the economy by 2030. The aging of the population will drive combined Medicare, Medicaid, and Social Security spending from about 8 percent of the economy today to about 14 percent in 2030.

Finding number 6: To respond to the Medicare Trustees' call to action and ensure Medicare's long-term viability, spending and revenues available for the program must be brought into long-term balance.

Finding number 7: To respond to the Social Security Trustees' call to action and ensure the long-term viability of Social Security, spending and revenues available for the program must be brought into long-term balance. Any savings that result should be used to restore the long-term soundness of the Social Security Trust Fund.

- Social Security is an important source of support for many of the Nation's citizens. Today, the poverty rate for senior households is about 13 percent, but without Social Security, it could increase to as much as 50 percent. Social Security provides 90 percent or more of the total income for almost half of the senior households below the poverty line. Half of all American workers do not have employer-provided retirement programs and must rely upon Social Security and their own savings.
- The Public Trustees believe that "legislative action is needed to ensure the long-range financial integrity of the [Social Security] program."
- Once the baby boom generation begins to retire in 2010, the cash flow surplus from Social Security will rapidly decline. By 2013, Social Security benefit payments will exceed the tax revenues dedicated to the program. After 2013, the cash flow shortfalls in Social Security will cause the total Federal deficit to increase rapidly unless appropriate policy changes are made. The trust fund is projected to run out of money in 2029. Unless appropriate policy changes are made, projected Social Security outlays will be about 17 percent of the Social Security payroll tax base, while dedicated tax revenues will remain about 13 percent of payroll.
- Congress and the Executive Branch have faced long-term problems with Social Security in the past and have acted in a bipartisan manner to restore stability to the system, most recently in the 1983 Social Security legislation.

Entitlement Reform Options

On December 5, 1994, the Bipartisan Commission on Entitlement and Tax Reform released a staff summary paper[2] listing 53 groups of reform options under five broad categories to assist the panel's members in considering entitlement reform packages that would close the gap between entitlement obligations and revenues, and ensure the programs' long-term solvency. In all, the staff summary included more than 100 individual options to reform entitlement programs and some tax expenditures.

The staff report also featured three sample reform packages, each of which would bring entitlement spending and revenues into balance by 2030, restore the long-term stability of Social Security and Medicare, and address broader economic concerns identified in the Commission's *Interim Report* of August 1994. One package would avoid any tax changes; another would minimize benefit cuts; and a third would blend these two approaches.

Final Meetings of Entitlement Commission

On December 9, 1994, Senators Kerrey and Danforth offered their own proposal to bring entitlements into balance while at the same time keeping the deficit from rising from its current level. Alternatives were offered by other Commissioners.

On December 14, the Commission debated the various proposals before it but could reach no agreement. While the Commission had reached a general consensus on the need for entitlement and tax reform, it was unable to come to terms on specific solutions. It acknowledged a lack of support among the members for any one specific reform plan. Instead, Senators Kerrey and Danforth offered a broad resolution affirming the Commission's interim findings instead of a package of specific proposals. The resolution, sent December 15, 1994, was presented in the form of a three-page letter to the President and Congressional leaders, outlining broad recommendations to encourage the development of entitlement reforms and setting goals for future tax reform efforts.

Among other things, the letter noted that:

"...the first and most important of our recommendations is that our major spending and tax decisions should be made with reference to a time period longer than the traditional five-year budget window, such as the 30-year time frame relied on in the Commission's Interim Report (or 10- or 20-year period when available data does not allow use of a 30-year time frame), so that appropriate planning is incorporated in budget decisions. When discretionary spending was the largest share of our budget, short-term planning may have been appropriate. However, today we are in the business of operating the world's largest social insurance programs, and their costs are expected to exceed their revenues substantially over coming decades.

"The Commission's Interim Report has established that the projected imbalance between spending and revenues—particularly with regard to health care and retirement entitlement programs—will, together with interest on the Federal debt, undermine America's capacity to make appropriate investments in the well-being of our citizens and undertake other essential government functions, such as national defense.

"Our second recommendation is that we change our current laws to create a future in which we balance our entitlement commitments and the funds available to honor those promises. We must restore balance to our Social Security trust fund and strengthen the confidence of all Americans that Social Security will endure on a sound footing.

"To be clear, this Commission could not reach agreement on the details of a plan to achieve our objective."

The Entitlement Commission's letter was signed by 24 of the panelists, with 6 voting against it and 2 abstaining.

On January 27, 1995, a 269-page final report[3] was sent to the President, Congressional leaders, and interested parties. The 32-member panel approved the general recommendations in the final report despite failing to agree on any specific package of options. The report's recommendations called for lengthening the traditional 5-year period over which tax and spending proposals are weighed, changing current laws to bring entitlement programs into long-term balance, and acting quickly. The final report contained in full the above-cited letter sent to the President, five reform proposals of the Commissioners, nine statements, and a staff summary of long-term reform options and reference materials.

On January 31, 1995, the Commission concluded its work.

Notes

[1] *Bipartisan Commission on Entitlement and Tax Reform: Interim Report to the President, August 1994* [hereinafter referred to as *Interim Report]*.

[2] *The Bipartisan Commission on Entitlement and Tax Reform: Staff Report on Entitlement Options, Summary Materials (December 1994)*. A longer, more detailed document, *The Bipartisan Commission on Entitlement and Tax Reform: Staff Report on Entitlement Reform Options, Reference Materials (December 1994)*, was released simultaneously as a companion to the *Summary Materials*.

[3] *Bipartisan Commission on Entitlement and Tax Reform—Final Report to the President, January 1995.*

Appendix A

Commission Members

United States Senate:

J. Robert Kerrey (D-NE), Chairman
John C. Danforth (R-MO), Vice Chairman
Dale Bumpers (D-AR)
Thad Cochran (R-MS)
Pete Domenici (R-NM)
Judd Gregg (R-NH)
Carol Moseley-Braun (D-IL)
Daniel Patrick Moynihan (D-NY)
Harry Reid (D-NV)
Jim Sasser (D-TN)
Alan K. Simpson (R-WY)
Malcolm Wallop (R-WY)

United States House of Representatives:

Bill Archer (R-TX)
Michael N. Castle (R-DE)
Eva M. Clayton (D-NC)
Christopher Cox (R-CA)
E. (Kika) de la Garza (D-TX)
John D. Dingell (D-MI)
Porter J. Goss (R-FL)
J. Alex McMillian (R-NC)
Dan Rostenkowski (D-IL)
Martin O. Sabo (D-MN)

Public-Private Sector:

Robert E. Denham, Chairman and Chief Executive Officer, Salomon Inc.

Thomas J. Downey, Thomas J. Downey & Associates, Inc.

Sandra W. Freedman, Mayor, City of Tampa, Florida

William H. Gray, III, President and Chief Executive Officer, United Negro College Fund

Robert Greenstein, Executive Director, Center on Budget and Policy Priorities

Karen N. Horn, Chairman and Chief Executive Officer, Bank One Cleveland

Thomas H. Kean, President, Drew University

Peter G. Peterson, Chairman of the Blackstone Group

Roy Romer, Governor, State of Colorado

Richard L. Trumka, President, United Mine Workers of America