January 3, 2011
KUFM / KGPR
T. M. Power

An Important Distinction: Short-Term Versus Long-Term Federal Deficits

Since the November elections, there has been a steady political drum beat telling us that one of the most important things that needs to be done to get the American economy back on track is to act quickly to reduce the federal deficit. Americans and, especially, their government, we are told, are overspending. It is time for austerity and belt tightening. This has not only been the message coming from the victorious Republicans, their rebellious Tea Party allies, and Blue Dog Democrats, but also the message from several prominent bipartisan commissions and reports.

How did the lame duck Congress made up of chastened Democrats and emboldened Republicans respond? They passed a bipartisan bill of tax cuts and spending that added almost a trillion dollars to the federal deficit! There was something disorienting about the political drum beat on deficit reduction but the bipartisan support to run that deficit even further upwards.

The truth is that Americans and their representatives in Congress knew better than the pundits and deficit reduction panels. Polls after the November elections made clear that Americans were most worried about weak job markets and high unemployment rates. It was the lack of apparent progress or even a plan on that dominant issue that drove the electorate. Deficit reduction is an issue that is always in the back of voters' minds but not a very high priority issue right now.

In this voters are correct. A good part of the deficit is tied to the dramatic slowdown in the economy that has thrown millions of workers out of their jobs and dramatically deflated home values, the primary repository of household wealth. Until the economy gets healthy enough to reabsorb those workers and boost household incomes, there probably is not much hope for balancing the federal budget. For that reason, the focus on trying to stabilize household spending by extending the middle class tax cuts, cutting payroll taxes for a year, and extending unemployment compensation made sense. The obscene extension of tax cuts for the wealthiest and the elimination of taxes on a few thousand of the richest estates were the price that had to be paid to get some Republican support for the necessary portions of the bill. Accepting that increase in the deficit in order to stabilize and support household spending was the right thing to be doing during a serious recession like the one that still has its grip on much of our economy.

Some, however, are appalled. They talk as if the United States is like Greece, teetering on the edge of nation bankruptcy because of irresponsible public spending. The fact is that the spending of our federal government relative to the size of our economy is really quite modest compared to most other developed countries. The calls for cutbacks in the Social Security program in the name of deficit reduction is especially misguided. Social Security is already close to fiscal balance with any problems may years in the future, and even those problems can be solved by raising the retirement age for younger workers slightly and increasing the amount of income that is subject to the payroll tax. We have done both of these in the past and will do them again, easily putting Social Security on a solid basis.

The biggest hurdle to long-run federal deficit reduction has nothing to do with federal tax and spending policies. It has to do with costs that are wildly out of control in a part of the private sector, namely medical costs. That spills over into the federal deficit because those same medical cost increases infect federal health expenditures for seniors enrolled in Medicare, veterans, federal employees and retirees, and low income families on Medicaid.

This problem has been developing for decades and has no easy solution. For as long as there has been modern medicine, we have privately and publicly acknowledged that human beings have a moral right to medical care. That is why most of our hospitals originally were supported by religious and charitable organizations or run by state and local governments. It is also why the earliest health and life insurance policies had their origins in churches, fraternal organizations, and non-profit institutions. In the middle of the 20th century, large businesses took responsibility for providing health insurance to their workers as part their pay. Federal, state, and local governments and the Armed Forces did the same. The federal government mandated that any hospital receiving federal support had to serve all those who were sick or injured, regardless of their ability to pay.

Over the last two centuries, first privately and then, in addition, through government institutions, we have "socialized" medical care in the sense of finding ways to share the cost of catastrophic illness or injury. Meanwhile, medical technology kept leaping forward with more and more sophisticated and costly treatments that focused not only on curing and healing but more and more on enhancing performance, improving comfort, and delaying the end of life.

The combination of insurance companies and government agencies covering our medical costs ultimately meant that almost no one in the system had to worry about the cost of medical treatment: neither the patient nor the health professional providing the care. Add the broad agreement that health care should not be denied to someone because of their inability to pay, and we should not be surprised that medical costs have been galloping upward much faster than the overall rate of inflation and show no signs of leaving that trajectory.

Whatever you may think of “Obama-Care,” the President recognized the crucial link between bringing medical costs under control and balancing the federal deficit as well as the drag health care costs represented on the private economy. Almost all of the rest of the developed nations of the world have turned to a national program of some sort to solve these problems. The President’s health care reform represented halting steps by this country in that direction.

It is time for those who worry about long-term federal deficits and drags on the private economy to be explicit about how they would deal with the unavoidable “social nature” of medical care in a modern economy while bringing medical costs under control. Bumper-sticker slogans and smoke and mirrors will no longer do.