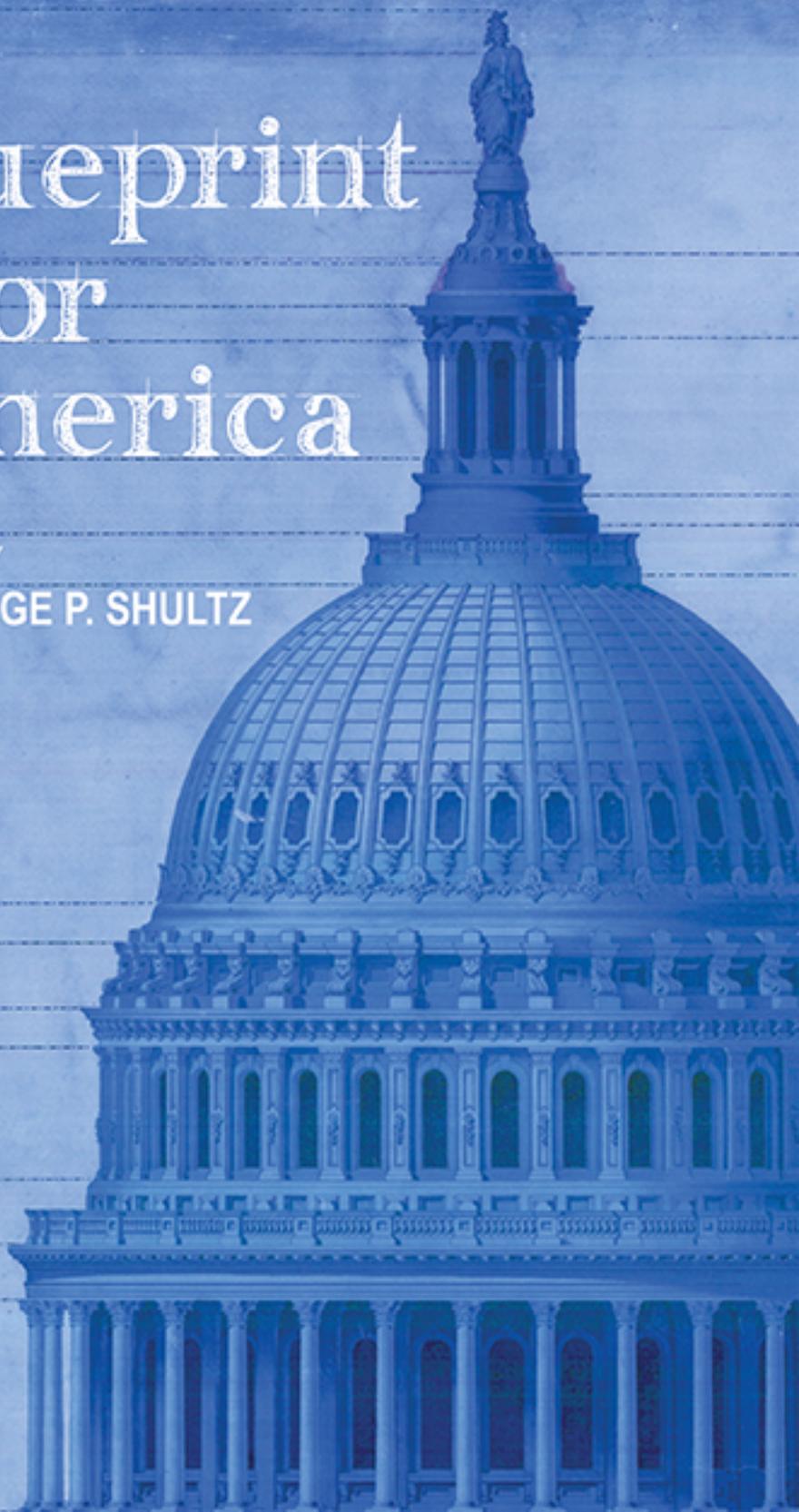


Blueprint for America

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IN BRIEF

SPENDING

George P. Shultz

I have a history in the construction industry. Given that this book is billed as a policy “blueprint,” it’s an appropriate background. An important part of any construction site is the supervisor’s morning briefing: an overview of the day’s work agenda and identification of important issues to be resolved in the field. So let me try that approach here, too.

Across all the domestic issues that our government should be paying attention to, the unsustainable path of our public expenditures is probably the most important. Before my Hoover colleagues weigh in on other details, then, I want to start by emphasizing this theme and a few basic priorities.

We must get control of spending in the United States. Here’s why. A huge federal debt has been piled up in reaction to the Great Recession. The burden of that debt has been obscured by the sustained low interest rate policy by the Federal Reserve Board. Once interest rates return to normal levels, the burden of the debt will skyrocket, easily coming to 20 percent of current budget levels.

Projections of other spending by the Congressional Budget Office show that control of spending means facing up to the almost certain rise in the proportion of the budget spent on entitlements.

These automatic spending prospects mean that the basic functions of government tend to be crowded out of adequate funding. For example, funding for defense is now at a low and inadequate level. Our basic infrastructure is in need of extensive work to bring it to levels that are safe, functionally adequate, and visually appealing.

Social Security is relatively easy to deal with conceptually, but the politics of the issue are always difficult. What needs to be done, for those sixty years of age and younger, is to change from wage-indexing to price-indexing in calculating benefits. And as the age of full benefits rises from sixty-five to sixty-seven, index that age to changes in longevity. Price-indexing means that younger workers would have the system saved for them and would get today's level of benefits protected from inflation.

The last time the Social Security system was brought back into balance was 1983, as part of the political magic worked by Speaker of the House Tip O'Neill and President Reagan. Congress created a commission, with the general understanding that the recommendations of the commission would go into effect unless the package were voted down by the House or Senate. So constructive changes were made by the so-called Greenspan Commission and nobody had to vote for them. Call it a cop-out, if you will, but it was a salient nuance that worked.

Health care is much more complicated and more difficult, but there may very well be shaping up a way to get at this issue. Preventive medicine is becoming more and more important, bringing with it improved quality of lives and reductions in cost. An ounce of prevention is worth a pound of cure—maybe many pounds. In addition, prevention tends to make individuals much more conscious of their health needs and requirements. We very well may see a gradual shift in the system from the top-down prescriptive mandated system to one that is more responsive to bottom-up control with competition and known prices and outcomes.

HEALTH SAVINGS ACCOUNTS (HSAs) are the vehicle for putting more control in the hands of individuals. The use of these accounts is already rising significantly, having grown to cover 17 million people over the past decade. Now almost one-third of all employers offer some type of health savings account and HSA deposits have reached \$24 billion. Medicare and Medicaid can be changed to allow adequate HSAs to be provided to those eligible for these programs. Together, these actions amount to making access to health care systems universally available.

This system will also benefit when predictable, ordinary medical expenses are paid out of HSAs as distinct from the present method of having insurance cover close to everything. Insurance is about risk and should be used for insuring against the risk of a catastrophic event. Such an insurance plan with a high deductible and in a competitive insurance environment could be moderate in price.

ENTITLEMENTS AND health care reform. Those are among the hardest domestic policy issues we face in this country, but they are arguably the most important ones too—they shouldn't be avoided. Another illustration from the construction business describes the nature of this challenge. Say that you ask me to build a bridge across the Potomac River: I can do the soil tests, order the steel, sink the foundations, and soon I have a bridge built that you can drive a truck over. Job done. But if you instead say to me, "Build the bridge such that there are no lost time accidents during construction," and my response is to put up some guard rails, thinking I've solved the problem, then I've lost. Because now it's not a *soluble* problem—it's the kind of problem you have to *work at*.

For progress here, and on public spending elsewhere, ramming through a new law or executive order is not success. Like many of the priorities in this *Blueprint*, the real governance challenge is in getting the balance of the American people on board with

the overall need and general direction from the start. “Guardrails” won’t cut it, either. Instead, you will probably have to go about things afresh, with an essentially nonpartisan, problem-solving attitude. And if you work at it—professionally, creatively, and relentlessly day-by-day—you just might get that bridge built.