

... And a Possible Compromise

BOTH THE House and Senate budget resolutions tiptoe into an area that could help provide the basis for a broader compromise on deficit reduction later in the year. The maneuvering has to do with indexation, one of the driving forces in the budget. Under current law, Social Security recipients, federal retirees and certain other federal beneficiaries get automatic cost-of-living adjustments each year to keep their payments level with inflation. Income tax filers get a similar benefit in that the standard deduction, personal exemptions and the dividing lines between the brackets are indexed.

The full indexation year by year is enormously costly. A lot of money could be saved by interrupting or easing it even briefly. Suspend the indexation of all but the means-tested programs for just one year, and you gain about a sixth of what you need to balance the budget over seven years—the congressional Republicans' goal. You gain about the same if, for each of those years, you give just one percentage point less than the full inflation rate.

The budget resolutions don't do that directly. They do, however, assume that the Bureau of Labor Statistics will take some steps in the next few years that will have a similar effect. It's widely believed (on the strength of some of the bureau's own research) that the consumer price index currently overstates inflation. The budget committees are betting that the bureau will alter the index in such a way as to reduce the recorded inflation rate and cost of indexation. The Senate Budget Committee assumes a savings of 0.2

percent a year beginning in 1999, the House committee, 0.6 percent.

Those are legitimate guesses. The administration built a similar though smaller guess into its own long-term budget projections earlier this year. The problem is not that the budget committees have gone too far but that they have not gone far enough. The likely BLS adjustment will be a technical step. What Congress (and the president) should do is take the further step of making an adjustment of their own. Break the link for a year, or ease it for a number of years.

Such a move could be a problem for the Republicans particularly, because it could be called a backdoor tax increase and Social Security cut, and they've promised not to do either. But the Medicare cuts they're having to propose instead are hardly a lesser problem. Nor is that all. The detailed illustrative budget that House Budget Committee Chairman John Kasich presented Wednesday suggests the rest of the price that will have to be paid if only part of the budget is made to bear the entire burden. In real or inflation-adjusted terms, domestic appropriations would be cut by more than a fourth over seven years. That's not just a house-cleaning.

The Kasich budget, of course, is all the tighter because he had to provide for the tax cut the House Republicans voted. But even without a tax cut, if a serious effort is made—as it surely ought to be—to reduce the deficit, the budget will be tight. Why not ease up a little on indexation and thereby spread the burden more broadly if that will help make the process work?