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The Debt Ceiling
and the Death of Fee for Service

By Kerry Weems
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You might not remember Richard Schweiker despite his 20 years in the U.S. House and Senate, despite him campaigning as Reagan's vice president in their unsuccessful bid for the White House in 1976. But you have probably heard one of his most famous phrases: "You can't cut the budget without cutting the budget."

In March 1981, this was in response to questioning by Representative David Obey regarding a proposed cut to the formula for *Aid to Families with Dependent Children*. Schweiker was then Secretary of Health and Human Services, defending Ronald Reagan's first budget.

The deficit in 1981 was $79 billion; the 2022 deficit was $1.375 trillion. That means in 2022 the Federal government spent, and then borrowed, $1.375 trillion more than it received in tax revenue and other receipts.

THE DEBT CEILING

As the government runs deficits and goes to the capital markets to borrow, its borrowing is limited by the "debt ceiling," a statutory limit on total borrowing. In the past, the Congress and Presidents of both parties have raised the ceiling to keep pace with whatever fiscal promiscuity had overtaken the Administration and the Congress. Performative political drama, and occasionally fiscal concessions, have accompanied raising the debt ceiling, but it has gone up during every presidential administration. In fact it's risen 90 times in the 20th century and 14 times just between 2001 and 2016.

The current ceiling on total debt is approximately $31.4 trillion. The US Treasury estimates that in 2023, borrowing will reach that ceiling sometime in late summer. The Congress and the President will have to agree to raise the debt ceiling or authorize some combination of tax increases and spending cuts to keep from breaching the ceiling.

THE LAUNDRY LIST

Soon after swearing-in on January 7, 2023, the new Republican majority in the House made it clear that tax increases are off the table and that the only way it will consider, and possibly allow an increase to the debt ceiling, is with large fiscal concessions — cutting the budget.

When one asks Americans how the budget should be cut to bring it back into balance, the reply is the usual laundry list of welfare, foreign aid, defense, agriculture subsidies and smaller specific programs like the Corporation for Public Broadcasting and "earmarks."

The problem with the laundry list is that it isn't long enough.

If tax increases, Defense (for this Congress), Social Security, Medicare and Medicaid, and interest on the debt are off the table, there's not enough left to cut. To balance the budget, the Congress would have to eliminate just over 50 percent of the remainder of the budget. That means a 50-percent reduction in Veterans, in Agriculture, in Education, in Food Stamps, in Homeland Security, in the National Institutes of Health…you get the idea.

The new majority in the House has made it clear that they will not vote to raise the debt ceiling without significant fiscal concessions. With the exception of rescinding the recent increase in IRS spending, the contours of their demands are not at all clear. [1]

HOSTAGE TAKING

Holding the debt ceiling hostage to some yet unspecified budget cuts may seem like a good idea right now. A breach of the debt ceiling would be unchartered territory and create some uncomfortable choices. However, the Administration, not the Congress, will make those choices.

In the event that a breach is imminent, the Treasury will have to hold or delay some payments. [2] The question is: What payments?

The good government finance types argue for prioritizing debt payments to avoid defaulting on the debt. Becoming a bad credit risk would drive up the cost of borrowing and further add to the deficit.

But to make debt payments, the Treasury Department would have to halt or slow down other payments. What would those be? Delaying military pay? Deferring Social Security checks for a week or so? Postponing payments to struggling hospitals?

I'm not sure how long the House could hold the debt ceiling hostage once Social Security checks are late, but it won't be long.

FISCAL REALITIES

Political posturing aside, there is a clear pathway to fiscal sanity. It's published every year: "Options for Reducing the Deficit" from the non-partisan Congressional Budget Office. It comes in two volumes: Volume 1 is Larger Reductions [3] and Volume 2 is Smaller Reductions. [4]

Taken together, all the policy options in Volume 1 would make substantial progress in restoring fiscal sanity. But here's the rub. Of the seventeen policy options:

- Six are large changes in health, dealing mostly with Medicare and Medicaid.
- Five are tax increase options.
- Three affect Social Security.
- One suggests reductions in the defense budget.
- One deals with "other" mandatory spending such as Veteran's aid and Food Stamps.
- One lists possible changes to discretionary programs (aka "The Laundry List").

Any one of these alone won't make much difference. It will take a combination of several of the options to make an appreciable dent in the deficit.

THE COMPETING STRATEGIES OF VALUE OR HOPE

The takeaway for readers of these pages should be clear: if there is a substantial deficit-reduction package, healthcare will be affected, perhaps drastically.

Having said that, this is a perilous time for American healthcare. Labor costs and shortages, plus general inflation, already produce operating losses in hospitals, rehab facilities, and physician practices. Some will close. The fee-for-service model is failing fast, and deficit reducing payment reductions will only hasten its collapse.

For our industry, there's a choice.

We could confront the failure of fee-for-service and design a patient-centric system based on value. Fee-for-service could be put on life support while well-meaning members of the Congress and the Administration hash out the particulars of a value-based system.

The alternative is to hope, without a plan. We might hope there's no debt ceiling hostage-taking. Or hope that healthcare doesn't get into a deficit-reduction package. Or hope that there won't be reductions in payment rates. Or hope that labor rates and other costs readjust downward.

We will see an early test of the House majority's resolve. The President releases his budget for fiscal year 2024 on March 9, 2023. In the State of the Union address, the President said that his budget will extend the Medicare Trust Funds for two decades. If that 20 years comes from additional taxes, as opposed to excess senior COVID deaths or reimbursement cuts, expect the House majority to call it dead on arrival. The posturing and performances can begin.

Rather than spending time and resources propping up a failing business model, our leaders in the healthcare industry should have a serious conversation with our legislators about redesigning a sustainable government financing system, removing perverse incentives generated by government intervention in the private financing system and driving waste from the entire system.

One thing is clear: you can't cut the budget without cutting the (healthcare) budget — and creating savings through financing redesign is different than taking the budget axe to an already failing system.

SOURCES

1. According to the Congressional Budget Office, rescinding the IRS funding will actually add to the deficit as additional revenue will not be collected. This isn't a deficit reduction measure. https://www.cbo.gov/system/files/2023-01/hr23_IRS.pdf
2. There is some confusion in the popular press regarding what happens in the event of a debt ceiling breach. Unlike a lapse in appropriations, agencies still have the authority to operate and will do so. It is very unlikely that there will be a "shutdown" due to the debt ceiling. There's also a Constitutional argument under the 14th Amendment that the President is compelled to honor the debt and avoid a break in the debt ceiling.
3. https://www.cbo.gov/publication/58164
4. https://www.cbo.gov/publication/58163

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