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NPR: The Coming Political Battle Over Entitlements

Commentator Kevin Phillips suggests that the upcoming national debate over reducing budget deficits by cutting middle-class entitlements is bound to grow -- and bound to destroy a lot of political careers

Get ready for a new and major national debate. When Bill Clinton goes to suburban Philadelphia on Monday for what's being billed as a "summit meeting" on entitlements, he'll be opening up one of the biggest cans of worms in the political economy of the 1990s. We're talking about the idea of capping, cutting or means-testing hitherto universal programs like Medicare and Social Security.

More bluntly, we're talking about the possibility of government taking away or phasing out benefits for the middle class that the middle class has already at least partly paid for. Although this is obvious political dynamite, I'm not sure that the President and his aides know just how much dynamite. They ought to take a look at the elections and official budgets of the last twelve weeks or so in Canada, Australia, Britain and New Zealand, because these situations bring some stunning evidence to bear.

In those four countries, as in the United States, the principal advocates of taking an ax to government programs, benefits and pensions are usually the same people who worry about bond markets and upper-bracket investment incentives, so there's a significant class angle to the debate. Perhaps that even helps explain how angry voters have become at the granny-bashers and enemies of entitlements.

In Britain, where the Conservative government has been suffering record defeats in parliamentary by-elections, two big issues involved have been a huge proposed increase in consumer energy taxes and various talked-about cuts in health and children's benefits that would affect the middle class. In November, a government memo that outlined a wide range of possible cuts was leaked -- and a political version of all hell broke loose. But on November 30, when the government announced its new budget, it surrendered. Chancellor of the Exchequer Kenneth Clark announced that the government "would never take part in any attempt to dismantle the welfare state."

In Australia, when Labor Prime Minister Paul Keating sought to slide away from his earlier 1993 election promises through a more conservative budget, he was forced to compromise in parliament and drop a new tax on retirees' entitlements.

In Canada, where the Conservatives were smashed in October's election, dropping from 155 seats in parliament to just 2, press analyses have blamed some of their defeat on their pre-occupation with deficit cutting. As Prime Minister Kim Campbell talked about austerity, possible user fees on Canada's free health care and Canadians having to face high unemployment for the rest of the 1990s, her support crumbled.

In New Zealand, where the conservative National Party had been wooing investors with policies that slashed health and education benefits and pushed unemployment high to keep inflation low, voters got so angry that support for the two major parties plummeted in the recent November elections. One fifth of the voters went for the new Alliance Party, which promised to restore free health care and education. The National Party's large majority vanished into a virtual hung parliament.

The moral? The moral is clear: Cutting middle-class entitlements has become the "third rail" of Anglo-American politics, and if Bill Clinton wants to break his 1992 campaign promises and grab it, he better get ready for some nasty shocks.

This is Kevin Phillips

AMERICAN POLITICAL REPORT

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have a shot at a 3/4-seat gain

THE CHANGING POLITICS OF DEFICITS AND ENTITLEMENTS

In a prelude to some of the biggest decisions of the 1990s, Bill Clinton seems to be edging away from his earlier attempt to be a "bond market president" and partially reverting to his politically more successful 1992 posture of defending middle-class entitlements and bashing nomination rival Paul Tsongas for hair-shirt fiscal policy.

Although Clinton is likely to keep an image-foot in both camps, there's a logic that he *is* shifting gears. The bond market gave him a trend for the first eight months, but now rates are climbing and another set of relevant data has emerged -- election and poll results from the other English-speaking countries suggesting that excessive deficit-reduction, entitlement crackdowns and welfare-state rollbacks are causing big political trouble for incumbent governments. Here's the detail:

1) Early Signs of a Clinton Shift: They're multiple. One signal comes in reports that National Economic Council chair (and ex-Goldman Sachs chief) Bob Rubin's influence has skidded somewhat. Deficit-hawk and bond-market stalwart Rubin has been making some angry calls to Wall Street friends about recent bond market trends. The second lies in Clinton's decision to switch away from the financial sector-tilted "centrist coalition" that won on NAFTA and sought to take control of fiscal policy, too. Clinton's contrary strategem... to come down hard against the Penny-Kasich budget cuts, putting together a winning center-left-labor Democratic coalition in the House and infuriating budget-zealous Rep. Penny, who's now trashing Clinton in press interviews. The third sign... Clinton's Monday decision to stall on any decision to means-test entitlements, overriding the advice of Lloyd Bentsen, David Gergen et al to side (for now) with his pollsters and political advisors. On the other hand, the decision to hand the issue to the commission on entitlements headed by the erratic Sen. Bob Kerrey still keeps a hot potato on the table.

2) Deficit Reduction and Entitlements in Today's English-Speaking Nations' Politics: It's easy to summarize...hawkish or even pseudo-hawkish approaches on these issues have backfired on governments in Britain, Canada, Australia and New Zealand. *Note the following:*

▪ **Britain:** John Major, Britain's least popular Prime Minister, owes part of his current disrepute to how huge budget deficits have forced him to hike taxes, offend pensioners and let his cabinet talk about a crackdown on the equivalent of middle-class entitlements. In mid-November, a confidential document leaked to the media which outlined "a wide range of possible cuts in unemployment, sickness, invalid and child benefits" (Chicago Tribune, 11/28). But the furor over that memo — plus 1993 elections results in which Major's Conservatives have been devastated — forced the government to take a different tack in presenting Britain's budget this week. Middling spending cuts were aimed at defense, transport, housing and local authority budgets while some social benefits were actually raised. In Tuesday's budget speech, Chancellor Kenneth Clarke declared that the government "would never take part in any attempt to dismantle the welfare state," and he announced additional spending for the National Health Service and benefit changes to compensate the poor in general and more particularly old-age pensioners for the recent (highly unpopular) extension of Britain's VAT consumption tax to fuel and power (Financial Times, 12/1). The VAT extension had been killing Conservatives in 1993 elections, not least in south-of-England retirement centers. Interestingly, Britain's bond market didn't mind, because it got its budget cuts. The principal revelation of Major's turnabout... that threatening to cut middle-class entitlements can verge on electoral suicide

■ **New Zealand:** Another stunner with the same message...New Zealand's November election just produced heavy losses for the ruling National Party based on its policies since 1990 of harsh cutbacks in free health care and education and imposition of user fees, with attention to deficit reduction and emphasis on pleasing bond- market investors while unemployment stayed at 10%. Both major parties in New Zealand had supported versions of this entitlements crackdown, and so angry New Zealanders turned to two new parties — the welfare-statist Alliance drew 18% of the vote and the rightist New Zealand First party 10%. The Alliance's platform...a return to free education and medical service and a "social wage" package. This fragmentation wiped out a 37-seat national majority and elected a virtually tied parliament. The local financial press is treating the outcome as jeopardizing to New Zealand's 1980s fiscal experiment.

■ **Australia:** Here Labor Party Prime Minister Paul Keating, his party back in office after a surprise March victory because the opposing conservatives killed themselves supporting a consumption tax, decided to go with a quasi-conservative budget that slid away from some of Labor's election promises to its constituencies. The result...an unusual fiscal embarrassment. The Christian Science Monitor (9/8) quotes local observers calling his budget Keating's "biggest mistake" since the election. 'The government "was forced into an unprecedented compromise with the (minor party) Senate Democrats and Greens to get enough votes to ensure passage of the budget legislation. A new tax on retirees' entitlements was dropped and the price jump for leaded gasoline was modified. 'The legislature is amending the Executive's budget,' says Fedor Mediansky, associate professor of political science at the University of New South Wales. 'That's usual in the States, very unusual in Australia.'"

■ **Canada:** This story is a bit more complicated, because the October Canadian election had two dimensions with respect to deficits and budget/entitlements. The first, picked up by columnist E.J. Dionne in the 11/10 Washington Post, was that the ruling Conservative Party — defeated in an incredible disaster of dropping from 155 seats to 2 — had hurt itself by deficit pre-occupation, (according to analysis in the Toronto Globe and Mail), and by clumsy prime Minister Kim Campbell's talk about possible user fees on Canada's free health care and other inroads on the welfare state. As Campbell emphasized austerity, deficit-cutting and talked about Canadians having to get used to high unemployment rates into the next century, her poll numbers crumbled. Dimension number two is that the rightwing populist Reform Party, contrarily, emphasized restructuring social welfare programs and supported a Perot-like 3-year deficit reduction blueprint. But national Reform Party leader Preston Manning rejected charges he'd cut back old-age pensions, unemployment insurance and medicare as "straight fear tactics." He said the sacred trusts of the Canadian welfare state are "safe... As long as we can figure out how to refinance them." (Washington Post, 10/18)

The point...looking at those trends in the other four major English-speaking nations, it's hard to believe that Clinton can do more than nibble at the fringes of middle-class entitlements. The politics is too tough.

3) U.S. Deficit/Entitlement Politics in 1994: It's too early to be confident how this will play out in the near-term. Polls have steadily shown U.S. voters more concerned about stimulus than about the deficit, but looking ahead, Clinton's big decisions will be on means-testing middle-class entitlements and pursuing a consumption tax. Precedents elsewhere in the English-speaking countries suggest that both options have now become dangerous changes to propose. If Clinton accepts either one, he's got a problem. There's some hint that he could do some entitlements-bashing at the Dec. 13 budget meeting he'll attend in suburban Philadelphia. For now, though, both debates — consumption taxes and some means-testing of middle-class entitlements — are muted because neither party is as yet sure where it's going to wind up. That can't last, though, so the potential for political bloodshed is enormous.

UPDATE: ELECTION 1994-1996 (PARTIES, PRIMARIES, PRESIDENTIAL MANEUVERING)

Iowa: The Des Moines Register (12/2) reports that ex-Tennessee Gov. Lamar Alexander (R) is making some headway in trying to assemble local GOP moderates behind his 1996 presidential bid.

New Jersey: In an interesting but Byzantine analysis, Newark Star-Ledger political columnist David Wald devotes his 11/28 column to picking holes in Ed Rollins' explanation that he made his famous statement about the 1993 N.J. race to bug James Carville and make him worry about the 1994 New Jersey Senate election. Wald's analysis...that if so, why would Rollins deny he had made the same claim about buying off blacks to ex-GOP operative Mary Matalin, who has confirmed the remarks? Moreover, says Wald, there was no chance of another Rollins-Carville face-off in N.J. in 1994 because Carville and Senator Frank Lautenberg (D), who'll be up in 1994, broke with each after a fee dispute and Rollins would have known that.

Virginia: Gov.-elect George Allen (R) is already splitting the local party with his desire to replace state party chairman Patrick McSweeney...failure to oust McSweeney in the Dec. 4 state committee meeting would be big embarrassment for Allen.

UPDATE: ELECTION 1993-94 (GOVERNORSHIPS, U.S. SENATE, U.S. HOUSE)

Illinois: Under heavy pressure from the state GOP establishment, Cook County State's Attorney Jack O'Malley — after ordering polls and preparing to circulate nominating petitions— decided to shelve his hoped-for 1994 primary challenge to incumbent GOP Gov. Jim Edgar (Chicago