

# Entitlements, the Budget Squeeze, and the Decline of Democratic Government

Global Aging Forum  
CSIS

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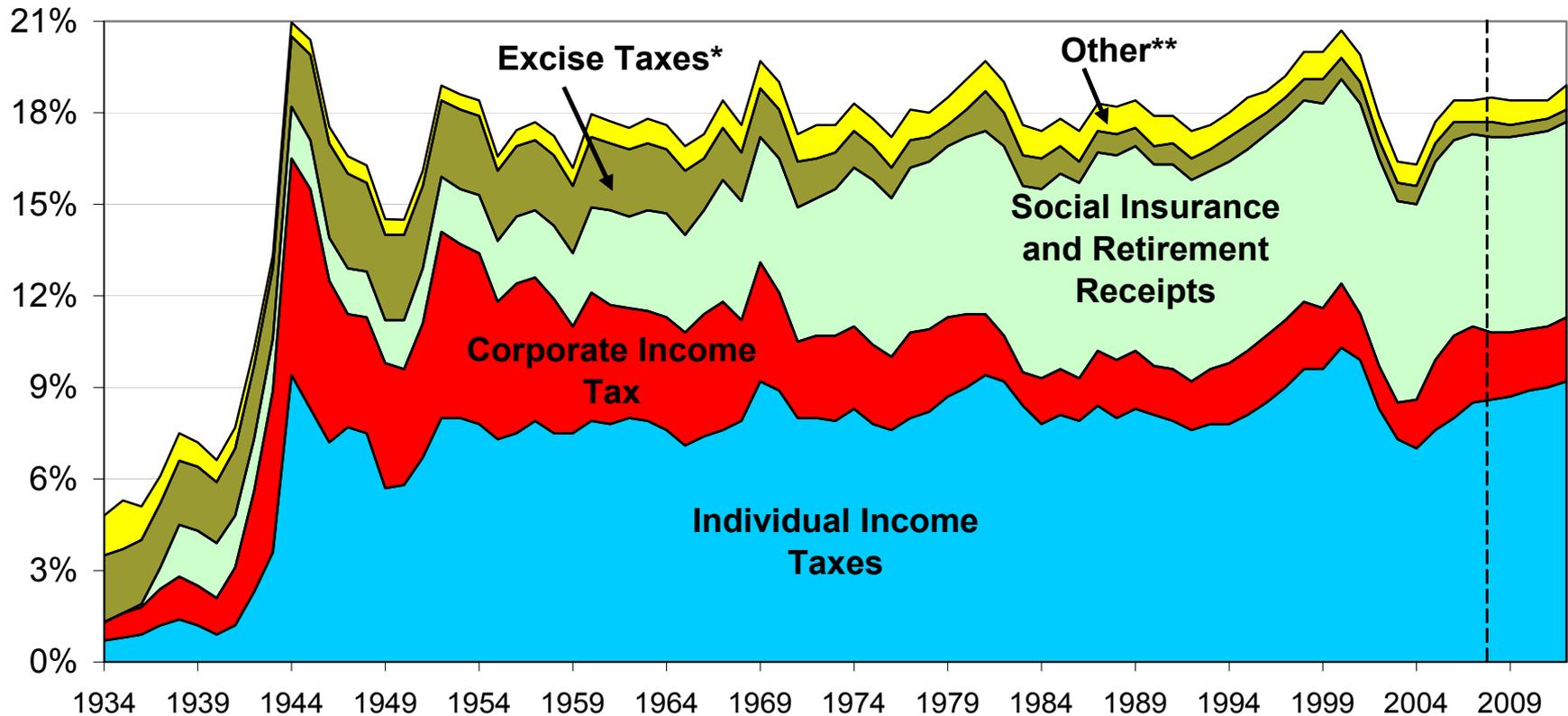
# Four Eras of Postwar Fiscal Policy

- Era of Easy Finance: 1945-1981
- Fiscal Straitjacket: 1982-1996
- Two Santa Clauses at the Same Time: 1997-2006(?)
  - (2006? Last feeding at the trough?)
- Era of Fundamental Restructuring?

# Basic Thesis

- We can do many things
  - Flood control
  - Defense
  - A better educational system
  - A host of other priorities
- But we've adopted a "Two Santa Clauses at the same time" policy
  - Everyone is entitled to lower taxes & more spending
- Unique to all history, we've set the spending budget for decades and centuries from now
- Along the way, we're squeezing basic functions
  - Example: children's programs
- And we're disenfranchised current voters
  - They need a "supermajority" to set own priorities

## Federal Revenues by Source as a Percentage of GDP, 1934-2012



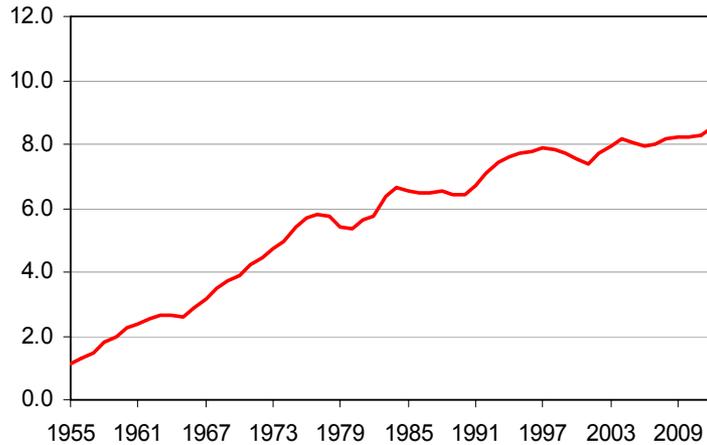
\* Includes receipts from highway, airport, telephone, alcohol, and tobacco receipts.

\*\* Includes estate and gift taxes, customs duties, and miscellaneous receipts.

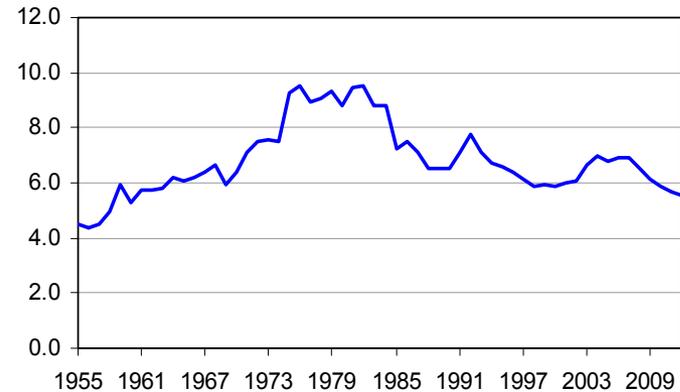
Source: Eugene Steuerle, Adam Carasso and Gillian Reynolds, The Urban Institute, 2007. Historical data based on the Budget of the United States Government, FY 2008.

# Federal Outlays as a Percentage of GDP, 1955-2007

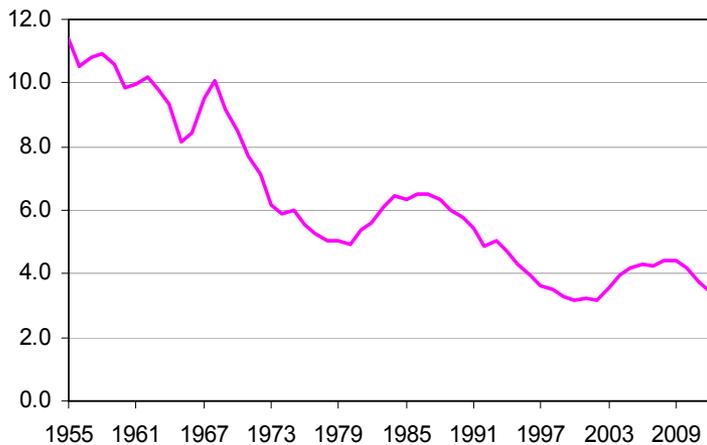
### Social Security, Medicare, and Medicaid



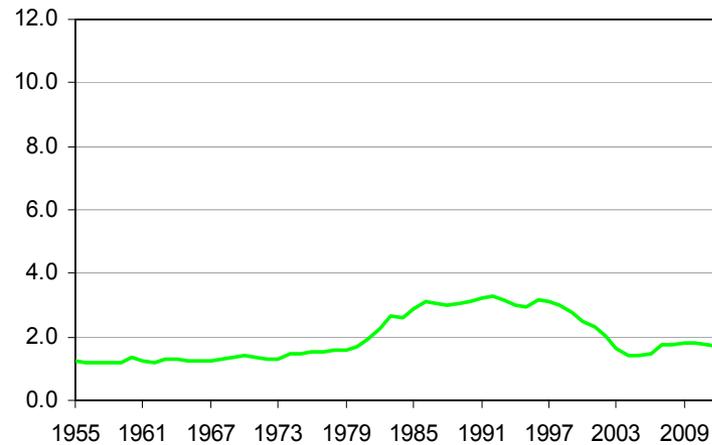
### Other Domestic



### Defense and International



### Net Interest



# Big Spending Presidents

Percentage Point Change in Domestic Outlays as a Percent of GDP

Rank	Administration	Percentage Point Change
1	Nixon	4.97
2	Hoover	4.00
3	Eisenhower	2.90
4	G.H.W. Bush	1.47
5	G.W. Bush*	1.44
6	Truman	1.38
41	Clinton	-0.45
42	Reagan	-2.11
43	FDR	-4.16

\*2001-2006 only

**Big Spenders**

**Pikers**

**COMING TO FENWAY PARK**



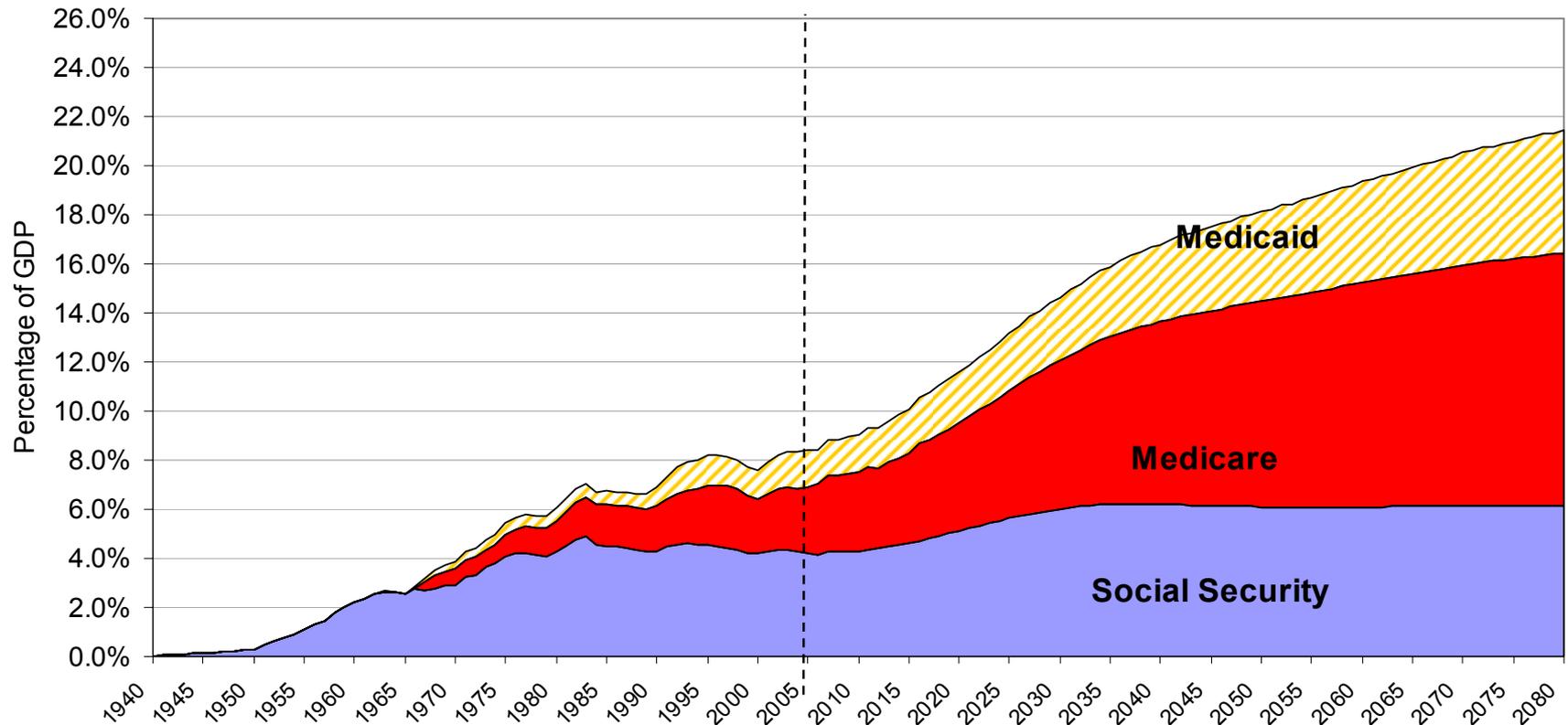
**THE ROLLING STONES**

**HITCH**  
TELEGRAM  
& GAZETTE

THAT REMINDS ME  
— ANYTHING NEW ON  
SOCIAL SECURITY  
REFORM?



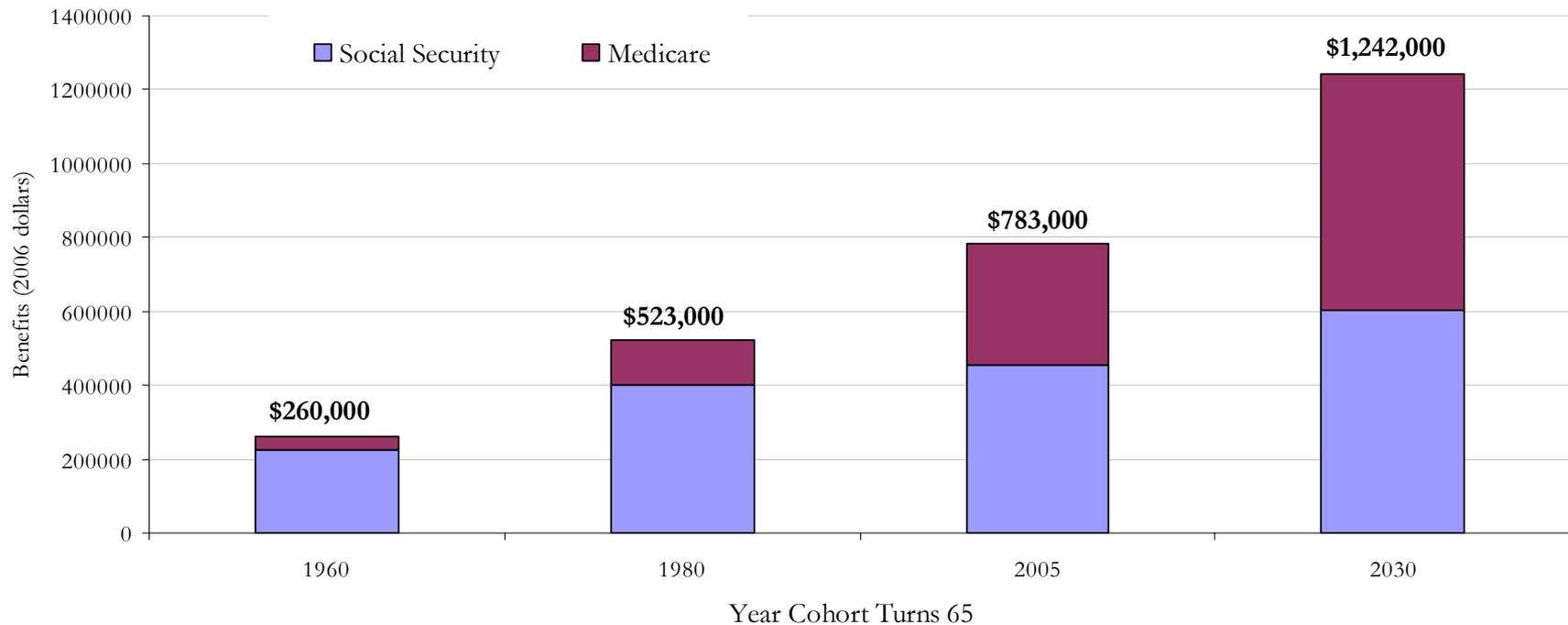
## Federal Social Security, Medicare, and Medicaid Outlays, FY 1940-2080



Note: Authors used January 2006 CBO data for Social Security, Medicare, and Medicaid through 2016, and grew Social Security and Medicare levels with 2006 Trustees data and Medicaid with 2005 CBO data.

Source: C. Eugene Steuerle and Adam Carasso, The Urban Institute, 2006.

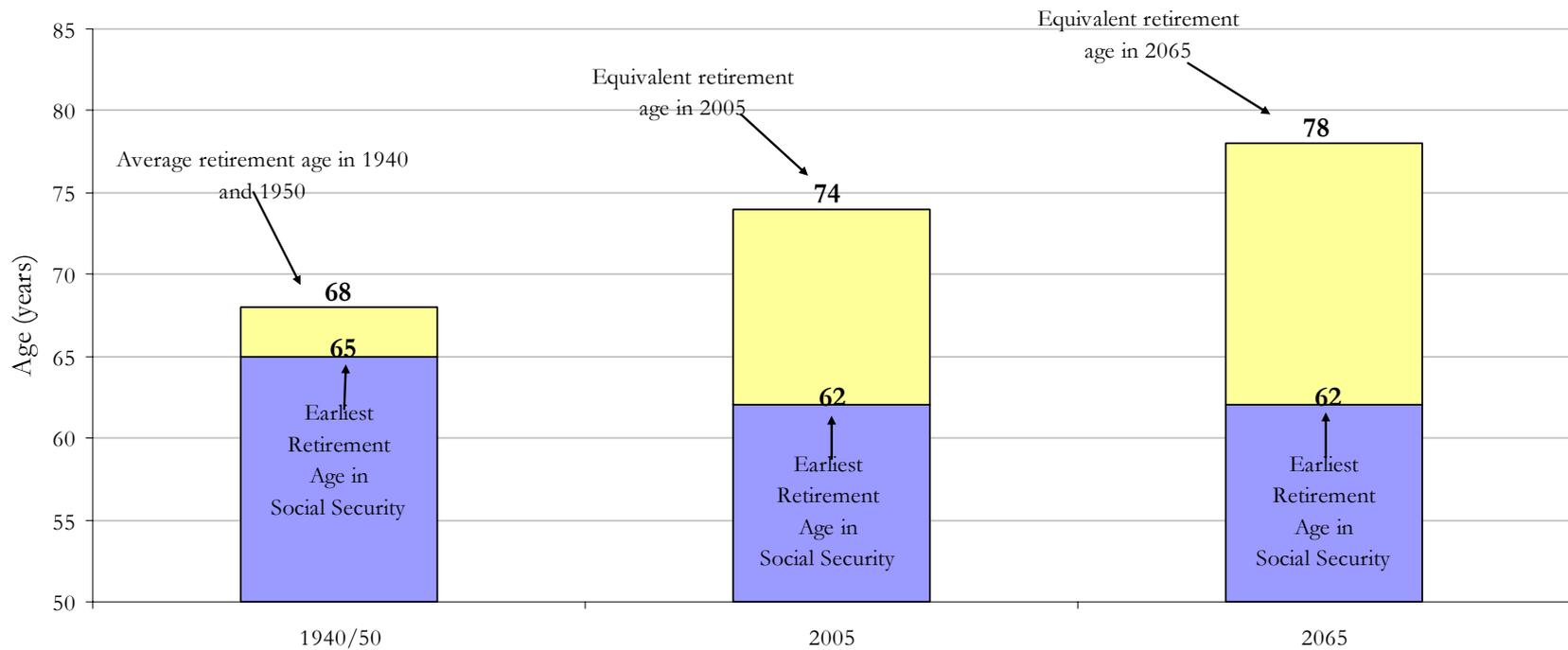
## Lifetime Social Security and Medicare Benefits\* -- Average-Wage, Two-Earner Couple (\$37.8K each) --



\* Expected rather than realized benefits. Notes: The "average" hypothetical wage profiles are taken from the Social Security Administration. Lifetime amounts, rounded to the nearest thousand, are discounted to present value at age 65 using a 2 percent real interest rate and adjusted for mortality after age 65. Projections are based on intermediate assumptions of the 2006 OASDI and HI/SMI Trustees Reports.

Source: Adam Carasso and C. Eugene Steuerle, The Urban Institute, 2006.

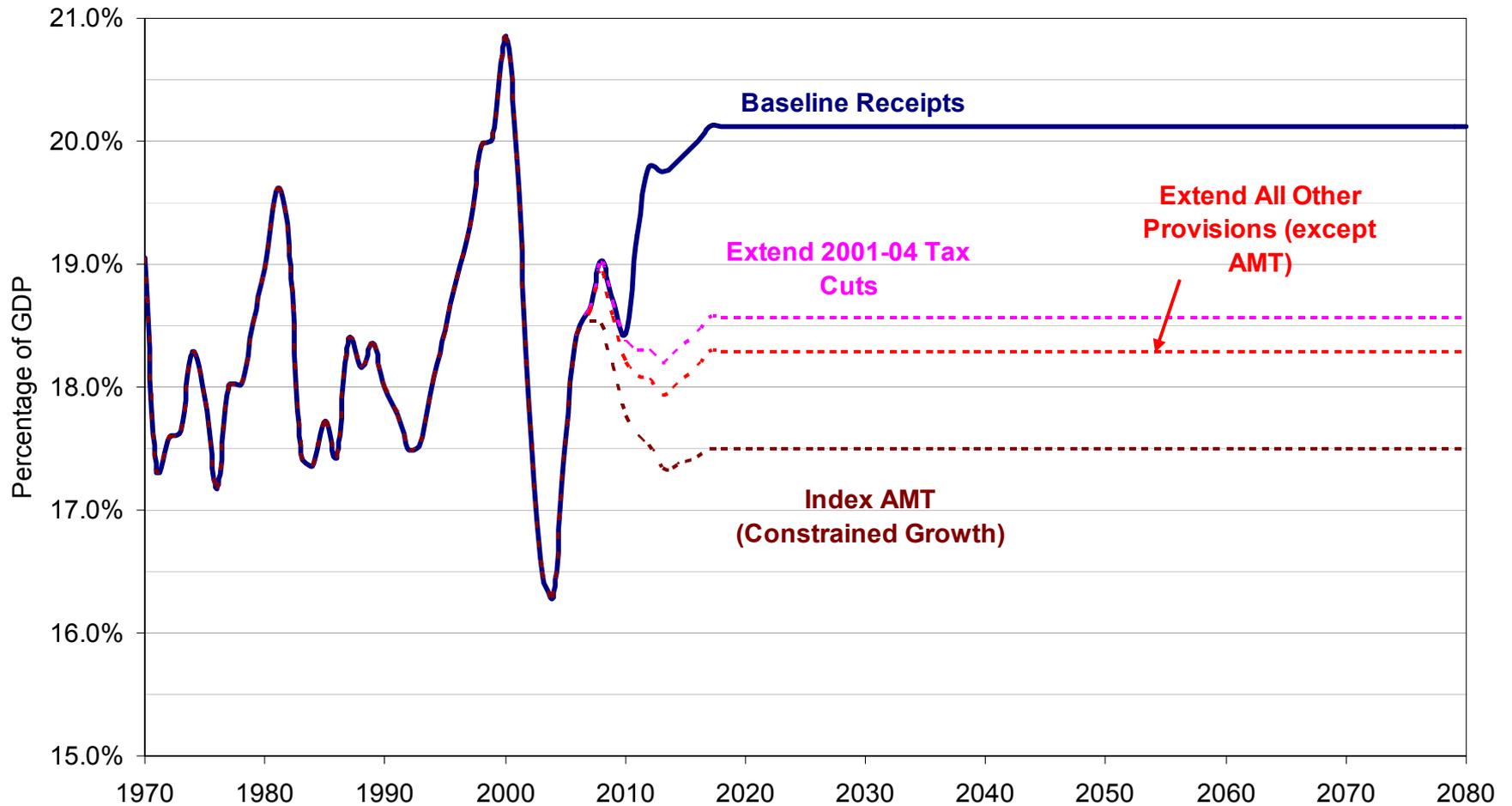
## Program Retirement Age--Indexed for Life Expectancy



Source: C. Eugene Steuerle and Adam Carasso, The Urban Institute, 2007. Based on data from the Social Security Administration, Birth Cohort Tables, 2007.

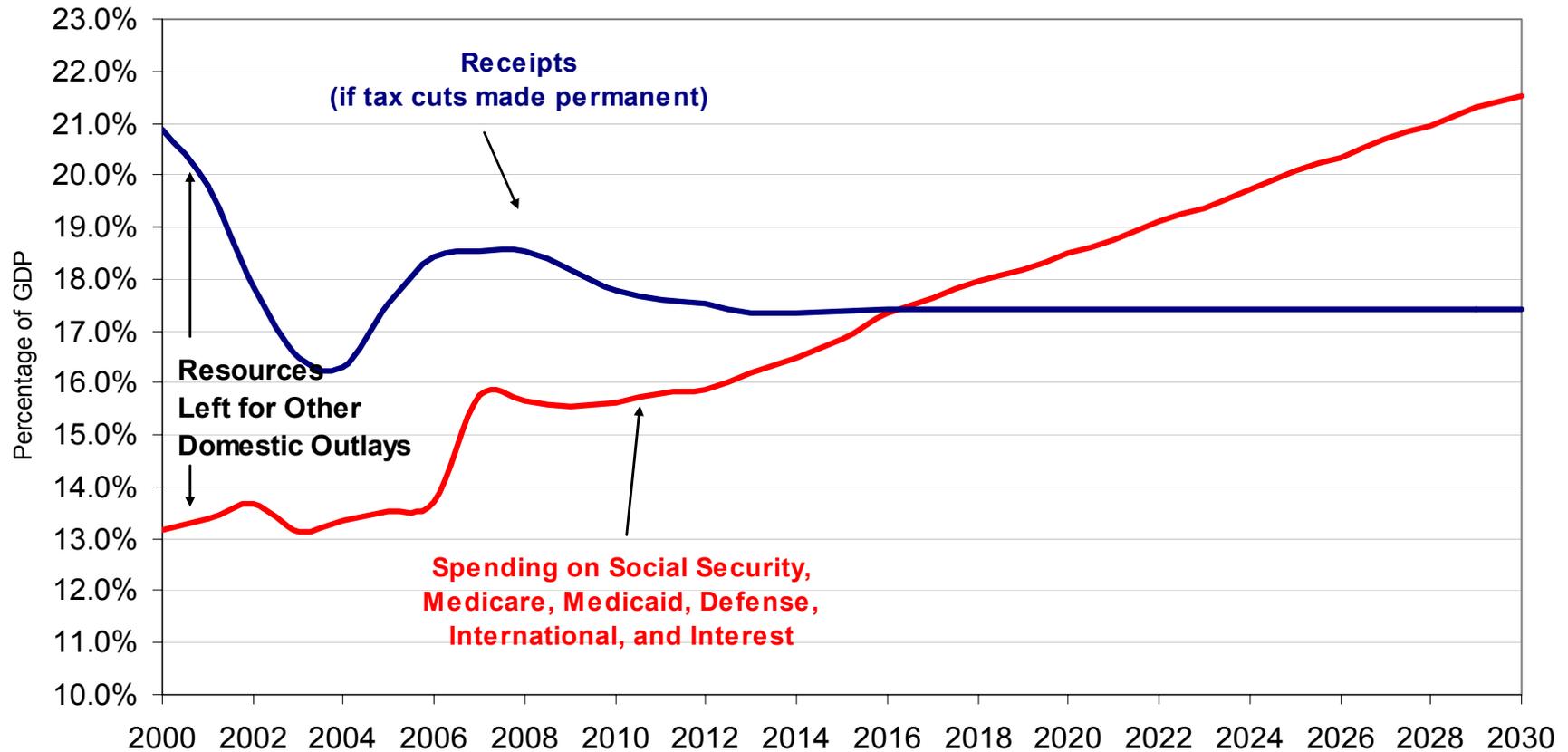
Note: these figures are based on male life expectancies as reported by the 2006 Trustee's Report

# Projected Federal Receipts if Tax Law Remains Constant (Under several scenarios)



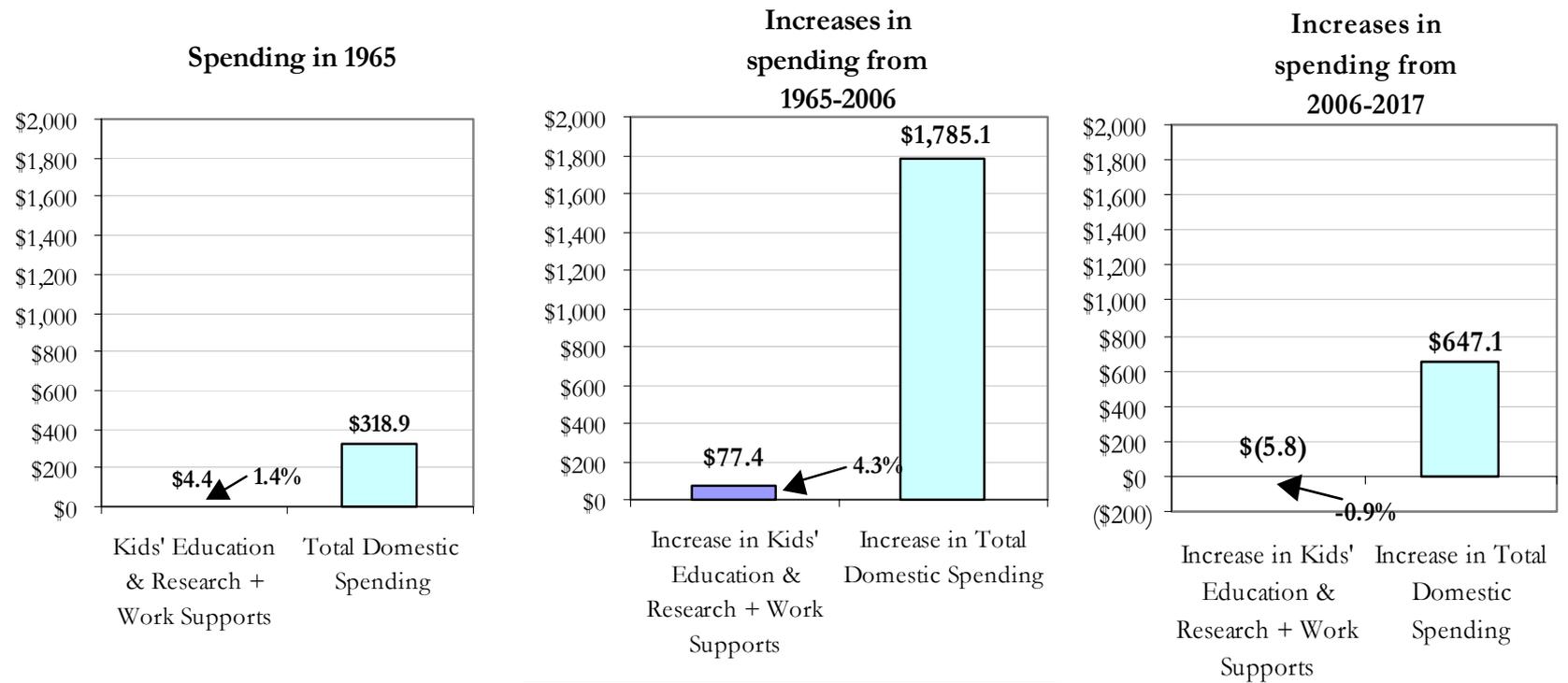
Source: C. Eugene Steuerle, Adam Carasso, and Gillian Reynolds, The Urban Institute, 2006. Authors' calculations based on data from CBO (January 2006) and Gale and Orszag (2004).

# The Current Squeeze



Source: C. Eugene Steuerle, Adam Carasso, and Gillian Reynolds, The Urban Institute, 2007. Authors' calculations based on data from CBO Budget Outlook (January 2007) and OASDI and HI-SMI Trustees Reports (2006).

## Increments of Federal Kids' Investment in Education & Research and Work Supports Vs. Total Domestic Spending (Billions of 2006 Dollars)



Source: The Urban Institute, 2007. Authors' estimates and projections, based on the Budget of the U.S. Government FY 2008 and CBO's Budget and Economic Outlook, 2008-17.

PRICKLY CITY SCOTT STANTIS

I CAN'T BE GETTING OLD! I'M A BABY BOOMER!!



I NEED LEVITRA! AND PROPECIA! AND NO CHANGES TO MY SOCIAL SECURITY!!!

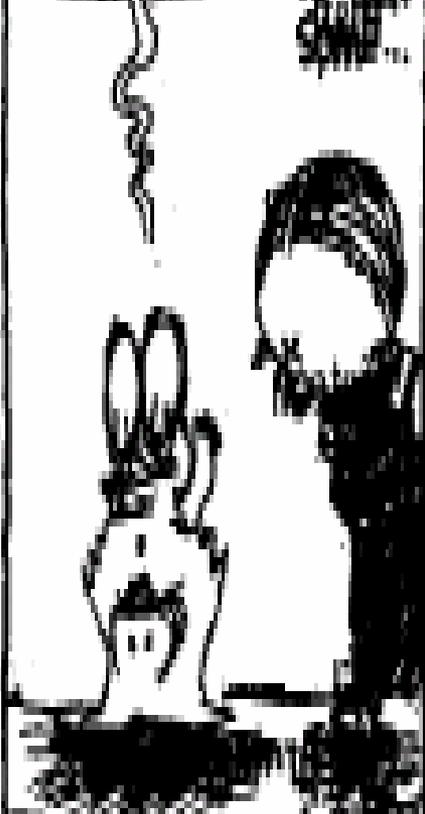


AND I EXPECT YOU TO PAY FOR IT!!!



THEY ARE WHAT THEIR PARENTS SAID THEY WERE.

AND THEN SOME...



# SOON...VERY SOON

- *ANY* spending

on education, environment, welfare, community development and most domestic programs must be paid for out of:

- Deficits (this is not sustainable)
- Rescinding of tax cuts or tax *increases*
- Pared growth in retirement and health spending
- A very small international and defense presence

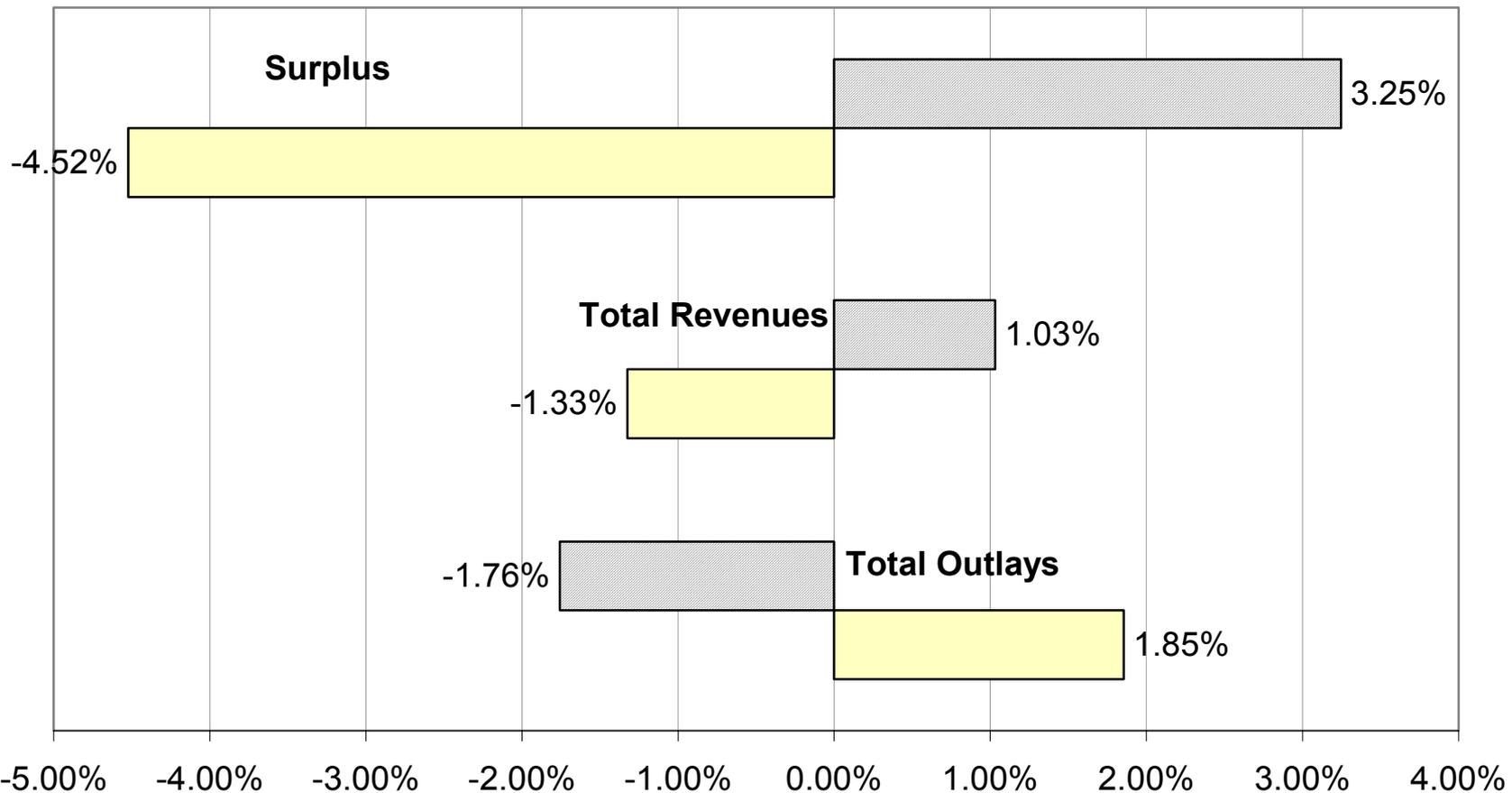
2006 versus 2001

2012 versus 2006

## Complete Reversals in Direction

Decline in share of GDP

Increase in share of GDP



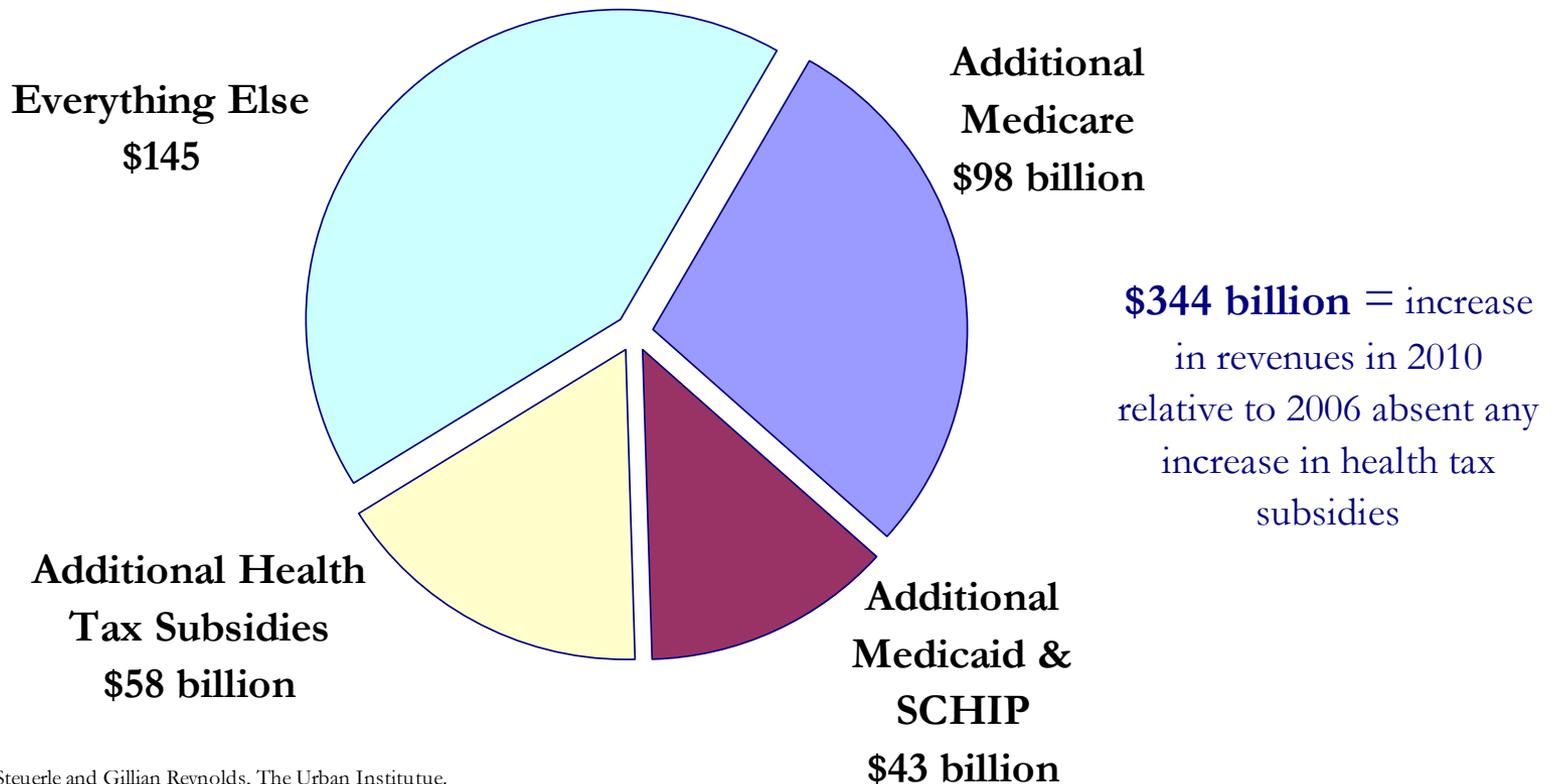
Source: C. Eugene Steuerle and Adam Carasso, The Urban Institute, 2006. Data based on the U.S. Budget FY 2007, Historical Tables, Table 3.1. Excludes allowances and undistributed offsetting receipts.

# The Democracy Issue

- Dead Men Ruling
  - Past legislators determine TODAY'S spending priorities
  - Cannot possibly do it efficiently
    - Because don't know the future

# Example: How Future Increases in Revenue Have Already Been Spent on Healthcare

2010 versus 2006  
(Current Law, \$2006)



Source: C. Eugene Steuerle and Gillian Reynolds, The Urban Institutue.

Based on data from CBO "Budget and Economic Outlook 2008-2017" and Analytical Perspectives FY2007, Table 19.1

# The Democracy Issue (cont.)

- Treating future voters as adolescents
  - Must be controlled
  - Must be compelled to increase future spending in very particular ways...or
  - Must be compelled to lower future taxes in very particular ways

# The Democracy Issue (cont.)

- Why can't voters be trusted:
  - To increase retirement benefits as needed?
  - To add needed health benefits?
  - To choose priorities for their own times?

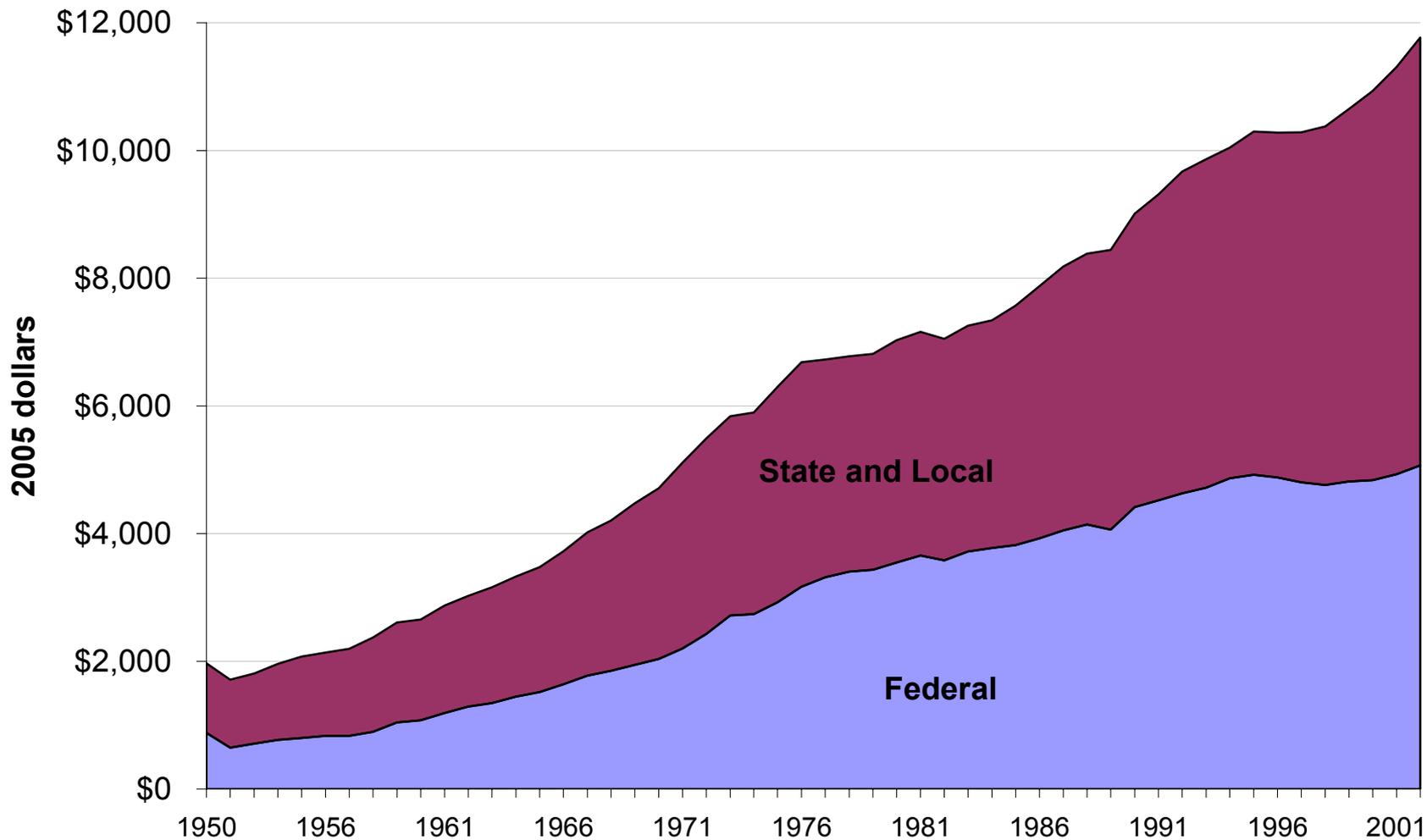
# A Classic Prisoners' Dilemma

- First feeding at the trough
- As long as future is going to be given away, you better get yours (or protect yours) now

# The Opportunities

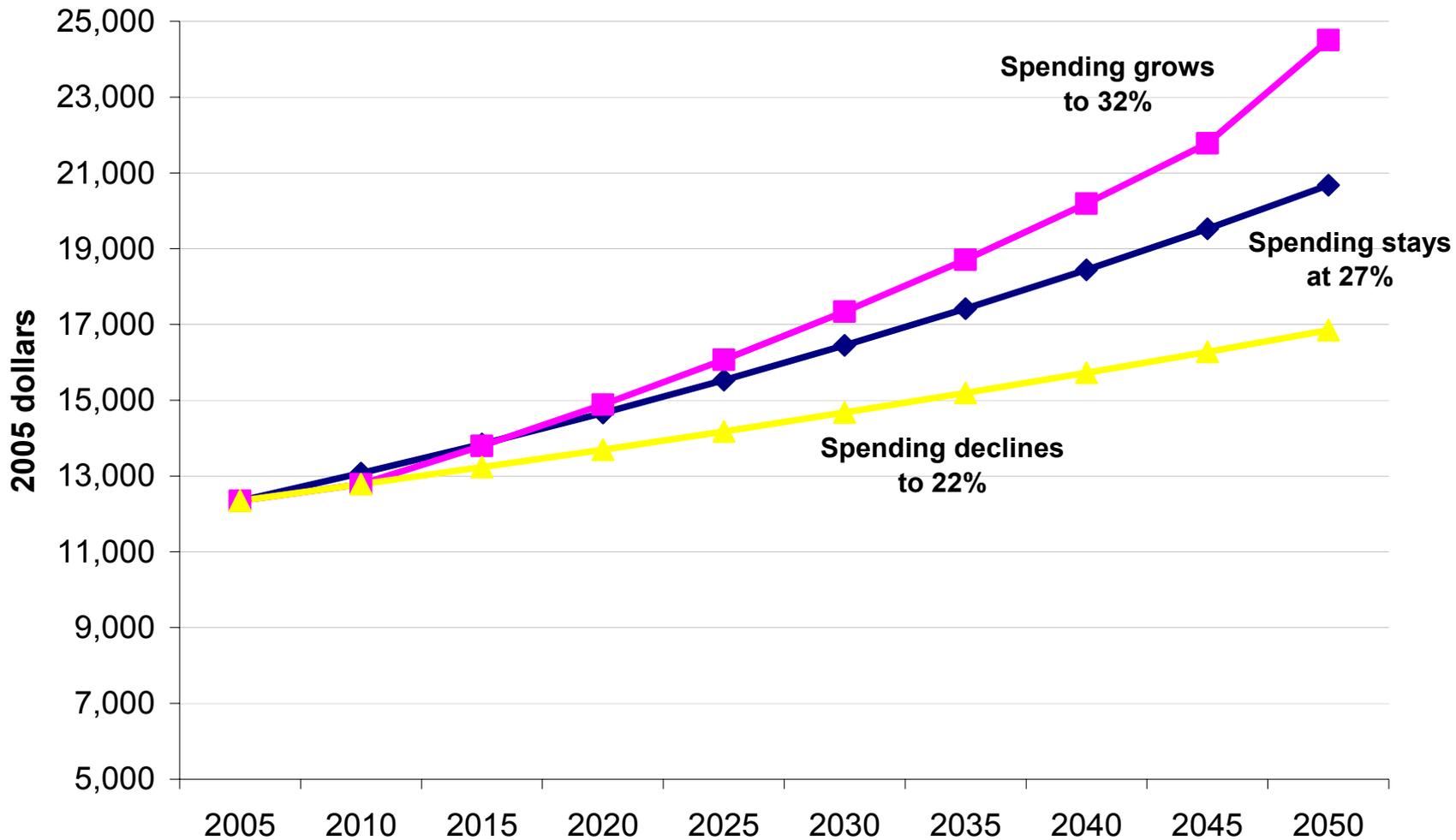
- Any crisis implies opportunity
  - Not really a “conservative” or “liberal” issue
- A richer society can solve more problems
  - Budget straight-jackets are self-imposed
  - Government will do many more things
    - As long as economy kept healthy

## Domestic Spending Per Capita, Excluding Interest, 1950-2002



Source: The Urban Institute, 2005. Based on data from the U.S. Census Bureau.

## Projected Growth of Total Domestic Spending Per Capita as a Fixed, Rising or Declining Percentage of GDP



Source: The Urban Institute, 2005. Based on data from the Congressional Budget Office and the Bureau of the Census.

