Time to Rein in Entitlements?
As They Soar, So Does the Deficit

By Michael Fumento

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Despite last year's budget agreement, for which President Bush broke his "no new taxes" pledge by adding $164 billion in new levies, the U.S. deficit is soaring again.

In the past 18 months, the official Office of Management and Budget five-year deficit forecast has rocketed from $62.3 billion to $1.087 trillion, a 1,644% increase.

Where have all the dollars gone?

The Democrats' "favorite whipping boy," in the words of one economist, is the defense budget. A recent proposal by Democratic Sen. Lloyd Bentsen of Texas to cut taxes for the middle class called for lost tax revenues to be paid for by more cuts in defense.

Since the collapse of the Soviet empire, there has been much talk of a "peace dividend" from the scaling down of the U.S. military. But according to Stephen Moore, an economist with the Washington-based Cato Institute, "They've already spent much of the peace dividend."

Indeed, defense spending has gone from being a majority of the federal budget in 1960 to about a quarter of outlays now – and it's dropping fast. Defense spending is roughly 5% of GNP, far below the post-World War II average, while non-defense spending has doubled from 10% to 20% of the GNP.

When it comes to budget busting, defense is not the culprit. Rather, it is the entitlement programs – spending and giveaways to the rich, poor and everyone in between – that have played the largest part in creating federal red ink.

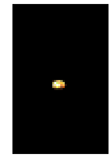
A newly released report by Moore, conducted for the Institute for Policy Innovation, notes that entitlement spending – which includes mainly health care, welfare and Social Security – is doubling in nominal dollars every eight years, and in real (inflation-adjusted) dollars every 10.

In constant 1991 dollars, entitlement spending has soared from $30 billion in 1950, to $200 billion in 1970, to more than $600 billion today.

Health-care and Social Security outlays have been expanding at 12.5% and 11% a year, respectively, in real dollars since 1950, three times the inflation rate over this 40-year period.

Discretionary spending, which includes such items as transportation, agriculture, education and natural resources, also has been growing at a level well above inflation, although considerably below that of entitlements.

Discretionary spending, according to Moore's data, rose 358% from 1950 to 1991.



The result of this mushrooming domestic spending has been the mushrooming deficit and the rapidly growing cost of servicing the national debt, which now stands at $3.7 trillion. Interest on the debt last year alone was $286 billion, and this year it will be an estimated $304 billion.

Another popular misconception is that tax cuts during the 1980s contributed to the deficit. National Taxpayer Union President James Davidson notes that "taxes are higher today than when President Carter left the White House. The Reagan cuts merely slowed the rate of the increase in the government's share of the GNP."

"It is entitlements," said Moore, "that have been relentlessly driving up both taxes and the deficit."

The result, according to the Advisory Commission on Intergovernmental Relations, an independent federal commission, is that federal spending as a portion of national income has risen steadily over the past half-century and now makes up 28% of the total. When that's combined with state spending, total government expenditures amount to 42% of the national income – a full 14% higher than in 1950.

But no matter how bad things are, they can always get worse.

At the current rate of growth, entitlement outlays will reach $1 trillion in 1991 dollars by the year 2000 and $1.3 trillion by 2010, slightly less than the entire amount spent on the federal budget today. By 2020, at current trends, this number will have jumped to $2 billion.

Paying For Entitlements

In that year, each worker would have to pay an average of $10,000 in taxes each year in 1991 dollars just to support federal entitlement programs.

Discretionary spending would also increase sharply, though at a slower pace, according to Moore's projections. By 2020, it could consume roughly twice the level of the GNP that it does today.

The result: The deficit alone could rise from the current 5.5% of GNP to 16% by that year.

Yet, all of this assumes that not a single new entitlement program is added. And that may not be a good assumption.

For example, in June the National Commission on Children, chaired by Sen. John D. Rockefeller, D-W.Va., proposed a minimum annual child support payment of $1,500 for the first child in any single-parent household, $1,000 for the next child and $500 for any additional child. If an absent parent failed to pay child support or contributed an amount below that level, the government would make up the difference.

The cost of the program has been pegged at $40 billion a year.

Those who worry aloud about exploding entitlement spending put the blame squarely on Congress.

"Congress has complete lockjaw when it comes to discussing entitlements," said Davidson of the Taxpayer Union.

'Orphans In The Street'

Lobbying groups, such as the powerful American Association of Retired Persons, "have the capacity to misconstrue any kind of policy suggestion into something that is going to turn widows and orphans into the street," he said.

Yet the elderly – those 65 and over – receive three-fifths of all entitlement benefits.

This lobbying power, combined with media that always seek out the most pathetic representatives of a group that would be affected by budget cuts, makes entitlements the proverbial 300-pound gorilla: It sits anywhere it wants.

But reality doesn't closely match up to media representations. "This year," said Davidson, "we're spending $30 billion in entitlements on those making over $100,000 a year."

And while the media like to portray the elderly as living hand to mouth and eating cat food to stay alive, older Americans as a whole have more discretionary income than any other age group.

The elderly sector is especially important because the greatest rise in the entitlement area has been health-care costs. The elderly account for a vastly disproportionate share of that spending. While federal welfare spending increased by 20% in real dollars from 1980 to 1991, health-care spending nearly doubled.

States Make Payments

State payments for Medicaid took 13.6% of the average state budget in the 1991 fiscal year ended last June 30. The proportion was only 10.2% in 1986.

Said Democratic Gov. Booth Garner of Washington recently, "We're going to go broke at the state level if we don't do something about it."

The elderly also are by far the biggest recipients of Social Security, which increased by 40% in real terms in the past 11 years.

And while nobody questions that some of the elderly, and some younger Americans, are in real need, little attention is being given to those who are doing the paying.

"The real problem is that federal spending has been increasing faster than the economy has been growing," said Davidson. "In 1961, real federal spending was only a third of what it is today. The average weekly pretax wages (in real dollars) is down. The only reason living standards have increased at all is that the percentage of income earned from interest has doubled and we have many more two-earner households.

"Unless we go to multiple marriages or child labor," he continued, "we have just about reached the limit of what we can do to buffer the fall of living standards due to runaway government spending.

"The middle class," he added, "is being treated like a honey pot by politicians trying to buy votes."

Rep. Richard Armey, R-Texas, a former economics professor and probably one of the most fiscally conservative members of Congress, calls entitlement programs "partisan pork."

"Discretionary pork," said Armey, is, "You vote for my sugar program, and I'll vote for your corn program."

Defining Largess

But, he said, "Entitlement pork defines the largess of one or the other of the political parties."

For example, he said, the recent extension of unemployment benefits simply took money from some people and handed it to others, allowing Congress to feign the role of the candy man.

"It didn't do anything for the person seeking a first job or a person who has given up looking for a job," said Armey. "Frankly, it was unfair. But it carried the concept of, 'Remember our largess on election day.'"

Armey believes the first step toward slowing the entitlement juggernaut is to make the appropriations no longer automatic, to require them to be reexamined and reauthorized every five years, just as other major budget items are.

He grants, however, that this will in and of itself not cure the problem. For example, the U.S. agricultural program is reauthorized every five years, but it is widely considered one of the most wasteful areas of the budget.

Armey also believes that it will be necessary to introduce means – or income-based – testing to determine whether people qualify for some entitlement programs, although not necessarily Social Security.

"Most citizens rightly believe, 'I paid into this all my life.' To tell somebody you're not going to get that back is kind of harsh," he said. "But you can do means testing with some of these other programs.

"The main problem" he said, "is that we don't distinguish the needy from the greedy."

One specific reform Armey advocates is to restrict the rights of those using Medicare and Medicaid to sue for malpractice. "You've got the industry practicing $500 million worth of defensive medicine a year," he said.

Robert Rector and Scott Hodge, two economists at the Heritage Foundation, a conservative Washington-based think tank, are trying to sell Congress on a plan that, as Hodge puts it, is a quick response to a long-term problem.

'Rules Are Rigged'

"Right now," he said, "the budget rules are rigged in favor of runaway entitlement growth. The budget rules have capped discretionary spending, but not entitlements. "What we need to do is to place both discretionary spending and entitlement spending under a unified spending cap set at an annual growth rate, say 5% a year," he said. "This is still above the inflation rate but well below the current rate of entitlement growth."

Said Hodge, "What you're doing is forcing entitlements to compete against discretionary programs and vice versa."

Hodge and Rector have calculated that capping the growth rate at 4% could balance the budget in only five years, and that a 5% cap could achieve that goal in six years – all without a cent in new taxes.

By setting the cap lower, they say, or by extending the period until a balanced budget is achieved, a major economy-stimulating tax cut can be added into the package.

Aware that the problem of the deficit is one not so much of math as of politics, Rector and Hodge have compiled a list of areas that can be cut from both entitlements and discretionary areas if Congress is determined to have other areas grow faster than the cap would allow.

"We've assumed that congressmen are basically powerless to do anything about benefits for Social Security, Medicare or Medicaid," said Hodge. "The assumption is that there is no way to cut the budget unless you touch the so-called third rail programs," said Hodge, referring to the deadly rail on a subway track that carries an electrical current.

"But they're wrong. There are tens of billions of dollars of items that can be trimmed out of the budget tomorrow and will have no impact on essential services, the 'safety net,' or any other function that comes to the mind of taxpayers," he said.

Added Armey: "The best entitlement you can give someone is to say they're entitled to keep most of their hard-earned income."

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Michael Fumento is the author of numerous books, including *Polluted Science*.

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