

## Fiscal Slack (Part 2 of 2)

### Part Two: Restoring Control to Future Voters

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How did the nation turn from a period of significant fiscal slack to one in which concern over deficits ruled federal policymaking for more than two decades? And why do presidential candidates today feel so constrained from proposing major policy shifts despite large temporary surpluses?

The truth is that lawmakers have essentially squandered more than all of the growth in revenues due to the economic good times by building more and more automatic growth into public programs. At first, such commitments were modest because the automatically growing entitlements represented only a small share of the total budget. But before long, larger shares of new revenues were being consumed by growing spending commitments.

A distinction must be made here between growth in regularly appropriated programs and automatic growth in entitlement programs. Laws today create eternal programs and some of them are slated for eternal growth. Indeed, some are even scheduled to grow faster than the economy through the 22nd century and beyond. For perspective, imagine our founding fathers setting the budget for the year 2000 more than 200 years ago.

Never before in U.S. history has the law pre-ordained so much of our future spending. Never before have dead or retired policymakers so hamstrung officials today. And never before has so much policy bypassed the traditional brakes applied throughout the history of domestic policymaking.

In effect, mandatory spending in recent years has been growing so much faster than the economy that there are not even enough resources to pay off old commitments, let alone meet new ones. Compounding those problems, of course, are demographics. Social security, Medicare, and Medicaid costs are scheduled to rise partly because the population is aging and partly because of such built-in growth factors as the failure to index for life expectancy, continual benefit increases for each new cohort of retirees, and the open-ended design of the health insurance packages involved. As a consequence, retirement and health programs increasingly dominate everything the federal government does.

There is really no comparison that can be made with spending increases in the past. Formerly, when the nation had dramatically increased its financial obligations—because of wars, land acquisitions such as the Louisiana Purchase, assistance to workers and the unemployed during the Depression, etc.—the accompanying budgetary commitments were temporary no matter how large their initial impact.

It is the permanence of our newer obligations that is so different and so inappropriate. It makes no more sense today to commit almost all the future economic resources there will ever be to government than it would be to decide today where to station our troops until the end of the next millennium.

The public senses that it has lost ownership of its fiscal choices. And it has.

The new surplus, of course, appears to turn all of this upside down. But it is hard to have a serious debate about how to spend additional government revenues that accompany growth if down the road all of those revenues are essentially committed.

A big mistake—one that has led to a preoccupation with symptoms, not causes—has been to presume that somehow removing deficits would get the nation out of the fiscal straightjacket. That just isn't so. Even if projected deficits under current law were zero for decades to come—today still a distant goal—our fiscal future would be far from free.

Consider what would happen if two hypothetical budgets passed next year. The first projects a zero deficit in 2030. The second keeps all revenue growth between 2000 and 2030 uncommitted. At normal growth rates,

about \$1 trillion of additional revenue would accrue annually as a relatively constant tax rate applies to a growing income base. Under the first budget, that additional \$1 trillion of revenues in 2030 (and all the revenues in the years in between) go to whatever spending policymakers wanted in 2000. Under the second budget law, that \$1 trillion in 2030—and trillions of other dollars in the intervening years—would be spent not just on needs that are perennial but on others that no one in the year 2000 could have predicted would become critical a few years later.

The total amount of expenditure, deficit, and national debt might turn out to be the same in both cases. But what the nation decides to buy with its money could be radically different. A system with more fiscal slack—that is, growing surpluses under current law—may spend just as much as a straightjacketed system. The difference is that it gets what it needs 5 or 20 years down the line, not what policymakers of yore wanted for their own generation or the next.

Some who don't want to face up to this hard truth argue that automatic growth in programs doesn't matter. From the left come calls to protect the growth in social programs; for the right, growth in tax breaks for businesses and savers is sacrosanct.

What both sides lose sight of is what it costs to use the force of the state to back up their crystal ball predetermination of future needs. To restrain the automatic growth of entitlement spending, or even to reorient the different growth rates in different entitlement programs requires a supermajority—two-thirds majority in both the Senate and the House of Representatives—or simple majorities in both houses plus the president's support. Thus, new needs, which must be funded by new laws, are put at a dramatic disadvantage relative to old needs. That is the perfect recipe for stultifying the responsiveness of government to change.

My argument is simple. Like any business or household getting ready for tomorrow, our government policies today desperately need fiscal slack. Slack provides flexibility. It makes room for initiative, for adapting to changing conditions, and, in a democratic society, for bending to the will of each new generation. Slack also fights hubris—in the form of the vain notion that we can determine in almost every detail the future government policy of what's best for our children and grandchildren.

Permanent fiscal slack is the normal condition of a vibrant government. It is foolish today to try to give up whatever modest surplus might be available in an unknown future just so we today can claim credit for higher future expenditures or lower future taxes. It is even more foolish to try to maintain promises in the longer-term future that predetermine how almost every future federal dollar of revenue will be spent.

Until we restore permanent fiscal slack to government, we will remain in a straightjacket. Spending surpluses, whether through spending increases or tax cuts, is a normal order of business, but only if it does not usurp the power of future generations to have slack of their own that they themselves will manage. A balancing act is required. No social security or Medicare reform that fails to restore slack will prove adequate. No political plan or economic model that tries to predetermine how to spend most future revenues will be efficient. And no generation will feel that it owns its own government until the government's discretionary decisionmaking is restored.

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- [C. Eugene Steuerle](#)

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