

THE GOVERNMENT WE DESERVE - *Gene Steuerle*

EMPOWERING THE NEXT PRESIDENT

What if President William Howard Taft and his Congress had written laws that specified how all the government's revenues at the beginning of the 21st century were to be spent? Preposterous? Well, the laws on the books today not only dictate how all revenues collected in 2030 and beyond will be spent, they also predetermine most of the next president's spending. No wonder the campaign promises of the presidential candidates sound hollow.

After dozens of debates, hundreds of town meetings, and thousands of speeches, the candidates, the media, and the public aren't asking the *big question*: namely, how are we going to free up the resources needed to address emerging national priorities—be they redesigning our 19th-century educational system, dealing with our crumbling infrastructure, covering the 47 million Americans without health insurance, limiting taxes to levels that foster growth, and providing our elderly and vulnerable populations adequate retirement and health benefits?

Paradoxically, our budget is both out of control and locked in a straightjacket. As the baby boomers retire and the cost of health care continues to explode, Medicare, Medicaid, and Social Security spending will soar and deficits and interest payments will balloon. Increased spending on these programs will absorb almost all the increased revenues the current tax system is projected to generate, leaving little or no room for any major reforms or future initiatives.

Except in periods of crisis, our budget system puts the existing entitlement programs on autopilot where, without debate, they gobble up most available resources, leaving the remaining discretionary programs—education, defense, environment, and so on—to fight over the remaining scraps. Similarly, open-ended tax expenditures—like subsidies for vacation homes or high-cost employer-based health insurance—increasingly erode the government's revenue base.

If current and future generations are going to regain the ability to chart their own course and meet the demands of their times, the growth rate in the unsustainable commitments already on the books must be scaled back or taxes will have to be raised. But no mechanism currently forces our elected officials to weigh established commitments against emerging priorities or to create some fiscal flexibility for the future.

Recently a group of experienced budget experts—including many former top Democrat and Republican officials—proposed a mechanism for regaining control over the budget and restoring the fiscal flexibility needed to address some of the big problems the candidates are talking about. (See [Taking Back Our Fiscal Future.](#))

Under this proposal, Congress and the president would adopt explicit, sustainable, long-term—say 30-year—budgets for the three largest entitlement programs—Social Security, Medicare, and Medicaid. Every five years, Congress would have to assess whether each program was adhering to its budget. If any were off course, adjustments would have to be enacted to bring it back in line or Congress and the president would have to agree to change the budget. If the Congress and the president couldn't agree on the necessary adjustments, "budget triggers" would automatically reduce spending and increase taxes enough to meet the budget. The triggers for Social Security, for example, might involve a small hike in the payroll tax combined with a modest increase in the retirement age.

Hopefully, Congress and the president, wanting to avoid the pain associated with the automatic triggers, would get serious about more sensible reforms. And with the automatic adjustments as a threat, the various stakeholders may be more willing to support real reforms.

While Social Security, Medicare, and Medicaid would be the first programs subject to this new discipline, other costly spending and tax subsidy programs that currently receive no budget review and hence are projected to grow rapidly forever would also come under scrutiny. For example, if Medicare were under new constraints, it would make sense to apply similar discipline to the tax subsidy for employer-provided health insurance.

Why do we need such a reform now? Even if we are lucky enough to sustain current rates of economic growth and even if tax rates stay about where they have been for several decades, we'll have close to \$1 trillion more in real revenues to spend annually within about a decade. But promised *increases* in spending for the programs that are on the books now already exceed those additional revenues.

Yes, the nation has been in budget messes before. Underfunded promises—also known as deficits—are nothing new. But never before have we come this perilously close to rendering the future a done deal. What's different now—in a day when it's difficult even to bank on banks—is how many promises have been leveraged

on zero collateral, while spending away future resources that may never appear.

The voices of yesteryear's leaders should no longer be allowed to drown out those of tomorrow's. President Taft would have been wrong to try to place such ridiculous constraints on us, and we are wrong to put them on ourselves and our children.

For further information, see also: [*Stabilizing Future Fiscal Policy: It's Time to Pull the Trigger*](#)