

Commentary

THE BUFFIN FOUNDATION

SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

U.S. Fiscal Policy Challenge: Dead Men Ruling

D*ead Men Ruling* is the title of a new book by C. Eugene Steuerle, the Richard B. Fisher Chair and Institute Fellow at the Urban Institute in Washington, D.C. The main thesis of this book is that U.S. fiscal policy is constrained by decisions made by yesterday's policymakers; the greater the share of spending determined by previous decisions, the less fiscal freedom that today's policymakers have to shift dollars to new priorities, respond to new problems, and seize new opportunities. The federal government budget is increasingly out of date for the nation it purports to serve; the budget may move in directions set by previous policymakers, but neither the economy nor the society move the same way. The loss of fiscal freedom is the end result of decades of changes in Washington, rooted in altered visions about economic policy and the role of government to address economic and social issues. Steuerle identifies four critical economic consequences of this situation: (i) rising and unsustainable levels of debt; (ii) the shrinking ability of policymakers to fight recession or address other emergencies; (iii) a budget that invests ever less in our children and our future; (iv) a broken government burdened with antiquated tax and social programs.

The book introduces a Fiscal Democracy Index that measures and tracks over time the amount of revenue that is available for Congress to allocate on a discretionary basis after meeting all of the commitments that are built into the budget through the effects of prior legislation. The percentage of federal receipts remaining after mandatory spending and interest expense has been in a long secular decline over the past fifty years, declining from around 65% in the nineteen-sixties to around 20% today. The index is projected to reduce further

into single digits or possibly enter negative territory unless corrective action is taken to address the core problem that is a much more serious challenge than merely tackling a current deficit. Future generations will have no available revenues to finance their own new priorities and they will have to raise taxes or cut other spending just to finance the expected growth in existing programs. Even efforts to reduce spending on education, transportation, housing and defense programs, although reducing interest expense, will not be sufficient to halt the downward trend in the index. The automatic rate of spending growth in many programs exceeds the expected rate of economic growth.

While the nature of the economic and fiscal challenges faced by the nation is clearly documented and recognized, the political action necessary to regain control of non-discretionary expenditures and avoid the "squeezing-out" of discretionary spending necessitates political action and meaningful concessions from partisan political interests. According to Steuerle, "A decade into a new century, we have remarkable opportunities to create a brighter, healthier, and more prosperous future for our nation and its people. But we are stuck in place, unable to take full advantage of these opportunities because we lack the fiscal freedom to shift direction, make choices, and set new priorities. Unable to let go of our policy past, we cannot shape our future." Potential solutions involve higher tax rates, reducing or phasing out tax subsidies, and slowing the growth of future expected benefits under existing social programs. From an international comparative perspective, the level of U.S. government spending is well below the level of Western European government spending by about six percentage points of GDP. But for both Western Europe

and the United States it is not possible to sustain the future automatic growth in spending simply by default in allowing government to grow unimpeded as a share of the economy.

Building a better government requires a commitment to an agenda emphasizing key priorities. A new focus on tax expenditures, retirement, saving, and health care policy would provide a basis for addressing the challenges of restoring a greater degree of fiscal freedom and democracy. The tax system is extraordinarily complicated, with multiple credits, deductions, and other preferences. Many of these provisions do not fit together in a fair and consistent manner; scaling back and capping these tax expenditures would be a step in the right direction. The potential of people aged 55 and older represents a vast pool of underutilized talent and human capital. National pension policy could be modified to provide greater incentives for individual saving to supplement Social Security. Health care policy reforms are needed to achieve a reasonable allocation of resources between the costs of cures and chronic care, between beginning-of-life support and end-of-life support, and between prevention and treatment of illness and disease. *Dead Men Ruling* provides valuable insights into the nation's fiscal problems and the way forward to recognize and implement the changes that are necessary to restore the fiscal integrity and sustainability of the nation's finances.

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