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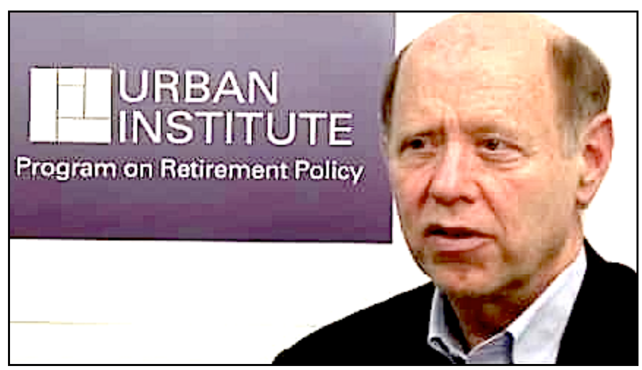
Zombie Politics

By Kerry Pechter *Tue, Jun 24, 2014*

Patient Zero in American's long-standing financial and political malaise, according to an earnest new book by economist Eugene Steuerle of the Urban Institute, was Jude Wanniski, the late conservative journalist, gold bug and evangelizer of supply-side economics.

In "Dead Men Ruling: How to Restore Fiscal Freedom and Rescue our Future" (Century Foundation, 2014), Steuerle suggests that Wanniski's 1976 column in *The Wall Street Journal* planted the germ of an idea that proved infectious: that Republicans should neutralize the Democrats' appeal as the benevolent "spending Santa" by becoming the benevolent "tax cut Santa."

Wanniski's "two Santas" idea went viral among Republicans, and the rest is history. Subsequent years brought the Reagan Revolution, the Laffer Curve and Dick Cheney's famous remark that "deficits don't matter." Soon, almost nobody was left in Washington to stand up for fiscal responsibility. And why should they? A vote against entitlements, tax expenditures or tax cuts meant political suicide.



That wasn't good for the country, writes Steuerle (right), a liberal-leaning pragmatist who served in the Ford, Reagan and H.W. Bush Treasury departments. It led to huge levels of entitlement spending, huge budget deficits and a huge national debt. It has led to over-spending on the old and under-spending on the young. Perhaps worst of all, mandatory spending now dominates the annual budget, leaving today's politicians with few resources to address new problems, like declining educational levels and decaying infrastructure.

"My thesis is quite simple," he writes. "In recent decades, both parties have conspired to create and expand a series of public programs that automatically grow so fast that they claim every dollar of additional tax revenue that the government generates each year. "They also have conspired to lock in tax cuts that leave the government unable to pay its bills. The resulting squeeze deprives current and future generations of the leeway to choose their own priorities, allocate their own resources, and reach for their own stars. Those generations are left largely to maintain yesterday's priorities."

In one of the charts in his book, Steuerle shows how little of the expected $1.2 trillion growth in federal outlays over the next 10 years will go to children. Social Security, Medicare, Medicaid and interest on the national debt will capture virtually all of it. Only 2% is earmarked for programs for children. Military spending will shrink by $106 billion.

"Historically, a country ran a deficit because a particular king or government was profligate somehow," Steuerle told *RIJ* in an interview this week. "It's a very different situation when governments commit to spending programs that last indefinitely into the future. That may sound like a trivial difference, but it's crucial to solving the problem.

"I use the metaphor of leaving the window open and letting a lot of critters crawl in. You can start setting more and more traps around the house to catch the critters, or you can shut the window." In our case, however, the window seems to have been propped open.

Share of Projected Growth of Federal Outlays (2012-2023) Going to Children and to Other Major Budget Items		
Major budget items	Δ between 2012 outlays and projected 2023 outlays (in 2012 dollars)	Share of new outlays
Social Security, Medicare, Medicaid (excluding children)	$780 billion	66%
Interest on the debt	$444 billion	37%
Defense	($106)	(-9%)
Children	$20 billion	2%
All other outlays	$50 billion	4%
Total growth	$1,189 billion	100%
Steuerle, Eugene. *Dead Men Ruling: How to Restore Fiscal Freedom and Rescue our Future* (Century Foundation, 2014); Table 6.1.		

As for today's elected officials, "I think they're trapped," Steuerle continued. "Once they started competing not only for control of the present but also for control of the future, they got in a box. Now they're in a classic prisoner's dilemma. Both sides believe that if they lead [in recommending entitlement or tax reform], they will lose. They know the public will punish them."

The potentially tragic consequence of lavishing benefits on Boomers ad infinitum, Steuerle says, is that there's not much money left over to invest in the future. Instead of giving wealthy Boomers more retirement and health benefits, we should be directing that money toward education and other future-oriented initiatives instead, he believes.

On the question of Social Security, Steuerle wants to strengthen it, but not in its current form. The retirement age should rise along with life expectancies, he believes. At the same time, he'd like to make the program more progressive. He favors higher minimum benefits for low-income Americans and lower maximum benefits for the wealthy. (Thanks to longer retirements, upper middle-class couples stand to receive $300,000 more over their lifetimes than the system anticipated, he said.) He also advocates more equitable benefits for single working moms (as opposed to dependent spouses) and more credit for women who were never married to the same person for at least 10 years.

"My friends, like Henry Aaron [of the Brookings Institution], say we can raise tax rates to fully fund Social Security. I say, 'Yes, but if we raise taxes, why spend the money on people like you and me?' Let's spend the taxes where we can make meaningful improvements. If the best we can do is to create a budget that barely gets entitlements under control, that's a budget for a declining economy."

Given the inflexible partisanship and "incivility" that makes today's political scene seem especially hopeless, the book is refreshingly evenhanded. "Dead Men Ruling" is an important wake up call to the living. It's a warning that each generation needs the freedom to establish its own budgets for its own needs, and not be chained to the past.

Of course, the young have always had difficulty escaping the shadows of the old. "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood," John M. Keynes famously said, and this oft-used quote seems particularly apt. "Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."

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