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How Congress lost control of government spending

Incremental expansion of programs now drains off almost every dollar

By: Richard Rahn
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Did you know that the portion of the federal budget that Congress actually votes on (the discretionary budget) has been falling for years?

The so-called "entitlements," such as Social Security, Medicare, Medicaid, food stamps and Obamacare, take a larger and larger portion of the total federal budget each year. Former U.S. Treasury economist Eugene Steuerle, now at the Urban Institute, has created a Fiscal Democracy Index, which measures "the extent to which past and future projected revenues are already claimed by the permanent programs that are now in place." In 1965, these programs claimed about 35 percent of the federal budget; now they claim about 85 percent of the budget, and they will soon claim more than 100 percent of total tax revenue.

Mr. Steuerle is now out with a new book, "Dead Men Ruling," which explains how we got into the budget mess and the consequences of it. 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. … Unlike reaching the moon, rejuvenating the economy, winning a war, or curing a disease, none of these permanent programs are designed to achieve goals or solve problems once and for all. Almost all of them simply maintain, and often perpetually increase, subsidies for some pattern of consumption — overpriced health care, more years in retirement, or bigger McMansions."

Government is growing not only in absolute terms, but also in relative terms. Much of this growth in spending has little to do with reducing poverty. Total government spending for social welfare tops $30,000 per household, but the poverty line for a family of three is $19,500. "So, as a nation we already spend far more than necessary to give everyone incomes well above the poverty line, if we wanted to do so," Mr. Steuerle notes. By reducing the discretionary fiscal budget as a share of total government spending, policymakers now have less ability to fight emergencies. Elected officials have created their own "prisoner's dilemma" where they rightly conclude they may be defeated if they either impose the necessary spending cuts or raise taxes. The income tax was created in 1913, Social Security in 1935, and Medicare and Medicaid in 1965 — and these actions created the current mess. Rather than make the necessary corrective actions, Congress has compounded the error by adding Obamacare to the problem.

Those wishing to understand how we got into the current fiscal mess will benefit from reading "Dead Men Ruling." Those looking for a solution are likely to be less satisfied, even though, near the end of the book, Mr. Steuerle provides many very sensible, suggested policy changes that could be part of a grand compromise to bring back sensible fiscal management. He is all for pro-growth tax reform, but he makes the error, in my judgment, of also endorsing taxing and spending levels beyond the optimum for economic growth and job creation.

Most Democrats and all too many Republicans fail to acknowledge that government spending at all levels is far above the optimum level, and merely taking some corrective actions to reduce the rate of future growth of government spending without going the full step to future prosperity by pushing down the combined levels of government spending to less than 25 percent of gross domestic product (GDP) is not being fully responsible. There now is an extensive body of economic literature showing that government spending at current levels in the United States and most other countries is counterproductive. In a paper, released just this month by Michael Connolly and Cheng Li of the University of Miami, the authors found, using panel data from 1991 to 2011 for 31 Organization for Economic Co-operation and Development countries, "that government consumption spending significantly reduces economic growth." These findings are consistent with many others, including my own studies going back to 1986.

No one should be surprised by the fact that much of government spending is counterproductive when, in fact, not working, only working part time or in very low-wage occupations is an eligibility requirement for many "entitlements." Most government workers are largely immune from the rewards and punishments that most private-sector workers face, so they are expected to be less productive as a class. Government officials and bureaucrats are spending other people's money, so many of them are less careful than they would be if they were spending their own.

The only long-run solution may be to cap government spending as a percentage of GDP, like the Swiss and some others have done. However, I fear this will not occur in the United States and in most other countries until a very big financial crisis occurs, which forces elected officials to make the necessary changes.

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