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Entitlement Evolution Poses Threat to America's Finances

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The debate in Congress this week over spending is a sideshow in the battle against debt and deficits because entitlement programs such as Social Security and Medicare are threatening to destroy the nation's fiscal security.

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The problem is a familiar one -- the government made far more promises than it can pay for.

"Social Security and Medicare deficits together equal around 75 trillion dollars," said Andrew Biggs of the American Enterprise Institute. "But that figure is in today's dollars, meaning you had the money today in the bank earning interest. If we delay fixing these programs then the costs only get larger."

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And with some 75 million baby boomers about to retire, and far fewer young people paying taxes, that will mean a massive transfer of wealth.

"So much of what the government is doing is to take money from younger people and give it to older people," Biggs said.

It was the creation of Social Security in 1935 that opened a new era of what are called entitlement programs.

These are "programs that are basically on autopilot," said Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "You don't actually decide each year how much money you'll spend on them. You just pay out what's demanded by the rules that you've set up."

And that payout is growing exponentially.

Back in 1935, when Social Security was created, promises to those over 65 years old were easy to make "because many people didn't even survive to retirement age," Biggs said. "Those that did live to age 65 didn't live for long after that."

In fact, at the time, the average life expectancy for men was only 60 years and for women, about 64. Now, it is 75 for men and 80 for women. That's one reason entitlements are getting more and more expensive.

But benefits have also expanded.

In 1939, before Social Security was even fully operating, new benefits were added for surviving spouses and children. In 1956, disability benefits were added.

Then, in 1965, President Lyndon Johnson and Congress created Medicare and Medicaid to help the elderly and poor.

"Medicare took care of the elderly, Medicaid was originally designed to take care of the poor," said Michael Tanner of the Cato Institute. "Although an increasing portion of Medicaid now covers the elderly in nursing homes."

And as they age, entitlements themselves tend to expand and take on a life of their own.

"At the time [of creation], I don't think anybody ever anticipated the kind of monstrosity the

entitlement would turn into," MacGuineas said.

But the programs kept expanding, inflation protections were added and now, entitlements are poised to overwhelm the entire federal budget.

"Today, Social Security, Medicare and Medicaid make up about half the budget," Biggs said. "Going into the future they could conceivably swallow up the entire budget."

"By the end of the decade," Tanner said, "we'll be at the point where the entitlement programs plus interest on the debt will consume the entire amount of federal revenue that we bring in. You'll have to raise taxes just to keep the government functioning."

The coming financial crisis over entitlements is so dire that Andrew Biggs said "the joke among entitlement analysts is that the government will eventually turn into a pension plan with an army."

In other words, by the time we pay for Social Security, Medicare, and Medicaid, there will only be enough federal revenues left over to cover the military, but no other functions of government.

That's what entitlement policies have come to.

And though we can't even pay for promises already made, the new health care law created yet another entitlement, one for the disabled, which most analysts believe will also run short of money, early in its history.

Various panels and commissions have been warning about unsustainable entitlement programs for a good three decades. But politicians, says one analyst, always seem to be more worried about the next election than the next generation.

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