

# Dead Men Ruling

**How to Restore Fiscal Freedom  
and Rescue Our Future**

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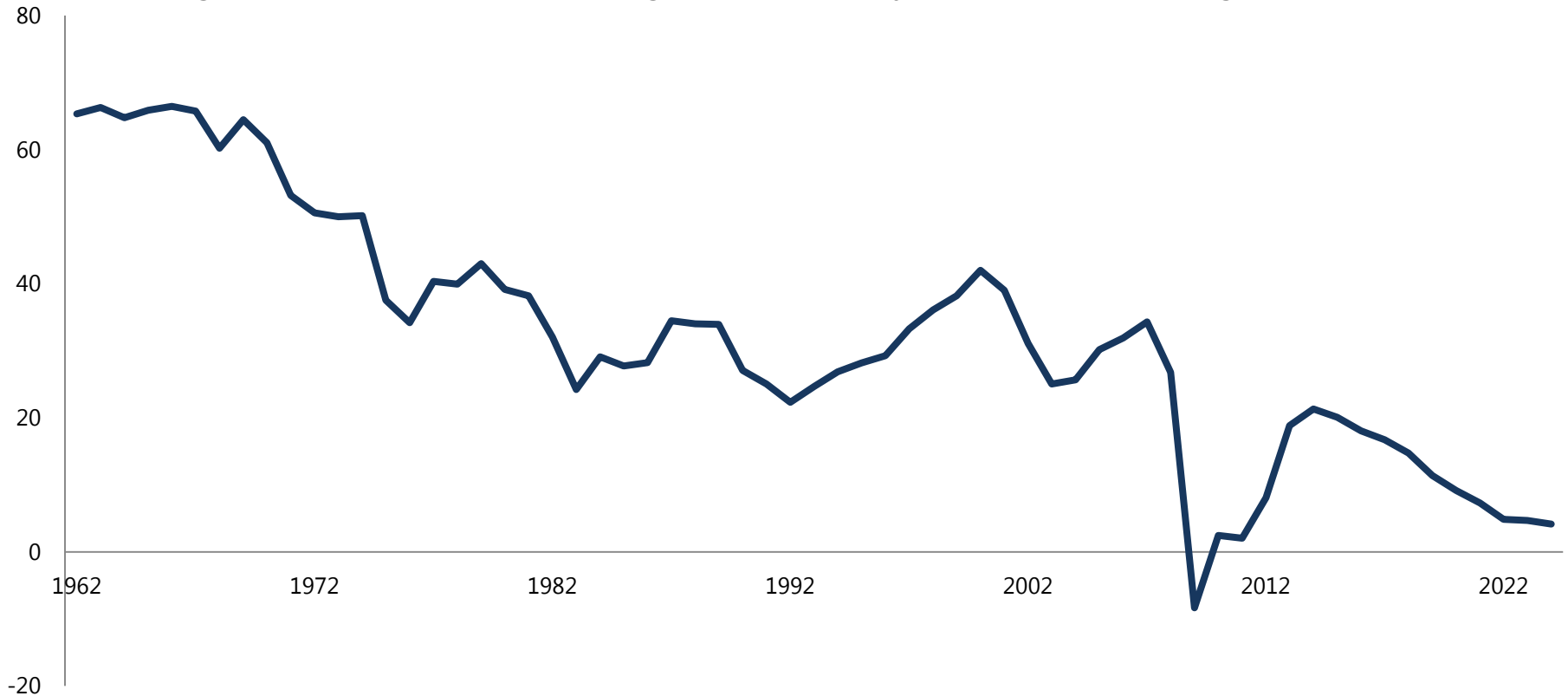
AABPA

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# As more revenues are pre-committed, successive Congresses have less discretion to pursue new policies.

## Steuerle-Roeper Index of Fiscal Democracy

Percentage of federal receipts remaining after mandatory and interest spending



Source: C. Eugene Steuerle and Caleb Quakenbush, 2014, Washington, DC: Urban Institute

Calculations based on data from OMB FY2014 Historical Tables and CBO February 2014 Budget & Economic Outlook and April 2014 Updated Budget Projections. Projections assume the extension of certain tax provisions and the maintenance of current Medicare payment rates to physicians.

# The Modern Disease

Deficits merely Symptoms

The Disease:

- Attempts to control the future

  - Ever-more growth in entitlements

  - Unfinanced tax cuts

- Removes required flexibility

# Leads to 4 Economic Problems

1. Rising and unsustainable levels of debt
2. Weakened ability to combat recession & address new emergencies
3. Budget for a declining nation
4. Broken & antiquated government

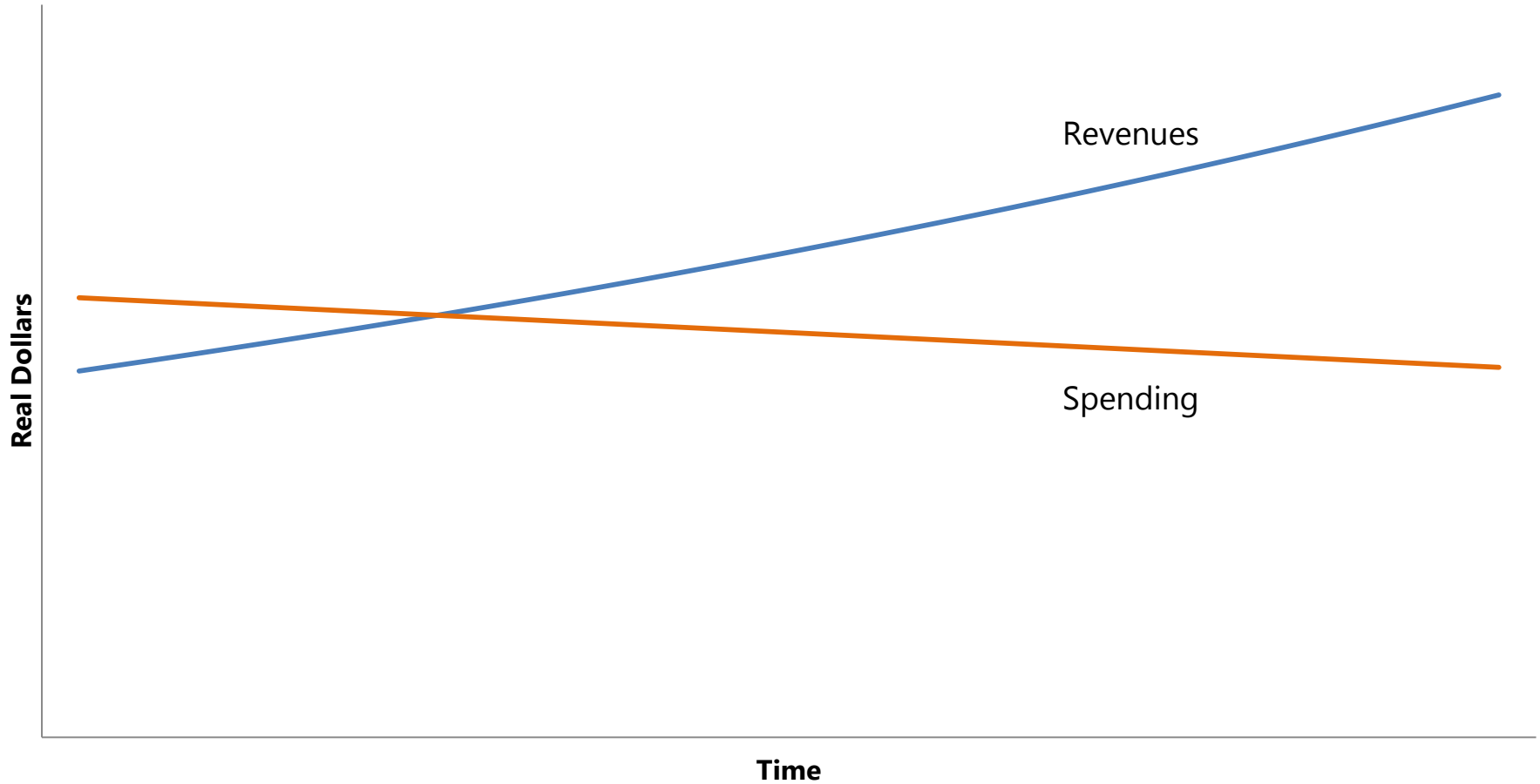
# And Leads to 3 Political Problems

1. Decline in Fiscal Democracy
2. Politicians trapped in “prisoners’ dilemma”
3. Difficulty in “fixing” government when politicians *must* renege on promises

# Traditional Budget Scenario

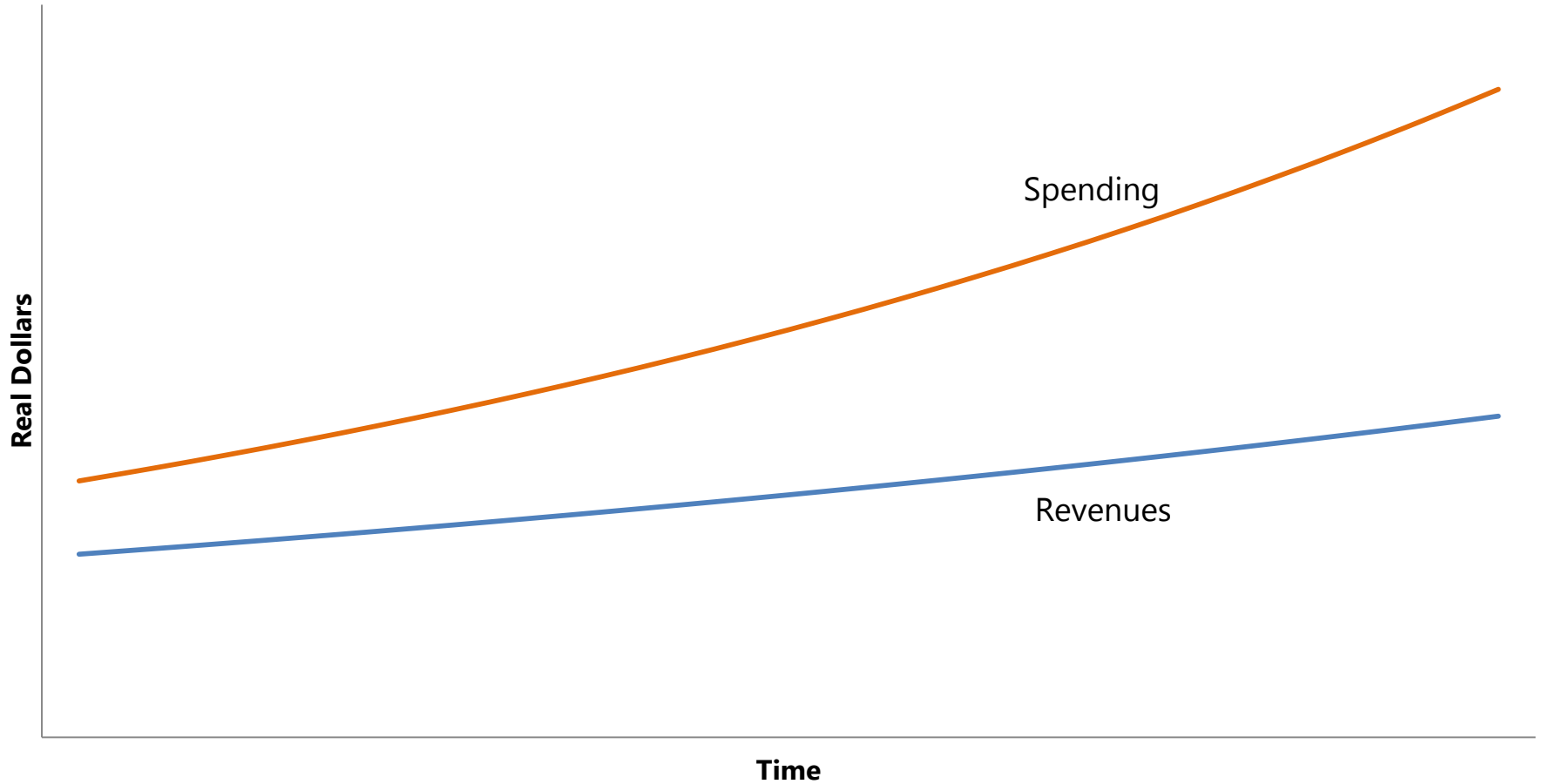
Real spending was flat or declining.

Revenues increased due to inflation and economic growth.



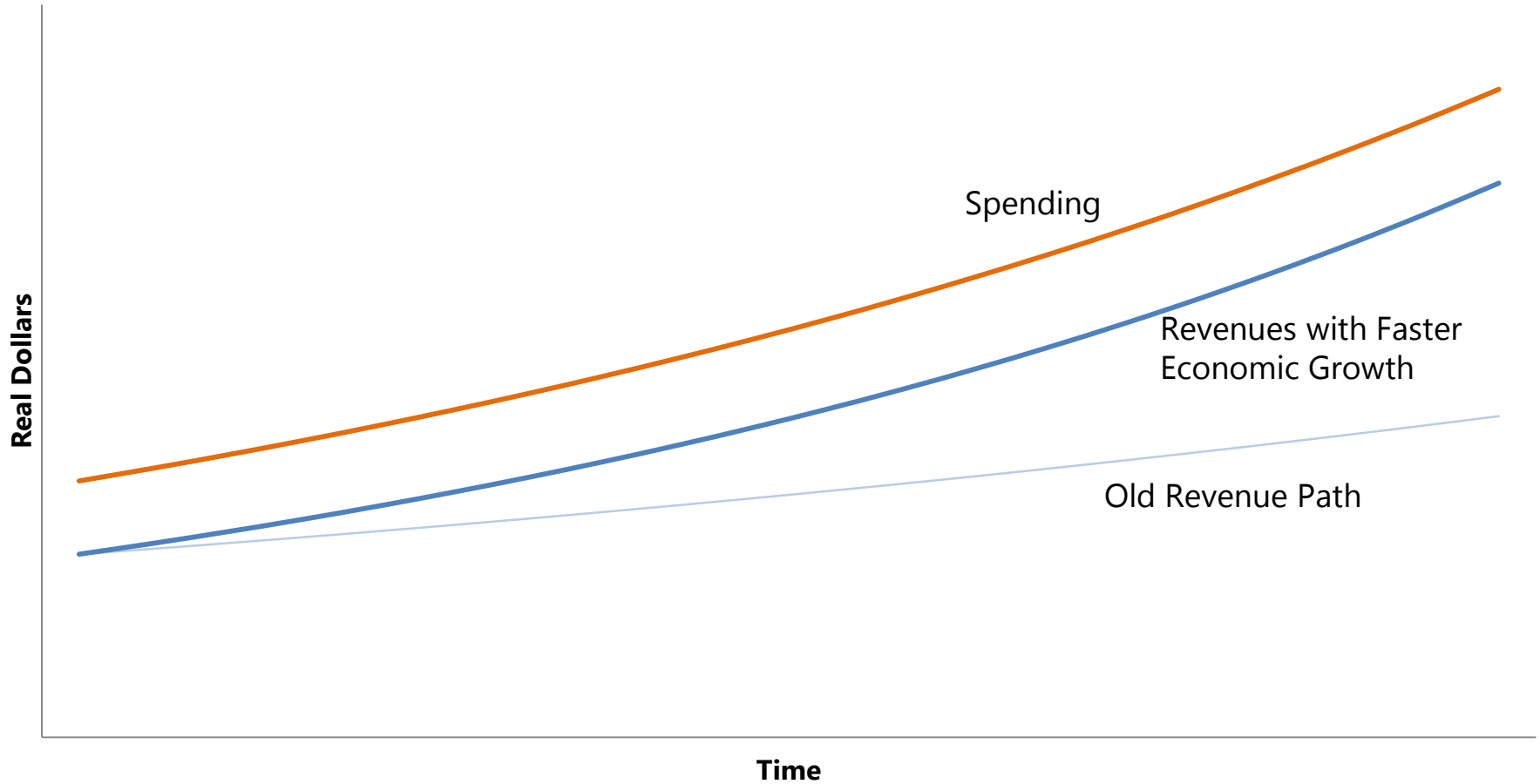
# Today's Budget Scenario

Spending is scheduled to grow automatically.



# Can't we grow our way out?

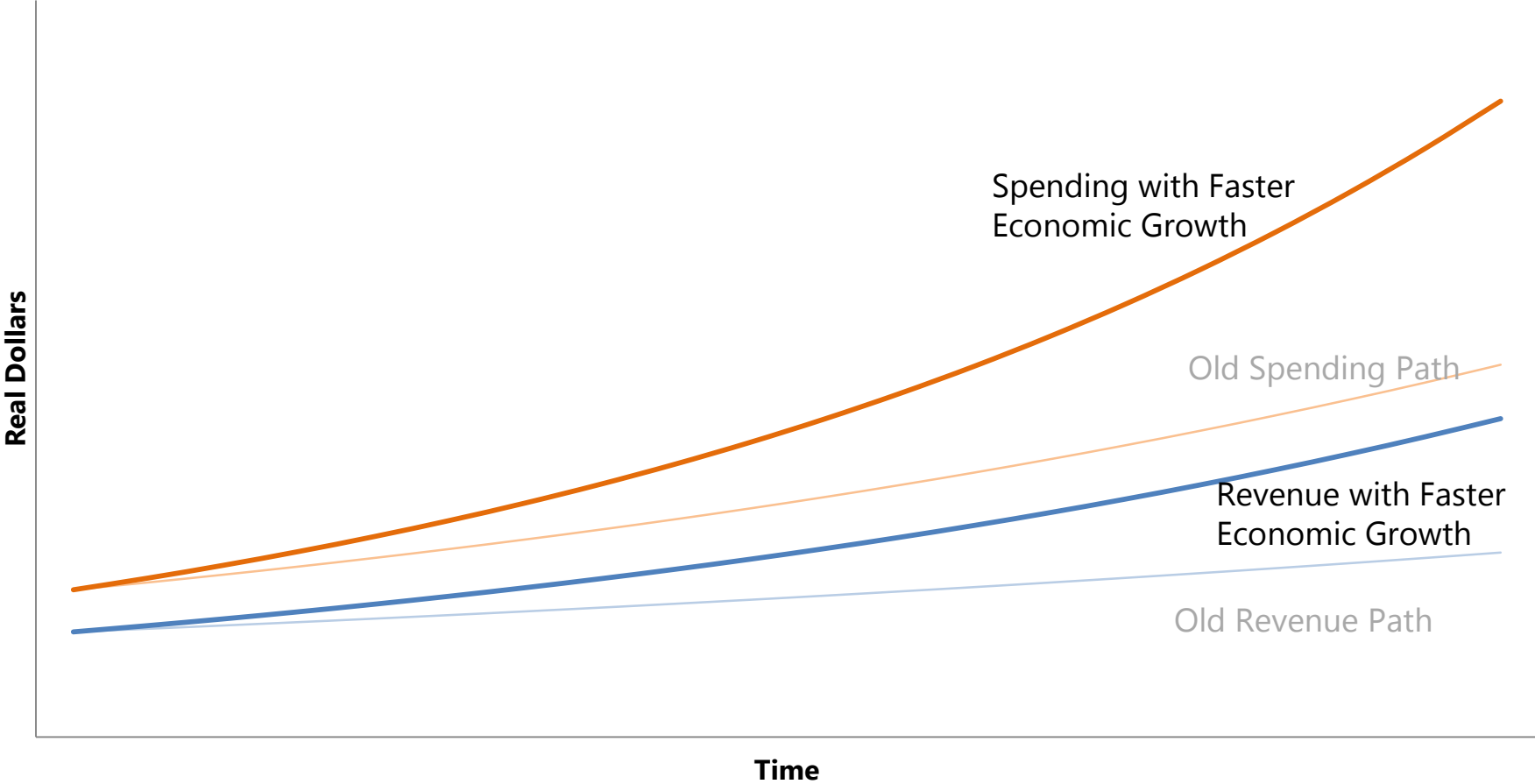
As the economy expands, revenues increase.





# Growth isn't enough

Spending now increases with economic growth too.

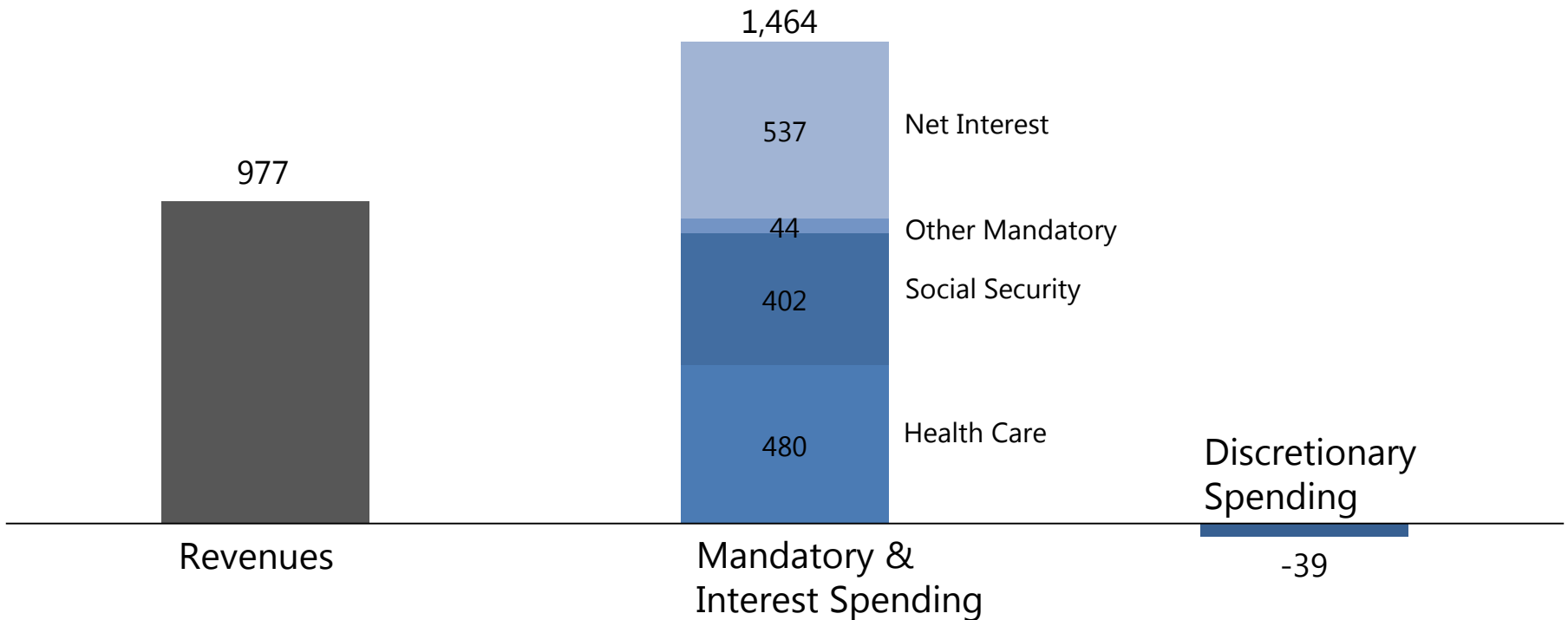


# The Macro-Economic Arguments

- Long-term budgets historically in balance
  - Threat of fiscal drag => give-away
- Why Keynesians & supply sides could have been almost right historically
  - If right, long-term balance in 3 years
  - If wrong, long-term balance in 4 years

# Future revenues have already been overcommitted under current policies

## Total Change in Revenues and Spending, 2014-2024 (Billions of 2014 Dollars)



Source: C. Eugene Steuerle and Caleb Quakenbush, 2014, Washington, DC: Urban Institute  
Calculations based on data from CBO February 2014 Budget and Economic Outlook and April 2014 Updated Budget Projections.  
Estimates assume the extension of certain tax provisions and the maintenance of current Medicare payment rates to physicians.

# An age of austerity? Or opportunity?

## Changes in GDP, Spending, and Taxes per Household, 2014 v. 2024 (2014 dollars)

	2014	2024	Change
<b>GDP</b>	141,000	168,000	27,000
<b>Direct Spending</b>	29,000	38,000	9,000
Discretionary	10,000	9,000	(1,000)
Mandatory	17,000	23,000	6,000
Net Interest	2,000	6,000	4,000
<b>Tax Expenditures</b>	10,000	13,000	3,000
<b>Taxes</b>	25,000	30,000	6,000
<b>Deficit</b>	5,000	8,000	3,000

Source: Urban Institute, 2014. Estimates based on CBO, OMB, and Census projections.  
Figures rounded to the nearest \$1,000.

# The Real Grand Bargain

- Deficit reduction not enough
  - Like keeping doors & windows continually open, then setting traps for the critters
  - U.S. 1980s & 90s; Maastricht 1993
- 1. Limit automatic growth in programs
  - Includes tax subsidies
- 2. Pay bills as we go along (in good times)
- 3. Make policymakers more accountable
  - Particularly for changes they passively accept

# Reporting First on *Total* Change over Time

- Level the “reporting” playing field
  - At end of day on programs cuts & increases
- Timing
  - When President submits budget
  - At end of each Congress
  - Some major legislation, e.g., Soc Sec reform
- Total = new legislation + automatic

# Possible Conforming Budget Roles/Rules

- Periodic re-authorization of permanent spending & tax programs
- Congress to adopt long-term budget first
- All government programs (including health) in a budget
- Triggers for when programs out of long-term balance
  - But not across-the-board sequesters
  - Includes more executive leeway to stay in budget
- Better rules on games outside of scoring window
- President submits balanced budget over ten years



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