THE URBAN INSTITUTE

THE FUTURE OF THE PUBLIC SECTOR

A series on the long-term forces affecting U.S. social policy

Eight Pathways to the Government We Deserve

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(Authors of *The Government We Deserve: Responsive Democracy and Changing Expectations*)

Americans have always been ambivalent about government, but in recent years we have become alarmingly estranged from it. There are three reasons for this shift in attitude:

First, we feel that the government is not responding to our current needs. It is busy, even meddlesome, but increasingly removed from today's real conditions and concerns.

Second, for years now it appears as if the primary job of government is not governing, but management of the deficit or of a temporary surplus. The deficit is merely what is left after public expenditures are subtracted from public revenues.

Third, we have come to believe that much of the information disseminated by the news media and elected representatives is unreliable.

People feel that they have lost ownership of their government (figure 1), and this feeling has persisted even during recent periods of sustained economic growth. Reclaiming ownership will be a long and arduous process requiring that we develop ways of comparing the relative needs and opportunities of today's citizens, create more flexibility in the budget by setting reasonable limits on yesterday's commitments, and restore a political process that informs and empowers citizens rather than merely panders to their special interests.

The government we deserve is not necessarily bigger or smaller, more conservative or more liberal than the one we have today. Rather, it is one we can use to make choices that will meet our current and foreseeable needs, one that gives us a justifiable sense of ownership over public policy decisions.

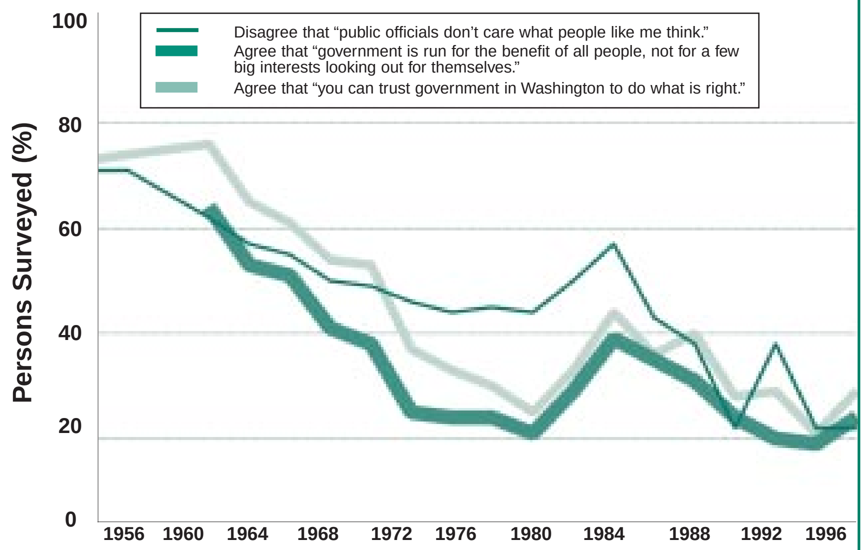
The following are eight pathways to a government more attuned to current and future needs. They do not make up an entire domestic agenda for the nation, but they do present a comprehensive approach to restoring the ownership of government to citizens and developing a more dynamic public sector.

Free Our Fiscal Future

The impending retirement of the baby boom generation threatens to overwhelm the federal budget. In fact, under a current unsustainable law Social Security and Medicare are expected to consume almost all federal revenue by the middle of the next century. Often narrowly construed as the "Social Security problem," this fiscal straitjacket is the inevitable outcome of creating programs that are scheduled to grow indefinitely without any legislative action. If we are to free ourselves, we must do more than control future deficits. Figure 2 shows that today's temporary surpluses are relatively small, especially when compared to the deficits projected under current law. However, even if projected deficits were zero for decades to come, our fiscal future would still be ensnared in the extraordinary commitment to spend ever-increasing amounts of revenue on programs that respond to past priorities.

This commitment grew up during an unprecedented period in our nation's history. From

Figure 1
Trends in Indicators of Political Alienation



Source: University of Michigan, Survey Research Center, Center for Political Studies, National Election Studies (1996).

1947 to 1973, it was possible to enact new legislation that benefited people through expanded domestic programs and reduced taxes. The sources of funds for these programs were largely hidden, but perhaps most important were the peace dividends after World War II, Korea, Vietnam, and the Cold War. Unfortunately, people came to expect that domestic spending could always grow faster than the economy and that it could do so without higher tax rates.

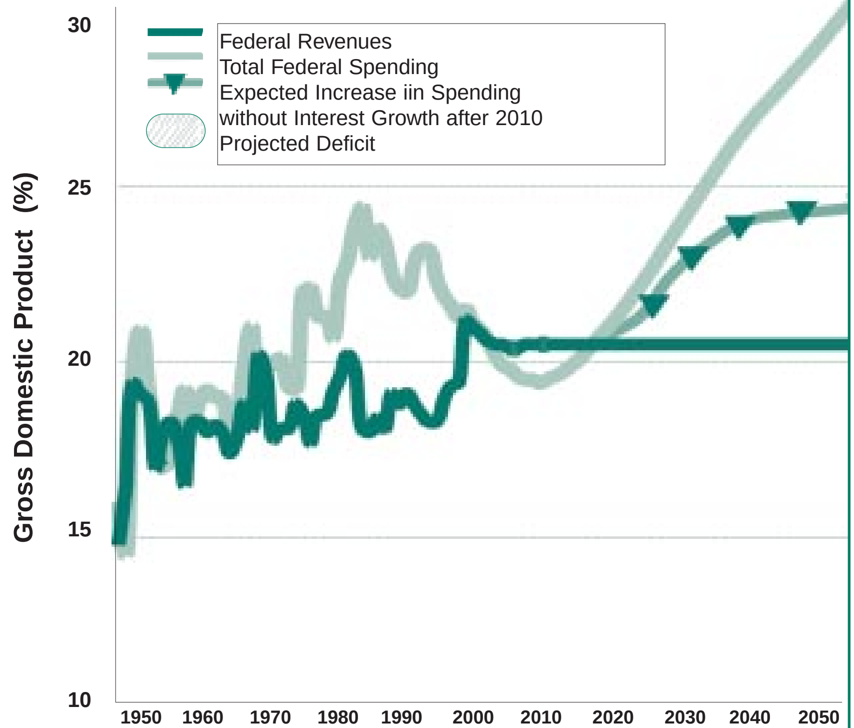
Programs with built-in growth have become more and more dominant over the past few decades, gradually taking ownership of government away from the people and their elected representatives. While it can be argued that we can always enact new laws to slow growth, this argument ignores the cost of reneging on past promises and the extra costs incurred when new or discretionary needs are not allowed to compete for funds on an equal footing with these entitlement programs.

The first step, therefore, is to create some slack in the budget by curbing the automatic growth of current programs and reducing the competitive disadvantage that new or discretionary programs now face in the legislative process. At the very least, we can prevent any program from growing faster than the economy and deny any program eternal exemption from the legislative process, whether on the expenditure or the tax side of the budget. While Congress cannot reconsider every program every year, all "permanent" programs could automatically come up for review or renewal every 5 or 10 years, on a staggered basis, to ensure that they reflect citizens' current priorities. Creating a system with greater fiscal slack does not necessarily mean fewer expenditures—this is a separable issue—but it does allow more decisions to be made by future generations in response to their own needs.

Give Social Insurance a Modern Face

Redesigning social insurance requires us to move beyond a simple focus on budget to a comprehensive reassessment of the relative needs of all Americans. We must decide collectively whether providing a 16th or 17th year of retirement should really be a national priority just because built-in growth has made it one. In addition, neither Social Security nor Medicare has ever been adjusted for increasing life expectancies, nor has either been adjusted adequately for the changing demographics of the population—specifically the movement of the baby boom generation through the life cycle.

Figure 2
Past, Present, and Future Revenues and Spending



Source: Data before 1997 from the Office of Management and Budget; data for 1997 and beyond from the General Accounting Office's model for long-term growth, with no legislative action and no economic feedback (February 1998).

There are three reasons for the automatic growth of Social Security: (1) increased annual benefits; (2) more years of retirement support, because people are living longer and often retiring earlier; and (3) the decline in the birthrate, resulting in fewer workers available to support an increasing number of retired people. Nowadays, people retire for close to one-third of their adult lives and receive benefits for 17 to 20 years. If this trend continues, the ratio of workers to retirees will decrease from 3 to 1 today to less than 2 to 1 by 2030. This decrease will mean that benefits relative to income can be maintained only if tax rates increase by 50 percent; alternatively, tax rates can be held steady only if benefits are cut by one-third.

Since Social Security policy is unlikely to increase birth rates, much of the growth in Social Security will have to be controlled by limiting the growth in annual benefits and curtailing the number of years of retirement support promised to future retirees. The latter measure limits both tax rate increases and cuts in annual benefit rates because it simultaneously decreases the number of Social Security beneficiaries and increases the number of taxpayers. A necessary consequence of improved health and longer life should be an extended contribution to the work force, as opposed to constantly placing additional burdens on future generations.

A modern social insurance system should also foster more private savings, whether through mandates, taxes, or tax subsidies to employers. This is not an argument for pure privatization, since most of these plans to date ultimately transfer large burdens back to the government safety net, but some interdependence of public retirement and saving policies is necessary for the future.

Controlling health costs is more complex because the current reimbursement system contains incentives to increase the cost and use of services almost without limit. Tax policy further encourages excessive consumption of health insurance by exempting all employer-provided health benefits, no matter how generous, from Social Security and income taxes. Therefore, in addition to rethinking who should receive health care benefits and for how long, public health insurance reform requires restructuring the way health care services are financed and delivered. Reform in this area has begun, but it still faces the challenge of ensuring basic equity as the attempts to control costs expand.

Make a Government for All Ages

If an average-income couple retiring today walked into an insurance company, they would have to pay about $500,000 up front to receive the equivalent of the Social Security and Medicare benefits they are now promised. That amount is scheduled to increase significantly every year into the future. A government for all ages would put retirement and health programs in the context of other social needs, including education and opportunities for accumulating wealth. It would also redirect retirement policy toward the elderly with the greatest need, such as the very old. We should look at what society is distributing to whom and move toward matching resources with greater relative needs.

This does not mean that society should ignore the elderly—far from it. Despite the expected growth and tremendous redistribution of benefits, the United States does only a mediocre job, relative to other industrialized nations, of keeping the elderly out of poverty. It is even worse at protecting widows and widowers or people over 85. To meet the needs of the truly poor among the elderly, survivors' benefits must be redesigned, and Medicare programs such as home health care must be approached as a reasonable response to the increasing geographic separation of generations.

Making a government for all ages requires not a one-time policy change, but a commitment to continually reevaluate relative needs and respond appropriately to emerging circumstances. It requires each of us to look less myopically at benefits for our current age group and more farsightedly at how public programs might best serve each citizen over a lifetime. Since cutting benefits across the board makes no sense and overall growth in benefits must be controlled, we must continually review the mix of benefits provided and constrain automatic growth in programs in order to have sufficient resources for the emerging needs of all citizens, including the elderly.

Improve Everyone's Chance to Build Financial Security

By creating opportunities for accumulating assets, especially among the most disadvantaged, society can give everyone a greater stake in the future. At the same time, distributing the ownership of wealth more widely has the immense advantage in a democracy of equalizing power among races and classes.

Simple redistribution of income does not create wealth. In fact, paying out cash or in-kind benefits actually discourages saving and wealth ownership among beneficiaries. Wealth creation is more difficult and takes longer to achieve. However, by creating incentives for saving that emphasize wealth creation, government can help people build financial security.

Our government has long been involved in encouraging the creation of wealth through home ownership and private pensions. At one time, these policies served as an equalizing force, but their momentum has undoubtedly slowed and may have stagnated. Continuing to focus government policies for wealth accumulation on these areas makes sense because together they constitute over half of the total private wealth of all families, and they dominate the private assets of families in the bottom half of the income distribution.

Current housing policies to assist the poor focus on rental subsidies and public housing. This focus, as well as the many limits on wealth associated with determining eligibility for other assistance programs, discourages people from buying homes. Housing policy needs to be reoriented so that people at the bottom of the income distribution can receive at least as much in subsidies for home ownership as they currently receive for rent or public housing. There has been a little progress in this direction recently. We also need to move toward programs, such as vouchers, that are more portable across jurisdictions for those seeking work.

While the government has attempted to encourage ownership of wealth through tax incentives for pension plans, it is clear that the current system will not create the hoped-for expansion in pension coverage for the majority of retirees. Despite progress in increasing pension wealth, there remains a significant gap in coverage between highly compensated employees and other employees. The reform of private pension policy should fall in line with Social Security reform, especially given the inevitable paring of growth rates for public benefits. Possible changes include mandating contributions to individual accounts for retirement or providing government matching funds for private savings, especially for people with lower incomes.

Invest in Learning over a Lifetime

Even more important than ownership of physical capital is education—the ownership of human capital. Lifetime learning is the key to developing and maintaining the human capital necessary for advancement in a modern economy that richly rewards both knowledge and education. Therefore, it is important not just to extend formal educational opportunities backward and forward, but to improve education at all stages of life, from early childhood through old age.

The need for early childhood education is intensified by the changing structure and needs of the American family, as well as by the new requirement that women on welfare, including those with infants, work. There is increasing evidence that having constructive contact with adults from birth is essential for a child's healthy development and for many other positive social outcomes, ranging from academic success to fewer out-of-wedlock births to higher earnings. Despite substantial public and political support, still more needs to be done to decrease teacher turnover, increase accessibility to high-quality educational programs for all children, and incorporate parents into the structure of educational programs so that the programs complement the home environment.

A larger and more complex issue is the viability of the current K–12 education system. The considerable disparity in educational opportunity by income and school district is exacerbated by the link between education and lifetime earnings in our economy. A society that stresses opportunity must increase choice and innovation. This requires that we evaluate and ensure quality in schools—not simply by throwing more money at the old system, but by directing our resources to changing social needs. One component of improved quality is better teachers, yet paying teachers more will not in itself improve quality. We must simultaneously raise standards for teaching and provide the necessary structure within schools for teachers to excel.

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The need for continuing education for adults is driven by three developments in our society. First, the rapid changes inherent in a technological society require adaptability and opportunities for learning new skills. Second, real earnings for low-skilled workers have declined and competition for their jobs has increased; at the same time, companies have had trouble finding qualified workers in other areas. Finally, the concentration of educational resources at one end of the age spectrum no longer makes sense for a society in which people are living longer and the market is requiring updated skills. Continuing education is essential if society is to reap maximum productivity from an aging workforce.

Increase the Amount of Time Children Spend with Adults

Public resources for young people are centered on a six-hour school day for nine months a year—a timetable built around the stereotypical farm family. Because of the many changes in family life, including the large growth in single-parent families and two-earner couples, children are increasingly left on their own after school and during summer breaks.

The statistics for children during these times are alarming. Most of the crimes committed by and against young people take place between 2 p.m. and 7 p.m. on school days. In addition, children who are left alone after school report high levels of boredom and loneliness and are exposed to excessive television viewing. There is even some evidence that children's differences in educational achievement by economic and social class result partly from differential access to out-of-school time in supervised enrichment or extracurricular activities, and that the drop in knowledge that occurs over long summer vacations disproportionately affects children from low-income families.

Providing longer school days or years is one option for increasing the time children spend with adults; extending extracurricular or work opportunities during after-school hours is another. Much of the responsibility for engaging young people will fall on private programs, but government must do its part by recognizing that the conventional school schedule is far from meeting the needs of school-age children or the demands of the modern workplace. Government programs must address and accommodate the fundamental need of every child for adult supervision, guidance, and mentoring.

Support the Modern Family

By determining who should benefit and who should pay on the basis of outdated stereotypes of the family, government policies lead to work and marriage penalties in public assistance programs, the tax code, and retirement programs. Through these programs, society creates very different tax and subsidy rates among families in fundamentally similar situations and makes strong antiwork and antimarriage statements to significant portions of the population, especially people in low-income communities. The importance of these problems is magnified by issues of fairness as well as the costs, effects on incentives, and damage to our social fabric.

Public assistance programs are targeted to a very specific segment of the population and are designed to phase out benefits as incomes rise. The inevitable effect of many uncoordinated phase-outs is a high implicit tax rate on any additional income, whether earned by working or by marrying a working spouse. This encourages many people not to work, or to work without reporting their income, and to avoid marriage. These problems could be mitigated over time through subsidies that avoid creating unusually high combined tax rates.

The tax code causes similar disincentives for marriage and work by heavily penalizing the income of the second earner in a family where both earners have similar incomes. Another form of discrimination against second earners comes from a Social Security system that provides significantly fewer benefits to a two-earner couple that contributes the same amount in taxes as a one-earner couple. For example, a one-earner couple with annual earnings of $57,600 will receive $20,399 in benefits while both spouses are alive, and $13,599 for the survivor after one spouse dies. A couple who earn the same total and pay the same taxes will receive $18,229 while both spouses are alive and only $9,155 for the widow or widower. This difference is simply an artifact of a system designed to meet the need for spousal benefits in a time when most women did not work.

Foster a New Democratic Citizenship

U.S. democracy is more open, inclusive, and rich in information today than ever before, yet our political conversation is mired in divisiveness and resentment—a tale of what “they” are doing to “us.” This alienation and the general distrust of any information, whether provided by the news media or elected representatives, has led to cynicism—which, unlike skepticism, is decidedly un-American. Cynicism breeds apathy about government and leads individuals to shirk their civic responsibilities. The hard work of redesigning policy commitments and reallocating public resources requires that we exercise our collective judgment, and that judgment can only be arrived at through honest talk about the difficult trade-offs that will underlie these changes.

In general, trust in government is established through the day-to-day choices made by individual citizens and politicians. If would-be leaders are rewarded by citizens for telling the truth about difficult and complex policies, they will become more truthful and hence more trustworthy. Improving public trust requires us to design arrangements that will make it safer for would-be leaders to tell the truth as they see it and easier for citizens to hear and act on competing truths in a well-informed way. Doing so requires improving the communications media, nourishing deliberative and thoughtful public opinion, and supporting institutions that encourage responsible journalism and civic education.

There are many ways to move toward these goals. We can improve the communications media by providing a counterbalance to the powerful commercial incentives to feed passive consumers a steady diet of simplistic, divisive, and dramatic news. Telecommunications technology now makes it possible to link cable, telephone, television, and personal computers in an interactive system that will give voters access to public forums and policy databases and enable them to exchange views with government officials, candidates, and each other.

Experiments with “civic journalism” are treating the public’s deliberations about politics and policy as news and are reconnecting journalists to their communities. Closely linked to civic journalism is the need to reconsider conventional ways of gauging public opinion; scientists have already developed some polling methods based on reflection and thoughtful discussion. Coalitions of watchdog organizations, supported by journalists, could monitor facts and hold each other responsible for the information they print.

A new commitment to civic education is needed, beginning in the schools and continuing into adulthood. Its aim is to produce “good enough” citizens—that is, ordinary people with a commonsense interest in practical solutions to public problems. Good enough citizens think, feel, and act on their own interests in the context of a common public life. They listen as well as speak, and they accept the premise that their own direct experience does not provide everything required for making competent judgments.

Getting the Government We Deserve

Not much can be done to reconcile citizens and the government—to get the government we deserve—without a concerted effort to remove the obstacles blocking these pathways. The government we deserve is not necessarily bigger or smaller, more conservative or more liberal than the one we have today. Rather, it is one we can use to make choices that will meet our current and foreseeable needs, one that gives us a justifiable sense of ownership over public policy decisions.

Real progress will come from understanding how needs and demands are changing in the economy and in family life, how prior commitments tie up most new government resources, and how the political process can be manipulated to deter us from making realistic trade-offs among competing needs.

Moving forward requires rethinking our commitments, responsibilities, and decisionmaking process. Only in that way can we break free of a mind-set that limits our vision of policy in the year 2050 to a variation of policy in 1950.

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