Party Now, Pay Later

Commentary

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Document date: July 05, 1999
Released online: July 05, 1999

The Washington Post
washingtonpost.com™

In their midyear reviews of the budget, both the president and Congress have indicated that future surpluses may be even larger than last projected. A Mardi Gras party is now being planned, with a modest feast of new tax cuts, health care benefits, emergency expenditures and other subsidies to be financed with a chunk of those surpluses. But, meanwhile, new Lenten fasting rules proposed by the party planners would prevent future presidents and congresses from spending the remainder.

Before we once again lay down laws dictating to future generations how to spend or save the revenues they will generate, let's ask two questions. First, are these projected surpluses likely to be real, or are they figments of the accounting systems we use? Second, if they are real, does it make sense to retain a budget policy based on the tacit promise that soon the federal government will dedicate itself almost entirely to providing for retirement needs?

In one sense the budget surpluses are real. Calculated with an accounting system that gives little attention today to the cost of promises to be met tomorrow, today's revenues outstrip expenditures and probably will for another 15 years, barring a severe recession or significant legislative changes.

Mainly we have demographics to thank. The first decade of the 21st century has been recognized as a peak before a trough—a temporary reprieve when baby boomers continue to swell the ranks of taxpaying workers while the much smaller baby-bust population of the Depression and World War II retires and starts drawing Social Security, Medicare and other benefits. But once the baby boomers begin to retire, the number of retirees per worker rises quickly until close to one-third of all adults are drawing Social Security. Meanwhile, health costs keep rising as the population ages and expensive new medical technologies and drugs become available in a health subsidy system that still is fiscally undisciplined. Then, under almost any realistic scenario posited under current law, deficits are sure to bulge, even though lower interest costs associated with any surplus-saving in the next decade or so would help.

You'd never figure any of this out by reading most of the budget pronouncements of the president and Congress. Their most-cited projections suggest that discretionary spending—on such essentials as education, the environment, welfare, defense and new emergencies—will continue to fall relative to national income. The president's own January budget shows Social Security, Medicare and Medicaid rising from 40 percent of revenues to 80 percent over a few decades, and it shows discretionary spending gradually dwindling toward a piddling share of the budget.

This shift in priorities isn't 15 years away; it's already occurring. Some budget analysts see a train wreck coming this year as Congress tries to abide by its own budget rules and still pay for unplanned increases in spending for Kosovo, highways, military pay and new "emergencies."

Maybe devoting a smaller and smaller share to discretionary items is technically possible for a few more years, and Congress will get lucky and avoid any new emergencies or new pressing needs. And perhaps society can afford, as current law dictates, to spend close to $750,000 on each baby-boom couple and more on their successors once they retire. But does it make moral or political sense to indulge our retirement wants to the exclusion of almost everything else? The way that the president and Congress are approaching the budget actually beefs up benefits to future retirees—mainly by allowing promised benefits to grow for yet another year under current-law formulas, but also by adding extras such as a drug benefit, a tax-subsidized retirement account and a long-term-care tax subsidy.

Along with a temporary cash surplus, the nation's budget reflects a social deficit—an inability to set priorities according to the nation's real needs. How many Americans believe what this budget suggests—that future retirees should get hundreds of thousands of dollars of support over and above what current retirees receive at the expense of better education, crime prevention, support structures for the young or the prevention of nuclear terrorism?

Delight following any Mardi Gras spending at the century's end will not last long, because the budgetary penance for the next president and Congress involves dealing with both long-term deficits and new near-term demands that cannot be met under proposed fasting rules.

A modest party now would be affordable if our elected officials would first tackle the long-term deficits in retirement and health programs and their absorption of ever larger shares of the public budget. Then projected surpluses under current law would materialize and remain under any accounting system, and voters both today and tomorrow would have the flexibility to allocate resources over time to meet the country's most pressing needs.

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Other Publications by the Authors

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