Like just about everyone else, I find it hard to avoid the conclusion that the American body politic is suffering acute malaise. Disengagement from public affairs has morphed into pervasive pessimism that the country can rise to today’s great challenges ranging from climate change to wage stagnation.

It’s easy to lay this pessimism at the door of a feckless political class that marches to the tunes of powerful interest groups or uncompromising ideological fervor. Yet a more fundamental disease underlies much of what ails Washington today: how tightly yesterday’s policymakers have bound the hands of today’s policymakers, preventing us from determining our own destiny.
This reality has done great damage, deterring the larger-scale reforms needed simply to adapt to modern circumstances. At a time of extraordinary need (and opportunity), it has turned the federal budget into that of a declining nation. Ever less is invested in our future, even as programs designed decades ago balloon in size and lose focus on the problems they were intended to solve. It has significantly weakened recent presidents and Congresses, and it will completely hobble future ones unless we confront the fiscal legacy that locks us into decline.
FISCAL DEMOCRACY

HOW DID WE GET HERE?
For several decades both political parties have resolved the conflict over competing budget goals by kicking the can down the road, allowing rapid growth in popular programs without paying for them. Unusually high structural deficits are but one symptom. More ominously, Washington has locked the government into promises that, unless broken, would absorb all fiscal resources that almost any conceivable rate of economic growth could generate.

The aging of the population explains only a small part of these phenomena. Less well understood, entitlement programs are becoming more expensive per beneficiary. Social Security and Medicare benefits are scheduled to grow from about $1 million for an average couple turning 65 today to about $2 million (adjusted for inflation) for today’s 35-year-old couples when they retire. And frustratingly, a big piece of the difference will end up covering higher compensation for health-care providers and drug companies, rather than enhanced services. Meanwhile, tax subsidies metastasize. Case in point: tax benefits for homeowners grow without review as every generation builds larger and better-equipped houses.

As promises for eternal program growth became enshrined in law and occupied an ever larger share of budget turf, permanent tax cuts were enacted, adding further to projected future debt and compounding interest costs. This latter effort was championed by Jude Wanniski, a Wall Street Journal editorial writer who in the mid-1970s argued that the Republican Party needed to become the Santa Claus of tax reduction to compete with the Democrats’ Santa Claus of spending.

Wanniski finessed the issue of the resulting deficits by declaring there wouldn’t be any—that tax cuts would pay for themselves. That never worked out. But Santa Claus was just too attractive a character for political donors to forsake in favor of the Grinch. Indeed, the Republican Party built its popular support around the idea that, no matter what, taxes couldn’t be raised.

One way to gauge how much the fiscal world has changed is through what I call the “fiscal democracy index.” This measures the share of federal revenues left after subtracting spending committed by permanent programs that don’t require ongoing Congressional approval. Note that the index is politically neu-

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central in the sense that it records the impact of both automatic spending growth and tax cuts.

For the first time in U.S. history, the fiscal democracy index turned negative in 2009. That is, every dollar of revenue had been committed before the new Congress first walked through the Capitol doors. The index turned positive again, thanks to higher revenues and declining safety net payments as employment recovered after the end of the Great Recession. But the automatic growth of entitlement programs over the next decade, along with rising interest costs, will push it back toward zero.

**THE CURE**

In theory, it would be simple to prevent yesterday’s policymakers from dictating tomorrow’s policies. All that would be needed is a rule that limits the share of future government spending (including rising interest costs because of deficit-enhancing tax cuts) that could be preordained by Congress. Current and future legislators could actually legislate more new spending or tax cuts, and, in a growing economy, there would be more to give away in most periods. But there would be less legislated from the past, so Congress would be forced to vote anew on the extent to which rising Social Security benefits should be allowed to crowd out funds for, say, education and medical research, or whether tax expenditures on million-dollar condos should take priority over a credit for first-time homebuyers.

Not to mince words here: restoring a flexible budget process that focused on what we can do with new revenues, rather than what we can’t do when large future deficits are already legally preordained, would do far more than “solve” the debt problem. It would fundamentally change budget priorities. How? By freeing today’s policymakers from commitments made decades ago, they could, and I believe would, shift much more focus toward what I believe to be 21st-century priorities: increasing individual opportunity, promoting childhood development and socioeconomic mobility, supporting workers, repairing public infrastructure and increasing innovation through subsidized R&D.
Of course, wishing won’t make it happen. To get from here to there we must reframe the debate surrounding how we spend and tax. I’m not suggesting zero-based budgeting, where every expenditure would be up for grabs on a regular basis. That might be nice, but it is plainly a bridge too far. Instead, we should seek the type of balance we had throughout most of our political history, when many programs routinely came to an end and continuing programs, since they did not grow automatically, had to compete more evenly with new ones for a share of the rising revenues that accompanied economic growth.

Our current practice of measuring program or tax cuts increases only from an unsustainable baseline of promises, then attacking anyone who reneges on those promises, explains much about today’s political gridlock. Politicians who must give away money cooperate a lot better than those who must take it back.

**OPPORTUNITY OR AUSTERITY?**

Contemporary doomsayers have their fair share of calamities in the making to choose from. Growth rates are lower, while indebtedness accumulated through peacetime budget deficits has never been higher. The last recession was more severe than any in recent memory, while asset markets seem as prone as ever to bubble-like instability. Retirement trust funds – state and local funds as well as Social Security – owe more than they are slated to collect. Spending on health care is nearly double that of other advanced economies, yet outcomes are no better.

But a little perspective is in order. We’re collectively rich, and considerably richer than most other advanced industrialized democracies: in terms of purchasing power, per capita income is roughly one-third higher in the United States than in the European Union. We enjoy longer life expectancies, better health care, dirt-cheap telecommunications, more travel than in the past. (Yes, airplane seats are cramped, but don’t pretend you’re longing to pay twice as much to fly at half the speed in roomy propeller planes.)

Economic growth has slowed considerably since the post-World War II boom decades. But even if the rate stuck at 2 percent indefinitely, the economy would still double in about 35 years. Of course, whether that growth rate will be lower or higher than 2 percent depends in part on how we set our spending and tax priorities.

Now consider how federal spending, assuming modest economic growth and no alteration in priorities, would change. The projections in the table above reflect what President Obama proposed for 2025 relative to 2015. Spending would rise by over $1.3 trillion in real terms, or more than $7,000 annually per household.

Yet virtually all the extra money would go to sustain existing policies, including rising interest on debt. Moreover, that $1.3 trillion doesn’t count several hundred billion more
on tax expenditures based on current law.

What is obvious from this budget is that the increased spending goes almost entirely for retirement, health care and interest on the debt. More spending on children, infrastructure, wage subsidies for the poor – almost anything we might think of as an investment in productivity and mobility – is reduced in relative importance. And keep in mind that the Republican budgets that have passed Congress look remarkably similar in terms of spending priorities, even though overall spending would fall with their steeper cuts in domestic discretionary spending and repeal of the Affordable Care Act. This, in a phrase, is budgeting for a declining society.

THE DISEASE VS. THE DEFICIT

Confusion about what’s wrong tends to increase when people focus on the types of near-term deficit-cutting agreements we’ve had in recent decades. Yes, it is only common sense that debt can’t rise forever relative to GDP. But simply capping the debt-to-income ratio by limiting deficit spending to no more than the rate of growth of GDP would be much too rigid to serve the economy’s long-term interests – or for that matter, to stand under the pressure of events. That’s because structural deficits arising from past long-term commitments are a very different animal from short-term deficits that arise from financing, say, a military intervention or an increase in recession-driven spending.

For most of our history, there was no such thing as long-term deficit projections. Budget offices didn’t create 10- and 75-year budgets based on current-law commitments, in part because few commitments were made far into the future and budget priorities were expected to be very different a decade down the road. Equally important, tax revenues were expected to grow far faster than the long-term
spending commitments that did exist. Hence, the future promised only huge surpluses under current law, even if there was a deficit in the current year. This is illustrated in the top part of the figure on the previous page.

Therefore, in earlier days, the principal cure for “deficits” was simply to moderate the pace of new giveaways, whether they were in the form of spending increases or tax cuts. The bottom part of the figure illustrates today’s budget struggles. Here, again, we start with a current deficit. But because automatic spending growth now exceeds automatic revenue growth, no short-term belt-tightening can make much difference. We simply fall back into our old problems.

The only time in U.S. history in which debt was higher relative to GDP than it is today was at the end of World War II. But the debt-to-GDP ratio subsequently underwent a long (and welcome) period of decline, reaching a nadir in 1974. This period provides a stark contrast to the current one. Then, spending was largely discretionary and future revenues, partly because of wartime taxes that were never completely rescinded, always exceeded growth in precommitted spending. Economics textbooks during that period emphasized the risk of fiscal drag in which budget surpluses would reduce economic growth below capacity – not the risk of long-term spending commitments outrunning revenues.

Hence, today’s political conflict over how and when to contain chronic deficits has no parallel in the prior period – though the way

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The economy grew itself out of the postwar debt-to-GDP ratio is often cited as reason to be sanguine. The big difference, of course, is that debt declined relative to GDP without elected officials having to renege on long-term commitments to constituents. Even Lyndon Johnson’s surtax to pay for the Vietnam War, one of the few counterexamples, lasted only two years, and the same enactment contained permanent tax cuts that eventually more than offset the temporary tax increases.

Today, liberals fear that the projected growth of entitlements, particularly of retirement and health benefits, will be slowed by some compromise. Conservatives, for their part, worry that tax rates will be raised. And just about every politician lacking a very safe seat fears the voter’s wrath if beloved tax subsidies – notably the increasingly costly home mortgage interest deduction and tax breaks for employer-paid health insurance – were challenged. The problem of having to take back promised benefits was not a major issue before the 1980s, and even in the 1990s and early 2000s the budget did not face the additional problem of the baby boomers’ retirement. Throughout most of our peacetime history, the main issue has been how to divvy up new domestic giveaways financed by revenue growth, enhanced in post-World War II periods when defense spending relative to GDP was declining significantly.

Today, Washington seems trapped in the proverbial headlights, unable to slow the ongoing squeeze on available revenues by automatic spending increases. Meanwhile,
politicians are lulled by happy talk about unleashing economic growth and growing our way out of the debt burden the way the country did in the 1950s and 1960s.

**REAPING WHAT WE SOWED**

The explosion in automatic spending is creating multiple interconnected problems that are often treated as if they were separate. We’ve already alluded to the potential instability linked to the highest debt burden ever accrued in peacetime. We don’t need to agree on the tipping point when markets react to recognize the risk.

But even if the budget could be made sustainable by a perpetual set of reductions in discretionary spending that kept debt in check, we would be charting a path for broad economic decline as the federal government withdrew from the tasks of expanding innovation and infrastructure investment, even as it turned a blind eye to issues of mobility and opportunity. Look what’s already happening to federal spending on education, or how our infrastructure no longer stands up to international comparisons, or how the portion of GDP devoted to children’s programs is scheduled to be ever-declining.
Another consequence of the squeeze on discretionary spending is the limited room it leaves to respond to the next recession with fiscal stimulus. Witness how the shadow of the debts accumulated during the Great Recession have left Europe unwilling to risk stimulus to treat ongoing tepid growth, or to provide financial incentives for productivity-enhancing reforms that would leave the continent less vulnerable.

A last, less-noted, consequence: government agencies tend to become demoralized, even moribund, when budgets are no longer built on contemporary assessments of society’s needs. Moreover, Congress has added to the malaise by simultaneously reducing staff and increasing their workloads.

The remedy all comes back to restoring to economic policymaking what I’ve been calling fiscal democracy. The issue is less whether Congress should end specific programs – that’s hard to do, even when programs are obsolete or simply merit a lower priority. But forcing existing programs to compete with new ones, while letting new economic and political priorities determine where growth should occur, would effectively level the playing field.

**FISCAL DEMOCRACY**

The alienating consequences of the fiscal squeeze are further compounded by the pressure on elected officials to renege on past promises simply to get the budget on some sort of sustainable path, much less to do anything new. The public responds to optimism – think of Ronald Reagan’s “It’s morning in America” – to debate positive new directions and ideas, while politicians similarly want to play to that tendency by operating on the giveaway side of the balance sheet.

But policymakers’ primary job today (and tomorrow) is to plot ways to renege on old commitments, something not appreciated at the ballot box by those whose promises are pared. The watchword of the day: if you lead, you lose.

Remember how George H.W. Bush lost the White House after what by historical standards was a relatively modest budget compromise? Or how President Obama dares to ask for tax increases only from the very rich? Or how presidential candidates in all recent campaigns bend over to explain that they would require nothing more of the middle class, defined as the 98 percent of us who are neither hedge fund magnates nor welfare supplicants.

It can’t be emphasized enough that the focus of both fiscal conservatives and fiscal liberals often amounts to tunnel vision. The former often aim to manage the budget in ways that merely prevent the debt burden from reaching unsustainable levels, while the latter often want to stimulate the economy whenever growth appears too low. Even with success on either front, however, we’d still be left with a budget for a declining economy that neglects the needs of the young, leaves inadequate resources to respond to the next emergency or new economic opportunity and denies the nation an open debate about fiscal frustrations with Washington or by ignoring politics altogether.

It’s tough to get anything done in the fiercely partisan atmosphere of today’s Washington. And as if that weren’t bad enough, any new initiative (including tax cuts) faces long odds in competing with automatically growing spending programs created decades ago. As a result, younger Americans have effectively been disenfranchised by long-gone policymakers. It should not be surprising, then, when voters, who are being treated like adolescents, act like adolescents by supporting fringe candidates who reflect their general

**TOWARD A LESS PERFECT UNION**

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priorities. Only restoring fiscal freedom makes attainable both of their goals and a future-oriented budget.

**BUDGETARY JU JITSU**

In itself, alas, diagnosing the illness doesn’t bring us much closer to a cure. As noted above, the issue of automatic spending and its consequences needs a radical reframing.

This reframing – really a restoration of the old frame – involves a budget process for spending (including spending hidden in tax programs) that emphasizes changes from current levels rather than changes from current law. If current law has health spending growing at 4 percent annually and education spending declining at 2 percent, the fight shouldn’t be over whether health spending should be “cut” to, say, 3 percent growth or whether education spending “increased” to minus 1 percent. Rather, we should be measuring what is really being cut or increased from current levels (counting both what is newly enacted and what is retained from past automatic spending). This would create a more level playing field for competing priorities, give elected officials room for political compromise and hold them responsible for changes they passively accept as well as new enactments.

There is no fix for the “problem” that government budgets can never satisfy everyone. But the current dominant view that we are too poor to please anyone, or that austerity must dominate budgetmaking in the 21st century, or that we must meet “obligations” that dead politicians managed to secure for every interest group that could afford a K Street lobbyist, is nonsense. Fiscal democracy – democracy, period – demands a fresh start.