Tax and Spending Policy in the Long Run.

Background Paper and Bibliography

for the

American Bar Association
Section of Taxation
Tax Policy and Simplification Committee
Washington, DC
May 8, 2015

by

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TAX AND SPENDING POLICY IN THE LONG RUN (Background Paper and Bibliography for the Tax Policy & Simplification Committee, May 8, 2015)

by Jonathan Barry Forman

I. THE PROGRAM AND SPEAKERS

Friday, May 8, 2015
8:45 AM – 10:45 AM
Tax Policy & Simplification Committee
Chair: Professor Jonathan B. Forman, University of Oklahoma College of Law, Norman, OK

9:45 AM Tax and Spending Policy in the Long Run. Economist C. Eugene Steuerle will discuss his recent book, *Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future* (Century Foundation Press 2014). In it, Dr. Steuerle explains that despite America's great wealth and strong economy, our politicians have already pre-committed government spending in ways that "crowd out" out discretionary spending and leave us with very limited opportunities to make economically and socially productive investments. In this presentation, Dr. Steuerle will offer us a framework for regaining control of runaway spending, uncontrolled tax expenditures, and the long-term budget glide-path.

Moderator: Professor Jonathan B. Forman, University of Oklahoma College of Law, Norman, OK, http://www.law.ou.edu/content/forman-jonathan-b.

Principal Speaker: Dr. C. Eugene Steuerle, Richard B. Fisher Chair and Institute Fellow at the Urban Institute, Washington, DC,
http://www.urban.org/about/EugeneSteuerle.cfm;
http://tcf.org/bookstore/detail/dead-men-ruling:

> C. Eugene Steuerle is Richard B. Fisher chair and Institute Fellow at the Urban Institute, and a columnist under the title *The Government We Deserve.* Among past positions, he has served as deputy assistant secretary of the treasury for tax analysis (1987–89), president of the National Tax Association (2001–02), chair of the 1999 Technical Panel advising Social Security on its methods and assumptions, economic coordinator and original organizer of the 1984 Treasury study that led to the Tax Reform Act of 1986, president of the National Economists Club Educational Foundation, vice-president of the Peter G. Peterson Foundation, resident fellow at the American Enterprise Institute, federal executive fellow at the Brookings Institution, a columnist for the *Financial Times,* co-founder of the Urban-Brookings Tax Policy Center, the Urban Institute Center on Nonprofits and Philanthropy, and Act for Alexandria, a community foundation.

Discussant: Barry Anderson, Deputy Director, National Governors Association, Washington, DC, http://www.nga.org/cms/home/about/contact-info/col2-content/office-of-the-executive-director/barry-anderson.html:

EXPERTISE

Anderson is the deputy director at the National Governors Association. He works alongside the executive director to further the vision of the nation's governors. His extensive expertise and experience in the budget process, both in the U.S. and nations abroad, greatly aids in communicating the governors' collective views, particularly within the federal budget.

BACKGROUND

Previous positions: International Monetary Fund, Budget Advisor; Organization for Economic Cooperation and Development, Director of the Budgeting and Public Expenditures (BUD) Division; George Washington University, Lecturer; Congressional Budget Office, Acting Director, Deputy Director; Jefferson Consulting Group, Vice President; Office of Management and Budget, Assistant Director for Budget; General Accounting Office, Program Evaluator

Education: M.B.A., Finance: University of Washington; B.S.: University of Illinois, Urbana; Graduate study in Econometrics: George Washington University

Professional Memberships:

- National Academy of Public Administration, board member 2008 – Present.
- Center of Excellence in Finance, Ljubljana, Slovenia, board member 2006 - 2010.
- Committee for a Responsible Federal Budget, board member 2004 – Present.
- Center on Federal Financial Institutions, board member 2004 - Present.

II. The Book

C. Eugene Steuerle, DEAD MEN RULING: HOW TO RESTORE FISCAL FREEDOM AND RESCUE OUR FUTURE (Century Foundation Press 2014), http://tcf.org/bookstore/detail/dead-men-ruling:

> The news coming out of Washington, D.C., and reverberating around the nation increasingly sounds like a broken record: low or zero growth in employment, inadequate funds to pay future Social Security and Medicare obligations, declining rates of investment, cuts in funding for education and children's programs, arbitrary sequesters or cutbacks in good and bad programs alike, underfunded pensions, bankrupt cities, threats not to pay our nation's growing debts, rancorous partisanship, and political parties with no real vision for twenty-first-century government.
>
> In *Dead Men Ruling*, C. Eugene Steuerle argues that these seemingly separable economic and political problems are actually symptoms of a common disease, one unique to our time. Unless that disease and the history of how it spread over time is understood, Steuerle says, it is easy for politicians and voters alike to fall prey to believing in simple but ineffective nostrums, hoping that a cure lies merely in switching political parties or reducing the deficit or protecting and expanding our favorite program.
>
> Despite the despairing claims of many, Steuerle points out that we no more live in an age of austerity than did Americans at the turn into the twentieth century with the demise of the frontier. Conditions are ripe to advance opportunity in ways never before possible, including doing for children and the young in this century what the twentieth did for senior citizens, yet without abandoning those earlier gains. Recognizing this extraordinary but checked potential is also the secret to breaking the political logjam that—as Steuerle points out—was created largely by now dead (or retired) men.

III. A FEW BOOK REVIEWS

Dean Baker, *Social Security, Medicare, and Medicaid, Yet Again: Review of Dead Men Ruling*, HUFFINGTON POST, July 22, 2014, http://www.huffingtonpost.com/dean-baker/social-security-medicare_b_5609756.html.

William Fietzer, *Don't let the past constrict the future*, EXAMINER, May 29, 2014, http://www.examiner.com/article/don-t-let-the-past-constrict-the-future.

Rob Garver, *U.S. Fiscal Policy Is Increasingly Managed by Dead Men*, THE FISCAL TIMES, May 9, 2014, http://www.thefiscaltimes.com/Articles/2014/05/09/US-Fiscal-Policy-increasingly-Managed-Dead-Men.

Charles Lane, *'Dead Men Ruling' argues for long-term balance between spending, revenue*, WASHINGTON POST, July 30, 2014, http://www.washingtonpost.com/opinions/charles-lane-c-eugene-steuerles-book-argues-for-breaking-americas-fiscal-chains/2014/07/30/17dfaf40-1807-11e4-85b6-c1451e622637_story.html.

Kerry Petcher, *Zombie Politics*, The Retirment Income Journal, August 8, 2014, https://deadmenruling.files.wordpress.com/2014/08/zombie-politics-retirement-income-journal-the-information-forum-of-the-decumulation-industry.pdf.

Richard Rahn, *How Congress lost control of government spending*, THE WASHINGTON TIMES, July 14, 2014, http://www.washingtontimes.com/news/2014/jul/14/rahn-how-congress-lost-control-of-government-spend/.

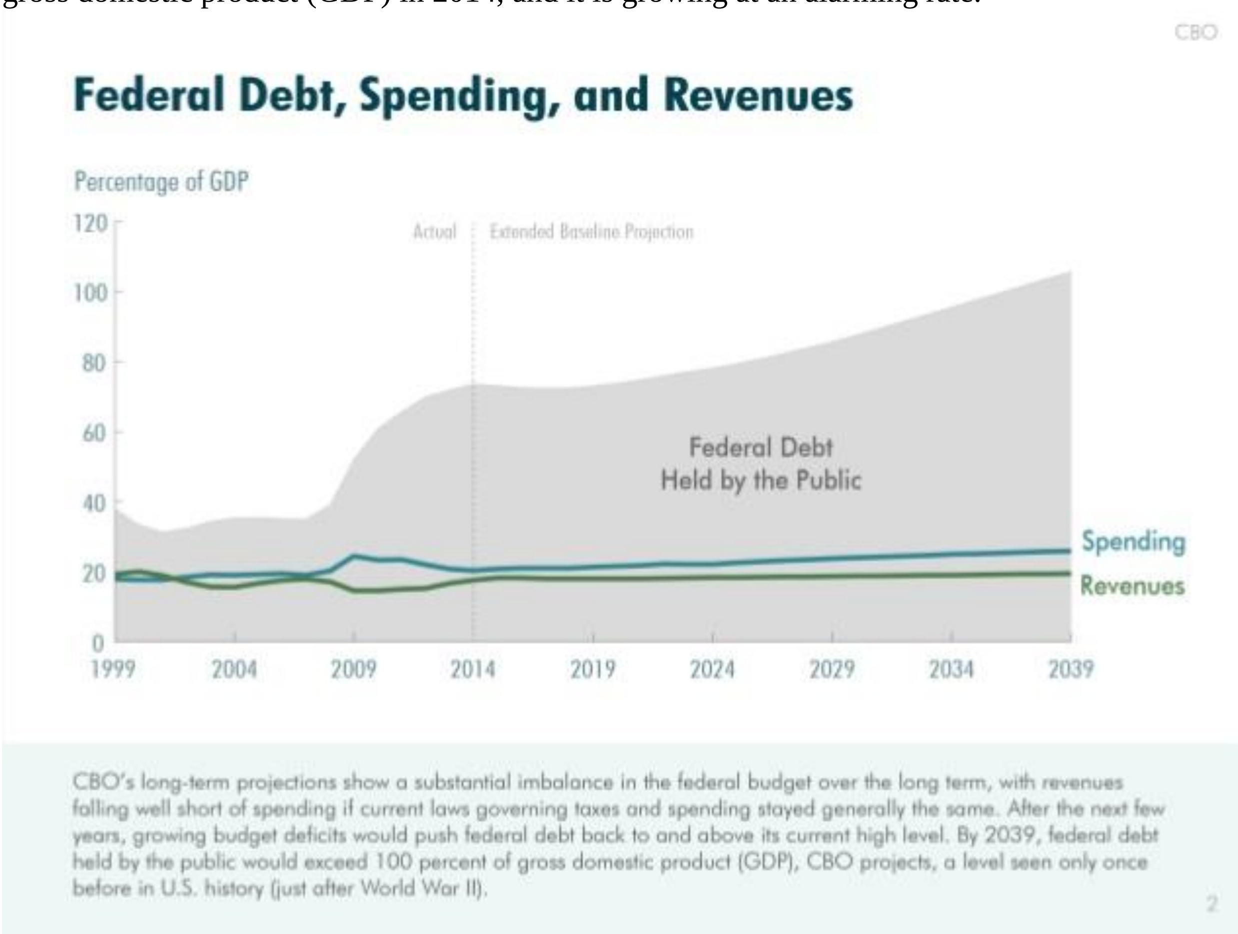
Robert J. Samuelson, *Governed from the grave*, WASHINGTON POST, May 21, 2014, http://www.washingtonpost.com/opinions/robert-j-samuelson-governed-from-the-grave/2014/05/21/d257ec1c-e0fc-11e3-8dcc-d6b7fede081a_story.html?hpid=z8.

David Wessel, *Robbing the Next Generation of Fiscal Freedom*, WALL STREET JOURNAL, May 2, 2014, http://blogs.wsj.com/washwire/2014/05/02/robbing-the-next-generation-of-fiscal-freedom/.

IV. THE FEDERAL DEBT IN THE LONG TERM AND THE FISCAL GAP

A. Long Term Spending and Revenues

Over the period from 2009 through 2012, the federal government had the largest budget deficits relative to the size of the economy since World War II, and those deficits caused its debt to soar. According to the most recent Congressional Budget Office's *Long-Term Budget Outlook*, the total amount of federal debt held by the public was about 74 percent of the country's gross domestic product (GDP) in 2014, and it is growing at an alarming rate.[1]



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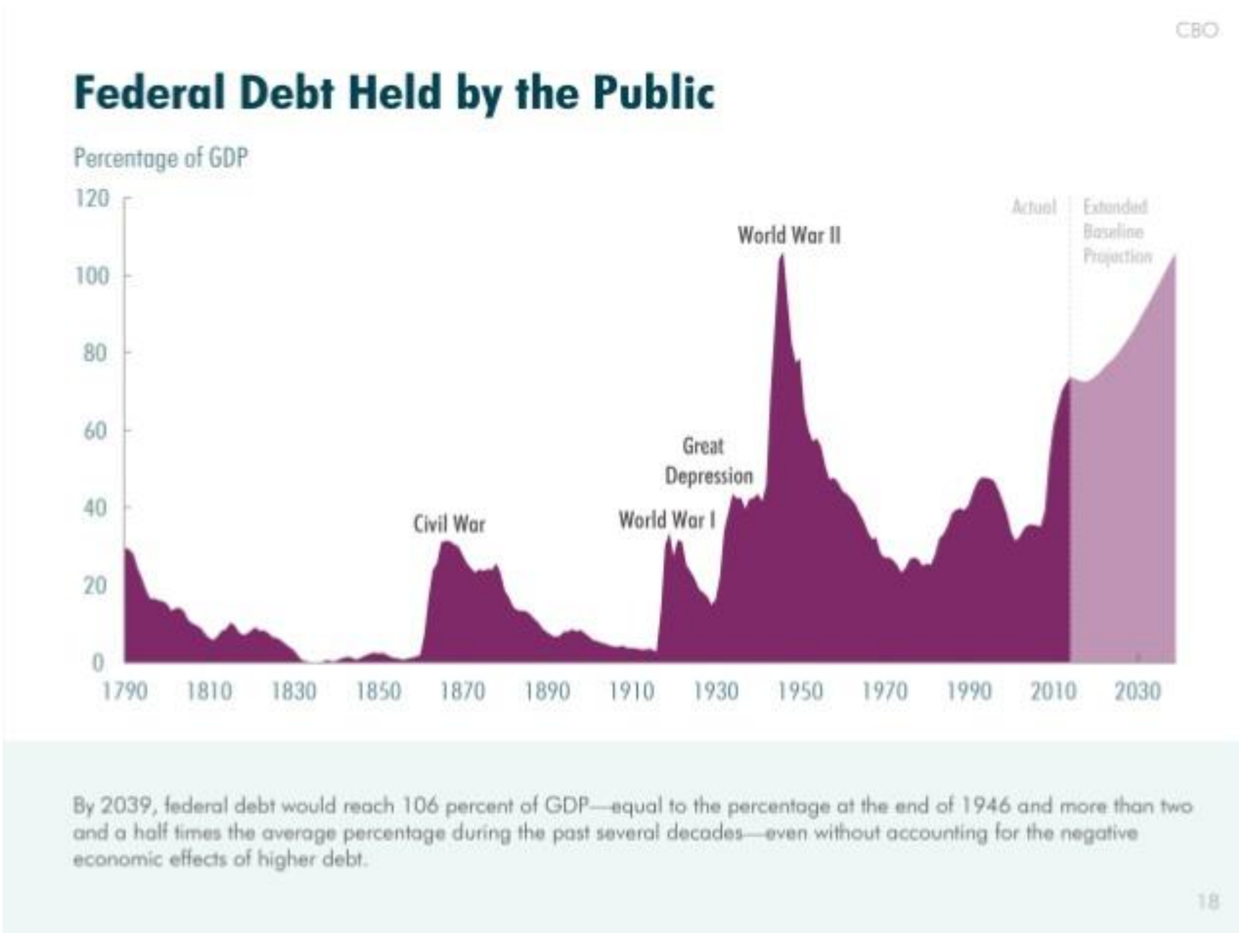
[1] Congressional Budget Office, *The 2014 Long-Term Budget Outlook* 1 (2014), https://www.cbo.gov/sites/default/files/45471-Long-TermBudgetOutlook_7-29.pdf.

[2] Congressional Budget Office, *The 2014 Long-Term Budget Outlook in 26 Slides* 2 (July 18, 2014), https://www.cbo.gov/sites/default/files/45527-SlideDeck.pdf.

According to that report, annual federal spending is expected to increase to 26 percent of GDP by 2039, compared with 21 percent in 2013 and an average of 20½ percent over the past 40 years.[3] In particular, federal spending for Social Security and the government's major health care programs—Medicare, Medicaid, the Children's Health Insurance Program, and the Affordable Care Act will grow from 7 percent to 14 percent of GDP by 2039, and the government's net interest payments will grow from around 2% of GDP to 4½ percent of GDP. In contrast, spending on everything but Social Security, the major health care programs, and net interest payments will decline from around 11 percent of GDP today to just 7 percent of GDP by 2039.

At the end of 2008, federal debt held by the public stood at 39 percent of GDP, but it has rose to around 74 percent of GDP by the end of 2014.[4] In 2014, the Congressional Budget Office projected that the debt will grow to 106 percent of GDP (or perhaps even 111 percent of GDP).



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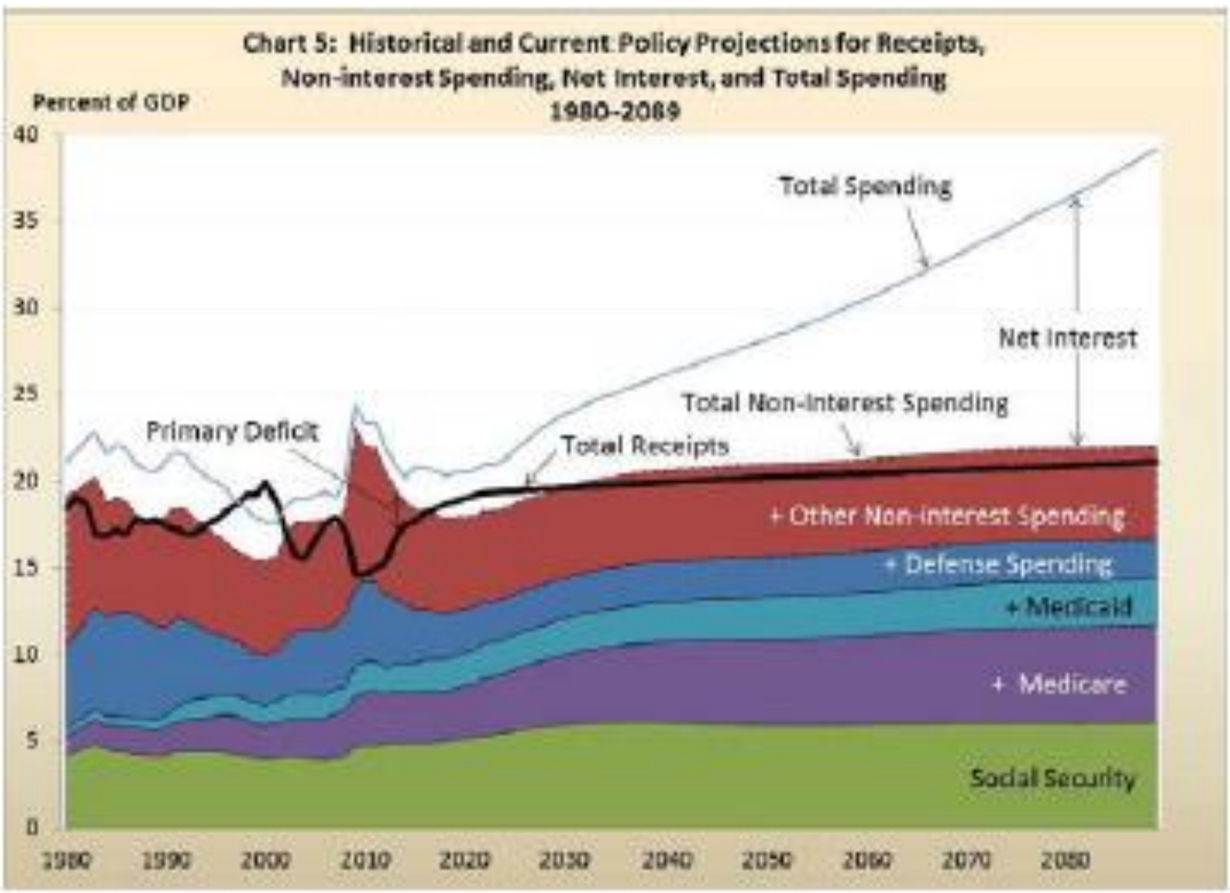
[3] Congressional Budget Office, *The 2014 Long-Term Budget Outlook*, *supra* note 1, at 2.
[4] Id. at 8-9.
[5] Congressional Budget Office, *The 2014 Long-Term Budget Outlook in 26 Slides*, supra note 2, at 18.

B. The Fiscal Gap

The federal government's debt-to-GDP ratio is projected to reach 321 percent in 2089 and to rise continuously thereafter.[6] While this estimate of the "fiscal gap" is highly uncertain, it is cause for great concern. We are certainly on an unsustainable path. In that regard, over the next 75 years, the Treasury Department's Chart 5 (below) shows the historical and current policy projections for receipts, non-interest spending by major category, and total spending expressed as a percent of GDP.



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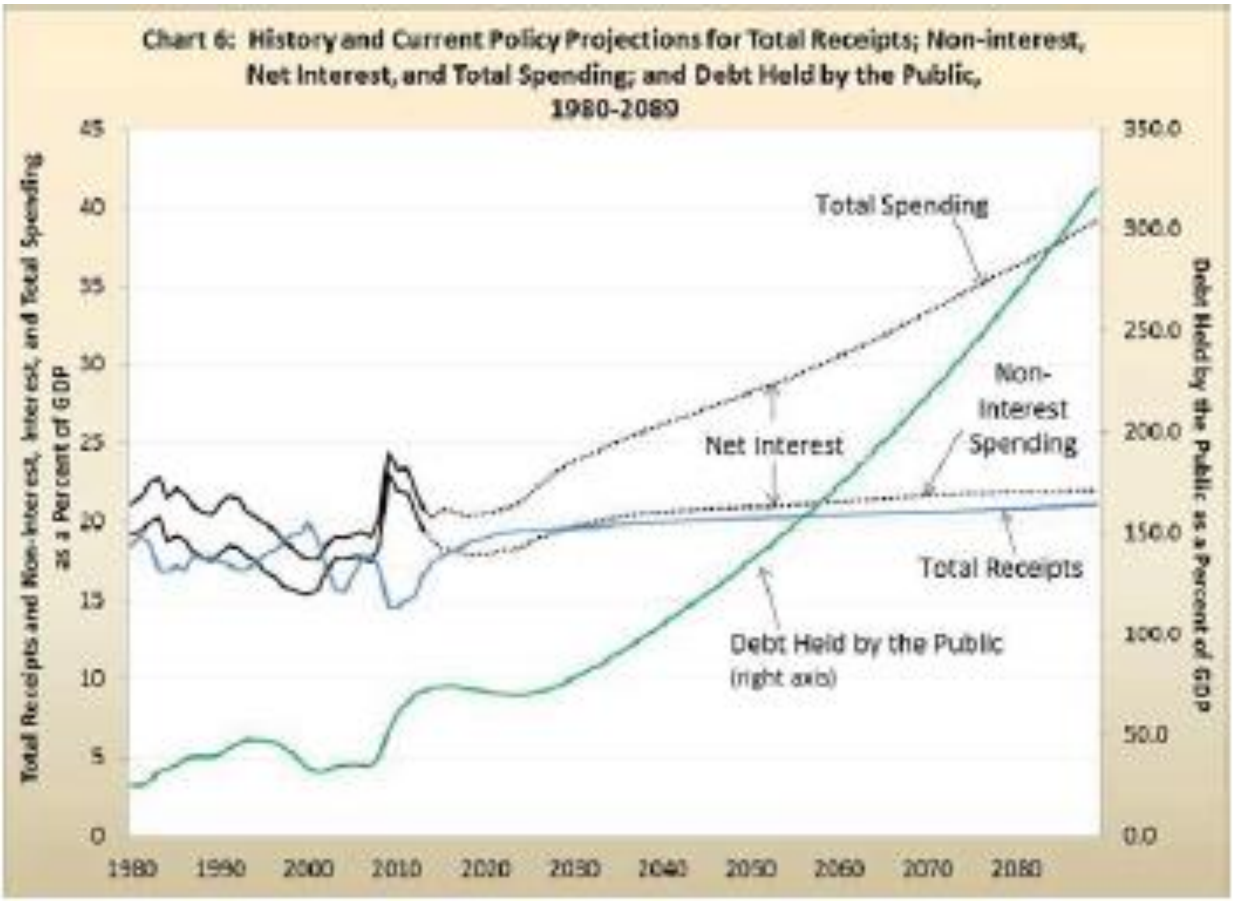
[6] U.S. Department of the Treasury, *Financial Report of the United States Government: Fiscal Year 2014* 14 (2015), http://www.fiscal.treasury.gov/fsreports/rpt/finrep/fr/14frusg/FR_02252015_Final.pdf.

[7] Id. at v.

The primary deficit projections in Chart 5, along with those for interest rates and GDP, determine the debt-to-GDP ratio projections are also shown in the Treasury Department's Chart 6 (right axis).[8] The debt-to-GDP ratio was 74 percent at the end of FY 2014, and under current policy is projected to be 70 percent in 2024, 117 percent in 2044, and 321 percent in 2089. Interest on the debt will constitute a significant portion of the spending increases that would eventually lead to that 321 percent debt-to-GDP ratio.



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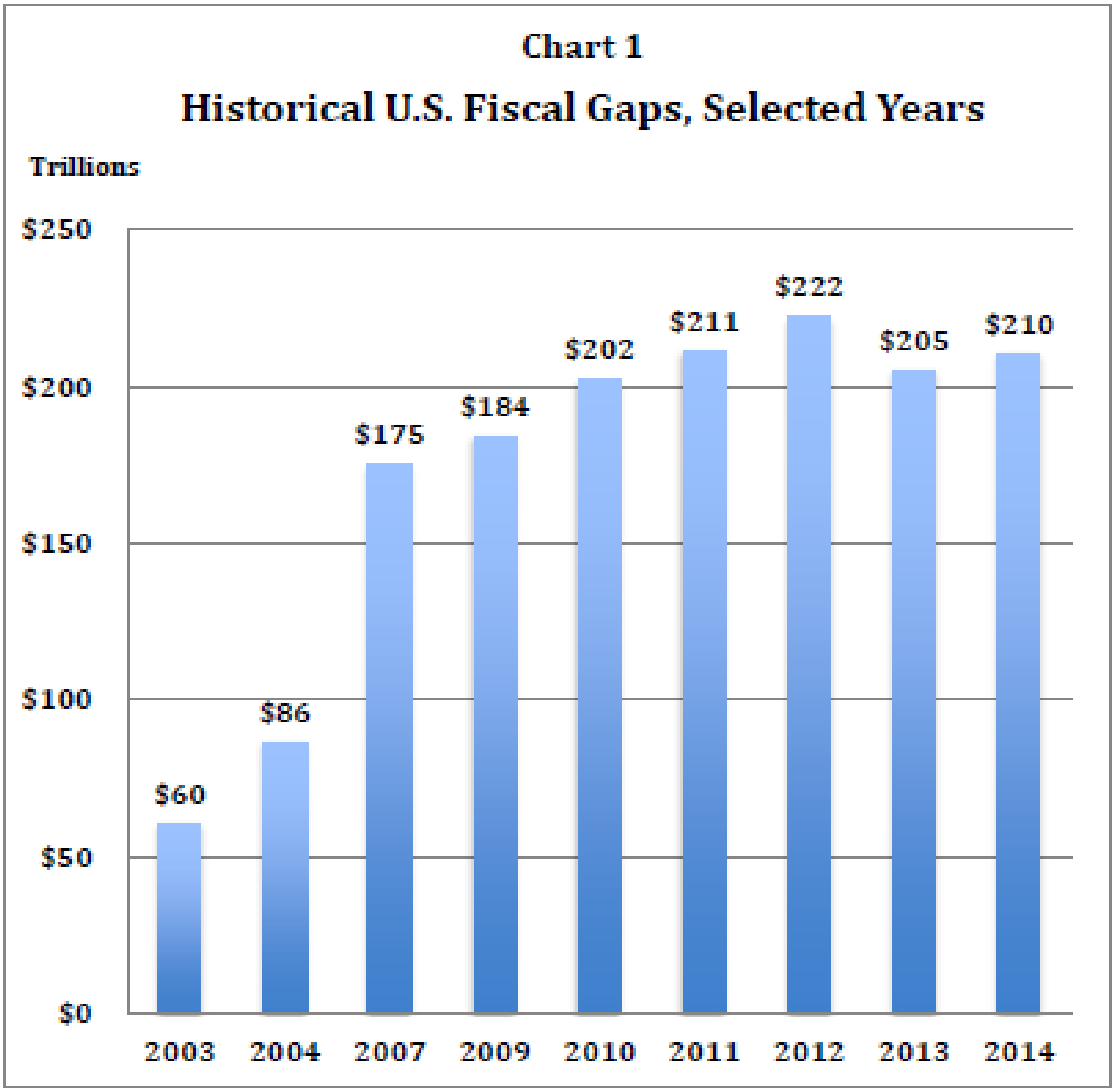
In recent testimony before the Senate Budget Committee, Professor Laurence J. Kotlikoff noted that the U.S. fiscal gap currently stands at around $210 trillion.[10] That's 16 times larger than official U.S. debt.[11] In that regard, Professor Kotlikoff's Chart 1 (below) shows that fiscal gap in the

[8] Id. at vi.
[9] Id.
[10] Laurence J. Kotlikoff, *America's Fiscal Insolvency and Its Generational Consequences* 4-5 (Testimony to the Senate Budget Committee, February 25, 2015), http://www.budget.senate.gov/republican/public/index.cfm?a=Files.Serve&File_id=5e791473-386f-4149-8db0-00e50fdcdbf8
[11] Id. at 5.

recent historical context.[12] Professor Kotlikoff notes that "the major reasons for the growth in the fiscal gap from $60 trillion in 2003 to $210 trillion today are tax cuts, increases in Medicaid and Medicare benefit levels, additional defense spending, and the introduction of Medicare Part D."[13]



Source: Calculations by Laurence Kotlikoff based on CBO Alternative Fiscal Scenario Projections.

Professor Kotlikoff's Table 2 (below) also compares the 2012 fiscal gaps in the U.S. with those in major European countries, and he believes that the United States is in the worst fiscal

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12 Id. at 7. His calculations are based on the Congressional Budget Office's July 2014 75-year Alternative Fiscal Scenario (AFS) projections.

13 Id.

shape by a considerable margin.[14] All in all, Professor Kotlikoff believes that there is little correspondence between official debt to GDP ratios and fiscal gaps measured as a ratio of the present value of future GDP.[15] As an example, he notes that in 2012 both the U.S. and the Netherlands had debt-to-GDP ratios of roughly 70 percent, but he estimates that the true U.S. fiscal gap was over twice that of the Netherlands.

Table 2

2012 Fiscal Gaps In Major Developed Countries

Country	Fiscal Gap as a Share of the Present Value of GDP
U.S.	13.7
Germany	1.4
UK	5.4
Netherlands	5.9
France	1.6
Spain	4.8
Italy	-2.3
Sweden	1.7

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[14] Id. at 8.
[15] Id.