

Dead Men Ruling: Tax & Spending Policy in the Long Run

Eugene Steuerle

Richard B. Fisher Chair & Institute Fellow
Urban Institute

ABA Tax Section

Committee on Tax Policy & Simplification

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The Modern Disease

Deficits are merely symptoms.

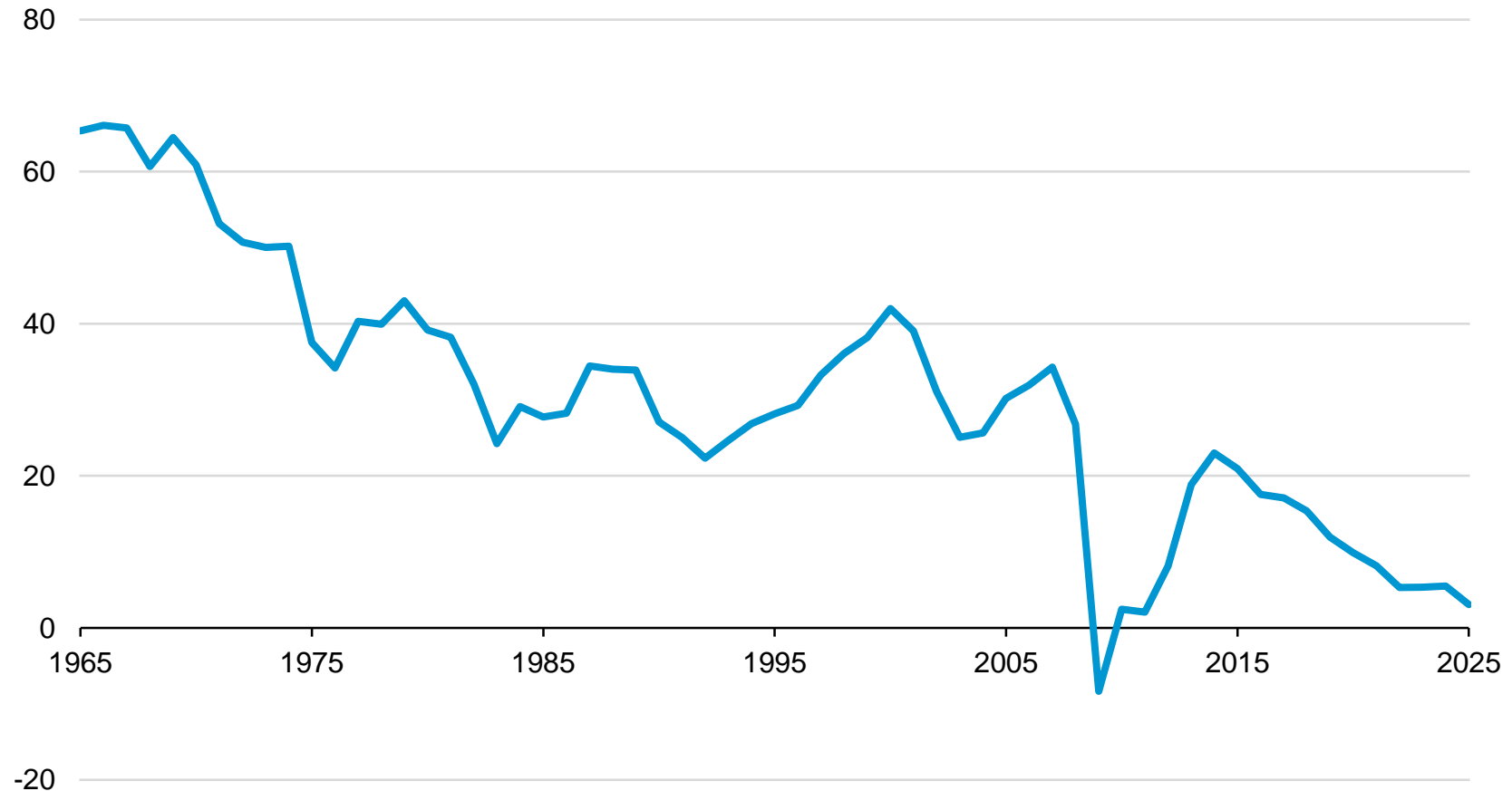
The Disease:

- Attempts to control the future
- Ever-more growth in entitlements
- Unfinanced tax cuts

Removes required flexibility

Steuerle-Roeper Fiscal Democracy Index

Percentage of federal receipts left after mandatory and interest spending



Source: C. Eugene Steuerle and Caleb Quakenbush. 2015. Washington, DC: The Urban Institute.

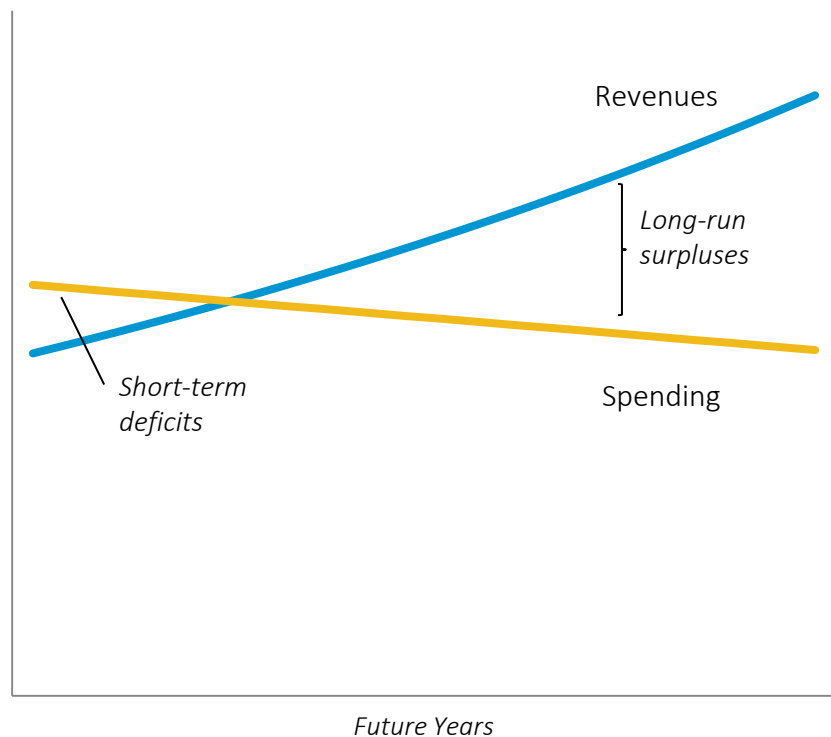
Notes: Calculations from CBO *January 2015 Budget and Economic Outlook* data. Projected years assume the extension of certain tax provisions and maintenance of current Medicare payment rates to physicians.

How today really is different

Traditional Budget

*Revenues increase with economic growth.
Spending increases only with new legislation.*

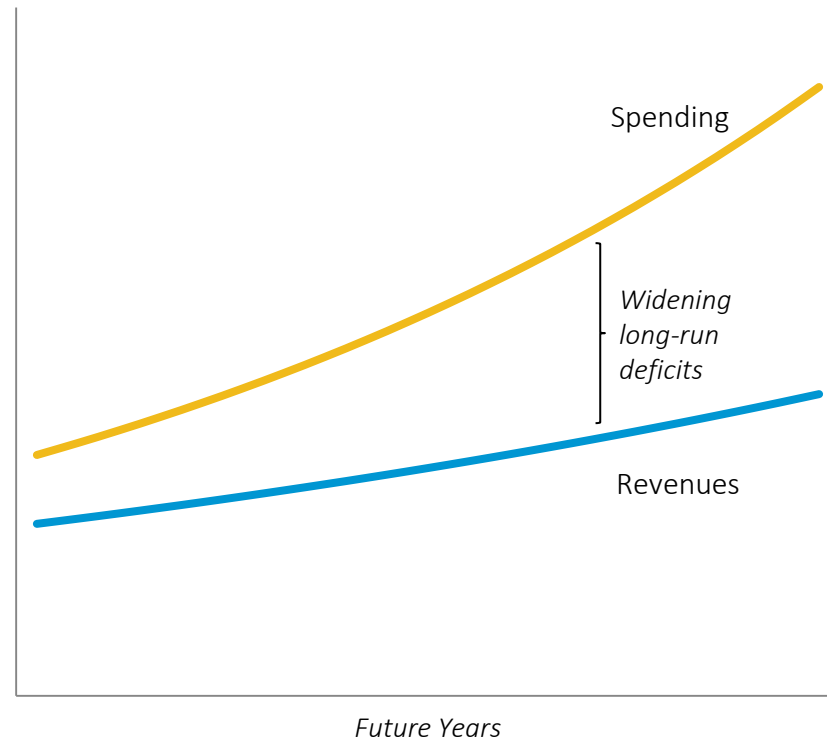
Real Dollars



Today's Budget

Spending scheduled to grow automatically faster than revenues.

Real Dollars



7 Related Problems (4 economic, 3 political)

Economic

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

Political

1. Decline in fiscal democracy
2. Politicians trapped in “prisoners’ dilemma”
(Santa wins elections; Scrooge loses)
3. Fixes hard when politicians must renege on promises

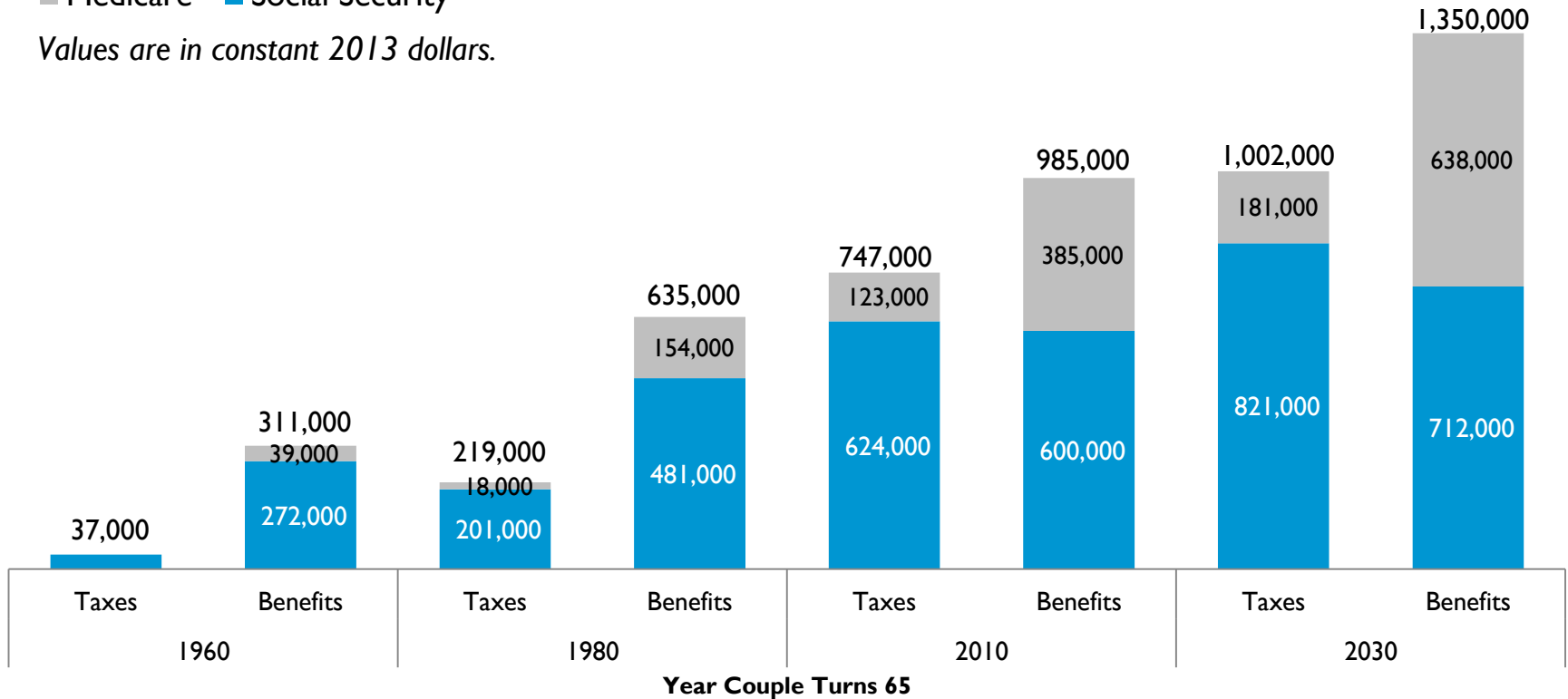
Growth in health and retirement promises

Lifetime Social Security and Medicare Taxes and Benefits at Age 65

Married Couple Earning the Average Wage (\$44,800 each in 2013 dollars)

■ Medicare ■ Social Security

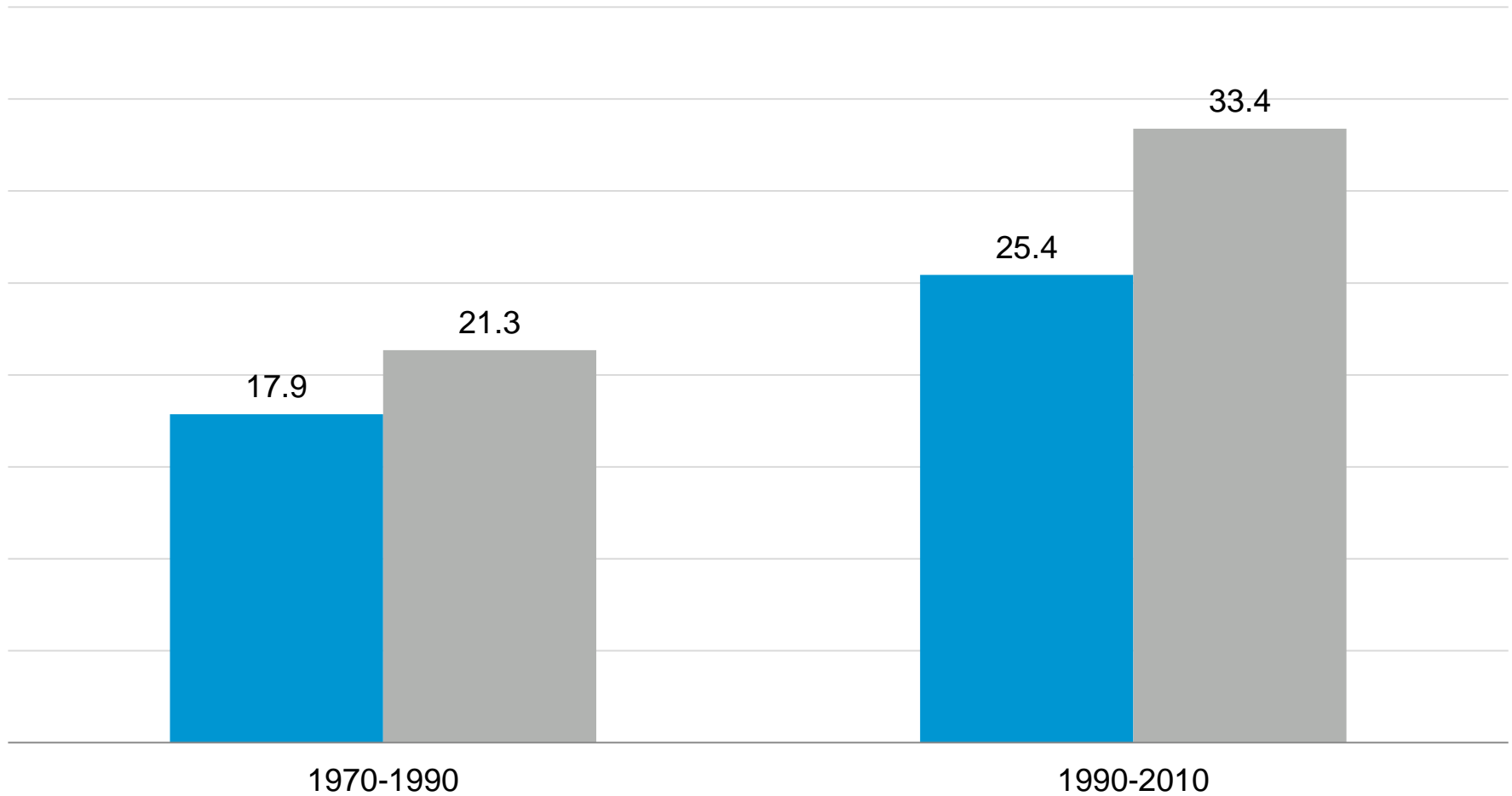
Values are in constant 2013 dollars.



Source: C. E. Steuerle and C. Quakenbush, Urban Institute, 2013. Based on earlier work with Adam Carasso and Stephanie Rennane. Calculations based on data from Social Security and CMS trustees reports and supplements. Totals are expected present values at age 65 and assume a constant 2 percent real discount rate.

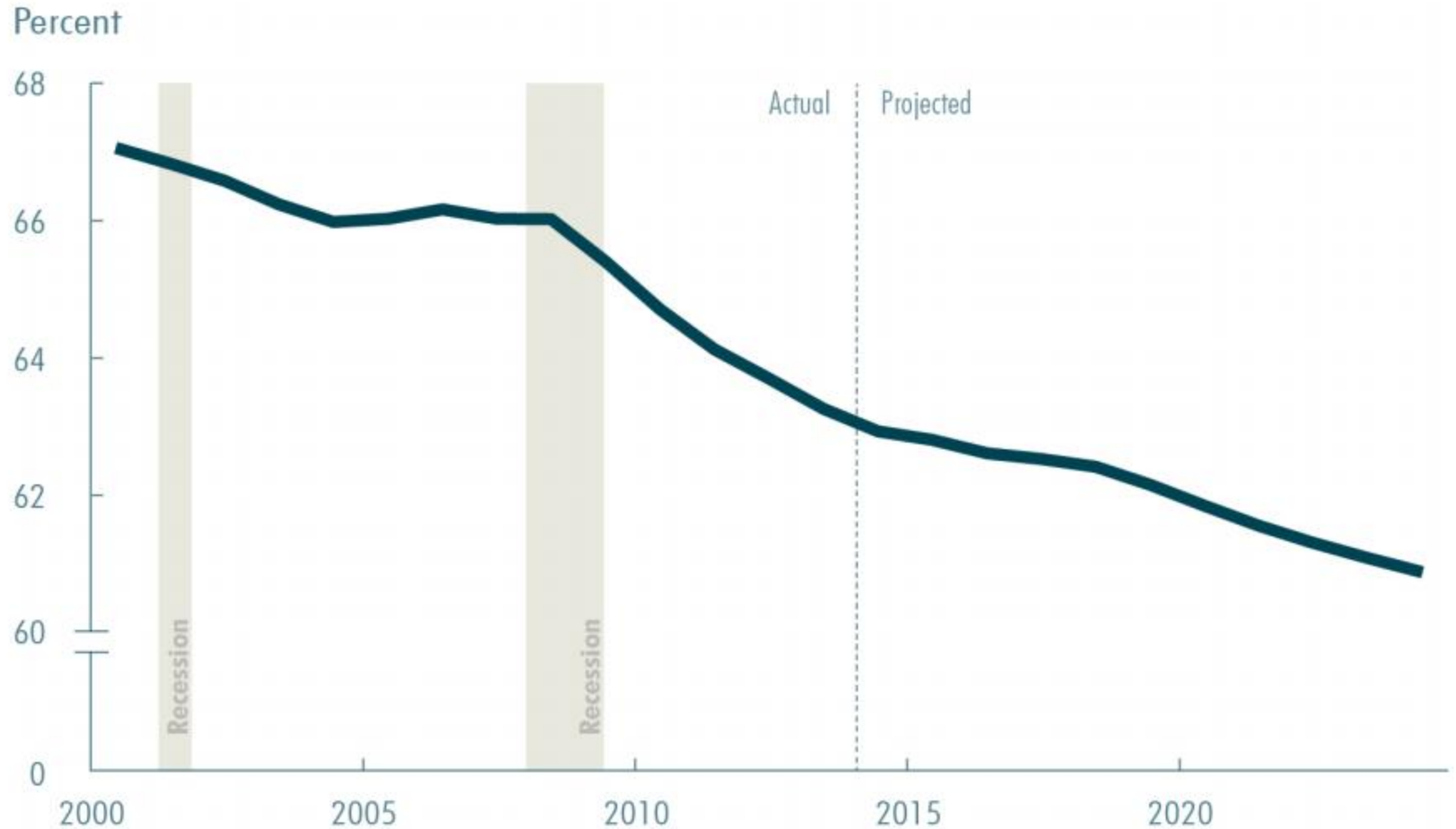
Health Spending as a Share of Total and per Capita GDP Growth

■ Total ■ Per Capita



Source: CMS National Health Expenditure data. GDP data from CBO and Federal Reserve Economic Data.

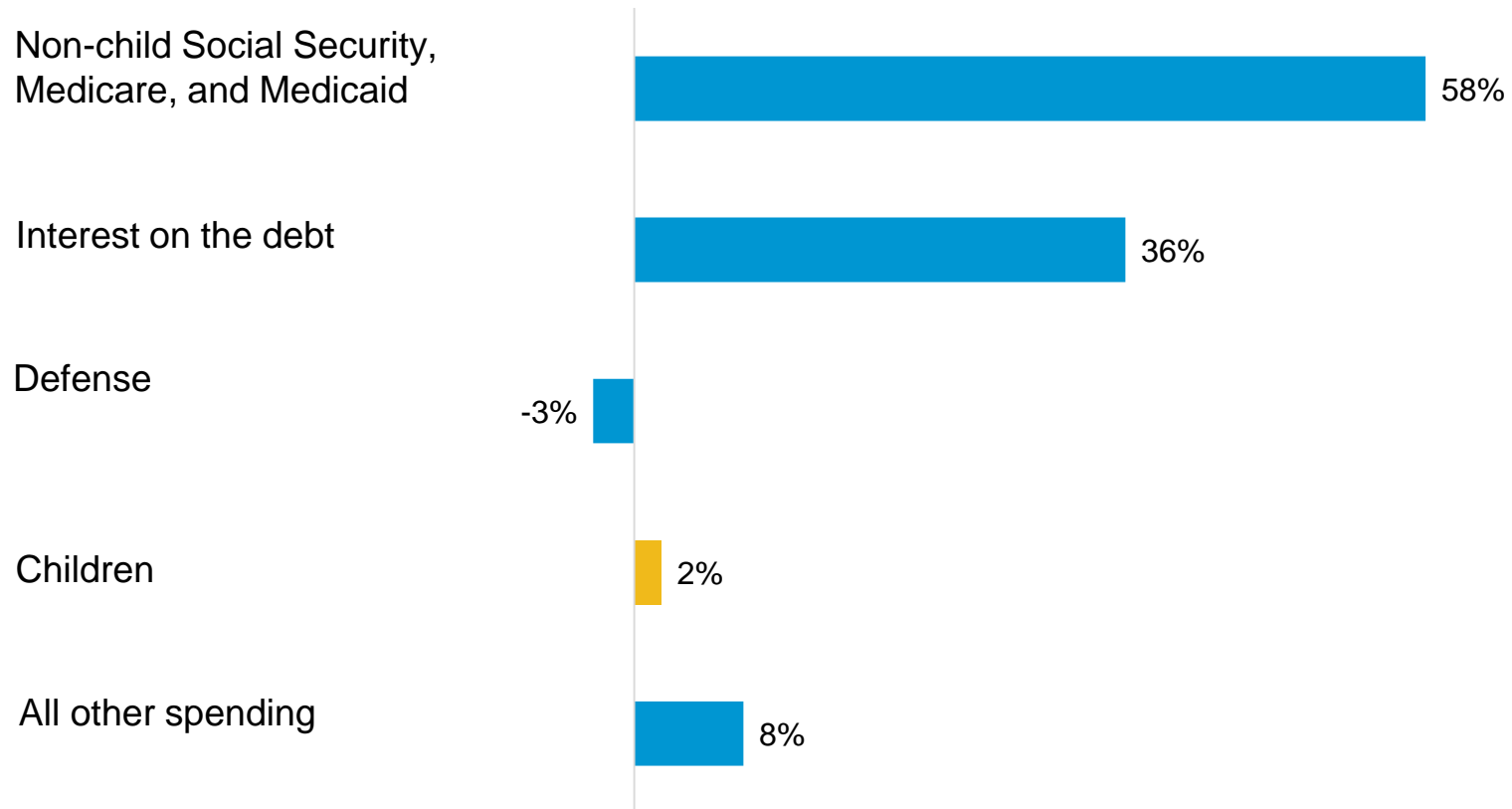
Labor Force Participation Rate



Source: Congressional Budget Office, 2014. Budget and Economic Outlook.

Are we investing in our future?

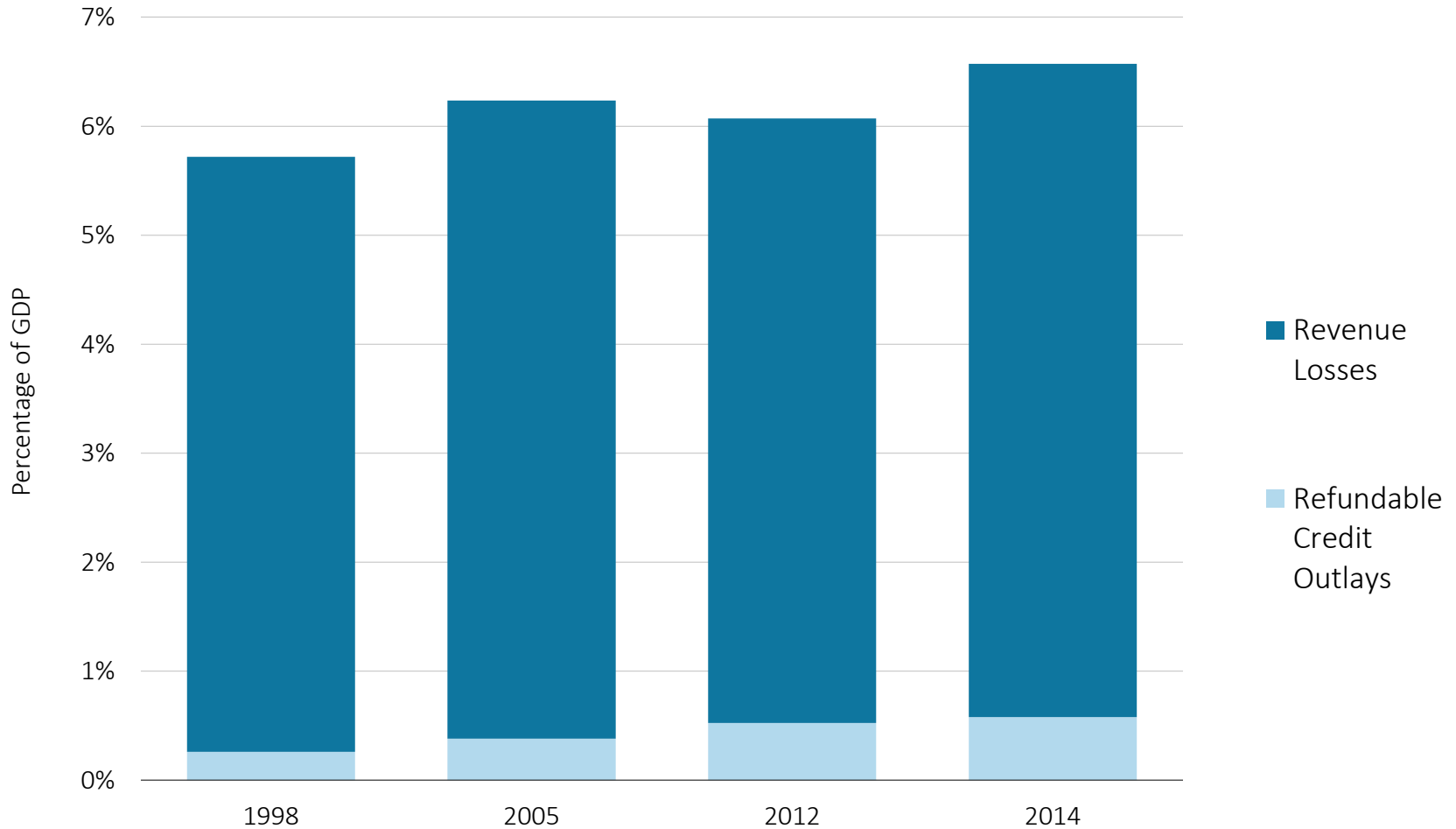
How \$1.4 trillion in increased outlays will be spent in 10 years



Source: Urban Institute. Kids' Share 2014: Report on Federal Expenditures on Children through 2013.



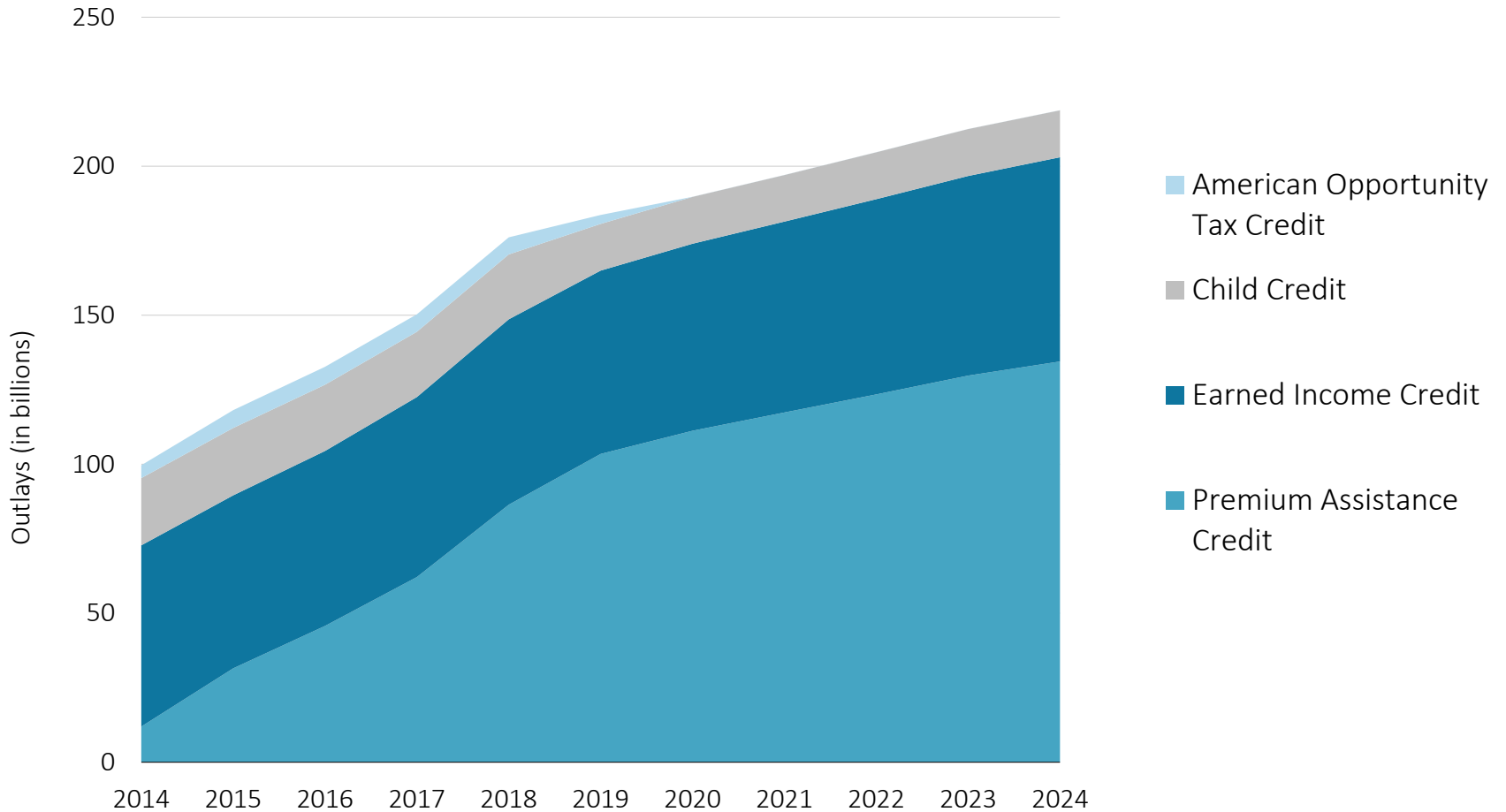
INDIVIDUAL TAX EXPENDITURES AS A PERCENTAGE OF GDP – SELECTED YEARS (from Eric Toder)





PROJECTED GROWTH OF REFUNDABLE CREDITS, 2014-2024

(from Eric Toder)



Major Individual Income Tax Expenditures, Ranked by Total 2015-2024 Cost (Millions)

| Rank | Tax Expenditure | Cost in 2015 | Total Cost 2015-2024 |
|------|---|--------------|-------------------------|
| 1 | Employer health insurance | 206,430 | 2,673,780 |
| 2 | Mortgage interest expense on owner-occupied residences | 69,480 | 1,068,910 |
| 3 | Net exclusion of employer pensions ¹ | 138,160 | 1,538,440 |
| 4 | Preferential rates on dividends and capital gains | 111,680 | 1,359,530 |
| 5 | Exclusion of net imputed rental income | 78,810 | 956,320 |
| 6 | Refundable Premium Assistance Tax Credit ² | 29,730 | 873,890 |
| 7 | Step-up basis of capital gains at death | 63,440 | 801,340 |
| 8 | Deduction for charitable contributions | 54,410 | 744,680 |
| 9 | Deductibility of nonbusiness State and local taxes other than on owner-occupied homes | 47,490 | 660,280 |
| 10 | Earned income tax credit ² | 63,080 | 658,740 |
| 11 | Capital gains exclusion on home sales | 36,930 | 513,160 |
| 12 | Exclusion of interest on public purpose State and local bonds | 31,070 | 485,110 |
| 13 | Deduction for property taxes on real property | 33,120 | 454,110 |
| 14 | Child credit ² | 46,500 | 419,110 |
| 15 | Social Security benefits for retired workers | 27,080 | 324,860 |
| 16 | Exclusion of interest on life insurance savings | 13,100 | 317,420 |
| 17 | Individual Retirement Accounts | 17,240 | 219,750 |
| 18 | Exclusion of benefits and allowances to armed forces personnel | 13,570 | 145,210 |
| 19 | Medical Savings Accounts / Health Savings Accounts | 4,770 | 116,490 |
| 20 | Deductibility of medical expenses | 7,080 | 113,110 |

Source: Office of Management and Budget, FY 2016 Analytical Perspectives.

Notes: 1/ Includes defined benefit, defined contribution, and Keogh (self-employed) pensions. 2/ Includes outlay effects.

The Real Grand Bargain

Deficit reduction is not enough

- Like keeping doors & windows continually open, then setting traps for the critters
- Examples : U.S. 1980s and 1990s; Maastricht 1993
 1. Limit automatic growth in spending & tax programs,
 2. Pay bills as we go along (in good times)
 3. Make policymakers accountable for changes they passively accept

An age of austerity? Or opportunity?

Changes in GDP, Spending, and Taxes per Household 2015 v. 2025 (2015 dollars)

| | 2015 | 2025 | Change |
|-------------------------|---------|---------|---------|
| GDP | 143,000 | 163,000 | +20,000 |
| Direct Spending | | | |
| Mandatory + Interest | 20,000 | 28,000 | +8,000 |
| Discretionary | 9,000 | 8,000 | -1,000 |
| Tax Expenditures | 10,000 | 13,000 | +3,000 |
| Taxes | 25,000 | 29,000 | +4,000 |
| Deficit | 4,000 | 7,000 | +3,000 |

Source: C. Eugene Steuerle and Caleb Quakenbush. 2015. Washington, DC: The Urban Institute.

Notes: Calculations from CBO and OMB data. Figures rounded to the nearest \$1,000.

Recap

Our fiscal situation is unique in all of our history

- Similar across developed nations

Misdiagnosed if only treat deficit symptoms

The disease: multi-decade growth in efforts to control an unknown future

A time of (foregone?) opportunity, not austerity

Find out more

www.deadmenruling.com

blog.governmentweddeserve.org



DEAD MEN RULING

How to Restore Fiscal Freedom
and Rescue Our Future



C. Eugene Steuerle

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