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Slash Retirement Benefits or Raise Taxes? The Choice Congress Won't Face Up To

By Scott Lilly

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Introduction and summary

Despite all of the negative commentary in recent months about the Republican Party's future prospects, Republicans still have reason to be optimistic. While Republican National Committee Chairman Reince Priebus may be correct in stating that, "Young voters are increasingly rolling their eyes at what the Party represents" and that many minorities "think that Republicans do not like them or want them in the country," the party has a solid base with the fastest-growing group of voters in the country: the elderly.[1]

Census Bureau statistics indicate that the U.S. population will expand to about 328 million people by 2016—an increase of 12 million people since the 2012 elections.[2] About 500,000 of those new U.S. residents will be under the age of 18 and too young to vote. Another 5.5 million will be in the voting-age population under age 65. But the number of Americans over age 65 will grow by more than 6 million during that four-year period—more than half of the total growth in the voting-age population during that period.

That could be huge for Republicans. Exit polls from last November indicate that seniors voted for Republican presidential candidate and former Massachusetts Gov. Mitt Romney by a margin of 56 percent to 44 percent, giving him a 2-million-vote advantage among seniors nationwide.[3] In certain swing states such as Florida, North Carolina, and Virginia, exit polls indicate that Gov. Romney's percentage among seniors was even larger.[4]

With 6 million more Americans in this age group, Republicans can win the presidency in 2016 even if they lose the votes of younger Americans by several percentage points. But to do that, they have to hold their base among older voters.

Whether or not Republicans are well prepared to protect this senior base, however, is a difficult question to answer, since there seems to be a remarkable disconnect between GOP policies and seniors' proclivity toward GOP candidates. Specifically, there seems to be little concern among senior voters that the central plank of the Republican policy agenda—that the federal budget should be balanced entirely through spending cuts and without additional revenue—has any serious negative implications for them.

While there are certainly seniors whose income and tax status make this policy advantageous, the following analysis indicates that such seniors make up only a tiny fraction of the 56 percent of seniors who supported Gov. Romney at the polls.[5] So what is the explanation? Are seniors so worried about the deficit that they are willing to give up a significant portion of the federal support on which they now depend? Has the euphemism "entitlement reform" succeeded in disguising the steps that would be necessary to significantly move the government toward fiscal balance without raising taxes—steps that would necessarily mean big cuts in Medicare, Medicaid, and Social Security? Do seniors recognize the implications of the "no new revenue" and "entitlement reform" agenda but do not believe it is anything more than political rhetoric?

If seniors believe the rapid growth of federal spending can be stopped without deep cuts to the current levels of federal retirement benefits, they are mistaken. We face three choices:

1. A significant reduction in retirement benefits

2. A significant increase in taxes

3. A dramatic increase in federal indebtedness

Much has been written in recent years about the fiscal difficulties facing the federal government. Unlike most discussions of public policy, however, the discussion of the budget has not been oversimplified. In fact, the discussion has made the government's fiscal problems appear far more complex than they really are.

While the choices we face may be quite difficult, the problem forcing those choices is really quite simple: The federal government has made a commitment to providing retirees in this country with a specific level of support once they reach retirement age, but the cost of providing that support is beyond the revenues presently available to pay such costs. And what's more, those costs will escalate rapidly over the next two decades.

Cutting retirement benefits by the levels necessary to stabilize and shrink the public debt seems particularly painful. Although fewer elderly Americans are poor than are members of any other age group, a very large portion of the elderly live above the poverty level based solely on the benefits they receive from the federal government.

The alternative to such cuts would be either a dramatic increase in federal deficits or increasing the percentage of U.S. gross domestic product, or GDP, that the federal government collects in revenue by several percentage points above the 19 percent figure currently forecast by the Congressional Budget Office, or CBO, for collections under current tax laws during the later years in this decade.[6]

While conservatives have argued that taxation at that level could dramatically slow economic growth, there is little or no evidence to support that thesis. Tax data collected by the Organization for Economic Co-operation and Development, or OECD, indicate that countries with much higher taxes than the United States have generally experienced economic performance on par with the United States. And even if the United States were to increase revenues to keep up with the growth in retirement spending during the period in which the Baby Boom generation will strain federal budget resources, the United States would continue to be one of the lesser-taxed nations in the developed world.

A 25-year look back at the 'growth of government'

Let's look first at what has happened to the federal budget over the past 25 years. During this period federal outlays have grown by 30 percent, even if you adjust for inflation and population growth.[7] Yet the basic operating cost of the government itself—what we spend for all of the services and activities of the 15 federal departments and the four dozen or so independent agencies, which is the portion of the budget we call "discretionary spending"—has remained flat.[8] In fact, under the discretionary-spending caps that Congress and the White House agreed to in the Budget Control Act of 2011, we will actually be spending 4 percent less in fiscal year 2014 than we spent in 1988, the last year of the Reagan administration.[9]

That means that on everything we normally think of as government spending—from weapons development to highways, cancer research, law enforcement, education, and tax collection—our real per capita spending level is below where it was a quarter of a century ago.

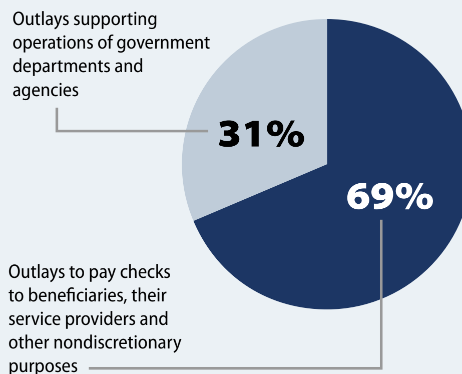
As a share of the total economy, spending for those activities declined much more steeply. In 1988 we spent 9.3 percent of GDP on such programs; in FY 2014 we will spend 7 percent, and that figure is already slated to be cut much deeper in the years ahead.[10] As a share of GDP, we are spending about a quarter less on the basic operations of government than we spent during the last year of the Reagan administration.

Spending for 'the government' now accounts for only one-third of federal outlays

The budgets of all 15 federal executive departments and all of the various independent agencies now account for just one-third of federal spending. (see Figure 1) The 14 departments other than the Department of Defense, along with all of the nondefense independent agencies, account for less than half of that third.

FIGURE 1

CBO projected share of outlays in fiscal 2014



Source: Author's calculations based on Congressional Budget Office data.

The 15 departments of the federal government

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Homeland Security
Department of Housing and Urban Development
Department of Justice
Department of Labor
Department of State
Department of the Interior
Department of the Treasury
Department of Transportation
Department of Veterans Affairs

Major independent agencies of the federal government

Central Intelligence Agency
Commission on Civil Rights
Commodity Futures Trading Commission
Consumer Product Safety Commission
Corporation for National and Community Service
Defense Nuclear Facilities Safety Board
Environmental Protection Agency
Equal Employment Opportunity Commission
Export-Import Bank of the United States
Farm Credit Administration
Federal Communications Commission
Federal Deposit Inurance Corporation
Federal Election Commission
Federal Energy Regulatory Commission
Federal Trade Commission
General Services Administration
Inter-American Foundation
Merit Systems Protection Board
Millennium Challenge Corporation
National Aeronautics and Space Administration
National Archives and Records Administration
National Council on Disability
National Endowment for the Arts
National Endowment for the Humanities
National Labor Relations Board
National Mediation Board
National Railroad Passenger Corporation
National Science Foundation
National Transportation Safety Board
Nuclear Regulatory Commission
Office of Personnel Management
Overseas Private Investment Corporation
Peace Corps
Pension Benefit Guaranty Corporation
Securities and Exchange Commission
Small Business Administration
Social Security Administration
Tennessee Valley Authority
United States Agency for International Development

Nondiscretionary spending made simple

So if spending for what we normally think of as the government—the activities of the 15 departments and the four dozen or so independent agencies—is not to blame for the increased outlays, what is? The nondiscretionary part of the budget, the portion of the budget that already accounts for two-thirds of all federal spending, accounted for *all* of the 30 percent real per capita increase in government outlays.

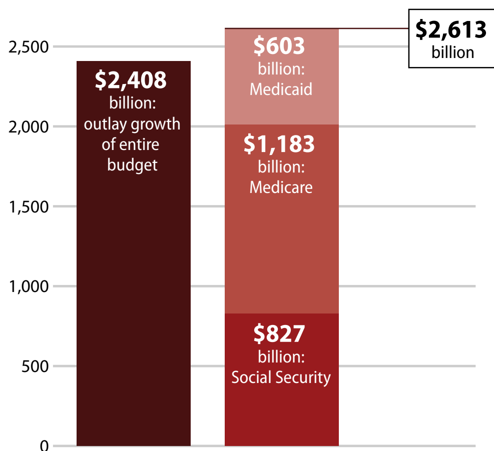
Nondiscretionary spending can generally be characterized as automatic spending that takes place because of permanent legislation and does not require yearly action by Congress. For the most part, it "entitles" certain individuals to federal payments or services such as health care, for which the federal government pays. The administration of these payments, such as the cost of running the Social Security Administration, is on the discretionary side of the budget and included in annual appropriation measures, but the checks that are sent to beneficiaries or to service providers such as medical clinics are nondiscretionary.

People entitled to certain federal payments include specific categories of farmers, individuals who have lost their jobs after being employed for a specified period, or low-income individuals and families whose incomes and assets make them eligible for the Supplemental Nutrition Assistance Program, or SNAP, formerly known as food stamps.

The overwhelming share of entitlement payments, however, goes to the elderly. If you add the outlays from SNAP, farm payments, and unemployment benefits to all of the other federal entitlement programs targeted primarily at nonelderly populations—including Temporary Assistance for Needy Families, federal Direct student loans, the earned income tax credit, foster care, Federal Housing Administration mortgage insurance, school lunch, the Crime Victims Fund, the Children's Health Insurance Program, federal flood insurance, Small Business Administration loans, and dozens more—you have a list of programs that CBO projects to account for only 7 percent of nondiscretionary spending in fiscal year 2014. Furthermore, CBO projects that real per capita spending for all of those programs will decline over the next decade, and that the programs will account for less than 5 percent of nondiscretionary spending by the end of the coming decade.[11]

FIGURE 2

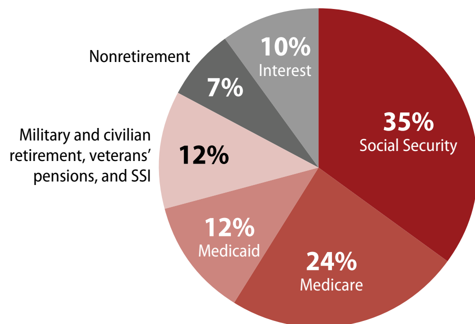
Real per capita spending for Social Security, Medicare, and Medicaid grew by more than total government spending during the past quarter century



Source: Author's calculations based on Congressional Budget Office projections and historical data, 1988 to 2013

FIGURE 3

Share of nondiscretionary spending by program for fiscal year 2014



Source: Author's calculations based on Congressional Budget Office data

As a result, programs providing health care and income support for the elderly and disabled not only account for the overwhelming portion of entitlement spending, but they also account for all of the growth of such spending. Real per capita spending on nondiscretionary programs grew 54 percent between 1988 and 2013, rising from $4,900 (in 2013 inflation-adjusted dollars) to more than $7,500. Three programs (Social Security, Medicare, and Medicaid) accounted for 100 percent of that growth and more than 100 percent of the growth in all real per capita federal spending. Social Security accounted for 32 percent of the increase in non-discretionary, Medicare for 45 percent, and Medicaid—a program in which two-thirds of all spending goes to the elderly and disabled—for 23 percent.[12]

For the most part, these increases were not the result of new or expanded benefits. Social Security beneficiaries are getting about the same payments they received 25 years ago after adjusting for

Inflation and increased lifetime earnings. Medicare and Medicaid have weathered health care inflation better than private-sector payers for health care services but have still been forced to pay significantly more per beneficiary.[13]

The principal driver of increased spending for all three of these programs has been simple demography. From 1988 to 2011 the elderly population of this country grew from 30 million people to a little more than 41 million people.[14] On average, Social Security and Medicare have added about half a million new beneficiaries every year since 1988.[15] After 2011, however, the growth rate of our senior population changed: It tripled, increasing the annual growth rate from half a million to a million and a half.[16] As the federal government had, over the course of the past 80 years, accepted greater and greater responsibility for the health and security of seniors, that demographic shift had huge fiscal consequences.

The fiscal consequence of the Baby Boom: A boom in federal outlays

The surrender of the Axis powers in 1945 marked not only the end of World War II but also the beginning of a period of dramatic demographic change here at home. Throughout the Great Depression, Americans had deferred marriage, household creation, and the beginning of new families for economic reasons. And the separation of young people because of the war prolonged that period. But as the troops came home, wedding bells began to ring, and by early the following year, delivery rooms all across the United States were operating at well beyond capacity. The newfound optimism of a generation that had survived the Great Depression and saved much of the world from tyranny resulted in high birth rates not only in 1946 but also for nearly two decades to follow.

The oldest members of this so-called Baby Boom generation began reaching retirement age (62 for reduced benefits) in early 2008, and Social Security offices around the country had to gear up to avoid the kind of problems that delivery rooms had faced more than six decades earlier. The number of Social Security and Medicare beneficiaries will increase by 71 percent over 2011 levels within the next two decades. (see Figure 4)

FIGURE 4

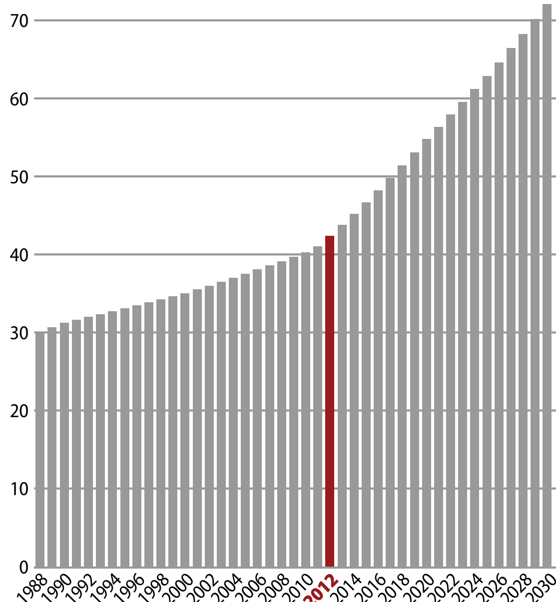
Number of Americans over 65

In millions 1988 to 2030

U.S. elderly population grew by a half a million a year over the past quarter century.

It will grow at three times that pace over the next 20 years.

Social Security and Medicare beneficiaries will grow 71 percent in the next two decades.



Source: U.S. Bureau of the Census

Contrary to a good deal of popular commentary, the federal budget deficit has been in a state of steady and rapid decline in recent years and is projected to decline further over the next several years.

According to the most recent Congressional Budget Office analysis, the federal deficit as a percentage of U.S. GDP dropped from 9 percent in FY 2010 to 8.7 percent in FY 2011 and 7 percent in FY 2012, and it is projected to equal 4 percent in FY 2013. CBO projects the deficit to be 3.4 percent of GDP next year (FY 2014), declining to 2.1 percent in FY 2015.[17] As a result, there will be a modest decline in the size of the public debt compared to the size of the overall economy—the clearest indication of the nation's fiscal health, according to most economists.

Those positive trends will bottom out and begin to reverse themselves by 2016, however, as the growing ranks of newly entitled Social Security and Medicare beneficiaries will force the cost of entitlement spending to grow faster than the revenues generated by the expected pace of economic recovery. In other words, we do not have a near-term deficit problem, but we do have some very tough choices over the longer term.

Under current entitlement laws and the existing revenue code, outlays will exceed expected revenues by growing margins each year for a decade and a half after 2016. Even worse, that projection is based on implementation of deep and, in my judgment, quite foolish cuts in the discretionary portion of the budget, eliminating hundreds of billions of dollars desperately needed for infrastructure, science, educational improvement, and critical government services. These cuts mandated in the spending caps contained in the Budget Control Act will slash discretionary spending—which was 9.3 percent of GDP in 1988 and is 7.6 percent today—to only 5.5 percent of GDP by 2023.[18]

Despite this deep cut in the activities we think of as government, total government outlays will continue to rise at a rapid pace. The $3.5 trillion we expect to spend in the current fiscal year will balloon to about $5.9 trillion by 2023 based on current tax and entitlement law. Even factoring in the effects of inflation and population growth, real per capita outlays will grow by nearly one quarter. CBO projects that outlays will equal 22.8 percent of GDP by that year and revenues will equal only about 19.3. As a result, the public debt as a share of GDP will not continue to decline as it is projected to during the middle of this decade. It will remain above 70 percent over the course of the next 10 years and begin rising in the later part of that period, approaching 74 percent by 2023.

Again, the explanation for this growth in spending and debt is quite straightforward. Real per-person spending for Social Security, Medicare, and Medicaid will increase by 36 percent between now and 2023, rising from $5,330 in fiscal year 2013 to $7,248 in 2023. That will account for all of the growth in spending other than interest payments. During that same period, our spending on discretionary programs—what we referred to earlier as the actual government—will, under the terms of the Budget Control Act caps, decline by more than $500 a person, or 13 percent.

Unfortunately, the challenge we face does not end there. Our over-65 population will continue to grow by about 1.5 million people a year for another decade beyond 2023.[19] Furthermore, in 2026 the oldest members of the Baby Boom generation—those that recently started turning 65—will begin to enter their 80s. At this age they will be much more likely to turn to Medicaid to cover nursing-home care and will be much more costly to insure under Medicare.

According to "The 2012 Long-Term Budget Outlook" published by CBO last spring, retirement programs including Social Security, Medicare, and Medicaid will absorb an additional 2.8 percent of GDP by 2033.[20] More recent analysis, including studies by the Center on Budget and Policy Priorities and the Center for American Progress, indicate that the country's fiscal condition has improved significantly since the CBO data was published, partially attributable to a slowing in the rise of health care costs.[21] Still, the Center on Budget and Policy Priorities projects that spending on Social Security, Medicare, and Medicaid will exceed 13 percent of GDP by 2030 and 14 percent by 2040. They project total government spending will be 24.6 percent of GDP by 2030 and more than 25 percent by 2040. Under current tax policy, those spending projections would result in a steady growth of the public debt as a share of GDP reaching 99 percent by 2040.

With core government functions already slashed to unreasonably low levels at the beginning of the 2023–2033 period, there is little in the way of additional cuts to those programs that will be available to offset the growth in retirement programs or the rapidly mounting interest payments that our fiscal imbalance will have generated. As a result we will have to either raise revenues above 20 percent of GDP or fundamentally alter the benefits available to retirees if we are to escape dangerously high levels of debt.

Solving our fiscal problem

While the cause of the fiscal challenge we face may be simpler than is generally recognized, the alternatives we must choose from in confronting that challenge are difficult and painful.

Cutting retirement benefits

The often-used phrase "entitlement reform" tends to provide a vision of a careful paring away of excessive benefits and undeserving beneficiaries. The numbers tend to indicate, however, that such opportunities do not exist in anything like the numbers that would be necessary to meet the budget challenges we face. The reality of cutting outlays for federally financed retirement programs turns out to be a great deal more difficult. In fact, finding entitlement cuts sufficient to materially improve the nation's fiscal well-being poses a series of choices that are downright ugly.

In 1959, 35 percent of elderly Americans lived in poverty and only 25 percent had health insurance.[22] Today nearly all elderly Americans have health insurance and only 8.7 percent live in poverty, lower than any other age group. But a huge portion of our senior population lives on incomes barely above the amounts needed to meet their daily living needs. In 2011 the average Social Security benefit for a retired worker was $1,230 a month, or less than $15,000 a year.[23] The monthly Social Security check accounted for more than half of all income for two-thirds of beneficiaries and accounted for more than 90 percent of income for 36 percent of beneficiaries. Nearly half of all beneficiaries had no income from savings. Three-quarters of elderly households have incomes of less than $50,000 a year, and the Center on Budget and Policy Priorities estimates that 45 percent of all seniors would fall below the poverty line in the absence of Social Security benefits.[24]

Rep. Paul Ryan steps to the plate

There is another way to make substantial reductions in entitlement spending that does not require direct reductions in Social Security benefits: The government could limit its contribution toward the health care costs of the elderly under Medicare and Medicaid. That is exactly what Rep. Paul Ryan (R-WI) proposed after becoming chairman of the House Budget Committee in 2011. The FY 2012 Budget Resolution that the House adopted in Rep. Ryan's first year as chairman proposed a dramatic restructuring of the Medicare program, placing those who turned 65 after 2022 in a health care system that would be managed by private insurance companies.

Under the Ryan plan, the federal government would make a contribution to the cost of private insurance equal to the projected cost of Medicare coverage for the average 65-year-old in 2022, and that cost would be adjusted annually by the rate of overall inflation. Since medical costs have risen more rapidly than the cost of other items in the economy for decades, the elderly would assume a greater and greater share of their medical expenses as time went by. This would result in significant savings for the government.

The principal issue with the Ryan proposal is whether or not seniors are in a position to absorb the additional costs that the government would transfer under that proposal. Costs that are not paid by the government would have to be paid from some other source, and for those elderly who rely largely on Social Security—two-thirds of all elderly Americans—the payments would mostly come from their monthly Social Security check.

The Ryan proposal contains one additional wrinkle that would serve to exacerbate this problem if the plan were to become law: Its reliance on private insurers requires seniors to not only shoulder a larger share of their own medical expenses but also the additional costs associated with private insurance, including higher reimbursement rates to providers, the dividends paid to their shareholders, and much higher levels of compensation for executives. In an analysis of the Ryan plan, CBO noted:

> *A private health insurance plan covering the standardized benefit would, CBO estimates, be more expensive currently than traditional Medicare. Both administrative costs (including profits) and payment rates to providers are higher for private plans than for Medicare.*[25]

The CBO analysis showed that the total cost of health care for a typical 65-year-old beneficiary would be about 12 percent higher in 2011 (the year in which the analysis was performed) if he or she were covered by the private insurers under the Ryan proposal rather than the existing Medicare program. But because CBO believes that the differential between what Medicare pays to providers and what private insurers pay will grow over the next decade, the total cost of health care for a typical 65-year-old would be a remarkable 50 percent higher in 2022 (when the plan was scheduled to be implemented) under the Ryan proposal than the cost of health care for that same individual would be under Medicare.

If we look at those costs in relation to the Social Security benefits available to seniors, a disturbing picture emerges. The current average monthly benefit for retired workers under Social Security is $1,268.[26] For someone in the 65- to 69-year-old age group, average monthly out-of-pocket expenses for medical care are in the neighborhood of $350,[27] leaving a little more than $900 for living costs other than medical care. But under the Ryan proposal, seniors forced into a private insurance system in 2022 would have to absorb $870 (in 2014 inflation-adjusted dollars) in monthly out-of-pocket medical expenses.[28] The average monthly Social Security benefit (in 2014 inflation-adjusted dollars) will also rise by 2022, but only by about $130.[29] That would leave a beneficiary who relies entirely on Social Security for income with less than $550 a month to meet expenses other than health care—almost 40 percent less than such individuals currently have.

Moreover, beyond 2022, the situation of those relying largely on Social Security becomes markedly grimmer. The extent to which health care costs grow faster than other costs is known in CBO terminology as "excessive cost growth." The agency projects that excess cost will grow more slowly after 2020 but will still increase by about 0.6 percent a year faster than the growth of real per capita GDP—or, to cut to the chase, a little less than 4.1 percent a year.[30]

While CBO has projected that Rep. Ryan's premium support payments would cover only 32 percent[31] of the average total health care costs of a 65-year-old beneficiary in 2030, it has not publicly stated what those costs would be or how much of such an individual's monthly Social Security check would be required to cover the out-of-pocket expenses implied by such costs. It is possible, however, to derive that number because we know that the Ryan premium support payments (which is adjusted each year by the rate of inflation) will remain constant in inflation-adjusted dollars. In 2014 dollars the payments will continue to be $6,680 a year. If that level of support will cover only 32 percent of a beneficiary's health care costs in 2030, we know that those costs will be about $20,875 in 2014 dollars.

That means that a beneficiary receiving the average monthly Social Security benefit will be forced to spend $14,195 ($20,875 minus the premium support payment of $6,680) in out-of-pocket payments for health care. That is a little more than $1,180 a month and while the average monthly Social Security benefit will have risen to slightly less than $1,400 a month (in 2014 inflation-adjusted dollars), the beneficiary will have less than $350 a month to pay for living expenses other than health care.

Beyond 2030 the portion of the average 65-year-old's Social Security check available for expenses other than health care will continue to decline. If health care costs in the 2030s rise at the same pace that they are projected by CBO to increase in the 2020s, the entire average monthly Social Security check will be required to pay the out-of-pocket health care costs of the typical newly eligible Medicare beneficiary (67-year-old) by 2040. CBO, however, forecasts that health care costs will begin to rise more rapidly after 2029, which will cause the date at which the entire amount of the average monthly Social Security check will be required for Medicare to come much sooner.[32]

By 2033 the entire average monthly Social Security check will be required to pay for medical costs not covered by Ryan's version of Medicare. Currently, seniors whose medical bills do not leave them enough to live on can get help from Medicaid. The Ryan program, however, turns that program into a block grant over time and greatly reduces federal support relative to the future projected costs of the current program. Further, it appears (recent versions of the plan are not clear on this point) that the Ryan proposal would no longer allow Medicare beneficiaries to continue to qualify for assistance under Medicaid. In place of Medicaid, they would get Medical Savings Accounts to which the government would make contributions based on how far the beneficiaries fell below the poverty line.

A review of the Ryan Medical Savings Account proposal by Paul Van de Water, senior fellow at the Center on Budget and Policy Priorities, concluded that "the account would frequently prove inadequate to cover the additional costs that beneficiaries would face under premium support" and that it "would substantially raise out-of-pocket costs for many dual eligibles."[33]

The proposal would have also gradually raised the age at which people qualify for Medicare starting in 2024. The age would be raised by two months each year after 2024 and be capped at 67 in 2035. A study of this proposal by the Kaiser Family Foundation found that it would increase out-of-pocket expenditures for

newly retired or soon-to-be-retired seniors by $2,200 a year between the time that they turned 65 and the time that they qualified for Medicare. The study also found that while the proposal would save the federal government $5.7 billion a year, it would cost seniors, private employers, and state governments about twice the federal savings.[34]

The draconian nature of the Ryan cuts to Medicare makes clear that the plan's authors recognize that a credible long-term approach to holding down deficits through spending cuts requires a significant reduction in the benefits now available. But two years after the plan was unveiled, there remains a large degree of skepticism even among Republicans about whether it can be sold to voters—in particular, voters in the age group that has given Republicans the strongest support at the polls.

This skepticism dates back to before the proposal was first brought to the House floor for a vote. In May 2011 *Politico* reported that, "The poll numbers on the plan were so toxic … that staffers with the National Republican Congressional Committee warned leadership, 'You might not want to go there.'"[35]

Continued skittishness over this approach is evidenced by the numerous changes that Rep. Ryan himself has made to the proposal since it first passed the House in 2011. The most recent iteration reduces the average amount of premium support paid per beneficiary in the first year from $6,680 (in 2014 inflation-adjusted dollars) to $6,120 but increases the annual inflation adjustment so that the plan does not fall behind the anticipated increase in future health care costs as rapidly as the earlier plan. Much less is known about how the more recent iterations of the Ryan Medicare proposals affect the out-of-pocket expenses of the elderly because: (1) the complexity of the plan has increased to the point that cost projections have become increasingly difficult; and (2) Rep. Ryan directed CBO to prepare estimates based on a "specified path"—or, in other words, based on assumptions about the plan provided by Rep. Ryan's staff.

We do know, however, that the problem that CBO identified in the analysis of Rep. Ryan's 2011 proposal—relating to the additional cost that seniors would pay in overhead if their coverage was managed by a private insurer—has not gone away or been substantially remedied. We know that seniors between the ages of 65 and 67 begin to lose their coverage in 2024, and we know as a result of CBO's response to Rep. Ryan's request for analysis of his "specified path" that the new plan's inflation adjustments would fall behind anticipated increases in health care costs by as much as $180 a month by 2030 and as much as an additional $650 a month by 2050.

Despite Rep. Ryan's attempts to make the plan more palatable, there continue to be skeptics among Rep. Ryan's House Republican colleagues. They have largely been convinced to toe the line on the Ryan proposal by the notion that current seniors and voters who will become seniors over the course of the next decade could be placated by an assurance that none of the proposed changes would affect them. Rep. Mike Simpson (R-ID) explained, "I have said to my constituents, nobody is talking about changing Social Security and Medicare if you're 55 years or over.' I've been selling it for three or four years that way. So have many other members."[36]

But if current seniors are fully aware of the implications for the future retirees who will succeed them, will their empathy lead them to resist the plan? Rep. Tim Walberg (R-MI) explained to the *Los Angeles Times* how dangerous the GOP effort was: "Is it going to be difficult? It's the third rail. Sparks are coming off before you even touch it."[37]

Despite the negative votes of 10 House Republicans on the FY 2014 Ryan budget plan, the party still had enough votes to adopt it in the House. But Republicans in the Senate overwhelmingly refused to buy it. Forty-two of the Senate's 45 Republicans supported an amendment offered by Sen. Debbie Stabenow (D-MI) to "protect Medicare's guaranteed benefits and to prohibit replacing guaranteed benefits with the House passed budget plan to turn Medicare into a voucher program."[38] Only Sens. Ted Cruz (R-TX), Mike Lee (R-UT), and Rand Paul (R-KY) opposed it.

Not only do Republicans who insist that the nation's looming fiscal difficulties be solved solely through spending cuts face difficulty in unifying the party around what those specific cuts will be, but they also face the difficulty of gauging how the public will react as any proposal to enact such cuts moves from the largely theoretical venue of "Congressional Budget Resolution" to actual legislation that would have to be drafted in a legal format and could be evaluated far more precisely in terms of who might be affected and by how much. Such an exercise would greatly sharpen public awareness and elevate the prospect of such a policy in the public mind.

Opinion research clearly addressing how public sentiment might shift in the event of such a dialogue is not publicly available. But there is some polling that gives us a few clues. A Pew Research Center poll conducted last year on "The Generation Gap and the 2012 Election," for example, found that members of all four of the age groups used to analyze the American electorate felt that the federal government currently "does too little to help the elderly."[39] Strikingly, every one of the

age groups selected the choice "does too little" over the choice "does too much" by a margin of about 10-to-1. Only 7 percent of Millennials—those born between 1981 and 1993—felt the government did too much, while 55 percent said the government did too little.

Asked whether it was more important to maintain current Social Security and Medicare benefits or to reduce the budget deficit, all four groups also said maintain the benefits. Older respondents were, however, decidedly more adamant in their opposition to reducing benefits. Millennials chose maintaining benefits over deficit reduction by a 53-43 margin, while the Silent Generation—those born between 1928 and 1945—chose maintaining benefits over deficit reduction by a 64-27 margin.

Higher taxes

There is, of course, another alternative: raising taxes. Most Americans will find this unpleasant, but may prefer it over either significant cuts in federal retirement benefits or continued increases in the national debt.

The use of that option is further inhibited by a large and very powerful political movement that has evolved in the United States in recent decades, dedicated almost exclusively to lowering taxes and preventing tax increases, which has increasingly attracted a host of extremely wealthy individuals and powerful corporations. These individuals and corporations have developed robust capabilities to reach voters, finance campaigns, refine their message, and convince a broad spectrum of our society that tax cuts result in economic growth and that any increase in federal taxes would devastate the long-term prospects for jobs and wealth.

There has almost certainly never been a movement in this country with resources to target on a single policy question that was even remotely comparable to the current anti-tax effort. The effort does, however, suffer from a long record of failed predictions about how specific tax policies might impact the U.S. economy. When former President Bill Clinton convinced Congress in 1993 that more revenue would be necessary if we were to make progress in reducing the deficit, the same arguments that we hear now were raised then. Then-Rep. Dick Armey (R-TX) told *CNN*, "The impact on job creation is going to be devastating."[40] Additionally, then-Rep. Newt Gingrich (R-GA) said on the House floor, "I believe that [higher taxes] will in fact kill the current recovery and put us back in a recession."[41]

But the opposite occurred. The Clinton tax law—the Omnibus Budget Reconciliation Act of 1993—generated an average of more than 19 percent of GDP in revenue in the eight years following its enactment and raised 20.6 percent in revenue in his final year in office.[42] During that eight-year period, U.S. employment also increased by more than 20 million jobs, with an average of 2.5 million new jobs created each year.[43] The U.S. economy was 34 percent larger after those eight years, with an average annual real growth rate of more than 4 percent.[44]

The same debate took place in 2001, when President Bush took office and persuaded Congress to adopt deep tax cuts reducing revenues from the 20.6 percent level of 2000 to an average of slightly above 17 percent over the following eight years. The president told the U.S. Chamber of Commerce in April 2001, "Tax relief will create new jobs, tax relief will generate new wealth, and tax relief will open new opportunities." The following year he urged further tax cuts, saying they would "bring real and immediate benefits to middle-income Americans. … By speeding up the income tax cuts, we will speed up economic recovery and the pace of job creation."[45]

Again, however, the opposite occurred. Eight years after the passage of the first round of the Bush tax cuts, the United States had 2 million fewer jobs than when the tax cuts were enacted, and the economy grew at less than half the rate it had grown in the previous years.

The Congressional Research Service analyzed the correlation between tax rates and economic growth in the United States between 1945 and 2010 in a report titled "Taxes and the Economy: An Economic Analysis of the Top Tax Rates Since 1945."[46] The report was eventually "withdrawn" by CRS after Senate Republican staff objections to its content, but it continues to be widely cited and available.[47] The report not only examined the correlation between economic growth and the top marginal tax rate but also the correlation between components of economic growth such as productivity, savings and income inequality, and various tax measures associated with those components, such as the tax rate on capital gains, the corporate tax rate, and the top marginal rate on individual taxes.

CRS found that as the tax rates on capital gains and corporate income declined over the 65-year period studied, savings rates and thus capital formation not only failed to increase but fell, as the taxes—alleged to inhibit them—also fell. That result was the exact opposite of the anti-tax lobby forecast. CRS also found little correlation between increases in worker productivity and reductions in the taxation of capital gains or corporate income.

Most dramatically, however, CRS found that not only do historical data suggest that the overall economy fails to increase its rate of growth following the decline in marginal tax rates on high income, but also that economic growth appears to have declined over the 65 years examined in the wake of such tax reductions and increased following increases in the top marginal rate.

The effects of higher taxes in other developed countries

There is also no evidence that higher tax rates or even dramatically higher tax rates in effect in some developed countries have slowed economic growth. In fact, it is possible with both international data and historical data from the United States to make the opposite case.

The OECD maintains consistent economic statistics on 34 economies. Among the data reported by the OECD is the portion of GDP collected in taxes each year by all levels of government in each of the participating countries. Twenty OECD countries had relatively high economic output in the early 1990s—that is, their per capita GDP ranged from slightly less than $30,000 a year to slightly more than $50,000 in 2014 inflation-adjusted U.S. dollars. These countries provide us with an opportunity to examine how varying levels of taxation affect economic activity over an extended period.

One immediately notable point about the data is the extent to which the level of taxation differs among these countries. On average the countries collected 36.5 percent of GDP in revenue from 1993 to 2011, but two countries collected more than 48 percent of GDP in revenue while three others collected less than 28 percent. The United States actually ranked second to lowest in revenue collections for that time period, and ranked lowest of all 20 countries in 2011, the end of the period. While U.S. tax collections reached 29.5 percent of GDP in 2000, they fell to 25.1 percent by 2011. Over the entire period, U.S. tax collections averaged 27.2 percent of GDP, only slightly more than Japan, which was at the bottom; 45 percent less than Denmark at the top, and about 26 percent less than the average for all 20 countries.[48]

The United Kingdom, Canada, Iceland, Germany, and the Netherlands were all relatively close to the average while Japan, followed by the United States and Switzerland, were the lowest-tax countries during the period. Denmark, Sweden, and Finland were the highest-tax countries.

Based on World Bank data on annual rates of real GDP growth over the 1993–2011 period, the economies of the three most highly taxed countries grew on average by about 54 percent, or at a rate of annual real growth of 2.8 percent. The three countries with the lowest taxes grew 38 percent, or by about 2 percent a year. [49]

Perhaps most notably, Sweden's real GDP grew by 62 percent during the period, collecting 48 percent of GDP in taxes, while U.S. real GDP grew 61 percent collecting taxes equal to only 27 percent of GDP.

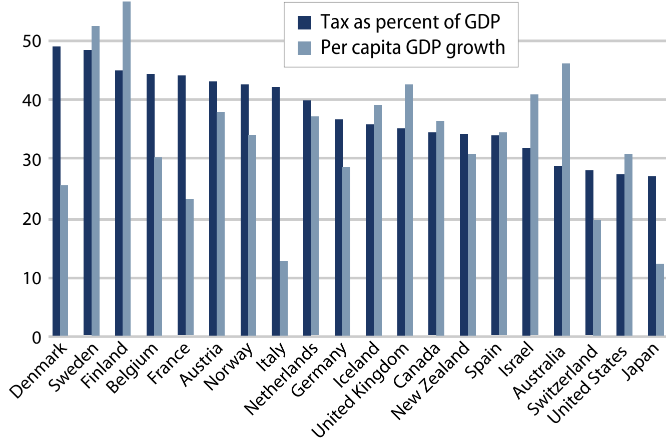
But most economists would argue that comparisons of economic growth should be measured in *per capita* GDP. Countries with rapidly expanding populations tend to create jobs and economic activity, as economies tend to create work to absorb at least a portion of excess labor. Even menial, low-paying jobs add to GDP, and GDP can be growing at the same time that living standards are declining. By the same token, countries with little population growth require only small increases in GDP to maintain and improve living standards. Economic growth in countries with a relatively stable population is an indication of investment in physical and human capital that generates increasingly higher-value jobs, greater output per worker, and rising living standards.[50]

Using per capita GDP in examining the impact of taxation on economic growth tilts the debate even more decisively against the proponents of low taxes.

FIGURE 5

High-tax countries grew as rapidly as low-tax countries

Developed country growth rates 1993–2011 by taxes as percentage of GDP



Source: OECD revenue statistics and World Bank data on GDP per capita

Between 1993 and 2011 the population of the United States grew by about 51 million, or by nearly 20 percent. Despite the fact that U.S. real GDP grew by 61 percent during that period, U.S. per capita GDP grew by only 30.6 percent. While the United States ranked seventh among the 20 nations based on real GDP growth, it fell to 13th based on real per capita GDP growth. Nonetheless, the United States enjoyed the strongest growth among the three nations with the lowest tax rates. Switzerland's growth based on real per capita GDP was less than 20 percent, ranking it 18th among the 20 countries, and Japan had 12 percent growth, leaving it in last place based on either measure.

High-tax countries tended to have slower population growth and thus did better on a per capita basis. Two of the three most highly taxed countries ranked first and second among the 20 countries in real per capita GDP growth. Finland, with 7 percent population growth, and Sweden, with 9 percent, saw their real per capita GDP rise by 56 percent and 52 percent, respectively.

Over the period of this analysis, Sweden and a number of other countries substantially closed the gap with the United States in terms of per capita GDP. In 1993 the output of the United States per capita was about $47,500 (in 2013 inflation-adjusted dollars) while in Sweden it was less than $34,000—a 40 percent difference. By 2011 the per capita GDP of an American citizen was only 20 percent higher than that of a Swede. It should be noted, however, that most of Sweden's progress in closing the gap with the United Sates occurred after 2000, when the United States adopted "growth-enhancing" tax cuts. In 2000 per capita GDP in the United States remained 36 percent higher than in Sweden. By 2011, however, it had dropped to less than 21 percent.

These data do not mean that the United States should raise taxes or that the country will grow faster if it has higher tax rates. It does mean, however, that the issue of raising taxes is primarily one of equity and that there is little evidence to support the frequently espoused notion that increasing or decreasing taxes by a small percentage point will alter the nation's long-term growth prospects.

It is very likely that it is the quality of government that matters and not the size. Larger government may very well increase rather than diminish growth if the additional tax dollars are effectively invested to advance technology, improve infrastructure, and develop needed workforce skills. It is also possible that tax dollars paid in benefits to the elderly can stimulate growth in an economy with insufficient consumer demand and sufficient capital. But our own history and comparisons between advanced economies around the globe indicate that there is no formulaic answer to how big or small a government must be to provide optimum opportunity for economic expansion.

If we raise taxes to maintain the benefits that will be sought by growing numbers of elderly Americans as more and more Baby Boomers reach retirement age, we will reduce the disposable income of younger families. Whether that is equitable or consistent with our values as a nation and a people is a question that needs to be debated. Different people may have very different views on that question, but it is *the* question.

How much would we have to raise taxes?

When compared to the wide variation in taxation levels across the world's developed economies, the size of the projected fiscal imbalance in the United States appears quite modest. Clearly, the United States could remain well within the ranks of the lower half of developed nations in terms of taxation rates and eliminate all of the deficits currently projected over the second half of the next decade. A more modest approach, however, would be to phase in smaller increases, keeping deficits to less than 1 percent of GDP.[51]

Let's examine the following scenario. CBO forecasts that GDP will increase from $16 trillion in the current year to nearly $26 trillion in 2023. If that is adjusted for inflation and population growth, real per capita GDP will grow from about $50,700 to almost $61,000 over that period. In other words, we will have a little more than $10,000, or about 20 percent, more per person after adjusting for inflation than we have today. If we allocate a quarter of that projected increase to straightening out our fiscal problems, the results will be dramatic.

Since the deficit is already declining at a fairly rapid pace over the near term, we could defer all revenue increases until 2016 to avoid placing any additional drag on the economy. If the increased taxes were phased in in equal increments over the following eight years, a little more than four-tenths of 1 percent of GDP would be added to federal revenues each year. But taxes would be increasing about one-fourth as fast as income, so we would see a steady increase in after-tax income each year through that period. By 2023 revenues would be about $875 billion higher than CBO now forecasts, and interest payments on the public debt would have fallen by more than $100 billion below the CBO forecast. That would leave us with a surplus of $100 billion. More importantly, we would have shrunk the national debt relative to the size of the overall economy, from the 74 percent level that CBO is now projecting to around 58 percent, with strong prospects that it would return to the 25 percent-to-50 percent range within the following decade—the level where it has been for most of the postwar period.

Which taxes would we need to raise?

Ultimately, if tax laws are rewritten to generate revenues of the magnitude necessary to meaningfully address our fiscal situation, the make-up of such taxes will be determined by the political process. These revenues could come through increases in the income tax, increased payroll taxes, higher excise taxes, or perhaps even the institution of a value-added tax.

Whatever combination Congress and the president choose will require sacrifices. It is unlikely, however, that the political process will place that burden solely on the shoulders of the most financially successful. All Americans will therefore likely be asked to make some form of sacrifice. The question that middle- and working-class Americans would have to confront is whether the benefits they may well lose are worth the taxes necessary to keep them.

Conclusion

As the preceding pages document, the United States has a significant long-term budget problem. The magnitude of the problem and the potential damage that it might do to the nation's economic security if not resolved should not be diminished. But we should also recognize that we have faced and resolved far greater policy challenges in the past. At the end of World War II, for instance, our public debt was significantly larger than the entire annual output of the economy—roughly 40 percent larger than today's debt when compared by the same measure. We not only had to address a much larger debt but simultaneously had to deal with the demobilization of more than 10 million young men and women who had served in the armed forces and would, for the most part, return home without jobs—and do so in an economy that was transitioning from war to peacetime.

What is perhaps most troubling about the current budget debate is that this is a problem simply because we have allowed it to grow into one. We have done so despite the fact that the nature of the problem is relatively straightforward and that the choices for resolving it, while somewhat painful, are also relatively straightforward. The political debate, which in a democracy is supposed to enlighten the governed as to the choices, has instead served to confuse the governed about those choices and obscure the nature of the problem itself. It is difficult to not conclude that while we may face a budget problem, we have a much bigger problem with our political process.

It currently seems unlikely that no matter how straightforward the choices on budget policy become, the government is unlikely to develop long-term policy decisions absent significant changes in the way things are done in the nation's capital. It is therefore more important than in the past for ordinary citizens to get involved in the debate, to understand the tradeoffs, and to help develop a clearer consensus among the American people about the best path forward.

For some Americans that will not be an easy choice. It is a choice that will have an enormous impact on what kind of nation we expect to be and how ordinary people will live their lives in the coming decades. While that choice will have to be reduced to legislative language in Washington and voted on by elected representatives, it is a choice that should be made with full understanding and concurrence of a well-informed electorate. This report is hopefully a step in that direction.

About the author

Scott Lilly is a Senior Fellow at the Center for American Progress, who writes and researches in a wide range of areas including governance, federal budgeting, national security, and the economy. He joined the Center in March 2004 after 31 years of service with the U.S. Congress. He served as clerk and staff director of the House Appropriations Committee, minority staff director of that committee, executive director of the House Democratic Study Group, executive director of the Joint Economic Committee, and chief of staff in the Office of Rep. David Obey (D-WI).

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APPENDIX TABLE 1

Federal outlays for major categories of spending, nominal dollars, 1988–2023

In billions of dollars

Fiscal year	Social Security	Medicare	Medicaid	Social Security, Medicaid, and Medicare	Military and civilian retirement, veterans pensions, and SSI	Primarily non retirement entitlements	Interest	Total nondiscretionary	Total discretionary	Total outlays
1988	$217	$86	$31	$333	$101	$14	$152	$600	$464	$1,064
1989	$230	$93	$35	$358	$87	$41	$169	$655	$489	$1,144
1990	$247	$107	$41	$395	$88	$85	$184	$752	$501	$1,253
1991	$267	$114	$53	$434	$97	$66	$194	$791	$533	$1,324
1992	$285	$129	$68	$482	$103	$64	$199	$848	$534	$1,382
1993	$302	$143	$76	$521	$108	$41	$199	$869	$540	$1,409
1994	$317	$160	$82	$559	$117	$42	$203	$921	$541	$1,462
1995	$333	$177	$89	$600	$119	$20	$232	$971	$545	$1,516
1996	$347	$191	$92	$630	$119	$36	$241	$1,027	$533	$1,560
1997	$362	$208	$96	$666	$127	$18	$244	$1,054	$547	$1,601
1998	$376	$211	$101	$688	$132	$39	$241	$1,100	$552	$1,652
1999	$387	$209	$108	$704	$137	$59	$230	$1,130	$572	$1,702
2000	$406	$216	$118	$740	$145	$66	$223	$1,174	$615	$1,789
2001	$429	$238	$129	$797	$143	$68	$206	$1,214	$649	$1,863
2002	$452	$254	$148	$853	$154	$99	$171	$1,277	$734	$2,011
2003	$471	$274	$161	$905	$164	$114	$153	$1,336	$824	$2,160
2004	$492	$297	$176	$965	$169	$104	$160	$1,398	$895	$2,293
2005	$519	$333	$182	$1,033	$188	$99	$184	$1,504	$969	$2,472
2006	$544	$374	$181	$1,098	$185	$129	$227	$1,638	$1,017	$2,655
2007	$581	$436	$191	$1,208	$193	$50	$237	$1,687	$1,042	$2,729
2008	$612	$456	$201	$1,270	$210	$115	$253	$1,848	$1,135	$2,983
2009	$678	$499	$251	$1,428	$228	$438	$187	$2,281	$1,238	$3,518
2010	$701	$521	$273	$1,494	$243	$177	$196	$2,110	$1,347	$3,457
2011	$725	$560	$275	$1,560	$267	$199	$230	$2,256	$1,347	$3,603
2012	$768	$551	$251	$1,569	$258	$204	$223	$2,252	$1,285	$3,537
2013	$809	$586	$265	$1,660	$284	$75	$223	$2,340	$1,213	$3,455
2014	$848	$597	$298	$1,743	$292	$162	$237	$2,448	$1,168	$3,602
2015	$894	$615	$328	$1,837	$299	$189	$264	$2,614	$1,187	$3,777
2016	$944	$671	$369	$1,985	$325	$209	$313	$2,858	$1,206	$4,038
2017	$999	$695	$396	$2,090	$320	$224	$398	$3,067	$1,229	$4,261
2018	$1,057	$722	$418	$2,197	$314	$226	$497	$3,285	$1,250	$4,485
2019	$1,121	$794	$441	$2,356	$340	$196	$573	$3,518	$1,286	$4,752
2020	$1,189	$849	$466	$2,505	$351	$197	$644	$3,754	$1,316	$5,012
2021	$1,260	$911	$493	$2,664	$361	$201	$703	$3,994	$1,347	$5,275
2022	$1,335	$1,018	$521	$2,874	$388	$208	$764	$4,295	$1,386	$5,620
2023	$1,414	$1,064	$554	$3,033	$380	$204	$823	$4,515	$1,415	$5,855
$ Inc 1988 -2013	$592	$501	$235	$1,327	$184	$61	$71	$1,740	$749	$2,391
% Inc 1988 -2013	273%	584%	770%	399%	182%	432%	47%	290%	161%	225%
$ Inc 2013 -2023	$606	$478	$289	$1,373	$96	$129	$600	$2,175	$202	$2,399
% Inc 2013 -2023	75%	82%	109%	83%	34%	173%	269%	93%	17%	69%
$ Inc 1988 -2023	$1,198	$978	$524	$2,700	$279	$190	$671	$3,915	$950	$4,791
% Inc 1988 -2023	552%	1142%	1717%	811%	277%	1354%	442%	653%	205%	450%

APPENDIX TABLE 2

Real federal outlays for major categories of federal spending, 1988–2023

In billions of 2014 dollars

Fiscal year	Current price index	Social Security	Medicare	Medicaid	Social Security, Medicaid, and Medicare	Military and civilian retirement, veterans pensions, and SSI	Other entitlements	Interest	Total nondiscretionary	Total discretionary	Total outlays
1988	1.996	$433	$171	$61	$665	$201	$28	$303	$1,197	$927	$2,123
1989	1.904	$439	$177	$66	$682	$166	$78	$322	$1,247	$931	$2,178
1990	1.806	$445	$193	$74	$713	$159	$154	$333	$1,359	$904	$2,263
1991	1.733	$462	$198	$91	$751	$167	$115	$337	$1,371	$924	$2,295
1992	1.683	$480	$218	$114	$812	$173	$107	$335	$1,427	$898	$2,325
1993	1.634	$493	$234	$124	$851	$177	$67	$325	$1,420	$882	$2,302
1994	1.593	$505	$254	$131	$890	$186	$68	$323	$1,467	$862	$2,329
1995	1.549	$516	$274	$138	$929	$185	$32	$360	$1,504	$844	$2,348
1996	1.505	$522	$288	$138	$949	$180	$55	$363	$1,546	$802	$2,347
1997	1.471	$533	$306	$141	$979	$186	$26	$359	$1,550	$805	$2,355
1998	1.448	$545	$306	$147	$997	$191	$56	$349	$1,593	$799	$2,393
1999	1.417	$548	$297	$153	$998	$195	$83	$326	$1,601	$811	$2,412
2000	1.371	$557	$296	$162	$1,014	$199	$91	$306	$1,610	$843	$2,453
2001	1.333	$572	$317	$172	$1,062	$190	$91	$275	$1,618	$865	$2,483
2002	1.312	$593	$333	$194	$1,120	$202	$129	$224	$1,676	$963	$2,639
2003	1.283	$604	$352	$206	$1,162	$210	$146	$196	$1,714	$1,058	$2,771
2004	1.250	$614	$371	$220	$1,206	$211	$130	$200	$1,747	$1,119	$2,866
2005	1.209	$627	$402	$220	$1,249	$227	$119	$222	$1,817	$1,171	$2,988
2006	1.171	$637	$437	$211	$1,286	$216	$151	$265	$1,919	$1,190	$3,109
2007	1.139	$662	$496	$217	$1,375	$219	$56	$270	$1,921	$1,186	$3,107
2008	1.096	$671	$500	$221	$1,392	$231	$127	$277	$2,026	$1,244	$3,271
2009	1.100	$746	$549	$276	$1,571	$251	$482	$206	$2,509	$1,362	$3,871
2010	1.083	$759	$564	$295	$1,618	$263	$191	$212	$2,284	$1,459	$3,743
2011	1.050	$761	$587	$289	$1,637	$280	$209	$241	$2,368	$1,414	$3,781
2012	1.028	$789	$567	$258	$1,614	$266	$209	$229	$2,315	$1,321	$3,637
2013	1.015	$821	$595	$269	$1,685	$289	$76	$226	$2,375	$1,231	$3,507
2014	1.000	$848	$597	$298	$1,743	$292	$162	$237	$2,448	$1,168	$3,602
2015	0.980	$876	$603	$322	$1,801	$293	$185	$259	$2,562	$1,163	$3,701
2016	0.958	$905	$643	$354	$1,901	$312	$200	$300	$2,738	$1,155	$3,868
2017	0.937	$936	$651	$371	$1,958	$300	$210	$373	$2,874	$1,152	$3,993
2018	0.917	$969	$662	$383	$2,015	$288	$208	$456	$3,012	$1,147	$4,113
2019	0.896	$1,004	$712	$395	$2,111	$305	$176	$514	$3,152	$1,152	$4,257
2020	0.875	$1,041	$743	$408	$2,192	$307	$173	$563	$3,285	$1,152	$4,386
2021	0.855	$1,078	$779	$421	$2,277	$308	$172	$601	$3,415	$1,152	$4,510
2022	0.835	$1,115	$850	$435	$2,400	$324	$174	$638	$3,586	$1,157	$4,693
2023	0.816	$1,154	$868	$452	$2,475	$310	$167	$672	$3,684	$1,154	$4,777
$ Inc 1988 -2013		$388	$424	$208	$1,021	$87	$48	-$77	$1,179	$304	$1,384
% Inc 1988 -2013		90%	248%	342%	154%	44%	171%	-25%	98%	33%	65%
$ Inc 2013 -2023		$333	$273	$183	$790	$22	$91	$445	$1,309	-$77	$1,270
% Inc 2013 -2023		41%	46%	68%	47%	7%	120%	197%	55%	-6%	36%
$ Inc 1988 -2023		$722	$697	$391	$1,810	$109	$139	$369	$2,488	$228	$2,654
% Inc 1988 -2023		167%	408%	643%	272%	54%	495%	122%	208%	25%	125%

APPENDIX TABLE 3

Real per capita federal outlays for major categories of spending, 1988–2023

In 2014 dollars

Fiscal year	Resident population	Social Security	Medicare	Medicaid	Social Security, Medicaid, and Medicare	Military and civilian retirement, veterans pensions, and SSI	Other entitlements	Interest	Total nondiscretionary	Total discretionary	Total outlays
1988	244,499,000	$1,769	$699	$249	$2,718	$822	$115	$1,239	$4,894	$3,790	$8,684
1989	246,819,000	$1,777	$719	$267	$2,763	$672	$315	$1,304	$5,054	$3,770	$8,824
1990	249,464,000	$1,785	$775	$298	$2,857	$637	$619	$1,334	$5,448	$3,625	$9,072
1991	252,153,000	$1,834	$785	$361	$2,980	$664	$455	$1,336	$5,435	$3,666	$9,101
1992	256,510,000	$1,871	$849	$445	$3,164	$674	$418	$1,307	$5,564	$3,502	$9,066
1993	259,920,000	$1,898	$900	$476	$3,275	$681	$259	$1,249	$5,463	$3,393	$8,856
1994	263,130,000	$1,918	$966	$496	$3,381	$707	$257	$1,228	$5,574	$3,277	$8,851
1995	266,280,000	$1,939	$1,030	$518	$3,487	$693	$119	$1,350	$5,650	$3,169	$8,819
1996	269,390,000	$1,939	$1,068	$514	$3,521	$667	$203	$1,347	$5,738	$2,975	$8,713
1997	272,650,000	$1,955	$1,122	$516	$3,592	$683	$95	$1,316	$5,686	$2,951	$8,637
1998	275,850,000	$1,975	$1,108	$531	$3,614	$693	$203	$1,266	$5,775	$2,898	$8,674
1999	279,040,000	$1,965	$1,063	$548	$3,577	$697	$297	$1,167	$5,738	$2,905	$8,643
2000	282,160,000	$1,973	$1,049	$573	$3,595	$705	$323	$1,083	$5,706	$2,986	$8,692
2001	284,970,000	$2,009	$1,113	$605	$3,727	$668	$320	$965	$5,679	$3,036	$8,715
2002	287,630,000	$2,063	$1,157	$673	$3,893	$704	$450	$780	$5,826	$3,349	$9,175
2003	290,110,000	$2,081	$1,213	$711	$4,004	$724	$502	$677	$5,907	$3,645	$9,553
2004	292,810,000	$2,098	$1,268	$752	$4,117	$719	$445	$684	$5,966	$3,820	$9,787
2005	295,520,000	$2,122	$1,360	$743	$4,225	$768	$404	$753	$6,150	$3,961	$10,111
2006	298,380,000	$2,135	$1,466	$709	$4,310	$725	$506	$889	$6,430	$3,990	$10,420
2007	301,230,000	$2,198	$1,648	$720	$4,566	$728	$187	$896	$6,378	$3,937	$10,315
2008	304,090,000	$2,207	$1,644	$726	$4,578	$759	$416	$912	$6,664	$4,092	$10,756
2009	306,770,000	$2,431	$1,790	$900	$5,121	$817	$1,572	$670	$8,180	$4,439	$12,619
2010	309,326,225	$2,453	$1,822	$955	$5,229	$851	$618	$687	$7,384	$4,715	$12,099
2011	311,587,816	$2,442	$1,885	$926	$5,253	$900	$671	$775	$7,598	$4,537	$12,136
2012	313,914,040	$2,515	$1,805	$821	$5,140	$847	$667	$729	$7,376	$4,210	$11,585
2013	316,169,358	$2,596	$1,882	$852	$5,330	$913	$240	$716	$7,512	$3,894	$11,092
2014	318,450,716	$2,664	$1,875	$935	$5,473	$916	$509	$745	$7,687	$3,668	$11,311
2015	321,363,000	$2,726	$1,876	$1,001	$5,603	$913	$576	$805	$7,971	$3,620	$11,517
2016	323,849,000	$2,793	$1,986	$1,092	$5,871	$962	$619	$926	$8,454	$3,567	$11,945
2017	326,348,000	$2,868	$1,996	$1,136	$5,999	$919	$643	$1,143	$8,806	$3,530	$12,234
2018	328,857,000	$2,948	$2,014	$1,164	$6,126	$875	$631	$1,387	$9,160	$3,487	$12,506
2019	331,375,000	$3,030	$2,148	$1,193	$6,371	$920	$530	$1,550	$9,512	$3,477	$12,848
2020	333,896,000	$3,116	$2,226	$1,221	$6,564	$919	$517	$1,687	$9,838	$3,449	$13,135
2021	336,416,000	$3,203	$2,315	$1,252	$6,770	$917	$511	$1,786	$10,151	$3,423	$13,407
2022	338,930,000	$3,290	$2,508	$1,283	$7,080	$956	$513	$1,882	$10,581	$3,415	$13,847
2023	341,436,000	$3,380	$2,543	$1,325	$7,248	$908	$488	$1,967	$10,790	$3,381	$13,992
$ Inc 1988 -2013		$827	$1,183	$603	$2,612	$90	$125	-$523	$2,618	$104	$2,408
% Inc 1988 -2013		47%	169%	242%	96%	11%	109%	-42%	54%	3%	28%
$ Inc 2013 -2023		$784	$661	$473	$1,918	-$4	$248	$1,251	$3,278	-$513	$2,900
% Inc 2013 -2023		30%	35%	56%	36%	0%	103%	175%	44%	-13%	26%
$ Inc 1988 -2023		$1,611	$1,844	$1,076	$4,530	$86	$373	$728	$5,897	-$410	$5,308
% Inc 1988 -2023		91%	264%	432%	167%	10%	326%	59%	120%	-11%	61%

APPENDIX TABLE 4

Federal outlays for major categories of spending as a percentage of GDP, 1988–2023

Percentage of current year gross domestic product

Fiscal year	GDP	Social Security	Medicare	Medicaid	Social Security, Medicaid, and Medicare	Military and civilian retirement, veterans pensions, and SSI	Other entitlements	Interest	Total nondiscretionary	Total discretionary	Total outlays
1988	5,009	4.3%	1.7%	0.6%	6.6%	2.0%	0.3%	3.0%	12.0%	9.3%	21.2%
1989	5,400	4.3%	1.7%	0.6%	6.6%	1.6%	0.8%	3.1%	12.1%	9.1%	21.2%
1990	5,735	4.3%	1.9%	0.7%	6.9%	1.5%	1.5%	3.2%	13.1%	8.7%	21.9%
1991	5,931	4.5%	1.9%	0.9%	7.3%	1.6%	1.1%	3.3%	13.3%	9.0%	22.3%
1992	6,242	4.6%	2.1%	1.1%	7.7%	1.6%	1.0%	3.2%	13.6%	8.6%	22.1%
1993	6,587	4.6%	2.2%	1.2%	7.9%	1.6%	0.6%	3.0%	13.2%	8.2%	21.4%
1994	6,977	4.5%	2.3%	1.2%	8.0%	1.7%	0.6%	2.9%	13.2%	7.8%	21.0%
1995	7,341	4.5%	2.4%	1.2%	8.2%	1.6%	0.3%	3.2%	13.2%	7.4%	20.7%
1996	7,718	4.5%	2.5%	1.2%	8.2%	1.5%	0.5%	3.1%	13.3%	6.9%	20.2%
1997	8,212	4.4%	2.5%	1.2%	8.1%	1.5%	0.2%	3.0%	12.8%	6.7%	19.5%
1998	8,663	4.3%	2.4%	1.2%	7.9%	1.5%	0.4%	2.8%	12.7%	6.4%	19.1%
1999	9,208	4.2%	2.3%	1.2%	7.6%	1.5%	0.6%	2.5%	12.3%	6.2%	18.5%
2000	9,821	4.1%	2.2%	1.2%	7.5%	1.5%	0.7%	2.3%	12.0%	6.3%	18.2%
2001	10,225	4.2%	2.3%	1.3%	7.8%	1.4%	0.7%	2.0%	11.9%	6.3%	18.2%
2002	10,544	4.3%	2.4%	1.4%	8.1%	1.5%	0.9%	1.6%	12.1%	7.0%	19.1%
2003	10,980	4.3%	2.5%	1.5%	8.2%	1.5%	1.0%	1.4%	12.2%	7.5%	19.7%
2004	11,676	4.2%	2.5%	1.5%	8.3%	1.4%	0.9%	1.4%	12.0%	7.7%	19.6%
2005	12,429	4.2%	2.7%	1.5%	8.3%	1.5%	0.8%	1.5%	12.1%	7.8%	19.9%
2006	13,207	4.1%	2.8%	1.4%	8.3%	1.4%	1.0%	1.7%	12.4%	7.7%	20.1%
2007	13,861	4.2%	3.1%	1.4%	8.7%	1.4%	0.4%	1.7%	12.2%	7.5%	19.7%
2008	14,334	4.3%	3.2%	1.4%	8.9%	1.5%	0.8%	1.8%	12.9%	7.9%	20.8%
2009	13,938	4.9%	3.6%	1.8%	10.2%	1.6%	3.1%	1.3%	16.4%	8.9%	25.2%
2010	14,360	4.9%	3.6%	1.9%	10.4%	1.7%	1.2%	1.4%	14.7%	9.4%	24.1%
2011	14,959	4.8%	3.7%	1.8%	10.4%	1.8%	1.3%	1.5%	15.1%	9.0%	24.1%
2012	15,549	4.9%	3.5%	1.6%	10.1%	1.7%	1.3%	1.4%	14.5%	8.3%	22.7%
2013	16,034	5.0%	3.7%	1.7%	10.4%	1.8%	0.5%	1.4%	14.6%	7.6%	21.5%
2014	16,646	5.1%	3.6%	1.8%	10.5%	1.8%	1.0%	1.4%	14.7%	7.0%	21.6%
2015	17,632	5.1%	3.5%	1.9%	10.4%	1.7%	1.1%	1.5%	14.8%	6.7%	21.4%
2016	18,792	5.0%	3.6%	2.0%	10.6%	1.7%	1.1%	1.7%	15.2%	6.4%	21.5%
2017	19,959	5.0%	3.5%	2.0%	10.5%	1.6%	1.1%	2.0%	15.4%	6.2%	21.3%
2018	20,943	5.0%	3.4%	2.0%	10.5%	1.5%	1.1%	2.4%	15.7%	6.0%	21.4%
2019	21,890	5.1%	3.6%	2.0%	10.8%	1.6%	0.9%	2.6%	16.1%	5.9%	21.7%
2020	22,854	5.2%	3.7%	2.0%	11.0%	1.5%	0.9%	2.8%	16.4%	5.8%	21.9%
2021	23,842	5.3%	3.8%	2.1%	11.2%	1.5%	0.8%	2.9%	16.8%	5.6%	22.1%
2022	24,858	5.4%	4.1%	2.1%	11.6%	1.6%	0.8%	3.1%	17.3%	5.6%	22.6%
2023	25,901	5.5%	4.1%	2.1%	11.7%	1.5%	0.8%	3.2%	17.4%	5.5%	22.6%
Inc 1988 -2013		0.72%	1.95%	1.05%	3.71%	-0.24%	0.19%	-1.64%	2.62%	-1.71%	0.31%
% Inc 1988 -2013		16.5%	113.7%	171.7%	55.7%	-11.9%	66.3%	-54.1%	21.9%	-18.4%	1.4%
Inc 2013 -2023		0.42%	0.45%	0.49%	1.35%	-0.31%	0.32%	1.79%	2.84%	-2.10%	1.05%
% Inc 2013 -2023		8.3%	12.4%	29.3%	13.1%	-17.3%	69.1%	128.6%	19.4%	-27.8%	4.9%
Inc 1988 -2023		1.13%	2.40%	1.53%	5.06%	-0.54%	0.51%	0.15%	5.46%	-3.81%	1.36%
% Inc 1988 -2023		26.2%	140.1%	251.4%	76.1%	-27.1%	181.2%	4.8%	45.6%	-41.1%	6.4%

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