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Jim Cantwell, Instructor
jcantwell@cox.net

Figure 1-5.

Federal Debt Held by the Public, 1790 to 2011

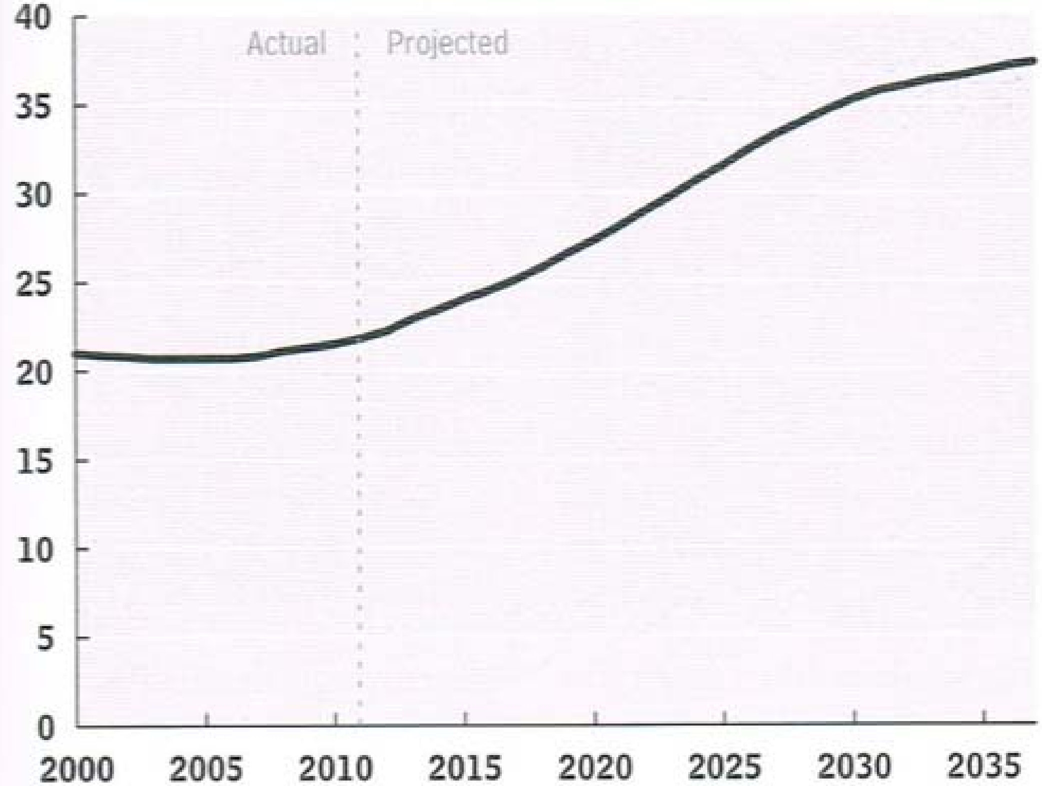
(Percentage of gross domestic product)

Sources: Congressional Budget Office; Office of Management and Budget.

Figure 4-2.

Population Age 65 or Older as a Share of the Population Ages 20 to 64

(Percent)



Source: Congressional Budget Office.

If leadership is the capacity to take people where they need to go — whether or not they realize it or want it — then we've had almost no leadership in these weeks of frustrating and maddening debate over the budget and debt ceiling. There's been an unspoken consensus among President Obama, congressional Democrats and Republicans not to discuss the central issue underlying the standoff. We've heard lots about "compromise" or its absence. We've had dueling budgets with differing mixes of spending cuts and tax increases. But we've heard almost nothing of the main problem that makes the budget so intractable.

It's the elderly, stupid.

By now, it's obvious that we need to rewrite the social contract that, over the past half-century, has transformed the federal government's main task into transferring income from workers to retirees. In 1960, national defense was the government's main job; it constituted 52 percent of federal outlays. In 2011 — even with two wars — it is 20 percent and falling. Meanwhile, Social Security, Medicare, Medicaid and other retiree programs constitute roughly half of non-interest federal spending.

These transfers have become so huge that, unless checked, they will sabotage America's future. The facts are known: By 2035, the 65-and-over population will nearly double, and health costs remain uncontrolled; the combination automatically expands federal spending (as a share of the economy) by about one-third from 2005 levels. This tidal wave of spending means one or all of the following: (a) much higher taxes; (b) the gutting of other government services, from the Weather Service to medical research; (c) a partial and dangerous disarmament; (d) large and unstable deficits.

Older Americans do not intend to ruin America, but as a group, that's what they're about. On average, the federal government supports each American 65 and over by about \$26,000 a year (about \$14,000 through Social Security, \$12,000 through Medicare). At 65, the average American will live almost 20 more years. Should these sizable annual subsidies begin later and be less for some? It's hard to discuss the budget realistically if you ignore most of what the budget does.

That's been our course. Obama poses as one brave guy for even broaching "entitlement reform" with fellow Democrats. What he hasn't done is to ask — in language that is clear and comprehensible to ordinary people — whether many healthy, reasonably well-off seniors deserve all the subsidies they receive. That would be leadership. Obama is having none of it. But the shunning is bipartisan. Tea Party advocates broadly deplore government spending without acknowledging that most of it goes for popular Social Security and Medicare.

I have written about these issues for years. But facts are no match for the self-interest of about 50 million Social Security and Medicare recipients and a natural sympathy for older people and for people who eagerly look forward to retirement. Public opinion becomes contradictory. While 70 percent of respondents in a Pew Research Center poll judged budget deficits a "major problem," 64 percent rejected higher Medicare premiums and 58 percent opposed gradual increases in Social Security's retirement age.

What sustains these contradictions is a mythology holding that, once people hit 65, most become poor. This justifies political dogma among Democrats that resists Social Security or Medicare cuts of even one dollar.

But the premise is wrong. True, some elderly live hand-to-mouth; many more are comfortable, and some are wealthy. The Kaiser Family Foundation reports the following for Medicare beneficiaries in 2010: 25 percent had savings and retirement accounts averaging $207,000 or more; among homeowners (four-fifths of those 65 and older), three-quarters had equity in their houses averaging $132,000; about 25 percent had incomes exceeding $47,000 (that's for individuals, and couples would be higher).

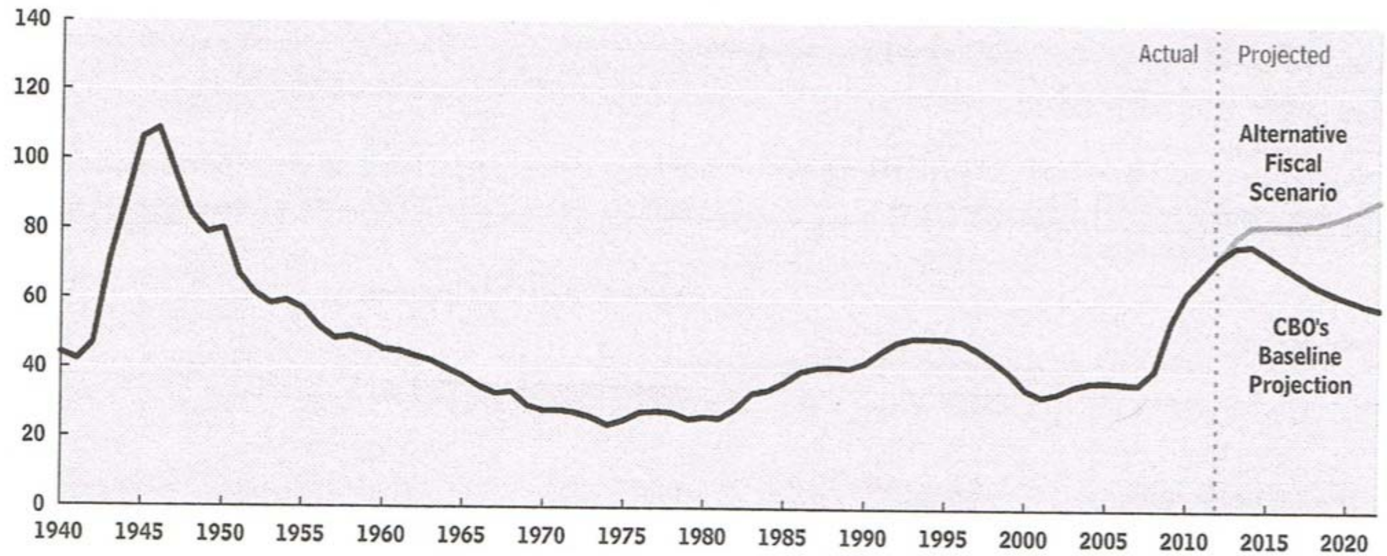
The essential budget question is how much we allow federal spending on the elderly to crowd out other national priorities. All else is subordinate. Yet, our "leaders" don't debate this question with candor or intelligence. We have a generation of politicians cowed and controlled by AARP. We need to ask how much today's programs constitute a genuine "safety net" to protect the vulnerable (which is good) and how much they simply subsidize retirees' private pleasures.

Our politicians make perfunctory bows to entitlement reform and consider that they've discharged their duty, even if nothing changes. We need to recognize that federal retiree programs often represent middle-class welfare. Past taxes were never "saved" to pay future benefits. We need to ask the hard questions: Who deserves help and who doesn't? Because Social Security and Medicare are so intertwined in our social fabric, changing them could never be easy. But the fact that we've evaded the choices for so long is why the present budget impasse has been so tortuous and why, if we continue our avoidance, there will be others.

Summary Figure 1.

Federal Debt Held by the Public, Historically and As Projected in CBO's Baseline and Under an Alternative Fiscal Scenario

(Percentage of gross domestic product)



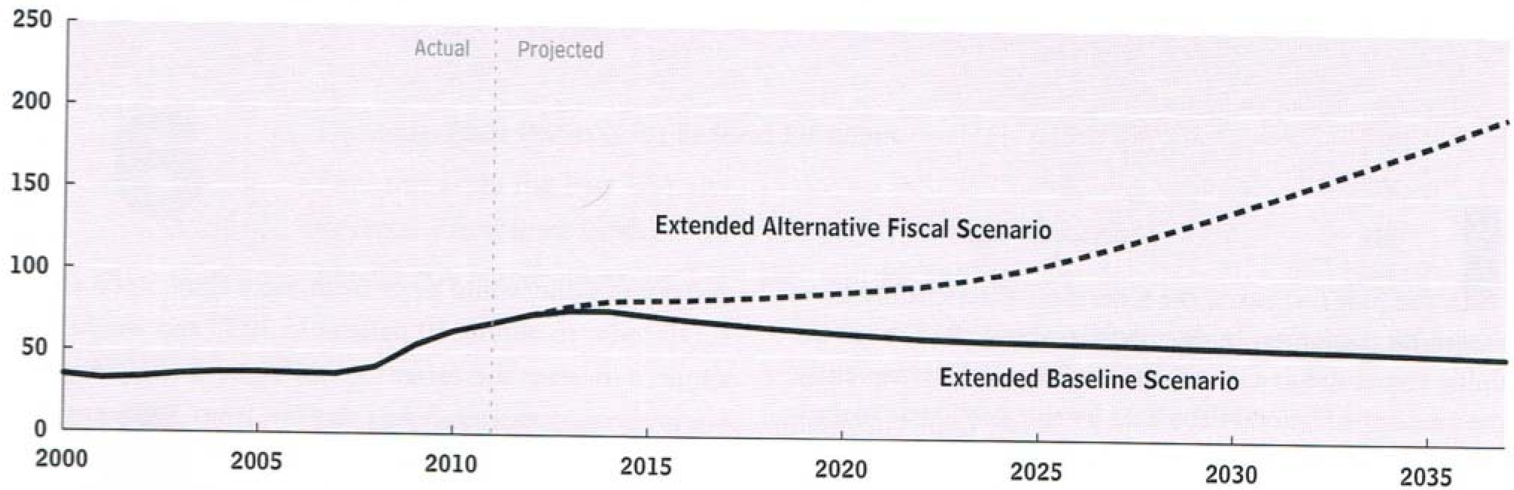
Source: Congressional Budget Office.

Note: The alternative fiscal scenario incorporates the assumptions that all expiring tax provisions (other than the payroll tax reduction), including those that expired at the end of December 2011, are instead extended; that the alternative minimum tax is indexed for inflation after 2011 (starting at the 2011 exemption amount); that Medicare's payment rates for physicians' services are held constant at their current level; and that the automatic enforcement procedures specified by the Budget Control Act of 2011 do not take effect. The budgetary effects under the alternative fiscal scenario also include the incremental interest costs associated with projected additional borrowing.

Summary Figure 1.

Federal Debt Held by the Public Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)



Source: Congressional Budget Office.

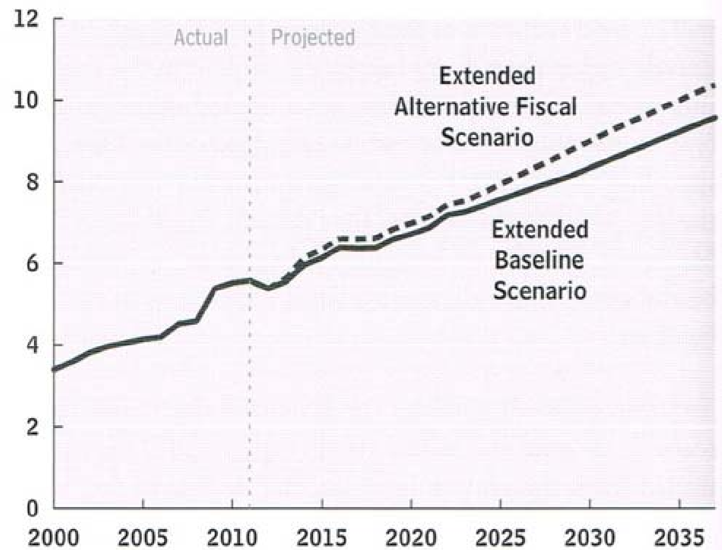
Notes: The extended baseline scenario generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2022 and then extending the baseline concept for the rest of the long-term projection period. The extended alternative fiscal scenario incorporates the assumptions that certain policies that have been in place for a number of years will be continued and that some provisions of law that might be difficult to sustain for a long period will be modified. (For details, see Table 1-1 on page 8.)

Debt does not reflect economic effects of the policies underlying the two scenarios. (For analysis of those effects and their impact on debt, see Chapter 2.)

Figure 3-3.

Federal Spending on Major Health Care Programs Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)



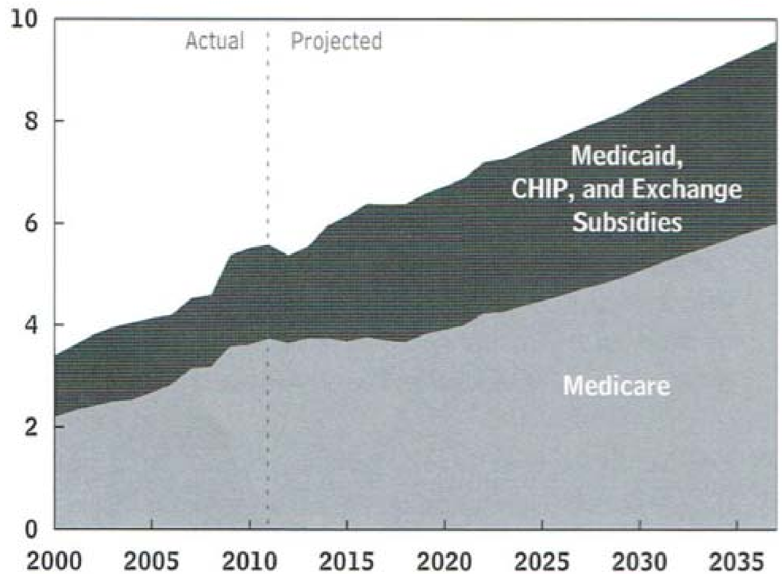
Source: Congressional Budget Office.

Note: The extended baseline scenario generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2022 and then extending the baseline concept for the rest of the long-term projection period. The extended alternative fiscal scenario incorporates the assumptions that certain policies that have been in place for a number of years will be continued and that some provisions of law that might be difficult to sustain for a long period will be modified. (For details, see Table 1-1 on page 8.)

Figure 3-2.

Federal Spending on Major Health Care Programs, by Category, Under CBO's Extended Baseline Scenario

(Percentage of gross domestic product)



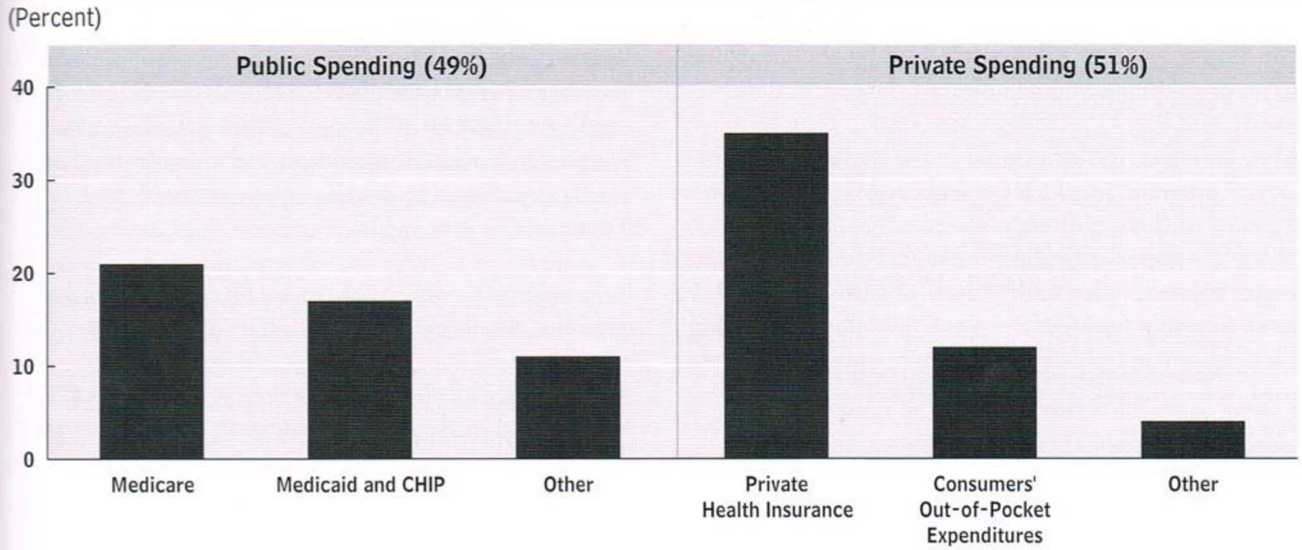
Source: Congressional Budget Office.

Notes: The extended baseline scenario generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2022 and then extending the baseline concept for the rest of the long-term projection period. (For details, see Table 1-1 on page 8.)

CHIP = Children's Health Insurance Program.

Figure 3-1.

Distribution of Spending for Health Care, 2010



Source: Congressional Budget Office based on data from the Centers for Medicare and Medicaid Services.

Note: CHIP = Children's Health Insurance Program.

Table 1-1.

Assumptions About Spending and Revenues Underlying CBO's Long-Term Budget Scenarios

	Extended Baseline Scenario	Extended Alternative Fiscal Scenario
	Assumptions About Spending	
Medicare	As scheduled under current law,[a] except that, after 2029, several policies that would restrain spending growth are assumed not to be in effect	As scheduled under current law,[a] except that: • Through 2022, payment rates for physicians are maintained at the 2012 levels (rather than at the lower rates that would apply under current law); • The automatic spending reductions required by the Budget Control Act of 2011 do not take effect; and, • After 2022, several policies that would restrain spending growth are assumed not to be in effect
Medicaid	As scheduled under current law	As scheduled under current law
CHIP	As projected in CBO's baseline through 2022; remaining constant as a share of GDP thereafter	As projected in CBO's baseline through 2022; remaining constant as a share of GDP thereafter
Exchange Subsidies	As scheduled under current law	As scheduled under current law, except that, after 2022: • A policy that would slow the growth of per-participant subsidies for health insurance coverage is assumed not to be in effect; and • Eligibility thresholds are assumed to be modified to maintain the share of the population eligible for subsidies
Social Security	As scheduled under current law[a]	As scheduled under current law[a]
Other Noninterest Spending	As projected in CBO's baseline through 2022; remaining at the 2022 level as a share of GDP thereafter, except that Medicare premiums, certain payments by states to Medicare, and some refundable tax credits are as scheduled under current law	As projected in CBO's baseline through 2022, except that automatic spending reductions required by the Budget Control Act do not take effect; other spending then increases gradually until 2027, when it reaches its average share of GDP over the past 20 years; thereafter, it remains at that share of GDP except that Medicare premiums and certain payments by states to Medicare are consistent with the projections of Medicare spending under this scenario

Continued

Table 1-1. **Continued**

Assumptions About Spending and Revenues Underlying CBO's Long-Term Budget Scenarios

	Extended Baseline Scenario	Extended Alternative Fiscal Scenario
	Assumptions About Revenues	
Individual Income Taxes	As scheduled under current law	All provisions scheduled to expire in the next 10 years are extended through 2022, as is AMT relief, which was extended in the 2010 tax act but expired in 2011; revenues remain constant as a share of GDP thereafter
Payroll Taxes	As scheduled under current law	As scheduled under current law
Corporate Income Taxes	As scheduled under current law through 2022; remaining constant as a share of GDP thereafter	All provisions scheduled to expire in the next 10 years are extended through 2022; revenues remain constant as a share of GDP thereafter
Excise Taxes	As scheduled under current law	All provisions scheduled to expire in the next 10 years are extended through 2022; revenues remain constant as a share of GDP thereafter
Estate and Gift Taxes	As scheduled under current law	The 2012 tax rates and exemption amount (adjusted for inflation) continue through 2022; revenues remain constant as a share of GDP thereafter
Other Sources of Revenue	As scheduled under current law through 2022; remaining constant as a share of GDP thereafter	All provisions scheduled to expire in the next 10 years are extended through 2022; revenues remain constant as a share of GDP thereafter

Source: Congressional Budget Office.

Notes: The extended baseline scenario generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2022 and then extending the baseline concept for the rest of the long-term projection period. The extended alternative fiscal scenario incorporates the assumptions that certain policies that have been in place for a number of years will be continued and that some provisions of law that might be difficult to sustain for a long period will be modified.

For more details about CBO's most recent 10-year projections, see Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012). Through 2022, the extended alternative fiscal scenario is consistent with the alternative fiscal scenario presented in that report.

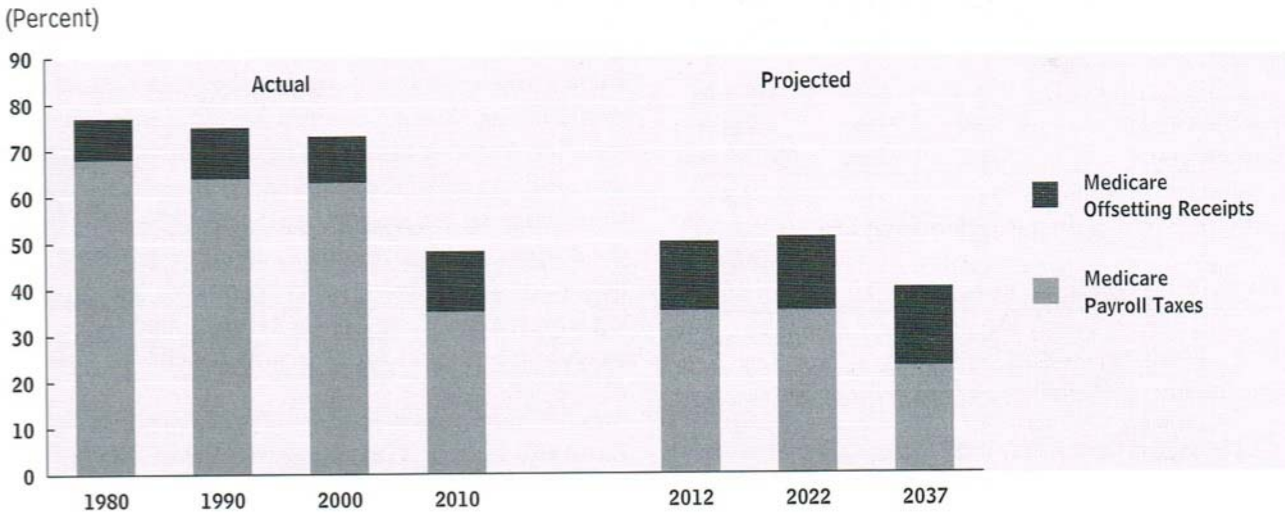
Tax provisions that expired at the end of December 2011 are also assumed to continue under the extended alternative fiscal scenario; nearly all of those provisions have been extended previously (some, such as the research and experimentation tax credit, more than once).

CHIP = Children's Health Insurance Program; GDP = gross domestic product; AMT = alternative minimum tax; 2010 tax act = Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

a. Full benefits as calculated under current law, regardless of the amounts available in the trust funds.

Figure 3-5.

Medicare Payroll Taxes and Offsetting Receipts as a Share of Medicare Benefits Under CBO's Extended Baseline Scenario



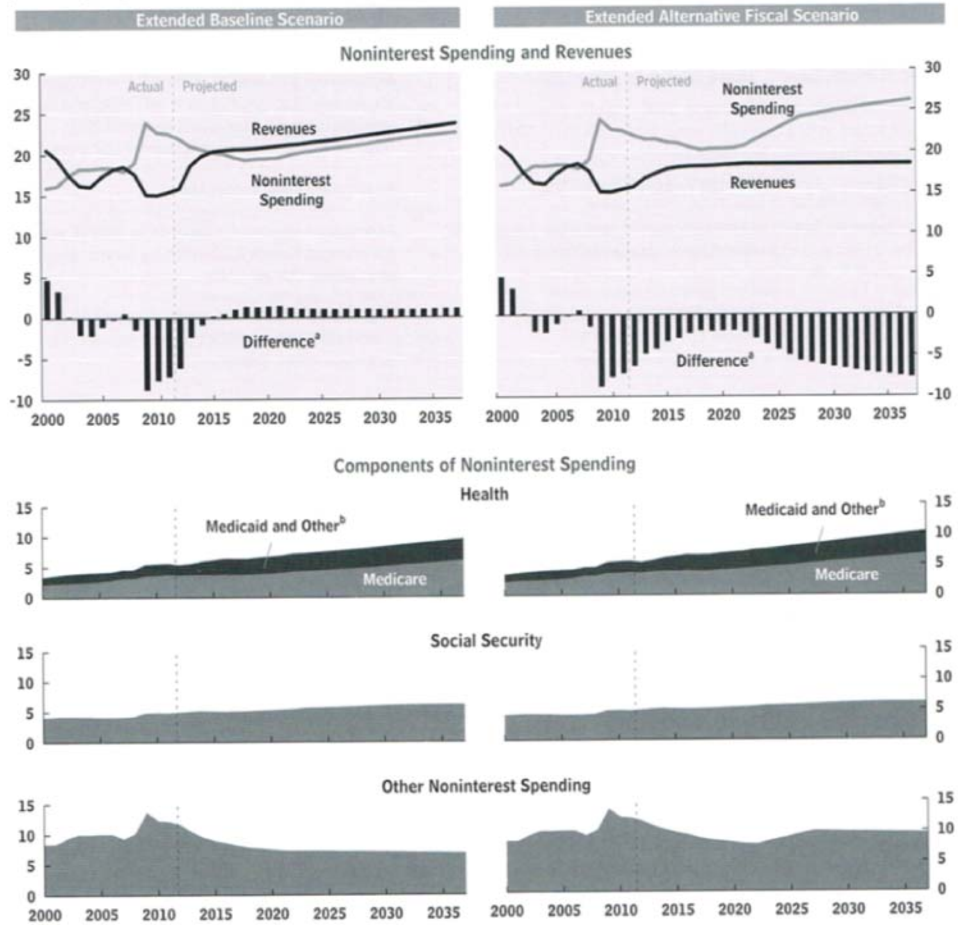
Sources: Congressional Budget Office's projections. Historical shares are based on data from the Office of Management and Budget.

Note: The extended baseline scenario generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2022 and then extending the baseline concept for the rest of the long-term projection period. (For details, see Table 1-1 on page 8.)

Figure 1-1.

Noninterest Spending and Revenues Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: The extended baseline scenario generally adheres closely to current law, following CBO's 10-year baseline budget projections through 2022 and then extending the baseline concept for the rest of the long-term projection period. The extended alternative fiscal scenario incorporates the assumptions that certain policies that have been in place for a number of years will be continued and that some provisions of law that might be difficult to sustain for a long period will be modified. (For details, see Table 1-1 on page 8.)

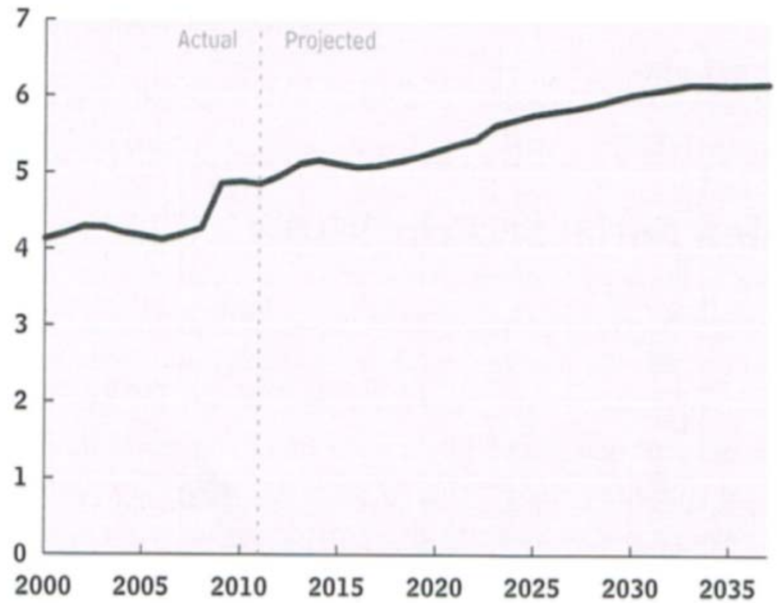
a. Revenues minus noninterest spending.

b. Includes the Children's Health Insurance Program and exchange subsidies.

Figure 4-1.

Spending for Social Security Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: Projected spending for Social Security is identical under CBO's two long-term budget scenarios—the extended baseline scenario and the extended alternative fiscal scenario. (For details of the scenarios, see Table 1-1 on page 8.)