

The Politics of Entitlement Reform

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What is an entitlement? Webster's defines it as "a right to benefits specified by law or contract."

When we Americans speak of "entitlements," we primarily mean two federal government programs, Social Security and Medicare. There are other entitlements, to be sure, but for most people these two are the first ones that come to mind. And they're the ones I want to focus on, in discussing my assigned topic, "the politics of entitlement reform."

Now, these happen to be the two largest federal programs, and also the most popular ones by far — and these two facts are related.

Why are they so popular? Well, for one thing, people like the idea of being guaranteed a financial benefit that no one can take away from them. We like the idea of security. Especially if that security helps ease our lives a bit when we have crested the hill, so to speak.

Second, people like getting what is their due. We want justice. And if we perceive we entitlement checks as an earned benefit — if we think "This is simply my own money coming back to me, after having been held in trust for me by the government" — then it becomes pretty obvious why people will strongly resist anyone who proposes to touch their checks. (For convenience, I am speaking here of Medicare as if it were also a cash benefit, like Social Security.)

And finally, let's admit it, people just like receiving checks from the government. We like to be recipients of welfare, especially if we can rationalize it as really being "getting what is our due." And we *really* like it, if it means we don't have to move in with our children.

Now, when you add to these motives — security, justice, welfare — the notion of a vested legal right or legally enforceable property, watch out. And this is what makes Social Security and Medicare political "third rails." Millions of Americans sincerely and passionately believe that "This money is mine by law, and the courts will step in to protect it if Congress should ever try to take it away from me." This notion — which is factually and legally incorrect — exists uneasily in many of the same minds with the idea that "Congress has been stealing from Social Security (raiding the trust fund) for decades." That latter statement is somewhat more accurate, although the fact is the Social Security trust fund isn't a true trust fund, being filled not with marketable assets but rather with IOUs from the government to itself. Is it really possible for Congress to "steal" from a fund that contains no assets? But I digress!

The politically important point here is that since voters firmly believe that these programs are their legal property – well, you can understand why they would be very reluctant to trade the modicum of financial security those programs give them for any alleged increase in freedom.

When I'm out speaking to tea party audiences, I find that some activists don't like the term "entitlement," because they see through the political fiction of the money being a vested right or an earned benefit. They see it as a welfare program, and they are not really wrong about that. And despite what I said a moment ago, about people liking to receive welfare, they are not all happy about these big welfare programs. So in response to that point, I tend to use other, more accurate terms like "income-transfer programs," "retirement security benefits" and "auto-pilot spending." For this talk, I'll stick with "entitlements."

Why are entitlements a political problem? Well, they cause fiscal headaches, for one thing, as we'll discuss. But much more importantly, they change the relationship between citizens and their government.

People who depend on the public treasury tend to become small-c conservatives, defenders of the status quo, at least with respect to that dependency. The dependency cycle created by entitlements is a political problem, because "democracy only lasts until the people discover they can vote themselves other people's money out of the public treasury." To the extent that government, through these and other income-transfer programs, comes to control a majority or most of the community's resources, it begins to threaten, not just our prosperity, but much more importantly, our liberty (and thus our ability to pursue our real ultimate goal, which is happiness).

Getting back to the fiscal headache. To put things in a perspective, Social Security represented about 20 percent of federal outlays in 2010, while Medicare represented about 13 percent. So together, these two programs constitute one-third of all federal expenditures.

But they are growing quickly — Medicare is growing at the rapid rate of 7 percent a year — such that, by 2050, these two programs will likely constitute something like half of the federal budget, which will in turn consume something like half of the entire economy.

We can't let that happen. And yet the history of changes to these programs — and there have been many changes since Social Security was enacted in 1935 and Medicare in 1965 — strongly suggests that the only kind of change our politics permits is in the direction of expanding and not in shrinking entitlements.

The politics of entitlement reform thus appears to be a kind of Gordian knot, seemingly insoluble. Or to change metaphors, entitlements are basically one-way ratchets, always getting bigger, and never getting smaller, both as a share of the federal budget and as a share of national output — and become more politically untouchable, the

bigger they become. Or to employ still a third metaphor, as Jefferson once said of slavery, so we might also say of entitlements: “We have the wolf by the ear, and we can neither hold him, nor safely let him go.”

This problem has become acute in our day, because our nation is clearly headed toward a major debt crisis. The only way to avert that crisis is to control spending. And as anyone who looks at the budget quickly realizes, the best way to control spending is to slow the growth of these two programs, which are the not only the largest but also the fastest-growing parts of the budget.

And yet, as I’ve already suggested, Americans — including many of those who describe themselves as tea party supporters — strongly prefer we look elsewhere for savings.

Enter the Left, led by President Obama. They remain wedded to Keynesian stimulus and ever-bigger government. It’s clear they want to lock in the historically higher spending that’s occurred since 2007. And demagoguery on entitlements is, of course, one of the main tools in their arsenal. Witness the “throwing grandma off the cliff” ads of this past spring.

The Left’s ultimate goal, I believe, is to expand our existing welfare state to European proportions. Actually, to bigger than European proportions. The tool they will use to get there, I believe, is a Value Added Tax or VAT. And the way they will achieve a VAT is by lulling or scaring the American people into doing nothing about spending and entitlements.

In the six original member states of the European Union (France, Italy, Germany, Belgium, Luxembourg, and the Netherlands), VATs together with steeply graduated income taxes enable national governments to take about 40 to 45 percent in GDP, in taxes. In the U.S. the federal government only collects about half that amount. But when you add in state and local government taxes, we are approaching a 45 percent total government tax take, which puts us right up there with the Europeans.

Some analysts believe that Americans will never voluntarily agree to any higher level of tax collections, as a share of the economy, and that therefore, not only can we not balance the budget through tax hikes, but we can rest easy that the Left will never be able to increase the overall burden of government. I am skeptical of this argument. If Americans were culturally capable of evolving from the low-tax culture of the 19th century and early 20th century to the much higher tax culture we’ve had since 1913, why would we not be able to evolve (or rather be driven into) accepting a super-high tax culture in the future? At anyrate, the “we’re topped out on taxes” argument will be tested empirically over the next decade or so, as the great debt crisis unfolds.

The tea party, of course, wants to go in completely the opposite direction from the Left, toward smaller, constitutionally limited government. We want to shrink the government, not grow it, so most if not all tea partiers oppose a VAT.

This stark divergence of philosophies is setting up an historic contest between the progressive and tea party movements, only one of which can prevail.

In talking with local grassroots activists, I find the tea party is pretty well disappointed in Republican congressional leaders right now, though we understand they are arrayed against formidable opponents in Harry Reid and Barack Obama.

Folks were disappointed in July's deeply disappointing Debt Ceiling deal, which seemed our best opportunity in years to begin controlling government spending, but instead provided another spectacle of Washington straining at a gnat and kicking the can down the road.

Despite that, the tea party grassroots remains very interested in finding solutions to the spending and debt crises, and I can tell you folks out here in the country are still in a mood for big changes come November of next year, building on the changes of the historic elections of 2010. Among folks who pay attention to the debt and spending debates, there's a real hunger for bold, principled solutions.

But there is a criticism of the tea party from the press and the Left, namely, that we have no plan – and that we are shy about reforming entitlements in particular.

Is that true? I think the answer is partly yes, but mostly no. The tea party movement has been looking for ways to resolve the spending impasse, not by waiting for Washington to lead – we've given up on that – but by coming up with a platform of real reforms with which we can elect principled conservatives and libertarians to Congress in 2012.

We began developing this platform in 2010 with our bottom-up, crowd-source-generated agenda, the so-called "Contract From America." We elected more than 50 House members and 10 Senators on that platform and are still working to enact it.

And that brings me to the Tea Party Debt Commission.

As the Debt Ceiling debate was heating up in late June, we met with more than 150 local tea party leaders from around the country, and we pitched the idea of setting up our own "Super Committee" – a Tea Party Debt Commission. They loved the idea, and after getting twelve leaders from around the country to sign on as commissioners – the same number as the Super Committee – instead of going behind closed doors, we launched a national listening tour. We've traveled all around the country, meeting with people in churches, community centers, public libraries, even a Denny's restaurant.

We're coming up with a plan, which we'll unveil on November 17th in a joint Senate-House hearing, that will show the public and the press that the tea party does in fact "have a credible plan" to save the country from a Greece-style debt collapse.

The Tea Party Debt Commission's goal is to produce a detailed plan that balances the budget within ten years without tax hikes; cuts at least \$9 trillion in spending over the next decade; reduces federal spending to 18 percent of GDP; and stabilizes the national debt by holding it to around 66 percent of GDP.¹

We're also gathering suggestions from the American people, via email and through our online survey at Teapartydebtcommission.com. Not only can folks submit their budget reform ideas directly to us, but we are gauging their priorities with our state-of-the-art crowd-sourcing survey technology.

This survey is producing some fascinating data. Visitors to the site are presented with a series of eight to ten randomly matched pairs of proposed spending cuts and asked to choose one of the two items. This process of choosing between pairs – the visitor can only choose one item, not both or neither (this is called the Condorcet method) – gives us great insights into people's priorities.

The database of proposed cuts and reforms that we use in the survey comes from various existing budget plans like Simpson-Bowles, the Ryan plan, the CBO budget cuts menu, Cato, Heritage, etc. To ensure balance, we divided the entire budget up into five categories of equal size, as a share of the budget (20 percent of the budget, each), and included budget-cutting proposals from each. The five categories are: Social Security, Medicare/Medicaid, Defense, Other Mandatory, and Domestic Discretionary.

People are clearly interested in debt and spending issues right now. As of mid-October, when we published our initial results, nearly 50,000 unique visitors had viewed the site, and 40,341 visitors had been presented with and made selections on 723,457² randomly matched pairs ("matchups") of potential budget cuts. The completion rate – people clicking through all the way to the end of the survey and hitting submit – has been a jaw-dropping 80 percent. We'd have been happy with 40 percent.

Close to 90 percent of the visitors have been on the conservative or libertarian side of the political spectrum, which is to be expected, since they tend to be much more interested in spending restraint than progressives are.

So far, the top 10 favored budget-cutting ideas³ are:

- Repeal ObamaCare (93% favorability rating)
- Reduce Duplicative Purchases of Pentagon Supplies (90%)

¹ To put these goals in perspective, the House-passed Ryan budget would reduce ten-year spending by about \$6 trillion, with no tax hikes, while the Simpson-Bowles commission plan would reduce spending by about \$3 trillion and raise taxes by \$1 trillion.

² <http://www.teapartydebtcommission.com/getdata.aspx?type=totalvotes>

³ <http://www.teapartydebtcommission.com/getdata.aspx?type=topten>

- Eliminate the Department of Education (81%)
- Privatize Fannie Mae & Freddie Mac (81%)
- Reduce Discretionary Spending to 2008 Levels (76%)
- Block Grant Medicaid (73%)
- End Ethanol Tax Credits (71%)
- Sell Underused Federal Buildings (71%)
- Eliminate HUD (70%)
- End Earmarks (68%)

Among self-described tea-party supporters,⁴ the results are very similar to those who don't identify themselves as tea party supporters; only the 10th item (and some of the percentages) differ. This suggests the tea party is a lot closer to the mainstream of American opinion than the Left and the left-leaning press assert:

- Repeal ObamaCare (93%)
- Reduce Duplicative Purchases of Pentagon Supplies (90%)
- Eliminate Department of Education (81%)
- Privatize Fannie Mae & Freddie Mac (81%)
- Reduce Discretionary Spending to 2008 Level (76%)
- Block Grant Medicaid (74%)
- End Ethanol Tax Credits (71%)
- Sell Needless Federal Buildings (71%)
- Eliminate HUD (70%)
- Reduce Medicare Teaching Subsidies (68%)

Tracking the results by age, we see a lot of commonality across the generations. Here are the top five favored cuts, for each of the follow age groups⁵:

Age Category: 18-29

- Repeal ObamaCare (91%)
- Reduce Duplicative Purchases of Pentagon Supplies (84%)
- Privatize Fannie Mae & Freddie Mac (84%)
- Reduce Discretionary Spending to 2008 Level (81%)
- Sell Needless Federal Buildings (77%)

Age Category: 30-49

- Repeal ObamaCare (94%)
- Deduce Duplicative Purchases of Pentagon Supples (89%)

⁴ <http://www.teapartydebtcommission.com/getdata.aspx?type=toptenteaparty>

⁵ <http://www.teapartydebtcommission.com/getdata.aspx?type=topfiveperage>

- Privatize Fannie Mae & Freddie Mac (82%)
- Reduce Discretionary Spending to 2008 Level (81%)
- Department of Education (81%)

Age Category 50-64

- Repeal ObamaCare (94%)
- Deduce Duplicative Purchases of Pentagon Supplies (91%)
- Privatize Fannie Mae & Freddie Mac (82%)
- Eliminate the Department of Education (82%)
- Reduce Discretionary Spending to 2008 Level (76%)

Age Category 65+

- Repeal ObamaCare
- Reduce Duplicative Purchases of Pentagon Supplies (89%)
- Department of Education (80%)
- Privatize Fannie Mae & Freddie Mac (80%)
- Reduce Discretionary Spending to 2008 Level (73%)

Most interesting of all, to get a sense of which cuts cross party and ideological lines, we pulled out the top cuts that appears on the “top 15” list of each of the 4 political affiliation (Republicans, Democrats, Libertarians, and Independents). This enabled us to produce a "common ground" list of 6 highly popular cuts,⁶ shown here by their average score across the 4 categories:

“Common Ground” top budget cuts:

- Repeal ObamaCare (91%)
- Reduce Duplicative Purchases of Pentagon Supplies (89%)
- Privatize Fannie Mae & Freddie Mac (81%)
- Reduce Discretionary Spending to 2008 Level (74%)
- End Ethanol Tax Credits (71%)
- Sell Needless Federal Buildings (70%)

That top 10 list I started with adds up to \$6 trillion in savings over 10 years. Compare that to Paul Ryan’s plan (\$5.8 trillion over 10), Obama’s budget (claimed savings of \$4 trillion), the Simpson-Bowles Commission (\$4 trillion), and the Super Committee (charged with saving \$1.2 trillion).

The “Common Ground” savings total some \$4.6 trillion, or nearly four times the amount the Super Committee has been charged with saving!

⁶ <http://www.teapartydebtcommission.com/getdata.aspx?type=commonground>

Repealing ObamaCare is the number one budget cut by far, supported by 9 in 10 people in by every age group, regardless of partisan or ideological views. Repeal of ObamaCare would generate in the vicinity of \$1.8 trillion in 10-year savings. Therefore, the Super Committee could fully meet its charge of saving \$1.2 trillion over 10 years simply by repealing ObamaCare.

Privatizing Fannie Mae and Freddie Mac is extremely popular. (Savings: \$350 million over 10 years.) This reform is supported by all age groups and across all party and ideological lines.

People love the idea of cutting out whole departments, with about 80 percent supporting eliminating the Department of Education (saving \$100 billion over 10) and 70 percent wanting to end HUD (\$530 billion). This confirms our findings at the field hearings, where eliminating departments always gets very loud applause, especially the Department of Education. But people 18 to 29 seem to be less supportive of ending the Education Department than other age groups, perhaps because of the federal student loan programs.

Three-quarters of visitors support reducing discretionary spending back down to the 2008 level. This reform would save about \$750 billion over 10 years.

Block-granting Medicaid is supported by 73 percent of visitors and 74 percent of self-described tea party supporters.

When it comes to defense, people strongly prefer going after waste, fraud, and duplication, before eliminating any weapons programs. And both of these approaches are favored over cuts in pay, benefits, or troop strength. In other words, people want to make our national defense leaner, not weaker. (See Appendix for more details.)

Seventy percent of visitors favor ending ethanol tax credits over alternative budget cuts.

And now we come to the entitlements.

With Medicare and Social Security, visitors are more cautious than in other categories, and prefer reductions in peripheral elements (such as tightening eligibility for Social Security disability or reducing Medicare teaching hospital subsidies), not cuts to core benefits.

Now, I should add that we did not actually include among the options to choose from, any major reforms like Paul Ryan's Medicare reform or Social Security personal accounts, since those ideas don't generate savings within the ten-year budget window.

Still, the entitlement cuts and reforms that we *did* include did not make it into the top 10 of *anyone's* list. And this holds true, regardless of political alignment. Why is this? It may be due to lack of education about the programs' deep fiscal shortfalls, of course. But I suspect it's more because of the reasons I cited earlier, namely, that people have mistaken ideas that these programs represent true "earned entitlements" or "vested rights."

Another factor to consider. We did not indicate in our descriptions whether the given reforms would affect current beneficiaries or not (they would not, when it comes to core benefits). If we had clarified that, maybe some of the reforms would have scored higher.

The politics of entitlement reform boils down to what economists describe as the problem of dispersed costs and concentrated benefits. And right now, even with a debt crisis looming, the disparity between these two forces is sufficient to thwart any major change in the big entitlements.

Indeed, I believe the political problem of entitlements will remain insoluble until one of two things happens.

A) People find that the status quo is too painful to endure and more painful than any major change in entitlements. Call this the Burning Platform scenario. We will experience it within the next decade, I predict.

Or:

B) A reform is proposed that offers such an improvement in benefits and financial security that people are willing to trade the status quo for that new, better way. Call this a Greener Pastures option.

So far, Greener Pastures options have been stymied by the budget situation, because there is a transition cost in switching from a defined-benefit, government-monopoly program to a defined-contribution, personally owned and controlled benefit. The transition cost of switching Social Security over can be in the vicinity of one to two trillion dollars over the first ten years.

But if you look at the very successful Chilean or Galveston models of replacing the old government system with personal accounts, you realize that the private sector can in fact deliver better cash retirement benefits – far better benefits – than can the government-monopoly program.

Chile and Galveston have shown that there is hope for entitlement reformers.

And if it's true for Social Security, it's presumably also true of Medicare; although of course the latter is a much more complicated program.

On our current trajectory, we are on course to surpass the Europeans in terms of overall government taxation and spending levels within the next decade. But we can avoid that future if we tackle spending, and specifically entitlements.

What we have to do to resolve the stagnant “politics of entitlement reform” is clear.

We have to combine the pressure of the coming debt crisis – a burning platform – with serious educational efforts that persuade people of just how much better off they would be in the greener pastures of a freer, more market-driven system.

APPENDIX

Top Cuts by Budget Category

In the Teapartydebtcommission.com survey, we divvied up the budget into five equal “buckets” or categories:

- Medicare & Medicaid
- Social Security
- Non-Retirement Mandatory (aka Other Auto-Pilot programs)
- Defense, and
- Non-Defense Discretionary.

Each of the five categories represents one-fifth of current federal spending, or roughly \$700 billion per year.

The top five favorite cuts in each category⁷ are as follows:

Category: Medicare & Medicaid

- Block Grant Medicaid (73%)
- Reduce Medicare Teaching Subsidies (68%)
- Enact Medical Malpractice Reform (60%)
- Reduce Medicare Hospital Payments (45%)
- Raise the Medicare Retirement Age (43%)

Category: Social Security

- Reform Social Security Disability Eligibility (61%)
- Reduce Social Security Benefits for Those with High Incomes (58%)
- Alter Social Security Formula to Reduce Initial Benefits at Retirement (48%)
- Raise the Social Security Retirement Age (33%)

Category: Non-Retirement Mandatory

⁷ <http://www.teapartydebtcommission.com/getdata.aspx?type=topfivepercat>

2011 Free Market Forum

- Repeal ObamaCare (93%)
- Privatize Fannie Mae & Freddie Mac (81%)
- End Ethanol Tax Credits (71%)
- Block Grant Food Stamps (66%)
- Repeal TARP (65%)

Category: Defense

- Reduce Duplicative Purchases of Pentagon Supplies (90%)
- Adopt Sec. Gates's Proposed Pentagon Savings Reforms (59%)
- Nuclear Arsenal (56%)
- V-22 Osprey Aircraft (40%)
- F-35 Fighter Plane (28%)

Category: Non-Defense Discretionary

- Eliminate the Department of Education (81%)
- Reduce Discretionary Spending to 2008 Level (76%)
- Sell Needless Federal Buildings (71%)
- Eliminate HUD (70%)
- End Earmarks (68%)