

Comments on Eugene Steuerle's
*Dead Men Ruling: How to Restore
Fiscal Freedom and Rescue Our Future*

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Diagnosis versus treatment

Suppose 2 doctors see a sick patient. One thinks it's a mystery virus, the other thinks it's an immune system disorder.

But they both agree that the patient is quite sick, & that there's no better treatment available than plenty of rest & fluids.

They disagree on diagnosis, but agree on treatment.

To a considerable extent, this is my reaction to Gene's excellent & interesting new book.

A problem of fiscal democracy?

I agree about: (1) putting entitlements and healthcare spending on a less voracious path, (2) reducing tax expenditures, & (3) doing more for children, social investment, & economic mobility. And I have noticed the sequester era's crazy over-focus on cutting "discretionary spending."

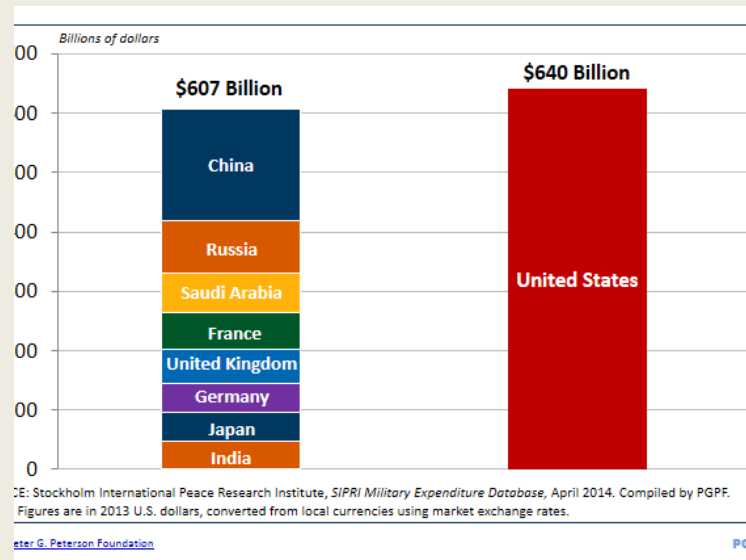
But I don't agree that the core problem is a decline in fiscal democracy, evidenced by pre-committing future revenues & outlays.

Several responses, but the main one is: You can't have well-functioning fiscal democracy if you don't have a well-functioning democracy.

Also, pre-commitment is sometimes useful, and only marginally associated with the political sclerosis that Gene rightly deplures.

Of course the past matters – it shapes expectations, interests, etc. – but just how big (or small) a piece of this is the inertial default setting of "automatic" rather than annually discretionary?

The case of military spending



Military spending is also a huge long-term fiscal cost. Will it actually shrink slightly? There are always several wars that many in Washington want to fight.

With our military-industrial complex, national glorification of war & the military, lack of any perceived need to finance wars, Congressional pork-barreling, etc., this is a huge source of bloat even if on a stable path.

A quick optimistic note: awful though the sequester was/is, the Republicans' unexpected willingness to swallow military budget austerity was genuinely encouraging for the future.

The case for pre-commitment in retirement policy

It's widely agreed that millions of Americans don't, & by themselves won't, save enough for retirement.

Some degree of pre-commitment is needed, in order for people to have actual & perceived retirement security.

This is a vital government function that all of our peer countries do, too.

Rising life expectancy and more expensive healthcare* are rightly treated as indicating that, all else equal, we should spend more on retirement policy than if these trends weren't present.

Does that mean we're getting it just right? Of course not, but ...

*While people are living longer, their capacity to perform physically demanding jobs often still declines by age 65-70. And while healthcare cost growth reflects incentive issues, technological advances are indeed improving feasible care.

Where & why we might be going wrong in retirement policy

I agree that automatic built-in growth can make it harder to fix things.

We have actually or implicitly indexed Social Security & Medicare for inflation, wage growth, rising healthcare costs, etc., but not so much for other factors that might support automatic growth curtailment.

It surely would help to have better-designed automatic adjustments, plus policies to address undue healthcare growth. (Single-payer??)

But the core problem is political. Seniors vote far more than anyone else, & they are far closer to being single-issue voters than anyone else.

Put things up for grabs politically every couple of years, and the problems might even get worse.

Two sobering income tax examples: extenders, the expiring Bush tax cuts (which, through agenda-setting, arguably *reduced* fiscal democracy).

Good fiscal democracy without good democracy?

Why don't we do more about childhood, social investment, and mobility?

Because no group with political clout actually cares about these things.

The core problems are political, not based on budget rules or even (primarily) the burden of inertia.

This creates a big problem when Gene, or I, or anyone, proposes what we consider improvements either in substantive policy, or in where the burden of inertia is placed, or in budgetary & procedural rules, etc.

Given the politics, “who will bell the cat”? And who will then make sure the bell stays on?

Some of the main political problems

My list includes:

- rise of the super-rich and plutocratic government,
- business and financial interests' almost unopposed clout,
- lack of campaign finance restrictions,
- complexity & low information,
- low voter turnout (disastrous given the voting paradox & differential "consumption" intensity from voting),
 - natural (& to a lesser extent engineered) gerrymandering, e.g., reflecting small state bias in the Constitution & urban residence patterns,
 - an unworkable political structure in which the president has perceived responsibility without commensurate domestic powers,
 - the legacy of slavery and racism,
 - whatever psychic, sociological, or historical factors explain the rise of the extreme right & its capture of a major party. (Which does not imply praise of the other party.)

Even though it's February, let me try to be more constructive

Leaving aside the “who will bell the cat” problem, I agree that healthcare spending & retirement policy must (somehow) be put on more sustainable paths.

I'd also like, e.g., to enact a carbon tax & a significant inheritance tax, phase down tax expenditures (including basis step-up at death), & either wholly replace the income tax with a progressive consumption tax or scale it back & enact a VAT.

I also favor, e.g., better budgetary reporting that has a more long-term focus – although I'm not sure how much it will help.

But we can already afford to address childhood, etc. – interest rates are low, & the economy is still below full employment.

In sum, while we agree substantively about a lot, I don't view “fiscal democracy” (measured by current law on the books) as a core concern.