

**This webinar was given on Friday, April 16, 2021 by Eugene Steuerle, an Urban Institute Fellow and the Richard B. Fisher chair at the Urban Institute.**

Scott Leland:

Hello, everyone, and welcome to today's seminar. My name is Scott Leland. I'm the Executive Director of the Mossavar-Rahmani Center for Business and Government. And we are thrilled and delighted to be able to welcome Gene Steuerle as our guest speaker today. Before I turn it over to Roger Porter, who will give our official introduction to Jean, I want to mention that in order to submit questions, please use the Q&A function at the bottom of your zoom screen. And we'll get to those after Gene Steuerle has given his initial introductory remarks.

Scott Leland:

We're also very pleased to have with us, Tom Healey, who is a longtime friend of Mossavar-Rahmani Center for Business and Government and one of our senior fellows. I'm going to turn it over now to Roger Porter, who is the IBM professor of business and government at the Harvard Kennedy School. He is twice over a former director of the Mossavar-Rahmani Center for Business and Government. And he's had more than 10 years in senior positions in the White House serving multiple presidents. So with no further ado, Roger, over to you.

Roger Porter:

Well, thank you very much, Scott. It's a real privilege to introduce Gene Steuerle, who is widely viewed as characterized by neutral competence. This is a very difficult status to achieve in these partisan times where people's motives and preferences and priorities are questioned routinely. [inaudible 00:01:42] had a wonderful phrase, issue networks, to describe the way in which much lasting public policy is fashioned in the United States. Issue networks consist of individuals who are considered knowledgeable, skilled, and wise in a particular arena of policy. They know one another, respect one another, and play an important behind the scenes role in shaping the thinking and actions of elected officials. Gene Steuerle has been a long standing member of the issue network that has been active on tax policy in the US for the past 40 years.

Roger Porter:

He and the late David Bradford crafted much of the intellectual work that laid the foundation for the Tax Reform Act of 1986. Tom and I both had the opportunity of serving alongside Gene at the US Treasury during those years. Gene is one of those people whose views on tax policy are sought by others from all points on the political spectrum because Gene is rightly considered to be objective, informed, and wise. The second issue network of which he's played a prominent role is that of Social Security, a third pension policy, a fourth, the federal budget, and in particular, the role that entitlement programs have increasingly come to play on the spending side of the budget.

Roger Porter:

Individuals who hold elective office and who vied for the attention of the press and social media often seek credit for the policies that they helped develop. There are others whose names are less frequently in the press, but who do two types of hard work. First, raising the warning voice about trends and developments that need to be reversed or attended to. They're like watchmen on the tower, always looking at the far horizon to identify dangers, so that appropriate preparation can occur. The second kind of hard work is that having identified these troublesome problems, they diligently work to

understand their true dimensions, and to develop a viable range of options to help address these challenges. Both types of hard work are precisely that; hard and work, difficult and requiring much effort.

Roger Porter:

Gene has been doing this hard work for a very long time, and in the process has developed a host of admirers from our major political parties, who seek his insights and to emulate his example. Now, at least in his personal life, he is one of the most generous and selfless people whom I know. He spent a good deal of his life thinking about advising and practicing philanthropy. His life truly as a life well lived. We're very fortunate to have him with us this morning, I look forward very much to his presentation.

Gene Steuerle:

Thank you, Roger, that was indeed a very kind introduction. And you are well aware that it's a mutual admiration society, both for you and Tom, so that I won't have time to do that long introductions. Well, there are three things that I'm hoping that you, the people who are listening in, will get out of this talk. It's a long talk, there's a lot of numbers that will be available afterwards. But the three things I'd just like you to remember, is that there's really no excuse for not dealing with what I'm going to call the long term budget issues, which actually show up in long term deficits. Whatever we do in the short term, whatever the opinions are as to what we can do to provide stimulus to deal with a pandemic has very little to do with such things as keeping sane Medicare on an unsustainable basis. Putting out a sustainable basis helps not only in the long run, it helps in the short run. That's issue number one, is that there's really no good economic reason not to deal with the long term issues.

Gene Steuerle:

The second thing I'd like you to remember is that this is what I'm working on now, particularly in a book with a co-author is that what is getting squeezed now are programs for the young programs for people of color, and programs for working families. And I'm going to try to show that to you with a lot of numbers. That's one of the budget consequences of this failure to deal with these long term issues, again, regardless what you do about the short term.

Gene Steuerle:

The third thing I'd like you to think about is how all this plays out for President Biden. He's really facing a very tall and growing wall. Or if you want to, I can mix my metaphors, a set of headwinds that are working against what he apparently is trying to do in his current budget proposals, which try to expand spinning a number of areas that have been neglected for a long time. But don't do so in a way that yet deals with the deficit, or for that matter, even permanent or temporary in nature. So if remember those three items, I'll be very happy that you attended my talk.

Gene Steuerle:

I start off by talking about a tale of two deficits. The one deficit you might think of that it's the highest in our past history was the extent to which debt rose during World War II. If you look at this graph of debt to GDP, you'll see that after World War II, that debt declined substantially for about 30 years, from about 1945 to 1974. It declined by about two to three percentage points per year as a share of GDP through a variety of reasons. But it just shows that you could have significant economic growth, which we did have then, in a period in which the deficit is planning declining. If you look today, where we have

a current deficit, just about the same level as it was at World War II, you'll see that it's scheduled to rise perpetually into the future. This is not your granddaddy's deficit.

Gene Steuerle:

An item that I developed in a previous book called *Dead Men Ruling* was just to show the extent to which mandatory spending and interest on the debt absorbs an increasing portion of our budget. This graph is nothing more than the share of revenues that are left, after what is spent on what is called mandatory spending our entitlements. Those are largely retirement and health care, but there are some others and interest on the debt are taken into account. And as you'll see, we dip below zero at one point and we're going back towards zero, which means that any discretionary item, or any appropriation is basically being paid for out of appropriations. Sorry, out of the deficit.

Gene Steuerle:

Now, to distinguish between your granddaddy's debt problem, our debt problem, I've drawn this very simple graph that, again, is in this former book. The graph on the left shows you what the budget situation was, at the end of World War II. If our budget offices such as the Congressional Budget Office had actually laid out the projected spending and revenues that would be forthcoming into the future, they do that now. They'd actually didn't do it much then. But we developed a long term budget. Well, it turns out that revenues would rise. That's the blue line on the left hand graph, they rise as the economy grows. Most spending is discretionary, so it has no automatic growth. In fact, often it ends.

Gene Steuerle:

In particular, at the end of World War II, the troops were coming home and the defense budget was going to decline enormously. So what you can see is the long term budget in this left hand graph, has built in enormous surpluses into the future, even though at the current point during the war, it's running significant deficits. And in fact, the budget problem if you examine macro economics in those days, the big budget problem people were addressing was how do we avoid those surpluses, those growing surpluses from creating great limitations declines in economic growth into the near future?

Gene Steuerle:

The budget we have today, which is the right hand graph is automatic spending, that spending in mandatory programs particularly again, retirement and health are scheduled to grow faster than GDP, faster than existing spending, and faster than revenues. And so what we had built in is this deficit that continually grows into the future. That's a problem we've now had for at least a couple of decades, if not more. It's come about largely because these mandatory programs which I showed you in a previous graph are absorbing larger and larger portions of the budget. And those mandatory programs have automatic growth built in them, unlike the discretionary programs, that I alluded to earlier, are the ones that often are the ones that most help people of color, young people, and working families.

Gene Steuerle:

The next slide. So I'm just got to try to bring in something with which I guess you're quite familiar given that you're sitting at Harvard. And that's some of the debates that have come up and presented by Larry Summers, as well as his colleague, Jason Furman, both of whom I've worked with a times in the past. So the first argument very simply, that they put forward was that debt is cheap. Interest costs are low. In fact, you could argue that in some cases, they're zero. And at very low borrowing costs, if we invest in programs that produce a higher return than that low borrowing cost, we should borrow more. That's an

opportunity. That's the first argument they made. We can talk about some of the limitations that argument in fact, we will. But it's hard to say that that's wrong, that if you can borrow at zero cost and invest in something that produces you a positive return, that you shouldn't arbitrage that market.

Gene Steuerle:

More recently, Larry Summers has put forward an argument in the posted other places that the Biden administration may be borrowing too much and too quickly. And then he's written some subsequent articles which said, well, his main concern is that, that borrowing is not really going for investment. And we might not really need it to stimulate the economy. Those two arguments, in my view, are perfectly consistent. You can disagree with them on many fronts. And I will talk about some things they don't get into, but it's consistent to say if you can borrow it as low cost, go ahead and do it if you invest well. If you're not investing well, then you better be careful about how much spending you might be doing. However, those debates largely ignore some of the things that I'm getting into in my talk, which is that the long term balance that I mentioned earlier enhances growth, no matter what the short term policy.

Gene Steuerle:

So regardless of whether we borrow more currently to spend currently, getting the long run budget into order will itself enhance growth, in part for a variety of reasons, which I have in the next two bullets, which is the continued growth in weak policies are very difficult to resend. So if we have unsustainable growth in health care, because we're spending too much on health care, that's not very efficient, and we build it into the system. It builds that inefficiency into the system. That's an argument for tackling this long term budget problem no matter what. Finally, just the whole notion of having free money. And this is both the question of monetary policy. And fiscal policy creates enormous economic and political consequences beyond just what the government can do, because it's not just the government that wants to get its hand on this low cost money. It's every lobbyist in town who wants to advocate for fiscal policy. And it's every high wealth individual who decides, "Gee, if I can borrow zero and go out and buy some other firms or arbitrage the financial markets, I can do that as well."

Gene Steuerle:

I'm not going to go through all of this slide, but you can look at it later. Economists have served as apologists for a long time for what I call the giveaway side of the budget. If you think about it, all of us like to be on the side of any budget, whether it's a household budget or it's a national budget, where we give away money. And if you're a politician, you certainly want to be on the giveaway side because that's where you can claim to be doing something for the public. As opposed to the takeaway side, the takeaway side involves tax increases or spending cuts. The giveaway involves spending increases and tax cuts. I'm sorry, did I say that right? The takeaway side involves spending cuts and tax cuts and spending increases. So what are some of the... All these theories, I can go through them, they at certain levels make some sense.

Gene Steuerle:

There are certain circumstances and whether it's Keynesian stimulus or supply side economics or borrowing when costs are low, or even, although I don't like it very much, even modern monetary theory might make sense. But some consequences of these theories often are dealt with. And part of it is, in perhaps the principle and I'll just lay out here is that anytime you accelerate, whether you accelerate because you're approaching a hill and you need to put more gas on, it means at some point down the road, you need to decelerate. And most of the advocates for these giveaways are under these

theories, argue for them, basically, on the acceleration side, and they don't deal with what we're going to do about the deceleration. They also don't fully acknowledge the extent to which they continue to give politicians an excuse not for dealing with these various issues.

Gene Steuerle:

And there's some other similar problems that come about because we, I, myself, as an economist, our profession tends to really want to tell politicians what they want to hear. And the bad news stories, well, they come along, but they come along later and in limited quantity. So what are the revealed preferences in today's budget?

Gene Steuerle:

Well, I would argue that, largely speaking, and I'm going to stereotype a little bit here, but for the Republican side, they're on investment, increased investment, which is generally a good thing. But also in terms of protecting ownership by the rich, because those are the people who have the assets and are investing and we'll help them even more. On the Democratic side, it's really not for investment in people or even in things like education, it's mainly in consumption for everyone else. So this is not a negative comment. The income supports we provide, for instance, in retirement, which I'll go into detail later, largely provide consumption and retirement, we want to have adequate and consumption. But what I want to get into and we'll get into, again, as I say in the next slides, is the extent to which they they start squeezing out other things.

Gene Steuerle:

So just as evidence behind those answers, this slide just shows you that almost every measure, we have the tax and capital income, we've basically cut the tax rate in half. And in terms of the estate tax exemption, the amount of wealth, we don't tax, the estate tax, we've enormously expanded it. So almost every rate of capital income tax has been reduced. And that's essentially been a 40-year trend, at least since Ronald Reagan, although you might even go back further, in terms of cutting the taxes on income from capital. Again, there's a good argument for not having these rates too high. But the question is, is that the only objective of government and its tax policy?

Gene Steuerle:

If you look on the issue of Social Security and Medicare, which we'll see, and as I say, I largely, although that entirely it's not perhaps not fair to associate this with Democrats in terms of police trying to protect them. What this graph shows you is the lifetime value of Social Security and Medicare benefits that are provided to a couple, a typical couple in retirement. You'll see in 1940, it was a limited amount. And those benefits grow over time. Today, a typical couple retiring, it's about a million dollars in lifetime benefits, using a discount rate of 2% real. For millennials, that scheduled increase in lifetime Social Security Medicare rises to about two million dollars. You'll see that the revenue number, the lifetime Social Security and Medicare revenues that we are paying into the system are never sufficient to pay for this system.

Gene Steuerle:

So this is perhaps the primary example of this trend towards trying to finance and spend an enormous share of the budget toward increasing consumption for individuals, particularly when they're in retirement. This is just another graph, another way of looking at the replacement rates. Sometimes in social security, we talk about the extent to which Social Security is going to replace your annual income.

Here, I've converted this replacement rate into how much does Social Security and Medicare on a lifetime basis, replace lifetime income? And you'll see with this blue line, that that replacement rate continually goes up. It's continually gone up because of social security benefit increases are automatic. It goes up because people live longer retirement. And in the future, it continues to go up because we have this very unsustainable rate of growth in Medicare on top of everything else. That replacement rate continues to go up over time.

Gene Steuerle:

And why are you going to spend sometimes on why we need to spend more for these these elderly programs is that we're getting much older as a population. And so I want to pose the question of whether we're getting older or we're getting younger? I have a little graphic that I'm going to show you. But basically, the gist of my argument is that when we live longer lives, it actually means in many ways we're getting younger, that that increased health, that basically leads to these longer lives probably means that we're getting younger on average, rather than older as a population. However, if we have fewer children, if the number of workers to the number of beneficiaries declines... In fact, we do get older because the share of the population that will be in their last 10 years of life for the last 15 years of life, will actually increase over time. So let's see how this actually plays out when we look at the numbers.

Gene Steuerle:

This shows you the expected retirement years at the earliest retirement age, which used to be 65. It is now 62. You'll see for a typical couple back in 1940, when Social Security was first established, a typical couple would expect to get about 18 years of retirement benefits. If you look currently, a typical couple of delegates close to 30 years of benefits. That's for the longer living at the two. And that number again continues to go up into the future, largely because the earliest retirement age, not only hasn't been indexed for life expectancy, but as I say it had at one time decline in the 1960s down to age 62.

Gene Steuerle:

Now if we look at the question of whether we're getting younger or older, the top line, the top black line shows the share of the population that is. It is projected to be age 65 and older, and you'll see it decreases quite enormously from about 4% of the population in 1900, up towards over 25, only gone 30% as we move toward the future. However, if we asked the question, what share of the population has 15 years or less of life expectancy? What you'll see is that, at least up to today, there's some increase from 1900 to about 1940. This is the middle line. The 1940 to just about today, there's been actually no increase in the share of the population that's basically has 15 years or less of life expectancy. Now begetting about today, actually a few years ago, the baby boomer started retiring and you do have a blip up. This actually occurs from about 2008 to 2035 or so. You have an increase in the share of the population with 15 years or less of life expectancy.

Gene Steuerle:

But at that point, the baby boomers have retired. If the birth rate would stay at about two children per man or two children per woman, you would actually find that the share of the population that has 15 years or less of life expectancy doesn't go up in the future. If we try to solve this problem, how do we deal with people in their last years of life? And I'm using 15 years as an arbitrary number. You'll see that it's a much less serious problem than if we address the issues, what we have to do about the share of

the population that's age 65 or older. So it's not clear that we're getting as old, as many projections say when they simply use numbers like that up share the population age 65 or older.

Gene Steuerle:

So who and what's getting squeezed? Well, it's basically as I mentioned earlier, it's mainly other domestic spending and programs to promote equality of opportunity. So let's go on to the next slide here.

Gene Steuerle:

Here's a set of graphs that I have recently developed, which shows the share of domestic spending that basically goes for Social Security at healthcare, and then the share of domestic spending that goes for everything else. Most programs for children, education, most of the functions of government from transportation to housing, to running the IRS. And the blue bar shows you the change in the share of GDP that's spent on the increase in the share of GDP that's spent on Social Security and Medicare. And you'll see that blue bar under every president, essentially, perhaps other than Ronald Reagan, has gone up and gone up significantly over time. Now, again, this is an increase in the share of the total income in the economy that we continue to spend on Social Security and Medicare.

Gene Steuerle:

And if you look at the very last blue bar, you'll see that that's scheduled to rise even more into the future, partly because these baby boomers are retiring, partly because health care, it continues to grow at a very fast rate, partly because we haven't wage index social security. And partly because all those programs keep growing on a larger and larger and larger base. So a 2%, or 5% growth on a big base makes a lot more of a difference than on small base. If you look at the orange bar, you'll see that since the presidency, essentially, of Nixon and Ford, that the share of domestic spending, as a share of GDP has been declining under almost every president. Now George W. Bush is a little bit of an exception. But in some other work, I've shown that in many ways, he was the most profligate president in our nation's history, in the sense that we had domestic spending, entitlement spending, defense spending increasing quite rapidly, while taxes were being cut.

Gene Steuerle:

So there's a modest growth in other domestic spending, and what example. But as you can see, this is the shift that's been taking place in our country for well over 40 years in terms of the decline in domestic spending, other than for Social Security and Medicare. This is just another way of showing this. The previous graph, I was showing these numbers as a share of GDP. In this graph, I'm showing just the Social Security Medicare and Medicaid and its growth in real terms. In terms of real domestic outlays, its share of the growth and real domestic outlays which would grow just simply because GDP is growing. And what you'll see is that if you go into the last two bars, that up till about 1980, they were absorbing about Social Security Medicare, and Medicaid were absorbing about 40% of the real domestic outlays growth. In more recent years, from 1980 onward, they're absorbing about 80% of the real growth declining, of course, as a share. I mean, other domestic spending, of course, declining as a share of GDP.

Gene Steuerle:

So how about if we take these same types of numbers, and we try to project them into the future? Well, this graph shows you a comparison of how much social security and major health programs are scheduled to grow relative to the growth in revenues. Now, often, when we talk about what's possible

for government, we ignore the fact that economic growth is the main source of the revenues and the resources we will use into the future. So if you project out 10 years congressional Budget Office numbers, you'll see that revenues are scheduled to grow by a little over a trillion dollars, I'm comparing 2019, by the way, to 2030. So this is what we would have in 2030 versus 2019, we'd have another trillion dollars in real revenues. There's no inflation in here. But if you look at how much social security and major health programs are scheduled to grow, they absorb all of that revenue growth.

Gene Steuerle:

Remember, in my previous slides, I was showing you the share of spending that went far for various programs here, I'm sure the share of revenues that are committed for these various programs. Other programs, I have very little in the way of commitment, as net interest also grows because of the deficit. And by the way, this graph was done based on an August 2020 set of numbers that the Congressional Budget Office presented. So this is after \$3.5 trillion in pandemic spending. This is still a comparison of 2030 to 2019, even after that 3.5 trillion was spent and how much is committed for programs other than Health and Social Security. And of course, you might quickly surmise why the 3.5 trillion in pandemic spending doesn't have a long term effect. And that's because most of it has been temporary.

Gene Steuerle:

So how does this relate to the income and wealth distribution, which in this book I'm currently trying to work, I'm claiming is also a related issue that's often treated as a totally separate issue. So these are against some Congressional Budget Office numbers on the extent to which income distribution has gotten much worse. And again, not going into much detail, what these graphs will show when you have time to look at them, is that transfer programs make a major difference in the extent to which income after transfers and after taxes has gotten much worse. In fact, there's some Congressional Budget Office numbers and some Treasury numbers that argue that in point of fact, the income distribution after transfers and after taxes may have not gotten much worse, except perhaps at the very, very top over the last 40 or so years.

Gene Steuerle:

But what I want to distinguish here, and it's very important, is that they have gotten much worse on a market basis. So the market value of income has become much more unequal. Government transfer and tax programs have tended to equalize some of that. But the dilemma for that is you may still, and I still have some concern about what's happening to market income, particularly because that's affecting the wage levels, for instance, that workers see when they actually work. It's not clear, for instance, if you care about mobility, that saying that you, your generation of students will have much higher social security benefits than your parents did. That's a sign of upward mobility. We usually compare whether your wage levels are going to be rising relative to that of your parents.

Gene Steuerle:

Now, one reason again, I do not want to appear to be stating that I don't care about the elderly, because I'm showing you these numbers on Healthcare and Social Security. I'm just arguing for a balanced approach to what government may do. And in point of fact, Medicare and Social Security have been among the most successful programs we've had as a nation. And they came along when the elderly were among the poorest members of parts of the population. This graph shows you that elderly headed households in 1979 had a much higher poverty rates, are occupied in this case, a much larger share of

the bottom two quintiles of the population, are much more likely to be in those two quintiles than non elderly headed households.

Gene Steuerle:

It turns out now when you go to 2017, it's just the opposite. If the elderly would comprise the same portion to the bottom two quintiles as every other group, they would be 40% of the bottom two quintiles, that is they would be 40% of the elderly, 40% of the non elderly would be in the bottom two quintiles. But quite a fact, now we've gotten to the point that only 30% of the elderly are in those bottom two quintiles, whereas households with children, and even non elderly [inaudible 00:32:56] households now occupy a larger portion, than do elderly households. So this is just a simple argument to say, a balanced approach to how we distribute the programs and the benefits of government should be addressed to where we think the needs are the greatest and poverty is among the ways of measuring those needs.

Gene Steuerle:

Another aspect I mentioned earlier, the inequality of wages. But of course, what we also know is that the inequality of wealth has itself become much, much more unequal. I would simply like to suggest here, that one of the major reasons in recent years is simply that these very low interest rates have provided what I'm calling free money, almost free money to people who can borrow and people who have access to a lot of that borrowing, with the one exception perhaps of homeowners, the group that can borrow the people that have other wealth. And so the rich, often through private-equity firms or arbitrage firms, other things borrow at close to zero rates, if they can buy even a less than average return stock, and can leverage them the right way they can actually increase their wealth. And this is one of the other games that's being played with this current fiscal and monetary policy.

Gene Steuerle:

And this is reflected by the way, another study I've done which basically suggested that we've had a huge bubble in wealth valuations in point of fact, the measure of household wealth to GDP since 1990 has never gone, never dropped below the levels it was below 1990 and continues to rise to very, very high levels. This is an international phenomenon as well. I don't have time really to get into this in more detail, but this is just another play on how our current fiscal and monetary policy is having an effect on who owns wealth in our society.

Gene Steuerle:

Here's just a little bit of a political aspect or examination, is are the democrats or the republicans winning when you trace through this party, our longer year history of what's going on with our budget? Well, you could argue that they both won and they both lost. The top gray line here shows you federal domestic spending as a share of GDP. And what you'll see is that if you take out the big blips from the Great Recession and for the current pandemic, you'll see that domestic spending as a share of GDP has in point of fact, been going up over time. So we are getting larger government. So you think, well, Democrats might be happy with that, and Republicans not so happy. Again, I'm stereotyping when I say Democrats or Republicans, but it makes it easier to explain.

Gene Steuerle:

If you look at the bottom line, the blue line, what you'll see is that this domestic spending as a share of GDP, that's for items other than Social Security and Medicare, something I've already explained in some

detail, has been in substantial decline. So are republicans winning and cutting back on appropriations and the discretionary side of the budget? I guess you could say yes. And there, you could say democrats are losing. Go on to the next slide.

Gene Steuerle:

Here's some figures that I've got, it was actually by Tom Murer and some others. But Tom Edsall, actually is the one that first showed this slide. If you look at the last election, and it turns up that Republicans are now winning the counties that have the higher proportion of low income voters, and the republicans are losing our excuse me, the Republicans are winning, those counties with low income voters, Democrats are losing them. And another little play on this is that the share of democratic voters with no college experience has been falling sharply, whereas the republicans are driving a larger, larger share of their votes from the population of the people are the voters without college experience. So this is a bit of a twist on what you might think of, is the traditional Republican and Democratic constituencies.

Gene Steuerle:

This makes, if you want to think about it for a strange set of bedfellows, so what if Republicans and Democrats rot? Well, they've gotten larger governments as a share of GDP, but they've gotten smaller government for everything else other than retirement and health care. They've got many supports for investment, which as I say, one can make a case for it as a way of encouraging growth, but mainly for the rich, whereas they've got mainly income supports for consumption, but not investment. Not programs like education, not wage subsidies, other things like that for everyone else. The Democrats, as a result have become a party of elites, without a majority of White, working class, elderly, in poorer region voters. And the republicans have become a party of business interest, beholden to cultural warriors, demanding evermore intrusive government. As I say, a strange set of bedfellows.

Gene Steuerle:

Finally, I just want you to think about how this relates to what President Biden is actually trying to introduce. If you look at his various proposals, he wants to pursue an opportunity agenda. But he could only raise so much revenue from the rich, he's promised not to tax anyone with less than 400,000 of income, which in some recent statements has been reduced to 200,000. He doesn't really want to increase taxes or ask much for the middle class either. So like his predecessor, he fears asking anything for most voters, even though we have an unsustainable budget in a whole variety of ways. I should say in terms of the politics, moving from unsustainable to sustainable policies, when we run our numbers, we mainly identify losers. You see an unsustainable policy, if we don't identify who's going to pay, those players are unknown. Are they you in the future to higher deficits? Are they now, through higher educational loans for higher education?

Gene Steuerle:

It's not well stated. When you actually enact policies to make something sustainable, you identify losers, and that presents a real dilemma for politicians who then come away not operating or not appearing to operate on the giveaway side of the budget, but on the takeaway side of the budget. That's largely misleading because those costs are built into the system. We just haven't identified who's going to deal with them. I think President Biden also fears enhancing what he and many others to believe to be an existential crisis, as shown by the attack on the nation's capital, that he feels that he has to show the

public, he can do things for them by expanding economic growth. And I think that leads to his fear to tackle these long run issues, at least at this point in time.

Gene Steuerle:

So he attempts to pay for some newly legislated increases, mainly by saying he's going to increase corporate taxes and some other tax increases that wouldn't appear to affect middle income voters very much, but not for the large, huge unfunded increases in spending that are already legislated and legislated to rise much faster than revenues. So again, a lot of data, I hope you'll look at it, I just, again, hope you walk away with three thoughts. One is getting the long run budget into order is efficient under almost any model that you can possibly think of. Two, think about where this extraordinary squeeze is occurring, because among the people who are being affected are you, who are those younger members of our audience. And finally, think about this when you read about stories about President Biden and what he's trying to do, and what he fears he cannot do to deal with this issue. Thank you.

Roger Porter:

Hey, well. Thank you very much Gene for a fabulous presentation and set of slides. I'm going to give Tom Healey the first question and then turn to the questions that you have posed. So if you have questions for Gene, that you would like to enter into the Q&A portion on your screens, that will help to facilitate that. And let's turn first to Tom Healey.

Tom Healey:

Gene, that's fabulous. It's an overwhelming amount of data presenting your arguments. So coherently, I'm going to try to take a little piece to pick on because I think it's representative of the whole and that's Social Security. A number of people have for at least a couple of decades, been arguing that Social Security, a handful of small adjustments today can get social security back and at least balance. And what happens is every year that those aren't changed, and it hasn't been changed, since the three of us were down in Washington, in 1983. That every year the hole gets bigger if it doesn't get filled in.

Tom Healey:

There have been a lot of efforts to try to come up with a compromise. But everything I see on the political side today, and consistent with what you've been arguing has been for modest to plus more than modest increases in Social Security benefits, which are going to make that hole larger other than tax increase in broadening the tax base that social security's applied to. And clearly in the house, there's been a substantial amount of legislation for adding to the Social Security benefits. Will you take one, which is maybe an easy one to focus on your suggested problems, and the solutions that are coming up politically, or going in the wrong direction? And are for reasons you've outlined politically very appealing. Do you have any thoughts on how to reverse it to take that one to at least begin in solving your three problems?

Gene Steuerle:

Well, if I could get rid of some of the lobbyist, I think I could solve it fairly easily. By a lobbyist stay, I'm referring to the fact that in lobbying, you always want to establish the best baseline for what you're arguing. So if you can have a program such as Social Security, and Medicare that have substantial growth built into it, I can argue that cutting back from whatever say, a 4% growth, a real growth rate to a 3% growth rate would be a big cut in benefits, what's actually not a cutting benefits for anybody currently, it's only a cut in the rate of increase in benefits for somebody into the future.

Gene Steuerle:

In the education budget, by the way, if you just get an inflation increase, that's called an increase. So you have this weird world, we're going from zero to one and in education is called an increase. Going from four to three in Healthcare or Social Security it's called a cut. And so the political language around what's a cut or increase is one of the things that I've actually tried to deal with, in part is I think the budget process has to put these items on a level playing field. So we could call a cut, a cut and an increase, an increase along the same lines. The lobbyist will fight against that, because the more you can establish a baseline, the more you can build automatic growth into a program at the highest level possible, the more you can argue that any cutback in those efforts would be a cut.

Gene Steuerle:

Now, the reason I say that maybe the language about the fact that small changes could make a huge difference has to do with this growth rate. So I showed you the slide where a couple retiring about 2015 gets about a million dollars Social Security and Medicare benefits and millennial couple is scheduled to get about two million. Some of your students on this program may be even younger than the millennials, and they're scheduled to even get even more. I asked them whether they really care what this for a couple, whether their benefits would rise to two million dollars. And along the way, we continue to add to their student debt, the student debt of any children they might have. We will provide them with a much in the way of support for home buying if there are loads of moderate income for retirement plans, whether they care about programs like Transportation and Infrastructure along the way, and whether the lifetime benefits they'll get before retirement are equally important to them?

Gene Steuerle:

And I would say, I'm guessing, you can take a poll, if you want to, that they would say, "No, I care about what we spend along life cycle." I don't want to extend this discussion too long, because I'm going to cut out questions. But there's also a social question. How far do we want to go as a society into putting so much of our resources into this retirement era? Maybe the three of us are bad examples here, because we've continued working past our early 60s. But for society as a whole, is it good that we now have people retiring for about a third of their adult lives? And do we want to extend that, especially when we have this declining number of children coming along, which means this work, the demand on workers to support that long, long period of retirement should continue? I wonder about that. And in his retirement or his work gets easier over time? Should we even be rethinking about our whole retirement structure in a much broader sense?

Gene Steuerle:

So do we want to build in projections going up 75 and 100 years into the future, scheduling things in the future that we think might already be wrong today, and for which we have no idea the way society could evolve if we don't try to structure it so that everybody retires for more and more of their lives? So there's a big societal issue that goes far beyond just the budget issues.

Tom Healey:

So just a half a sentence before we move to other areas. The way I describe this is my grandchildren, as well as yours, and Rogers, will have twice the real value of social security and health benefits 50 years from now, as we have today.

Gene Steuerle:

Well, I gave a comparison over about 40 years, but depending on your grandchildren, it's probably well, more than twice.

Tom Healey:

It depends on your discount rate.

Gene Steuerle:

It depends on your age versus your grandchildren's age.

Tom Healey:

Yeah.

Roger Porter:

Well, thank you very much. [Dick Light 00:48:27] has written an interesting question. He observes Gene, that your talk is chock full of excellent and helpful real world data. For those of us who have young grandchildren, who in 15 to 20 years will begin entering the labor force and paying taxes. How would you estimate the changes in federal income taxes that our grandchildren will need to pay compared with current federal taxes in 10 to 15 years, assuming a current income level of \$100,000, so that you can begin with an approximate current number?

Gene Steuerle:

At 100,000, I think you'll probably see some modest increases. My guess is, and this is really long term, but I'm guessing at some point, this country is going to have to face up to whether it deducts a carbon tax or value added tax. And that's probably the way that they would see that tax increase. I don't know how much they would see in the form of an income tax increase. It actually turns out that the middle income classes have also had relative tax cuts over time during the last 30 or so years as well. So I'd say modest on the income tax increases. I think high income in visuals are going to end up paying more one way or the other, I'd like to see it be done efficiently. And there are real questions about how high you can raise taxes on capital income without reducing investment.

Gene Steuerle:

In fact, another article I've written, and maybe I'm getting a little bit off your question, but just taxing the rich doesn't solve the problem of how to increase investment in society. So another issue I raised with my democratic friends is, yes, I personally think we should probably increase taxes on the rich, you don't have to agree with that. But if you do so, you've got to then ensure that those taxes which they would pay, and would not be saved, because the rich largely save a lot of their income, that that investment then takes place in other people. So government has to start figuring out a lot about how to encourage investment in other people, particularly, including these people who earn \$100,000. And to put more money aside into private retirement accounts are our other ways of saving. So we have a balance here as well, that we have to create on how to increase the investment and the wealth holding by your grandchildren.

Roger Porter:

Let me pose a question, if I may. You began your talk by noting that a lot of what government's success has been in making payments has been in revenues, has been the result of economic growth. And if you

compare the period from 1980 to 2000, with the period from 2000 to 2020, those two 20-year periods, I haven't looked at this closely, but we had about 1% more real growth per year in the 1980 to 2000 period than we've had in the 2000 to 2020 on average. What do you think the period from 2020 to 2040 is going to look like with respect to economic growth? Is it going to be more like the earlier 1980 to 2000, two decade period of time? Or is it going to be more like the last 20 years that we've had?

Roger Porter:

And what effect is that going to have? Because we've always had this argument, well, you can grow your way out of deficits, but you can only grow your way out of deficits if you're experiencing higher and higher levels of growth.

Gene Steuerle:

So to answer your last question, and back to your first one. But your last question is that growth can make you work your way out of a deficit. If you remember though, that very early graph I showed about comparing the old budget situation to the new one, where revenues grew faster than discretionary spending. In point of fact, you would work your way out of a deficit. And in point of fact, I used to make the argument all the time that it didn't matter whether the Keynesian's or the supply setters were right in the '60s or even the early '80s, because enough of the spending was discretionary, that the long term budget was in balance. The policy may have been good or bad, but the long term balance was there as long as Congress wasn't continually profligate.

Gene Steuerle:

In the future, if we don't deal with these current problems, this economic growth rate you're asking me about will be even worse, because we're not investing in people, we're not investing in their capacity. As I say, we're counting on basically getting investment in dollars to be held by the rich, who basically saved most of their income. We'd give them a tax cut it off, it means their wealth increases, but we're not increasing the wealth. And by wealth on one account, human capital here, which is the major portion of wealth by other people.

Gene Steuerle:

So I'd say on our current timeline, I don't see economic growth necessarily as is increasing much at all other than sort of recovery, like from a pandemic or recession. But one reason that I'm making the type of presentation that I do today, and that I'm writing on this, is I think if we actually get at these problems, if we start orienting our resources towards investment in people, not just consumption, not just the consumption the democrats want or the holding of investment dollars by the rich that the republicans want. And again, I'm stereotyping, excuse me, but if we really start investing in people, and in wage subsidies and retirement plans and helping first time home buyers, we really get at those issues, I think we can enhance our economic growth.

Gene Steuerle:

The history of this nation, I mean, and it's hard to prove empirically by just looking at the data. But it's very clear that when this nation became the richest nation in the world, almost exactly 150 years ago, by the way, it was because we invested more in education. Not for everybody. We weren't entirely inclusive, but we were more inclusive than almost any other nation on Earth. And that's how we became the richest nation on Earth. And so part of my story is, let's get back to thinking about how we can do that.

Roger Porter:

John Haigh has a question. He says he would be interested in your point of view of why there isn't more emphasis on federal spending as investment, such as in infrastructure versus consumption, where most of federal spending seems to be doing. Larry Summers, he notes has been adamant about the failure of this latest \$1.9 trillion bill and its effect on inflation, but also, that it tends to be focused less on infrastructure spending and more on other types of spending.

Gene Steuerle:

Right, I think Larry's giving a great example of that failure to look at the investment side of the budget. And this gets into a lot of the politics around distribution. So one of the ways we examine whether a policy is liberal or not, is we asked whether the distribution of the dollars are going to go more to lower than higher income families. I mean, I even did that a bit when I showed the income level of the elderly versus the non elderly in one of my graphs. I've done a lot of this over my own career. And Tom and Roger, you've done it, too, when you were in government where we ran distributional tables on who got the benefits.

Gene Steuerle:

Well, from the liberal side, their arguments are that, "Well, we need these monies, particularly for the poor. I agree with that, by the way for the poor, but then this actually gets to economic and academic research. We do a lot of studies by various organizations, including my own saying, "Well..." In point of fact, when we did this redistribution, in point of fact, said these people were actually often a little bit better off. When they had a little more money, they were healthier, and therefore, they could work longer. Or if they had a little more money... They did have this sort of investment byproduct, but almost none of those studies do it on a cost-benefit basis. I mean, I don't see how anybody can think of an extra year in retirement has the same investment effect as putting money into education. They're just different.

Gene Steuerle:

We wouldn't say that in terms of our private portfolios, we wouldn't say when we're investing in something as an individual, it's the same as when we went out and bought a better dinner. And so we have this dilemma that the fight in government tends to center so much on whether it's larger or smaller, are the distribution of the money, that it's hard to go beyond that debate, to the debate about how can you make programs more efficient or fair? Larry's example, in this recent debate was just one example, how well are we allocating the money? The Tax Policy Center that I helped co found, we try to get into a lot of these efficient issues. By the way, the efficiency and equity issues correspond. It's like, if I'm going to redistribute income, how can I do it, that might efficiently promote growth and investment? But it's very hard to get at that issue when the fight usually is over, more or less, who's going to get the money?

Gene Steuerle:

It's very hard to get to find out how can we do it? Well, and as I say, Tom, you and Roger know that well, from your experience in government.

Roger Porter:

Well, it is the characteristic of a great session that the time flies by. We have covered a great deal of ground. Unfortunately, our time has elapsed. Fortunately, however, this has been taped and will be

available on the Center for Business and Government YouTube channel by Monday morning, according to Victoria Groves, who's never wrong. I hope that the slides will also be available, Gene, for people to take a look at if they wish?

Gene Steuerle:

Oh, I may [crosstalk 00:59:16] little link into it for some other people as well.

Roger Porter:

Great.

Tom Healey:

Yeah. So Roger, we have them in the Center, so we can put them up too.

Roger Porter:

Excellent. Excellent. Because they're fascinating, and the more you look at them, the more questions that they raise. And so finally, on behalf of all of us, Gene, thank you for just an inspiring presentation to get us to think about the big issues that we're facing as a country over the next couple of decades. And the choices that we're essentially going to have to deal with as to whether or not we're going to make the pattern of investments that will help younger people or whether we're going to continue to pour more money into consumption largely for an older portion of the population.

Gene Steuerle:

If anyone wants to get my column or be in touch, if they sent an email to me and they can't find mine, perhaps send it to Tom or you, and you can forward it. Just send me their email and I'll put them on my column list or further discuss if they'd like to.

Tom Healey:

And depress us even more.

Roger Porter:

Well, it's called The Government We Deserve and it's a terrific column. I eagerly await it and read every time it comes in and devour it, and share it with others by forwarding it on, but getting on the actual list is even better. So if you would like to get on this, please, either email Gene, or Tom, or myself and we'll be happy to put you in touch. Okay, thank you very, very, much.

Speaker 5:

Thank you, Gene.