

Reform entitlement programs without increasing taxes

by Jack_Kemp

Believe it or not, federal spending has been stable at around 20 percent of the gross domestic product for more than 50 years, ever since it settled down after World War II. Conservatives have been relatively successful in holding down the growth of big government for the last half-century.

The bad news is that this will change over the coming decades. According to the latest projections of the Congressional Budget Office and the General Accounting Office, federal spending will soar by 2040 to close to 40 percent of GDP, or more. This is primarily due to our nation's big entitlement programs, Social Security, Medicare and Medicaid.

Add in state and local spending, and government in America at some point would be consuming more than 50 percent of GDP. The crushing burden of taxes and spending this implies will crater the economy, destroy any notion of limited government and strangle freedom of enterprise.

Unfortunately, even some conservatives are now saying that the answer to entitlement spending will require large tax increases. Some want to try to cut a grand deal between liberals and conservatives, Republicans and Democrats for huge entitlement cuts in return for tax increases. Nonsense!

Slapping two bad ideas together does not make one good idea. For those who call ourselves progressive conservatives, this would mean agreeing to a still massive increase in government spending to around 30 percent of GDP or more, along with an enormous tax increase.

In a path-breaking article in Barron's on Oct. 8, Peter Ferrara of the Institute for Policy Innovation and the American Civil Rights Union, offers a better way. Ferrara argues that the yawning entitlement financing gap is far too big to try to address with entitlement cuts, and tax increases would be counterproductive and unfairly burdensome for working people.

He argues that instead we need to think outside the box of our current entitlement structures and seek to reform them from the bottom up. Today's entitlement programs are based on outdated, late 19th century tax and redistribution models. Reform to modernize them for the 21st century would bring in much greater reliance on modern capital and labor markets to achieve the goals of these programs. Ferrara shows in the article how such reform can leave us with new programs that serve the current beneficiaries far better but require only a fraction of the government spending of the current programs.

For example, personal accounts for Social Security would provide workers with a much better deal and higher benefits than the current, old-fashioned Social Security framework can even promise, let alone what it

can pay. But such accounts are also enormously powerful in reducing government spending because they shift huge portions of such spending out of the public sector altogether and into the private sector.

The very thorough and comprehensive reform bill introduced in the last Congress by Rep. Paul Ryan, R-Wis., and Sen. John Sununu, R-N.H., would allow workers the freedom to choose to eventually shift their Social Security retirement benefits to private sector personal accounts. That alone would reduce future government spending by more than 5 percent of GDP, an enormous and unprecedented reduction, but in so doing would give workers a far higher rate of return for their retirement.

The accounts could then eventually be expanded at the choice of each worker to provide for private life and disability insurance to replace Social Security survivors and disability benefits. The accounts could even eventually be expanded to cover the payroll-tax-financed portion of Medicare, producing an annuity in retirement that could be used to purchase private health insurance that would be a much better deal than Medicare.

These provisions would reduce federal spending by well over 10 percent of GDP. At the same time, they would transform the payroll tax from a tax to a wealth-building asset owned and controlled within each family. What a revolution that would be for the personal prosperity of working people.

Ferrara advances a second fundamental reform concept building on the huge success of the 1996 legislation block granting the old Aid to Families With Dependent Children program back to the states. The welfare rolls from the old program were reduced by close to 60 percent nationwide as a result, a shocking success.

Ferrara argues that we could now block-grant the remaining major federal welfare programs to the states, as well, including budget-busting Medicaid, food stamps and even some housing programs. With these funds and broad discretion, we can build new welfare systems nationwide based on getting the poor into real jobs, real private health insurance with vouchers and even home ownership. This was the vision of Abraham Lincoln of a stakeholder society where everyone has a direct share of the American dream.

To pursue these reforms, Ferrara has helped establish a new Entitlement Reform Without Tax Increases Working Group. I suggest joining up with them, as I have.

Maimonides, the 11th century Talmudic philosopher, wrote that "the highest form of welfare is to prevent people from needing welfare." How very true.

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