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THERE IS NO GENERAL "ENTITLEMENT CRISIS"

In Coming Decades, Medicare, Medicaid, and Social Security Will Grow Rapidly, But *Other* Entitlements Will Shrink As a Share of the Economy

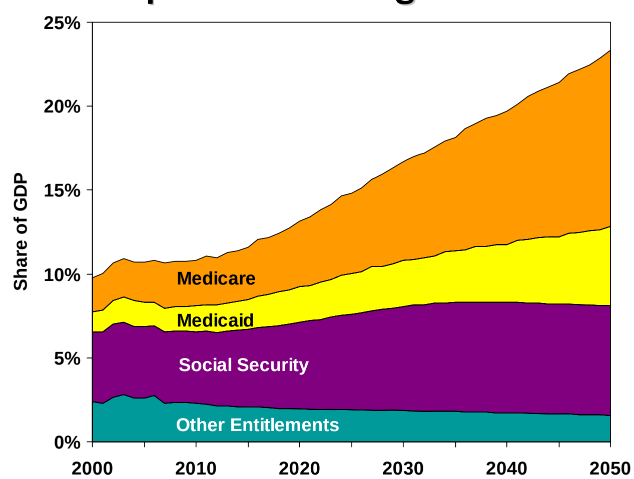
By Richard Kogan and Aviva Aron-Dine

As is well known, the United States will face grave budget challenges in coming decades. In a new set of federal budget projections through 2050, we find that if current policies remain unchanged, federal expenditures will increase substantially as a share of the economy and revenues will fall short of covering expenditures by increasing amounts, leading to exploding deficits and debt.[1] Long-term budget projections by other institutions and analysts reach the same conclusion.[2]

The primary sources of the projected expenditure growth are demographic changes (the aging of the population) and rapidly rising health care costs. Together, these factors will cause Medicare, Medicaid, and Social Security obligations to grow considerably faster than the economy.

FIGURE 1

Projected Medicare, Medicaid, Social Security, and "Other Entitlement" Expenditures Through 2050



Source: CBPP projections based on CBO data

Many pundits and policymakers, however, have mistakenly described the projected rise in federal expenditures as an "entitlement crisis." That phrase is problematic, as it can mislead policymakers and the public into thinking that the source of expenditure growth is *most or all* entitlement programs, rather than just the "big three." It may even cause them to think that all entitlement programs, regardless of their design or purpose, necessarily grow

[1] For details of our projections, see Richard Kogan, Matt Fiedler, Aviva Aron-Dine, and James Horney, "The Long-term Fiscal Outlook Is Bleak," Center on Budget and Policy Priorities, January 29, 2007.

[2] See Appendix 1 of Richard Kogan and Matt Fiedler, "The Technical Methodology Underlying CBPP's Long-Term Budget Projections," Center on Budget and Policy Priorities, January 29, 2007.

unsustainably. (Some journalists have gone further and have actually asserted that entitlements other than the "big three" are contributing to the long-run fiscal problem. A recent *Wall Street Journal* editorial, for example, blamed growth in "Medicare, Medicaid, Social Security, food stamps, and the like" for the projected rise in federal expenditures.[3])

In fact, not only are all other entitlements growing considerably more slowly than the "big three," but they are actually projected to *shrink* as a share of the economy through 2050 (see Figure 1). That is, if current policies in these programs are maintained, "other entitlements" will consume a *smaller* share of the nation's resources in 2050 than they do today.

Since these programs are growing more slowly than the economy, they are not contributors to the long-run fiscal problem. In the absence of legislative changes, revenues generally grow slightly faster than the economy. Program growth that is similar to or slower than GDP growth thus will also be similar to, or slower than, revenue growth. As a result, the other entitlements programs, which will grow more slowly than the economy, will grow more slowly than revenues as well. They thus will not contribute to the increasing mismatch between revenues and expenditures that is the cause of the mounting deficits and debt.

(This is not meant to imply that *no* program *should* grow faster than the economy. In particular, the rate of growth in Medicare and Medicaid costs per beneficiary is driven largely by the rate of growth in health-care costs system-wide, and it likely will prove impossible to reduce that rate of growth so markedly that these costs rise no faster than GDP. This is because the primary factor driving health care expenditures upward is advances in medical technology, which improve health and increase longevity but raise overall health care costs; it is inconceivable Americans will not want to avail themselves of such medical advances in the decades ahead. If, however, some programs *do* rise faster in cost than GDP, that growth will have to be paid for in some way. For a further discussion of these issues, see "The Long-term Fiscal Outlook Is Bleak," cited in footnote 1.)

The "Other Entitlements" Are Growing at Moderate and Sustainable Rates

That other entitlement programs, (programs other than the "big three") are growing more slowly than GDP can be seen first by examining the Congressional Budget Office's detailed projections for these programs, which are available through 2017. As Table 1 shows, CBO projects that over the next ten years, the "big three" entitlement programs will grow 39 percent after adjusting for inflation and population growth, and by almost 2 percentage points as a share of GDP. In contrast, the "other entitlements" in total are projected to be essentially constant after adjusting for inflation and population growth and to *decline* modestly as a share of GDP. In addition, as Table 2 indicates, nearly all individual "other

TABLE 1

Projected Growth in Various Program Areas, 2007-2017

	Real Per-Capita Growth (percent change)	Growth as Share of GDP (percentage point change)
The "Big Three"	+ 39%	+1.8%
All Other Entitlements	+ 1%	-0.3%

Source: CBPP calculations using CBO and Census data.

[3] *Wall Street Journal,* "Tax As You Go," January 5, 2007, p. A12.

entitlement" programs — for example, food stamps, refundable tax credits such as the Earned Income tax credit, and Temporary Assistance for Needy Families (TANF) — are projected to decline somewhat as a share of GDP.

TABLE 2	
"Other Entitlement" Programs Shrink as a Share of GDP, 2007-2017	
Program	**Percentage point change in share of GDP**
Civil Service retirement and disability	-0.06%
Refundable portion of Earned Income and Child credits (if 2001 tax cuts are extended)	-0.13%
Military retirement	-0.05%
Supplemental Security Income (SSI)	-0.00%
Veterans compensation and related benefits	-0.03%
Food stamp program	-0.05%
Unemployment compensation	+0.03%
TANF and related family support programs	-0.06%
Farm price supports	-0.03%
All other mandatory spending	+0.09%
All Entitlement Programs Other Than the "Big Three"	**-0.28%**

Source: CBO. Programs are listed in decreasing order by size in 2007.

Our projections also show that if current policies are maintained, "other entitlement" spending will continue to shrink as a share of GDP through 2050, simply due to the nature of these programs. Entitlement programs are, broadly speaking, structured so that as long as there are no changes in policy, they continue to provide an approximately constant level of services to a specified eligible population. (For example, if current policies are maintained, the Food Stamp Program will continue to provide an approximately constant benefit in food purchasing power to each individual who meets the program's income and other eligibility criteria.) Expenditures in entitlement programs generally increase at the rates necessary to continue to provide the same level of services to the eligible population.

In the case of Medicare, Medicaid, and Social Security, providing the legislatively determined benefit package to the specified eligible population will entail rapid cost growth over coming decades. Because health care costs are projected to grow substantially faster than the economy, providing the same level of health services will result in Medicare and Medicaid expenditures rising faster than the economy. Moreover, since the size of the elderly population is projected to increase substantially, Medicare and Social Security (and, to a lesser degree, Medicaid) also will need to grow just to continue to serve all eligible individuals who apply.

By contrast, in the case of the other entitlement programs, maintaining current services for the eligible population will *not* require rapid expenditure growth. In general, it will simply require that expenditures keep pace with inflation and growth in the size of the U.S. population. And since the economy is projected to grow more quickly than inflation plus population growth, the cost of these other entitlement programs will continue declining as a share of the economy. This is not because these programs are being cut but rather because, as the nation grows richer, the same level of per-person services can be provided using a smaller share of the nation's resources.

Of course, the "other entitlements" category includes a diverse group of programs, some of which will need to grow more quickly than inflation and population growth to maintain current services, and others of which will grow more slowly. In the aggregate, however, assuming that "other entitlements" will grow with inflation and population in the decades after 2017 is likely to be the best method of projecting the total cost of these programs. As noted, the Congressional Budget Office projects that over the next ten years, these programs will grow at rates virtually identical to the combined rate of inflation and population growth. Furthermore, the Congressional Research Service projects that civil service retirement and disability, the largest of the "other entitlements" programs, will grow more slowly than the rate of inflation plus population growth through 2050.[4]

Conclusion

As Figure 1 shows the other entitlement programs do not bear responsibility for the substantial rise in federal expenditures as a share of GDP that is projected under current policy. The growth rates of these programs under current law are moderate and fully sustainable. They should not be described as presenting or contributing to a "crisis."

Claiming there is a general entitlement crisis thus is not a useful simplification. Rather, it can leave policymakers with mistaken impressions about the nature and causes of our long-term fiscal difficulties and may lead them to inappropriate policies.

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[4] See Patrick Purcell, *Federal Employee Retirement Programs: Budget and Trust Fund Issues*, Congressional Research Service, April 6, 2006.