

GOVERNMENT COST PROJECTIONS HANDOUT HOMEWORK ASSIGNMENT

1. Review (Slide 4) the 20th Century cost of government (as defined) relative to US gross domestic product (GDP).
2. Review (Slides 5-6) the components of the direct and indirect (compliance costs) costs of government (cash, at all levels).
3. Review the component slides (7-15), and replace the question marks (?) with your own estimates (%GDP).
4. Replace the total government cost (Slide 17) question marks with your own estimates (from the previous slides).
5. Replace the question marks on the What Could Go Wrong/ Right slides (19-20) with your own estimates for 2025/2050.

GOVERNMENT COST PROJECTIONS ANSWERS TO ANTICIPATED QUESTIONS

- Data sources are substantially the millennial edition of the *Historical Statistics of the United States* and the Social Security and Medicare annual trustees' reports.
- The “2012.5” notation represents the midpoint of the first 25-year generation of the 21st Century (essentially actual data).
- Cost of compliance (indirect cost) estimates are my own, but are based on more than a decade of inquiry into the subject.
- The point of the session is to illustrate that we are inexorably headed toward an economy that is more government than private, not to impose a value judgment on that conclusion.

GOVERNMENT COST PROJECTIONS SUPPLEMENTARY COMMENTS

- Defense – defense cost 15% of GDP in 1953.
- PST – includes judicial and incarceration costs.
- Education – federal share has dropped 45% since 1980.
- Interest – consider the possibility of a debt-free country.
- SSA/CMS – see also the What Could Go Wrong/Right slides.
- H&W – consider the possibility of government rationing.
- Misc – jumped 2/3% in the Great Depression/Recession.
- Indirect – does not include benefits or opportunity costs.
- GDP – if overstated, govt cost projections are understated.

GOVERNMENT COST PROJECTIONS: WHAT COULD GO WRONG?

Consider the history of the cost of government relative to gross domestic product (GDP):

- Government at all levels (federal, state, local).
- Cash expenditures only (no provision for accruals).
- Direct costs are payments by government agencies (e.g. cash payments to retired public employees).
- Indirect costs are payments incurred by private entities in complying with government laws and regulations (e.g. fees charged by actuaries to prepare actuarial opinion letters).
- The total cost of government in the USA rose from under 10% of GDP in 1900 to over 40% in 2000.

COMPONENTS OF THE DIRECT COST OF GOVERNMENT (CASH EXPENDITURES)

- Defense (mostly federal, highly volatile).
- Public safety and transportation (police, fire, highways, TSA).
- Education (public only; federal, state, and local).
- Interest (when due on the national and other public debt).
- Social Security (OASDI cash to beneficiaries, plus expenses).
- Medicare (CMS payments to providers, plus expenses).
- Health & Welfare (Medicaid, public UI/WC, welfare, etc).
- Miscellaneous (public employee retirement costs, etc).
- Total (sum of the foregoing eight categories).
- Total direct: 8% in 1900, 33% in 2000.

COMMENTS RE THE INDIRECT COST OF GOVERNMENT (COMPLIANCE COSTS)

- The cost of complying with regulations (payments to your tax preparer, the value of your time, etc) can only be estimated.
- Those who study these costs (e.g. Mercatus) tend to take a dim view of the benefits of regulation relative to the costs.
- Liberal think tanks (e.g. the Center for American Progress) tend to not study compliance costs.
- What proportion of your time is spent helping your employer or client comply with government regulations?
- My estimate of the indirect cost of government (i.e. costs of compliance): 1% in 1900, 8% in 2000.

DEFENSE

PCT GDP:

- 1900 – 2
- 1925 – 1
- 1950 – 9
- 1975 – 7
- 2000 – 4
- 2012.5 – 5
- 2025 – ?
- 2050 – ?

COMMENTS: defense cost 22% of GDP in 1919, 42% in 1945.

PUBLIC SAFETY AND TRANSPORTATION

PCT GDP:

- 1900 – 1
- 1925 – 3
- 1950 – 2
- 1975 – 3
- 2000 – 3
- 2012.5 – 4
- 2025 – ?
- 2050 – ?

COMMENTS: transportation costs jumped after 9/11/01.

EDUCATION

PCT GDP:

- 1900 – 1
- 1925 – 2
- 1950 – 3
- 1975 – 5
- 2000 – 6
- 2012.5 – 6
- 2025 – ?
- 2050 – ?

COMMENTS: teacher retiree costs are included elsewhere.

INTEREST

PCT GDP:

- 1900 – 1
- 1925 – 1
- 1950 – 2
- 1975 – 2
- 2000 – 3
- 2012.5 – 2
- 2025 – ?
- 2050 – ?

COMMENTS: interest rates are likely to rise, lenders to leave.

SOCIAL SECURITY

PCT GDP:

- 1900 – 0
- 1925 – 0
- 1950 – 0
- 1975 – 4
- 2000 – 4
- 2012.5 – 5
- 2025 – ?
- 2050 – ?

COMMENTS: baby boomers started retiring in about 2010.

MEDICARE

PCT GDP:

- 1900 – 0
- 1925 – 0
- 1950 – 0
- 1975 – 1
- 2000 – 2
- 2012.5 – 4
- 2025 – ?
- 2050 – ?

COMMENTS: Medicaid costs are included elsewhere.

HEALTH & WELFARE

PCT GDP:

- 1900 – 0
- 1925 – 1
- 1950 – 3
- 1975 – 7
- 2000 – 7
- 2012.5 – 11
- 2025 – ?
- 2050 – ?

COMMENTS: includes ACA/Medicaid, VA, UI, SNAP, etc.

MISCELLANEOUS

PCT GDP:

- 1900 – 3
- 1925 – 3
- 1950 – 5
- 1975 – 4
- 2000 – 4
- 2012.5 – 4
- 2025 – ?
- 2050 – ?

COMMENTS: includes public employee retirement benefits.

COMPLIANCE COSTS (LAWS & REGS)

PCT GDP:

- 1900 – 1
- 1925 – 2
- 1950 – 4
- 1975 – 7
- 2000 – 8
- 2012.5 – 12
- 2025 – ?
- 2050 – ?

COMMENTS: consider Enron, 9/11, OSHA, EPA, ACA, etc.

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TOTAL GOVERNMENT COSTS

PCT GDP:

- $1900 - 8 + 1 = 9$
- $1925 - 11 + 2 = 13$
- $1950 - 24 + 4 = 28$
- $1975 - 33 + 7 = 40$
- $2000 - 33 + 8 = 41$
- $2012.5 - 41 + 12 = 53$
- $2025 - ? + ? = ?$
- $2050 - ? + ? = ?$

COMMENTS: sum of eight direct plus one indirect cost charts.

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WHAT COULD GO WRONG?

Defense: major attack on Israel or Hawaii (+?/?)

PST: crime wave in some states or nationally (+?/?)

Education: college for all at federal expense (+?/?)

Interest: inflation leading to higher rates (+?/?)

SSA: spousal benefit equality; fertility drop (+?/?)

CMS: costly high-tech cure for cancer (+?/?)

H&W: utilization increase in Medicaid, UI (+?/?)

Misc: public pension assumptions worsen (+?/?)

Total: including indirect – 2025 (?) – 2050 (?)

COMMENTS: (estimated increases in 2025/2050 costs).

WHAT COULD GO RIGHT?

Defense: United Nations becomes effective (-?/?)

PST: anti-aggression pill added to water supply (-?/?)

Education: 10th Amendment restored, feds out (-?/?)

Interest: lenders lose interest in bonds of USA (-?/?)

SSA: spousal benefits ended; immigration jumps (-?/?)

CMS: all healthcare benefits rationed by govt (-?/?)

H&W: Medicaid rationed; UI/public WC ended (-?/?)

Misc: public employee health benefits rationed (-?/?)

Total: including indirect – 2025 (?) – 2050 (?).

COMMENTS: (estimated decreases in 2025/2050 costs).

ANYTHING ELSE TO WORRY ABOUT?

Defense: Are we sure there's not another WWI/II in our future?

Interest: Can we rule out hyperinflation and/or default?

Social Security: Suppose cancer is cured, or fertility plummets?

Medical: With total rationing, costs may drop, but at what cost?

GDP: Will the other guy work less for only a dime on the dollar?