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The 2005 Index of Dependency

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Americans have always expressed concern about becoming dependent on government. This is partly because they worry that such dependency will erode the spirit of independence and self-improvement. This concern explains why there was such broad support in the 1990s for welfare reform designed to reduce dependency.

However, this concern is also partly explained by the fear that, as citizens become more dependent on government, the very nature of our democracy begins to change. A citizenry that reaches a certain tipping point in dependency on government runs the risk of evolving into a society that demands an ever-expanding government that caters to group self-interests rather than pursuing the public good.

Today, are we more or less dependent on the government's income and social support programs—especially federal programs—than we were 40 years ago? Are we close to a tipping point that endangers the working of our democracy? Or have we passed that point already?

To explore these questions, we need to measure how much federal social programs have grown. We might also look at how such programs have "crowded out" what were once social obligations and services carried out by community groups, family networks, and even local governments. In other words, has the civil society yielded substantial ground to the federal public sector?

The Index of Dependency is an attempt to measure these patterns and provide data to help us assess the implications of the trends. Using the Index, Heritage Foundation analysts have found a steady and perhaps alarming growth in dependency in recent decades. Specifically:

- Using a benchmark index of 100 for 1980, the Dependency Index for 2004 stands at 212, a 1 percent increase over its 2003 score of 210. This increase marks the first year since 2001 that the Dependency Index has risen by less than 5 percent. Since 1980, the Index has doubled, increasing by 112 percent.
- The most significant growth in this year's Index score came in three components: health care and welfare, retirement, and education.

Table 1 contains the Index scores from 1962 to 2004, with 1980 as the base year.

The Index's Purpose and Theoretical Motivation

The Index of Dependency is designed to measure the pace at which federal government services and programs have been growing in areas in which private or community-based services and programs exist or have existed to address the same or nearly the same needs. Thus, it allows patterns to be analyzed. Policy analysts and political scientists can also use the Index to develop forecasts of likely trends and to assess how these trends might affect the politics of the federal budget.

The Index uses data drawn from a carefully selected set of federally funded programs. Programs were selected by their propensity to duplicate or substitute for support given by families, local organizations, neighborhoods, and communities to people in need (middle-class as well as poor), such as those without adequate shelter, food, income, education, or health care and those facing calamity, such as unemployment.

Historically, individuals and local entities typically provided more assistance than they do today. Over the course of the 20th century in particular, government came to provide more and more of the services that previously had been provided by self-

Table 1 CDA 05-05

Index of Dependency Values

Year	Housing	Health and Welfare	Retirement	Education	Rural and Agricultural Services	Index Value	Annual Percentage Change in Index Value
1962	2	6	5	2	5	**20**	
1963	2	6	5	2	6	**22**	11.67
1964	2	6	5	2	7	**23**	3.21
1965	3	6	6	2	6	**22**	-0.46
1966	3	7	6	4	4	**24**	6.05
1967	3	8	7	7	5	**29**	21.57
1968	3	9	8	8	6	**35**	20.87
1969	4	10	9	7	7	**37**	5.32
1970	4	11	9	7	7	**40**	7.85
1971	6	14	11	7	7	**45**	12.14
1972	8	17	11	7	8	**51**	14.05
1973	11	15	13	6	8	**54**	5.76
1974	11	16	14	5	5	**51**	-5.14
1975	12	21	15	7	5	**60**	16.94
1976	16	24	16	8	6	**71**	18.14
1977	20	23	18	9	9	**78**	10.83
1978	23	22	18	10	13	**86**	10.43
1979	26	22	19	12	12	**91**	5.11
1980 (base year)	30	25	20	15	10	**100**	10.23
1981	34	26	22	18	10	**109**	8.90
1982	35	25	23	14	10	**106**	-2.24
1983	37	26	24	13	12	**113**	5.99
1984	39	24	25	13	8	**109**	-3.32
1985	65	25	26	14	13	**143**	30.65
1986	39	26	27	14	14	**120**	-15.77
1987	37	26	27	12	11	**114**	-5.13
1988	40	27	28	13	8	**116**	1.69
1989	40	28	29	16	7	**121**	4.05
1990	42	31	30	16	7	**126**	4.68
1991	44	37	31	17	7	**136**	7.55
1992	48	45	33	16	7	**148**	9.34
1993	53	47	35	20	9	**163**	10.18
1994	57	48	36	11	8	**161**	-1.53
1995	65	50	38	18	6	**178**	10.29
1996	60	50	39	16	6	**172**	-3.24
1997	61	49	41	15	6	**173**	0.53
1998	51	50	42	15	6	**164**	-5.15
1999	53	53	41	13	10	**171**	4.15
2000	44	55	42	12	13	**167**	-2.13
2001	45	59	44	12	11	**170**	1.96
2002	48	68	46	20	10	**192**	12.86
2003	51	73	48	26	12	**210**	9.03
2004	51	75	49	28	8	**212**	1.07

Source: Heritage Foundation calculations.

help and mutual-aid organizations. Lower-cost housing is a good example. Mutual-aid, religious, and educational organizations had long provided limited housing assistance. However, after World War II, the federal and state governments began to provide the bulk of low-cost housing. Today, nearly all housing assistance comes from government.

Health care is another example of the pattern. Before World War II, Americans of modest income typically obtained health care and health insurance through a range of community institutions, some operated by churches and social clubs. That entire health care infrastructure has today been replaced by publicly provided health care coverage, largely through Medicaid and Medicare. Whether or not the medical and financial result is better today, the relationship between the person receiving health care assistance and those who are paying for it has changed, and few would dispute that this change has affected the total cost of health care and the politics of the relationships among patients, doctors, hospitals, and those needing care.

Financial help to those in need has also undergone a profound change. Again, local, community-based charitable organizations once played the major role, which resulted in a particular relationship between the person receiving help and the community. Today, Social Security and other government programs provide much or all of the income in indigent and modest households. Unemployment insurance payments provide nearly all of the income to temporarily unemployed workers—income that once was provided by unions, friendly societies, and local charities. Indeed, income assistance is quickly becoming a government program with little if any connection to the local civil society.

This shift from local, community-based mutual-aid assistance to government assistance has clearly altered the relationship between the person in need and the service provider. In the past, the person in need depended on people and organizations in the community for help. The community knew the person's needs and tailored assistance to meet those needs within the budgetary constraints of the community. Today, housing and other needs are addressed by government employees who typically do not know the person and have no tie to the community where the needy person lives.

Of course, a dependent relationship exists in both cases. However, the first is a dependent relationship with the civil society that includes expectations of the person's future civil viability or ability to aid another person. The latter is a dependent relationship with a political system without any reciprocal expectations. The former is based on mutual and reciprocal aid with future aid dependent upon returning to civil viability, which in turn is essential to the life of civil society itself. The latter is usually based on unilateral aid in which the return to civil viability is not essential. Indeed, "success" in the latter political system is frequently measured by the growth of the aid program rather than its outcome. While the former leads to a balance between the interests of the person and the community, the latter runs the risk of interest-group political pressure—from provider organizations and local communities as well as from recipients of assistance from distant government—to expand federal support.

The Index of Dependency provides a way of assessing the magnitude and implications of the change in the form of dependency within American society. While the steps that we took in preparing this year's Index are described in the methodology section, it is worth noting that the Index is based principally on data provided annually by the White House when the President submits his budget. The base year for the 2005 Index is federal fiscal year 2004. A simple weighting scheme and inflation adjustment restate these publicly available data into an index. We encourage replication of our work and will provide the data that support this year's Index.

This presentation of the Index of Dependency for 2005 is organized into four sections. Matthew Spalding leads with a discussion of how dependency has been viewed in American history. That analysis is followed by brief reviews of major policy changes in six areas important to the Index: housing, health care, welfare, retirement, education, and agriculture. These discussions of important policy changes are followed by a description of how the Index is constructed. The presentation concludes with some thoughts on the number of Americans who received support from the programs contained in the Index.

THE DANGER OF DEPENDENCY: A HISTORICAL PERSPECTIVE[1]

Independence was the theme of the American Revolution. The colonists sought independence not only from Great Britain, but also from military occupation, royal overseers, arbitrary laws, taxa-

1. This section of the Index of Dependency was prepared by Matthew Spalding, Ph.D., Director of the B. Kenneth Simon Center for American Studies at The Heritage Foundation.

tion without representation, and—as it says in the Declaration of Independence—all that "evinces a design to reduce them under absolute Despotism."

A better way to understand independence is to recall the classical goal of self-sufficiency. Not exclusively or even primarily material, self-sufficiency encompasses more a sense of moral purpose and well-being. For America, this meant freely choosing their own leaders, establishing their own laws, and setting up a government to ensure their own safety and happiness, or as the Declaration of Independence says, "to assume among the powers of the earth, the separate and equal station to which the Laws of Nature and Nature's God entitle them" and obtain the full power to do the "Acts and Things which Independent States may of right do."

The opposite of independence is *de*pendence, which the American Founders deplored following Blackstone's definition: "Dependence is very little else but an obligation to conform to the will or law of that superior person or state upon which the inferior depends."[2] Thomas Jefferson, as usual, was more to the point: "Dependence begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition."[3]

In establishing a new nation, the challenge was to create the institutional arrangements for restricting power and securing the rights promised in the Declaration of Independence while preserving a republican form of government that reflected the consent of the governed. The American Founders sought to assure independence and prevent dependence in two ways.

The first was to limit the power and scope of government. They did this by creating a strong government of adequate but limited powers, all carefully enumerated in a written constitution. A diversity of opinions would make it nearly impossible to form a majority on narrow interests that are contrary to the common good. Thus, the greatest bulwark of our independence as a self-governing people is our limited government.

The obverse of restraining government was to encourage the flourishing of the institutions of civil society—families, churches, schools, voluntary associations, and charitable organizations—that would not only form the habits of and create the conditions for an independent, self-governing citizenry, but also perform and provide charity and assistance to meet the demands of social responsibility.

The American Founders understood the need for a minimal safety net but believed that the primary method of helping the poor and preventing dependence was through the non-governmental sphere of civil society, on the one hand, and the promotion of economic independence, on the other. With economic independence created through the encouragement of commerce and the protection of private property, each citizen "possesses a common interest with his fellow citizens," wrote James Wilson, and "is not in such uncomfortable circumstances as to render him necessarily *dependent*, for his subsistence, on the will of others."[4]

Benjamin Franklin wrote that "the best way of doing good to the poor, is not making them easy *in* poverty, but leading or driving them *out* of it," and observed that the growing welfare system in England removed "the greatest of all inducements to industry, frugality, and sobriety, by giving [the poor] a *dependence* on somewhat else than a careful accumulation [of wealth] during youth and health."[5] Instead, the Founders—and Franklin is the greatest example of this effort—encouraged and formed private associations to promote mutual aid and assistance and to do precisely what they thought civil society should do to help those in need.

This understanding of independence and dependence changed radically toward the end of the 19th century with the rise of modern liberalism. Thinkers such as Herbert Croly and John Dewey argued that the forces of industrialism and urbanization had shattered America's traditional social order and that the conditions of the modern world required a new activist government to better manage political life and human affairs. Beginning with the Progressive Movement and continuing with the New Deal

2. William Blackstone, Introduction, Section 4, "Of the Countries Subject to the Laws of England," in *Commentaries on the Laws of England* (1765–1769).
3. Thomas Jefferson, *Notes on the State of Virginia*, Query XIX (1787).
4. James Wilson, Lectures on Law, "The Legislative Department" (1791).
5. Benjamin Franklin, "On the Price of Corn and Management of the Poor," November 1766 (emphasis added).

and the Great Society, this liberalism set out to transform the old constitutional structure into a "living" governmental system that was progressive, increasingly centralized, and focused on social reform.

President Franklin D. Roosevelt argued that true independence cannot exist without economic security—"Necessitous men are not free,"[6] he said—and proposed a second bill of rights that included a government guarantee to decent housing, a living wage, adequate health care, a good education, and social security, among other things. By this view, dependence means economic want, and the new primary task of government is to alleviate economic want and protect against economic insecurity.

The Great Society took the argument one step further by asserting that the purpose of government is no longer the securing of rights as much as it is the creation of the political and economic conditions of equality—"not just equality as a *right* and a *theory*," as Lyndon Johnson put it, "but equality as a *fact* and equality as a *result*."[7]

The consequence is that the idea of an independent, self-governing citizenry is replaced by individuals and groups who see the federal government as the guarantor of economic security and the primary provider of social services. Rather than basic or temporary programs, benefits come to be understood as something to which one is entitled.

At some point, as significant numbers of citizens come to look more and more to government for benefits, they come to expect or depend on those benefits. In the worst case, some are largely if not completely dependent on the services and benefits provided by government. By the old definition, one is less independent and has less freedom of action. At best, regular economic benefits become a real and substantial interest and bias one's opinion in favor of maintaining, if not expanding, those benefits.

At some point, especially as benefits expand beyond primary needs to middle-class entitlements, there could well be a conflict between immediate self-interest and a long-term, common interest that argues against expanded benefits.

What does all of this mean? For one thing, it encourages a politics in which government benefits and programs are seen as payoffs to existing or potential voter groups—a modern-day Tammany Hall method of building political majorities. We might also consider whether, and to what degree, dependence on essentially permanent government programs serves to create a large number of Americans who are "united and actuated by some common impulse of passion, or of interest, adverse to the rights of other citizens, or to the permanent and aggregate interests of the community."[8] That is the definition of what James Madison in *Federalist* 10 called a faction, and a majority faction is what the American Founders thought to be the greatest threat to republican government.

Widespread dependency also creates the conditions for a greater problem. Dependency, when combined with the egalitarian spirit and regulatory power of the modern state, can lead to what Alexis Tocqueville described as a form of democratic despotism.

In *Democracy in America*, Tocqueville warned that the American future is "an innumerable multitude of men, all equal and alike, incessantly endeavoring to procure the petty and paltry pleasures with which they glut their lives." Government becomes the parent, he writes, as "it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances: what remains, but to spare them all the care of thinking and all the trouble of living?"[9]

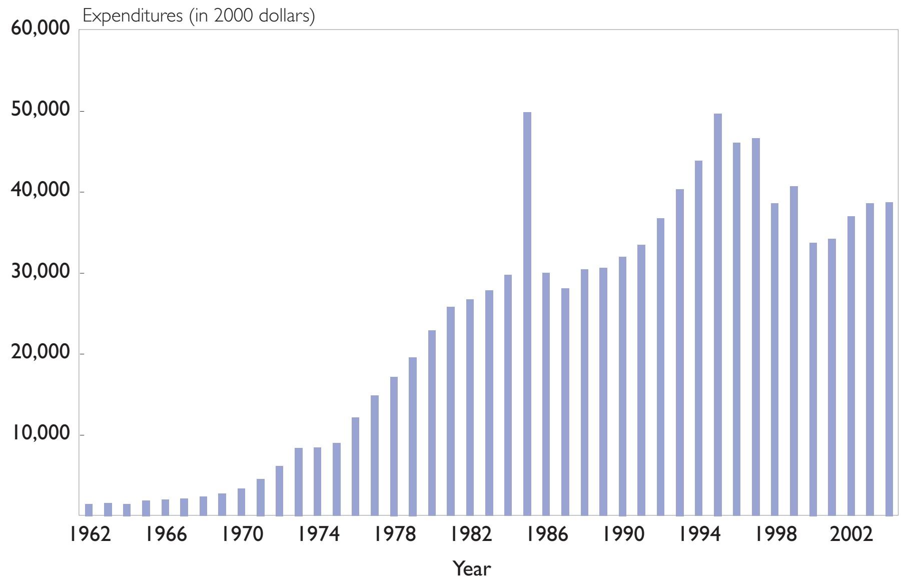
"Such a power," Tocqueville concludes, "does not destroy, but it prevents existence; it does not tyrannize, but it compresses, enervates, extinguishes, and stupefies a people, till each nation is reduced to nothing better than a flock of timid and industrious animals, of which the government is the shepherd."[10]

6. Franklin D. Roosevelt, "Message to the Congress of the United States on the State of the Union," January 11, 1944.
7. Lyndon B. Johnson, "To Fulfill These Rights," commencement address at Howard University, June 4, 1965.
8. James Madison, *The Federalist* No. 10, 1787.
9. Alexis de Tocqueville, *Democracy in America*, Vol. 2, Part 4, Chap. 6 (1840).
10. *Ibid.*

The American Founders opposed dependency, feared the dominance of a majority faction, and saw the solution in constitutional self-government. They never imagined that a majority faction could be animated by a dependence on big government. For his part, Tocqueville vividly describes what might happen when subservience is combined with the modern administrative state and warns of the dangers of the despotism of dependency.

Chart 1 CDA 05-05

Housing Spending on the Rise Again



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), Table 3.2, p. 59, and Table 12.3 pp. 244, 251, and 239, at *www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf* (June 8, 2005).

THE INDEX COMPONENTS

The Index consists of five broad categories of programs:

1. Housing assistance,
2. Health care and welfare assistance,
3. Retirement income,
4. Educational subsidies at the post-secondary level, and
5. Rural and agricultural services.

Federal programs and state activities supported by federal appropriations were selected to fit in each category. To be included in the initial dataset, each program had to meet the standard set up by the definition of dependency: that a reasonable argument could be made that publicly provided goods or services could crowd out or constrain private or local government alternatives and that the immediate beneficiary had to be an individual. This standard ruled out any expenditure by the states on programs that would otherwise meet the definition of dependency. However, federally funded programs, in which the state acted as an intermediary, were included.

Elementary and secondary education is the principal state-based program excluded under this stipulation. Post-secondary education is the only part of government-provided education that is included in the Index.

Military and federal employees are also excluded because national defense is viewed as a primary function of the government and thus does not promote dependency in the sense used in this research.

The following six sections discuss how these program areas have changed in the past few years, particularly since publication of the most recent Index of Dependency.

Housing Assistance.[11] The Department of Housing and Urban Development (HUD) was created in 1965 by consolidating several independent federal housing agencies into a single Cabinet department. The purpose of the consolidation was to elevate the importance of government housing assistance within the constellation of federal spending programs. At that time, it was believed that the destructive urban riots that broke out in many cities in the early 1960s were a consequence of poor housing conditions and that such poor housing conditions were contributing

11. The section was written by Ronald D. Utt, Ph.D., Herbert and Joyce Morgan Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

to urban decay. To this end, the two initiatives—housing assistance and urban revitalization—were combined in a single federal department.

Today, HUD spending patterns still largely reflect that dual mission. Broadly speaking, in any given year, about 80 percent of HUD's budget is targeted toward housing assistance while the other 20 percent is focused on urban issues by way of the Community Development Block Grant (CDBG) program. Given the nature of these programmatic allocations, HUD's budgetary and staff resources are concentrated on low-income households to an extent unmatched by any other federal department.

Within the 80 percent are a series of means-tested housing programs, some dating back to the Great Depression. Typically, these programs provide low-income households, including the elderly and disabled, with an apartment at a monthly rent scaled to their income: the lower the income, the lower the rent.

Traditionally, HUD and the local housing agencies with which it works provide eligible low-income households with an apartment unit owned and operated by the government. This type of housing assistance is referred to as "project-based." Public housing projects have been the most common form of such assistance, but they began to fall out of favor in the 1960s because of the rampant decay and deterioration that followed from concentrating too many troubled, low-income families in a single complex or neighborhood. Periodically, a new form of project-based program is adopted as a "reform," but it too tends to fall out of favor after several years of disappointing results. The most recently created form of project-based assistance is called HOPE VI, but high costs relative to benefits have led the Administration to terminate the program in 2006.

The other form of HUD housing assistance for low-income households is provided in the form of rent vouchers and certificates. Referred to as "tenant-based" assistance, these certificates help low-income households to rent apartments from private-sector providers by covering a portion of the rent charged by the landlord. The lower the household's income, the greater will be the share of rent covered by the voucher/certificate. Implemented in the early 1970s as a cost-effective replacement for public housing and other forms of expensive project-based assistance, vouchers, because of industry resistance to terminating the lucrative project-based programs, still account for only a portion of the assistance provided.

Rounding out the total for HUD is the CDBG program, which provides block grants to cities and communities according to a needs-based formula. Grant money can be spent at a community's discretion among a series of permissible options. Among the allowable spending options is additional housing assistance, which many communities choose in order to provide assistance to a greater number of eligible low-income households. In 2005, President Bush proposed transferring the CDBG program from HUD to the Department of Commerce and reducing the amount of money available to the program.

Although HUD programs are means-tested to determine eligibility, they are not entitlements. As a consequence, because of funding limitations, many eligible households do not receive any housing assistance, and the waiting list for housing assistance in many communities is extensive.

Recognizing that HUD's housing assistance can create dependency among those who receive its benefits, some Members of Congress have attempted to extend to HUD programs the work requirements that have been implemented so successfully in welfare reform. Regrettably, advocates for the poor have succeeded in thwarting these efforts, and to date the most that can be required of HUD program beneficiaries is that they provide eight hours per month of volunteer effort to the community or housing project.

The complexity of HUD's changing mix of project-based housing assistance can make it difficult to measure degrees of dependency unambiguously over time. For example, trends in real HUD spending suggest that dependency has been rising for many years. However, alternative measures, such as periodic census tabulations of the share of renters receiving some form of housing assistance, indicate no change over some of the period. For example, while inflation-adjusted HUD spending increased by 11.6 percent from 1993 to 1999, the U.S Census estimates that the share of renters receiving some form of rent subsidy fell from 18.4 percent in 1993 to 17.8 percent in 1999.

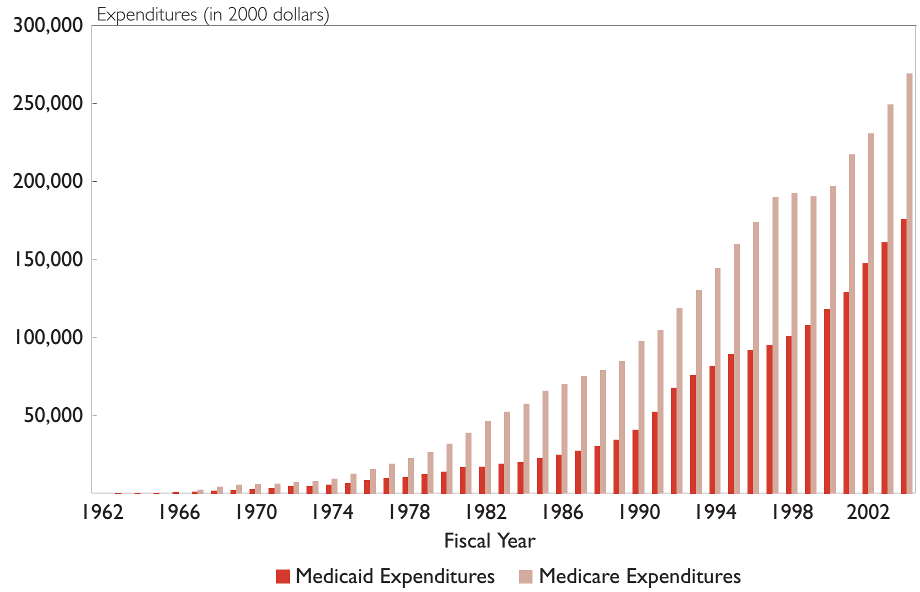
Unfortunately, such Census estimates are available for only those two years, so it is difficult to determine the extent to which such trends may have characterized the entire period under investigation. The shift of HUD's assistance to the relatively more costly

HOPE VI program over that period of time may account for the difference. By shifting resources to programs with higher costs per household assisted, HUD could spend more but assist fewer eligible households.

Health Care Assistance.[12] Public health programs, particularly Medicare and Medicaid, are contributing to the growing dependence on government programs. These programs were enacted in 1965 to provide health care coverage for the elderly, poor, and disabled. Combined, they provided coverage for close to 90 million individuals in 2004 and spent approximately $441 billion in federal dollars alone,[13] consuming 20 percent of federal spending in 2004.[14]

Chart 2 CDA 05-05

Medicaid and Medicare Expenditures Rising Rapidly



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), Table 3.2, p. 59, and Table 12.3, p. 238, at *www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf* (June 8, 2005).

Medicare provides health care coverage for those age 65 and older and for certain disabled individuals. Medicare enrollment has increased steadily since the program's enactment, increasing the number of individuals dependent on the program for their health care. In 1970, an estimated 20 million individuals were enrolled in Medicare. By 2003, the number of enrollees more than doubled, reaching over 41 million.[15] Moreover, in less than 10 years, there will be an unprecedented flood of new Medicare enrollees as 77 million baby boomers begin to retiree.

Larger enrollment also means increased pressure on the program to expand benefits and services, not only to keep up with medical technology, but also to counteract changes in supplemental coverage. While Medicare is the primary source of health care coverage for these populations, many enrollees have additional, supplemental sources of coverage, such as employer-based retiree coverage for benefits and services not covered by Medicare—most notably for private prescription drug coverage. However, more employers are deciding not to provide retiree coverage and/or are imposing additional cost-sharing requirements on these populations. For example, 66 percent of firms with 200 or more employees offered coverage in 1988, compared to 34 percent in 2002.[16]

These trends place additional pressure on Medicare to fill in these gaps and thereby create greater

12. This section was written by Nina Owcharenko, Senior Policy Analyst for Health Care in the Center for Health Policy Studies at The Heritage Foundation.
13. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), p. 362, Table S-10, at *www.whitehouse.gov/omb/budget/fy2006/pdf/budget/tables.pdf* (June 8, 2005). The calculation does not include $4 million in SCHIP spending.
14. David M. Walker, Comptroller General, U.S. Government Accountability Office, "Saving Our Future Requires Tough Choices Today," presentation at The Heritage Foundation, February 10, 2005.
15. Centers for Medicare and Medicaid, "Medicare Enrollment: National Trends, 1966–2003," modified September 17, 2004, at *www.cms.hhs.gov/statistics/enrollment/natltrends/hi.asp* (June 6, 2005).

dependence on Medicare as the sole provider of coverage to this population. In fact, recent efforts to "reform" the Medicare program were overwhelmed by the demand for more services, specifically prescription drug coverage—even though almost half of all seniors had existing private prescription drug coverage. Thus, efforts to control future dependence on the program were thwarted.[17]

Medicaid, the joint federal–state government health care program for the poor, including the disabled and elderly, is also struggling to cope with growing dependency, especially in recent years. In 2003, Medicaid had approximately 42 million individuals enrolled.[18] Somewhat different from Medicare, Medicaid serves a diverse population of the poor that includes children, adults, the disabled, and the elderly. There is also diversity among states. Each state is able to establish its own eligibility levels provided that they meet a minimum standard. The majority of Medicaid enrollees are children, followed by adults, the disabled, and the elderly.

In most if not all cases, the states are the sole provider of care and service to these populations. This sole source of coverage creates tremendous pressure on the state to ensure that needs are met. Because of the diversity of the populations, the benefits and services needed are also far-ranging. As with enrollment, states are able to establish their own level of benefits provided that they meet a minimum standard, and most states have adjusted their benefit package beyond the minimum. While the majority of enrollees is made up of children and adults, the majority of spending on services is concentrated on the disabled and the elderly. Medicaid accounted for 43 percent of all long-term care spending, and these services consumed 36 percent of Medicaid spending in 2003.[19] In recent years, states have begun to feel the consequences of the growing dependence on the program as maintaining enrollment and benefit levels has proven difficult.

One of the consequences of greater dependency is its effect on spending. Spending on both programs is skyrocketing and is projected to get even worse. Over the next 10 years, Medicaid is expected to cost close to $5 trillion in combined federal and state spending.[20] Medicare spending is expected to reach $766 billion by 2015.[21] Recent Congressional Budget Office estimates anticipate that the two programs will consume between 5.7 percent and 11.5 percent of gross domestic product (GDP) by 2030 and between 6.4 percent and 21.3 percent of GDP by 2050.[22]

Government-run health care for the poor, elderly, and disabled is unsustainable without real reform. Without change, there will be far greater dependence on these public health programs and less demand for private-sector solutions. This is clearly evident in regard to long-term care services. Analysts have found that Medicaid long-term care services essentially "crowd-out" the demand for private long-term care insurance.[23]

These programs will continue to face more enrollees, increased demand for new benefits and technology, and higher levels of health care spending. To

16. Henry J. Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2002 Annual Survey* (Menlo Park, Calif., and Chicago: 2003), p. 144.

17. For a discussion of the Medicare prescription drug legislation, see The Heritage Foundation, "Center for Health Policy Studies," Web site, at *www.heritage.org/Research/HealthCare/healthpolicy.cfm*.

18. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2005* (Washington, D.C.: U.S. Government Printing Office, 2004), p. 148, at *www.gpoaccess.gov/usbudget/fy05/browse.html* (June 8, 2005).

19. Kaiser Commission on Medicaid and the Uninsured, "The Medicaid Program at a Glance," January 2005, at *www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=50450* (June 6, 2005).

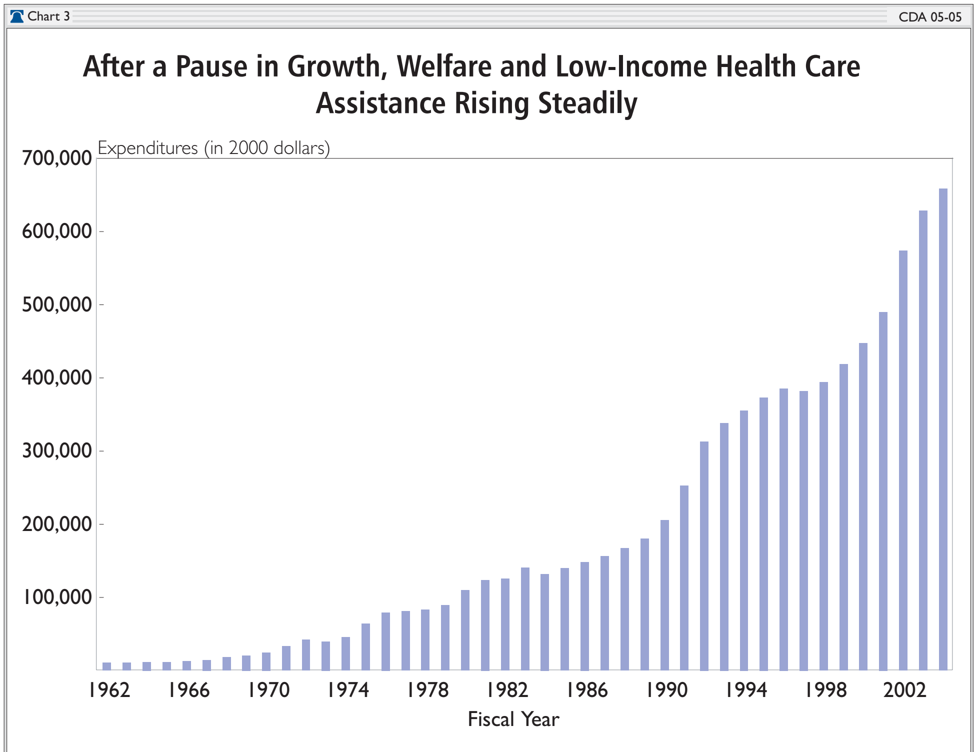
20. Michael Leavitt, "FY 06 Budget for the Department of Health and Human Services," testimony before the Committee on Energy and Commerce, U.S. House of Representatives, February 17, 2005, at *www.hhs.gov/asl/testify/t050217.html* (June 6, 2005).

21. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2006 to 2015*, January 1005, p. 55, at *mirror1.cbo.gov/ftpdocs/60xx/doc6060/01-25-BudgetOutlook.pdf* (June 6, 2005).

22. Congressional Budget Office, "Long Term Budget Outlook," December 2003, p. 27.

23. Jeffrey R. Brown and Amy Finkelstein, "The Interaction of Public and Private Insurance: Medicaid and the Long-Term Care Insurance Market," National Bureau of Economic Research *Working Paper* No. 10989, December 2004, at *www.nber.org/papers/w10989* (June 6, 2005; subscription required).

manage this growing dependency, policymakers will be forced to make difficult decisions, such as whether to limit enrollment, reduce and/or ration benefits, or simply raise taxes. Only through reform can these public health programs be transformed from programs of dependency into programs of independence in which individuals, not the government, are empowered to improve their lives and health.



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), Table 3.2, p. 59, and Table 12.3, p. 238, at *www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf* (June 8, 2005).

Welfare Assistance.[24] Even with the historic reform of welfare in 1996, the welfare system is expensive and growing. In the 40 years since President Lyndon Johnson launched the War on Poverty, the nation has spent over $8.5 trillion on means-tested assistance: food, housing, medical care, and social services for poor and low-income Americans. Welfare spending dwarfs many other government expenditures. In recent years, for example, the nation has spent $1.45 on means-tested welfare for every $1.00 spent on national defense. Despite such prolific spending, throughout most of the period since the beginning of the War on Poverty, most social problems have grown worse, not better.

In 1996, Congress successfully reformed part of the welfare system to build self-sufficiency. The conventional welfare system rewarded non-work and non-marriage. By promoting dependence and illegitimacy, it increased poverty, crime, and a host of social ills. In 1996, Congress partially changed the direction of welfare assistance by replacing the failed Aid to Families with Dependent Children (AFDC) with Temporary Assistance to Needy Families (TANF). Under TANF, many recipients are required to work or engage in constructive activities that lead to self-sufficiency as a condition of getting aid. Consequently, the child poverty and welfare dependence rates have plummeted, and employment among single mothers has skyrocketed.

However, welfare reform remains incomplete. Despite the success of the reform, many the work-related aspects of welfare reform are quite limited. Half of the 2 million adults on TANF rolls are idle, collecting welfare without engaging in work or other constructive activities. Moreover, closely related programs, such as food stamps and public housing, do not include any meaningful work requirements.

Welfare continues to subsidize illegitimacy and penalize marriage. Today, one child in three is born out of wedlock. Not surprisingly, the welfare system for families is overwhelmingly a subsidy system for single parents. Roughly three-quarters of the aid to children through programs such as public housing, food stamps, TANF, and the Earned Income Tax Credit (EITC) goes to single-parent homes. In 2003, the nation spent over $150 billion in means-tested aid to single-parent families. Over-

24. This section was written by Melissa G. Pardue, Policy Analyst in Domestic Policy Studies at The Heritage Foundation.

all, the government spends $1,000 subsidizing single parents for every $1 it spends trying to reduce illegitimacy and increase marriage.

The erosion of marriage is the predominant cause of child poverty and welfare dependence and a major factor in most of America's social problems. The absence of marriage and fathers in the home has a strong negative impact on almost all aspects of child development. More than 80 percent of long-term child poverty occurs in broken or never-married homes.

Recognizing these facts, Congress wrote two basic national goals into the 1996 welfare reform act: reducing illegitimacy and restoring marriage. State governments were expected to use TANF funds to promote these goals. They have received nearly $100 billion in federal TANF dollars over the past seven years, but only about $20 million—a minuscule 0.02 percent—has been spent on promoting marriage. Despite the existence of many promising experimental pro-marriage programs (mainly in the private sector), state welfare bureaucracies have failed to implement any significant pro-marriage agenda. As a consequence, the nation continues to run a welfare system that actively penalizes rather than promotes marriage, with devastating social consequences and continuing welfare dependence.

Congress is expected to reauthorize TANF this year, and this is a crucial opportunity for Members to expand and deepen the original reforms. Reauthorization efforts should strengthen existing work requirements by not continuing to reward idleness and dependence through one-way handouts. The creation of federal work requirements in TANF was a successful revolution in welfare, but it is far from complete. When TANF is reauthorized, the states should increase the percentage of adult recipients who are engaged in community service work or supervised job search and increase the numbers of hours of work required each week. Likewise, work requirements should be established in food stamps and public housing. Able-bodied non-elderly adult recipients should be required to perform community service work, supervised job search, or training as a condition of receiving aid.

A portion of TANF funds should also be directed specifically at programs that strengthen marriage and reduce illegitimacy. Congress should uphold the Administration's efforts to have $300 million in TANF funds allocated to voluntary programs that promote healthy marriages, particularly among low-income couples. Such programs should include education on the value of marriage for high-school students in at-risk communities, public advertising campaigns, pro-marriage counseling and relationship skills training for unmarried parents at the time of a child's birth, and premarital counseling for engaged couples. All participation in marriage programs would be voluntary and would utilize existing marriage-skills education programs that have proven effective in decreasing conflict and increasing happiness and stability among couples. These programs have also been shown to be effective in reducing domestic violence.

The pro-marriage initiative would not merely seek to increase marriage rates among target couples; it would also provide ongoing support to help at-risk couples maintain healthy marriages over time. The plan would not create government bureaucracies to provide marriage training. Instead, the government would contract with private organizations that have successful track records in providing marriage-skills education.

The marriage penalties inherent in all means-tested welfare programs should also be reversed. While it is not possible to eliminate fully the anti-marriage bias in the welfare system, it is possible to reduce it through programs such as the Earned Income Tax Credit for married couples with children.

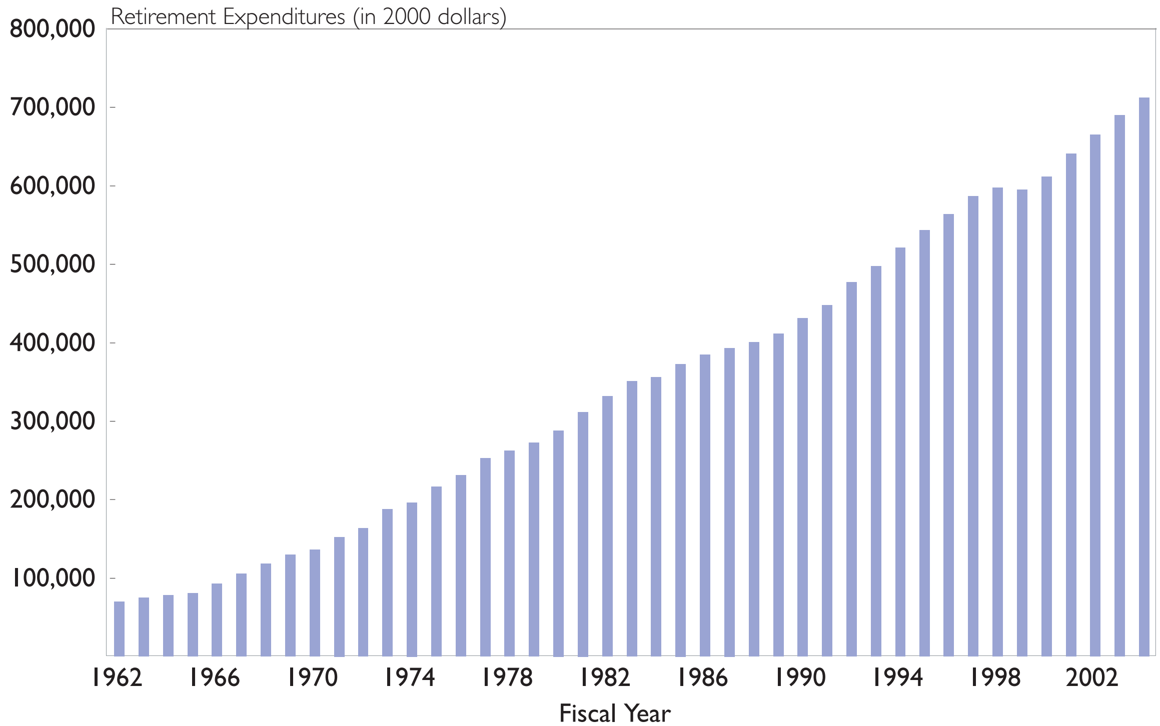
Retirement Income.[25] Since the time of President Franklin D. Roosevelt, the American retirement system has been described as a three-legged stool consisting of government-paid Social Security, employment-based pensions, and personal savings. Regrettably, for about half of the workforce, the reality of their retirement is closer to a pogo stick consisting almost totally of Social Security. In large part due to government policies, pension coverage is mainly limited to employees of large companies, while few workers are able to save enough for retirement.

Since 1935, Social Security has served as the basis for most Americans' retirement income. The program pays both a monthly check to retired

25. This section was prepared by David C. John, Research Fellow in Social Security and Financial Institutions in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

Chart 4 CDA 05-05

Social Security Spending on the Eve of the Baby Boomers' Retirement



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), Table 3.2, p. 59, at *www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf* (June 8, 2005).

workers and benefits to surviving spouses and children under the age of 18. (It also has a separately financed disability program that is outside of the scope of this discussion.) Monthly benefits are based on the indexed average of a worker's monthly income over a 35-year period, with lower-income workers getting proportionately higher payments and higher-income workers proportionately less. As a result, lowest-income workers receive up to about 70 percent of their pre-retirement income while average-income workers receive about 40 percent–45 percent and upper-income workers average about 23 percent.

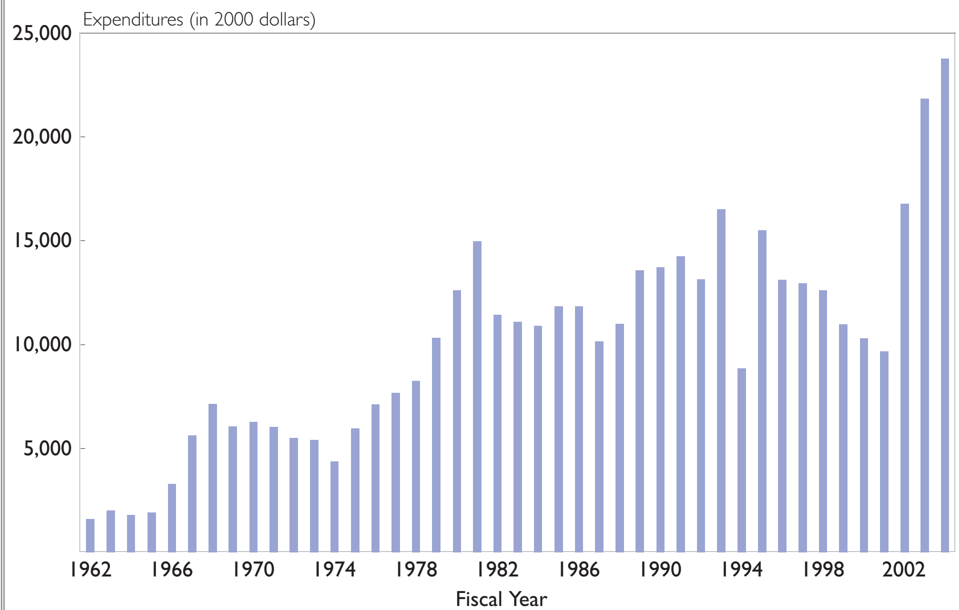
However, the demographic forces that once made Social Security affordable have reversed, and the program is facing a fiscal crisis. In order to break even, Social Security needs to have at least 2.9 workers paying taxes for each retiree receiving benefits. In 1950, 16 workers paid the benefits of one retiree, but the current ratio is 3.3 workers per retiree and dropping. Because the baby boomers produced fewer children and are now nearing retirement, that ratio will drop below 2.9 workers per retiree in 2017 and continue to drop until it reaches close to 2.0 workers per retiree in the 2030s.

This is a problem because current retirees' benefits are paid from the payroll taxes paid by today's workers. Since 1983, workers have been paying more in payroll taxes than the program needed in benefits. These additional taxes were supposed to build up and to help finance retirement benefits for baby boomers. However, those excess taxes were not saved or invested for the future. Instead, they were spent to finance the government, and in return, the Social Security "trust fund" received special-issue U.S. Treasury bonds. When it comes time to repay those bonds, the money will have to come from either higher taxes or massive borrowing. Although the additional money that Social Security will need to pay full benefits will be fairly low at first, by about 2027, the program will need $200 billion per year (in 2005 dollars) more than it will receive from its payroll taxes.

To make matters worse, about half of the American workforce has no retirement program other than Social Security. These workers are not covered by an occupational pension, and few have any significant savings. To a large extent, they are dependent on the government to provide their retirement income.

Chart 5 CDA 05-05

Federal Education Spending Jumped in the Last Three Years



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), Table 3.2, p. 59, and Table 12.3, p. 238, at *www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf* (June 8, 2005).

This dependency is largely due to government policies. Social Security's high tax rate, by soaking up money that could otherwise be invested for the future, makes it much harder for lower-income and moderate-income workers to accumulate any significant savings. Taxes on interest and investment income further reduce the incentive to save.

Government policies also discourage the growth of occupational pensions to cover a higher proportion of the workforce. A host of confusing and changing tax policies, including the Employee Retirement Income Security Act (ERISA), imposes a regulatory burden that especially discourages smaller employers from offering pension plans. Over the past few decades, costs imposed by the ERISA and a changing workforce have resulted in the closure of thousands of traditional defined-benefit pension plans.

While many larger employers have substituted defined-contribution plans, such as 401(k) plans, these plans are also subject to burdensome provisions designed to ensure that workers of all income levels receive fair retirement benefits. Many smaller employers either lack the resources to hire a good funds manager or, knowing of ERISA's complex requirements, hesitate to offer their workers a retirement plan for fear of accidentally violating one of the requirements.

Post-Secondary Educational Subsidies.[26] In 2005, a record number of students and families will depend on the federal government for financial aid for higher education. Programs under the Higher Education Act of 1965 provide guaranteed loans, grants, and support services to students and their families. In 2000, over half of full-time undergraduates attending four-year public universities and 67 percent of those at private four-year institutions received aid under one of these programs. While participation was higher among the poor, a quarter of undergraduates from families with incomes over $100,000 received financial aid.[27]

26. This section was written by Krista Kafer, former Senior Policy Analyst for Education, and Jennifer A. Marshall, Director of Domestic Policy Studies, at The Heritage Foundation.

27. U.S. Department of Education, National Center for Education Statistics, "Financial Aid," at *nces.ed.gov/fastfacts/display.asp?id=31* (June 6, 2005).

In 2005, the federal government will make over $116 billion available to students in the form of loans, grants, and institutional aid under the Higher Education Act: over $13 billion for voucher-like Pell Grants and Supplemental Educational Opportunity Grants to poor students; $1 billion in employment (work-study) subsidies; $101 billion in Perkins Loans; $166 million in state matching grants; $41 billion in guaranteed loans (the Federal Family Education Loan Program); $13 billion in direct loans; and $43 billion in consolidation loans.[28] Taxpayers will provide an additional $2 billion for TRIO programs, fellowships, academic scholarships, grants to universities for teacher education and foreign language acquisition, and funds to institutions serving large numbers of minority students.[29]

Nor is the HEA the only source of government funding. Higher education institutions receive billions of federal dollars for research and contracts. At the state level, taxpayers gave $63 billion in subsidies to higher education.[30] Additionally, various tax credits and deductions provide over $9 billion to mostly middle-income and upper-income students.[31]

Since 1965, the guaranteed loan program has grown exponentially. In four decades, the government has guaranteed more than $485 billion in loans.[32] Federal aid program participation increased after the 1992 reauthorization as more middle-income and high-income students received subsidized and unsubsidized loans.[33]

"Unsubsidized Stafford loans" is a misnomer. All guaranteed loans are subsidized to one degree or another. Taxpayers may not pay the interest on "unsubsidized loans" as they do on the "subsidized loans," but they do pay subsidies to banks to keep the interest rate artificially low and to cover bank administrative costs. This year, Americans will pay billions in federal tax money to subsidize students, banks, and institutions of higher education. Ironically, these subsidies are borne in large part by those who do not have a college degree. Two-thirds of Americans do not hold a bachelor's degree or higher. Those with such a degree earn an average of $21,800 more per year, which tranlates to almost $1 million of additional income in a lifetime.[34]

The increase in the number of Americans dependent on government higher education programs has its disadvantages. While the research is inconclusive, there is evidence that federal loans and tax credits have contributed to the rise of tuition. Tuition and fees at public and private four-year institutions have risen 38 percent in the past 10 years. In the past 23 years, the cost of a public four-year college education has increased by 202 percent.[35]

Dependency affects students and their families. Such programs encourage borrowing rather than saving. A Hart Research Associates poll found that half of parents surveyed had saved less than $1,000 for college.[36] High loan limits—$23,000 for dependent undergraduates, $46,000 for indepen-

28. Office of Budget and Management, *Budget of the United States Government, Fiscal Year 2006—Appendix* (Washington, D.C.: U.S. Government Printing Office, 2005), pp. 356–381, at *www.whitehouse.gov/omb/budget/fy2006/pdf/appendix/edu.pdf* (June 6, 2005). Figures include matching grants.

29. U.S. Department of Education, "Fiscal Year 2005 Congressional Action," May 12, 2005, at *www.ed.gov/about/overview/budget/budget05/05action.pdf* (June 6, 2005).

30. Thomas J. Kane, Peter Orszag, and David L. Gunter, "State Fiscal Constraints and Higher Education Spending: The Role of Medicaid and the Business Cycle," Urban Institute *Discussion Paper* No. 11, May 22, 2003, at *www.urban.org/UploadedPDF/310787_TPC_DP11.pdf* (June 6, 2005).

31. Office of Management and Budget, *Analytical Perspectives*, *Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), at *www.whitehouse.gov/omb/budget/fy2006/pdf/spec.pdf* (June 6, 2005).

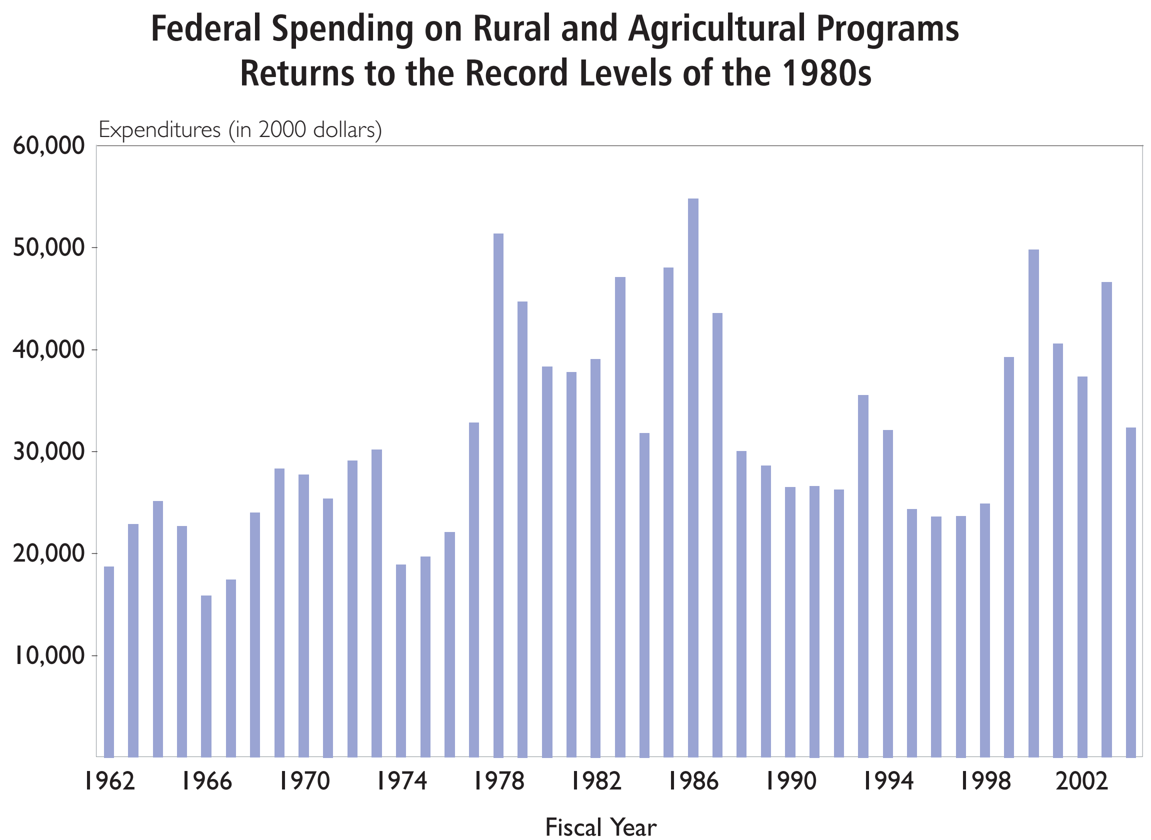
32. America's Student Loan Providers, "Student Loan Facts: 50 Million Students Served," at *www.studentloanfacts.org/loanfacts/fastfacts/50milstudents.htm* (June 6, 2005).

33. John Wirt, Susan Choy, Stephen Provasnik, Patrick Rooney, Anindita Sen, and Richard Tobin, *The Condition of Education 2003* (Washington, D.C.: U.S. Department of Education, National Center for Education Statistics, 2003), p. 81, at *nces.ed.gov/pubs2003/2003067.pdf* (June 6, 2005).

34. Jennifer Cheeseman Day and Eric C. Newburger, "The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings," U.S. Bureau of the Census, P23–210, July 2002, at *www.census.gov/prod/2002pubs/p23-210.pdf* (June 6, 2005).

35. Committee on Education and the Workforce, U.S. House of Representatives, "The Skyrocketing Cost of Higher Education," October 10, 2003, at *edworkforce.house.gov/issues/108th/education/highereducation/factsheetcost101003.htm* (June 6, 2005).

Chart 6 CDA 05-05



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), Table 3.2, pp. 53 and 59, and Table 12.3, p. 237, at *www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf* (June 8, 2005).

dent students, and $138,500 for professional students—encourage students to take on large amounts of debt and discourage smart shopping. The National Commission on the Cost of Higher Education acknowledged that high loan limits and an increasing preference for borrowing rather than saving had contributed to the sharp increase in student borrowing.[37]

Programs can promote a sense of entitlement among students and special-interest groups who continuously push Congress to increase loan limits and enact new programs. *Forbes* writer Ira Carnahan puts it this way:

> Over the past three decades the Federal Government has poured three-quarters of a trillion dollars into financial aid for college students.… So why is college getting less—not more—affordable? One answer seems to be that all those federal dollars have given colleges more room to jack up tuition.… The more cash the government pumps into parents' pockets, the more the schools siphon from them.[38]

Rural and Agricultural Services.[39] Much of the rapid increase in "rural and agricultural assistance" dependency is rooted in farm subsidy programs. A

36. Robin Wallace, "College Tuition Scare: Don't Believe All the Hype," *FoxNews.com*, September 26, 2003, at *www.foxnews.com/story/0,2933,98358,00.html* (June 6, 2005).

37. American Council on Education, *Straight Talk About College Costs & Prices: The Final Report and Supplemental Material from the National Commission on the Cost of Higher Education* (Phoenix, Ariz.: Oryx Press, 1998), p. 11.

38. Ira Carnahan, "Back to School: Why Federal College Aid Makes School More Expensive," *Forbes*, September 1, 2003.

multitude of farm subsidy programs—such as direct payments, countercyclical payments, market assistance loans, and non-recourse loans—generally work together to compensate farmers for low crop prices. Conservation payments pay farmers to initiate conservation projects or simply to stop farming their land. Export subsidies effectively lower the price of American products so they can undercut international competitors.[40]

Supporters of farm subsidies often describe farmers as impoverished—as victims of unpredictable weather and large global economic forces. In reality, farmers are doing quite well. The average farm has a net worth of $564,000 (double the national average household net worth) and an annual income of $64,347 (17 percent above the national average household income), despite being located in a rural area with significantly lower costs of living. By no means a teetering industry, the failure rate for farms is just one-sixth of the rate for non-farm businesses.

Table 3 CDA 05-05

Index of Dependency Weights

Housing assistance:	30 percent
Health and welfare support:	25 percent
Retirement income:	20 percent
Post-secondary educational subsidies:	15 percent
Rural and agricultural services:	10 percent

Source: The Heritage Foundation.

Table 2 CDA 05-05

Programs Used to Calculate Index Values

I. Education
Federal higher education
State higher education

II. Health and Welfare
Health care services
Health research and training
Consumer and occupational health and safety
Unemployment compensation
Food and nutrition assistance
Other income security
Disease control (preventative health)
Health resources and services
Substance abuse and mental health services
Grants to states for Medicaid
Child nutrition programs
Food stamp programs
Family support payments to states
Social Services block grants
Children and families service programs
Training and employment services
Unemployment trust fund

III. Housing
Mortgage credit
Housing assistance
Community development block grants
Urban development action grants
Subsidized housing programs

IV. Retirement
Medicare
Social Security
General retirement and disability insurance

V. Rural and Agricultural Services
Farm income stabilization
Agricultural research and services
Community development
Area and regional development
Disaster relief and insurance
Rural community advancement program
Homeland Security Disaster Relief

Source: The Heritage Foundation.

Yet farm subsidies have become America's largest corporate welfare program. Two-thirds of farm subsidies are distributed to just 10 percent of farms, most of which have annual household incomes over $130,000. In contrast, the bottom 80 percent of farmers receive just one-fifth of the subsidies. If farm policy were truly designed to help poor farmers, Congress could guarantee every full-time farmer in America an income of at least 185 percent of the federal poverty line ($34,873 for a family of four in 2004) for just $4 billion per year.

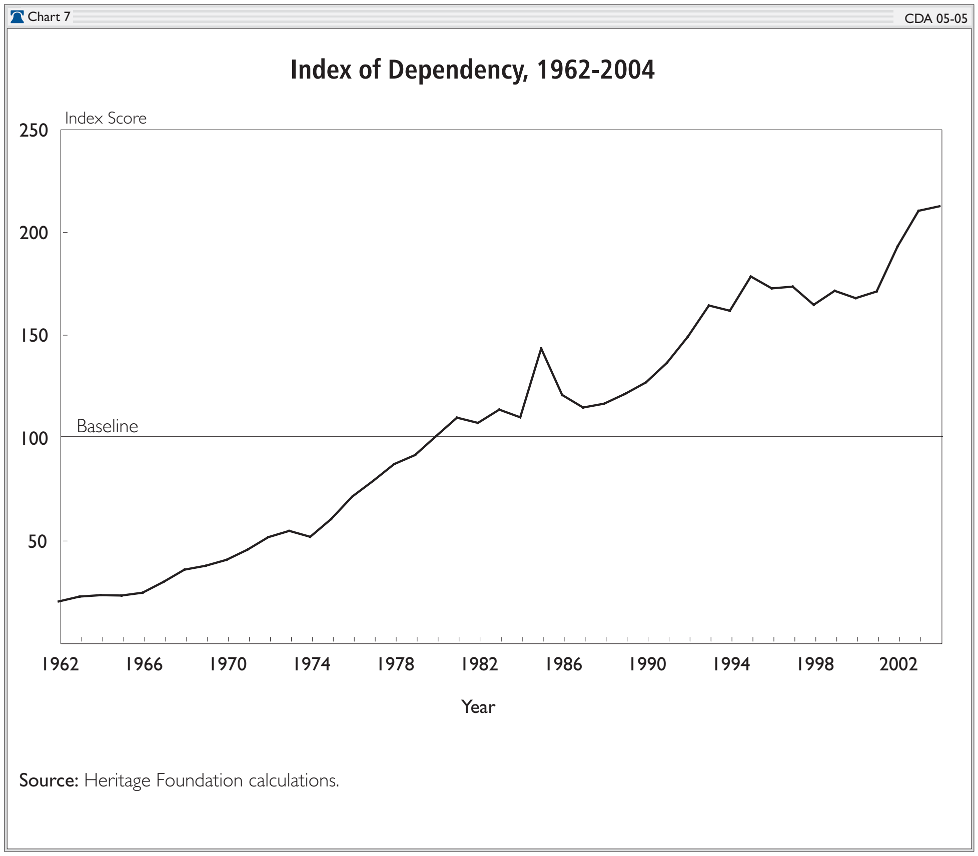
Instead of need, farm subsidies are based on two factors. The first factor is which crops are grown. Approximately 90 percent of all farm subsidies goes to growers of just five crops: wheat, corn, cotton, soy-

39. This section was written by Brian M. Riedl, Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

40. Much of this information originally appeared in Brian M. Riedl, "Top 10 Reasons to Veto the Farm Bill," Heritage Foundation *Backgrounder* No. 1538, April 17, 2002, at *www.heritage.org/Research/Agriculture/BG1538.cfm*, and "Another Year at the Federal Trough: Farm Subsidies for the Rich, Famous, and Elected Jumped Again in 2002," Heritage Foundation *Backgrounder* No. 1763, May 24, 2004, at *www.heritage.org/Research/Budget/bg1763.cfm*.

beans, and rice. Growers of most other crops are ineligible for most subsidy programs, regardless of need.

The second factor is the amount of crops grown, with those who plant more crops receiving larger subsidies. This is where the economic logic of farm subsidies falls apart. Subsidies are intended to compensate farmers for low prices that result from an oversupply of crops, but granting larger subsidies to those planting the most crops only encourages farmers to plant more crops, leading to even lower prices and calls for larger subsidies. Then, while paying some farmers to plant more crops, the Conservation Reserve Program pays other farmers to plant fewer crops. One analyst accurately describes U.S. farm policy as "one foot on the brake, one foot on the accelerator."[41]



Eventually, Congress acknowledged the failures of centrally planned agriculture. The 1996 Federal Agricultural Improvement and Reform Act (known as the Freedom to Farm Act) was designed to phase out farm subsidies by 2002 and bring a free market back to agriculture. After spending just $6 billion on farm subsidies in 1996, Congress overreacted in 1998 to a temporary dip in crop prices (resulting from the Asian economic slowdown) by passing the first in a series of annual emergency bailouts for farmers. By 2000, farm subsidies hit a record $30 billion. Farmers quickly grew accustomed to massive government subsidies, and competition for the farmer vote induced a bipartisan bidding war on the eve of the 2002 elections. Lawmakers gave up on reform and enacted the largest farm bill in American history, projected to cost at least $180 billion over the following decade. Despite escalating costs and negative economic effects, farm subsidy programs are now the overwhelming preference of Congress and the White House.

Signs point to farm dependency continuing. Policymakers see farm subsidies as the solution to—rather than a significant cause of—low crop prices. Expensive disaster payments are doled out if the weather is bad (crops are destroyed) or good (crop oversupply lowers prices). Finally, farm subsidies have created an entitlement mentality among a class of farmers who will likely punish any elected officials who pursue reform. As a result, there are no plans to move farmers toward self-sufficiency.

HOW THE DEPENDENCY INDEX IS CONSTRUCTED

After this initial analysis, the data were examined further to identify the components that contributed to variability. Short-term programs were eliminated, as well as relatively small programs that

41. James Bovard, "The 1995 Farm Follies," Cato Institute *Regulation*, Vol. 18, No. 3 (Summer 1995), at *www.cato.org/pubs/regulation/regv18n3/reg18n3-bovard.html* (June 8, 2005).

Table 4 CDA 05-05

Index of Dependency Values and Major Policy Changes

Year	Housing	Health and Welfare	Retirement	Education	Rural and Agricultural Services	Index Score	Major Policy Change
1962	2	6	5	2	5	**20**	
1963	2	6	5	2	6	**22**	
1964	2	6	5	2	7	**23**	
1965	3	6	6	2	6	**22**	Great Society Programs: Medicare, Medicaid, Higher Education Act; creation of the Department of Housing and Urban Development
1966	3	7	6	4	4	**24**	
1967	3	8	7	7	5	**29**	
1968	3	9	8	8	6	**35**	
1969	4	10	9	7	7	**37**	
1970	4	11	9	7	7	**40**	Expansion of Social Security benefits
1971	6	14	11	7	7	**45**	
1972	8	17	11	7	8	**51**	
1973	11	15	13	6	8	**54**	
1974	11	16	14	5	5	**51**	
1975	12	21	15	7	5	**60**	
1976	16	24	16	8	6	**71**	
1977	20	23	18	9	9	**78**	
1978	23	22	18	10	13	**86**	
1979	26	22	19	12	12	**91**	
1980	30	25	20	15	10	**100**	
1981	34	26	22	18	10	**109**	First Reagan budget and tax cuts
1982	35	25	23	14	10	**106**	
1983	37	26	24	13	12	**113**	
1984	39	24	25	13	8	**109**	
1985	65	25	26	14	13	**143**	
1986	39	26	27	14	14	**120**	
1987	37	26	27	12	11	**114**	Extension of Social Security taxes to state and local government workers
1988	40	27	28	13	8	**116**	
1989	40	28	29	16	7	**121**	
1990	42	31	30	16	7	**126**	
1991	44	37	31	17	7	**136**	
1992	48	45	33	16	7	**148**	
1993	53	47	35	20	9	**163**	
1994	57	48	36	11	8	**161**	
1995	65	50	38	18	6	**178**	
1996	60	50	39	16	6	**172**	Welfare reform, including work requirement and Freedom to Farm Act
1997	61	49	41	15	6	**173**	
1998	51	50	42	15	6	**164**	Expansion of Medicaid to cover low-income children
1999	53	53	41	13	10	**171**	
2000	44	55	42	12	13	**167**	
2001	45	59	44	12	11	**170**	
2002	48	68	46	20	10	**192**	Expansion of agricultural subsidies
2003	51	73	48	26	12	**210**	
2004	51	75	49	28	8	**212**	

Source: Heritage Foundation calculations.

required little funding. The remaining expenditures were summed on an annual basis and divided into the five major categories.

Table 1 lists the individual components of each category.[42] The program titles in this table are those used by the Office of Management and Budget for budget function and subfunction in the budget accounting system.

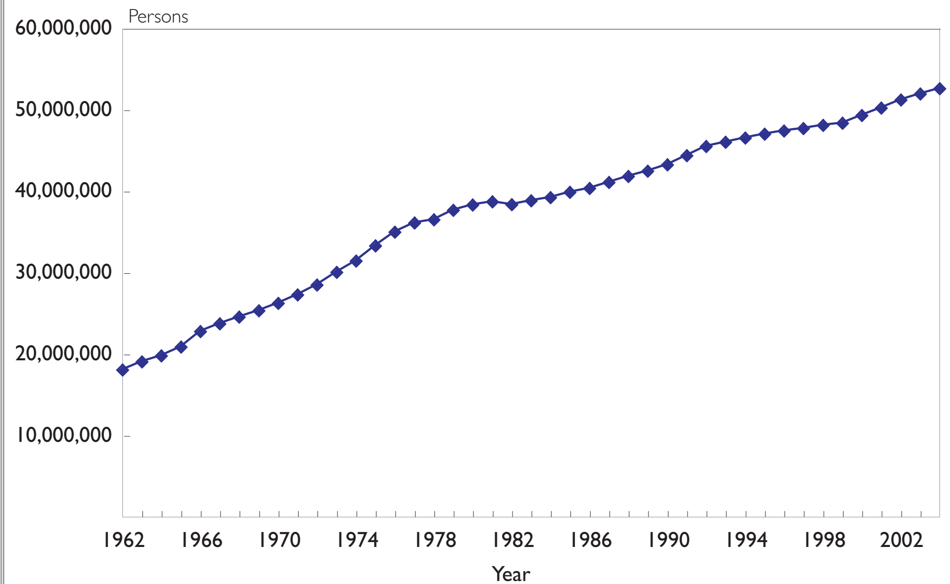
Data were collected for federal fiscal years 1962 through 2004. Deflators centered on 2000 were employed to adjust for changes in the general price level, thus producing a series for each program in

Table 1 of real or inflation-adjusted values.

Indexes are intended to provide insight into phenomena that are so detailed or so complicated that simplification through arbitrary but reasonable rules is required for obtaining anything other than a rudimentary understanding. Thus, the Consumer Price Index (CPI) of the Bureau of Labor Statistics is a series based on an arbitrarily selected "basket of goods" that the Bureau surveys periodically for changes in price. The components of this basket are weighted to reflect their relative importance to overall price change, which results, for example, in energy prices being more important than clothing prices. Multiplying the weight times the price produces a weighted price for each element of the CPI, and summing up all of the weighted prices produces (roughly) the CPI score.

Chart 8 CDA 05-05

Number of Persons in the Index of Dependency, 1962-2004



Sources: U.S. Department of Education, *Title IV/Federal Pell Grant Program: End-of-Year Report, 2002–2003*, pp. 10–15, Table 1, at *www.ed.gov/finaid/prof/resources/data/pell0203.pdf* (June 8, 2005), and Social Security Administration, *Annual Statistical Supplement, 2004*, forthcoming June 2005, Table 5.A4, at *www.ssa.gov/policy/docs/statcomps/supplement/2004/5a.pdf* (June 8, 2005).

The Index of Dependency generally works the same way. The raw (or unweighted) value for each program (i.e., the yearly expenditures on that program) is multiplied by its weight. Summing up these weighted values produces the Index value for that year. (See Table 3.)

The weights, which sum to 100 percent, are "centered" on the year 1980. This means that the weighted values for the Index components will sum to 100 for 1980, giving the Index a reference year from which all other Index values will be evaluated.

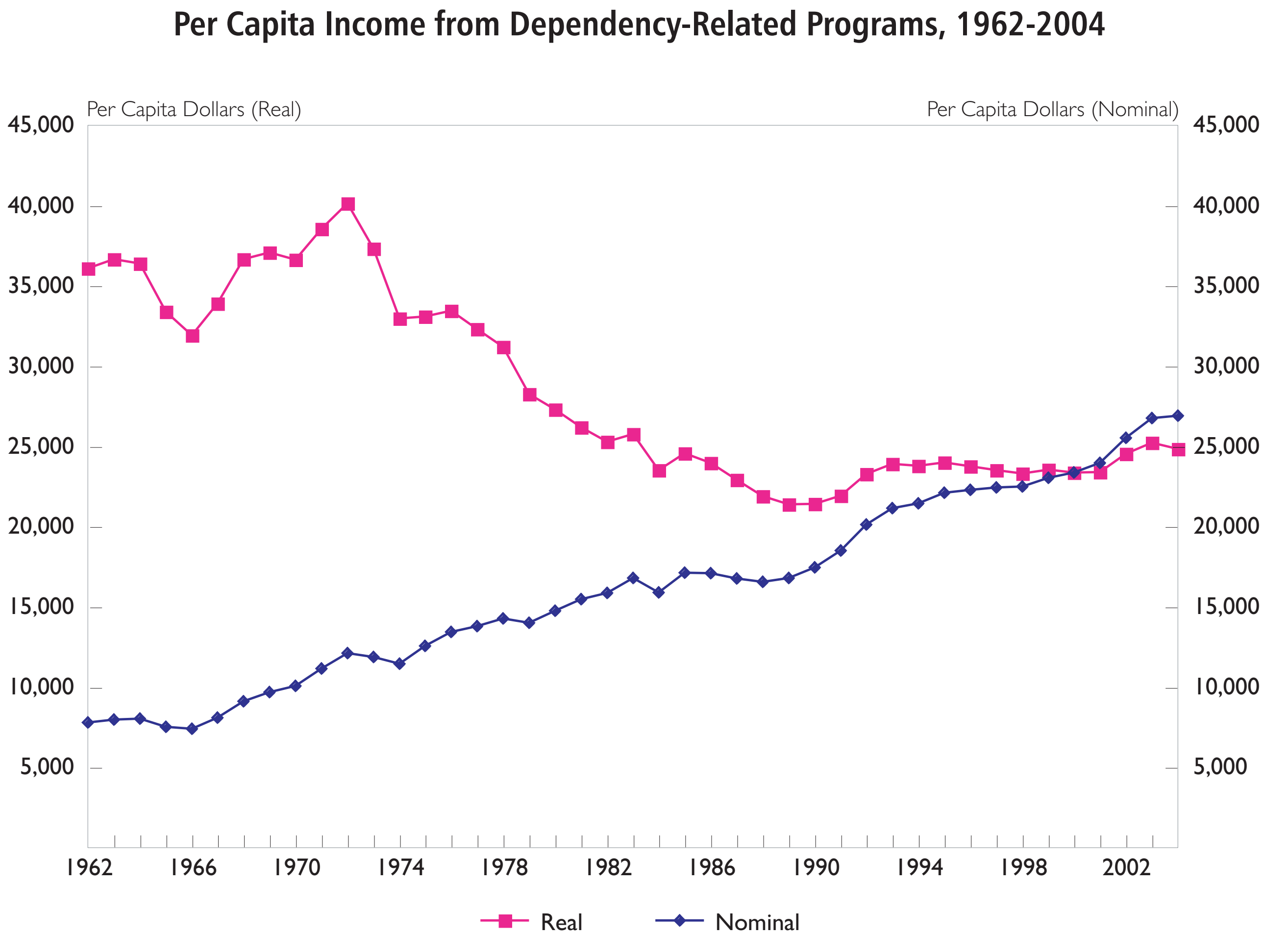
The year 1980 was chosen because of its apparent significance in the history of American political philosophy. Many students of American politics believe that historians will view 1980 as a watershed year in U.S. history. It may mark the beginning of the decline of left-of-center public policy, which is based on the belief that social systems fail without the guiding hand of government, and the emergence of right-of-center challenges to these policies.

The Index certainly reflects such a watershed. Chart 7 plots the Index over the period 1962 through 2004. The drift of the scores is clearly upward over the entire period.

There are two plateaus in the Index: the first eight years of the 1980s and the period 1994 through 2000. This drift of the data suggests that policy change may have significantly influenced the growth rate of the Index. The early 1980s saw the rate of growth of some domestic programs slowed to pay for increased defense spending, and the 1990s saw significant policy changes in welfare and public housing, all of which reduced the growth rate of the Index.

42. Expenditure data for the Index of Dependency were taken from Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2003* (Washington, D.C.: U.S. Government Printing Office, 2002), and *Budget of the United States Government, Fiscal Year 2003* (Washington, D.C.: U.S. Government Printing Office, 2002).

Chart 9 CDA 05-05



Source: Heritage Foundation calculations.

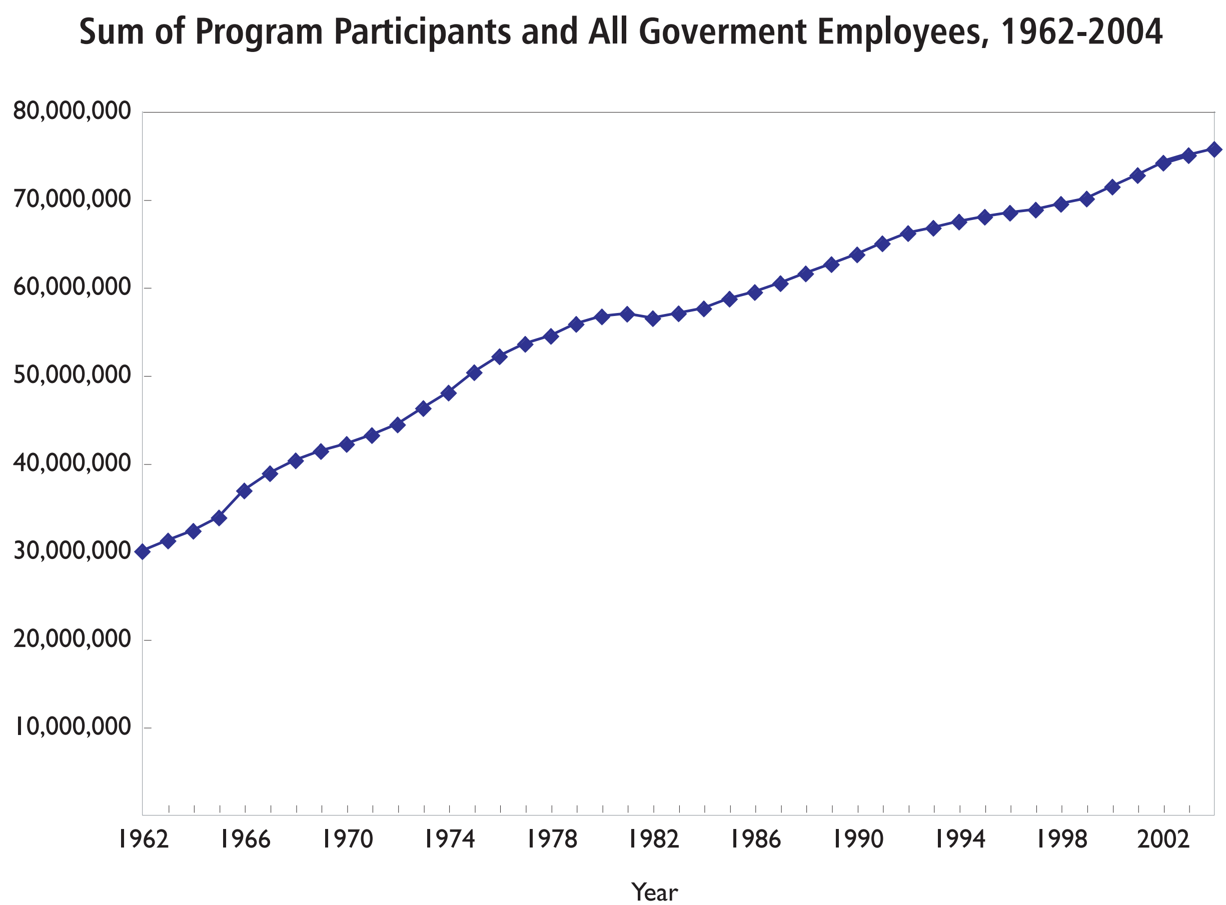
Table 3 connects the Index to major public policy changes. It is hardly surprising that the largest jump in the Index occurred during the Johnson Administration following passage of the President's Great Society programs. Not only did the Johnson Administration launch Medicare and other health programs, but it vastly expanded the federal role in providing and financing low-income housing. It is somewhat more surprising that the Index jumped 127 percent (from 33 to 75) under President Richard Nixon and President Gerald Ford. However, during these years, Congress was funding and implementing substantial portions of Johnson's Great Society programs.

The two periods of more conservative public policy with respect to the Index components stand out clearly in Table 3. The slowdowns in spending increases during the Reagan years and after the 1994 elections produced two periods of slightly negative change in the Index. These periods saw significant retreats from Great Society goals, particularly in the nation's approach to welfare. The return of budget surpluses during the last years of the Clinton Administration led to significant increases in spending for all of the components, particularly education and health care. Thus, the Index has resumed growing at roughly the average pace of the past 25 years.

CALCULATION OF COVERED POPULATION

The Index reflects the growth of federal government programs that arguably crowd out or substitute for similar initiatives at lower levels of

Chart 10 CDA 05-05



Sources: U.S. Department of Education, *Title IV/Federal Pell Grant Program: End-of-Year Report, 2002–2003*, pp. 10–15, Table 1, at *www.ed.gov/finaid/prof/resources/data/pell0203.pdf* (June 8, 2005); Social Security Administration, *Annual Statistical Supplement, 2004*, forthcoming June 2005, Table 5.A4, at *www.ssa.gov/policy/docs/statcomps/supplement/2004/5a.pdf* (June 8, 2005); and Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), Table 17.5, p. 315, at *www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf* (June 8, 2005).

government or within the organizations of civil society. While Index values do not depend on the number of people who receive support through these programs, that number nevertheless sheds additional light on what the Index shows.

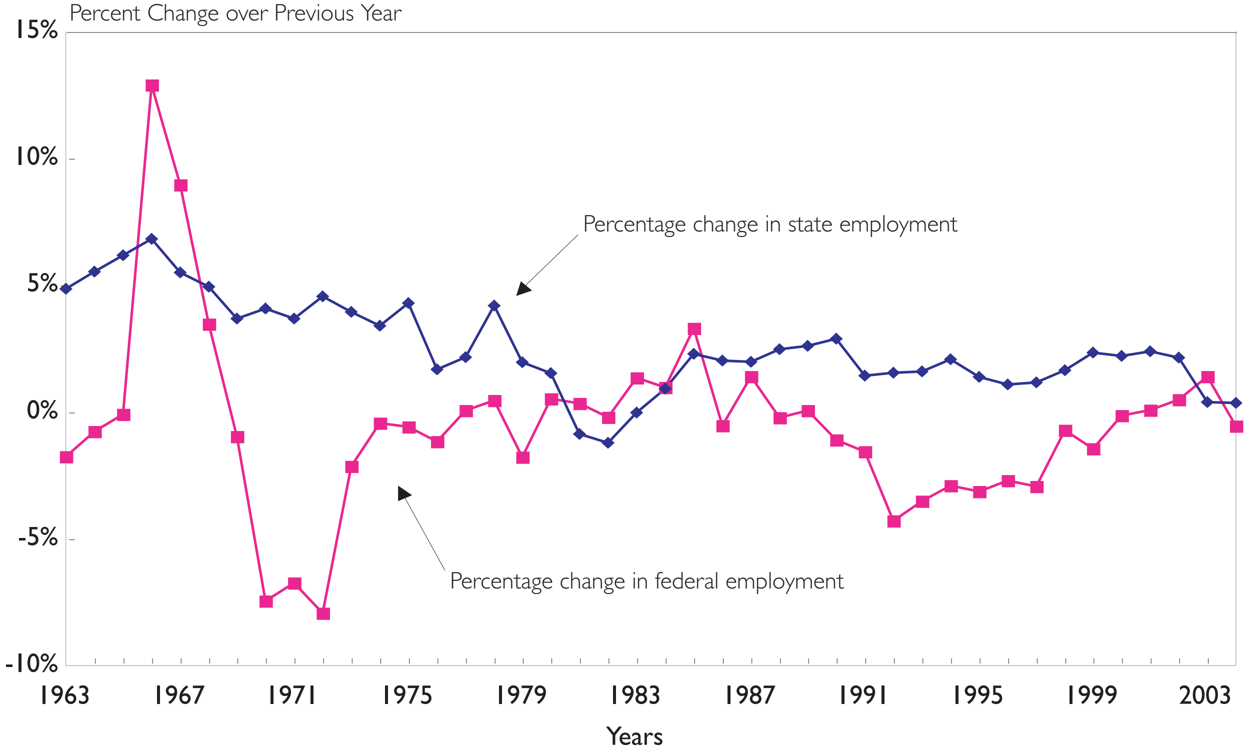
Data on the number of people enrolled or benefiting from the programs listed in Table 1 between 1962 and 2004 were drawn from a variety of public sources. A significant effort was made to eliminate duplicate enrollments. For example, many people who receive food stamps also receive their medical services through Medicaid. Despite this effort, duplicates undoubtedly remained, and an arbitrary reduction of 5 percent in each year was imposed to account for this undetected double counting.

Chart 8 shows the annual number of program participants from 1962 through 2004. On the eve of the Great Society programs, some 18 million people received assistance through the programs listed in Table 1 that existed at the time. Today, 52.6 million people (18 percent of the total U.S. population) receive some level of assistance through the programs covered by the Index.

Growth in income and non-financial support among program participants has accompanied the expansion of the numbers of people receiving assistance. As Chart 9 shows, per capita support (both

Chart 11 CDA 05-05

Percentage Change in Federal and State Employment, 1963-2004



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), Table 17.5, p. 315, at *www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf* (June 8, 2005).

financial and non-financial) stood at about $7,400 in 1966. By 2004, this support had grown to nearly $27,000.

Data in the Index and complementary estimates of program populations raise concerns about the ability of local governments and civil society organizations to provide aid and other assistance. They also raise a traditional republican concern about the long-term viability of political institutions when a significant portion of the population becomes dependent on government for most or all of its income.[43]

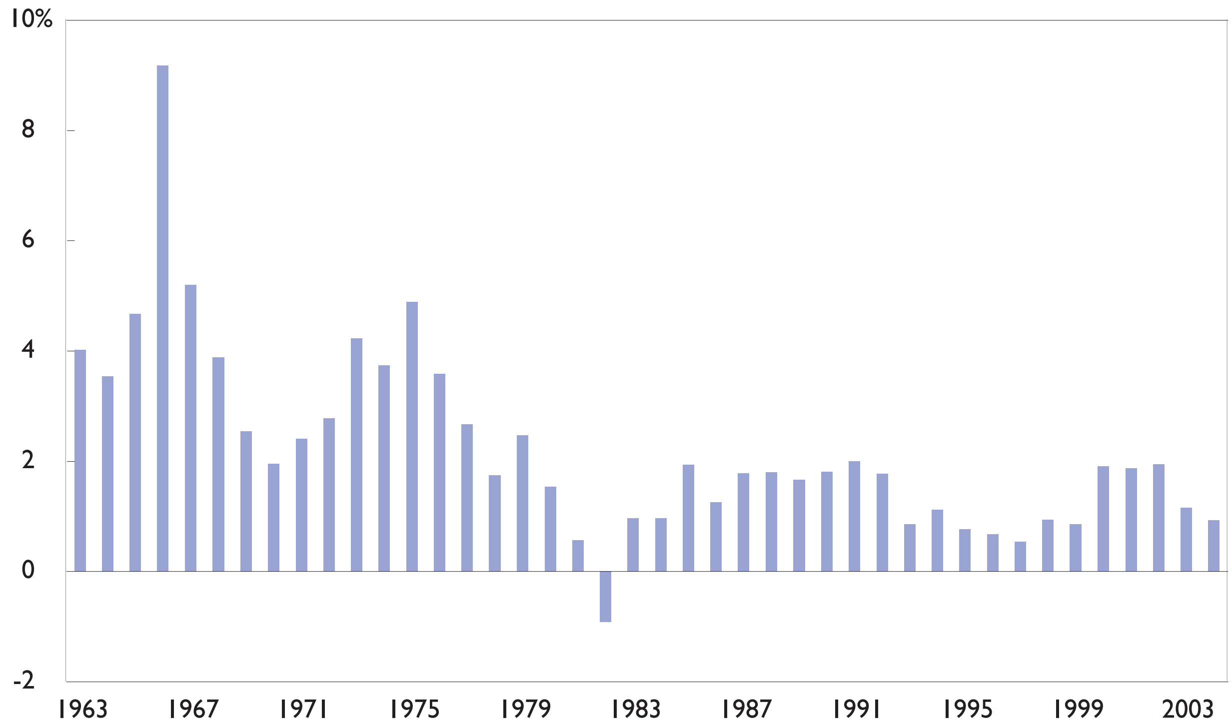
One out of six Americans (18 percent) may or may not be a sufficiently high number to trigger this concern. However, this percentage grows to 25 percent when the number of federal and state employees is added to the population of Americans receiving aid through Index programs. In 1962, the sum of these two categories (Index program participants and government employees) stood at 26.9 million. As Chart 10 shows, the estimate had grown to 75.6 million by the end of 2004, an increase of 181 percent since the early 1960s. This percentage growth is three times the U.S. population growth rate over the same period and twice the growth rate of the population age 65 and above.

As Chart 11 shows, the annual growth rates of federal and state government employment have

43. For histories of this republican concern, see Bernard Bailyn, *The Ideological Origins of the American Revolution* (Cambridge, Mass.: Harvard University Press, 1967), and Gordon S. Wood, *The Creation of the American Republic, 1776–1787* (Chapel Hill, N.C.: University of North Carolina Press, 1969).

Chart 12 CDA 05-05

Percentage Change in Sum of Program Participants and Total Government Employment, 1963-2004



Sources: U.S. Department of Education, *Title IV/Federal Pell Grant Program: End-of-Year Report, 2002–2003*, pp. 10–15, Table 1, at *www.ed.gov/finaid/prof/resources/data/pell0203.pdf* (June 8, 2005); Social Security Administration, *Annual Statistical Supplement, 2004*, forthcoming June 2005, Table 5.A4, at *www.ssa.gov/policy/docs/statcomps/supplement/2004/5a.pdf* (June 8, 2005); and Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2006* (Washington, D.C.: U.S. Government Printing Office, 2005), Table 17.5, p. 315, at *www.whitehouse.gov/omb/budget/fy2006/pdf/hist.pdf* (June 8, 2005).

generally subsided since the 1960s and 1970s. However, the growth rate of state government employment has been positive for all but three years out of the past 39. Federal employment grew during the military buildup of the 1980s, and the military downsizing following the breakup of the Soviet Union and its empire led to declining federal employment throughout the 1990s.

CONCLUSION

Public policies appear to matter in the growth of the Index of Dependency. Its rapid increase in the 1960s and 1970s marked a commitment by the federal government to solve local social and economic problems that had previously been the responsibility of local governments, civil society organizations, and families. As Chart 12 shows, the annual growth rate in the sum of government employees and the population covered by Index programs grew dramatically, even if one accounts for the military buildup during the Vietnam War.

As Charts 7 and 12 both show, the 1980s and 1990s generally witnessed much slower growth in the Index. Indeed, if the period 1989 through 1993 reflected the policies of the periods 1981 through 1988 and 1994 through 1999, the Index would have decreased in value. However, rather than fall, the Index appears to have regained the growth rates it maintained in the Carter and Bush years.

While this reinvigorated Index appears to owe its newly found vitality mostly to the spending opportunities provided by budget surpluses rather than to dramatic reversals in conservative public policy, it is likely that several key policy debates of the next few years (e.g., welfare reform, federal support for higher education, and health care reform) will determine the Index's rate of change for the next decade, if not well beyond.

—William W. Beach is John M. Olin Fellow in Economics and Director of the Center for Data Analysis at The Heritage Foundation. A number of policy personnel at The Heritage Foundation contributed significantly to this year's Index of Dependency. *Margaret Hamlin managed the numerical components. Spencer Anderson coordinated the process of updating the policy sections. Stuart Butler set the tone and focus of this year's effort.*