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THE 2006 INDEX OF DEPENDENCY

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Americans have always expressed concern about becoming dependent on government even while understanding that life's challenges make most of us, at one time or another, dependent on aid from someone else. This concern stems partly from deeply held views that life's blessings are more readily obtained by independent people and that growing dependence on government erodes the spirit of independence and self-improvement. This helps to explain the broad support for welfare reform in the 1990s.

This concern is also partly explained by a fear that the very nature of American democracy will change as citizens become more dependent on government. A citizenry that reaches a certain tipping point in its dependence 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.

Are Americans more or less dependent today than 40 years ago on the income and social support programs of government, specifically federal programs? Are Americans close to a tipping point that endangers the workings of democracy? Or has that point already been passed?

To explore these questions, we need to measure how much federal social programs have grown. How much have such programs "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 significant ground to the federal public sector?

The Index of Dependency is an attempt to measure these patterns and provide data to help us ponder the implications of these trends. Table 1 contains the Index scores for 1962–2005, with 1980 as the base year. Based on the Index, Heritage Foundation analysts have found that dependence on government has grown steadily and at an alarming rate in recent years. Specifically:

- Using a benchmark index of 100 for 1980, the Dependency Index for 2005 stands at 238, a 6.42 percent increase over the 2004 score of 224. Since 1980, the Index has more than doubled, increasing by 138 percent.
- Federal spending on educational subsidies has risen by 127 percent since 1980, growing by 21 percent in 2005 alone.
- The Index's health and welfare component has risen by 200 percent since 1980 and by 36 percent from fiscal year (FY) 2000 through FY 2005.
- Finally, recovery spending for Hurricane Katrina increased outlays in the Index's rural and agricultural services component. Direct federal outlays and outlays to states for disaster relief drove increases in this component.

This presentation of the 2006 Index of Dependency is organized into four major sections. The first section explains the purpose and theory behind the Index. The next section reviews major policy changes in the five program areas. This is followed by a methodology section that describes how the Index is constructed. The last section discusses the Index in terms of the number of Americans who depend on government programs.

Table 1 CDA 06-11

Index of Dependency Values

Year	Index Components					Index Value	Annual** Percentage Change in Index Value
	Housing	Health and Wefare	Retirement	Education	Rural and Agricultural Services		
1962	1	6	5	2	5	19	–
1963	1	6	5	2	6	21	11.73
1964	1	6	5	2	7	22	2.79
1965	2	6	6	2	6	22	-0.50
1966	2	7	6	4	4	23	5.97
1967	2	8	7	7	5	28	22.19
1968	2	9	8	8	6	34	21.32
1969	2	10	9	7	7	36	5.01
1970	3	11	9	7	7	38	7.48
1971	4	14	11	7	7	43	12.17
1972	6	17	11	7	8	49	13.77
1973	9	15	13	6	8	51	4.82
1974	9	16	14	5	5	49	-5.09
1975	9	21	15	7	5	57	17.21
1976	14	24	16	8	6	69	20.87
1977	20	23	18	9	9	78	13.53
1978	22	22	18	10	13	86	9.95
1979	25	22	19	12	12	90	5.12
1980*	30	25	20	15	10	100	10.51
1981	34	26	22	18	10	109	9.23
1982	34	25	23	14	10	106	-3.35
1983	36	26	24	13	12	112	6.11
1984	38	24	25	13	8	108	-3.40
1985	38	25	26	14	13	115	6.25
1986	38	26	27	14	14	118	2.98
1987	36	26	27	12	11	113	-4.29
1988	38	27	28	13	8	114	0.23
1989	38	28	29	16	7	118	4.09
1990	39	31	30	16	7	123	3.79
1991	40	37	31	17	7	132	7.33
1992	42	45	33	16	7	143	8.30
1993	47	47	35	20	9	157	10.20
1994	51	48	36	11	8	154	-1.83
1995	58	50	38	18	6	170	10.15
1996	56	50	39	16	6	167	-1.79
1997	56	49	41	15	6	168	0.66
1998	58	50	42	15	6	171	1.66
1999	55	53	41	13	10	173	1.04
2000	56	55	42	12	13	179	3.75
2001	57	59	44	12	11	183	1.92
2002	62	68	46	20	10	205	12.45
2003	64	73	48	26	12	223	8.51
2004	64	74	49	28	8	224	0.59
2005	64	75	51	34	15	238	6.42

* Base year.

** Scores for Index components have been rounded. Percentage change based on unrounded scores.

Source: Heritage Foundation calculations.

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 grown in areas in which private or community-based services and programs exist or have existed to address the same or similar needs. By compiling and condensing the data into a simple annual score (composed of the scores for the five components), the Index provides a useful tool in analyzing dependence on government. Policy analysts and political scientists can also use the Index and the patterns that it reveals to develop forecasts of likely trends and ponder 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. The programs were chosen for their propensity to duplicate or replace support given to needy people by families, local organizations, neighborhoods, and communities, such as help for those who are without adequate shelter, food, income, education, health care, or employment.

In calculating the Index, the expenditures for these programs are weighted to reflect the relative importance of the service (e.g., shelter, health care, and food). The intensity of someone's dependence will vary with respect to the need. For example, a homeless person's first need is generally shelter, followed by nourishment, health care, and income. We weight the program expenditures based on this hierarchy of needs, which produces a weighted index of expenditures centered on the year 1980.

Historically, individuals and local entities have typically provided more assistance than they do today. However, particularly during the 20th century, government has gradually provided more and more services that were previously provided by self-help and mutual aid organizations. Lower-cost housing is a good example. Mutual aid, religious, and educational organizations long had provided limited housing assistance, but after World War II, the federal and state governments began to provide the bulk of low-cost housing. Today, the government provides nearly all housing assistance.

Health care is another example of this 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 since 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 paying for it has changed fundamentally. 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 changed profoundly. 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 that was once 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-provided assistance has clearly altered the relationship between the person in need and the service provider. In the past, the person in need depended on help from people and organizations in his or her community. The community knew the person's needs and tailored assistance to meet those needs within the community's budgetary constraints. 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.

Both cases involve a dependent relationship. However, the dependent relationship with civil society includes expectations of the recipient person's future civil viability or ability to aid another person. The dependent relationship with the political system has no reciprocal expectations. The former is based on mutual and reciprocal aid with future aid dependent on the recipient 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 recipient's return to civil viability is not essential. Indeed, "success" in such government programs is frequently measured by the program's growth rather than the outcomes it produces. While the dependent relationship with civil society leads to a balance between the interests of the person and the community, the dependent relationship with the political system runs the risk of generating political pressure from interest groups—such as provider organizations, local communities, and the aid recipients themselves—to expand federal support.

The Index of Dependency provides a way to assess the magnitude and implications of the change in the form of dependency within American society. The steps taken in preparing this year's Index are described in the methodological section, and the Index is based principally on data from the President's annual budget proposal.[1] The last year for the 2006 Index is FY 2005. 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.

THE INDEX COMPONENTS

We began by reviewing the federal budget to identify federal programs and state activities supported by federal appropriations that fit the definition of dependency. Specifically, this standard means that a reasonable argument could be made that the program or activity provides goods or services that could crowd out or constrain private or local government alternatives. Furthermore, the immediate beneficiary must be an individual.

This standard generally excludes state programs that could foster dependency. However, federally funded programs in which the states act as intermediaries are 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 federal government and thus does not promote dependency in the sense used in this research.

We then divided the qualifying programs into five broad program areas or components:

1. Housing,
2. Health and welfare,
3. Retirement,
4. Education, and
5. Rural and agricultural services.

The following six sections discuss the pace and content of policy change in the five program areas. (Health and welfare are discussed in separate sections.)

Housing.[2] 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 to urban decay. To this end, the two initiatives—housing assistance and urban revitalization—were combined in a single federal department.

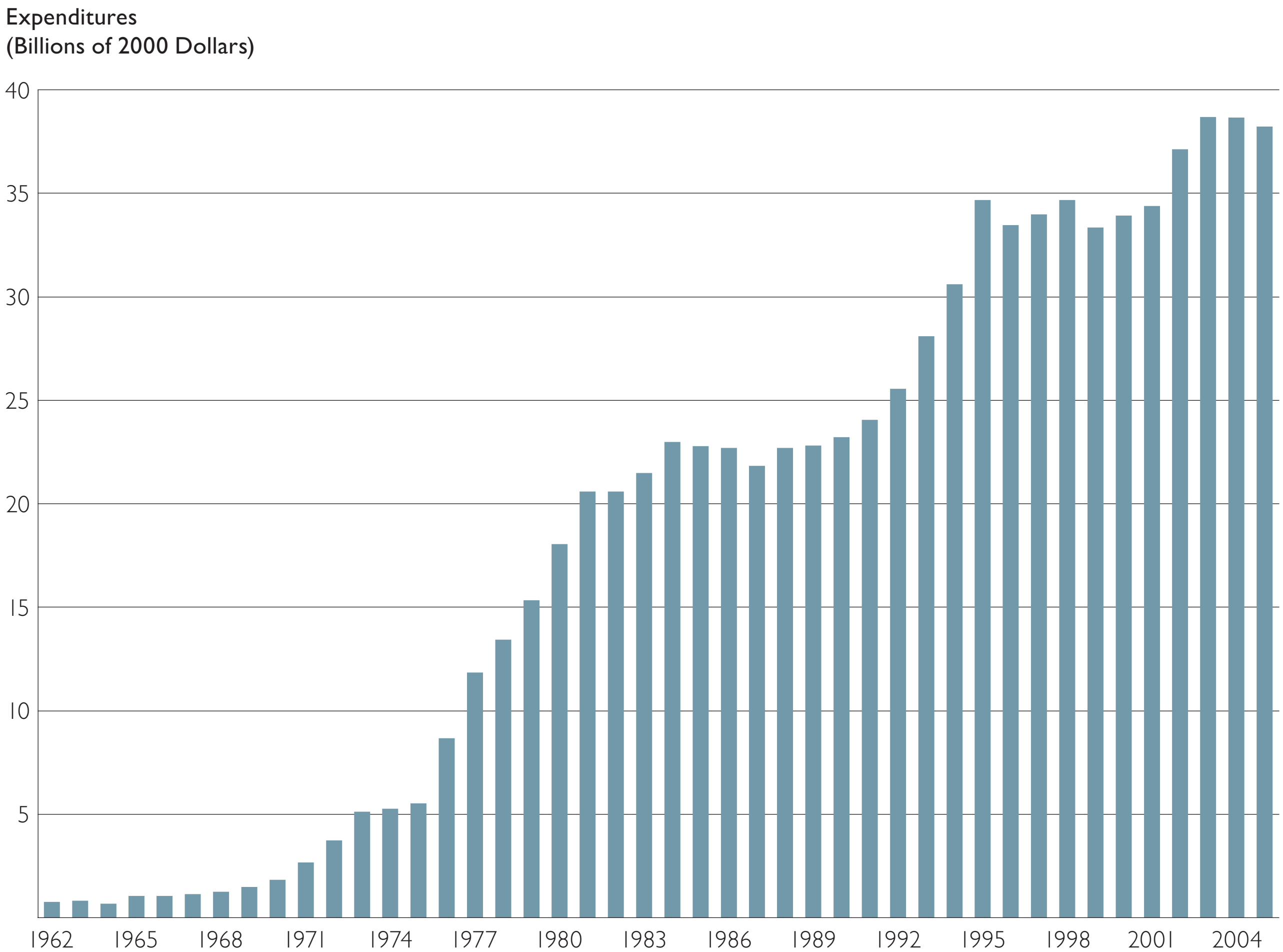
HUD spending still largely reflects that dual mission. In any given year, about 80 percent of HUD's budget is targeted toward housing assistance, and the other 20 percent is focused on urban issues by way of the Community Development Block Grant (CDBG) program. Given the nature of these programmatic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

Within the 80 percent spent on housing assistance are a series of means-tested housing programs, some of which date 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 incomes: The lower the income, the lower is the

1. Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), at *www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf* (October 30, 2006).
2. This 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.

Chart 1 CDA 06-11

Housing Spending on the Rise Again



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), p. 61, Table 3.2, and pp. 247, 249, and 259, Table 12.3, at *www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf* (July 7, 2006).

rent. Traditionally, HUD and the local housing agencies provide eligible low-income households with "project-based" assistance, an apartment unit that is owned and operated by the government. Historically, 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 the new program tends to fall out of favor after several years of disappointing results. HOPE VI is the most recent form of project-based assistance, but high costs relative to benefits have led the Administration to terminate the program in 2006.

HUD also provides "tenant-based" housing assistance to low-income households in the form of rent vouchers and certificates. These certificates help low-income households to rent apartments from the private sector by covering a portion of the rent charged by the landlord. The lower the household's income, the greater is the share of rent covered by the voucher or certificate. Vouchers were implemented in the early 1970s as a cost-effective replacement for public housing and other forms of expensive project-based assistance, but they still account for only a portion of housing assistance because of industry resistance to terminating the lucrative project-based programs.

Finally, HUD provides block grants to cities and communities through the CDBG program 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 use to provide assistance to a greater number of low-income households. In 2005, President George W. Bush proposed transferring the CDBG program from HUD to the Department of Commerce and reducing funding for the program.

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

Recognizing that HUD housing assistance can create dependency among those who receive its benefits, some Members of Congress have attempted to extend welfare reform's work requirements to HUD programs. Regrettably, advocates for the poor have thwarted these efforts. To date, the most that can be required of a HUD program beneficiary is eight hours per month of volunteer service to the community or housing project.

The complexity of HUD's changing mix of project-based housing assistance can make measuring dependency difficult, especially over time. For example, trends in real HUD spending suggest that dependency has been rising for many years. However, alternative measures, such as periodic tabulations of the share of renters receiving some form of housing assistance, indicate no change over the same period. For example, inflation-adjusted HUD spending increased by 11.6 percent from 1993 to 1999, but the share of renters receiving some form of rent subsidy fell from 18.4 percent in 1993 to 17.8 percent in 1999, according to the U.S. Census Bureau. Census estimates are available for only those two years, so it is difficult to determine the extent to which these numbers characterize the entire period. One reason for the difference may be the shift of HUD assistance to the relatively more costly HOPE VI program during the same period. HUD spending more to assist fewer households would help to explain increasing spending but a relatively stable caseload.

Health Care.[3] Public health programs, particularly Medicare and Medicaid, are contributing to the growing dependence on government programs. These two programs were enacted in 1965 to provide coverage for the elderly, poor, and disabled. Combined, they provide care for over 90 million individuals and accounted for $515 billion in federal spending in 2005, which translates into 21 percent of total federal spending and 4.2 percent of the gross domestic product (GDP).[4]

Medicare provides health care for those who are age 65 and older and for certain disabled individuals. Medicare enrollment has increased steadily since the program's enactment, which means that an increasing number of individuals depend on Medicare for their health care. In 1970, an estimated 20 million individuals were enrolled in Medicare. By 2005, the number of enrollees had more than doubled to over 42 million.[5]

Moreover, in the next five years, 77 million baby boomers will begin to retire in large numbers. This unprecedented flood of new enrollees will increase not only the number of individuals dependent on the program, but also the demand for new services and benefits. While Medicare is the primary source of health care coverage for this population, many enrollees have supplemental private sources of coverage, such as employer-provided retiree coverage. However, the demand for additional services—as illustrated by the recent addition of a universal prescription drug benefit—squeezes out the need for private coverage alternatives. Two-thirds of all Medicare enrollees had prescription drug coverage from another source before enactment of the new drug benefit.[6]

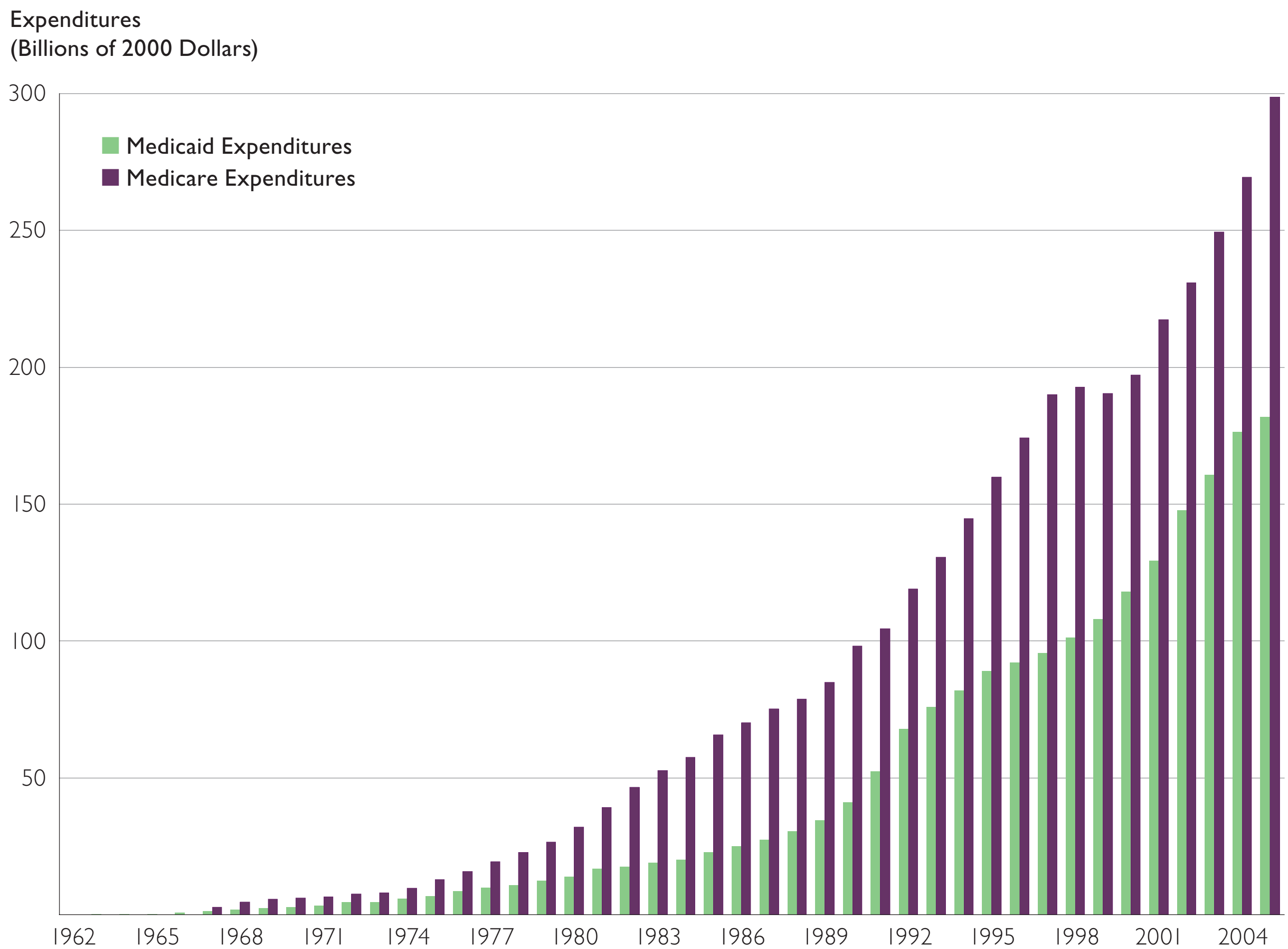
3. This section was written by Nina Owcharenko, Senior Policy Analyst for Health Care in the Center for Health Policy Studies at The Heritage Foundation.

4. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2007 to 2016*, January 2006, pp. 56 and 61, at *www.cbo.gov/ftpdocs/70xx/doc7027/01-26-BudgetOutlook.pdf* (October 30, 2006).

5. U.S. Department of Health and Human Services, *Budget in Brief, Fiscal Year 2007*, p. 51, at *www.hhs.gov/budget/07budget/2007BudgetInBrief.pdf* (October 30, 2006).

Chart 2 CDA 06-11

Medicaid and Medicare Expenditures Rising Rapidly



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), p. 61, Table 3.2, and p. 248, Table 12.3, at *www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf* (July 7, 2006).

If these trends continue, Medicare will become the sole provider, not just the primary source, of health benefits to this population.

Medicaid, the joint federal–state health care program for the poor, also faces a growing dependence on its program. In 2005, 50 million individuals were enrolled in Medicaid. Medicaid serves a diverse population of the poor, including children, adults, the elderly, and the disabled. While the majority of Medicaid enrollees are children, the majority of spending is associated with serving the elderly and the disabled.[7]

The structure of the Medicaid program varies from state to state because states can determine their own eligibility and benefit levels provided they meet a minimum federal standard. Many states have used this flexibility to expand eligibility further up the income scale. These incremental Medicaid expansions and enactment of the State Children's Health Insurance Program[8] have made

6. Joint Economic Committee, U.S. Congress, "Medicare Beneficiaries' Link to Drug Coverage," April 10, 2003, at *www.jec.senate.gov/_files/MedicareLinks.pdf* (October 30, 2006).

7. U.S. Department of Health and Human Services, *Budget in Brief*, pp. 61–62.

more individuals eligible for government health programs, particularly in working families that may have access to private coverage but choose instead to enroll in the government-run programs.

This growing dependency directly affects taxpayers. Spending for both programs is skyrocketing and projected to become even worse. By 2016, Medicare is projected to cost $6.2 trillion, and federal spending for Medicaid is expected to reach $2.9 trillion. The Congressional Budget Office anticipates that the two programs will consume between 13 percent and 22 percent of GDP by 2050.[9] Actuaries at the Centers for Medicare and Medicaid Services at the Department of Health and Human Services predict that government (both federal and state) will account for one-half of all health care spending by 2015.[10]

Congress attempted to address the growing costs by enacting the Deficit Reduction Act of 2005,[11] which aimed to save $48.8 billion by 2015 by slowing the growth of both programs.[12] However, this only addresses the cost containment side. It does not directly change the overall growing dependence on these programs. For example, the recent response to the Katrina disaster perpetuated the dependency model. The government's solution was to provide additional funding and flexibility to the states to address the health needs of the communities. Thus, not only are individuals dependent on the government, but providers of care are also becoming increasingly dependent on the government to reimburse their services, reducing the role of traditional charity care.

Government-run health care is unsustainable. Without fundamental change, there will be far greater dependence on the government for health care, fewer workers to pay for it, and less incentive for private-sector solutions. Instead of depending on the government to provide these benefits and services, a better alternative would be to convert the spending used to administer these health programs into a direct subsidy to help those in need purchase private health care coverage.

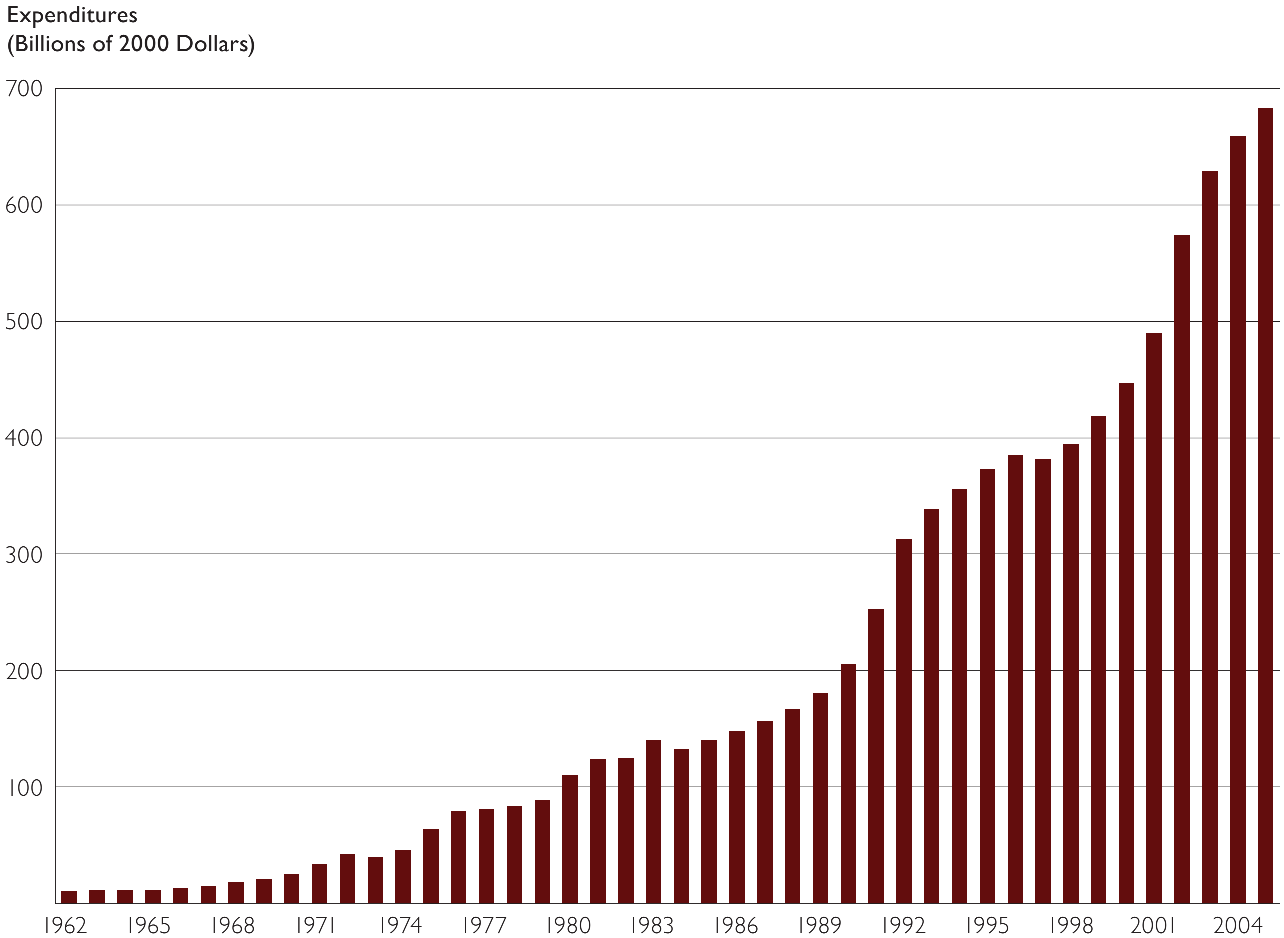
Welfare.[13] The successes of the 1996 Welfare Reform Act, formally titled the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), are undeniable. By the mid-1990s, President Lyndon B. Johnson's War on Poverty had evolved into a massive, expensive, and bureaucratic welfare state. Receiving welfare from the government had become an entitlement, eroding the bonds of civil society with deleterious social and economic consequences. Millions of able-bodied Americans lived wholly dependent on governmental assistance. In 1994, the total number of Aid to Families with Dependent Children (AFDC) recipients peaked at 14.2 million people, accounting for 5.5 percent of the U.S. population.[14] Since 1964, federal and state governments have spent $9.8 trillion (in constant 2000 dollars) on welfare programs.[15]

By replacing the open-ended AFDC with Temporary Assistance to Needy Families (TANF), a block grant program, PRWORA altered the fundamental premise of welfare and ended it as an entitlement. Receiving assistance was now conditioned on work or training for work. Recipients no longer collected benefits simply because a means test made them eligible. The new legislation aimed at breaking the culture of depen-

8. The State Children's Health Insurance Plan (SCHIP) was enacted in 1997 to provide coverage to low-income uninsured children.
9. Congressional Budget Office, *The Budget and Economic Outlook*, pp. 23 and 52.
10. Sarah Lueck, "Health Spending Likely to Outpace Economy's Growth," *The Wall Street Journal*, February 22, 2006, p. A6.
11. Public Law 109–171.
12. Congressional Budget Office, *The Budget and Economic Outlook*, p. 10.
13. This section was written by Christine Kim, Policy Analyst in the Domestic Policy Studies Division of the Domestic Policy Department at The Heritage Foundation.
14. U.S. Department of Health and Human Services, Administration for Children and Families, "Temporary Assistance for Needy Families (TANF) Percent of Total U.S. Population, 1960–1999," updated September 14, 2004, at *www.acf.hhs.gov/news/stats/6097rf.htm* (October 30, 2006).
15. Robert E. Rector, "The Size and Scope of Means-Tested Welfare Spending," testimony before the Committee on the Budget, U.S. House of Representatives, August 1, 2001, at *www.heritage.org/Research/Welfare/Test080101.cfm* (October 30, 2006).

Chart 3 CDA 06-11

After a Pause, Welfare and Low-Income Health Care Assistance Are Rising Steadily



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), p. 61, Table 3.2, and p. 248, Table 12.3, at *www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf* (July 7, 2006).

dency and restoring the sense of personal responsibility and dignity that comes with self-sufficiency. TANF also instituted time limits, which confronted long-term dependency. By 2001, the number of TANF recipients had decreased by 56.4 percent.[16] The legislation was similarly successful in reducing child poverty. Since 1996, 2.3 million children have been lifted out of poverty. The poverty rates of black children and children of single mothers fell by one-third to their lowest levels in U.S. history. The employment rate of single mothers and the rate of child support collection have risen dramatically.

While the progress since 1996 is noteworthy, comprehensive welfare reform is still incomplete. The national TANF caseload has flatlined for the past four years. By the late 1990s, most states had met the legislation's work goals, and the motivation to reduce dependence further and encourage work among recipients waned. The old routine of simply handing out benefits returned. In 2004, only 33.4 percent of TANF recipients

16. Department of Health and Human Services, Administration for Children and Families, "Percent Change in AFDC/TANF Families and Recipients August 1996–September 2001," updated February 27, 2002, at *www.acf.hhs.gov/news/stats/afdc.htm* (October 30, 2006).

worked. The persistence of an able-bodied recipient population neither working nor training for work undermines the moral strength and efficacy of the law.

Furthermore, the 1996 legislation reformed only one welfare program, AFDC. Today's welfare system is a convoluted machinery of 70 programs, six federal departments, and a large collection of state agencies and programs. A typical welfare recipient family could be receiving assistance from six or seven programs (e.g., TANF, Medicaid, food stamps, public housing, Head Start, and the Social Service Block Grant) administered by four different departments.[17] Too many of these welfare programs operate on means-tested eligibility and without any real mechanism to break dependence. Ten years after the reform, the welfare system still rewards non-work.

In February 2006, Congress reauthorized TANF, reenergizing the welfare reform effort. Once again, states will be required to increase work participation and to reduce their welfare caseloads using the lower 2005 caseload levels as the new baseline, which essentially restarts the 1996 reform. Although the new legislation is another sizeable step toward reducing dependency, it still fails to address other welfare programs in need of serious reform, such as Medicare, food stamps, and public housing. These programs continue to dole out benefits to able-bodied, non-elderly adults without meaningful work conditions. Further reform efforts should focus on applying TANF principles to other failing welfare programs that subsidize idleness and foster dependency.

Moving idle welfare recipients into jobs is only one variable in the welfare reform equation. When Congress enacted PRWORA, it highlighted two other urgent needs: reducing illegitimacy and restoring marriage.[18] The erosion of marriage and family is a primary contributing factor in child poverty and welfare dependence, and it figures significantly in a host of social problems. In 2003, one child in three was born out of wedlock. The rate was 68 percent among blacks and 45 percent among Hispanics.[19] A child born out of wedlock is seven times more likely to experience poverty than a child raised by married parents, and more than 80 percent of long-term child poverty occurs in broken or never-married homes. Moreover, the absence of marriage and fathers in the home negatively affects all aspects of child development, educational achievement, emotional and mental health, and propensity toward crime and drug and alcohol abuse.[20]

Not surprisingly, the welfare state is overwhelmingly a subsidy system for single parents. Roughly three-quarters of the aid to children in 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. State governments were expected to use TANF funds to achieve these twin goals of reducing illegitimacy and restoring marriage, but over the past seven years they have spent only about $20 million (0.02 percent) of the $100 billion in federal TANF funding on pro-marriage initiatives. Even with the dedicated funding and the availability of promising pro-marriage programs—mostly offered by not-for-profit and private-sector organizations—state welfare agencies have failed to implement any significant pro-marriage agenda.

The 2006 reauthorization contains a notable measure that begins to rectify the inattention to promoting marriage and family. For the first time, Congress enacted a Healthy Marriage Initiative, allo-

17. Robert E. Rector, "Means-Tested Welfare Spending: Past and Future Growth," testimony, March 7, 2001, at *www.heritage.org/Research/Welfare/Test030701b.cfm* (October 30, 2006).

18. In the opening section of PRWORA, Congress states the following findings: "(1) Marriage is the foundation of a successful society. (2) Marriage is an essential institution of a successful society which promotes the interests of children." It goes on to say that the "increase in the number of children receiving public assistance is closely related to the increase in births to unmarried women. Between 1970 and 1991, the percentage of live births to unmarried women increased nearly three-fold, from 10.7 percent to 29.5 percent." Public Law 104–193, § 101.

19. Department of Health and Human Services, Center for National Health Statistics, Natality, Vol. 1 of *Vital Statistics of the United States*, 2001, Table 1-17, at *www.cdc.gov/nchs/data/statab/t991x17.pdf* (October 30, 2006).

20. Patrick F. Fagan, Robert E. Rector, Kirk A. Johnson, Ph.D., and America Peterson, *The Positive Effects of Marriage: A Book of Charts* (Washington, D.C.: The Heritage Foundation, 2002), at *www.heritage.org/Research/Features/Marriage/index.cfm* (October 30, 2006).

cating $100 million in TANF funds to local organizations that provide marriage-centered services and skills training to recipients. In doing so, the government is finally recognizing the critical role that a stable marital and family environment plays in reducing child poverty and welfare dependence. Although a modest fiscal move—the marriage promotion funds come to a penny for every 15 dollars spent on subsidizing single parenthood—the initiative takes a purposeful stride toward revolutionizing welfare policy and beginning to uproot a fundamental cause of welfare dependence. In the coming years, funding for the Healthy Marriage Initiative should be increased, and the anti-marriage bias and economic marriage penalties inherent in other means-tested welfare programs (e.g., EITC for married couples with children) should be removed.

Retirement.[21] Since the time of President Franklin D. Roosevelt, the American retirement system has been described as a three-legged stool consisting of Social Security, employment-based pensions, and personal savings. Yet the reality is quite different. Almost half of American workers (about 71 million) are employed by companies that do not offer any type of pension plan. This proportion of private pension coverage has remained roughly stable for many years, and experience has shown that few workers can save enough for retirement without an employer-sponsored pension plan. For workers without a pension plan, the reality of their retirement is closer to a pogo stick consisting almost entirely of Social Security.

Since 1935, Social Security has provided a significant proportion of most Americans' retirement income. The program pays a monthly check to retired workers and benefits to surviving spouses and children under the age of 18.[22] Monthly benefits are based on the indexed average of a worker's monthly income over a 35-year period, with lower-income workers receiving proportionately higher payments and higher-income workers receiving proportionately less. The lowest-income workers receive about 70 percent of their pre-retirement income, average-income workers receive 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 on an inexorable course toward fiscal crisis. To break even, Social Security needs at least 2.9 workers paying taxes for each retiree receiving benefits. Today, the ratio is 3.3 workers per retiree and dropping because the baby boomers produced fewer children and are now nearing retirement. The ratio will reach 2.9 workers per retiree in 2017 and drop to 2.0 per retiree in the 2030s.

This is a problem because current retiree benefits are paid from the payroll taxes collected from today's workers. Starting in 2017, Social Security will not collect enough in taxes to pay all of the promised benefits.

Since 1983, workers have been paying more in payroll taxes than the program needed to pay benefits. These additional taxes were supposed to accumulate to help to finance retirement benefits for baby boomers. However, these excess taxes were not saved or invested for the future. Instead, the money was spent to finance government programs. In return for the diverted revenue, Social Security's trust fund received special-issue U.S. Treasury bonds.

In 2017, when Social Security starts redeeming its special-issue Treasury bonds, the federal government will have to pay off the bonds through either higher taxes or massive borrowing. By about 2027, when the last bond is redeemed, promised Social Security benefit payments will exceed payroll tax revenues by $200 billion per year (in 2006 dollars).

Social Security's uncertain future is a problem for all workers, but especially for the roughly half of the American workforce that has no other retirement program. Few of them have any significant savings, and they will depend heavily on the government for their retirement income.

This dependence is due largely to government policies. By soaking up money that could otherwise be invested for the future, Social Security's high tax rate makes it much harder for lower-income and moderate-income workers to accumulate any significant savings.

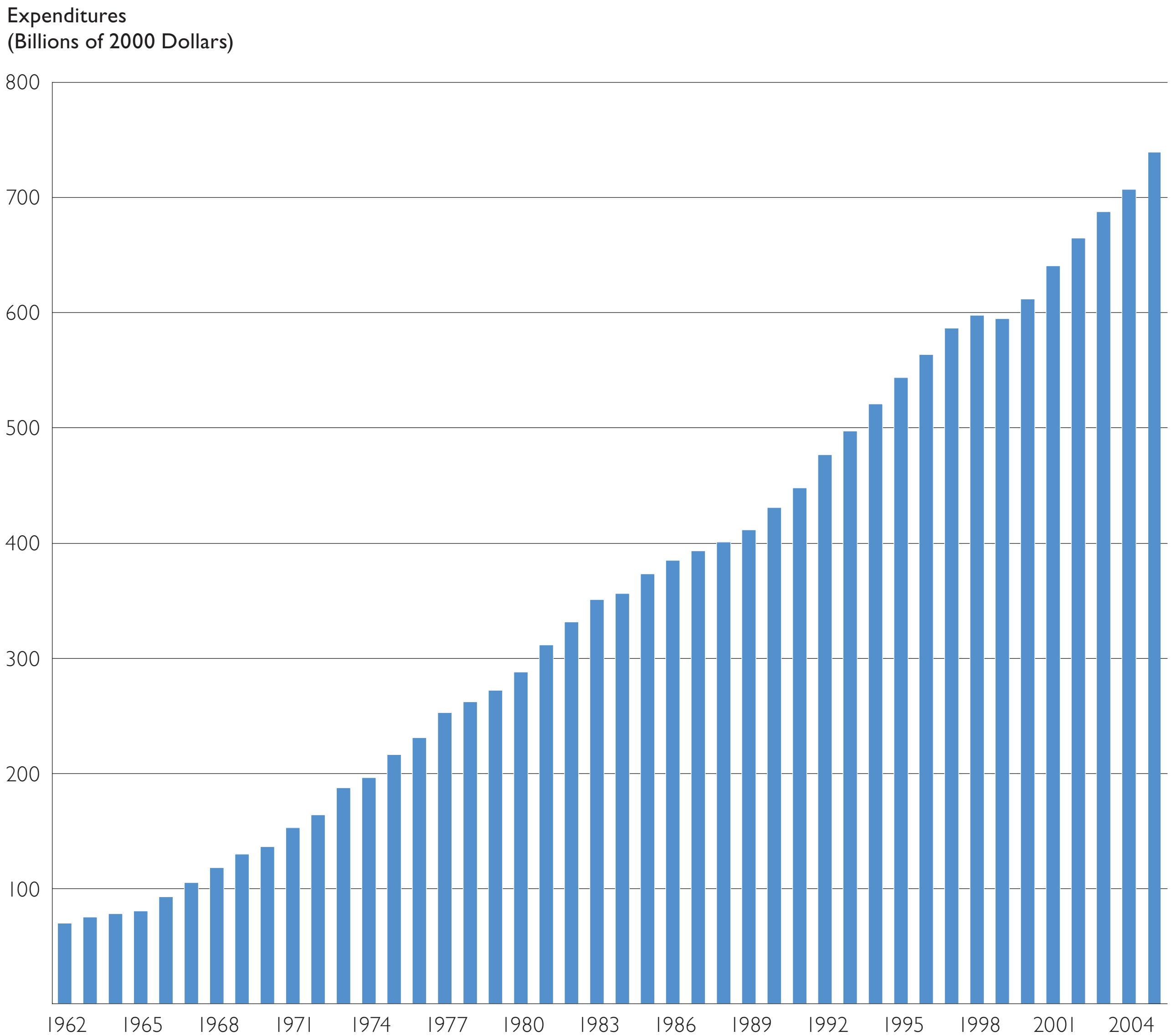
Government policies also discourage the growth of occupational pensions to cover a higher proportion of

21. This section was prepared by David C. John, Senior Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

22. Social Security also has a separately financed disability program that is outside of the scope of this discussion.

Chart 4 CDA 06-11

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 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), p. 61, Table 3.2, at *www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf* (July 7, 2006).

the workforce. Over the past few decades, the cost of traditional pension plans has skyrocketed, and thousands of them have closed. Efforts to develop innovative hybrid pension plans stalled when confusing laws and regulations resulted in lawsuits.

While many larger employers have substituted defined-contribution plans, such as 401(k) plans, both types of plans are subject to the Employee Retirement Income Security Act (ERISA). ERISA regulations are especially onerous to smaller employers, who usually lack the resources to hire a good funds manager and the necessary knowledge of the complex legal requirements. As a result, small businesses hesitate to offer retirement plans to their workers for fear of accidentally violating a regulation.

A simpler, less regulated account suitable to smaller businesses would go a long way toward increasing the number of workers with retirement savings. Simplified automatic enrollment procedures, automatic investment choices, procedures that allow savings to follow the worker from employer to employer, and better annuity choices would also help. Regrettably, until these policies move from theory to reality, Americans face increased dependence on a government-managed Social Security system that cannot possibly meet their needs.

Higher Education.[23] In 2006, the federal government will help more than 10 million Americans pay their higher education costs. According to the College Board, federal student aid for higher education during the 2004–2005 school year totaled $90 billion, a real increase of 103 percent over the past decade. These subsidies include $63 billion in loans, $18 billion in grants, $8 billion in tax credits and deductions, and $1 billion in work-study assistance.[24] While participation in federal higher education programs is highest among low-income students, increasing numbers of middle-income and upper-income families are benefiting from federal subsidies.[25]

President Bush's 2007 budget proposal calls for the Department of Education to administer $82 billion in federal aid for higher education. This includes $13 billion for Pell Grants, which are tuition scholarships given to an estimated 5 million low-income and middle-income students. The budget proposal also calls for $66 billion in guaranteed and direct student loans and a variety of tax incentives to subsidize higher education in 2007, including $3.1 billion for the Helping Outstanding Pupils Educationally (HOPE) tax credit, $2.0 billion under the Lifetime Learning tax credits, and $810 billion for student loan interest deductions.[26] Subsidies to students through grants, loans, and tax breaks will be complemented by billions of dollars in direct federal subsidies to higher education institutions for research and other programs.

Despite this considerable investment in higher education subsidies, there is growing concern about rising tuition costs at American colleges and universities.[27] According to the College Board, during the 2005–2006 school year, the total cost of tuition and fees increased by 5.9 percent at four-year private colleges and by 7.1 percent at public colleges.[28] These increases continue the general trend in recent decades of steady annual tuition increases. Between 1982 and 2003, college tuition costs increased by 295 percent, outpacing health care (195 percent), housing (84 percent), and all items (83 percent.)[29]

In his book *Going Broke by Degree*, Ohio University economist Richard Vedder argues that increasing government support for higher education has contributed to rising tuition costs. "Students receiving grants or subsidized loans are far less sensitive to tuition increases than they would be if they were paying their own way," Dr. Vedder argues. "Where entrepreneurs in a free, unsubsidized market seek to cut costs and lower their prices to lure new customers away from businesses that are raising theirs, there is very little of that in higher education."[30]

Families, taxpayers, and policymakers should question whether increasing the number of students who depend on federal subsidies for higher education is making college more or less affordable. In 2004–2005, 5.3 million students received federal

23. This section was written by Dan Lips, Education Analyst in the Domestic Policy Studies Division of the Domestic Policy Department at The Heritage Foundation.

24. College Board, "Trends in Student Aid, 2005," *Trends in Higher Education Series*, p. 7, at *www.collegeboard.com/prod_downloads/press/cost05/trends_aid_05.pdf* (May 21, 2006).

25. Krista Kafer, "Refocusing Higher Education Aid on Those Who Need It," Heritage Foundation *Backgrounder* No. 1753, April 26, 2004, at *www.heritage.org/Research/Education/bg1753.cfm*.

26. U.S. Department of Education, *Fiscal Year 2007 Budget Summary*, February 6, 2006, at *www.ed.gov/about/overview/budget/budget07/summary/07summary.pdf* (October 30, 2006).

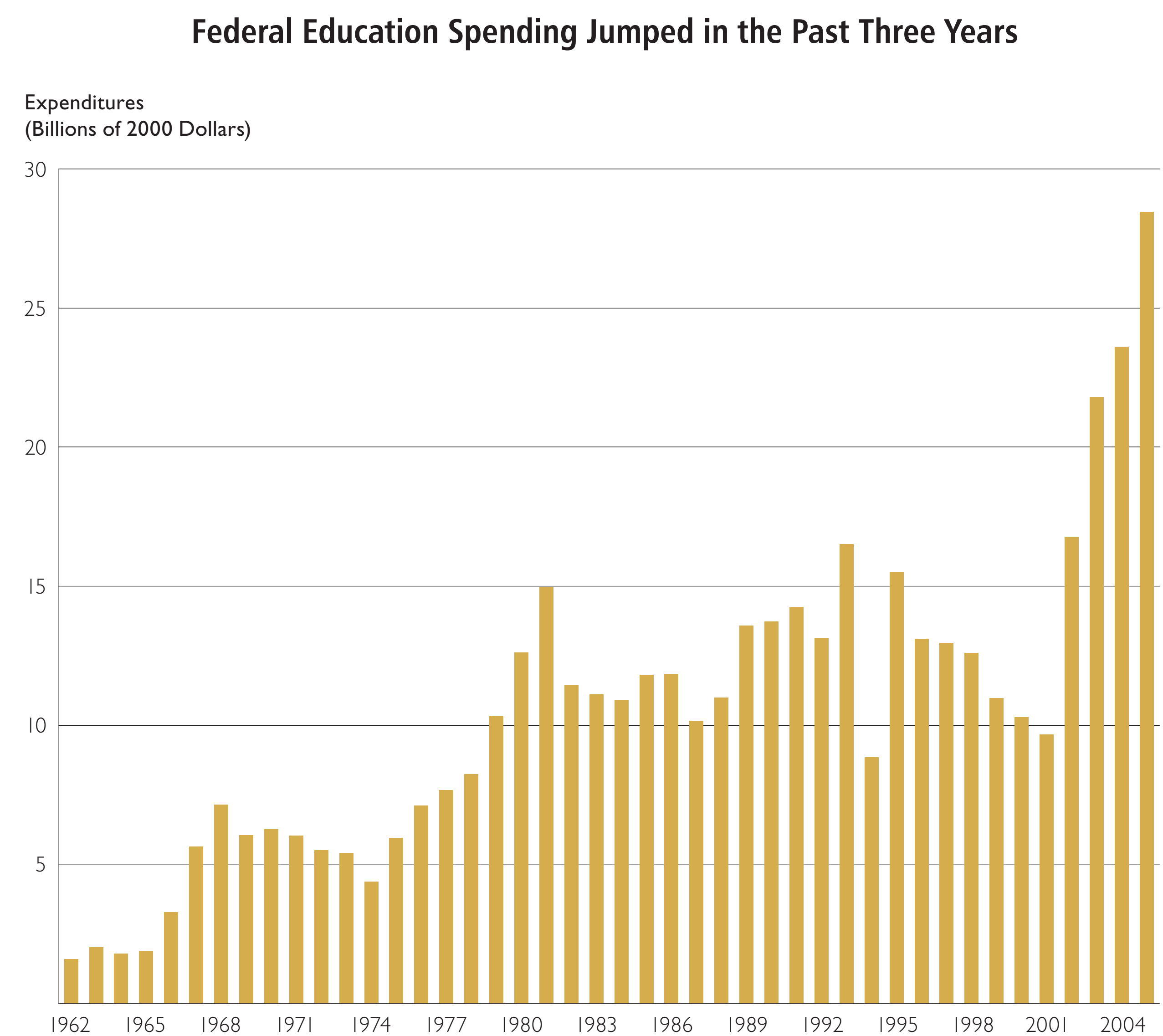
27. For instance, see Jane Bryant Quinn, "Colleges' New Tuition Crisis," *Newsweek*, February 2, 2006, at *www.msnbc.msn.com/id/4050965/site/newsweek* (May 21, 2006).

28. College Board, "Trends in College Pricing, 2005," *Trends in Higher Education Series*, at *www.collegeboard.com/prod_downloads/press/cost05/trends_college_pricing_05.pdf* (October 30, 2006).

29. Richard Vedder, *Going Broke by Degree: Why College Costs Too Much* (Washington, D.C.: AEI Press, 2004), p. 12.

30. *Ibid.*, p. xvi.

Chart 5 CDA 06-11



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), p. 61, Table 3.2, and p. 248, Table 12.3, at *www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf* (July 7, 2006).

Pell Grants, an increase of 44 percent over 10 years. Nearly 11 million benefited from various higher education tax breaks, a 136 percent increase.[31]

Importantly, the federal government is providing an increasing number of grant and loan subsidies to students from non–economically disadvantaged families. The College Board reported that "recent changes in student aid policies have benefited those in the upper half of the income distribution more than those in the lower half."[32] A recent Department of Education report found that 47 percent of students from middle-income families accepted federal loans in 2000, compared to 31 percent in 1993. Among students from higher-income families, the percentage increased from 13 percent to 42 percent over the same period.[33]

31. *Ibid.*, p. 10.

32. Press release, "Tuition Increases Slow at Public Colleges, According to the College Board's 2005 Reports on College Pricing and Financial Aid," College Board, October 18, 2005.

Increasing reliance on federal higher education subsidies also affects students and families by discouraging saving for education. A recent poll found that half of parents surveyed had saved less than $1,000 for their children's college education.[34] According to the College Board, the median debt level of a typical graduate is $19,400 at a nonprofit, four-year institution and $24,600 at a for-profit, four-year institution.[35]

Congress is scheduled to reauthorize the bulk of the Higher Education Act (HEA) in 2007. In February, President Bush signed into law the Deficit Reduction Act, which reauthorized the HEA's mandatory spending programs. Reauthorization of the HEA's discretionary programs is still awaiting congressional approval.[36] As Congress considers reforms in HEA discretionary programs, it should curb growing dependence on government by refocusing the legislation on its original intent: providing education subsidies and grants to those who cannot otherwise afford higher education.

Rural and Agricultural Services.[37] Much of the rapid increase in "rural and agricultural assistance" dependency is rooted in farm subsidy programs. A multitude of farm subsidy programs (e.g., 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 that they can undercut international competitors.[38]

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

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 actually 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: what crops are grown and how much is grown. Approximately 90 percent of all farm subsidies goes to growers of just five crops: wheat, corn, cotton, soybeans, and rice. Growers of most other crops are ineligible for most subsidy programs, regardless of need.

Those who plant more crops receive 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 who plant the most crops only encourages farmers to plant more crops, driving prices even lower and leading to calls for larger subsidies. Furthermore, while paying some farmers to plant more crops, the Conservation Reserve Program pays

33. U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, *The Condition of Education 2003, Federal Grants and Loans*, NCES 2003–067.

34. Krista Kafer, "Refocusing Higher Education Aid on Those Who Need It," p. 3.

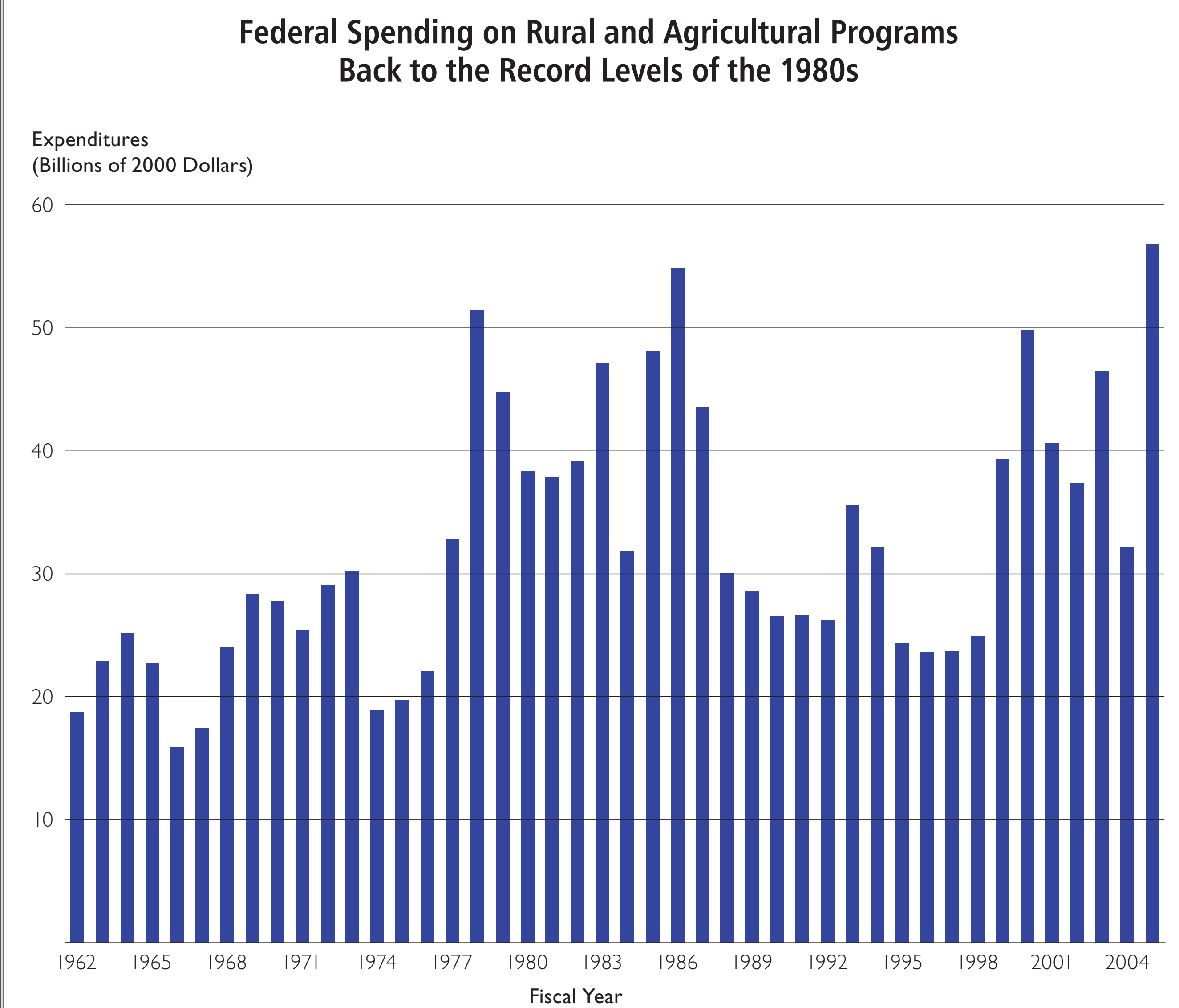
35. College Board, "Trends in Student Aid, 2005," p. 12.

36. Committee on Education and the Workforce, U.S. House of Representatives, "The College Access & Opportunity Act (H.R. 609)," March 20, 2006, at *www.house.gov/ed_workforce/issues/109th/education/hea/hr609billsummary.htm* (May 22, 2006).

37. 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.

38. 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*.

Chart 6 CDA 06-11



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), pp. 55 and 61, Table 3.2, and p. 247, Table 12.3, at *www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf* (July 7, 2006).

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."[39]

Eventually, Congress acknowledged the failures of centrally planned agriculture. The 1996 Federal Agricultural Improvement and Reform Act of 1996[40] (also known as the Freedom to Farm Act) was designed to phase out farm subsidies gradually by 2002 and allow the agricultural sector to operate as a free market.

However, after spending just $6 billion on farm subsidies in 1996, Congress overreacted to a temporary dip in crop prices in 1998 (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

39. 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).

40. 7 U.S. Code § 7201.

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 socialism is now the overwhelming preference of Congress and the White House.

Farm dependency will almost certainly continue. Policymakers mistakenly see farm subsidies as the solution to (rather than a significant cause of) low crop prices. Expensive disaster payments are doled out whether the weather is bad (crops 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. Currently, there are no plans to move farmers toward self-sufficiency.

Table 2 CDA 06-11

Programs Used to Calculate Index Values

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

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. Retirement
- Medicare
- Social Security
- General retirement and disability insurance

IV. Education
- Federal higher education
- State higher education

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.

HOW THE DEPENDENCY INDEX IS CONSTRUCTED

After identifying the government programs that may contribute to dependency, the data were further examined to identify the components that contributed to variability. Relatively small programs that required little funding and short-term programs were excluded. The remaining expenditures were summed on an annual basis for each of the five major categories listed in Table 2.[41] The program titles are those used by the Office of Management and Budget for budget function and subfunction in the budget accounting system.

Data were collected for FY 1962 through FY 2005. Deflators centered on 2000 were employed to adjust for inflation.

Indexes are intended to provide insight into phenomena that are either so detailed or so complicated that simplification through arbitrary but reasonable rules is required for obtaining anything other than a rudimentary understanding. For example, 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 price changes. The components of this basket are weighted to reflect their relative importance to overall price change. For example, energy prices are weighted as more important than clothing prices. Multiplying the weight times the price produces a weighted price for each element of the CPI, and the total of the weighted prices is roughly the CPI score.

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. The total of the weighted values is the Index value for that year.

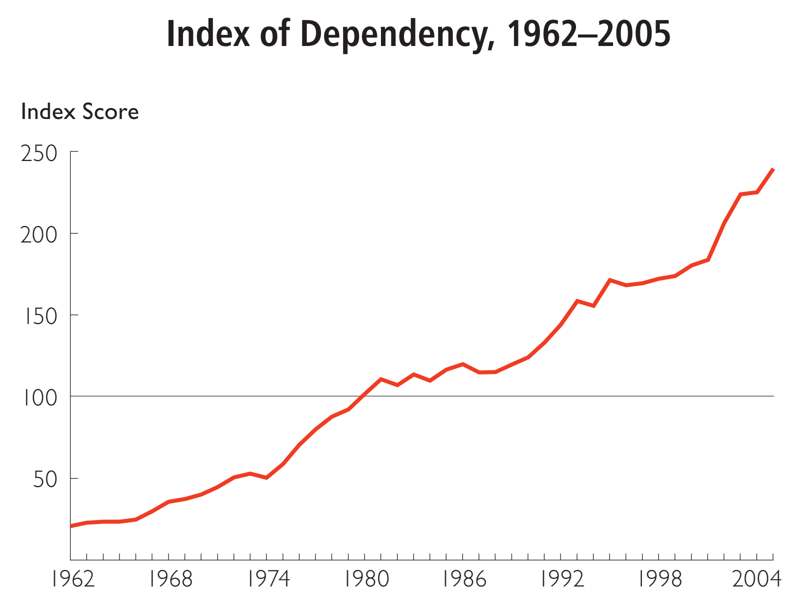
41. Office of Management and Budget, *Historical Tables*.

The Index is calculated using the following weights:

1. Housing: 30 percent;
2. Health and welfare: 25 percent;
3. Retirement: 20 percent;
4. Education: 15 percent; and
5. Rural and agricultural: 10 percent.

The weights are "centered" on the year 1980. This means that the total of the weighted values for the Index components will equal 100 for 1980, which gives the Index a reference year from which all other Index values can be evaluated.

Chart 7 CDA 06-11



Source: Heritage Foundation calculations.

The year 1980 was chosen because of its apparent significance in American political philosophy. Many analysts view 1980 as a watershed year in U.S. history because it seems to mark the beginning of the decline in left-of-center public policy and the emergence of right-of-center challenges to policies based on the belief that social systems fail without the guiding hand of government.[42]

The Index certainly reflects such a watershed. Chart 7 plots the Index from 1962 to 2005. The scores have clearly drifted upward over the entire period.

Two plateaus in the Index—the 1980s and 1995–2001—suggest that policy changes may significantly influence the Index growth rate. During the early 1980s, the growth of some domestic programs was slowed to pay for increased defense spending, and Congress enacted significant policy changes in welfare and public housing during the 1990s. Both of these reduced the Index growth rate.

Figure 1 connects the Index to major public policy changes. The largest jump in the Index occurred during the Johnson Administration following passage of the Great Society programs. The Johnson Administration not only launched Medicare and other health programs, but also vastly expanded the federal role in providing and financing low-income housing. The Index also jumped 127 percent (from 33 to 75) under the Nixon and Ford Administrations, when Republicans were funding and implementing substantial portions of the Great Society programs.

The two periods of relatively more conservative public policy (the 1980s and 1995–2001) stand out clearly in Figure 1. The slowdowns in spending increases during the Reagan years and after the 1994 congressional 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. However, the return of budget surpluses during the last years of the Clinton Administration led to significant spending increases for all of the components, particularly education and health care. Since then, the Index has grown at roughly the same rate as it has during the past 25 years.

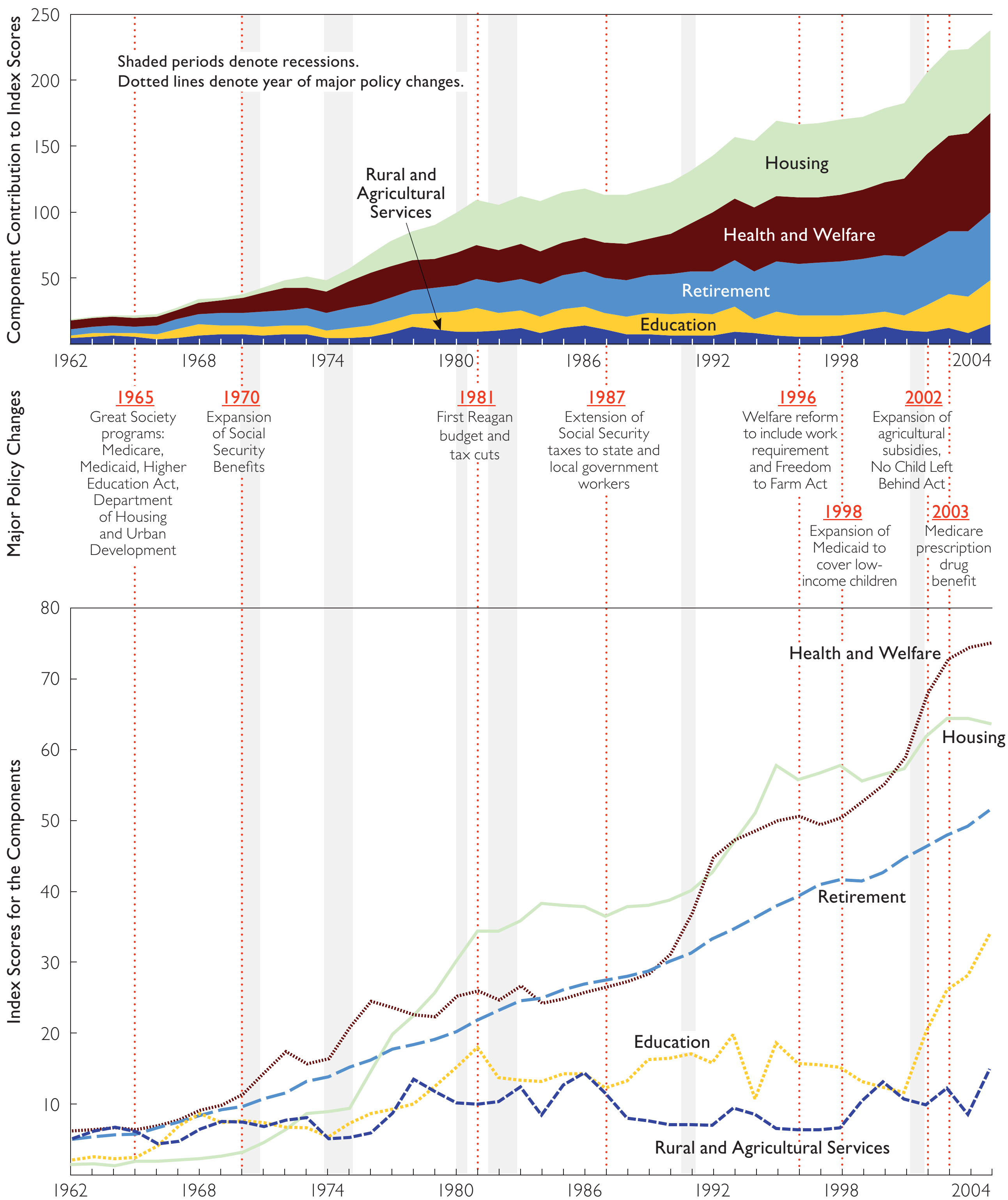
CALCULATION OF COVERED POPULATION

The Index reflects the growth of federal government programs that arguably crowd out or substitute for similar initiatives at lower levels of government or by organizations within civil society. Index values do not depend on the number of peo-

42. For example, see John Micklethwait and Adrian Wooldridge, *The Right Nation: Conservative Power in America* (New York: Penguin Press, 2004), pp. 64–93.

Figure 1 CDA 06-11

Dependency Index Values and Major Policy Changes



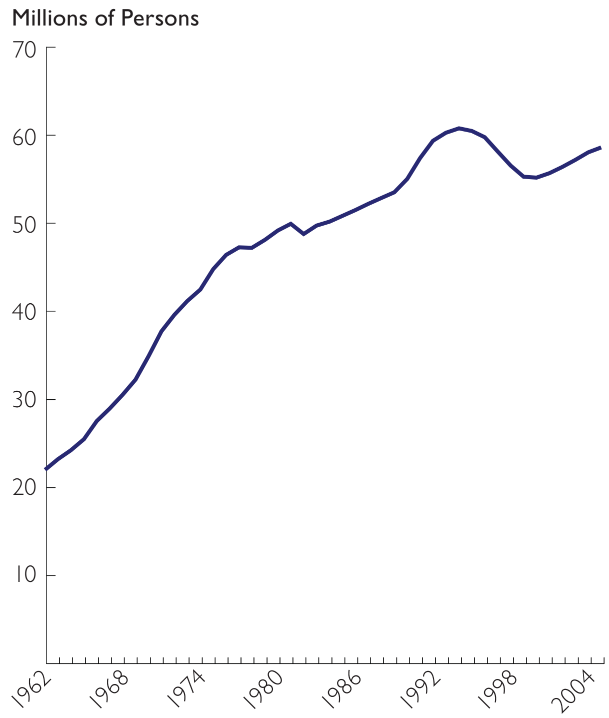
Sources: Heritage Foundation calculations and National Bureau of Economic Research, "US Business Cycle Expansions and Contractions," at *www.nber.org/cycles/cyclesmain.html* (August 8, 2006).

ple receiving support through these programs, but that number nevertheless sheds additional light on what the Index shows.

Data on the number of people enrolled in or benefiting from the programs listed in Table 2 between 1962 and 2005 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, we believe that duplicates undoubtedly remain, and an arbitrary reduction of 5 percent was imposed in each year to account for undetected double counting. As good as they are, government data cannot be used to produce a completely accurate count of aid recipients.

Chart 8 CDA 06-11

Number of Persons in the Index of Dependency, 1962–2005



Sources: Pearson Government Solutions, *2003–2004 Federal Pell Grant Program End-of-Year Report*, U.S. Department of Education, Office of Postsecondary Education, pp. 10–15, Table 1, at *www.ed.gov/finaid/prof/resources/data/pell0304.pdf* (July 7, 2006), and Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin, 2005*, February 2006, pp. 5.25, Table 5.A4, at *www.ssa.gov/policy/docs/statcomps/supplement/2005/supplement05.pdf* (November 6, 2006).

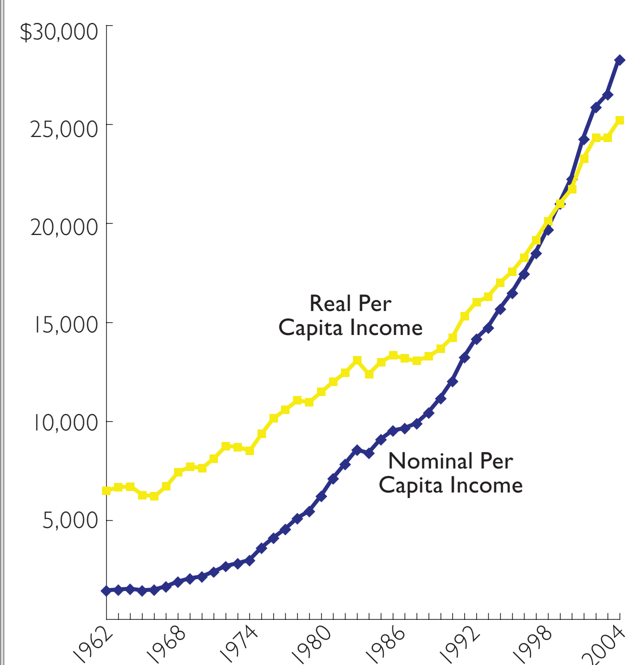
Chart 8 shows the annual number of program participants from 1962 through 2005. On the eve of the Great Society programs, some 22 million people (12 percent of the population in 1962) received assistance through the programs listed in Table 2 that existed at the time. Today, 52.6 million people (18 percent of the total U.S. population) receive some level of assistance through the programs included in the Index.

Growth in both income and non-financial support among program participants has accompanied the expansion of people receiving assistance. Per capita financial and non-financial support stood at about $6,400 in 1966. By 2005, this support had grown to slightly over $25,000. (See Chart 9.)

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 traditional republican concern about the long-term viability of political institutions when a significant portion of the population

Chart 9 CDA 06-11

Per Capita Income from Dependency-Related Programs, 1962–2005



Source: Heritage Foundation calculations.

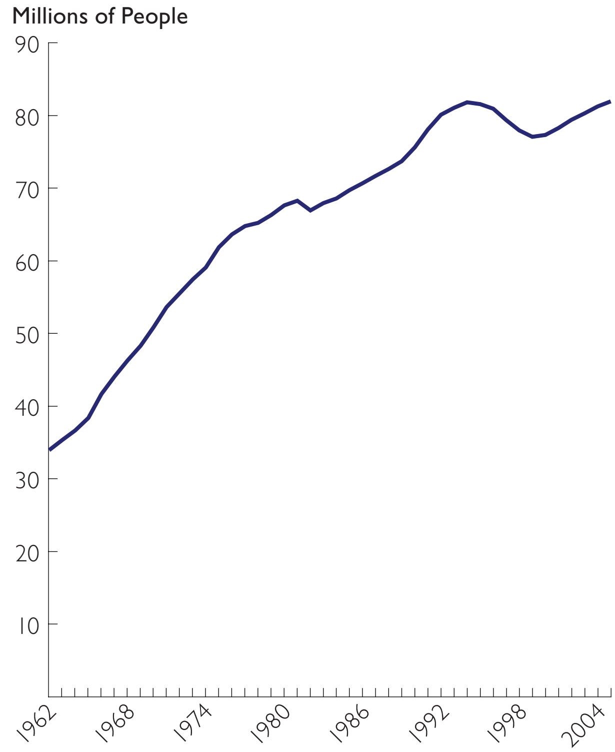
becomes dependent on government for most or all of its income.[43]

More than one out of six Americans (18 percent) may or may not be a sufficiently high percentage to trigger this concern. However, this percentage grows to 25 percent when federal and state employees are included. In 1962, the sum of these two categories (Index participants and government employees) stood at 33.9 million. This total grew to 81.7 million by the end of 2005, an increase of 141 percent. This is two-and-a-half times the growth rate of the U.S. population over the same period and 1.3 times the growth rate of the population age 65 and above. (See Chart 10.)

The annual growth rate of federal and state government employment has generally subsided since the 1960s and 1970s. (See Chart 11.) 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 during the military downsizing after the collapse of the Soviet Union, which led to negative change rates in federal employment throughout the 1990s.

Chart 10 CDA 06-11

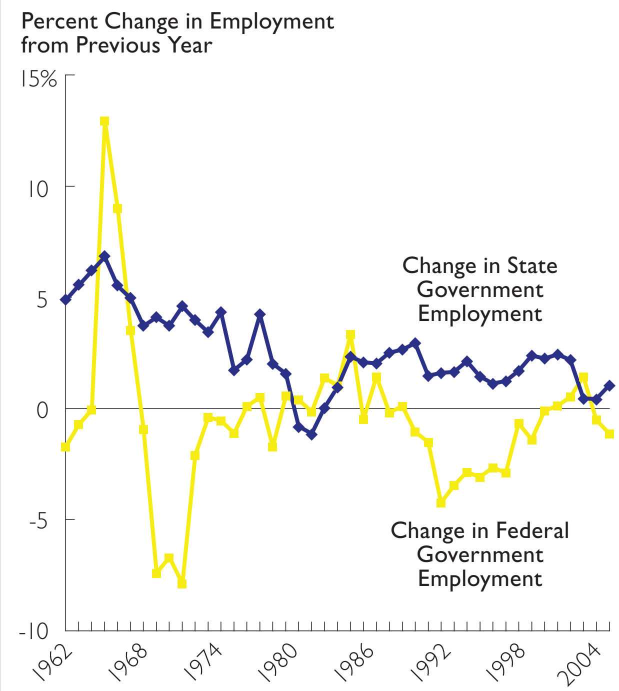
Sum of Program Participants and All Government Employees, 1962–2005



Sources: Pearson Government Solutions, *2003–2004 Federal Pell Grant Program End-of-Year Report*, U.S. Department of Education, Office of Postsecondary Education, pp. 10–15, Table 1, at *www.ed.gov/finaid/prof/resources/data/pell0304.pdf* (July 7, 2006); Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin, 2005*, February 2006, pp. 5.25–5.26, Table 5.A4, at *www.ssa.gov/policy/docs/statcomps/supplement/2005/supplement05.pdf* (November 6, 2006); and Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), p. 324, Table 17.5, at *www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf* (July 7, 2006).

Chart 11 CDA 06-11

Change in Federal and State Government Employment, 1963–2005



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2007* (Washington, D.C.: U.S. Government Printing Office, 2006), p. 324, Table 17.5, at *www.whitehouse.gov/omb/budget/fy2007/pdf/hist.pdf* (July 7, 2006).

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).

CONCLUSION

Public policy appears to matter in the growth of the Index of Dependency. The rapid increase in the 1960s and 1970s corresponds with a new commitment by the federal government to solve local social and economic problems, which had previously been the responsibility of local governments, civil society organizations, and families. The sum of government employees and the population covered by Index programs grew dramatically, even after accounting for the military buildup for the Vietnam War during the mid-1960s.

The 1980s and 1990s generally witnessed much slower growth in the Index. Indeed, if the period 1989–1993 had reflected the policies of the periods 1981–1988 and 1994–2001, the Index would have decreased in value. However, rather than fall, the Index appears to have resumed the growth rates maintained during the Carter and George H. W. Bush Administrations.

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

—William W. Beach is 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. Heritage policy experts David C. John, Dan Lips, Jennifer A. Marshall, Nina Owcharenko, Christine C. Kim, Brian M. Riedl, and Ronald D. Utt contributed commentary on the policy elements; Margaret Hamlin managed the numerical components of the Index; and Spencer Anderson coordinated the process of updating the policy sections.