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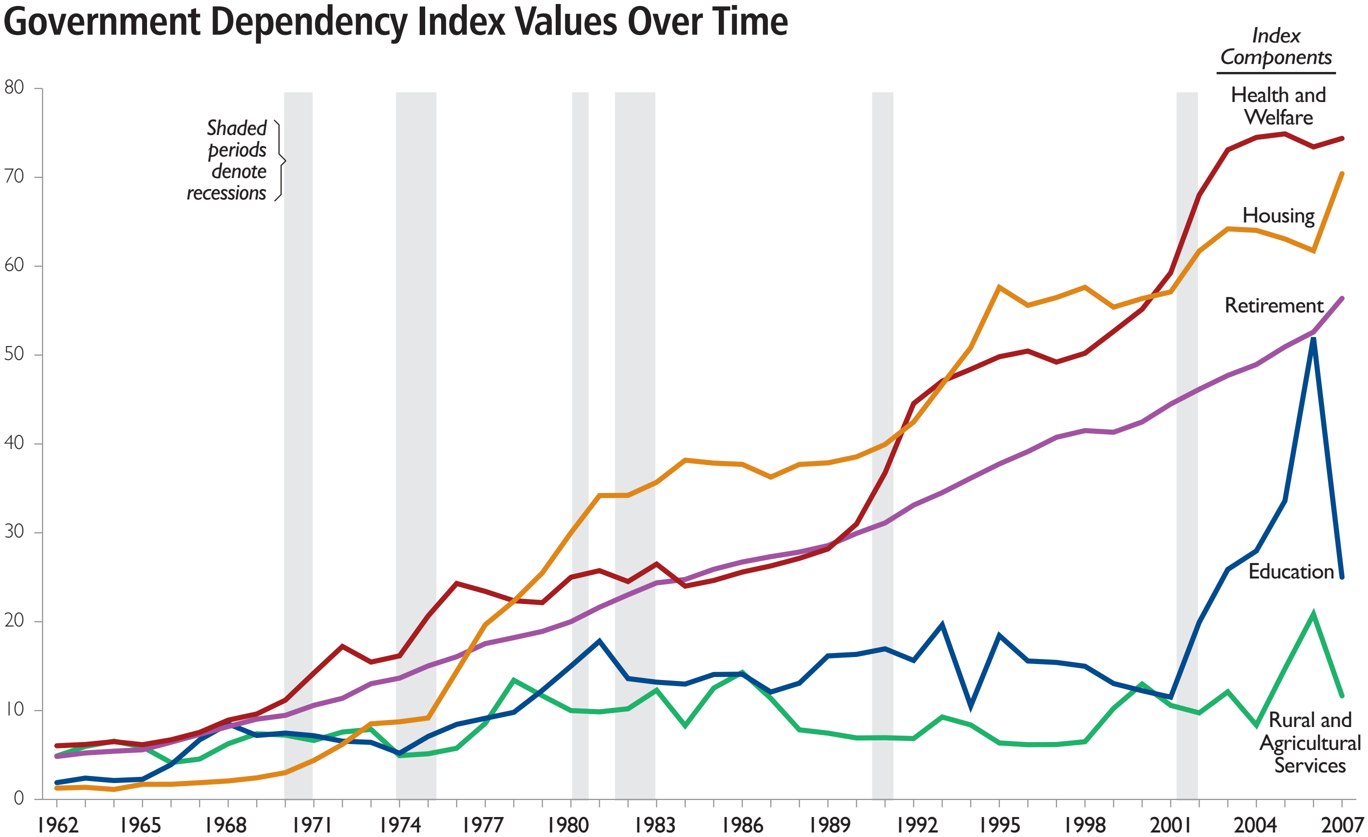
The 2008 Index of Government Dependency

William W. Beach

CDA08-08 October 23, 2008

Government Dependency Index Values Over Time



The Heritage Foundation
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A Report of The Heritage Center for Data Analysis

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THE 2008 INDEX OF GOVERNMENT DEPENDENCY

WILLIAM W. BEACH

The year 2008 will likely go down in public-policy history as a singularly important one: the year when the first wave of baby boomers began to retire. Over the next 25 years, more than 75 million boomers will begin collecting their Social Security checks, drawing down Medicare benefits, and relying on long-term care under Medicaid. No event will financially challenge these important programs over the next two decades more than this movement of the largest generation ever into retirement.

These programs will not only face financial tests. Certainly, these will be great over the next several decades, given that none of these "entitlement" programs even now can easily meet their financial obligations. Doubling the number of people in retirement will constitute a substantial growth in the dependent population of the United States. Perhaps the most important aspect of the boomer retirement is how dramatically it reminds us of the rapid growth of dependency in the United States.

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 dependency on government erodes the spirit of self-reliance 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 reliant on government. A citizenry that reaches a certain tipping point in its dependency on government runs the risk of evolving into a society that demands an ever-expanding state that caters to group self-interests rather than pursuing the public good.

These demands will probably grow as more and more Americans pay no taxes for the government services they receive. In 2004, 39.6 million adult individuals paid no taxes, and millions more paid next to nothing. This number stood at 38.8 million in 2007, or 28 percent of all taxpayers. Some will wonder how likely it is that Congress can restrain the growth of dependency-creating programs when more and more Americans pay nothing to receive aid.

The growing realization that the flagship entitlement programs and the growing number of taxpayers with no financial stake in the government threaten to bankrupt that government has led to an increasing interest across the political spectrum in the growth of dependency-creating initiatives. Are we closing in on a tipping point that endangers the workings of our democracy? Have we, perhaps, already passed that point? Can our republican form of government withstand the political weight of a massively growing population of Americans who see themselves entitled to government benefits and who contribute little or nothing for them?

To explore these questions, we need to measure the extent to which 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 Government 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 1962–2007,

Index of Government Dependency Values

Year	Index Components					Index Value	Annual** Percentage Change in Index Value
	Housing	Health and Welfare	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	4.81
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	1.08
2000	56	55	42	12	13	179	3.79
2001	57	59	44	12	11	183	2.08
2002	62	68	46	20	10	206	12.35
2003	64	73	48	26	12	223	8.49
2004	64	74	49	28	8	224	0.35
2005	63	75	51	34	15	237	5.99
2006	62	73	53	52	21	261	9.86
2007	70	74	56	25	12	238	–8.73

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

Source: Based on Heritage Foundation calculations sourced throughout the Index of Government Dependency.

Table 1 • CDA 08-08 heritage.org

with 1980 as the base year. Based on the Index, Heritage Foundation analysts have found that dependency on government has grown steadily and at an alarming rate in recent decades. Specifically:

- Using a benchmark index of 100 for 1980, the Dependency Index for 2007 stands at 238, an 8.8 percent decrease over the 2006 score of 261. The 2006 score of 261 reflected spending for hurricane relief. When compared to the 2005 score of 237, the Index continues its seemingly relentless upward growth.
- The Index has grown by 30 percent since 2001, and has more than doubled since 1980, increasing by 138 percent.
- Federal spending on educational subsidies for college loans has risen by 108 percent since 2001. Since 1962, higher education aid has increased eleven-fold.
- The Index's health and welfare component has risen by 196 percent since 1980 and by 25 percent since fiscal year (FY) 2001.
- The Index component for federal retirement outlays has grown by 180 percent since 1980, and by 27 percent since 2001.

THE FISCAL CHALLENGES POSED BY GROWING DEPENDENCY

Entitlements. The issue of dependency is particularly salient today because more and more Americans are about to begin their reliance on government during retirement. At age 65, retirees are eligible to collect income from Social Security and health care benefits from Medicare or Medicaid.[1] Currently, these programs make up 53 percent of all non-interest federal program spending. Over the next two decades, that spending will increase to nearly 65 percent of non-interest spending as 10,000 baby boomers per day retire and begin to collect benefits. Together, these programs will enable the government dependency of 80 million baby boomers.

This is particularly troubling because most of the impending users of these programs are middle- to upper-class Americans who would otherwise not be dependent on the government. Because eligibility for these programs is linked to age, not financial need, multi-millionaires and billionaires collect the same benefits as do low-income retirees, such as subsidized prescription drugs through Medicare Part D.

To pay for these middle- and upper-class entitlements in the coming years will require unprecedented levels of deficit spending. According to the Government Accountability Office, the amount of debt Americans are facing to pay for these commitments is $53 trillion—$175,000 per American.[2] This will be an unsustainable level of debt that is sure to slow the economy and could force high rates of taxation in the future. The high costs of these programs, which will be shouldered by the children and grandchildren of baby boomers, could lead to further increases in dependency of future generations who would be more likely to rely on welfare in a slow economy, for instance. This snowballing of dependency—caused by Social Security, Medicare, and Medicaid—could send the country past a tipping point of dependency that could endanger democracy itself.

Additionally, the cost growth illustrates the budgetary problem of allowing dependency to grow unchecked. One reason this growth will be so significant is that these programs grow on autopilot, which, in turn, perpetuates dependence because these programs are not subject to regular debate and evaluation. Unlike nearly all other program spending, Social Security, Medicare, and Medicaid are mandatory spending programs that operate outside of the annual budget process. This entitles these programs to first call on all federal revenues regardless of other budgetary priorities. Substantive policy reform is required if this automatic dependency is to be drawn down. The solution is to turn these programs into 30-year budgeted programs, subjecting the budgets to debate every five years.

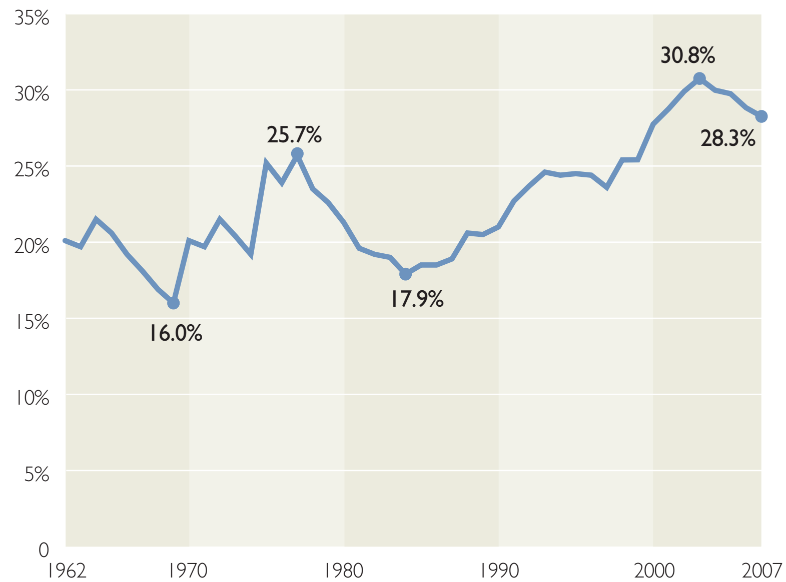
Other policy reforms that emphasize independence must also be part of addressing the problems inherent in these and other programs. The concept of a safety net ought to be restored to gear Social Security, Medicare, and Medicaid toward only those who truly need them. This can be accomplished by relating benefits to retiree's income and encouraging personal savings during working years.

1. Medicaid also provides health care for low-income, non-retired families.
2. This total reflects the debt associated with all federal government commitments which includes, but is not limited to, the three entitlements.

Growth in the Non-Taxpaying Population. The challenges that Congress faces in reforming these entitlement programs are heightened by the rapid growth of other dependency-creating programs and in the number of Americans who pay nothing for them. How likely, however, is Congress to reform entitlements as rapidly as it should when so many voters pay little or nothing for the other dependency-creating programs contained in this Index? In other words, can Congress rein in the substantial middle-class entitlements in an environment of rapidly growing dependency programs?

In 1962, the first year of the Index of Government Dependency, the percentage of all taxpayers with zero tax liability stood at 20.1 percent. This number fell to 16 percent by 1969 before beginning a ragged, but ultimately steady, increase. By 2004, the percentage stood at 29.98 percent.[3] It stood at an estimated 28.26 percent for 2007.[4] In short, we are rapidly approaching a point where one-third of taxpayers do not pay taxes for the federal benefits that many of them may receive.

Percent of Tax Returns With Zero or Negative Tax Liability



Source: Internal Revenue Service and The Tax Foundation, "Number of Americans Paying Zero Federal Income Tax Grows to 43.4 Million," March 30, 2006, at *http://www.taxfoundation.org/research/show/1410.html* (October 10, 2008).

Chart 1 • CDA 08-08 heritage.org

THE INDEX'S PURPOSE AND THEORETICAL MOTIVATION

The 2008 Index of Government Dependency is organized into four major sections. Section one explains the purpose and theory for the Index. Section two reviews major policy changes in the five program areas. Section three features a methodology that describes how the Index is constructed. Section four discusses the Index in terms of the number of Americans who depend on government programs.

The Index of Government 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 for analyzing dependency 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 consider 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 local organizations, neighborhoods, communities, and families such as shelter, food, monetary aid, education and health care, or employment.

In calculating the Index, the expenditures for these programs are weighted to reflect the relative importance of service (e.g., shelter, health care, and

3. Scott A. Hodge, "Number of Americans Paying Zero Income Tax Grows to 43.4 Million," The Tax Foundation, *Fiscal Facts* (March 30, 2006), at *http://www.taxfoundation.org/research/show/1410.html*. Calculations based on IRS Public Use File data and Tax Foundation Individual Income Tax Model.

4. Estimate by The Heritage Foundation's Center for Data Analysis (CDA) based on the CDA's Individual Income Tax Model for calendar years 2005 through 2007.

food). The intensity of someone's dependency 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 to needy members of society than they do today. Particularly during the 20th century, government gradually offered more and more services that were previously provided by self-help and mutual-aid organizations.[5] Lower-cost housing is a good example. Mutual-aid, religious, and educational organizations have long aided low-income Americans with limited housing assistance, but after World War II, the federal and state governments began providing 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 for those in need has also changed profoundly. Local, community-based charitable organizations once played the major role, which resulted in a personal relationship between the individual receiving help and those in the community providing that assistance. 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 once provided by unions, mutual-aid 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 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 distant government employees who have no ties 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 in turn. The dependent relationship with the political system has no reciprocal expectations. The former, based on mutual and reciprocal aid with future aid dependent on the recipient returning to civil viability, 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 a factor. 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 government runs the risk of generating political pressure from interest groups—such as health care provider organizations, local communities, and the aid recipients themselves—to expand federal support.

The Index of Government Dependency provides a way of assessing the magnitude and implications of the change in dependency in 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.[6] The last year for the

5. Mutual-aid societies consist of individuals who pledge to help each other generally with financial, employment, and health challenges. They constitute a low-cost mutual-insurance arrangement. Today, very few mutual aid societies function in the United States. Perhaps the best known is the Security Benefit Association in Topeka, Kansas. See David Beito, *From Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1890–1967* (Chapel Hill, N.C.: University of North Carolina Press, 2000).

2008 Index is FY 2007. We used a simple weighting scheme and inflation adjustment to restate these publicly available data. We encourage replication of our work and will provide the data that support this year's Index to anyone who so requests.

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 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 components:

1. Housing
2. Health care and welfare
3. Retirement
4. Higher education
5. Rural and agricultural services

The following sections discuss the pace and content of policy change in these five components. (Health care and welfare are discussed separately.)

1) Housing.[7] 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 these 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 apartments at monthly rents scaled to their incomes. The lower the income, the lower the 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. Public housing projects have historically 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 "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 led the Administration to terminate the program in 2006.

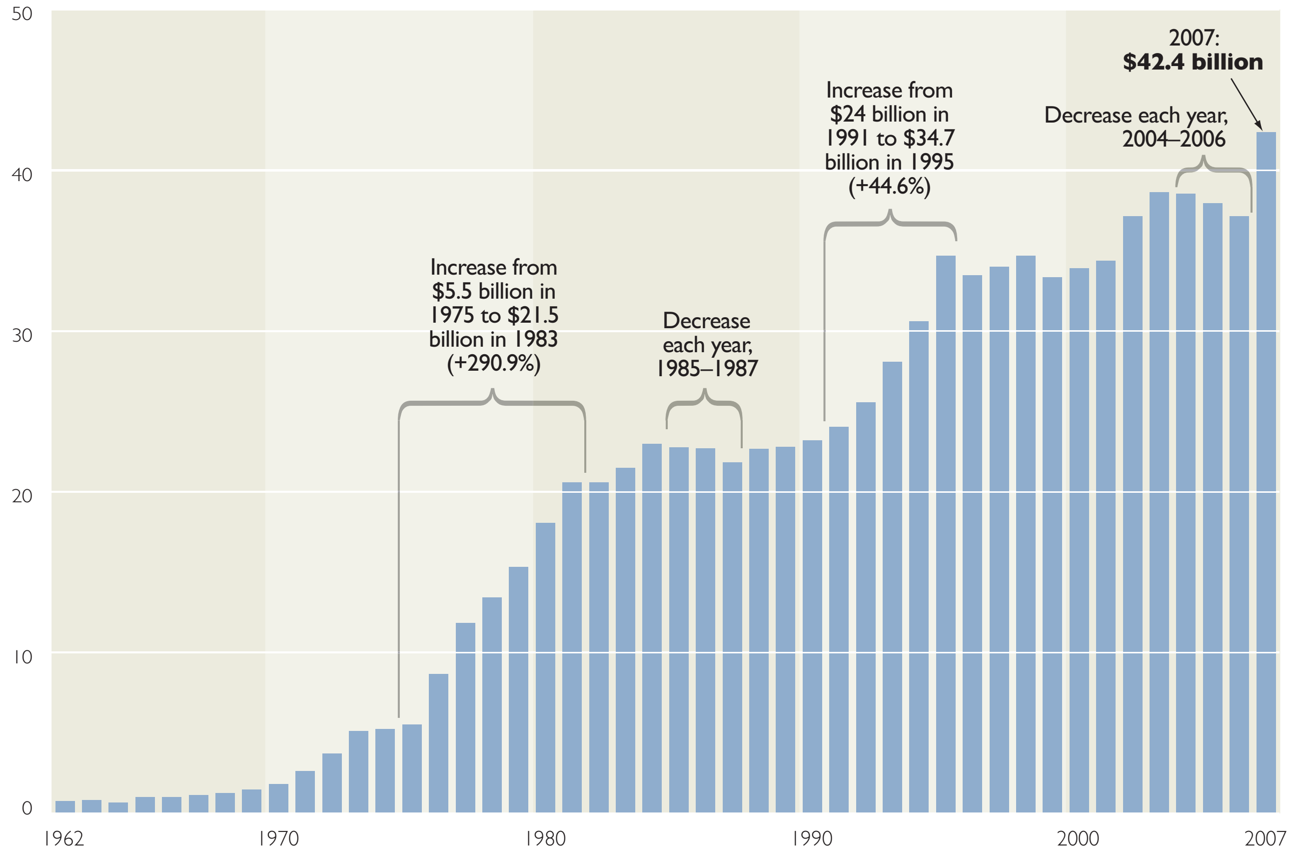
HUD also provides "tenant-based" housing assistance to low-income households in the form of rent vouchers and certificates. These certificates help

6. U.S. Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: U.S. Government Printing Office, 2008), at *http://www.whitehouse.gov/omb/budget/fy2009/pdf/hist.pdf* (August 27, 2008).

7. 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.

Housing Spending on the Rise Again

Expenditures in Billions of 2000 Dollars



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: U.S. Government Printing Office, 2008), Table 3.2, p. 61, and Table 12.3, p. 283.

Chart 2 • CDA 08-08 heritage.org

low-income households rent apartments in the private sector by covering a portion of the rent. The lower the person's or family's income, the greater 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 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 CDBG 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 result, many eligible households do not receive any housing assistance because of funding limitations. In many communities, the waiting lists for housing assistance are long—up to several years—and in some cases local housing authorities are no longer adding families to the list because there is no prospect of their ever getting an apartment.

Recognizing that HUD housing assistance can create dependency among those who receive its benefits, some Members of Congress have attempted to extend the work requirements of the 1996 Personal

Responsibility and Work Opportunity Reconciliation Act 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 inflation-adjusted HUD spending suggest that dependency has been rising for many years.[8] Alternative measures, however, 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 to 17.8 percent during that same time period, perhaps reflecting the shift to the more costly HOPE VI program. 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. More recently, the increase in HUD assistance—especially in the CDBG program—was caused by efforts to address the rebuilding needs along the Gulf Coast related to Hurricanes Katrina and Rita.

2a) Health Care.[9] Public health programs, particularly Medicare and Medicaid, are contributing to a growing dependency on government. These two programs were enacted in 1965 to provide coverage for the elderly, poor, and disabled. Medicare delivered benefits to 43.9 million people in 2007 and 48.1 million people were enrolled in Medicaid that same year. Combined, these programs accounted for $517.3 billion in federal spending in 2006, which translates into 19.5 percent of total federal spending.[10]

Medicare provides health care for individuals age 65 and over and for those with certain disabilities. Medicare enrollment has increased steadily since its enactment, indicating that an increasing number of people now depend on government for their health care. In 1970, an estimated 20.4 million individuals were enrolled in Medicare. By 2007, the number of enrollees has more than doubled.[11]

Left unchanged, dependency on Medicare will only grow. During the five-year period from 2007 to 2012, 77 million baby boomers will begin to retire in large numbers, pushing enrollment to unprecedented levels. This flood of new enrollees will not only increase the number of individuals dependent on the program, but also the demand for new medical 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 new services—such as the addition of a universal prescription-drug benefit in 2003—crowds out private coverage alternatives. Two-thirds of all Medicare enrollees had prescription-drug coverage from another source before the new drug benefit was enacted.[12] But according to a recent analysis, the new drug benefit resulted in a crowd-out rate of 72 percent. For every seven prescriptions paid for by the government, five would have otherwise been privately financed, resulting in a net gain of only two new prescriptions.[13] If trends like these continue, Medicare will become the sole financier, not just the primary source, of health benefits to this population.

Medicaid, the joint federal–state health care program for the poor, also faces growing dependency. In 1990, 22.9 million people were enrolled in Medicaid, a figure which has more than doubled since. Medicaid serves a diverse population of the poor,

8. "Inflation-adjusted HUD spending" means that growth in spending due solely to inflation has been subtracted from the amounts referenced in this section.

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

10. U.S. Department of Health and Human Services, *2007 CMS Statistics,* pp. 6–7, 11, 15, at *http://www.cms.hhs.gov/CapMarketUpdates/Downloads/2007CMSstat.pdf* (August 28, 2008).

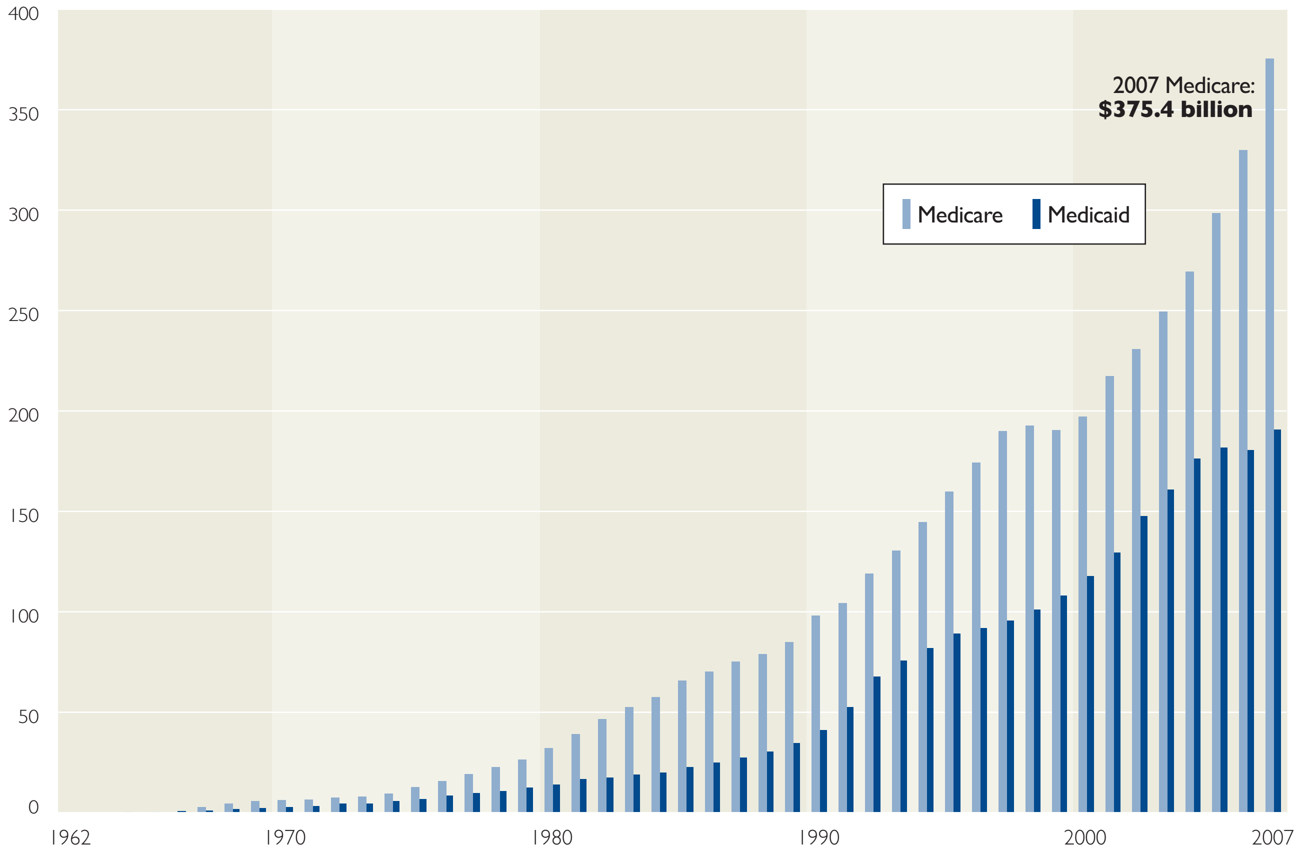
11. U.S. Department of Health and Human Services, *Budget in Brief: Fiscal Year 2007*, p. 51, at *http://www.hhs.gov/budget/07budget/2007BudgetInBrief.pdf* (August 28, 2008).

12. Joint Economic Committee, U.S. Congress, "Medicare Beneficiaries' Link to Drug Coverage," April 10, 2003.

13. Frank R. Lichtenberg and Shawn X. Sun, "The Impact of Medicare Part D on Prescription Drug Use by the Elderly," *Health Affairs*, Vol. 26, No. 6 (2007), pp. 1735–1744.

Medicaid and Medicare Expenditures Rising Rapidly

Expenditures in Billions of 2000 Dollars



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: U.S. Government Printing Office, 2008), Table 3.2, p. 67, and Table 12.3, p. 285.

Chart 3 • CDA 08-08 heritage.org

including children, adults, the elderly, and the disabled. While a plurality of Medicaid enrollees were children (49 percent), a plurality of spending goes to the elderly and the disabled (41.8 percent).[14]

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 (SCHIP)[15] have allowed eligibility of more individuals for government health programs, particularly in working families that may have access to private coverage but choose to enroll in government-run programs instead.

This growing dependency directly affects taxpayers. Medicare and Medicaid are the two largest entitlement programs, and spending for both is expected to skyrocket and become even worse. By 2018, Medicare is projected to cost $879 billion, and

14. U.S. Department of Health and Human Services, *2007 CMS Statistics*, pp. 5, 32. Enrollment data are from 2007, while the most recent figures for program expenditures are from 2005.

15. The State Children's Health Insurance Program (SCHIP) was enacted in 1997 to assist states providing health care coverage to uninsured children in low-income working families whose parents' income is not low enough for them to qualify for Medicaid, but might not be able to afford private insurance.

federal spending for Medicaid is expected to reach $445 billion. The Congressional Budget Office anticipates that the two programs will consume 12 percent of GDP by 2050.[16] Actuaries at the Centers for Medicare and Medicaid Services at the Department of Health and Human Services predict that the government (federal and state) will fund almost one-half of all health care spending by 2015.[17]

While Congress did not attempt to expand Medicare in 2007, the program is still adjusting to the addition of a universal prescription-drug benefit enacted in 2003. This benefit makes Medicare the primary source of prescription drugs for seniors. Congress did spend a tremendous amount of time on Medicaid and the closely aligned SCHIP during the summer of 2007. For the first time since its creation, SCHIP was proposed for reauthorization. Some in Congress seized the opportunity to broaden eligibility of SCHIP and Medicaid. These efforts were ultimately thwarted by two presidential vetoes. However, some states continue to use existing flexibility and authority to expand the size and scope of these programs.

In its yearly survey of sources of health insurance coverage, the U.S. Census Bureau in 2007 published figures that underscore the current trend toward government dependency.[18] The percentage of Americans with private health insurance is on the decline, mostly as a result of the steady erosion of employer-based coverage, while the percentage of Americans on government programs is rising even faster, in large part due to Medicaid and SCHIP expansions at the state level and an aging population that is becoming increasingly dependent on Medicare.

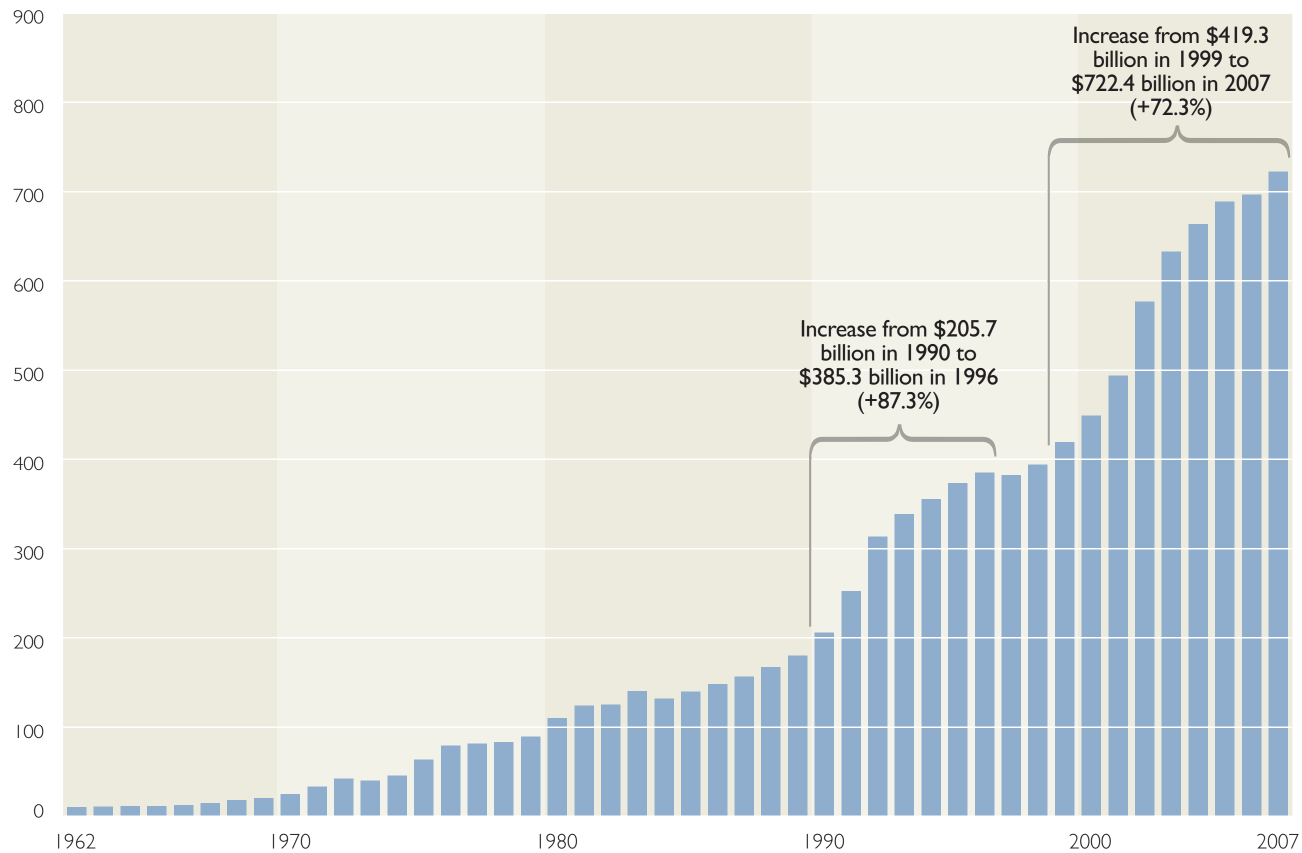
Government-run health care is unsustainable. Without fundamental change, there will be far greater dependency on the government for health care, fewer workers to pay for it, and less incentive for private-sector solutions. Instead of depending on the government for health benefits and services, a better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

2b) Welfare.[19] The 1996 Welfare Reform Act, or the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), replaced the decades-long Aid to Families with Dependent Children (AFDC), through which recipients were entitled to unconditional benefits, with Temporary Assistance to Need Families (TANF), a block grant program. Welfare reform effectively altered the fundamental premise of receiving public aid and ended it as an entitlement. Receiving assistance was now temporary and tied to demonstrable efforts by the recipients to find work or take part in work-related activities. Self-sufficiency of the recipients became the focus. The successes of welfare reform are undeniable. Between August 1996 and March 2008, welfare caseloads declined by 63.5 percent, from 4.5 million families to 1.6 million families.[20] The legislation was similarly successful in reducing child poverty. Since 1996, 1.3 million children have been lifted out of poverty.[21]

16. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008 to 2018*, January 2008, pp. 36, 70, 52, at *http://www.cbo.gov/ftpdocs/89xx/doc8917/01-23-2008_BudgetOutlook.pdf* (August 28, 2008).
17. U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, *National Health Expenditure Projections 2007–2017*, forecast summary and selected tables, at *http://www.cms.hhs.gov/NationalHealthExpendData/Downloads/proj2007.pdf* (August 28, 2008).
18. U.S. Census Bureau, "Income, Poverty, and Health Insurance Coverage in the United States: 2007," August 2008, at *http://www.census.gov/prod/2008pubs/p60-235.pdf* (September 16, 2008).
19. This section was written by Christine Kim, Policy Analyst in the Domestic Policy Studies Department at The Heritage Foundation.
20. U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, *Temporary Assistance to Needy Families (TANF) for 2008*, at *http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/2008/2008_family_tan.htm* (September 16, 2008), and for 1960–1999, at *http://www.acf.hhs.gov/programs/ofa/data-reports/caseload/caseload_archive.html#afdc* (September 16, 2008).
21. Author's calculation based on the number of children in poverty in 1995 and 2007, 2007 Current Population Survey, Annual Social and Economic Supplement, Detailed Poverty Tables, Table POV01, at *http://pubdb3.census.gov/macro/032008/pov/new01_100_01.htm* (September 16, 2008), and March 1996 Current Population Survey, Detailed Poverty Tables, Table 1, at *http://pubdb3.census.gov/macro/031996/pov/1_001.htm* (September 16, 2008).

Welfare and Low-Income Health Care Assistance Rising Steadily

Expenditures in Billions of 2000 Dollars



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: U.S. Government Printing Office, 2008), Table 3.2, p. 67, and Table 12.3, p. 286.

Chart 4 • CDA 08-08 heritage.org

The initial years after welfare reform witnessed dramatic progress, but by the late-1990s, most states had met the PRWORA's work goals, and the motivation to further reduce dependence and encourage work among recipients waned. The national TANF caseload flatlined between 2000 and 2005, and only one-third of TANF recipients worked. In February 2006, after four years of debate, Congress reauthorized TANF under the Deficit Reduction Act. The new legislation reiterates the need to engage recipients in acceptable work activities, moving them to self-sufficiency. Once again, states are 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. As required by the Congress, the Department of Health and Human Services also issued new regulations to strengthen work participation standards.[22]

22. The Department of Health and Human Services is required to: 1) "define the meaning of each of the 12 countable work activities"; 2) "clarify who is a work-eligible individual"; 3) "ensure that State internal control procedures result in accurate and consistent work participation information"; and 4) "establish a process for a new penalty in the event that a State fails to establish and maintain adequate work participation data." *Federal Register*, Vol. 73, No. 24 (February 5, 2008), Rules and Regulations, Part II, Department of Health and Human Services, Administration for Children and Families, 45 CFR Parts 261, 262, 263, and 265, Reauthorization of the Temporary Assistance for Needy Families (TANF) Program; Final Rule, p. 6773.

The 2006 reauthorization also contains a notable measure that begins to rectify the inattention to the other two 1996 welfare reform goals: reducing unwed childbearing and restoring stable family formation.[23] The erosion of marriage and family is a primary contributing factor to child poverty and welfare dependence, and it figures significantly in a host of social problems.[24] Troublingly, for the last four decades, the unwed birth rate has been rising steadily, from 5.3 percent in 1960, to 38.5 percent in 2006.[25] Today, more than one child in three is born outside of marriage. In the TANF reauthorization, Congress, for the first time, enacted a healthy-marriage initiative, allocating $100 million in TANF funds per year—less than 1 percent of total TANF expenditures in the fiscal year 2006—to local organizations that provide voluntary 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.

Despite the 1996 Welfare Reform Act and the 2006 TANF reauthorization, comprehensive welfare reform is far from achieved. Today's welfare system is a convoluted machinery of 70 programs, six federal departments, and a voluminous collection of state agencies and programs. A typical welfare recipient family could receive 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.[26] Too many of these welfare programs operate on means-tested eligibility and without any real mechanism to break dependence. Twelve years after the reform, the welfare system still rewards non-work. Further reform efforts should focus on applying TANF principles to other failing welfare programs that subsidize idleness and foster dependency, and remove the anti-marriage bias and economic marriage penalties inherent in other means-tested welfare programs (e.g., EITC for married couples with children).

3) Retirement.[27] 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 incomes. The program pays a monthly check to retired workers and benefits to surviving spouses and children under the age of 18.[28] Monthly benefits are based on the indexed average of a worker's monthly income over a 35-year period, with lower-

23. 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 then says 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 threefold, from 10.7 percent to 29.5 percent." Public Law 104–193, § 101.

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

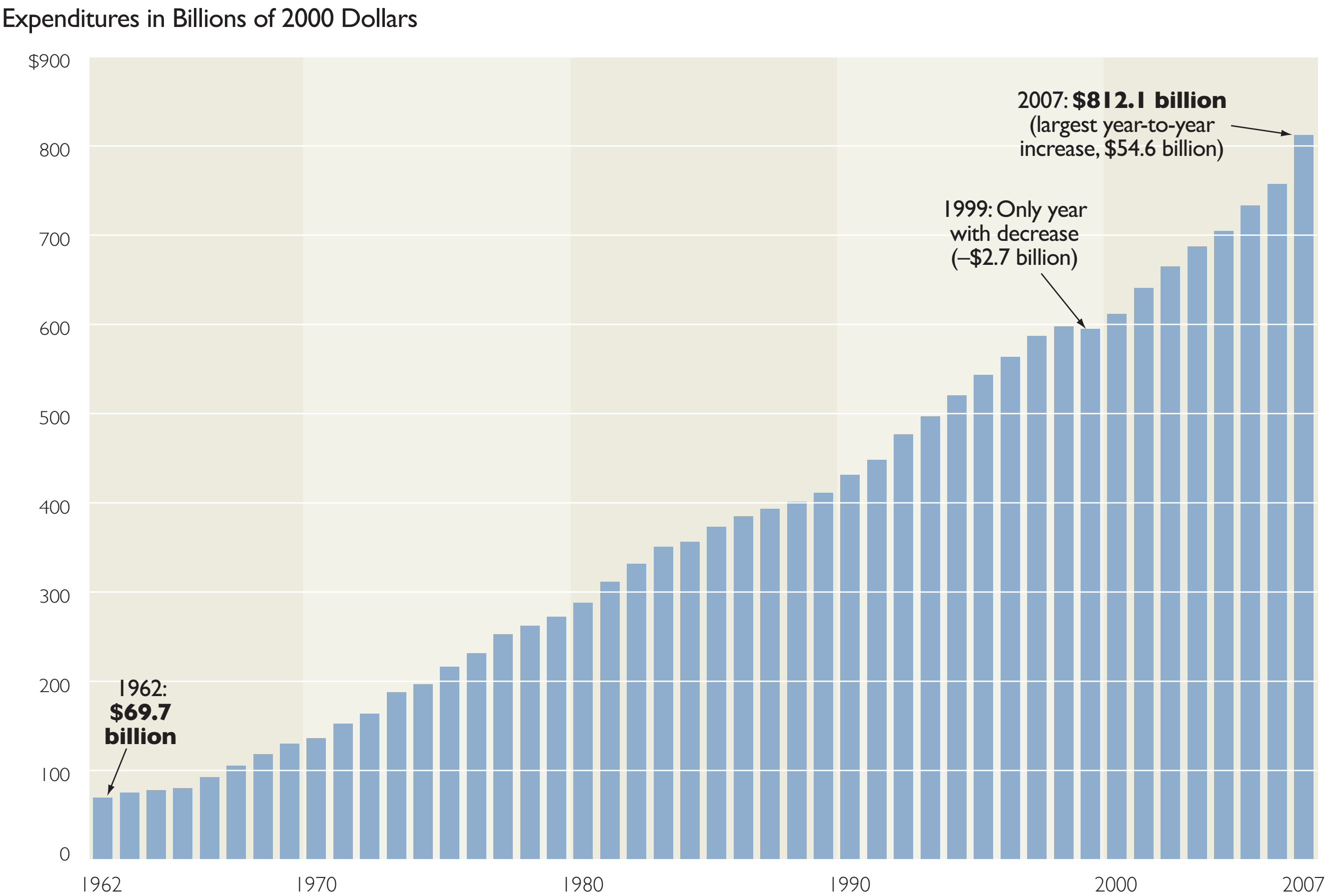
25. Child Trends Data Bank, "Percent of Births to Unmarried Women," at *http://www.childtrendsdatabank.org/pdf/75_PDF.pdf* (August 28, 2008).

26. Robert E. Rector, "Means-Tested Welfare Spending: Past and Future Growth," Testimony, March 7, 2001, at *http://www.heritage.org/Research/Welfare/Test030701b.cfm*.

27. 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.

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

Social Security Spending Increases as Baby Boomers Retire



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: U.S. Government Printing Office, 2008), Table 3.2, p. 67.

Chart 5 • CDA 08-08 heritage.org

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 to 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 who receives 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 per retiree in 2017 and drop to 2 workers per retiree in the 2030s.

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 Social Security program needed. These additional taxes were supposed to accumulate to help to finance retirement benefits for baby boomers. But these excess taxes were not saved or invested for the future. Instead, the money was used 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 Treasury bonds, the federal government will be required to pay off the bonds through higher taxes or massive borrowing.

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 these Americans have any significant savings, and they will depend heavily on the government for their retirement incomes.

This dependency is largely the result of 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 the workforce. Over the last few decades, the cost of traditional pension plans has skyrocketed, and thousands of them have shut down. 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.

4) Higher Education.[29] In 2006–2007, the federal government spent more than $86 billion on student aid for postsecondary education—a real increase of 77 percent over what was spent 10 years earlier.[30] In all, more than 6 million students received federal grants and 8.5 million took advantage of various education tax benefits.[31] The federal government also provided more than 18 million loans to undergraduate and graduate students.[32] The consistent growth in federal aid for higher education follows continuous increases in higher education costs. In 2007, the College Board reported that the annual cost of tuition, fees, room, and board increased by 5.9 percent at private four-year colleges and public four-year colleges (in state).[33] Over the past decade, the real cost of a year at four-year private and public colleges increased by 29 percent and 41 percent, respectively.[34]

The federal government continues to increase federal spending on higher education. In September 2007, President Bush signed the College Cost Reduction and Access Act of 2007 (H.R. 2669), which amended the Higher Education of 1965.[35] The legislation increased funding for Pell Grants, established new targeted grant programs, and reduced the interest rates on federally subsidized student loans.[36] It also reformed aid programs to reduce government payments to lending and guarantee agencies and increased fees for lenders. The long-term cost of this legislation is projected to be $15 billion over the next 10 years.[37]

Despite this considerable investment in higher education subsidies, there is growing concern about rising tuition costs at American colleges and univer-

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

30. College Board, "Trends in Student Aid, 2007," *Trends in Higher Education Series*, p. 7, at *http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_aid_07.pdf* (August 29, 2008).

31. *Ibid.*, p. 10.

32. *Ibid.*, p. 11.

33. College Board, "Trends in College Pricing, 2007," *Trends in Higher Education Series*, p. 6, at *http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf* (August 29, 2008).

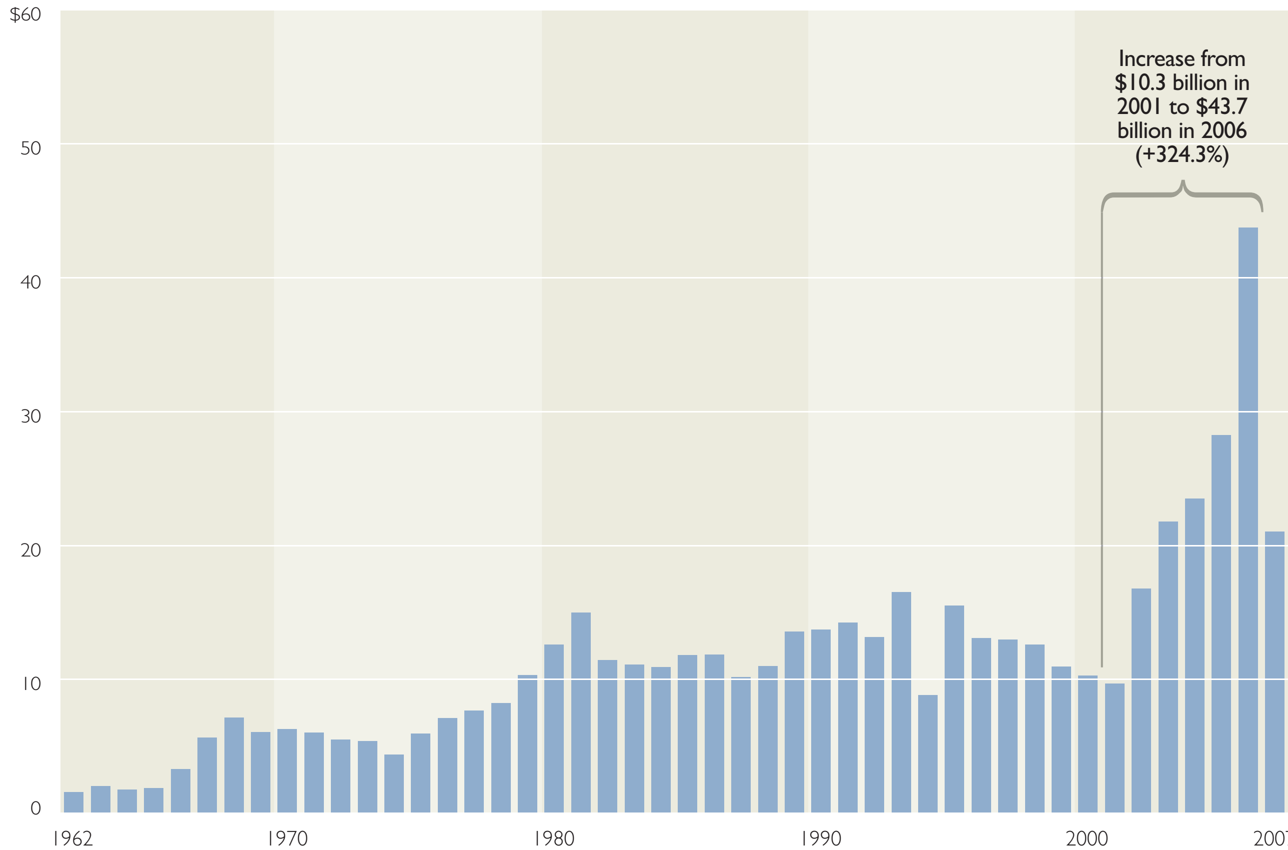
34. Author calculations. *Ibid.*, p. 11.

35. The White House, "Fact Sheet: College Cost Reduction and Access Act of 2007," September 27, 2007.

36. Public Law 110–84.

Dramatic Growth in Spending on Higher Education Since 2001

Expenditures in Billions of 2000 Dollars



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: U.S. Government Printing Office, 2008), Table 3.2, p. 67, and Table 12.3, p. 247.

Chart 6 • CDA 08-08 heritage.org

sities.[38] According to the College Board, during the 2007–2008 school year the total cost of tuition and fees increased by 6.3 percent at four-year private colleges, and by 6.6 percent at public colleges.[39] 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 the Consumer Price Index's category "all items" (83 percent).[40]

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

37. Brian M. Riedl, "The Democratic Congress's 2008 Budget: A Tax and Spending Spree," Heritage Foundation *Backgrounder* No. 2081, October 30, 2007. Note: The CBO scored the College Cost Reduction and Access Act of 2007 as saving $3.6 billion over 10 years. However, this estimate is based on the assumption that Congress upholds the legislation's provisions, resetting the interest rate to 6.8 percent in 2013 and phasing out new programs. Riedl writes, "Obviously, Congress will not actually allow the new programs to end after 2012 or the student loan interest rates to increase."

38. For example, see Jane Bryant Quinn, "Colleges' New Tuition Crisis," *Newsweek*, February 2, 2006, at *http://www.newsweek.com/id/52952* (August 29, 2008).

39. College Board, "Trends in College Pricing, 2007," p. 20.

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

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."[41]

Policymakers should reassess both the effectiveness and equity of continuing to increase federal subsidies for higher education. First, increased federal subsidies are likely to contribute to rising college tuition prices.[42] Second, the Census Bureau reports that only 28 percent of American adults have college degrees.[43] Since college graduates are likely to earn significantly more income over the course of a lifetime than non-college graduates, taxpayers should question the equity of providing increased subsidies to this population.[44] To address these issues and curb growing dependency on government, Congress should reform federal higher education policies to reduce spending and refocus grants and subsidies on students who otherwise cannot afford higher education.

5) Rural and Agricultural Services.[45] Much of the rapid increase in "rural and agricultural assistance" dependency is rooted in farm subsidy programs. A multitude of farm subsidies (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.[46]

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 farmer has a net worth of $895,756[47] (double the national average of household wealth), and an annual income of $77,654[48] (62 percent above the national median[49]) despite living in a rural area with significantly lower costs of living. The failure rate for farms is just one-sixth the rate of other 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 really designed to help poor farmers, Congress could guarantee every full-time farmer in America an income of at least 173 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: which crops are grown and how much is grown. Approximately 90 percent of all farm subsidies go to growers of just five crops: wheat, corn, cotton, soybeans, and rice. Growers of most other

41. *Ibid.*, p. xvi.

42. For more information on the problem of rising college costs, see Dr. Richard Vedder, "Over Invested and Over Priced: American Higher Education Today," Center for College Affordability and Productivity, November 2007.

43. U.S. Census Bureau, *The 2008 Statistical Abstract*, "Educational Attainment by Race and Hispanic Origin: 1960 to 2006," Table 217, at *http://www.census.gov/compendia/statab/tables/08s0217.pdf* (August 29, 2008).

44. Jennifer Cheeseman Day and Eric C. Newburger, "The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings," U.S. Census Bureau, July 2002.

45. 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.

46. 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 *http://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 *http://www.heritage.org/Research/Budget/bg1763.cfm*.

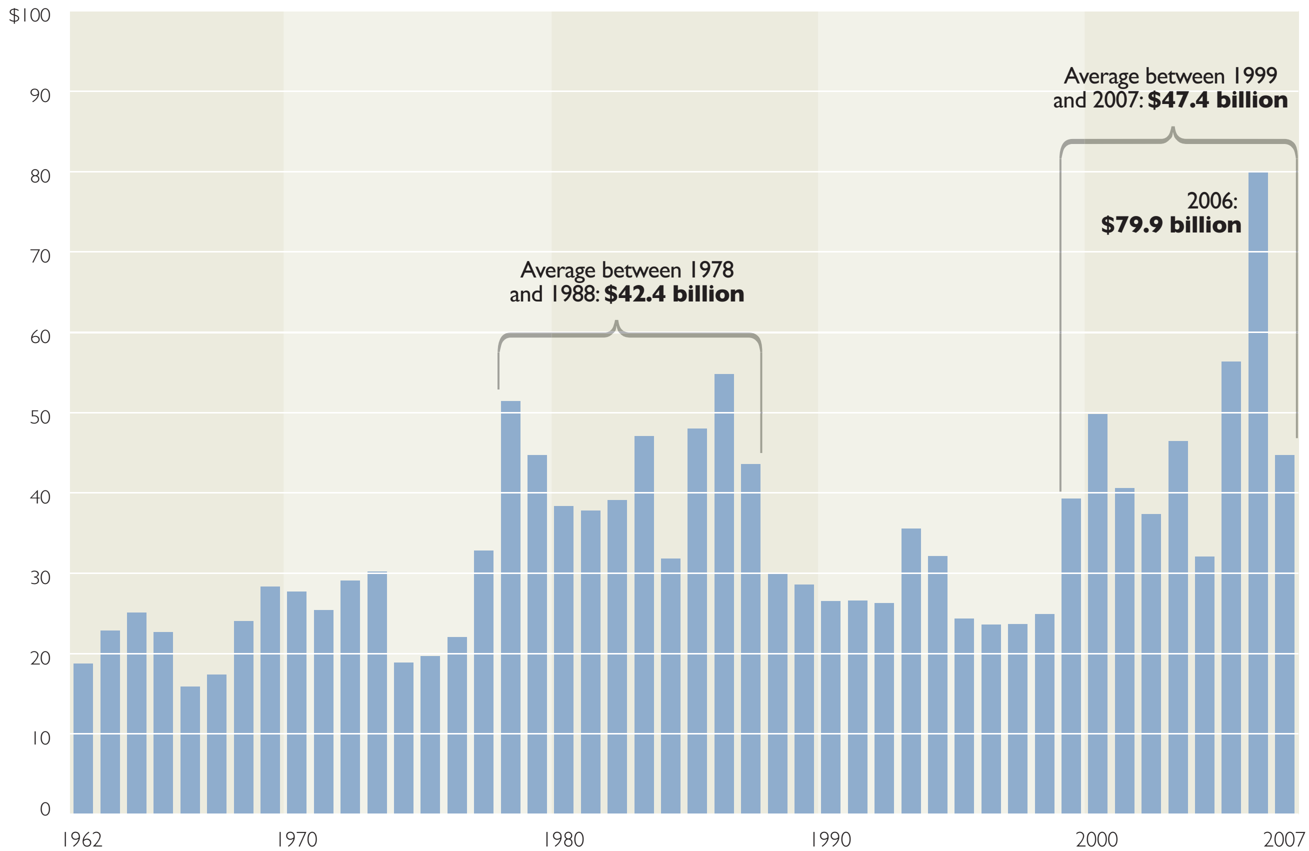
47. U.S. Department of Agriculture, Economic Research Service, "Farm Household Economies and Well-Being: Assets, Debt, and Wealth," Table 10, at *http://www.ers.usda.gov/briefing/wellbeing/farmnetworth.htm* (August 29, 2008).

48. U.S. Department of Agriculture, "Farm Household Economics and Well-Being: Income Forecasts and Income in Perspective," Table 1. This is referenced in the Web page as hypertext "See table for detail" at *http://ers.usda.gov/Briefing/WellBeing/farmhouseincome.htm* (August 29, 2008).

49. U.S. Census Bureau, "Two-Year-Average Median Household Income by State: 2004–2006 (Income in 2006 Dollars)," at *http://www.census.gov/hhes/www/income/income06/statemhi2.html* (August 29, 2008).

Federal Spending on Rural and Agricultural Programs at Record Levels

Expenditures in Billions of 2000 Dollars



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: U.S. Government Printing Office, 2008), Table 3.2, pp. 55, 61, and Table 12.3, pp. 246, 252.

Chart 7 • CDA 08-08 heritage.org

crops are ineligible for most subsidy programs, regardless of need.

Farmers 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 farmers who plant the most crops only encourages them to plant yet 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 other farmers to plant fewer crops. One analyst accurately describes U.S. farm policy as "one foot on the break, one foot on the accelerator."[50]

Eventually, Congress acknowledged the failures of centrally planned agriculture. The 1996 Federal Agricultural Improvement and Reform Act of 1996[51] (also known as the Freedom to Farm Act) was designed to slowly phase out farm subsidies by 2002 and allow the agricultural sector to operate as a free market. 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

50. James Bovard, "The 1995 Farm Follies," *Regulation*, Vol. 18, No. 3 (Summer 1995), at *http://www.cato.org/pubs/regulation/regv18n3/reg18n3-bovard.html* (August 29, 2008).

51. 7 U.S. Code § 7201.

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 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.

Indeed, the current House- and Senate-passed farm reauthorization bills would not fix this system. They would increase subsidy rates, and reject President Bush's call to subsidize only those farmers earning less than $200,000 annually. Both bills contain large gimmicks to conceal 10-year spending hikes of approximately $25 billion. Even corn farmers, already benefiting from soaring prices resulting from federal ethanol policies, would continue to receive billions in annual subsidies. America's trading partners would likely respond to these trade-distorting policies by imposing trade restrictions, thus harming American farmers and consumers.

HOW THE DEPENDENCY INDEX IS CONSTRUCTED

After identifying the government programs that contribute to dependency, we further examined the data 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 up on an annual basis for each of the five major categories listed in Table 2.[52] The program titles are those used by the Office of Management and Budget for budget function and sub-function in the budget accounting system.

We collected data for FY 1962 through FY 2007. Deflators centered on 2000 were employed to adjust for inflation.

Indices are intended to provide insight into phenomena that are either so detailed or 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

Programs Used to Calculate Index Values

I. Housing	**III. Retirement**
Mortgage credit	Medicare
Housing assistance	Social Security
Community development block grants	General retirement and disability insurance
Urban development action grants	
Subsidized housing programs	**IV. Education**
	Federal higher education
II. Health and Welfare	State higher education
Health care services	
Health research and training	**V. Rural and Agricultural Services**
Consumer and occupational health and safety	Farm income stabilization
Unemployment compensation	Agricultural research and services
Food and nutrition assistance	Community development
Other income security	Area and regional development
Disease control (preventative health)	Disaster relief and insurance
Health resources and services	Rural community advancement program
Substance abuse and mental health services	Homeland Security disaster relief
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	

Source: The Heritage Foundation

Table 2 • CDA 08-08 heritage.org

52. U.S. Office of Management and Budget, *Historical Tables*.

basket are weighted to reflect their relative importance to overall price change. 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 what the total of the weighted prices produces is roughly the CPI score.

The Index of Government Dependency generally works the same way. The raw (or unweighted) value for each program (i.e., the yearly expenditures of a program) is multiplied by its weight. The Index for that year is the total of the weighted values.

The Index is calculated using the following weights:

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

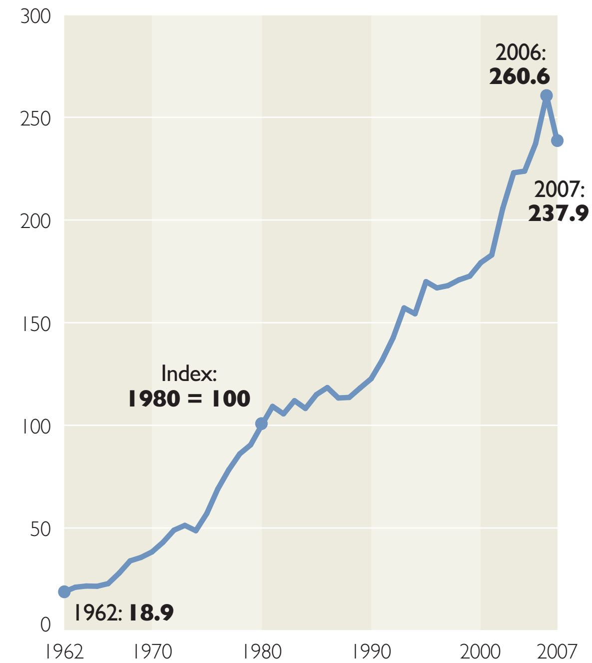
The weights are "centered" on the year 1980. This means that the total of the weighted values for the Index components will equal 100 for 1980, which gives the Index a reference year from which all other Index values can be evaluated.

We chose the year 1980 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.[53]

The Index certainly reflects such a watershed. Chart 8 plots the Index from 1962 to 2007. The scores have clearly drifted upward over the entire period.

There are two plateaus in the Index—the 1980s and 1995–2001—that 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.

Index of Government Dependency Scores



Source: Based on Heritage Foundation calculations sourced throughout the Index of Government Dependency.

Chart 8 • CDA 08-08 heritage.org

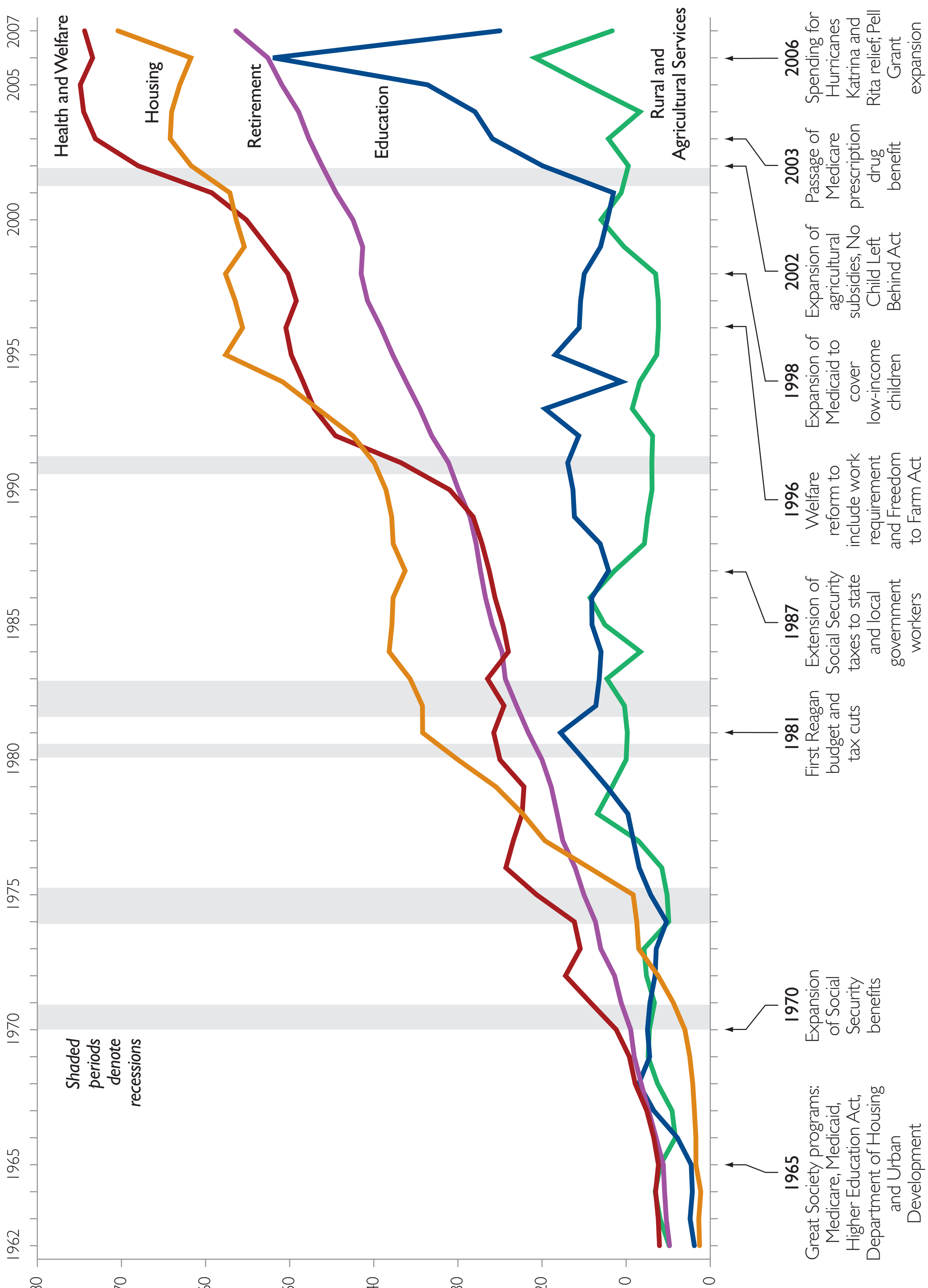
Chart 9 connects the Index to major public policy changes. The largest jump in the Index occurred during the Johnson Administration following the passage of the Great Society programs. The Johnson Administration not only launched Medicare and other health programs, but also vastly expanded the federal role in providing and financing low-income housing. The Index also jumped 92 percent (from 36 to 69) 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 Chart 9. 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 the

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

Great Society goals, particularly in the nation's approach to welfare. The return of budget surpluses during the last years of the Clinton Administration, however, 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.

Government Dependency Index Values and Major Policy Changes



Source: Based on Heritage Foundation calculations sourced throughout the Index of Government Dependency.

Chart 9 • CDA 08-08 heritage.org

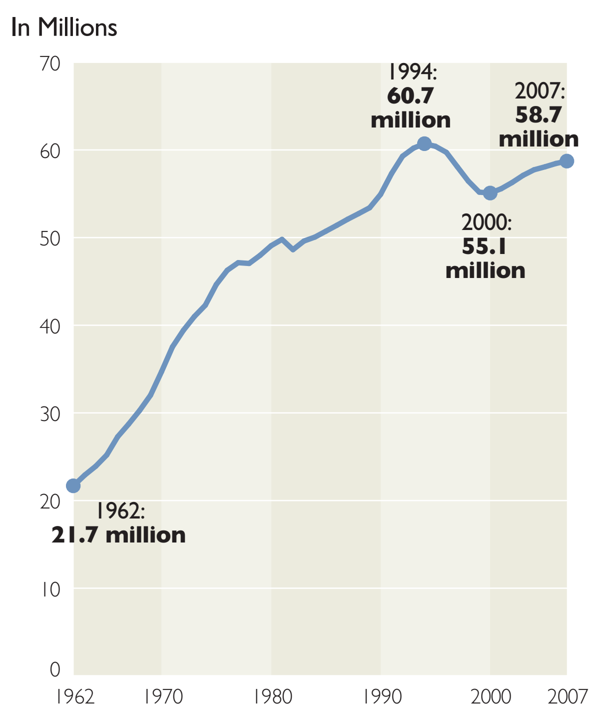
CALCULATION OF COVERED POPULATION

The Index reflects the growth of federal government programs that arguably crowd out or substitute for similar initiatives advanced by governments below the federal level or by organizations within civil society. Index values do not depend on the number of people receiving support through these programs, but that number nevertheless sheds additional light on what the Index illustrates.

Data on the number of people enrolled or benefiting from the programs listed in Table 2 between 1962 and 2007 were drawn from a variety of public sources. A significant effort was expended to eliminate duplicate enrollments. For example, many people who receive food stamps also receive medical services through Medicaid.

Chart 10 shows the annual number of program participants from 1962 through 2007. On the eve of the Great Society programs, some 21.7 million people (or 11.6 percent of the population) received assistance through the programs listed in Table 2 that existed at the time. Today, 58.7 million people (19.4 percent of the total U.S. population) receive some level of assistance through the programs included in the Index.

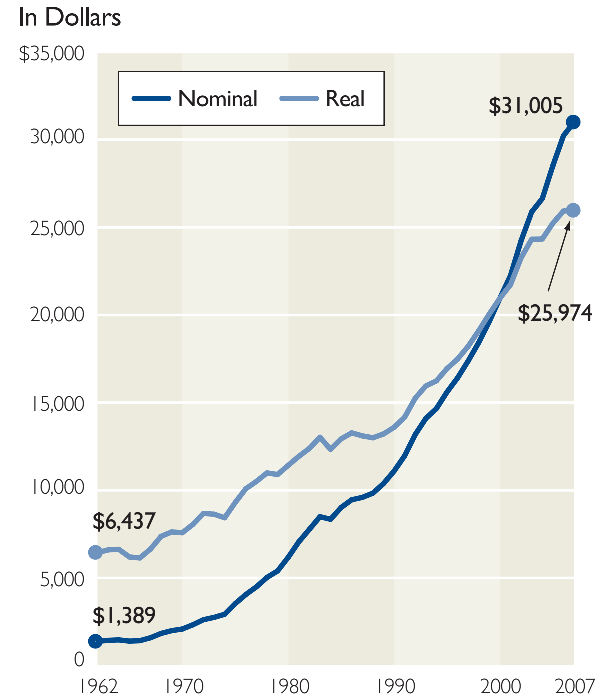
Number of People in the Index of Government Dependency



Source: U.S. Department of Education, Title IV/Federal Pell Grant Program: End-of-Year Report, 2006–2007, Table 1, and Social Security Administration, Annual Statistical Supplement, 2007, Table 5.A1, p. 5.1.

Chart 10 • CDA 08-08 heritage.org

Per Capita Income from Dependency-Related Programs



Source: Heritage Foundation calculations.

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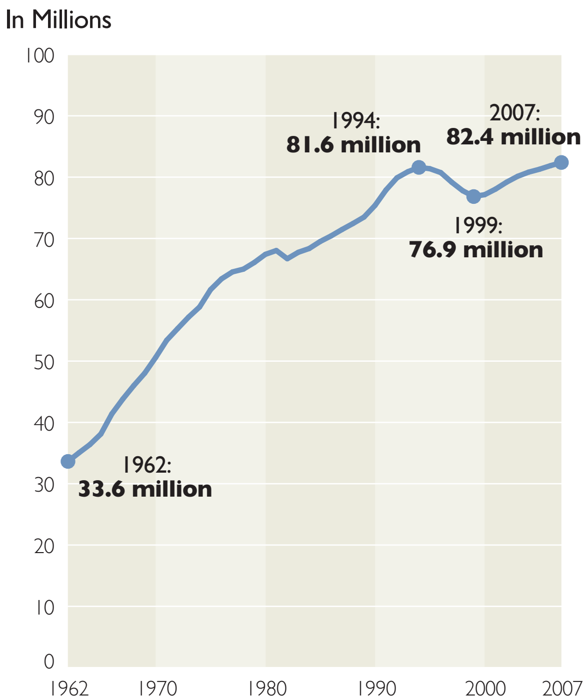
Growth in income and non-financial support among program participants has accompanied the increase of people who receive assistance. Per capita financial and non-financial support (after adjusting for inflation) stood at about $6,440 in 1966. By 2007, this support had grown to about $26,000. (See Chart 11.)

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 becomes dependent on government for most or all of its income.[54]

Nearly one-fifth of Americans (19.4 percent) on welfare may or may not be sufficiently high enough to trigger this concern. However, this percentage grows to 27.3 percent when federal and state employees are included. In 1962, the sum of these two categories (Index participants and government employees) stood at 33.6 million, or 18 percent of the total population. This total grew to 82.4 million (or 27.3 percent of the total population) by the end of 2007, an increase of 145 percent. This is 2.3 times the growth rate of the U.S. population over the same period and 30 percent faster than the growth rate of the population age 65 and above. (See Chart 12.)

Sum of Program Participants and All Goverment Employees



Source: U.S. Department of Education, Title IV/Federal Pell Grant Program: End-of-Year Report, 2006–2007, Table 1; Social Security Administration, Annual Statistical Supplement, 2007, Table 5.A1, p. 5.1; and Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: U.S. Government Printing Office, 2008), Table 17.5, p. 335.

Chart 12 • CDA 08-08 heritage.org

The annual growth rate in federal and state government employment has generally subsided since the 1960s and 1970s. (See Chart 13.) 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.

CONCLUSION

Public policy appears to be significant in the growth of the Index of Government Dependency. The rapid increase in the 1960s and 1970s coincides with a new 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. The sum of government employees and the population covered by programs contained in this Index grew dramatically, even after accounting for the military buildup for the Vietnam War during the mid-1960s.

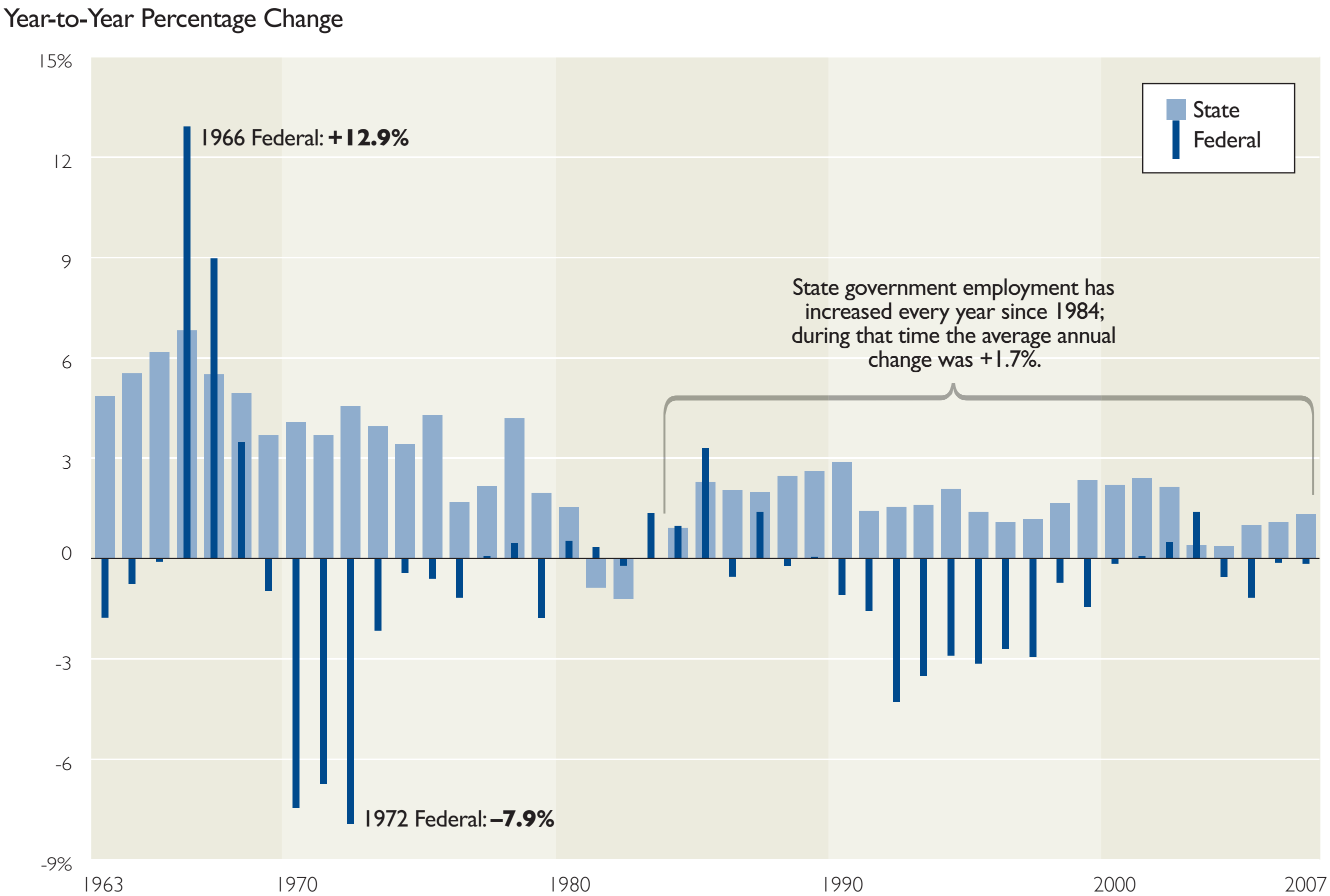
The 1980s and 1990s generally witnessed much slower growth in the Index. Indeed, if the period 1989 through 1993 had reflected the policies of the periods 1981–1988 and 1994–2001, the Index would have decreased in value. However, rather than fall, the Index appears to have resumed the growth rates attained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

We should be concerned about this seemingly relentless upward march in Index scores. Dependency on the federal government for life's many challenges strips civil society of its historical and necessary role in providing aid and renewal through the intimate relationships of family, community, and local institutions and governments. While the Index does not measure the decay of civil society, it reflects its declining role in this most important aspect of life.

Our concern over the growth of the Index should be particularly high for another reason: We find ourselves on the eve of the largest retirement of peo-

54. 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).

Change in Federal and State Employment



Source: Office of Management and Budget, *Historical Tables, Budget of the United States Government, Fiscal Year 2009* (Washington, D.C.: U.S. Government Printing Office, 2008), Table 17.5, p. 335.

Chart 13 • CDA 08-08 heritage.org

ple in world history at the same time that the number of "taxpayers" who pay no taxes is growing steadily. Our republican form of government, with its finely balanced mixture of civil and political institutions and charitable roles, probably could withstand further but limited increases in the dependent population as defined in this paper.

Can it stand, however, against the swelling ranks of Americans who believe themselves entitled to public-sector benefits for which they pay few or no taxes? Are we completely indifferent to history's many examples of experiments in republican government collapsing under the weight of just such a population? Are we near a tipping point in the nature of our government and the principles that tie it to civil life?

A fair reading of these trends and the data contained in this Index would lead almost inescapably to the view that we have reached that point.

—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 Government Dependency. Heritage policy experts David C. John, Christine C. Kim, Dan Lips, Jennifer A. Marshall, Nicola Moore, Nina Owcharenko, Brian M. Riedl, and Ronald D. Utt contributed commentary on the policy elements. Margaret Hamlin managed the numerical components of the Index. Kimberly Remington and Patrick Tyrrell coordinated the process of updating the policy sections.