



Slash Retirement Benefits or Raise Taxes? The Choice Congress Won't Face Up To

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Introduction and summary

Despite all of the negative commentary in recent months about the Republican Party's future prospects, Republicans still have reason to be optimistic. While Republican National Committee Chairman Reince Priebus may be correct in stating that, "Young voters are increasingly rolling their eyes at what the Party represents" and that many minorities "think that Republicans do not like them or want them in the country," the party has a solid base with the fastest-growing group of voters in the country: the elderly.¹

Census Bureau statistics indicate that the U.S. population will expand to about 328 million people by 2016—an increase of 12 million people since the 2012 elections.² About 500,000 of those new U.S. residents will be under the age of 18 and too young to vote. Another 5.5 million will be in the voting-age population under age 65. But the number of Americans over age 65 will grow by more than 6 million during that four-year period—more than half of the total growth in the voting-age population during that period.

That could be huge for Republicans. Exit polls from last November indicate that seniors voted for Republican presidential candidate and former Massachusetts Gov. Mitt Romney by a margin of 56 percent to 44 percent, giving him a 2-million-vote advantage among seniors nationwide.³ In certain swing states such as Florida, North Carolina, and Virginia, exit polls indicate that Gov. Romney's percentage among seniors was even larger.⁴

With 6 million more Americans in this age group, Republicans can win the presidency in 2016 even if they lose the votes of younger Americans by several percentage points. But to do that, they have to hold their base among older voters.

Whether or not Republicans are well prepared to protect this senior base, however, is a difficult question to answer, since there seems to be a remarkable disconnect between GOP policies and seniors' proclivity toward GOP candidates. Specifically, there seems to be little concern among senior voters that the central plank of the Republican policy agenda—that the federal budget should be balanced entirely through spending cuts and without additional revenue—has any serious negative implications for them.

While there are certainly seniors whose income and tax status make this policy advantageous, the following analysis indicates that such seniors make up only a tiny fraction of the 56 percent of seniors who supported Gov. Romney at the polls.⁵ So what is the explanation? Are seniors so worried about the deficit that they are willing to give up a significant portion of the federal support on which they now depend? Has the euphemism “entitlement reform” succeeded in disguising the steps that would be necessary to significantly move the government toward fiscal balance without raising taxes—steps that would necessarily mean big cuts in Medicare, Medicaid, and Social Security? Do seniors recognize the implications of the “no new revenue” and “entitlement reform” agenda but do not believe it is anything more than political rhetoric?

If seniors believe the rapid growth of federal spending can be stopped without deep cuts to the current levels of federal retirement benefits, they are mistaken. We face three choices:

1. A significant reduction in retirement benefits
2. A significant increase in taxes
3. A dramatic increase in federal indebtedness

Much has been written in recent years about the fiscal difficulties facing the federal government. Unlike most discussions of public policy, however, the discussion of the budget has not been oversimplified. In fact, the discussion has made the government's fiscal problems appear far more complex than they really are.

While the choices we face may be quite difficult, the problem forcing those choices is really quite simple: The federal government has made a commitment to providing retirees in this country with a specific level of support once they reach retirement age, but the cost of providing that support is beyond the revenues presently available to pay such costs. And what's more, those costs will escalate rapidly over the next two decades.

Cutting retirement benefits by the levels necessary to stabilize and shrink the public debt seems particularly painful. Although fewer elderly Americans are poor than are members of any other age group, a very large portion of the elderly live above the poverty level based solely on the benefits they receive from the federal government.

The alternative to such cuts would be either a dramatic increase in federal deficits or increasing the percentage of U.S. gross domestic product, or GDP, that the federal government collects in revenue by several percentage points above the 19 percent figure currently forecast by the Congressional Budget Office, or CBO, for collections under current tax laws during the later years in this decade.⁶

While conservatives have argued that taxation at that level could dramatically slow economic growth, there is little or no evidence to support that thesis. Tax data collected by the Organization for Economic Co-operation and Development, or OECD, indicate that countries with much higher taxes than the United States have generally experienced economic performance on par with the United States. And even if the United States were to increase revenues to keep up with the growth in retirement spending during the period in which the Baby Boom generation will strain federal budget resources, the United States would continue to be one of the lesser-taxed nations in the developed world.

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