

ECONOMIC BRIEF NO. 21

# The Problem With Entitlements

This series of economic briefs explores fundamental concepts in economics and community and economic development.

*Probably no word in the political arena carries quite as much baggage as the word entitlements.*

*Legally, an entitlement is something of value for which people automatically qualify by meeting certain criteria. Some people argue that certain things like food, shelter, and health care are things that every human being should be entitled to, even if they are unable to pay the market price for these*

*Practically, there are several problems with entitlements. First, the cost of entitlements depends upon how many people ultimately qualify for them. Thus, any legal entitlement can lead to a loss of budgetary control. Generous promises in the form of entitlements to take care of everyone who qualifies can break the budget.*

*Second, the incentives created by entitlements can be costly. An entitlement is like flypaper. It attracts people, and they tend to stick when they land. If there are disability funds for children, there is an incentive to exaggerate their disabilities. If there are food stamps available based on income, there is some disincentive to work hard because earning more income means losing part or all of the entitlement. So, even if the initial budget costs of entitlements are low, those costs are almost certain to grow with time as people learn how to manipulate the system.*

*Third, people begin to take entitlements for granted and build them into their planning. Families, for example, have made plans for financing higher*

*education for their children on the assumption that Pell grants will continue to be available to help pay for college. And many people have counted on Social Security to fund a large share of their retirements. In both cases, people save less than they otherwise might have saved because they assume they will continue to be entitled to particular benefits.*

*The problem is that, wisely or not, certain entitlements have been enacted in the United States that are now difficult to pay for while balancing the budget. Any sudden change in the rules or funds available catches people pretty late in the planning process when it is very difficult to make up for lost time in providing for things like college or retirement.*

*That creates a political dilemma: all our promises in the form of entitlements cannot be kept without piling up huge debt. But if those promises are not kept, people who believed them find themselves in serious financial difficulties.*

*The last thirty years have taught some hard lessons about the mighty entitlement oaks that grow from legislative acorns. As programs created in the past are scaled down, government needs to be more careful about creating future entitlements.*

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*The budget battle in Washington centers on federal entitlements like food stamps and Medicare or Medicaid. Yet entitlements are not unique to the federal government. State aid to cities and counties in South Carolina is an entitlement, based on population. Private businesses also create entitlements in the form of fringe benefits to employees such as matching grants for contributions to tax-deferred retirement plans or access to a wellness program or health club facilities.*

**Some Entitlement**

**Programs:**

- Food stamps
- Welfare
- Unemployment insurance
- Social Security
- Medicare & Medicaid
- Veterans' benefits
- Subsidized flood insurance
- Pell grants
- College loans
- Instate college tuition
- State aid to local governments