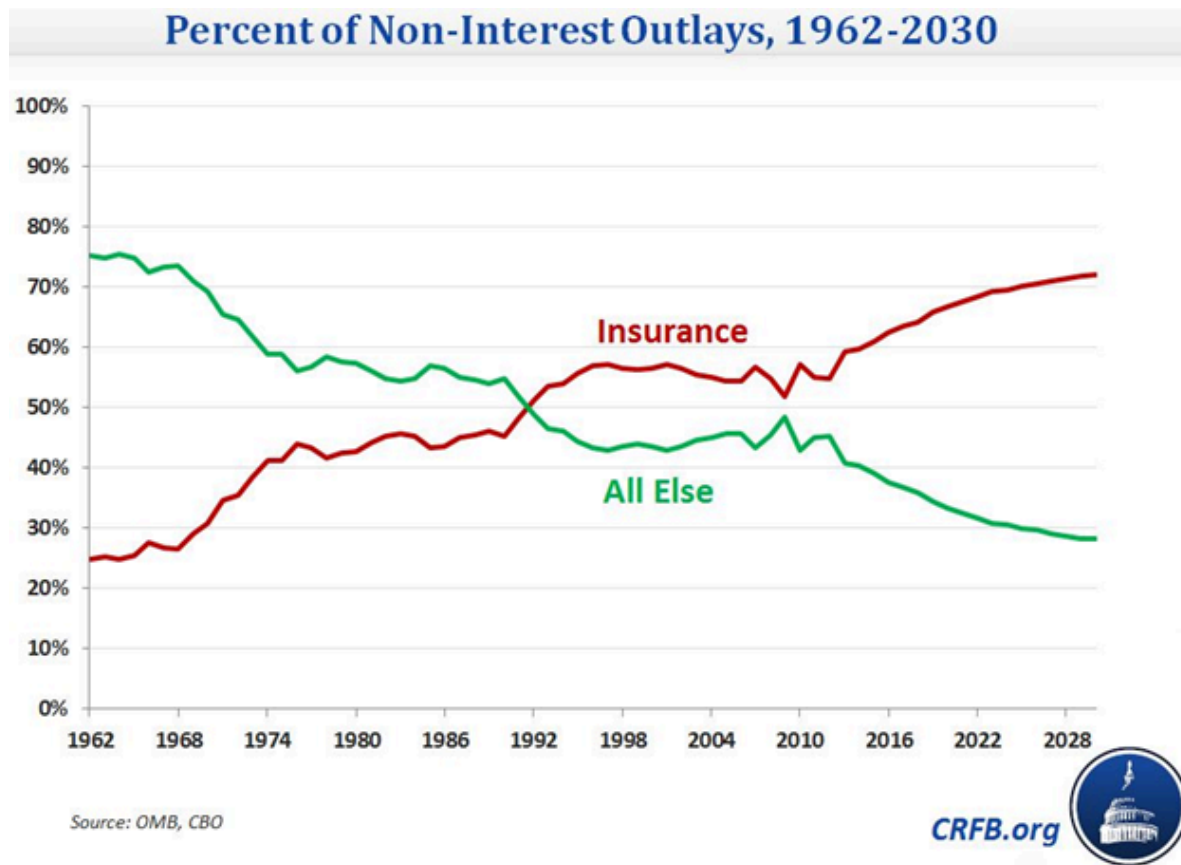


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An Insurance Conglomerate with a Shrinking Government on the Side, in Three Graphs

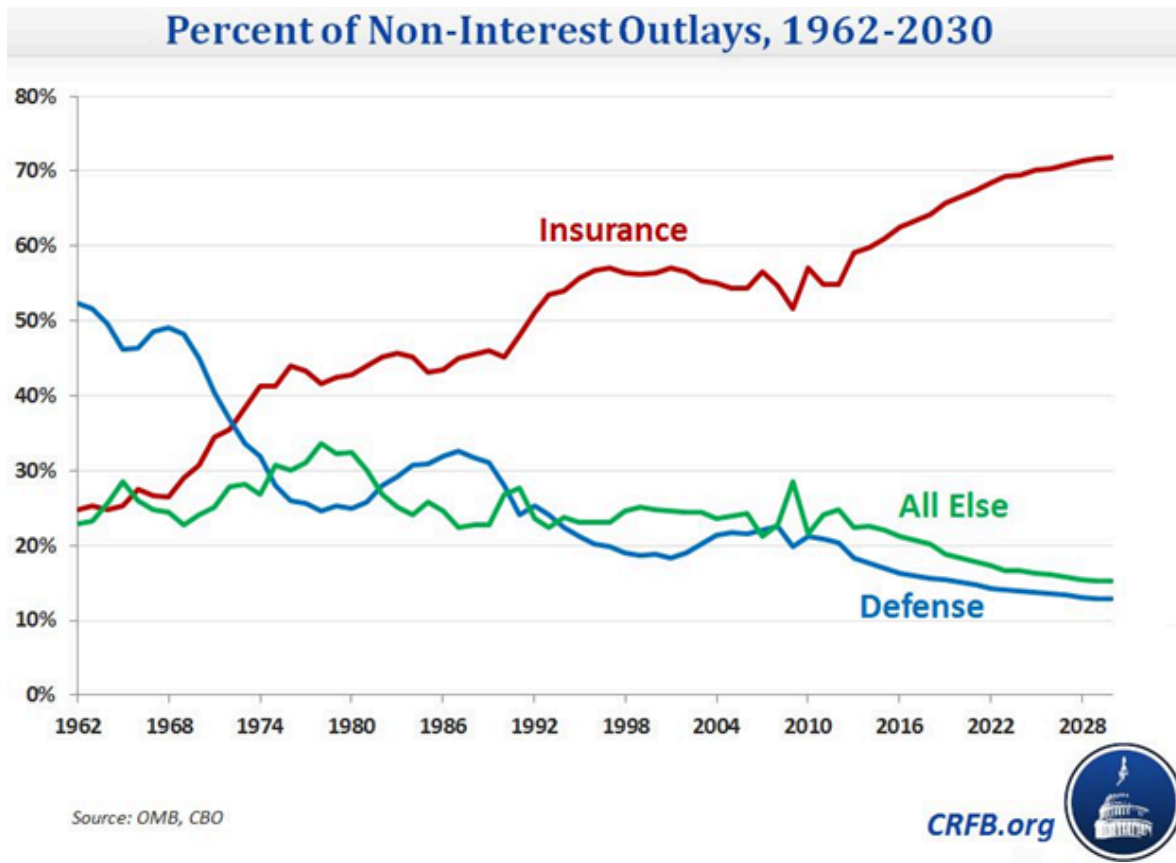
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It's no secret that a significant portion of the federal budget is devoted to our national defense and insurance programs like Social Security, Medicare, and Medicaid. As Ezra Klein [wrote](#) (https://voices.washingtonpost.com/ezra-klein/2011/02/the_us_government_an_insurance.html) almost three years ago, the federal government can be thought of as essentially "an insurance conglomerate protected by a large, standing army." But the army's getting smaller too.

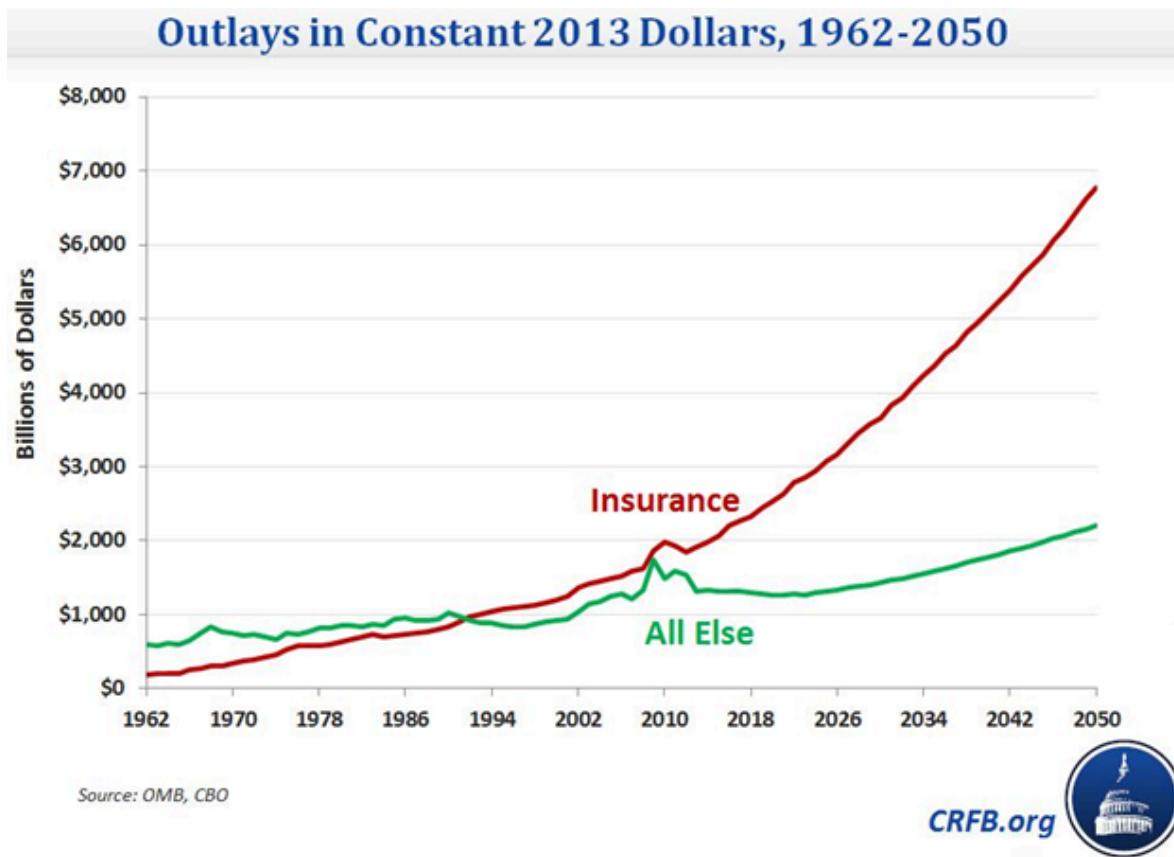


A look at our budget over time and into the future, in fact, shows that we're evolving (or devolving?) into a massive insurance conglomerate with a shrinking government on the side.¹ The percentage of our budget dedicated to insurance is on pace to reach 70 percent in 10 years, a full reversal from 1970 when only 30 percent was insurance and the rest focused on investment, defense, student loans, and certain low-income transfer programs like food stamps and Supplemental Security Income (SSI).

Obviously, in 1962, many of the components of insurance today -- particularly for health care -- were not yet even in existence. As the war in Vietnam drew down, new programs like Medicare and Medicaid were enacted, and expansions were made to existing programs, insurance spending as a share of the budget ramped up in the late 1960s and early 1970s. But from the mid-1970s until the early 1990s, its share of spending actually remained relatively constant, in part due to cost-of-living-adjustment (COLA) and indexation changes to programs like Social Security and federal retirement, which minimized the practice of providing large increases during election years. With the introduction of discretionary spending caps in the 1990s and a "peace dividend" from the end of the Cold War, the shift continued. From the mid-1990s, though, the split between insurance and everything else remained relatively stable until now, when the sequester and other restraints are shrinking discretionary spending while the baby boom generation is starting to retire and join Medicare and Social Security, and the Affordable Care Act is set to begin in full next year.



Going forward, the sequester and the built-in growth of insurance programs means that an ever-increasing amount of spending will go towards insurance unless policy changes are made. Unchecked growth in these programs will continue to crowd out spending on investments, safety net programs, and defense.



When looking at outlays in constant dollars, it is clear what has happened and what will happen: growth in insurance has and will outpace growth in all other spending.

While the U.S. does indeed have a large standing army, especially in comparison to other countries, in the context of the federal budget, running an insurance conglomerate does and will represent the lion's share of spending going forward. The growth of insurance is on pace to either run up federal debt, necessitate far more in revenue, require other spending to be squeezed further, or some combination thereof. In current projections, all three happen. To halt the ongoing erosion of investment and reverse our debt's long-term trajectory, the insurance conglomerate is going to need some reform.

¹ Our data go back to 1962, the earliest point which OMB provides historical data

(<https://www.whitehouse.gov/omb/budget/Historicals>) at that level of specificity in Table 3.2. For simplicity's sake, our numbers going forward reflect current law, so the sequester remains in place, war spending is not drawn down, and the refundable credit expansions and doc fix are not extended. For the purposes of this blog, we classify "insurance" as the major mandatory health care programs, Social Security, unemployment