

THE WALL STREET JOURNAL.

Inattention-to-the-Deficit Disorder

By one estimate, the government will spend \$117.9 trillion more than it takes in this century.

George Melloan

May 26, 2016

‘Utopia for Realists’ is the title of a Dutch e-book now available online in English. The young author, Rutger Bregman, argues that technology has made those of us living in advanced nations rich enough that we should start taking it easier. The utopia he imagines, as the subtitle says, would have a “Universal Basic Income, Open Borders, and a 15-hour Workweek.”

But how rich are we, really? A good argument can be made that we seem richer than we actually are because we have borrowed so heavily from future generations. That’s not exactly an original idea. Young adults have been fretting for years that the government safety nets available to today’s elderly and infirm won’t be there when they reach old age.

What is less obvious is that the nation’s slow growth and rising debt are already reducing the opportunities for upward mobility. That could account for the political unrest so evident in the protest votes in today’s party primaries.

Recent projections of the future cost of current government obligations certainly won’t relieve young people’s worries. Those promises have expanded far beyond any reasonable projection of the government’s ability to extract enough revenue to cover them.

Ironically, the default position—literally one might say—of the leftist politicians like Bernie Sanders is to promise more and more freebies. Judging from the improbable popularity of his presidential campaign, it wins votes. Maybe voters need a better understanding of the problem.

Harvard economist Jeffrey Miron has provided the latest estimate of, as its title says, the “U.S. Fiscal Imbalance,” in a monograph for the Cato Institute. The gap is appalling. Looking 75 years out, he estimates that the present value of future U.S. government expenses exceeds the present value of future government revenues by \$117.9 trillion. That’s trillions, in case you misread.

Retired Cato president John Allison notes in an introduction to the booklet that this enormous gap between government promises and any means of filling it exceeds the total annual production of the U.S. (GDP) by 6.8 times and by far exceeds the nation’s total private wealth currently of \$63.5 trillion.

The gap estimate is not a fantasy number. It is based on entitlement laws already on the books, projections of the future number of pensioners relative to workers and estimates of economic growth. The costs of Social Security, Medicare, Medicaid and ObamaCare are at or near record highs despite some success by House Speaker Paul Ryan and other budget hawks in bringing them under better control. The Congressional Budget Office projects a steady rise in “mandatory” (i.e., entitlement) costs as a share of GDP out into the distant future.

Entitlement costs soared as a share of GDP during the 2009 recession, mainly because GDP fell sharply. The federal deficit ballooned to more than \$1 trillion for four straight fiscal years, 2009 through 2012. An improved economy and congressional efforts lowered it to \$439 billion in fiscal year 2015 but the CBO projects it will rise again this year by about \$100 billion.

These huge deficits doubled the national debt in only seven years and rock-bottom interest rates ordained by the Federal Reserve expanded private debt as well. The upshot: Americans are deep in debt, mainly thanks to government excesses. Debt is deflationary because it devotes more income to paying for past consumption. The Fed, working against itself, is fighting deflation and trying to engineer inflation to devalue the debt. But inflation is no cure because it will expand the cost of entitlements.

The only real answer is that the entitlement programs will have to be reformed, and sooner better than later, because the longer reform is postponed the greater the fiscal imbalance will become and the greater its drain will be on other important government functions, such as national defense. That reform can be done. For example, reprivatizing health insurance to restore market competition would be a big help.

Republican front-runner Donald Trump is out to lunch on this issue, as he is on most questions that require more than a fatuous sound-bite answer. As for Hillary and Bernie, forget about it. They want to add new entitlements, such as free college education.

As for Mr. Bregman, “Utopia for Realists” is better than it might seem at first glance. Respectable cases have been made for a universal income, even by the likes of that great free marketer Milton Friedman. But this was on the condition that it supplant other welfare programs and thus bring greater simplicity and market forces to bear. Powerful welfare bureaucracies would fight it like tigers.

But as for utopia, we’re certainly not there yet. And we may be going in the opposite direction.