Apres Biden, Le Deluge: When the Republican Party Gives Up Entitlement Reform

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Other than a small, beleaguered band of fiscal conservatives in the Republican Senate caucus, no one in that body cares about impending fiscal Armageddon. President Joe Biden used the State of the Union speech to put the biggest domestic spending programs off-limits for reform. Since then, Senate Minority Leader Mitch McConnell has been doing essentially the same.

As is his wont, McConnell's target was not his opponents on the other side of the aisle, but one of the few principled GOP members left, Sen. Rick Scott, who had the temerity to discuss politically sensitive budget-busting programs, most importantly Social Security and Medicare. McConnell, who viscerally hates any principle that he inadvertently stumbles across, sounded like Biden in backing the welfare-warfare state, which is headed over the fiscal cliff.

Scott finally gave up, surrendering to the spendthrift lobby. Reported the *New York Times*: "After decades of talk of scaling back the popular — and increasingly expensive — federal entitlement programs for older Americans, Republicans have for now abandoned that approach. It is an acknowledgment of the political risks of shrinking benefits relied on by millions of voters."

And that is unlikely to be the last such concession. Every interest group that now waddles up to the federal trough, or dreams of doing so, can breathe a sigh of relief. Most Senate Republicans, at least, can be counted on to put those on the federal dole before those paying for the federal dole.

But not all. Senator Kevin Cramer asked: "Are we just going to lie to the American public and say Social Security and Medicare will be fine if you don't do anything with them?"

McConnell's drive to emasculate the few fiscal conservatives will work until it doesn't, when markets recognize that Uncle Sam is in way over his head and cannot fund all the campaign promises he made. Then, disaster. Noted Cramer, "The longer we wait, the more dramatic the fix will be. It is the driver of the debt."

In fact, the Congressional Budget Office has produced yet another of its regular horror stories, a report on federal finances entitled "The Budget and Economic Outlook: 2023 to 2033." The ever-dissembling president presents himself as a determined budget restrainer, slashing federal outlays at every turn. Alas, that is not what the CBO found.

Rather, the agency "projects a federal budget deficit of $1.4 trillion for 2023… in the agency's projections, deficits generally increase over the coming years; the shortfall in 2033 is $2.7 trillion. The deficit amounts to 5.3 percent of gross domestic product (GDP) in 2023, swells to 6.1 percent of GDP in 2024 and 2025, and then declines in the two years that follow. After 2027, deficits increase again, reaching 6.9 percent of GDP in 2033 — a level exceeded only five times since 1946."

Borrowing wildly cannot help but explode the national debt. The CBO cheerlessly did the math: "Debt held by the public is projected to rise in relation to the size of the economy each year, reaching 118 percent of GDP by 2033 — which would be the highest level ever recorded. Debt would continue to grow beyond 2033 if current laws generally remained unchanged." That's still not as great a share as that which bedeviled Greece before the Euro meltdown. But America is headed that way — and far beyond.

Of course, the hope is that before the fabled ship of state capsizes, principled policymakers will meet and set aside partisan differences. As good Americans, they then will assess priorities, balance interests, cut deficits, and shrink debt. Members of the public will then celebrate by holding hands and singing Kumbaya, as America enters a new golden age of balanced budgets and responsible governance.

Only kidding! The likelihood of anything close to this happening is, well, somewhere between 0 and .00000001. Which means, prepare for a growing red-ink tsunami.

Obviously, deficits result if spending exceeds taxing. The president and most Democrats believe that only revenue is a problem. Yet the CBO numbers are dispositive. Over the last half century, cash received, mostly taxes but also some other funds, averaged 17.4 percent of GDP. Last year revenue was up significantly, to 19.6 percent of GDP. Also over the last half century, outlays were 21.0 percent of GDP. Last year that figure also was up, to 24.8 percent. The problem is the latter increased faster than the former.

Over the last year alone, the estimate for this year's deficit jumped by $426 billion. It seems the "Deficit Reduction Act" actually had the opposite effect. That tends to happen when legislation includes a multitude of spending increases. Who knows what the next few years will bring.

By 2033 the agency figures those numbers will be 18.1 percent and 24.9 percent, respectively. The deficit will more than double, from $1.38 trillion to $2.95 trillion, over the same period. And federal debt held by the public (excluding Social Security System "lending" to the Treasury Department) will nearly double, going from $24.28 trillion to $46.45 trillion.

Mixing higher debt and higher interest rates means a major increase in interest outlays. Notably, this expenditure — a number deceptively reduced to "net interest" by subtracting payments to Washington — alone will run an estimated $1.43 trillion, more than both the Pentagon and Medicaid, and third only after Medicare and Social Security.

These numbers obviously are bad enough. But they will get worse, much worse, in the following years as the Baby Boomers continue to retire and Social Security and Medicare outlays continue to spiral upward. The CBO cheerfully explained that "the growth of interest costs and mandatory spending outpaces the growth of revenues and the economy, … pushing federal debt higher still, to 195 percent of GDP in 2053." That compares to the record today of 106 percent, set in 1946 while exiting the worst war in human history.

Indeed, it seems unlikely that US debt would ever reach 195 percent of GDP. Long before that a fiscal and perhaps financial crisis likely would occur. The agency offered a low-key warning: "Debt that is high and rising as a percentage of GDP tends to slow economic growth, push up interest payments to foreign holders of US debt, heighten the risk of a fiscal crisis, and make the US fiscal position more vulnerable to an increase in interest rates." Declining economic growth would lower federal revenues and further increase the deficit. At some point, as debt rose faster than expected, investors would become skeptical that Uncle Sam could make his interest payments. In turn, rates would head upward and deficits would increase again, further slowing economic growth and triggering even-greater rate increases. And on it would go toward catastrophe, with no one else willing or able to bail out the US.

Hopefully that won't be the outcome. But even a recent, and relatively optimistic, assessment of federal finances concluded that Washington had slightly south of $5 trillion in assets and nearly $40 trillion in liabilities, most notably VA assistance, federal employee benefits, national debt, and interest payments. Not included are the much greater unfunded promises of Social Security and Medicare.

Even the Biden Treasury Department labels the present financial path as "unsustainable." Refusing to look at so-called entitlements, most importantly Medicare and Social Security, ensures growing outlays, deficits, and debt. And that risks a fiscal crisis, which in turn could spawn a financial crisis ala 2008 with major financial institutions facing huge losses and failure. Of course, the likes of Biden and McConnell will long since have passed on. Alas, the rest of the population will not have such an easy way out. Today's political leaders have a responsibility to act before such threats become reality.

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