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Gov't Shutdown Friday? Congress Must Stop Kicking Debt Can Down the Road

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Fears are mounting that the current Congressional funding impasse will lead to a government shutdown by Friday. So far three continuing resolutions to fund the government have been passed during fiscal year 2018. Now, the impending deadline is the focus of horse-trading and negotiation, with many in Congress pushing for yet higher spending.

President Donald Trump's original budget last May proposed higher defense spending financed by discretionary spending cuts elsewhere of $54 billion. House Republicans followed up with a more modest proposal with cuts of $5 billion. Now though, there is talk that the two parties might eventually agree to spending increases totaling over $200 billion over the next two years, busting existing caps. At the moment details cannot be agreed upon, and Democrats are trying to attach other issues to any spending bill, driving talk of a shutdown. But eventually a compromise will no doubt be reached.

The truth is any such agreement that does not cut spending would be another example of Congress kicking the U.S.' debt problem can down the road. The Congressional Budget Office has already projected that the federal deficit (spending beyond revenues) will be $563 billion this year, or 2.8 percent of GDP. The Joint Committee on Taxation believes tax cuts will add another $103.5 billion to that. But the real problem is not the $100 billion here or the $100 billion there for this or that program, but the long-term trajectory for the debt path as a proportion of GDP.

At 77 percent of GDP, the federal debt is already at its highest level since 1950, and much higher than the 40 percent average seen in the whole post-war period. Debt fell sustainably after the war due to a combination of steep military spending cuts, robust growth and high inflation. In contrast, now debt is projected to rise exponentially, driven mainly by the interaction of entitlement promises with an aging population.

Over the next ten years, the CBO projects debt held by the public to rise to 91 percent of GDP, even before the tax cuts. By 2047, the CBO reckons it will rise further to around 150 percent and show no signs of letting up. It's worth noting that in this analysis the tax burden was expected to rise naturally by around 2 percent of GDP, meaning all of this extra debt was driven by rising spending.

Congress knows this is unsustainable and there are costs of inaction. There is ample economic evidence that such high levels of debt seem to be associated with substantially lower economic growth. Add to that the fact that high debts increase the fiscal risk associated with unforeseen events requiring drastic budget cuts, and consider the intergenerational consequences of such liabilities, and it's no wonder most economists agree that getting the debt-to-GDP ratio back on a downward path is a worthy medium-term aim.

Yet Congress so far seems to have no plan nor ambition to do it. In continuously delaying action, current members are making the job of future Congresses that much harder.

To see why, suppose that the aim was to get the debt-to-GDP ratio back down to the historic average of 40 percent of GDP by 2047. That would require spending cuts now and forever equivalent to 3.1 percent of GDP, or about 15 percent of current federal outlays. But to achieve that same aim starting in 10 years' time would require cuts then at 4.6 percent of GDP, or 20 percent of total spending.

In the long-term the only realistic means of curbing this burgeoning debt is entitlement reform. But given that President Trump seems to have cooled on this idea and the politics around entitlement reform are so difficult, substantial discretionary spending cuts are needed to create the fiscal space for the coming entitlement headwinds.

Congress sadly does not seem up to the challenge of re-thinking the scope of the federal government. But thankfully my colleagues at the Cato Institute are. This week, we published Downsizing Federal Government Spending, a collection of essays on where spending cuts could be made, edited by my colleague Chris Edwards.

Rather than kicking the can down the road with large spending increases or simply delaying a deal with another resolution, Congress should spend much more time considering these sorts of options to bring the debt path under control.

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