

# Forbes

## The Six Most Important Takeaways from CBO's New Long-Run Fiscal Forecast

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The Congressional Budget Office has just released the 2016 version of its *Long-Term Budget Outlook*.

It's filled with all sorts of interesting data if you're a budget wonk (and a bit of sloppy analysis if you're an economist).

If you're a normal person and don't want to wade through 118 pages, you'll be happy to know I've taken on that task.

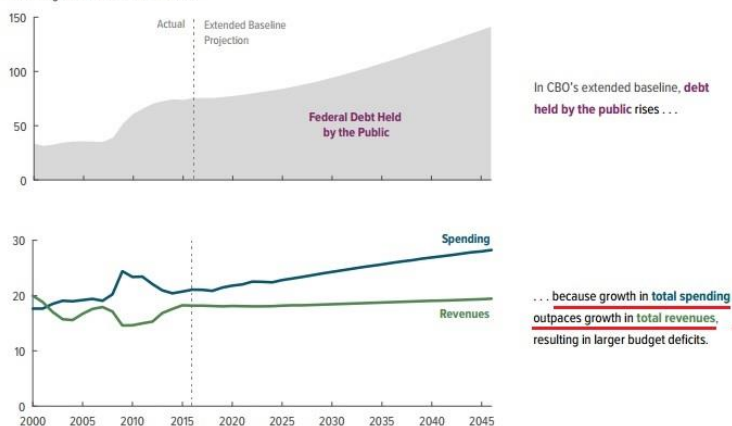
And I've grabbed the six most important images from the report.

First, and most important, we have a very important admission from CBO that the long-run issue of ever-rising red ink is completely the result of spending growing too fast. I've helpfully underlined that portion of Figure 1-2.

Figure 1-2.

### Federal Debt, Spending, and Revenues

Percentage of Gross Domestic Product



In CBO's extended baseline, debt held by the public rises . . .

. . . because growth in total spending outpaces growth in total revenues, resulting in larger budget deficits.

Source: Congressional Budget Office.

The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2025 and then extending most of the concepts underlying those baseline projections for the rest of the long-term projection period.

GDP = gross domestic product.

And if you want to know the underlying details, here's Figure 1-4 from the report.

Once again, since I'm a thoughtful person, I've highlighted the most important portions. On the left side of Figure 1-4, you'll see that the health entitlements are the main problem, growing so fast that they outpace even the rapid growth of income taxation. And on the right side, you'll see confirmation that our fiscal challenge is the growing burden of federal spending, exacerbated by a rising tax burden.



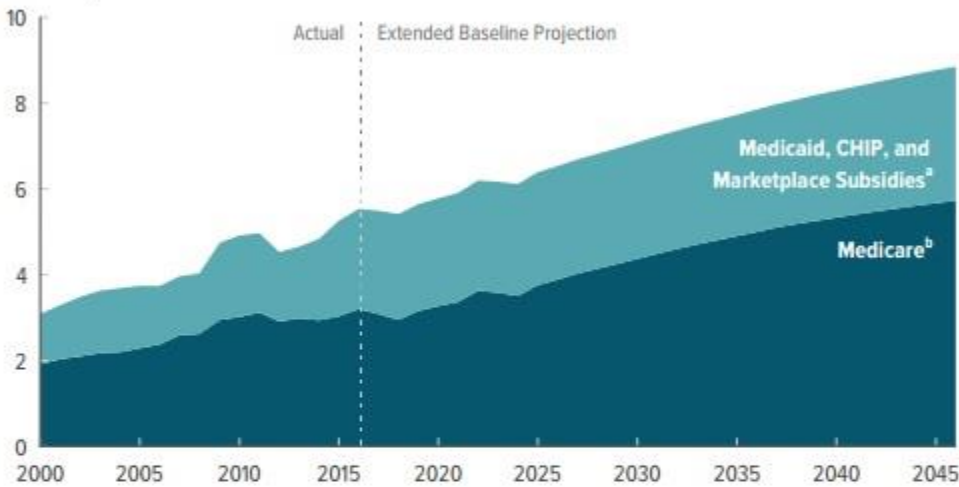
And if you want more detail on health spending, Figure 3-3 confirms what every sensible person suspected, which is that Obamacare did not flatten the cost curve of health spending.

Medicare, Medicaid, Obamacare, and other government health entitlements are projected to consume ever-larger chunks of economic output.

Figure 3-3.

### Federal Spending on the Major Health Care Programs, by Category

Percentage of Gross Domestic Product



The projected rise in federal spending for the major health care programs results from the aging of the population and the expectation that health care costs per person will continue to grow more quickly than potential GDP per person.

Source: Congressional Budget Office.

The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2026 and then extending most of the concepts underlying those baseline projections for the rest of the long-term projection period.

Potential GDP is the maximum sustainable output of the economy.

CHIP = Children's Health Insurance Program; GDP = gross domestic product.

- "Marketplace Subsidies" refers to outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act, as well as spending to subsidize insurance provided through the Basic Health Program and spending to stabilize premiums for insurance purchased by individuals and small employers.
- Refers to net spending for Medicare, which accounts for offsetting receipts that are credited to the program. Those offsetting receipts are mostly premium payments made by beneficiaries to the government.

Now let's turn to the revenue side of the budget.

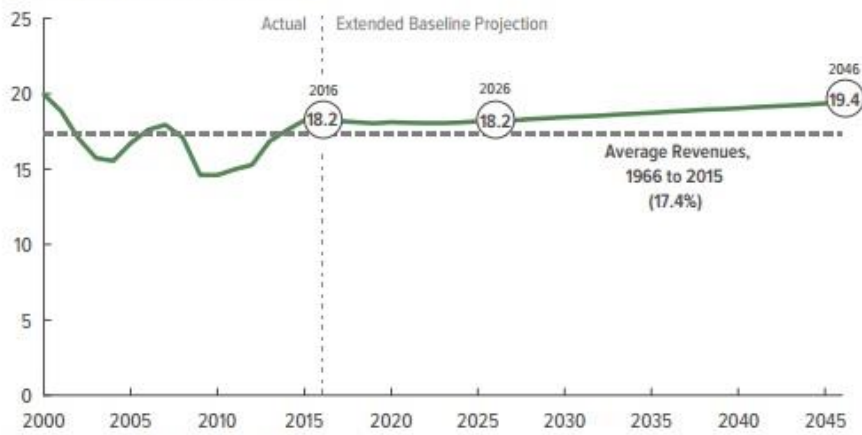
Figure 5-1 is important because it shows that the tax burden will automatically climb, even without any of the class-warfare tax hikes advocated by Hillary Clinton.

And what this also means is that more than 100 percent of our long-run fiscal challenge is caused by excessive government spending (and the Obama White House also has confessed this is true).

Figure 5-1.

## Total Revenues

Percentage of Gross Domestic Product



Under CBO's extended baseline, revenues rise slowly after 2026 mainly because of real bracket creep and an excise tax on employment-based health insurance that is scheduled to take effect in 2020.

Source: Congressional Budget Office.

The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2026 and then extending most of the concepts underlying those baseline projections for the rest of the long-term projection period.

Real bracket creep refers to the process in which, as real (inflation-adjusted) income rises, an ever-larger proportion becomes subject to higher tax rates.

Let's close with two additional charts.

We'll start with Figure 8-1, which shows that things are getting worse rather than better. This year's forecast shows a big jump in long-run red ink.

There are several reasons for this deterioration, including sub-par economic performance, failure to comply with spending caps, and adoption of new fiscal burdens.

The bottom line is that we're becoming more like Greece at a faster pace.

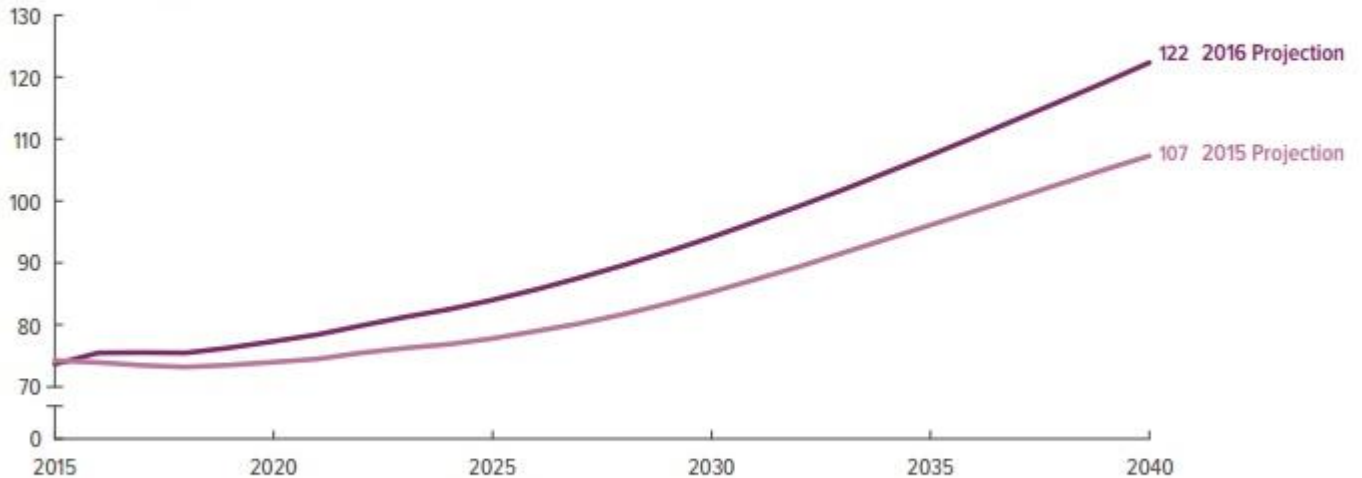
Figure B-1.

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**Comparison of CBO's 2015 and 2016 Projections of Federal Debt Held by the Public Under the Extended Baseline**

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Percentage of Gross Domestic Product



Source: Congressional Budget Office.

The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2026 and then extending most of the concepts underlying those baseline projections for the rest of the long-term projection period.

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Last but not least, here's a chart that underscores why our healthcare system is such a mess.

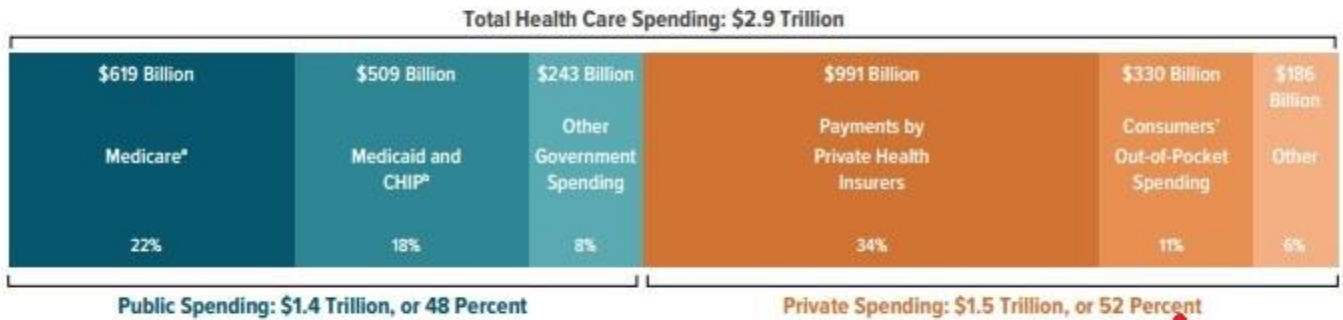
Figure 3-1 shows that consumers directly finance only 11 percent of their health care, which is rather compelling evidence that we have a massive government-created third-party payer problem in that sector of our economy.

Yes, this is primarily a healthcare issue, especially if you look at the economic consequences, but it's also a fiscal issue since nearly half of all health spending is by the government.

Figure 3-1.

### National Spending for Health Care, 2014

Total health care spending amounted to \$2.9 trillion in calendar year 2014, about half of which was private spending. The federal government subsidizes a substantial part of that private spending, primarily through the tax exclusion for employment-based health insurance.



Source: Congressional Budget Office, using data from the Centers for Medicare & Medicaid Services.

CHIP = Children's Health Insurance Program.

- a. Refers to gross spending for Medicare, which does not account for offsetting receipts that are credited to the program. Those offsetting receipts are mostly premium payments made by beneficiaries to the government.
- b. Includes federal and state spending.



P.S. If these charts aren't sufficiently depressing, just imagine what they will look like in four years.

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