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The Deficit Is Still Bad News

Liberals have rejoiced at recent budget reports, but our debt is still unsustainable

By: Michael Tanner – June 12, 2013

To listen to much of the mainstream media recently, one would assume that the battle against the national debt has been won.

First came a report from the Congressional Budget Office indicating that budget deficits over the next few years would be lower than previously predicted and that, therefore, the national debt would be growing more slowly. Next was the report from the trustees of Social Security and Medicare suggesting that those programs were in slightly better shape — or at least no worse shape — than they were last year.

Happy days are here again. Let the good times — and the spending — roll.

But before we break out the champagne, we might want to look beyond the headlines.

Let's start with that CBO report. It is true that the recovery (anemic as it is) has meant higher government revenues. In fact, federal tax collections are projected to reach 18.3 percent of GDP by 2014, back to the historical average. (So much for blaming the Bush tax cuts for ripping a hole in the federal balance sheet.)

At the same time, the much-derided sequester, combined with the winding down of the 2008 stimulus bill and the wars in Iraq and Afghanistan, has slowed the growth in spending. As a result, projected budget deficits will shrink to as low as $378 billion in 2015, some $52 billion lower than previous estimates.

This reprieve is only temporary. After that nadir in 2015, deficits start growing again. By 2023, they will be on a steadily rising trajectory, approaching $900 billion a year.

Overall, the CBO projects our national debt to increase by $851 billion less over the next ten years than projected last year — which seems like a cause for celebration, except that it will still rise by $8.5 trillion over the same time period, reaching $25.23 trillion by 2023.

As for Social Security: According to the trustees, the year of official insolvency — the date at which the Social Security trust fund will be exhausted and the program legally required to cut benefits by roughly 23 percent — remains 2033. While that hasn't gotten worse, it remains pretty bad news for those aged 44 and younger.

More significant, the program's cash-flow shortfall actually increased to $169 billion in 2012. Social Security continues to run a deficit every year, and while the expiration of the payroll-tax cut will lead to a smaller deficit in 2013, the program will continue to consistently run substantial annual cash deficits. That yearly deficit is actually the best measure of the program's finances, since the trust fund that covers the gap is simply an accounting measure to reflect the fact that general revenues are technically owed to Social Security.

The program's long-term liabilities, reflecting the future deficits above what's owed to the trust fund, continue to increase. The present value of the program's liabilities over an infinite horizon now totals $23.1 trillion, $2.6 trillion worse than last year. That accounting-speak means that if you could put $23.1 trillion in the bank today, and it earned 3 percent interest, you would have enough money (together with future taxes) to pay all future Social Security benefits. Of course, as you may have noticed, the federal government doesn't have a spare $23 trillion lying around.

Medicare's short-term outlook actually did improve slightly in the most recent report — very slightly. For example, the date at which the Medicare Part A Trust Fund will be exhausted was pushed back by two years to 2026.

This change is due to a slowdown in the growth rate for health-care costs over the last few years. As a result, spending per beneficiary has grown by just 1.7 percent annually since 2010, slower, in fact, than either inflation generally or GDP growth. But health-care economists are unable to say why this slowdown has occurred or how long it will continue. Until recently, many thought the primary factor was the recession, which traditionally holds down health-care spending. But recent evidence suggests that the slowing of health costs began before the recession and has continued even after it ended. That suggests there may be other, unidentified factors behind the slowdown (contrary to some liberal commentators, there is no evidence to suggest that Obamacare has had more than the most marginal impact), so there is some slender hope that costs can stay under control for some time to come.

But even without high cost inflation, the continued growth in the number of Medicare beneficiaries led to a $900 billion overall increase in the program's unfunded liabilities. Medicare Part A's liabilities decreased by $1.3 trillion, but that was more than offset by increases in the liabilities of Part B ($900 billion) and Part D ($1.3 trillion). All of this really represents a best-case scenario, counting, for example, future projected Obamacare savings, even though few experts believe they will actually occur.

Looking at all three of these "good" reports, total U.S. indebtedness tops at least $83.9 trillion. That's still an awfully big burden to pass on to our children and grandchildren, more than enough to stifle economic growth, and a pretty good reason to cancel the victory party.