



Medicare and Social Security Tabs Coming Due

Unless we want to drown future generations in a sea of red ink, we need to have a serious conversation about the future of entitlements.

**By Michael Tanner
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The national debt has dropped out of the headlines recently, but that doesn't mean that it has gone away. In fact, just a few weeks ago, the debt officially topped \$18 trillion. For those keeping score, that equals roughly 101 percent of GDP. In other words, we now owe more than the value of all goods and services produced in this country over a year. And, according to the Congressional Budget Office, the debt will climb to almost \$27.3 trillion within the next 10 years.

Moreover, as Milton Friedman, pointed out, debt, like taxes, is just a measure of how we pay for the true cost of government, which is spending. That spending is currently on a path to reach 36 percent of GDP by mid-Century. That's just federal spending. Throw in state and local governments and government is soon expected to consume more than half of GDP.

As bad as these numbers sound, they actually understate the problem. That is because they don't include the unfunded liabilities of programs like Social Security and Medicare. While those liabilities don't show up on the country's official balance sheet, they nonetheless represent legal obligations of the US government. Including the expected shortfall from those programs brings the true debt to an unfathomable \$90.6 trillion.

Yet, neither Democrats nor Republicans seem willing to face up to this problem. Democrats either deny that there is a problem or insist that the problem could be solved if only the wealthy paid higher taxes. But even if one thought that tax increases were a good idea, and could be implemented without killing jobs or slowing economic growth, it is simply impossible to increase taxes enough to close the budget gap. In particular, raising taxes on the wealthy falls far short of what would be required to pay for our current and future obligations.

Meanwhile, Republicans give frequent lip service to the debt crisis but pretend that you can deal with the debt crisis by eliminating "waste, fraud, and abuse" in the federal budget. Certainly, there is plenty of that, but you simply cannot balance the budget by cutting the usual suspects. Foreign aid amounts to less than 1 percent of federal spending. Federal subsidies to Planned Parenthood and the Corporation for Public Broadcasting amount to a combined 0.02 percent.

In fact, as President Obama proudly, and correctly, points out, even in his bloated budget, domestic discretionary spending would amount to just 2.5 percent of GDP by 2023, a historic low. That is not to say we shouldn't cut those programs. Many are indeed wasteful. Some do more harm than good. Most would probably be better left to the private sector and civil society. Every dollar in savings is a good thing, but the sad fact remains that such cuts come nowhere near balancing the budget or significantly reducing the debt.

The simple truth is that there is no way to address America's debt problem without reforming entitlements, notably Social Security, Medicare, Medicaid, and our newest entitlement program, Obamacare. Social Security, Medicare, and Medicaid alone account for 47 percent of federal spending today, a portion that will only grow larger in the future. And although the spending for Obamacare has just begun, it too will soon consume an ever larger portion of the federal budget. Entitlement spending, not domestic discretionary programs or defense, is where the real money lies.

Social Security will run a \$69 billion cash-flow deficit this year. And that's the good news. Every year after, that shortfall will worsen. All together, Social Security is facing future shortfalls worth more than \$24.9 trillion. The so-called trust fund is simply an accounting measure, specifying how much money the federal government owes the program out of general revenues, not an actual asset that can be used to pay benefits.

Medicare is in even worse financial shape, despite the fact that health care costs have slowed in the past decade. Economists debate whether the slowdown will continue, but even if it does, Medicare faces unfunded liabilities approaching \$48 trillion. And, if we return to double digit health care inflation, we could see Medicare's liabilities swell to more than \$88 trillion.

We are far beyond the point where "tweaking" those programs—revising them around the edges, cutting a few dollars here, adding a little bit more in taxes there—will forestall the budgetary disaster lurking in our fiscal future.

Social Security and Medicare are generally seen as immune to reform, in large part because seniors, who vote, receive the benefits, while young people, who don't vote, get the bill. It is much easier for politicians to debate whether we should kill off Big Bird or make the rich pay their "fair share" of taxes. But unless we want to drown future generations in a sea of red ink, we need to put away childish things, and have a serious conversation about the future of entitlements.

Cato Institute senior fellow Michael Tanner heads research into a variety of domestic policies with a particular emphasis on health care reform, social welfare policy, and Social Security.