NATIONAL REVIEW

D.C. Forgets about the Debt

But the Congressional Budget Office doesn't — the long-term situation is still dire.

By Michael Tanner
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Although it is expected to top $17.6 trillion by August 1, the national debt has dropped out of the headlines recently. Out of sight may indeed mean out of mind, especially in Washington, but that hardly means the problem has gone away — as a new report from the Congressional Budget Office makes clear.

Let's start with the good news. The annual budget deficit continues to decline. This year's deficit is expected to be just $492 billion. Of course "just" is a relative term — a $492 billion deficit still means that we are borrowing 14 cents out of every dollar that we spend. Even so, this represents a marked improvement from the $1.4 trillion deficit that we ran as recently as 2009. And, next year's deficit is projected to be even lower, possibly as low as $469 billion.

Unfortunately, this respite is expected to be very short-lived. As soon as 2016, the deficit will begin growing again. By 2023, it is likely to once again top $1 trillion.

These ongoing deficits mean that our national debt is only going to get bigger too. The CBO report reminds us that the debt has been growing by leaps and bounds recently, doubling over the last six years.

Today, every taxpayer owes $151,000 as his or her share of this debt. To this ocean of red ink, the CBO estimates that we will add an additional $9.4 trillion over the next ten years. And that's the good news; after 2024, things really get bad.

The CBO estimates that debt held by the public, the portion of our national debt that economists consider most worrisome, will hold steady as a percent of the economy for the next few years, falling slightly from 74 percent of GDP, then rising slightly to 77 percent of GDP by 2023. But by 2039, it will rise to 106 percent of GDP.

Remember too, this represents only part of our national debt. If one includes intragovernmental debt (debt owed to government trust funds such as Social Security and Medicare), our national debt today is more than 103 percent of GDP, and will reach roughly 118 percent of GDP by 2025. The future unfunded liabilities of Social Security and Medicare, beyond what is owed to the various trust funds, add another $66 trillion to that (in discounted present-value terms), bringing our real indebtedness to over 480 percent of GDP.

The CBO report also points out that interest on the debt is becoming an ever larger portion of federal spending. This year, the federal government will pay $221 billion in interest charges. By 2024, that will rise to more than $876 billion. Not long afterward, we will be paying a trillion dollars every year just for interest on the debt. By 2035, in fact, interest on the debt will be tied with Medicare as the second largest line item in the federal budget, trailing only Social Security. And this assumes that interest rates won't rise back to their historical norms (though the CBO assumes they do rise some).

Bad as this news is, all of these estimates are likely far too optimistic. The CBO also provides an alternative fiscal scenario, based on much more realistic assumptions about future spending. Under this baseline, for example, the CBO assumes that the spending limits under the sequester are breached again, as they were under the December 2013 bipartisan budget deal, that the Medicare "doc fix" is not paid for, and that discretionary federal spending is not further reduced as a share of GDP.

Under this scenario, debt held by the public alone would reach an astounding 205 percent of GDP by 2045. Shortly after that, the CBO says it is unable to make further projections because no one might be willing to buy U.S. government debt.

These are not just abstract numbers. The CBO report makes it clear that there is a very real cost to continued government profligacy. Under the baseline CBO projections, real GNP per capita will be 4 percent lower by 2039 than it would be if we followed more prudent fiscal policies. That means our children will be roughly $2,000 poorer per capita. Under the more realistic alternative scenario, real GNP per capita will be as much as 7 percent lower.

Yet as we approach the 2014 mid-term elections, politicians are spending far more time discussing who should pay for what kinds of birth control than they are the specter of national bankruptcy. And, when Congress has taken action this year, from the farm bill to the VA fix, it has almost always meant more spending.

We can't say we haven't been warned.

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