NATIONAL REVIEW

Entitlements Are Out of Control

We are entering an economic death spiral.

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While the White House was busy getting its latest Russia story straight, and congressional Republicans were inventing another new way to not pass health-care reform, few noticed the latest double-barreled dose of bad budgetary news. But anyone who cares about the long-term economic health of the country should be paying careful attention.

First, the Congressional Budget Office reported that this year's budget deficit will hit $693 billion. That's $134 billion higher than the CBO predicted just six months ago, and $100 billion higher than last year's shortfall. Under current baselines, deficits are soon expected to hit $1 trillion per year. All this deficit spending will add more than $10 trillion to the national debt over the next decade, bringing it to more than $30 trillion.

Of course, those projections are based on current policies. President Trump has proposed deep cuts in domestic spending. Assuming the president gets everything he wants, the debt will increase to only $27 trillion. Hurray? Of course, after the health-care debacle, and given the president's other distractions, does anyone really believe that all those cuts are going to happen?

But as frightening as those numbers are, most budget observers know that the real problems come farther down the road, when the true cost of entitlement programs, Social Security, Medicare, and Medicaid kick in. (Before legions of outraged seniors attack, let me simply point out that "entitlement" is simply a budgetary term for programs that are not subject to annual appropriation.) And it is these programs that are responsible for the second dose of bad news.

According to the latest report of Social Security's trustees, the program's unfunded future liabilities now exceed $34.2 trillion (in discounted present-value terms). True, the program can maintain technical solvency until 2034 (cold comfort to anyone 50 or younger today). But that number is largely an accounting fiction that assumes that the Social Security Trust Fund is an asset that can be used to pay benefits. In reality, of course, the Trust Fund is just a claim against general revenues. On the far more important cash-flow basis, Social Security is already spending more on benefits than it brings in through tax revenue.

Big numbers like $34 trillion tend to make the eyes glaze over, so consider this: Restoring Social Security to permanent sustainable solvency would require immediately a roughly one-third increase in the payroll tax (or an equivalent in other taxes), or a permanent reduction in benefits for all current and future beneficiaries of about 25 percent.

Meanwhile, Medicare is in even worse shape. For the record, the Trust Fund for Medicare Part A will be technically exhausted by 2029, but like Social Security, the program is already running a cash-flow deficit. The big Medicare shortfalls, however, will be in Part B and the prescription-drug program, both of which are funded largely out of general revenues. Taken as a whole, Medicare's unfunded liabilities are nearly $49 trillion, a slight improvement from previous forecasts.

Those projections may, however, be overly optimistic. They assume that Medicare's rising costs will probably trigger automatic spending cuts through Obamacare's Independent Payment Advisory Board (IPAB), starting next year. But those cuts, which almost exclusively fall on doctors and hospitals, are potentially devastating. In fact, Medicare's trustees warn in their report that payments to doctors would "fall increasingly below providers' costs." As a result, as many as half the nation's hospitals, 70 percent of skilled nursing facilities and more than 80 percent of home health agencies would be losing money. More and more doctors will be driven to abandon the program.

Faced with cuts of this magnitude, Congress will almost certainly step in and block IPAB's recommendations. Anticipating that the cuts will never actually occur, the trustees warn that "actual future costs for Medicare may exceed the projections shown in this report, possibly by substantial amounts."

All of this makes the Republican failure to repeal and replace Obamacare all the more dispiriting. If Republicans could not even slow the growth of Medicaid or rein in the program's Obamacare expansion, how will they ever withstand the special-interest onslaught that will accompany any attempt to control entitlement costs? The dynamics are not going to change. The public will remain horrified at the thought of giving up any benefits, no matter how unrealistic those promises may be. Democrats will remain adamantly opposed to cutting a dime from any program. President Trump will remain distracted and disengaged (not to mention increasingly unpopular). Republicans will remain divided and afraid. Not exactly a recipe for success.

Yet failure would be catastrophic. Set aside the immorality of burdening our children and grandchildren with this mountain of debt: We are poorer today because businesses, looking at the wave of future debt and the taxes that paying it would impose, are less likely to invest or expand. It is a death spiral of its own. Debt slows economic growth, which increases the debt, which slows growth, and so on.

It's time for a little adult leadership in Washington. We're waiting . . . Crickets.

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