

Assessing the U.S. Fiscal Gap: Is it \$205 Trillion, \$86.8 Trillion . . .

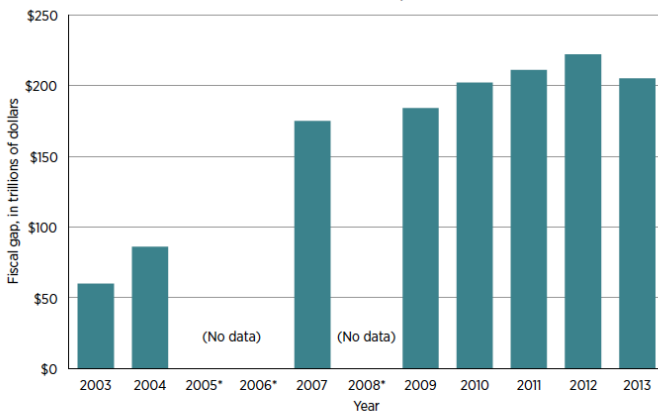
By: Veronique de Rugy – December 18, 2013

As you know, my main objection to the Ryan–Murray deal is that it spends more than sequester levels in both 2014 and 2015. That’s uncalled for: Under sequestration, spending would have been cut in 2014, but in a far from devastating way, but it would rise again in 2015. It’s especially less of a concern when you consider just how much the government spends and how much it’s grown in the last decade. But this deal and the rhetoric about how brutal the sequester cuts are also a bad sign about the willingness of lawmakers to tackle the problem of entitlement spending. Sadly, it’s hard to imagine that those who found sequester cuts “devastating” will have the willpower required to reform Medicare, Social Security, and Obamacare.

That all is a problem because, absent changes to entitlement programs, the United States is on a totally unsustainable path. The U.S. government has racked up \$12 trillion in public debt, nearly three-quarters of gross domestic product., yet that massive sum pales in comparison to the costs of the federal government’s unpaid promises.

Although these future commitments are not scored by the CBO, this off-the-books “fiscal gap” is real, and economists and lawmakers of all stripes are coming to recognize the need for some honest accounting of it. A recent paper by Boston University economist Laurence Kotlikoff for the Mercatus Center argues it adds up to \$205 trillion over an infinite time horizon. That number varies fairly widely from year to year, based on changes to our fiscal policy. Kotlikoff had an even higher number last year, before the fiscal-cliff deal raised some taxes permanently. Here’s how they’ve varied over time:

FIGURE 1. US FISCAL GAP IN TRILLIONS OF DOLLARS, 2003–2013



* Missing bars reflect the unavailability of the Congressional Budget Office’s fiscal projections for those years.
Source: Author’s calculations.

Because of differences in projections and methodology, estimates of future obligations vary widely: Former SEC chairman Chris Cox and former House Ways and Means Committee chairman Bill Archer estimated that the U.S. faces an \$86.8 trillion gap, Cato Institute economist Jagadeesh Gokhale found it

to be \$54.4 trillion, economist James D. Hamilton of the University of California, San Diego, finds a \$70.1 trillion gap. But whatever number you pick, our fiscal gap is much bigger than our official debt figure suggests, and it would be nice if conservatives in Congress were serious and willing to do something about it soon.

Again, I could be reading too much into this, but it seems that caving on the small sequester cuts doesn't suggest a willingness to address the country's much bigger challenges, but let's hope I'm wrong.

The Kotlikoff paper is [here](#).