



Congressional Budget Office Report Ignores Critical Factors

At first reading, the latest report on the government budget and the economy released on Tuesday by the Congressional Budget Office (CBO) is all sunshine and roses. In its summary of the [182-page report](#), the CBO noted that deficits this year (from last October to next September) will be even lower than initially estimated, dropping to \$514 billion, down from \$680 billion last year and \$1.1 trillion in 2012. And, in the very short run at least, further declines in deficits are expected through 2015, perhaps touching a low of less than \$500 billion before turning upward.



The deficits are shrinking, according to the CBO, mostly because of the increase in revenues thanks to the tax increases passed in January 2013, while the sequester cuts have slowed government spending slightly. For a brief moment the government was actually in a surplus last fall when the Treasury Department reported a \$75 billion surplus for September, before returning to negative in the months thereafter.

Its outlook for the near term shows the economy growing at about three percent a year for the next few years, while the unemployment rate will continue to drop slowly. Beyond 2017 the CBO turns decidedly bearish, projecting that the economy will slow and workforce participation rates, currently near the lowest levels in decades, won't improve much. That confluence of negatives will keep government revenues from increasing while government spending will once again resume its seemingly inevitable march higher, with total deficits of more than a trillion dollars being added to the national debt by 2024.

The CBO spent much time outlining many of its assumptions, and included frequent disclaimers that changes in government spending or unexpected downturns in the economy could throw their projections out the window. It acknowledged the aging of the workforce as Baby Boomers — the 76-million-person cohort born between 1946 and 1964 — become tax consumers rather than tax payers. Without saying so directly, the CBO predicts that much of the increase in deficits in the out years will result from ObamaCare's deferred bills coming due. By 2017, all of the more than 20 Affordable Care Act taxes will have kicked in. And not only will the taxes kick in, but also the disincentives in ObamaCare which will, according to the CBO, eliminate the equivalent of 2.3 million full time jobs as workers [are pushed into part-time work](#).

In addition, the CBO expects that the abnormally low interest rates which the Federal Reserve has engineered since the start of the Great Recession will finally begin to return to normal, which are estimated to nearly triple the government's cost of servicing its enormous federal debt by 2024.

But the CBO's crystal ball becomes especially murky after 2017. Said the report:



Written by [Bob Adelman](#) on February 4, 2014

Beginning in 2018, CBO's projections of GDP are based not on forecasts of cyclical movements in the economy but on projections of trends in the factors that underlie potential output, including total hours worked by labor, capital services (the flow of services available for production from the nation's stock of capital goods, such as equipment, buildings, and land), and the productivity of those factors.

In CBO's projections, the growth of potential GDP over the next 10 years is *much slower than the average since 1950*. That difference stems primarily from demographic trends that have significantly reduced the growth of the labor force. [Emphasis added.]

One of those critical demographic trends appears to be missing altogether from the CBO's report: the huge decline in the country's birth rate since the start of the Baby Boom generation. During the decade of the 1950s the birth rate was 25 per thousand of population. Today it is 14. This raises the inevitable question which the CBO failed to address: Where are the new workers going to come from to fund the Baby Boomers' increasing dependence upon government promises? The CBO can talk all day about trends and cycles. It can make estimates about interest rates and assumptions about healthcare costs. But the birth rate isn't an assumption. It is a fact. As Baby Boomers pile into the welfare wagon, who will be left to pull it?

The CBO did repeat its disclaimer: "Such large and growing federal debt could have serious negative consequences, including restraining economic growth in the long term ... and eventually increase the risk of a fiscal crisis."

The CBO's use of the word "eventually" is especially unnerving, first because their report now takes off the table any serious discussion in Washington about reining in government spending and second, exogenous events could turn their projections into confetti. As Andrew Nathan wrote in the January 2013 issue of *Journal of Democracy*,

[Tipping points] belong to that paradoxical class of events which are inevitable but not predictable. Other examples are bank runs, currency inflations, strikes, migrations, riots, and revolutions.

In retrospect, such events are explainable, even over determined. In prospect, however, their timing and character are impossible to anticipate. Such events seem to come closer and closer but do not occur, even when all the conditions are ripe — until suddenly they do.

A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to The New American magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelman@thenewamerican.com.

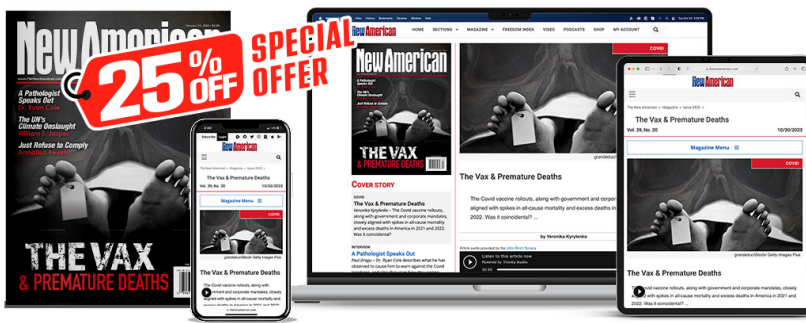


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