U.S. Financial Outlook has "Worsened Dramatically"

In its just-released report "The 2015 Long-Term Budget Outlook," the Congressional Budget Office stated bluntly:

> The long-term outlook for the federal budget has worsened dramatically over the past several years, in the wake of the 2007-2009 recession and slow recovery…. If current law remained generally unchanged in the future … growing budget deficits … would push [the national] debt above its current high level.

It's all about government spending that's baked into the cake: the Baby Boomers retiring and asking the government to make good on its Social Security and Medicare promises and the rising costs of healthcare along with "an increasing number of recipients of exchange subsidies and Medicaid benefits attributable to the Affordable Care Act [which will] push up spending … if current laws … remain unchanged," said the report.

The CBO created two avenues for politicians concerned about the matter to pursue: one, to keep the deficits from going any higher, and the other to bring them back down to historic levels. For the first, taxes would have to increase by $1,450 per person per year, starting immediately, or Social Security benefits would have to be cut by $2,400 per person per year, starting immediately.

The second scenario is even worse.

The report considers the consequences of doing nothing: At some point investors in government bonds would become concerned about getting their money back and would demand higher interest rates to compensate for that risk. This would accelerate the deficits to new levels. As the report noted, "The larger the government's debt, the greater the risk of a fiscal crisis."

The need to fund those promises would drain capital that would otherwise be invested in business opportunities in the hopes of generating wealth, further slowing the economy. "The result," notes the report, "would be a smaller stock of capital, and therefore lower output and income, than would otherwise have been the case."

Pundits across the political spectrum took advantage of the CBO's latest report either to criticize Republicans for wanting to cut spending or Democrats for not spending more. For example, Representative Chris Van Hollen (D-Md.) expressed his denial of reality with this:

> Responsible deficit reduction does not mean billions of dollars in unpaid-for tax breaks. It doesn't mean recklessly cutting spending — despite the fact that the cuts will slow economic growth — or arbitrarily demanding a balanced budget. It does not mean disinvesting in America's future and turning our back on the promises we've made to America's seniors.

The Concord Coalition noted that the report from the CBO couldn't have come at a better time: just when the 2016 presidential campaign is warming up. Said Executive Director Robert Bixby,

> Today's Long-Term Budget Outlook should be considered an essential campaign primer for the presidential candidates in both parties. It shows why the next president, working with Congress, must move quickly and effectively to put the country on a more sustainable course.… These challenges and proposed solutions must be discussed during the presidential campaign so that the person who enters the White House in early 2017 will have a clear mandate to act.

Dr. Ben Carson has already enjoyed being first to bring up the subject, and received Two Pinocchios from the *Washington Post* for his trouble. In announcing his candidacy for president on May 4, Carson said, "If you go to a financial adviser and, you know, you're in trouble … they'll ask [you]: What do you own and what do you owe? Well, we owe a lot. It's not just the $18 trillion; it's the $211 trillion of unfunded mandates as well."

Carson was quoting numbers developed by Boston University professor Laurence Kotlikoff, who has said for years that the CBO is vastly understating the true state of the country's financial position. The *Post* took Carson to task, not for being wrong or inaccurate, but for using the wrong terms to describe the country's desperate straits: "unfunded mandates" versus "fiscal gap." No matter, said the *Post*: "the government has unfunded liabilities beyond the reported federal dept." Which was Carson' whole point. In early June Carson clarified his remarks:

> You're pushing into 100, 200 trillion dollars. That is unsustainable. And as we go forward, something has to give: massive tax [hikes] or massive [benefit] cuts. Either way, it hurts. And that's why we have to start thinking about it now. We need to get people who actually understand something about the economy [into office].

It's long past time to start thinking about it. Using the CBO's numbers and applying them to a lower middle class family illustrates the point. A family making, say, $40,000 a year, with debts of $180,000 (home mortgage, car payments, credit cards, etc.) is going to have difficulty making minimum payments, to say nothing of paying down those debts. But if the real debts are $2 million, there's no way. That's the real conversation that the CBO is avoiding with its long-winded but largely irrelevant discussions of various scenarios to bring down the national debt.

In his 1926 novel *The Sun Also Rises*, Ernest Hemingway had two of his principal characters, Bill and Mike, engage in the following conversation:

> Bill: How did you go bankrupt?
>
> Mike: Two ways: gradually, and then suddenly.

A graduate of an Ivy League school 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.*