CBO: Entitlement Spending Plus Interest Shortly to Consume all Federal Revenues

The "2019 Long-Term Budget Outlook" for the U.S. government, issued by the Congressional Budget Office (CBO) on Tuesday, contained no good news. Those expecting — nay, hoping — that new revenues being generated by the Trump administration's Tax Cuts and Jobs Act of 2017 would exceed government spending and begin to bring the monstrous national debt under some form of control will be disappointed.

There is no way to soft-soap the bad news. Larger and larger annual deficits will drive the national debt "to unprecedented levels", wrote the CBO. And the assumptions underlying this dismal outlook "are highly sensitive" to change — the CBO's way of saying that the national debt could be vastly higher if their assumptions are wrong.

Take their underlying assumption on the growth of the economy. If the estimate is just one-half of one percent lower than projected, the national debt will balloon to nearly twice the size of the U.S. economy. If interest rates rise by just one percent higher than projected, the national debt would be closing in on three times its size.

Second, the CBO points out that, under any of its various iterations, the economy never generates enough revenue even to begin to close the gap between revenues and spending. And nothing in the 79-page report mentions the possibility of a recession occurring over the next 10 to 20 years, which would completely obliterate their assumptions.

In other words, as bad as the CBO reports, the debt situation in the United States is likely to be much worse than projected, and reach critical mass sooner.

When Justin Bogie, a senior policy analyst at the Heritage Foundation, looked at the report from the CBO, he used words such "precarious" and "unsustainable." And that's assuming that Congress doesn't totally lose its collective mind and adopt the increased spending bill — "Investing for the People Act of 2019" — being proposed by the Democrats. As Bogie noted, "the current proposal put forth by House Democrats would raise spending by at least $357 billion over two years, driving long-term debt even higher."

At these stratospheric levels of debt, numbers almost don't matter. The government's current budget for fiscal year 2019 is $4.4 trillion. In less than 10 years, assuming everything goes as forecast by the CBO, the budget will approach $7 trillion. And 85 percent of that increase will reflect entitlement spending on Social Security, Medicare, Medicaid, and various health-insurance subsidies. Add in interest payments on the increased debt, and government spending by 2028 will be more than twice its current level.

Bogie reminds his readers of just how far we have come. The ratio of the national debt compared to the country's gross domestic product (GDP) has historically been just over 42 percent. Today, it's 78 percent, and in 10 years will approach 150 percent — a banana republic-type number.

He said that "entitlement reform is the key to shrinking the national debt and creating a healthy, sustainable budget." It's going to take a lot more than that. He's assuming that a simple majority of legislators will suddenly come to their senses and begin to rein in government spending. But it's not that simple: Most of the entitlement programs are on "auto-pilot" — a nice way of saying that few legislators are likely to touch them, especially in an election year, as they consider them the "third rail" of politics, i.e., touch them and you die.

The cohort of Baby Boomers — those born between 1946 and 1964 — number 76 million. Threaten them with the loss of "their" Social Security benefits and the roof will cave in on anyone suggesting cuts.

Restraint on government spending won't be coming from politicians whose primary purpose in life is to stay in office. Restraint from taxpayers who already receive government checks (Social Security sent out 68 million checks in May, 48 million of them to people age 65 or older) isn't going to happen.

So when writers such as Bogie begin to suggest solutions to this "unsustainable" problem that involve politicians or beneficiaries, he is dreaming.

There is an outside source that will eventually "cure" this "unsustainable" problem: the bond market. At some point in the future, perhaps sooner rather than later, investors (mostly bond funds, pension plans, banks, and wealthy individuals) are going to demand higher premiums on their investments in federal government securities to offset their increasing risks of default. As that happens, the Federal Reserve is likely to get involved, bailing out banks and other institutions perceived to be critical to the continued functioning of the economy. When that fails, all that will be left will be the empty shell of unfunded promises made to the current generation by legislators long-since deceased.

Consider the latest CBO report as the "canary in the coal mine," an allusion to caged birds that miners would carry down with them into underground tunnels. If dangerous gases such as carbon monoxide collected in the tunnels, the gases would kill the canary before killing the miners, thus providing a warning to exit the tunnels immediately.

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