



Written by [Bob Adelman](#) on November 16, 2012

CBO: Balancing the Budget Is “Formidable” Task

Within days of issuing its [report on the impact](#) the fiscal cliff would have on the economy, the Congressional Budget Office (CBO) released another report full of suggestions on [how to close the deficit](#). They may as well not have bothered, as the gap is too big and their suggestions are too small.

The CBO tried to put things into perspective:

Federal debt held by the public currently exceeds 70 percent of the nation’s annual output (gross domestic product, or GDP), a percentage not seen since 1950. Under the current-law assumptions embodied in CBO’s baseline projections, the budget deficit would shrink markedly — from nearly \$1.1 trillion in fiscal year 2012 to about \$200 billion in 2022....



Simply put, if nothing changes, come the first of the year the deficit will begin to come down, but not by very much, and certainly not enough to bring the budget into balance by 2022. But, warns the CBO, “those projections depend heavily on the significant increases in taxes and decreases in spending that are scheduled to take effect at the beginning of January.”

Aside from the gridlock now being witnessed in Washington as the conflicting interests of the taxpayers versus the beneficiaries of the welfare state are working themselves out, there is simple mathematics. Says the CBO:

The aging of the baby-boom generation portends a significant and sustained increase in coming years in the share of the population that will receive benefits from Social Security and Medicare and long-term care services financed through Medicaid. Moreover, per capita spending on health care is likely to continue to grow faster than per capita spending on other goods and services for many years.

The Baby Boomers are the pig in the python that is pushing up healthcare and retirement costs faster than tax revenues can pay for them. Something’s got to give:

Without significant changes in the laws governing Social Security, Medicare, and Medicaid, those factors will boost federal outlays as a percentage of GDP well above the average of the past four decades — a conclusion that applies *under any plausible assumptions* about future trends in demographics, economic conditions, and health care costs. [Emphasis added.]

By the CBO’s reckoning, even if deficits were somehow magically cut by \$1 trillion a year starting in January (which no one in Washington is even considering), the budget wouldn’t be balanced until 2022. If cuts of \$750 billion a year were somehow managed, deficits would shrink only slightly in 10 years, while deficit reduction of \$500 billion — about what the fiscal cliff would accomplish — would result in



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essentially no change in the amount of red ink currently being spilled in Washington.

Nevertheless, the CBO offered its suggestions on what programs might be cut as a way to assist the combatants in their war of words over the fiscal cliff.

First to go would be ObamaCare: Repealing it would save the government an estimated \$150 billion the first year. Next, Medicare: Block grants to the states to pay for their federal mandates would save \$50 billion a year. Third, repealing the individual mandate under ObamaCare would save \$40 billion a year.

From there the CBO begins to cut where it hurts:

- Increase premiums for Medicare Part B, saving \$40 billion a year
- Raise the Medicare eligibility age to 67, saving \$30 billion a year
- Reduce payouts to Medicare providers, saving \$20 billion a year
- Add a public plan to compete with Medicare, saving \$15 billion a year
- Force drug makers to rebate part of their drug sales, saving \$15 billion a year
- Limit malpractice suits, saving \$10 billion a year

The CBO then goes after Social Security, offering the following suggestions:

- Link benefits to prices instead of earnings, saving \$30 billion a year
- Raise the full retirement age, saving \$30 billion a year
- Raise the early retirement age, saving \$30 billion a year
- Reduce the cost of living adjustments, saving \$20 billion a year
- Extend the computation period for benefits, saving \$10 billion

Put all together, if every one of the CBO's 23 suggestions were somehow enacted into law, the total savings the first year would be \$590 billion, *half* of what is needed to close the deficit.

Without intending to do so, the CBO has shown in the most transparent fashion exactly the size of the problem Washington is trying to solve. In what may qualify as one of the understatements of the year, the CBO said:

Making policy changes that are large enough to shrink the debt relative to the size of the economy — *or even to keep the debt from growing* — will be a formidable task. [Emphasis added.]

Formidable, indeed.



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