The Daily Dish

The CBO’s Forecast

DOUGLAS HOLTZ-EAKIN | FEBRUARY 5, 2014

The big news yesterday came out of the Congressional Budget Office, which released its budget forecast for the next ten years. The report included two important takeaways: the nation's fiscal health worsens and the Affordable Care Act's impact on the workforce. The Hill reports on the ACA: “It said the equivalent of 2.3 million workers would be lost by 2021, compared to its previous estimate of 800,000, and that 2.5 million workers would be lost by 2024. It also projected that labor force compensation would be reduced by 1 percent from 2017 to 2024 — twice its previous estimate.”

TIME reports on the budget outlook: “The federal budget deficit will fall sharply through 2015 before surging again in the decade to come, according to a new government report. The nonpartisan Congressional Budget Office report out Tuesday sees America’s coffers being strained in the years ahead by entitlements under the new health care law, soaring health costs in general, and an aging population.”

AAF Fiscal Policy Director Gordon Gray writes in a post on Fox Business that “Mandatory spending has been growing as the nation ages, health-care costs grow, and policy-makers create new entitlements and expand old ones. In 1974, mandatory spending was 41% of the budget, by 2024 it will be 62%. Meanwhile, interest payment on the debt will continue to crowd out the budget as the debt portfolio remains outsized, and interest rates catch up to a growing economy.”

DHE dives deeper into the CBO’s numbers and examines the drivers of our nation’s debt problem below.

Eakinomics: Seven Deadly Budgetary Sins

Yesterday’s release of the Congressional Budget Office’s (CBO’s) *Budget and Economic Outlook* was no cause for celebration. True, the projected deficit for fiscal year 2014 (October 2013 to September 2014) was revised down to $514 billion (from $560 billion) — the lowest yet for the Obama administration. And true, the deficit falls to 3 percent of GDP or less until 2018. And true as well that the debt (in the hands of the public) falls trivially between now and 2017.

None of this is good news because:

1. The stable numbers on the administration’s watch give it an excuse to do nothing to reduce the deficit and debt, leaving less time and a bigger problem for the next president;
2. The CBO projects nearly $8 trillion in additional deficits over the next 10 years;
3. The deficits will add over $9 trillion to the existing $12 trillion in debt outstanding;
4. The CBO revised down the pace of economic growth, in part because it revised up its estimated damage from ObamaCare;
5. Both the deficit and debt grow inexorably, even as a percent of GDP, from 2017 onwards;
6. The red ink is fueled by spending programs; revenues stabilize at roughly 18 percent of GDP while spending rises from a low of 20.5 percent this year to 22.4 percent (and rising) in 2024;

7. The spending as projected by CBO is fundamentally too optimistic because:
    - It assumes that the discretionary spending caps ("sequester") are not altered between now and 2022 despite the fact that Congress has already revolted against their stringency,
    - Medicare doctors take a 24 percent cut in their reimbursements,
    - Health care spending growth remains muted for a decade, and
    - Interest rates do not rise abnormally even as interest payments begin to dominate the deficit.

As the economy recovers, deficits compete with Main Street for the credit needed to fuel growth. High levels of debt are a promise of higher taxes or higher interest rates — a recipe for poor growth — unless strong spending controls are enacted. The CBO projections paint a future of deficits, high debt, and spending without control.

Doing nothing is risky — like walking barefoot on a knife's edge toward a minefield — but is exactly what the administration will propose.