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# CBO Projects Debt to Reach 200% of GDP by 2037

CBO's new report on the long-term budget outlook (assuming the "alternative fiscal baseline," which assumes various tax and spending extenders continue) projects that the public debt will be 109% of GDP in 2026 and 200% of GDP in 2037. From 2043 (by which point public debt would be more than 250% of GDP) onward, CBO is unable to project the nation's fiscal course. This is because as Yuval Levin notes: "the models the agency uses show the economy essentially shutting down at those levels of debt, and make it impossible to project the usual figures." The CBO report also projects that despite enactment of Obamacare, which was intended to "bend the cost curve," federal spending on health care will increase from 5.4% of GDP now to 10.7% of GDP in 2037 to 18.3% of GDP by 2087. That latter figure is more than what federal revenues have averaged over the last three decades.

# FY 2013 Energy and Water Bill and Homeland Security Bills on Floor

This week, the House will complete consideration of the FY 2013 Energy and Water and FY 2013 Homeland Security appropriations bills. The **Energy and Water bill** provides a spending level of $32.1 billion, $88 million (0.2%) more than last year.

### FY 2013 Energy and Water By the Numbers

In Millions of Dollars

| | FY12 | FY13 Request | FY13 Committee | Cmte v. Request | Cmte v. FY12 |
|---|---|---|---|---|---|
| **Appropriations** | 32,010 | 33,062 | 32,098 | -964 | 88 |
| *Emergency Approps* | *1,724* | *0* | *0* | *0* | *-1,724* |
| Total | 33,734 | 33,062 | 32,098 | -964 | -1,636 |

One spending item of note to many conservatives is that the legislation provides $75.3 million for the Appalachian Regional Commission something many conservatives have proposed for years to eliminate. This is $7 million (or 10.3%) above last year, and $10.5 million (or 16.1%) above the President's request. Representative Chabot has offered an amendment to eliminate funding for the Appalachian Regional Commission, as well as the other regional commissions.

RSC Members have offered various other amendments to cut specific programs or to make across-the-board-cuts. For example, the Mulvaney Amendment supports the RSC Budget by making a **$3.1 billion cut** to all accounts in the bill except funding for the U.S. Army Corps of Engineers, National Nuclear Security Administration, and nuclear energy related accounts.

The **Homeland Security** non-emergency spending is $39.1 billion, $483 million (1.2%) less than last year. The legislation provides $5.48 billion for the disaster relief category compared to $6.4 billion last year.

### FY 2013 Homeland Security By the Numbers

In Millions of Dollars

| | FY12 | FY13 Request | FY13 Committee | Cmte v. Request | Cmte v. FY12 |
|---|---|---|---|---|---|
| Appropriations | 39,600 | 39,514 | 39,117 | -397 | -483 |
| *Emergency Approps* | *6,658* | *5,481* | *5,481* | *0* | *-1,177* |
| **TOTAL** | 46,258 | 44,995 | 44,598 | -397 | -1,660 |

The House Appropriations Committee approved the 302(b) allocations for the twelve appropriations bills that totals $1.028 trillion—consistent with the 302(a) allocation provided under the FY 2013 House-passed budget resolution. This allocation is a $19 billion cut compared to the *cap* under the Budget Control Act, and a $15 billion cut compared to last year. The RSC budget's 302(a) allocation would have been $931 billion ($97 billion lower).

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THE WALL STREET JOURNAL.

Obama's Debt Boom
Wall Street Journal Editorial

Remember a week or two ago, when President Obama was claiming to be a fiscal skinflint because some online columnist said so? That was fun. On Tuesday the Congressional Budget Office released a view more tethered to reality, and let's just say this will not be showing up in one of the President's campaign ads.

The CBO's long-term budget outlook notes that federal debt held by the public—the kind we have to pay back—will surge to 70% of the economy by the end of this year. That's the highest share of GDP in U.S. history except World War II, as the nearby chart indicates, higher than during the Civil War or World War I. It's also way up from 40% in 2008 and from the 40-year average of 38%.

And it's rising fast. CBO says that on present trend the national debt will hit 90% of GDP by 2022. It then balloons to 109% by 2026—that would be the all-time WWII peak—and approaches almost 200% of GDP by 2037.

We have never been deficit scolds, preferring to focus on the more important policy priorities of economic growth and spending restraint. But the Obama era is taking America to a place it has never been. Inside of a decade the country will have a debt-to-GDP ratio well into the 90% to 100% danger zone where economists say the economy begins to slow and risks mount.

CBO notes with its famous dry wit that this level of debt increases "the probability of a sudden fiscal crisis, during which investors would lose confidence in the government's ability to manage its budget and the government would thereby lose its ability to borrow at affordable rates."

How bad is it? In the absolute worst-case scenario, CBO says debt would exceed 250% of GDP in 2035. At that point, the CBO's economic model breaks, because so much debt is so far outside "historical experience" and the CBO's "assumptions might no longer be valid."

This scenario assumes the Bush-Obama tax rates don't expire as scheduled and that tax collections continue to hold to the post-1972 historical average of 18% of GDP. It also assumes that the phantom cuts to entitlement spending that Congress builds into the budget baseline don't happen in practice, as they never do.

Perhaps CBO's most important warning concerns the vagaries of interest rates. Even long-term interest rates are at historic lows, as investors flock to Treasurys as a safe haven in a world of uncertainty. This has dramatically reduced the U.S. government's funding costs, but that will not be true forever.

The budget outlook is based on the projection that the real interest rate on public debt will never exceed 2.7%. But if interest rates rose 0.5 percentage points higher each year than CBO projects, CBO says debt would hit 215% of GDP in 2037, rather than 199%. The compounding growth of interest payments would need to make up—people with heart conditions should stop reading here—some 30% of federal spending and 10% of the entire economy. Every 100 basis point rise in the cost of government borrowing results in nearly $1 trillion in new debt.

The development that explains why debt is so much higher today than during the great national crises of the past is the entitlement state. Post ObamaCare, CBO explains that federal spending on health care will rise from 5.4% of the economy today to 10.4% over the next quarter-century. Ponder that one: That 93% increase means one out of every 10 dollars spent will flow through one transfer program or another—and that's transfers *for health care only*.

Throw in Social Security and interest on the debt, and by 2025 there's no tax revenue left to do other things government is supposed to do. Forget about building roads and funding scientific research. The entire defense budget would be deficit-financed.

The biggest weakness in CBO's analysis is its pessimistic estimate of economic growth. The budget gnomes assume an annual growth rate of 2.2%, which may be the Obama era's new normal but is far below what is possible with the right policies. Even an average growth rate of 3.2% a year, which is close to the rate of the 1980s and 1990s, would reduce deficits and the debt burden substantially.

This is where the tax burden comes in, and on that score CBO admits that "to the extent that additional tax revenues were generated by boosting marginal tax rates, those higher rates would discourage people from working and saving, further reducing output and income." So even the Keynesians who dominate CBO admit that there are costs in lower growth to the higher tax rates that Mr. Obama wants to foist on the country next year.

As the fiscal adults like Paul Ryan and Tom Coburn often say, this is the most predictable crisis in history. If we wait for the bond vigilantes to strike, as in Europe today, the recourse will be painful spending cuts and destructive tax increases virtually overnight. The longer we extend Mr. Obama's legacy of slow growth and more debt, the greater the economic price to fix it.