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COLUMN

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**Amid Healthcare Squabbles, Approaching Retirement, Economic Crises Go Unnoticed**
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MADISON— While the media were preoccupied with the fate of the Affordable Care Act ("Obamacare"), important news about Social Security, Medicare, and an impending federal debt crisis went unreported.

**Social Security, Medicare Depleted**

In mid-July, trustees overseeing the two funds warned that "both Social Security and Medicare will experience cost growth substantially in excess of GDP [gross domestic product] growth through the mid-2030s." Part of the reason is the jump in baby-boomer retirements coupled with fewer young people entering the workforce.

Spending increases in the two largest federal programs, which together consume over 40% of the U.S. budget, will grow faster than their payroll-tax revenues and outstrip the nation's economic capacity to generate more revenue.

The challenges Social Security and Medicare face are complex, but their trajectories are not. Social Security costs have exceeded revenues since 2010. By 2021, Medicare will follow suit.

While the two trust funds can temporarily survive on interest earnings, Medicare runs out of reserves by 2029; Social Security, by 2034.

With both funds depleted, benefits must, by law, be cut to match costs and revenues. Social Security payments would be reduced 25% in 2035; Medicare benefits would be cut 12% in 2030, and 19% by 2041. The non-hospital parts of Medicare funded from general revenues would not be cut.

**U.S. Debt "Balloons"**

In late June, the nonpartisan Congressional Budget Office (CBO) updated its budget projections through 2027, reinforcing the trustee findings just mentioned. Without changes, Medicare spending would double (+101%) from $689 billion to $1.39 trillion. Medicaid would rise 78%, from $368 billion to $655 billion, and Social Security would grow 84% from $910 billion to $1.67 trillion.

Combined with its ten-year forecast of tepid economic and revenue growth, CBO sees accelerating federal retirement and health costs triggering a series of unfortunate events that begins with growing deficits—from $585 billion last year to $1.46 trillion by 2027.

As annual deficits grow, debt would balloon relative to the size of the U.S. economy (GDP), putting at risk the entire federal budget—well beyond Obamacare, Social Security, Medicare, and Medicaid.

In 2007, U.S. debt held by the public equalled 35% of GDP. CBO projects it will reach 77% by the end of 2017 and 91% by 2027—and reach an all-time high of 150% by 2047. Federal debt would then be one and one-half times the size of the American economy!

**National Crisis Looms?**

As U.S. debt grows, budget and economic problems multiply.

Federal interest costs would triple over the next decade and continue growing. As they grab growing shares of federal taxes, remaining programs would be cut. CBO predicts that by 2044, interest costs alone would exceed all discretionary spending, e.g., defense, education, and agriculture.

That would limit government's ability to respond to emergencies. When debt is large, warns CBO, government "has less flexibility to address financial and economic crises," let alone military ones.

If federal decision-making is limited, basic concerns arise. The U.S. can borrow only if investors buy its bonds. Should their confidence be shaken by inaction or heavy debt, the impacts would spook investment markets and the private economy. An unprecedented national crisis would loom.

CBO warns: "The larger a government's debt, the greater the risk of a fiscal crisis." Yet, given the past month in Congress, how can Washington avert a national crisis when it couldn't repair or replace one troubled program? ☐

*(An electronic version of this column is available online at www.wistax.org.)*