Four Deficit Myths and a Frightening Fact

We don't have a generalized overspending problem. We have a humongous health-care problem.

By ALAN S. BLINDER, Wall Street Journal, January 19, 2012

Try to ignore the current shallowness in American politics, if you can, and assume that the federal budget deficit will be among the major issues of the 2012 campaign. It certainly should be, for while everyone wants a lower deficit, the two parties have starkly different visions of how to get there.

Sadly, however, the public debate over the deficit is full of misconceptions and falsehoods. Remember the Moynihan Principle? The late senator from New York once said that everyone is entitled to his own opinion, but not to his own facts. In that spirit, I'd like to explode four myths now masquerading as facts.

• *Myth No. 1* is that the American people now demand deficit reduction as never before. Don't believe it. Yes, if you ask Americans about the deficit, they'll tell you they hate it—as they always have. But opinion polls show that the budget deficit is nowhere close to being Economic Public Enemy No 1. People care far more about high unemployment, the weak economy and the like.

Furthermore, once the discussion gets down to specifics, it is difficult to find anything the public favors that would make a serious dent in the deficit. No higher taxes, please, except on millionaires. No cuts in big programs like Social Security or Medicare.

Maybe defense cuts; attitudes about that vary from time to time. The one thing Americans consistently want to cut is foreign aid, which constitutes a minuscule share of U.S. government spending. Thus the attraction to lower deficits is only skin deep. It has always been thus. Poll numbers on these matters today look much the same as they did 20 or 30 years ago.

• *Myth No. 2* is that America's deficit problem is so acute that government spending must be cut right now, despite the struggling economy. And any fiscal stimulus, even the payroll-tax extension, must be "paid for" immediately.

Wrong. Strange as it may seem with trillion-dollar-plus deficits, the U.S. government doesn't have a short-run borrowing problem at all. On the contrary, investors all over the world are clamoring to lend us money at negative real interest rates. In purchasing-power terms, they are paying the U.S. government to borrow their money!

We should accept more of these gracious offers and use the funds to finance pressing needs for jobs programs, infrastructure projects, even mortgage foreclosure mitigation. And because the U.S. really does have a humongous long-run deficit problem, we can and should commit now to paying for any such spending many times over—but later. For example, it would be smart to borrow, say, another $500 billion this year and then pay for it, say, 10 times over, with $5 trillion in deficit reduction spread over 10 years—starting, say, in 2014.

• *Myth No. 3:* For several years now, our political system has focused exclusively on the 10-year cumulative budget deficit. Whether it's proposals like 2010's Simpson-Bowles or Domenici-Rivlin, the ill-fated Obama-Boehner "grand bargain," or the failure of the so-called super committee, every high-profile deficit-reduction plan has focused on the next 10 years. In truth, however, what happens over the next decade barely matters. Our deficit problem—and it is a whopper—is much longer-term than that.

According to the most recent long-run projections from the Congressional Budget Office, the federal deficit as a share of gross domestic product will shrink from its current bloated level for several years even without further action. The real deficit problem comes in the 2020s, 2030s and beyond. And it is huge. The CBO projections show the deficit bottoming out at 5.6% of GDP in 2014, rising to an astonishing 12.7% of GDP by 2030, to an unthinkable 18.4% of GDP by 2040, and continuing to rise further after that.

What drives this projected deficit explosion? That question brings us to:

• *Myth No. 4* is that America has a generalized problem of runaway spending, one that requires cuts across the board. No. The truth is that we have a huge problem of exploding health-care costs, part of which shows up in Medicare and

Medicaid spending.

Economists focus on the primary deficit, which includes everything except interest payments, on the grounds that the interest bill on the national debt is a consequence of past decisions. Policy initiatives can't change the government's interest payments. But they can reduce the primary deficit, now or in the future, by either spending less or taxing more.

According to the CBO, if nothing is done, the primary deficit will bottom out at 2.6% of GDP in 2018 and then rise to 7.4% of GDP by 2040. Where will the additional 4.8% of GDP come from? Remarkably, every penny will come from health-care spending, which balloons from 6.6% of GDP to 11.4% in the projections, or 4.8% more of GDP. This exact match is just a coincidence, of course. If we use 2050 as the endpoint instead of 2040, the projected primary deficit increases by 6% of GDP, of which health-care spending accounts for 6.6 percentage points. Yes, you read that right: Apart from increased health-care costs, the rest of the primary deficit actually falls relative to GDP.

The CBO projects federal spending on all purposes other than health care and interest to be roughly stable as a share of GDP from 2015 to 2035, and then to drift lower. So no, America, we don't have a generalized overspending problem for the long run. We have a humongous health-care problem.

If we could replace the Four Myths by the Four Facts, that would transform the nature of the public debate, focusing attention on what matters rather than what does not. But alas, this is an election year, creating an environment in which facts don't flourish. As we Brooklyn Dodger fans used to say: Wait 'til next year.

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