

<http://www.usnews.com/opinion/economic-intelligence/articles/2017-02-01/the-cbo-federal-budget-predictions-are-dangerously-optimistic>

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Don't Buy Budget Optimism

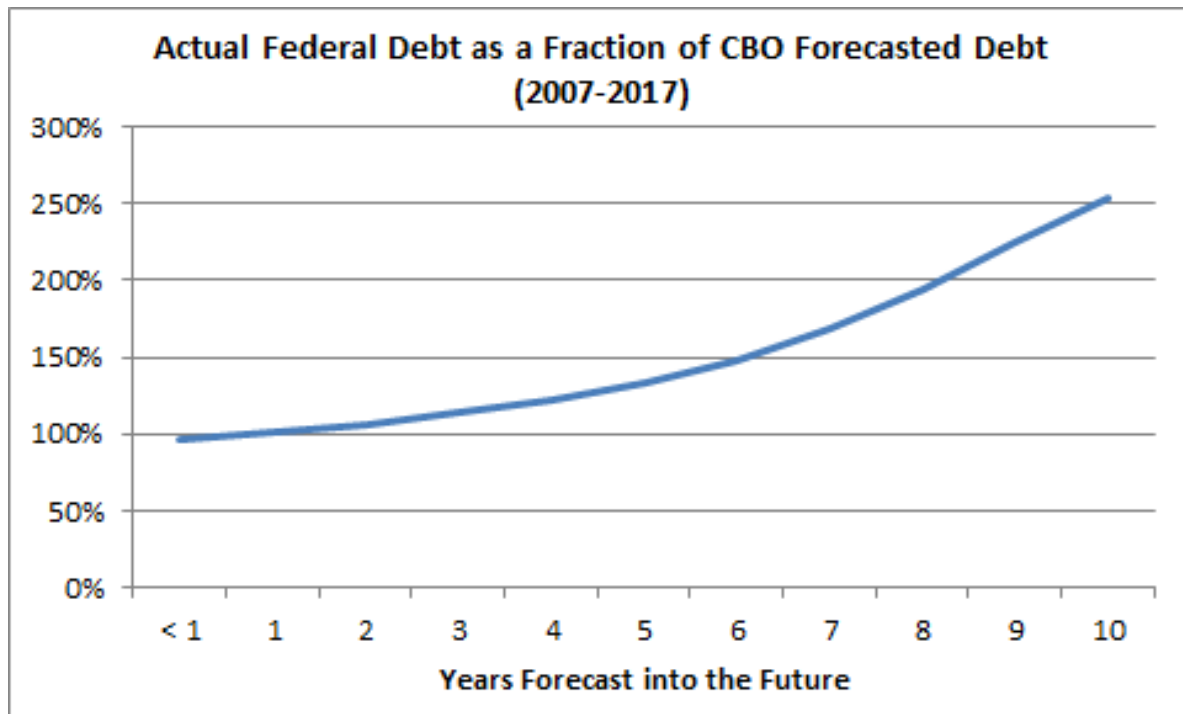
Antony Davies and James R. Harrigan

Since 1975, the nonpartisan CBO has been the unbiased voice in the room where budgetary matters are concerned. Its stock in trade, and sole reason for existence, is to provide Congress with clear budgetary projections from which legislators can plan for the nation's financial future. The CBO recently released its [latest projections](#) of the federal government's future debt, and the picture is not pretty. The CBO's baseline projection - the estimate of what things will look like if the government institutes no policy changes - is that the government's debt will grow to \$30 trillion over the next decade. That's another \$10 trillion added to the debt over the next decade, to go along with the \$10 trillion that was added over just the past eight years, and that's if the federal government doesn't do anything new during that period.

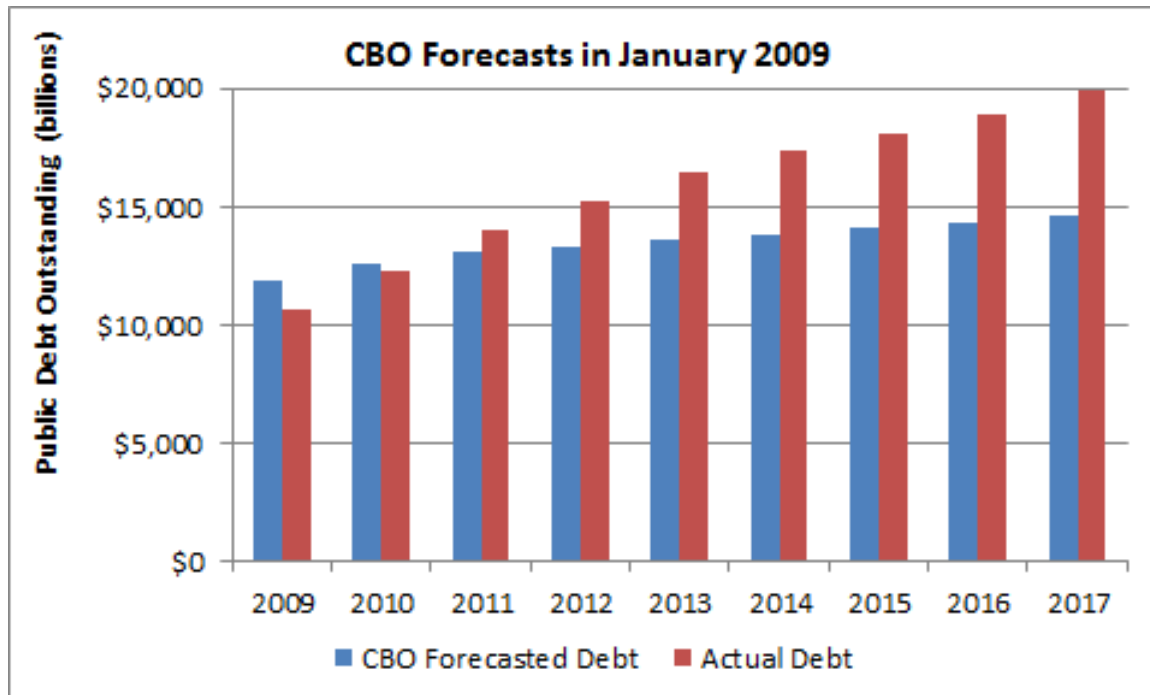
As scary as this sounds, it gets worse. It turns out that the CBO has a solid track record for underestimating future debt. Comparing [past CBO projections](#) to what [actually happened](#) reveals a clear and very disturbing trend. Over the past twenty years, the CBO has produced 175 start-of-the-year projections of future debt levels. When projecting less than a year into the future, the CBO gets its debt estimates about right. But when projecting more than one year into the future, the CBO almost always underestimates the future debt. When it projects more than one year into the future, the CBO underestimates the future debt 86% of the time. When it projects more than five years into the future, the CBO underestimates the future debt 99% of the time. In short, CBO projections are almost guaranteed to be both wrong and optimistic.

And the CBO doesn't just underestimate the future debt, it underestimates the future debt by a huge margin. For the past twenty years, on average, the actual federal debt has been 20% larger

than what the CBO had predicted five years earlier, and 250% larger than what it had predicted ten years earlier.



For a specific example, look at the CBO's projections from January of 2009. At the time the CBO made these forecasts, the economy was already a full year into the Great Recession. Yet, even with the knowledge of the breadth of the recession, the CBO managed to underestimate the government's 2017 debt by more than \$5 trillion. That five trillion dollar error is larger than the economies of each country on the planet with the exceptions of the United States and China. As a matter of fact, that five trillion dollar error is bigger than the combined economies of New Zealand, Finland, Ireland, Denmark, Austria, Switzerland, Sweden, Belgium, Netherlands, and Australia.



What does this mean? It means that when the CBO tells us - as it did last month - that the government's debt will top \$30 trillion ten years from now, the real number is likely 2.5 times that, or \$75 trillion.

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And this is where the wheels start coming off the government's financial wagon. The CBO also predicts that the federal government will collect \$5.1 trillion in taxes in 2027. But the CBO's revenue projections are, like its debt projections, blindingly optimistic. Over the past 20 years, the CBO's ten-year-out tax revenue projections have been, on average, 25% too high. That means that we can actually expect 2027 federal tax revenues to be around \$4.1 trillion. If interest rates remain at their currently unprecedented low levels, then the government will owe around \$2 trillion a year in interest alone by 2027. One half of the federal government's annual revenue will simply pay for interest on the debt.

But, that's only if interest rates remain low. The federal reserve is already starting to raise interest rates, and the CBO itself [predicts](#) that interest rates will be significantly higher five years from now. As interest rates rise, so too does the government's annual interest expense. Currently, the

government pays an interest rate of about 2.5%. The historical average is 6%. If the Fed merely raises interest rates to 4%, then by 2027 the annual interest expense will consume 75 cents of every tax dollar.

In the CBO's defense, the law requires it to assume that Congress enacts no new tax or economic policy changes. But that makes the whole situation even more damning. This means that, on average, politicians make things worse. According to CBO's historical forecasts, if politicians had simply done nothing for the past eight years, the government would owe \$10 trillion less today than it actually does.

The reality, though, is that politicians do meddle with the economy, so the CBO ends up underestimating future debt, overestimating future tax revenue, and underestimating future government spending. But as bad a picture as the CBO paints, it is far rosier than the reality we ultimately get. That simple fact should have been obvious to everyone when the CBO predicted that it would take the federal government a full ten years to add as much to the debt as it did in only the previous eight. Given our history of apparently unbounded federal spending, that apparent fiscal "restraint" doesn't pass the laugh test.

But when it comes to the federal budget, what does?

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