

The Federal Budget: Outlook, Importance, and Alternatives*

by James Capra
Senior Economist, Lehman Brothers Kuhn Loeb

Despite the cyclical economic rebound the economy is now experiencing, the outlook for the federal budget remains a serious problem. It is a threat to continued noninflationary growth.

This morning, I want to briefly bring a few facts to your attention.

- First, with the Congress being in and out of recess for the last few months and decision-making on the budget grinding to a halt, it is useful to re-examine the numbers to see if anything has changed -- especially since economic statistics that have been released recently have been so good.
- Secondly, there are those who suggest that the economy will grow out of the deficits or that deficits are unimportant, regardless. These points need to be examined critically. Maybe, they are true, in which case the budget conservatives are simply "crying wolf."
- Once these questions are disposed of, I would like to look at what needs to be done to start to bring the budget under control. In that regard H.R. 3790 is a possible first step. But, what of the objections that it is unfair to go back to social security for budget cuts after the recent legislation or that social security is a separate system that should be considered apart from the budget.
- Finally, I would like to do something unusual and outline what kind of fiscal imbalance we might be bequeathing to our children and grandchildren early in the next century if the deficit problems are not alleviated soon.

The Outlook -- An Update

Using the latest technical estimates and reestimates and a robust economic growth scenario -- about 5.0 percent real growth in 1984, and 3.5 percent growth (on average) in 1985-1988, we find that the outlook for the deficit has changed little.

* Testimony Before the Task Force on Entitlements, House Committee on the Budget, November 9, 1983.

-2-

Deficits of about \$200 billion in 1984-1986 and \$250 billion in 1987-1988 are what is in store in the absence of a major policy shift. (See Table 1). To those who would argue that the country can grow out of the deficits, Table 2 responds with figures showing that with 6 percent real economic growth over the next few years, the deficit would still be \$160 billion by 1986 and we would only start to inflate our way out by 1988. In all likelihood, however, in contrast to these optimistic scenarios, the economy will experience a recession sometime within the next five years. In that case the deficits will become larger than shown here -- about \$300 billion by the end of the period.

Table 1. Federal Deficit Projections -- Baseline Estimate*

-- In Billions of Dollars --

<u>FY1983</u>	<u>FY1984</u>	<u>FY1985</u>	<u>FY1986</u>	<u>FY1987</u>	<u>FY1988</u>
\$197.4	\$196.2	\$199.4	\$218.0	\$243.0	\$244.5
-- As a Percentage of GNP --					
6.1%	5.6%	5.3%	5.2%	5.3%	5.0%

*Assumes real GNP growth of 5.4%, 3.6%, 3.2%, 3.4%, and 3.4% in fiscal years 1984-1988, no change in tax and nondefense spending policies, and a 5 percent real growth in defense budget authority in each year.

Table 2. Deficits Under Alternative Economic Scenarios

	<u>Baseline Growth Scenario</u>			<u>Record Growth Scenario (1962-1966 Growth)</u>			<u>Slightly Slower Growth Scenario (1976-1980 Growth)</u>		
	<u>Real GNP Growth</u>	<u>Inflation (GNP Deflator)</u>	<u>Deficit</u>	<u>Real GNP Growth</u>	<u>Inflation (GNP Deflator)</u>	<u>Deficit*</u>	<u>Real GNP Growth</u>	<u>Inflation (GNP Deflator)</u>	<u>Deficit*</u>
1984	5.4%	4.2%	\$ 196b	6.0%	4.5%	\$ 191b	4.5%	4.0%	\$ 204b
1985	3.6	4.5	199	6.0	5.2	171	3.4	4.2	209
1986	3.2	5.2	218	5.5	6.1	160	3.4	4.9	229
1987	3.4	5.3	243	5.0	7.2	148	3.4	5.0	257
1988	3.4	5.4	245	4.6	8.3	102	3.4	5.0	264
Cumulative 5 year real growth**	20.5%			24.0%			19.5%		
Average Annual Rate of Growth	3.8%			4.4%			3.6%		

*Deficits were computed by adjusting baseline estimates of revenues for the difference in nominal incomes relative to the baseline scenario and by adjusting outlay estimates for unemployment compensation, food stamps, and other means tested programs for the difference in the projected unemployment rate relative to the baseline. Finally, estimates for interest on the debt were adjusted, relative to the baseline, to reflect both the effects of higher (or lower) nominal interest rates because of changes in the inflation rate and the effect of changes in the volume of government financing.

**No 5-year period in the 1970's had cumulative real growth as high as 20%.

-3-

Are Federal Deficits Important?

Some public officials have recently been repeating a point made by academicians in the 1970's -- namely, historically, deficits were not high at the same time interest rates were high, and so, even if the economy does not grow out of the projected deficits, they do not pose a threat.

First, it is important to point out that the deficits we face are without precedent in the postwar period, both in magnitude and duration. As shown in Table 3, for example, the deficit and its drain on the credit markets peaked in calendar year 1975 and quickly subsided. That is not the case now, as shown in the accompanying Table 4. In 1977, in the third year of the recovery, public sector borrowing absorbed only 20 percent of funds raised in the credit and equity markets. In 1985, at what would be a comparable stage of the business cycle, public borrowing is projected to absorb 40 to 55 percent of the funds raised.

Table 3.

Funds Raised in the Credit and Equity Markets

<u>Calendar Year</u>	<u>Total Funds Raised</u>	<u>Public Sector Borrowing*</u>	<u>Public Sector Percentage</u>	<u>Private Sector Percentage</u>
1973	\$201.7b	\$ 21.5b	10.6%	89.4%
1974	193.9	27.3b	14.1	85.9
1975 (1st Recovery year)	214.4	99.1	46.2	53.8
1976 (2nd Recovery year)	273.5	84.2	30.8	69.2
1977 (3rd Recovery year)	334.3	72.2	21.6	78.4
1978	401.7	72.8	18.1	81.9
1979	402.0	57.6	14.3	85.7
1980	397.1	106.3	26.8	73.2
1981	406.9	109.7	27.0	73.0
1982	440.7	207.1	47.0	53.0

*Includes federal and state-local borrowing.

Table 4. Funds Raised in the CreditMarkets -- Alternative Scenarios

<u>Calendar Year</u>	<u>Total Funds Raised*</u>		<u>Public Sector Borrowing</u>		<u>Public Percentage</u>		<u>Private Percentage</u>	
	8%	11%	<u>Fed-eral</u>	<u>State-local</u>	8%	11%	8%	11%
	<u>Scen-ario</u>	<u>Scen-ario</u>			<u>Scen-ario</u>	<u>Scen-ario</u>	<u>Scen-ario</u>	<u>Scen-ario</u>
1983 (est.)	\$ 503b		\$ 214b	\$ 45b	51.5%		48.5%	
1975 First Recovery Year					46.2		53.8	
1984	450	606	215	43	57.3	42.6	42.7	57.4
1976 Second Recovery Year					30.8		69.2	
1985	476	662	218	46	55.5	39.9	45.5	60.1
1977 Third Recovery Year					21.6		78.4	

*Includes domestic nonfinancial borrowing, nonfinancial borrowing by foreigners, domestic and foreign equities issued in the United States.

-4-

A second reason why it is likely that deficits now projected will affect interest rates (and may be affecting them now) is that we are now operating under a different monetary policy regime. There is no indication that this Federal Reserve Board Chairman or other members of the Federal Open Market Committee are going to accommodate these deficits. My colleague Allen Sinai has put these two facts together -- the expected size and persistence of large deficits and the post-October, 1979 monetary policy regime -- into an analytical relationship that suggests that long term corporate bond rates are 200 to 300 basis points higher than they would be if the expectation were for \$100 billion rather than \$200 billion deficits.

Where will all the funds needed to finance the deficits come from and what will be the effects? The answer is, from our savings and the savings of the rest of the world. Table 5 is extremely important, demonstrating a couple of critical facts.

Table 5. Saving Available for Investment
(By calendar year, as a percent of GNP)

	1961 to 1970	1971 to 1980	1985 Projection
Private Savings	4.7%	4.9%	4.0%
Business savings (gross)	11.7	12.0	13.5
Subtotal gross private saving	16.4	16.9	17.5
State-local budget surplus	-	+1.0	+1.0
Net foreign investment (net flows of capital)	-0.5	-0.1	+1.6
Subtotal amount available to finance the federal deficit and for investment	15.9	17.8	20.1
Federal deficit	-0.5	-1.9	-5.3
Subtotal, amount available for gross private investment	15.4	15.9	14.8
Capital consumption allowance	-8.4	-9.9	-11.0
Total amount available for net new investment	7.0	6.0	3.8

-5-

First, even with larger domestic private savings (as a share of GNP) and large foreign capital inflows, the 1985 deficit would still siphon off enough saving to reduce the funds available for private investment as a share of GNP to well below the 1960's and 1970's averages. Also, those foreign capital inflows, "net foreign investment" in the table, are the financial counterpart of massive current account deficits, which have literally cost millions of jobs in export and import competitive manufacturing sectors. This year the merchandise trade deficit is likely to be \$60 billion and we forecast that it could grow to \$90-\$100 billion in 1984. The deficit on manufactured goods, where the Institute for International Economics estimates there are 25,000 to 40,000 jobs per billion dollars of exports, will grow by \$25 billion in 1983 and probably by another \$25 billion in 1984. Lasting damage is being inflicted on our international trade competitiveness that may be hard to repair. In short, foreign capital inflows are helping to reduce somewhat the financial crowding out of private borrowing. (That is the significance of the +1.6 percent of GNP that is made available for financing the federal deficit and for investment in the last column of the table.) But, this reduction in financial crowding out is taking place through a process that crowds U.S. exporters and domestic competitors to foreign imports out of the markets for manufactured goods. It is their products, their profits, and ultimately their workers that will be crowded out by large federal deficits. An important byproduct of this is increasing discussion of protectionist legislation, an outcome in which no one comes out a winner.

I find that when looking at the budget problem and trying to evaluate goals, it is useful to use Table 5. It's clear from that table that cutting the deficit to 2 percent of GNP would markedly improve things. Funds available for investment would rise, provided that the budget cuts were not directed at cutting personal and business saving. In that light, the table makes it clear that budget restraint that would reduce the flow of saving would not be a helpful step. Although such actions may have to be part of a package of changes for political reasons, it is clear that they do not contribute to a long run goal of improving capital formation and easing credit market pressures.

What Will It Take to Reduce The Deficit Significantly?

The deficit is a little like the weather. Everyone talks about it, but no one does anything about it. That may be because the choices are very difficult ones.

To reduce the deficit to 2 percent of GNP by, say, 1986 would require \$135 billion of budget changes, according to our calculations -- \$100 billion of combined spending cuts and revenue increases and we estimate about a \$35 billion reduction in interest costs.

-6-

On the revenue side \$50 billion in tax increases is about what the First Concurrent Budget Resolution had in mind. The tax part of HR. 3790 could be a part of the total but would not raise nearly enough. It would take some major new tax -- like some form of consumption tax -- together with miscellaneous other changes like those currently being considered by the tax committees to reach this goal. On the tax side, embedded within what I believe to be an extreme position taken by supply-siders -- such as Norman Ture in his Wall Street Journal article -- is an important point. Tax increases that reduce saving are not very useful.

It is clear that something can be done on the revenue side. Outlays are another matter. And here I am primarily referring to nondefense outlays. Congress has already set out on a course that is scaling back the President's defense buildup. The baseline projections that were shown in Table 1 assume a cut of \$18 billion in outlays from the President's proposals for 1985 and a bigger cut for 1986. This is what was assumed in the First Concurrent Resolution and action to date by the authorization and appropriation committees is consistent with those cuts.

With respect to nondefense outlays, the view exists that with the Social Security (OASDI) legislation of this year, further changes -- such as COLA freezes -- are not legitimate options. As shown in Table 6, this results in an untenable position from which to try to get \$50 billion in spending cuts. When interest, defense and OASDI are excluded from projected 1986 outlays, all that is left is \$387 billion. Many of the programs that are left, shown in Table 7, are ones that have already been cut. It is unreasonable to expect that \$50 billion would be taken from these programs -- reducing them in 1986 to \$10 billion below the estimated level for 1984. I believe we are left with the inescapable conclusion that if a big cut -- like \$50 billion -- is to be made in spending, social security and maybe even defense will have to suffer some further cuts.

Table 6. What Is Left When Interest, Defense, and OASDI are Excluded?

<u>Projected 1986 Total Outlays</u>	\$ 1010.4 b
less: Interest	143.4
Defense	276.9
Social Security (OASDI)	203.0
<hr/>	
Projected Remainder, nondefense, noninterest, non-OASDI	\$ 387.1 b (9.3% of GNP)

Table 7. Composition of Nondefense, Noninterest, Non-OASDI Spending for 1986

Medicare	\$85.5 b	
Civil Service/Military Retirement	45.0	\$187.8 b -- Limited reductions
Other nonmeans tested benefits	57.3	in these programs.
Means tested benefits	85.3	
Grants to state-local governments	57.4	\$199.3 b -- Where most of reductions
Civilian agency pay	39.0	in growth of spending have
Other Operations and Subsidies (agricultural price supports, business subsidies, etc.)	17.6	taken place.
<hr/>		
Total, Nondefense, noninterest, non-OASDI	\$387.1 b	

-7-

Social Security and H.R. 3790

The proposal by Chairman Jones and others, H.R. 3790, would index social security and other nonmeans tested benefit programs to the CPI minus 2 percentage points in 1985-1990. One argument made against this proposal and other proposals, such as the call for a two year freeze on COLAs, is that future benefits for current social security recipients were already cut in the recently passed legislation and so it is not appropriate to return to them for further reductions. Another argument is that social security is a separate system and should be considered outside the budget. In fact, after 1990, the new law orders that it be taken "off-budget."

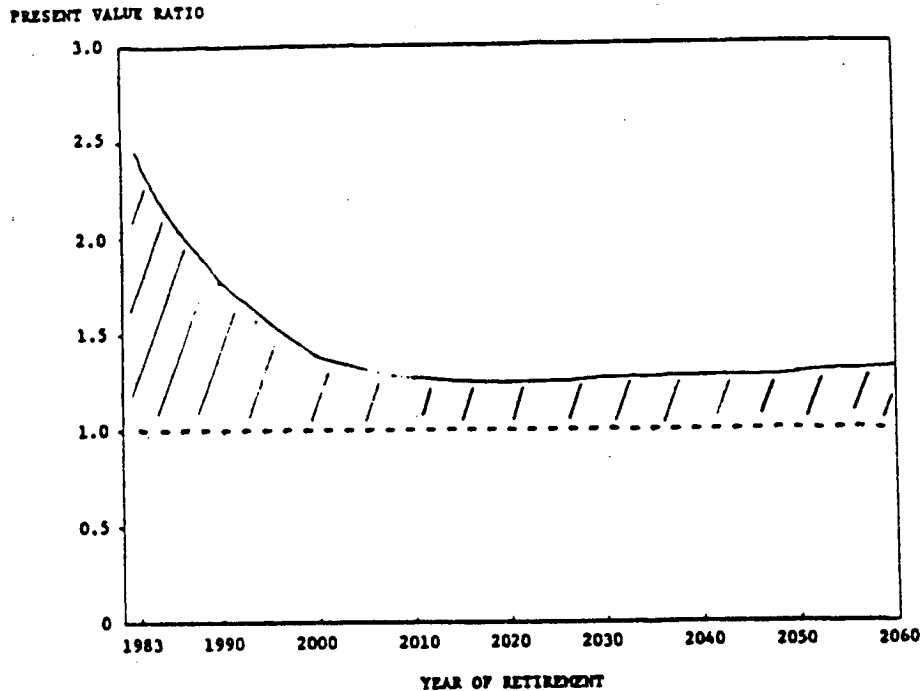
There are some important counterarguments that should be brought up. First, most of the recipients who would be affected by H.R. 3790 received COLA adjustments well in excess of what is generally accepted as having been the rate of inflation at the time, because of distortions in the CPI. In 1978 to 1981, COLAs increased benefits by 59.8 percent while consumer prices, as measured by the personal consumption deflator, rose by 47.7 percent, when measured on the first quarter to first quarter basis used for indexing social security. This "overindexing" gap of 12 percentage points is almost exactly what would be lost between 1985 and 1990 under the "CPI minus 2" formula in H.R. 3790.

Second, a careful examination of some of the effects of the new law make it clear why it may be appropriate to cut back COLA's for current beneficiaries and why it will soon not be possible to suggest that social security be viewed as a separate system, outside the budget.

The long term social security problem, prior to the recent amendments, is depicted in Figure 1, which shows that on a present value basis, expected lifetime benefits were scheduled to exceed lifetime employer-employee tax payments for all cohorts of workers, forever. In other words, the fact that the average worker could expect to get more out of the system than he and his employer had contributed was not just a temporary, transitional phenomenon that would disappear once the system had matured. Rather, a subsidy was built into the system. This just could not continue if the system was to remain self-financed.*

* Some theoretical research had at one time suggested that such a Ponzi scheme in a pay-as-you-go social insurance program could continue forever, but that work was based on the assumptions of steady rates of population and productivity growth. The real world, where there are wide year to year fluctuations in the rates of population and productivity growth, is simply not consistent with those theoretical models, making them at best useless and at worst misleading for policymakers.

Figure 1
Present Value Ratios Prior to
the 1983 Amendments¹



¹ Figures were estimated under the intermediate scenario in the Social Security Administration's 1983 Trustees Report for a retiree with average lifetime earnings who is single or has a working spouse who qualifies for benefits independently.

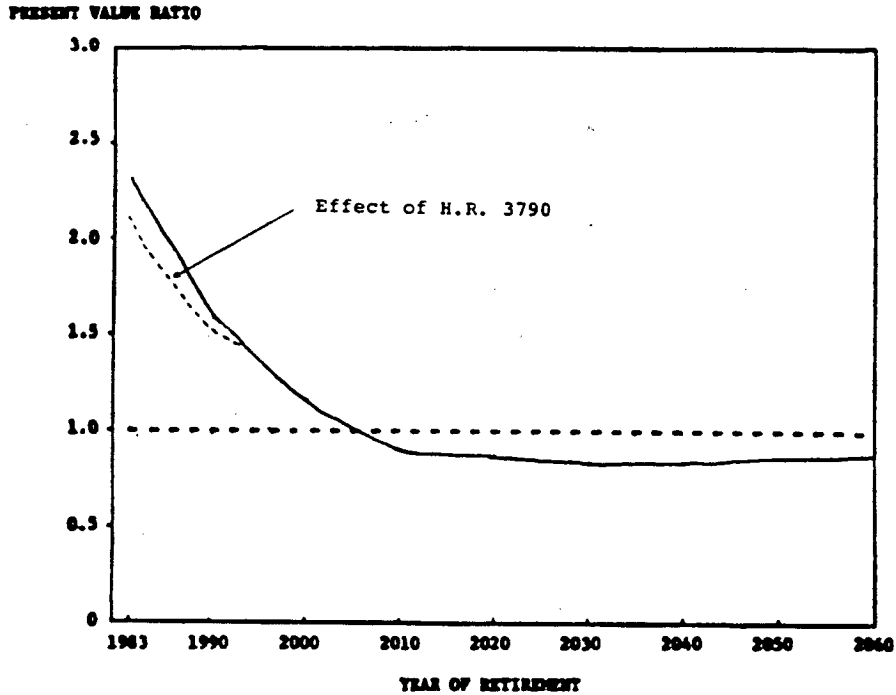
The changes made by the new legislation are shown in Table 8. We estimate that some small reduction was made in the returns on employer-employee taxes for a 1983 retiree, but the largest changes were made in the returns for retirees after 2010 -- individuals who entered the workforce after 1965 and will enter the workforce in the future. Starting with 2006 retirees, an average wage earner can expect to receive a present value of benefits that will be less than the present value of taxes. The new plot of the ratio of the present value of benefits over the present value of taxes is shown in Figure 2. In the next figure, the same type of plot is made, by pre-retirement income group. A maximum wage earner will have a very low ratio -- about 0.6.

Table 8
Estimated Savings to OASDI Operations From the 1983 Amendments
Under the Intermediate and Pessimistic Scenarios
(Calendar year, billions of dollars)

	1983	1984	1985	1986	1987	1988	1989	Total, 1983-1989
Tax benefits	--	2.6	3.2	3.9	4.2	5.6	6.7	26.6
Move up scheduled tax increases	--	8.6	0.3	--	--	14.5	16.0	39.4
Increase tax on self-employed	--	1.1	3.1	3.0	3.2	3.7	4.4	18.5
Military wage credits	18.4	-4	-4	-3	-4	-4	-4	16.1
COLA delays	3.2	5.2	5.4	5.5	6.2	6.7	7.3	39.4
Expand coverage	--	1.5	2.2	3.0	3.9	5.0	6.1	21.8
Raise retirement age	--	--	--	--	--	--	--	--
COLA stabilizer	--	--	--	--	--	--	--	--
Other	1.2	0.6	0.1	0.2	0.4	0.7	1.1	4.3
Total for all changes	22.8	19.2	13.9	15.3	18.0	35.8	41.2	166.2
Deficits prior to Amendments	23.0	20.0	12.0	14.0	15.0	16.0	17.0	117.0

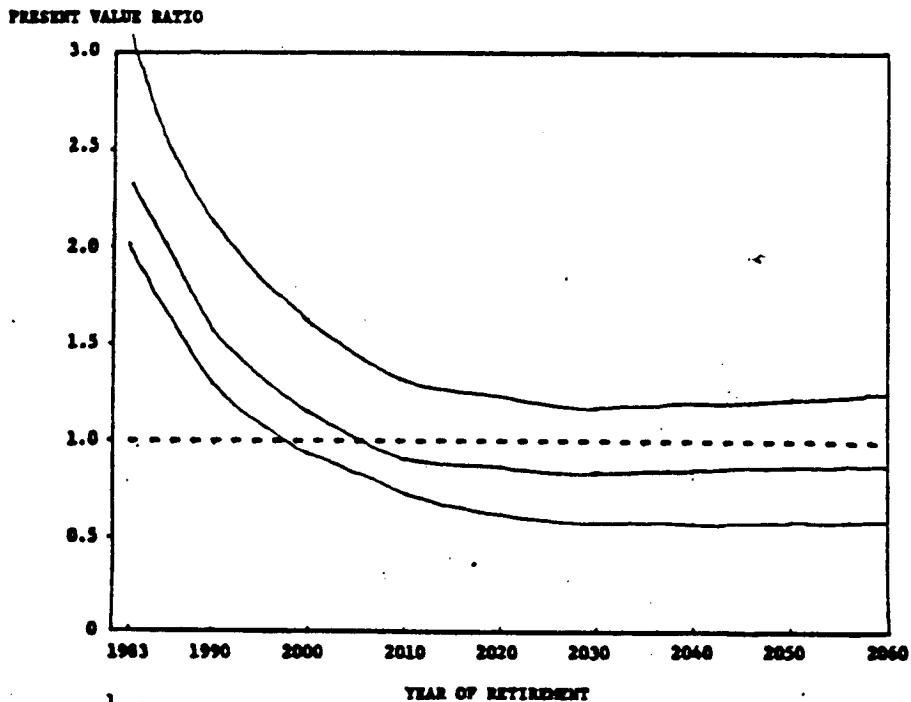
¹ Figures are based on the 1983 Trustees Report. Figures in parentheses are estimated from the pessimistic scenario. Components may not sum to totals due to rounding. Since the figures are based solely on OASDI operations, they do not include the \$12.4 billion owed by OASDI to HI.

Figure 2
Present Value Ratios After
the 1983 Amendments¹



¹ Figures were estimated under the intermediate scenario in the Social Security Administration's 1983 Trustees Report for a retiree with average lifetime earnings who is single or has a working spouse who qualifies for benefits independently.

Figure 3
Present Value Ratios After the
1983 Amendments By
Pre-retirement Income Groups¹



¹ Figures were estimated under the intermediate scenario in the Social Security Administration's 1983 Trustees Report for retirees who had earned the minimum, average and maximum wage (as defined by the Social Security Administration) and who is single or has a working spouse who qualifies for benefits independently.

-10-

The charts convey two messages. First, current beneficiaries are still receiving returns on benefits that are well in excess of the value of their lifetime employee-employer contributions. It is difficult to make the argument that reducing these subsidies a bit is unfair. As shown in Figure 2, H.R. 3790 would lower the subsidy and flatten out the curve somewhat, but the subsidies to current beneficiaries would still be there and would still be substantial.

A second message of the charts is that it is unlikely that social security, as a self-financed and isolated social insurance system, will be able to survive, for the following reason. Public support for the system is likely to erode as people realize the poor return they will be getting on their contributions. (Surveys show that even though social security has been paying enormous subsidies since its inception, many people are still under the impression that they don't get their "money's worth.") One can only speculate what the surveys will show when people in fact do not get their "money's worth." Thus, even though the new legislation technically takes social security "off budget" in 1990, it is clear that at some point, the system will be lumped together with other government expenditures, and decisions on social security will have to be made within the context of decisions about the level and composition of all government spending. It will not be possible to act as if social security is a program apart from the rest of the budget.

The Consequences of Delay -- Long Term Projections

The political difficulty of undertaking the types of changes that would be required in order to substantially cut the deficit leads quite naturally to the question of what happens if nothing is done.

This is not the time to discuss what happens to the economy if nothing is done. So many short and long term factors are involved that it would take more time than is available to discuss them thoroughly. What we have done for today, though, is take a futuristic look at the budget to see if the problem ever goes away or simply gets worse. The analysis is preliminary and will be elaborated upon in the future. But, even these early results are quite revealing.

A projection of the budget in 2000 and 2025 was done under the Social Security Administration's II-B and III economic and demographic scenarios. These scenarios were chosen not necessarily because they are the most likely -- although if we

had to choose between them we would select Scenario III, shown in Table 9. The advantage of using these scenarios is that they are well known and ready-made estimates for three big programs -- OASDI, Hospital Insurance, and Supplementary Medical Insurance -- are available.

For the two scenarios, we assumed no change in tax laws, current services for nondefense spending and two possibilities for defense:

- real growth equivalent to the economy's real growth rate, so that the GNP share for defense (excluding retired pay) remains at 6.7 percent forever.
- or a continuation of 5 percent real growth through the year 2000, until the GNP share for defense reaches about 9 percent, and then a constant GNP share thereafter.

Table 9

Long Range Economic Assumptions Used in
Social Security Trustees' Scenarios* -- IIB
("Intermediate Pessimistic") and III
("Pessimistic")

Year	Real GNP Growth		Inflation Rate		Unemployment Rate	
	IIB	III	IIB	III	IIB	III
1990	3.0%	2.7%	4.0%	5.0%	6.5%	7.4%
1991	3.0	2.6	4.0	5.0	6.2	7.0
1992	3.0	2.5	4.0	5.0	5.8	6.8
1993	2.5	2.3	4.0	5.0	5.7	6.5
1994	2.5	2.0	4.0	5.0	5.6	6.5
1995	2.6	2.1	4.0	5.0	5.5	6.5
2000 & later	2.6	2.1	4.0	5.0	5.5	6.5

*Source: 1983 Annual Report - Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund, June 27, 1983.

The estimates for the year 2000 (Table 10) show some moderation in social security costs under the II-B scenario and slightly higher costs as a share of GNP, under the pessimistic scenario. In both scenarios, expenditures for medicare (Hospital Insurance and Supplementary Medical Insurance) rise significantly. Depending on the policy for defense and on the economic scenario, interest costs would continue to climb, as a share of GNP, even though nominal interest rates are only 6.1 to 6.6 percent. By the year 2000, the deficit could be a bit lower than projected for 1988, 4.2 percent of GNP under the most optimistic case, or could rise to 9.9 percent of GNP under the more pessimistic scenario.

Table 10

Year 2000 Projections of Federal Outlays as a Percent of GNP - Using Social Security II-B and III Scenarios

	1988	Year 2000	
		IIB	III
OASDI --Retirement and Disability Part of Social Security	4.6%	4.3%	4.8%
HI --Hospital Insurance Part of Social Security	0.9%	2.0	2.6
Supplemental Medical Insurance (SMI)	0.3	1.0	1.3
Civil Service/Military Retirement	1.1	1.1	1.1
Other Nonmeans Tested Benefits	1.4	0.9	1.0
Means Tested Benefits	1.9	1.9	1.9
Grants	1.2	1.2	1.2
Other Operations/Subsidies Civilian Agency Payroll	1.4	1.4	1.4
Defense*	6.7	6.7 to 9.0	6.7 to 9.2
<u>Interest</u>	<u>3.9</u>	<u>3.6 to 4.5</u>	<u>4.3 to 5.4</u>
Total	24.6%	24.2% to 27.3%	26.3% to 29.9%
Deficits as a % of GNP:	5.4%	4.2% to 7.3%	6.3% to 9.9%

*The range gives what happens if (a) defense grows in real terms as fast as GNP after 1988 (low end) and (b) defense grows in real terms by 5 percent each year (upper end.) This range for defense expenditures under each scenario causes a range for interest costs.

By the year 2025, the situation becomes untenable, as shown in Table 11, with deficits shooting up well into double digits. Entitlements, like social security and medicare, play an important part in the projected long range growth of the deficit. But the acceleration in the growth in interest costs is most important. It turns out that although nominal interest rates are assumed to be below GNP growth rates throughout the period, the massive buildup of debt, because the budget excluding interest runs large deficits, causes the debt-GNP ratio to rise and interest costs to increase along with that ratio. The possibility of just such a "blowup" of interest costs has been raised by some economists, such as James Tobin and Albert Ando, but this is the only example I have seen of calculations that try to show the order of magnitude of the numbers.

-13-

Table 11

Federal Spending in 2025, As a Share of GNP -- Using Social Security II-B and III Scenarios

	1988	Year 2025	
		II-B	III
OASDI -- Retirement and Disability Part of Social Security	4.6	5.6%	6.7%
HI -- Hospital Insurance Part of Social Security	0.9	3.2	4.1
SMI -- Supplementary Medical Insurance	0.3	1.6	2.1
Civil Service/Military Retirement	1.1	1.1	1.1
Other Nonmeans Tested Benefits	1.4	0.6	0.7
Means Tested Benefits	1.9	1.9	1.9
Grants	1.2	1.2	1.2
Other Operations/Subsidies Civilian Agency Pay	1.4	1.4	1.4
Defense*	6.7	6.7 to 9.0	6.7 to 9.2
<u>Interest</u>	<u>3.9</u>	<u>6.3 to 11.6</u>	<u>11.9 to 18.4</u>
Total	24.6	29.7% to 37.2%	37.8% to 46.8%
Deficits as a % of GNP:	5.4%	8.7% to 16.2%	16.8% to 25.8%

The purpose of these long range projections, especially the 2025 estimate, is not to make a prediction. Neither we nor anyone else can foretell what policies and external shocks will come to pass over the next 50 years. Rather, the calculations represent another way of showing, first, that the problem of large deficits is not a temporary one and second that there is a very good chance that it will get worse unless something is done.