

Fiscal FactCheck: **16 Budget Myths to Watch Out For** **in the 2016 Campaign**



**COMMITTEE FOR A
RESPONSIBLE FEDERAL BUDGET**





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The next President will need to confront a number of budgetary challenges and will likely sign into law many federal tax and spending changes. Yet too often, election campaigns are about telling voters what they want to hear rather than what they need to know.

To separate fiction from reality, the new [Fiscal FactCheck](#) series will monitor the 2016 Presidential campaign on an ongoing basis. To start with, we have identified 16 myths that may come up during the campaign.

Those myths are:

Myths About the National Debt

1. We Can Continue Borrowing Without Consequences
2. With Deficits Falling, Our Debt Problems are Behind Us
3. There is No Harm in Waiting to Solve Our Debt Problems
4. Deficit Reduction is Code for Austerity, Which Will Harm the Economy

Myths About Taxes

5. Tax Cuts Pay For Themselves
6. We Can Fix the Debt Solely by Taxing the Top 1%
7. We Can Dramatically Lower Tax Rates by Closing a Few Egregious Loopholes
8. Any Tax Increases Will Cripple Economic Growth

Myths About Health Care and Social Security

9. Medicare and Social Security Are Earned Benefits and Therefore Should Not Be Touched
10. Repealing “Obamacare” Will Fix the Debt
11. The Health Care Cost Problem is Solved
12. Social Security’s Shortfall Can be Closed Simply by Raising Taxes on or Means-Testing Benefits for the Wealthy

Myths About Easy Fixes

13. We Can Solve Our Debt Situation by Cutting Waste, Fraud, Abuse, Earmarks, and/or Foreign Aid
14. We Can Grow Our Way Out of Debt
15. A Balanced Budget Amendment is All We Need to Fix the Debt
16. We Can Fix the Debt Solely by Cutting Welfare Spending

Below, we tackle these myths in more detail. And the Committee for a Responsible Federal Budget will continue to dispel these and other myths on the campaign trail through their [Fiscal FactCheck](#).

Myths About the National Debt

Myth #1: We Can Continue Borrowing Without Consequences

One of the most common myths about the national debt is that we can increase it without consequence. Some argue that because the United States borrows in its own currency, it can simply print money to cover its debt. Others point to high-debt nations like Japan to show countries can bear large amounts of debt. Many others suggest that current low interest rates show that the market is not concerned about the debt.

However, none of these arguments stand up to scrutiny. Printing large sums of money might offer a quick fix, but as international experience shows, it can lead to hyper-inflation. Japan is unique for a number of reasons that do not apply to the United States, and it has also faced two decades of economic stagnation along with its high debt. Low interest rates are a temporary consequence of the struggling global economy and near-term Federal Reserve actions – not a permanent fixture.

In reality, high levels of debt come with many risks and consequences. Over the long run, growing debt crowds out productive private investment, slows income growth, increases interest rates, reduces government flexibility, and increases the risk of a fiscal crisis. The non-partisan Congressional Budget Office (CBO) finds that large and growing debt “would have serious negative consequences for both the economy and the federal budget.”¹ Within 25 years, they estimate rapidly rising debt will increase interest rates by a full percentage point, reduce the size of the economy by 7 percent, and [reduce average annual per person income by \\$6,000](#) compared to current baseline projections.²

Myth #2: With Deficits Falling, Our Debt Problems are Behind Us

Since the Great Recession, the deficit has fallen by about two-thirds, from \$1.4 trillion in 2009 to \$485 billion in 2014,³ a fact that some have used to argue the debt is no longer a threat. Those who focus on the deficit’s decline of two-thirds generally fail to mention this reduction followed an almost *800 percent increase* in the deficit during the prior two years, nor that deficits are again projected to rise. Indeed, according to CBO, trillion-dollar deficits will return by 2025, and possibly sooner.⁴ Perhaps more importantly, debt as a share of the economy – at 74 percent of Gross Domestic Product (GDP) – is at the highest level in U.S. history other than around World War II; and it is projected to continue to grow, exceeding the size of the economy before 2040 and as early as 2030.

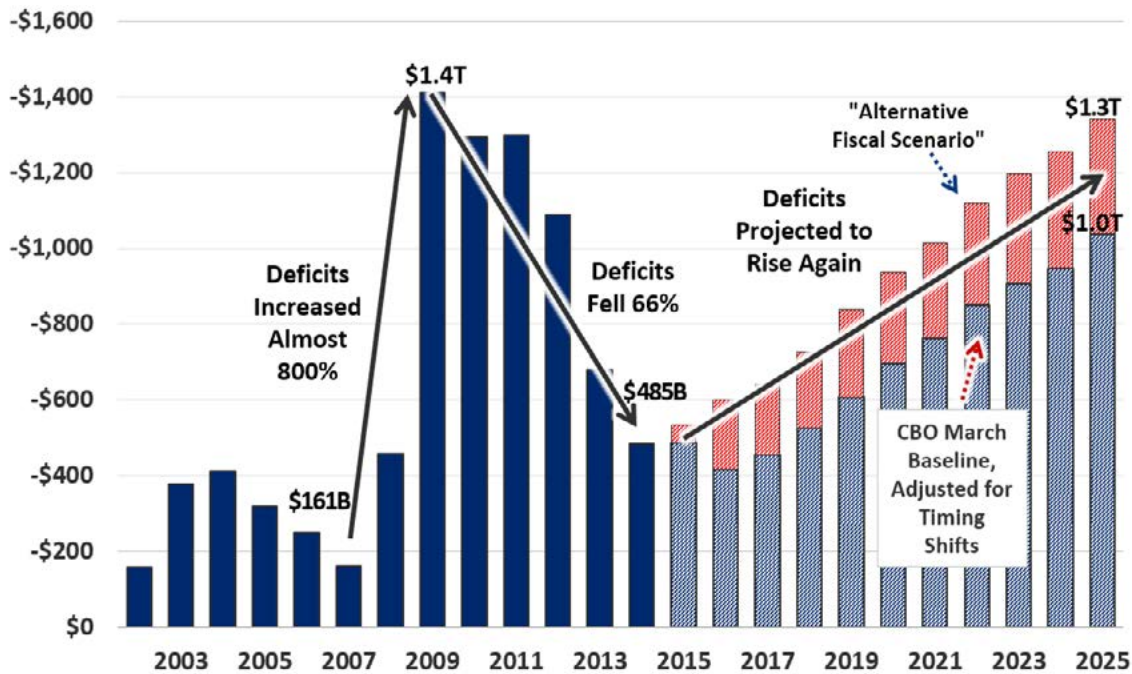
1 Congressional Budget Office (CBO), “Budget and Economic Outlook, 2015-2025,” March baseline, <https://www.cbo.gov/sites/default/files/cbofiles/attachments/49892-Outlook2015.pdf>. Data is for 2015-2025

2 CRFB, “High Debt Drags Down the Economy,” 2015. Rapidly rising debt is CBO’s “Alternative Fiscal Scenario”, which assumes Congress continues with fiscally irresponsible actions. <http://crfb.org/blogs/high-debt-drags-down-economy-0>.

3 CRFB, “Deficit Falls to \$483 billion, but Debt Continues to Rise,” 2014, p. 2, http://crfb.org/sites/default/files/fy14_deficit_falls_but_debt_continues_to_rise.pdf.

4 CBO, “Budget and Economic Outlook, 2015-2025,” March baseline. Table 1, “CBO’s Baseline Budget Projections” <https://www.cbo.gov/sites/default/files/cbofiles/attachments/49892-Outlook2015.pdf>. Data is for 2015-2025

Figure 1: \$1 Trillion Deficits Set to Return by 2025 (Billions)



Source: CBO March Baseline, CRFB Calculations

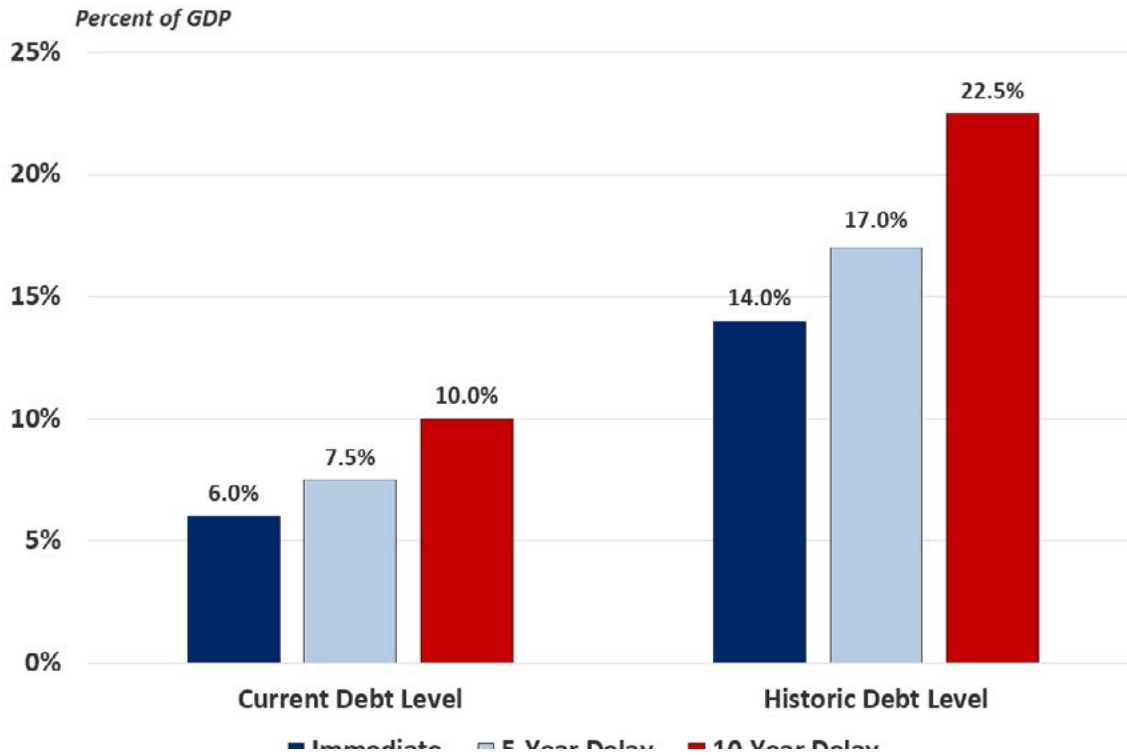
Myth #3: There is No Harm in Waiting to Solve Our Debt Problems

Another debt myth is that even if the long-term debt outlook is a problem, there is no need to address the debt now – it can be dealt with later. This argument ignores that the longer policymakers wait to control debt, the more difficult it will become. For example, reducing debt to around the historical average of about 40 percent of GDP by 2040 would require tax increases or spending cuts of about 2.6 percent of GDP per year if enacted today, or starting at \$1,450 per person per year. Waiting a decade to begin would require adjustments of over 4 percent of GDP, or starting at \$2,700 per person per year (in today’s dollars).⁵

Waiting longer literally makes the problem bigger since the costs are spread over fewer people and less time is available to take advantage of compound interest. Waiting to enact changes will also reduce the government’s ability to exempt more vulnerable individuals from benefit cuts or tax increases, phase changes in gradually, or give affected individuals enough warning in order to adjust. Thus, by delaying debt reduction it will not only make our debt problem harder to solve, but the solutions and policy changes required will be more abrupt and less well-targeted.

⁵ CBO, “The 2015 Long-Term Budget Outlook”; and CRFB calculations, “Quantifying the Cost of Waiting to Address the Debt,” 2015, <http://crfb.org/blogs/quantifying-cost-waiting-address-debt>

Figure 2: Percent Tax Increase Needed to Reach Debt Targets in 2040



Source: CBO, CRFB Calculations

Non-interest spending cuts would have similar though slightly smaller changes.

Myth #4: Deficit Reduction is Code for Austerity, Which Will Harm the Economy

Some policymakers and commentators have conflated calls for deficit reduction with calls for austerity. It is true that some countries *have* enacted austerity measures – or sharp reductions in current spending and/or large up-front tax increases – which in many cases have damaged economic performance and increased unemployment. However, most advocates of fiscal responsibility in the United States, which has the luxury of not having to make changes from market pressures thus far, have called for *gradual* reductions in *long-term* deficits so that the debt grows slower than the economy.⁶ These changes tend to have minimal near-term effects as well as the potential to significantly grow the size of the economy over the long term.

As an example, one of the main principles of the Simpson-Bowles plan was “don’t disrupt the fragile economic recovery,” and it achieved this goal by delaying almost all deficit reduction for 2 years, and then phasing in most changes and adjustments slowly.⁷ Many recent deficit reduction plans have actually called for modest *increases* to near-term deficits by replacing short-term “sequester” cuts with more thoughtful long-term savings.⁸

6 BPC, “Domenici-Rivlin Debt Reduction Task Force Plan” 2014, http://pgpf.org/sites/default/files/sitecore/media%20library/Landers/Post_Election_Fiscal_Cliff/Solutions_Initiative_II/bpc_si2.pdf;

Gang of Six, “A Bipartisan Plan to Reduce Our Nation’s Debt, 2011” <http://khn.org/news/executive-summary-gang-of-six-plan/>.

7 “Report of the National Commission on Fiscal Responsibility and Reform,” 2010, (Simpson-Bowles), https://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf.

8 “Five Think Tanks Have Plans to Stop the Rise of Long-Term Debt,” 2015, <http://crfb.org/blogs/five-think-tanks-have-plans-stop-rise-long-term-debt>.

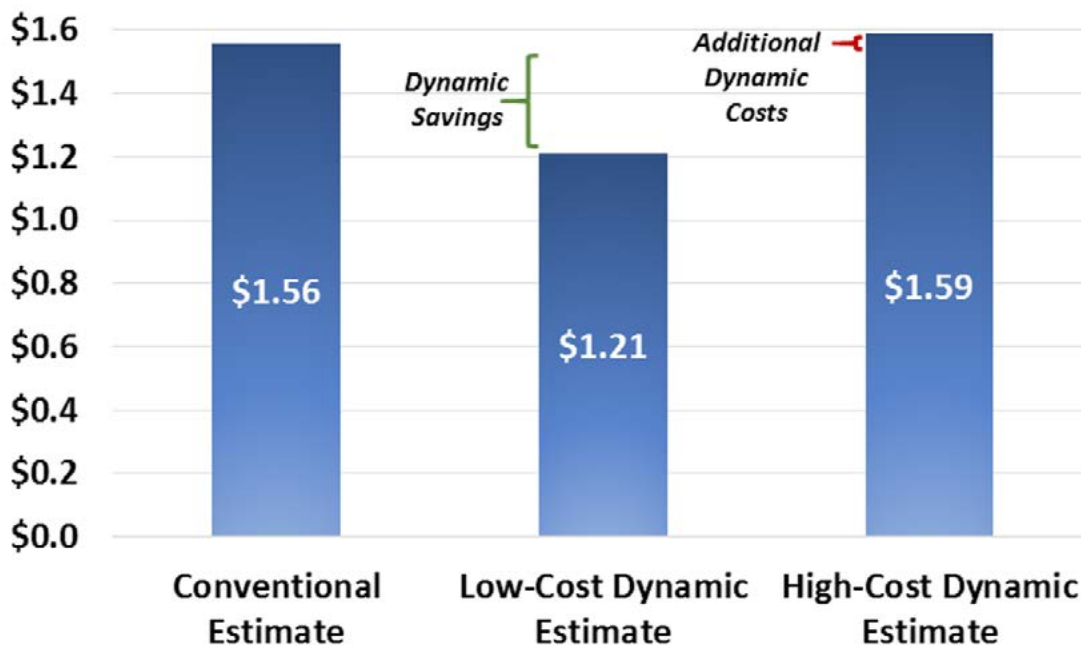
Myths About Taxes

Myth #5: Tax Cuts Pay For Themselves

Some advocates of tax cuts have suggested such cuts will not lose revenue since they will spur economic growth and thus produce enough additional tax revenue to pay for the direct cost of the cuts. Although it is theoretically possible for tax rates to be so high and disruptive that a rate cut would pay for itself, there is practically no evidence to suggest this would occur with today's tax code. More likely, tax cuts may generate enough additional economic growth to replace a small share of the revenue loss.

A number of economic studies confirm this finding. For example, a 2005 study from Greg Mankiw and Matthew Weinzierl found that tax cuts could pay for between 15 and 32 percent of their initial cost.⁹ A [2014 paper](#) by Bill Gale and Andrew Samwick surveyed existing economic literature and concluded tax cuts might not produce *any* significant economic growth, in part because they result in higher debt.¹⁰ Finally, a [2005 CBO analysis](#) found the economic growth from a 10 percent cut in individual income tax rates would at best recover 28 percent of the lost revenue and at worst further *increase* deficits slightly due to the negative economic impact of higher deficits.¹¹ The bottom line is that while tax cuts can help accelerate economic growth in some circumstances, they will not generate anywhere close to enough growth to fully offset the revenue losses they create.

Figure 3: Dynamic Estimate of Revenue Loss from 10% Tax Cut (10-Year Cost, Trillions)



Source: [2005 CBO analysis](#), "Analyzing the Economic and Budgetary Effects of a 10 Percent Cut in Income Tax Rates"

9 Mankiw and Weinzierl, "Dynamic Scoring, a Back-of-the-Envelope Guide," 2005, http://dash.harvard.edu/bitstream/handle/1/2770515/Mankiw_DynamicScoring.pdf.

10 Gale and Samwick, "Effects of Income Tax Changes on Economic Growth," 2014, Tax Policy Center, <http://taxpolicycenter.org/publications/url.cfm?ID=413223>

11 CBO, "Analyzing the Economic and Budgetary Effects of a 10 Percent Cut in Income Tax Rates" 2005, <http://www.cbo.gov/publication/17507?index=6908>.

Myth #6: We Can Fix the Debt Solely by Taxing the Top 1%

A popular suggestion is that raising taxes only on high earners (for example, the top one percent – households that make at least \$450,000 annually¹²) would fix the problem. In reality, doing so would not be enough to fully solve our debt problems. A [2012 report](#) from the Tax Policy Center, for example, estimated that at the time reducing debt to 60 percent of GDP by 2035 would require increasing the then-top two tax rates to over 100 percent, before accounting for behavioral effects.¹³ This is an obvious impossibility, since few taxpayers would continue to work at a 100 percent tax rate. Even short of 100 percent, exorbitantly high tax rates could lead to high rates of (legal and illegal) tax evasion and reduced work effort that could undermine the pool of revenue it was trying to tax in the first place.

To be sure, the top 1 percent of earners still earn a substantial share of total national income – about 13 percent on an after-tax basis¹⁴ – and further tax increases on this group could help to significantly improve the current debt situation. But most likely, these increases would need to be combined with reductions in spending growth, broader tax increases, or some combination of the two to fully address the nation’s fiscal challenges.

Myth #7: We Can Dramatically Lower Tax Rates by Closing a Few Egregious Loopholes

Candidates who propose tax reform plans that are revenue-neutral may suggest that the cost of tax rate reductions can be offset by closing egregious loopholes or tax breaks that benefit relatively few taxpayers. In reality, broadening the tax base enough to offset a significant rate reduction will require making tough choices regarding popular tax breaks. For example, the Simpson-Bowles illustrative tax plan – which reduced the top tax rate to 28 percent (from 35 percent at the time) – fully *eliminated* the deduction for state and local taxes, replaced the mortgage interest and charitable deductions with much smaller credits, taxed capital gains as ordinary income, capped and slowly phased out the tax exclusion for employer-provided health insurance, and repealed or reformed most other tax breaks in the code.¹⁵

Certainly, tax writers can generate revenue by cracking down on tax avoidance strategies, getting rid of tax breaks for corporate jets and vacation homes, and repealing a variety of narrow tax breaks or loopholes. But to pay for significant rate reduction, a number of more widely-used and supported tax breaks will have to be on the table.

Figure 4: Ten-Year Lost Revenue from Selected Tax Expenditures and Proposals (Billions)



Source: Tax expenditure estimates from [U.S. Treasury, 2014, various proposals](#)

12 IRS, “Individual Income Tax Shares,” 2012, <http://www.irs.gov/pub/irs-soi/soi-a-ints-id1506.pdf>, Data is for Tax Year 2012.

13 Toder, Nunns, Rosenberg. “Reducing the Deficit by Increasing Individual Income Tax Rates,” Tax Policy Center, <http://taxpolicycenter.org/publications/url.cfm?ID=412518>.

14 CBO, “The Distribution of Household Income and Federal Taxes,” 2011, <https://www.cbo.gov/publication/49440#title0>.

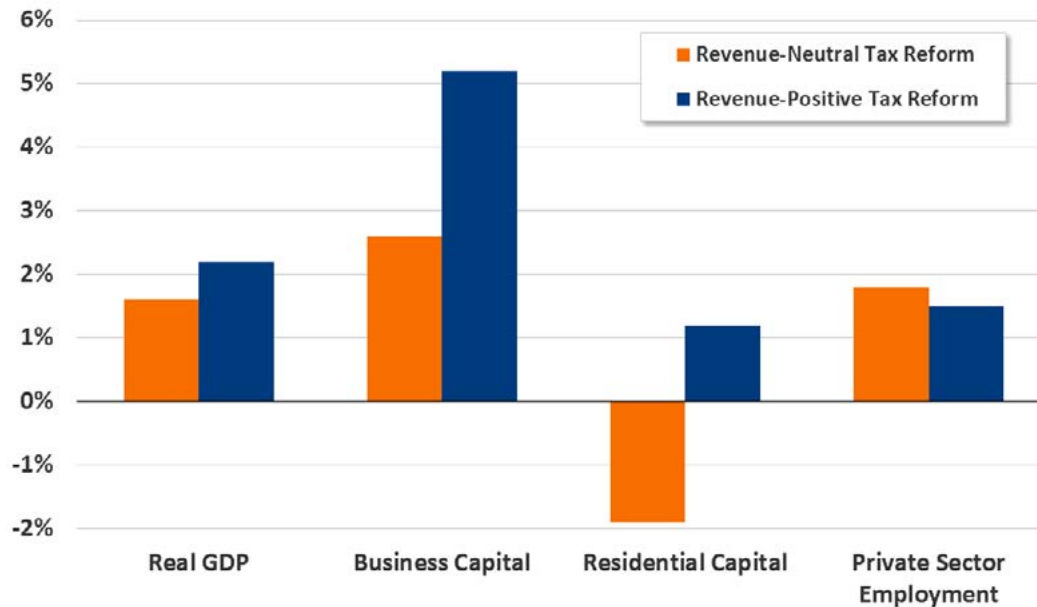
15 “Report of the National Commission on Fiscal Responsibility and Reform,” 2010 (Simpson-Bowles), https://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf.

Myth #8: Any Tax Increases Will Cripple Economic Growth

One common argument against increasing tax revenue is that it requires raising marginal tax rates, which could severely damage economic growth by discouraging work, investment, and business formation. While economic theory and evidence largely supports the idea that tax rate increases would slow economic growth, the effect is likely to be small. Indeed, evidence surveyed by [Gale and Samwick](#) suggests the impact of a tax increase on economic growth might be negligible.¹⁶ One of the main reasons for this is that while higher tax rates would reduce the incentive to work, higher revenue would also reduce debt levels which would promote growth.

Furthermore, it is actually possible to raise revenue without increasing tax rates by instead repealing or limiting various *tax breaks*. Many policymakers and outside groups have proposed aggressively reducing these breaks in order to both increase revenue *and* reduce overall tax rates. The non-partisan Joint Committee on Taxation (JCT) has [found](#) that this style of tax reform could increase the size of the economy significantly over the long run.¹⁷ And in fact, JCT has [estimated](#) that revenue-positive tax reform could provide an even bigger economic boost than revenue-neutral reform.¹⁸

Figure 5: Economic Impact of Tax Reform



Source: [Joint Committee on Taxation, 2011 estimate](#).

Both reform plans are hypothetical, revenue-neutral tax reform uses all money raised from elimination of tax preferences to lower rates, revenue-positive tax reform uses \$600 billion for deficit reduction while lowering rates less.

Myths About Health Care and Social Security

Myth #9: Medicare and Social Security Are Earned Benefits and Therefore Should Not Be Touched

Although Social Security and Medicare are two of the fastest growing programs in the budget, many argue against making adjustments to these programs under the premise that they are “earned benefits” which workers have “paid for” through the payroll tax. This logic is fundamentally flawed in several ways.

¹⁶ Gale and Samwick, “Effects of Income Tax Changes on Economic Growth,” 2014, Tax Policy Center, <http://taxpolicycenter.org/publications/url.cfm?ID=413223>.

¹⁷ Joint Committee on Taxation (JCT), “Macroeconomic Analysis Of A Proposal To Broaden The Individual Income Tax Base And Lower Individual Income Tax Rates, 2006,” <https://www.jct.gov/publications.html?func=startdown&id=1467>.

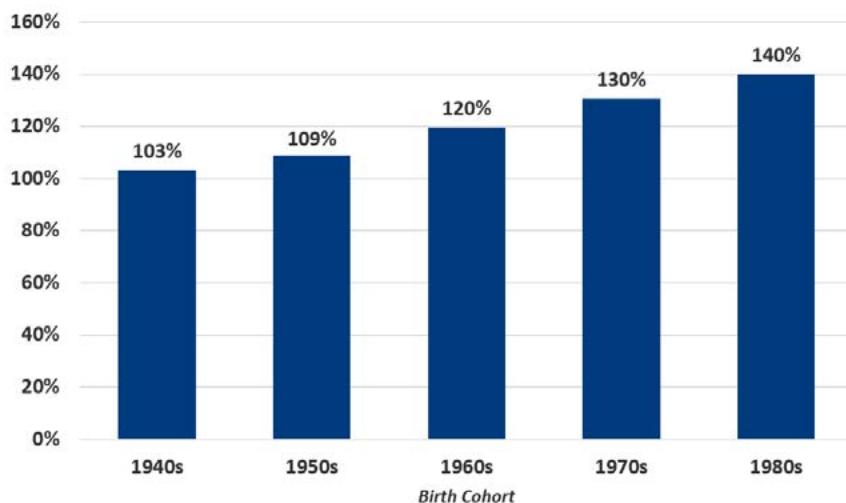
¹⁸ Ibid.

First of all, most Social Security and Medicare beneficiaries get far more out of those programs than they pay into them. When accounting for inflation and interest rates, CBO finds the average beneficiary retiring today will receive about [10 percent](#) more in Social Security benefits than he or she paid in taxes. The average beneficiary retiring in the 2040s will receive about 30 percent more in benefits (assuming scheduled benefits are fully paid). Because Medicare is funded largely out of general revenue and health costs continue to grow, Medicare benefits are far more generous relative to contributory taxes paid. According to CBO, the average senior retiring this decade will receive 250 percent more in benefits than he or she pays in Medicare taxes.¹⁹

In addition, it is important to note that both the Social Security and Medicare Hospital Insurance programs raise too little in tax revenue to pay current benefits and face insolvency within two decades or less.²⁰ This means that failure to make adjustments to these programs or their sources of revenue will result in huge across-the-board benefit cuts.

Finally, failure to control the growth of Social Security and Medicare will have profound impacts on the national debt and the remainder of the budget. Since the year 2000, those programs have grown by one-third as a share of GDP, and by 2040 they will grow another 45 percent.²¹ This spending growth not only increases the debt, but it crowds out other spending including national defense, public investment, and other low-income programs.

Figure 6: Ratio of Social Security Benefits to Contributions



Source: CRFB calculations based on the CBO 2015 Long-Term Budget Outlook. The amount shows the ratio of average lifetime payroll taxes paid (both the employee’s and employer’s share) compared to average lifetime benefits paid. All figures are adjusted for inflation and present-value discounted to age 65.

Myth #10: Repealing “Obamacare” Will Fix the Debt

Some candidates may propose to repeal the Affordable Care Act (ACA), also known as “Obamacare,” in order to solve the fiscal situation. But repealing the ACA in its entirety would actually likely *increase* the debt, and it would certainly not reduce deficits by enough to fix the debt. That is because although the legislation is projected to require roughly \$1.7 trillion of new spending over the next decade, it also includes Medicare cuts and tax

19 CBO, “The 2015 Long-Term Budget Outlook,” <http://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50250-LongTermBudgetOutlook.pdf>.
 20 CRFB, “Analysis of the 2015 Social Security Trustees Report,” http://crfb.org/sites/default/files/crfb_analysis_of_the_2015_social_security_trustees_report.pdf; CRFB, “Medicare Trustees’ Report Shows The Importance of Cost Control Vigilance,” <http://crfb.org/blogs/medicare-trustees-report-shows-importance-cost-control-vigilance>.
 21 CBO, “The 2015 Long-Term Budget Outlook,” <https://www.cbo.gov/publication/50250>, and CRFB calculations.

increases sufficient to more than finance that spending. In fact, CBO recently estimated that repealing the ACA would [increase deficits](#) by between \$137 and \$353 billion over the next decade, and around \$3.5 trillion in the decade that follows.²²

To be sure, there are ways to repeal, replace, or reform parts of the ACA that might significantly reduce future deficits. But such changes would need to be carefully crafted and could not simply involve repealing “Obamacare.”

Myth #11: The Health Care Cost Problem is Solved

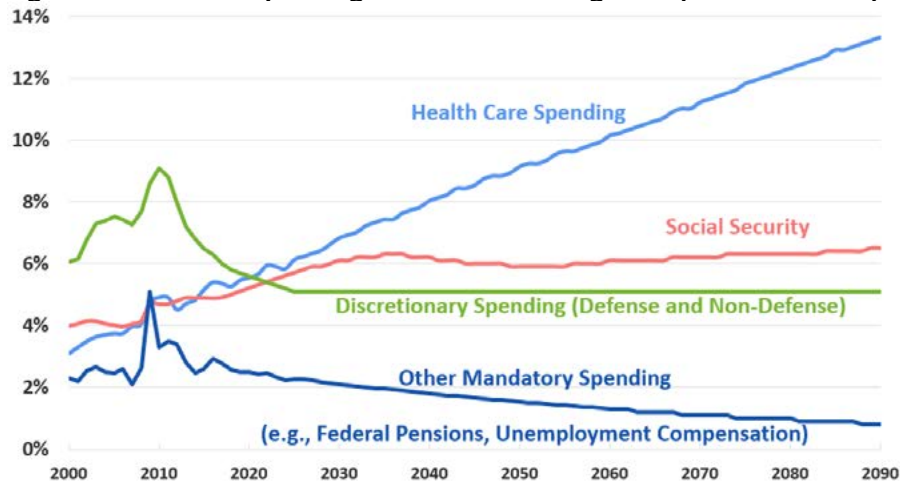
The U.S. has been experiencing very low health care cost growth by historical standards since 2009, and projections of federal health care spending have also fallen significantly.²³ However suggesting that the health care cost issue is solved would be disingenuous.

For starters, it is likely that a significant share of the slowdown is [temporary](#) – due to a combination of legislative, demographic, economic, and idiosyncratic causes that range from one-time Medicare spending cuts to a “patent cliff” in drug prices.²⁴ In addition, the aspects of the slowdown which are permanent are highly uncertain, and even CBO could only explain about [one quarter](#) of the slowdown’s cause.²⁵

While the slowdown in per capita health care costs is uncertain, the aging of the population is quite certain over the next quarter-century. CBO expects aging to be responsible for over half of the spending growth in the major entitlement programs (excluding the impact of the implementation of the ACA).²⁶

Already, federal health care spending totals 5.2 percent of GDP, more than we spend on Social Security or defense. CBO projects those costs to grow to 8 percent of GDP by 2040 and over 13 percent by 2090.²⁷ At that point, the federal government will be spending more on health care than the entire rest of government *combined*.

Figure 7: Sources of Spending Growth in the Long Term (Percent of GDP)



Source: CBO Historic Data, 2015 Long-Term Budget Outlook, CRFB Calculations

22 CBO, “Budgetary and Economic Effects of Repealing the Affordable Care Act,” June 2015, <https://www.cbo.gov/publication/50252>.

23 CRFB, “Another Slow Year for Health Care Cost Growth,” 2014, <http://crfb.org/blogs/another-slow-year-health-care-cost-growth>.

24 Goldwein, “Testimony before the House Energy and Commerce Committee, Subcommittee on Health,” 2014, http://crfb.org/sites/default/files/goldwein_medicare-medicaid_hearing_ec_health_sub_full_testimony.pdf.

25 CBO, “Why Has Growth in Spending for Fee-for-Service Medicare Slowed?,” 2013, http://crfb.org/sites/default/files/goldwein_medicare-medicaid_hearing_ec_health_sub_full_testimony.pdf.

26 CBO, “The 2015 Long-Term Budget Outlook,” p. 22, <https://www.cbo.gov/publication/50250>.

27 CBO, “The 2015 Long-Term Budget Outlook,” 2015, Supplemental Data, <https://www.cbo.gov/publication/45308>.

Myth #12: Social Security's Shortfall Can be Closed Simply by Raising Taxes on or Means-Testing Benefits for the Wealthy

Increasing the amount of wages subject to Social Security payroll taxes from the current \$118,500 cap would raise more revenue and improve the financial state of the program. However, this change alone would not solve the problem. The Social Security Chief Actuary recently estimated that eliminating the cap on taxable earnings while preserving the current benefit structure would close only two-thirds of the 75-year shortfall and one-third of the shortfall in the 75th year. CBO estimated this change would close less than half of the 75-year shortfall and much less in the 75th year.²⁸

Part of the reason that increasing or eliminating the cap on wages will not eliminate the shortfalls facing Social Security is because a portion of the increased revenues would go to finance higher benefits for wealthy individuals when they retire.

Even lifting the tax cap *without* giving higher-earning individuals additional benefits would fail to make the program solvent – closing only four fifths percent of the 75-year gap and half of the 75th year gap according to the Chief Actuary (and much less according to CBO).²⁹

Means-testing benefits for higher earners would also be insufficient to close Social Security's 75-year shortfall. As one example, fully eliminating additional benefits for average yearly lifetime earnings above \$60,000 would close less than one-fifth of the program's 75-year shortfall. Means-testing benefits based on current earnings so that seniors making above \$180,000 receive no benefits would close a similar portion of the shortfall.³⁰

Myths About Easy Fixes

Myth #13: We Can Solve Our Debt Situation by Cutting Waste, Fraud, Abuse, Earmarks, and/or Foreign Aid

When asked how they will fix the debt, many candidates may point to seemingly painless solutions such as reducing fraud, ending earmarks, or cutting foreign aid. The reality is that even aggressive strategies in all these areas would make only a small dent:

- **Fraud** is clearly a problem in government, but it's neither large relative to the budget nor easy to eliminate. For example, total improper payments (a much broader category than fraud) in Medicare and Medicaid represent only about 9 percent of the cost of those programs – a ratio broadly similar to improper payments in other areas of the budget and the tax code.³¹ Moreover, most anti-fraud measures would recover only a small fraction of fraudulent payments, and sometimes at a steep price. The President's budget includes a number of program integrity proposals, which on a combined basis would only save about \$6 billion per year according to the Administration's own estimates.³²
- **Foreign aid** represents a total of 0.7 percent of the budget, or 1 percent if military aid is included. That means fully *eliminating* foreign aid would save only \$35 or \$40 billion per year – a very small fraction of projected annual deficits.³³
- **Earmarks** have been outlawed in appropriations bills since 2010. When they did exist, they were estimated to be a very small percentage of spending, generally about 0.5 percent. Eliminating that amount of spending would save even less than eliminating foreign aid.³⁴

28 Social Security Administration (SSA), 2014. http://www.ssa.gov/oact/solvency/provisions/charts/chart_run113.html.

29 SSA, 2014. http://www.ssa.gov/oact/solvency/provisions/charts/chart_run217.html.

30 CRFB calculations based on SSA, 2014. http://www.ssa.gov/oact/solvency/provisions/charts/chart_run245.html.

31 Office of Management & Budget (OMB), "High-Error Programs," <https://paymentaccuracy.gov/high-priority-programs>.

32 OMB, "Fiscal Year 2016 Budget of US Government", p. 63,

<https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/budget.pdf>.

33 OMB, Historical Table 3.2, <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/hist03z2.xls>.

34 OMB, Historical Table 3.2, <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/hist03z2.xls>.

The fact that these changes won't fix the debt does not mean policymakers should not pursue them. But it is important to recognize that while addressing these areas could be helpful, they are at best a small part of the solution.

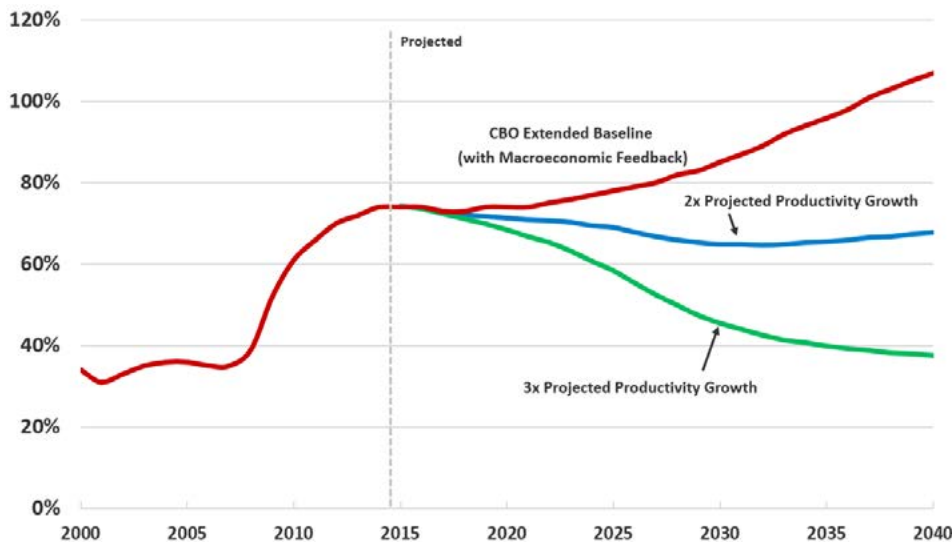
Myth #14: We Can Grow Our Way Out of Debt

Suggesting that the U.S. can grow our way out of debt – increasing economic growth to stabilize or shrink debt as a share of GDP – is a popular idea among candidates, but it is not a very plausible solution by itself. Importantly, while faster economic growth does lead to higher revenue collection, it also leads to more spending. Programs like Social Security are directly linked to wage growth and thus grow faster by design when the economy does. Other areas of spending, such as Medicare and interest rates, also tend to increase with economic growth on average.

Because faster growth results in both higher revenue and spending, a substantial acceleration in growth would be necessary to put the debt on a downward path. Assuming this growth came from higher productivity, it would need to be nearly twice the levels projected simply to stabilize the debt somewhat below current levels, based on rough CRFB calculations. To put the debt on a downward path to reach its historical average by 2040, productivity would need to be three times as high as projected. In other words, for growth alone to solve the debt, the country would need sustained annual productivity growth between 2.5 and 4 percent. By comparison, the historical record for any 25-year period since 1950 is 1.9 percent.³⁵

To be sure, higher economic growth has many benefits for the budget and society and thus should be pursued. Tax reform, entitlement reform, and debt reduction can all help accelerate growth. But there are limits as to how much of the debt problem growth alone could legitimately solve.

Figure 8: Extended Baseline Compared to Debt with Higher Growth (Percent of GDP)



Source: CBO, CRFB Calculations.
These numbers are rough estimates based on CBO data.

35 CBO, "The 2015 Long Term Budget Outlook", <https://www.cbo.gov/publication/50250>, and CRFB calculations.

Myth #15: A Balanced Budget Amendment is All We Need to Fix the Debt

Many candidates will suggest some form of a balanced budget amendment (BBA). Even in the best case, such an amendment is a supplement rather than a replacement for the tough choices necessary to fix the debt – and not one which is likely to be put in place.

Passing a BBA would require a mammoth effort. An amendment to the Constitution can only be put in place with two-thirds majorities in both chambers of Congress as well as ratification from 38 of the 50 states, or a separate convention called by two-thirds of states and ratified by 38 of them. These processes, even if politically popular, would likely take a significant amount of time. Importantly, the President has no formal role in this process.

But even if a constitutional BBA did pass, it would not replace the need to identify tax and spending changes in order to eliminate deficits. Lawmakers would still be confronted with the same choices as they are today, and would still have to identify hundreds of billions of dollars of deficit reduction per year, and there is a danger that focusing on the process of amending the Constitution would take away the attention from what policies should actually be put in place to balance the budget.

In other words, support for a balanced budget amendment is not a substitute for concrete ideas to reduce deficits.

Myth #16: We Can Fix the Debt Solely by Cutting Welfare Spending

Some candidates may suggest that we can fix the debt simply by cutting welfare spending, but there is not enough spending in this category to realistically do that. Temporary Assistance for Needy Families, the cash assistance most closely associated with the term “welfare,” only totals 0.5 percent of spending per year (about 0.1 percent of GDP) and basically has not increased since it was first established in the late 1990s.³⁶ Even including other programs like Supplemental Security Income and the Supplemental Nutrition Assistance Program brings the total to less than 5 percent of spending per year (1 percent of GDP), and these programs are projected to shrink as a share of the economy over time.³⁷ Any realistic cuts would not solve the debt problem and would prove increasingly inadequate over the long term.

In fact, the largest and fastest growing parts of the budget are our major entitlement programs which include Social Security and Medicare programs that are available to all seniors regardless of income.³⁸ These costs are growing because our population is aging and health costs continue to rise. Truly solving the long-term debt situation will require slowing the growth of spending in these and other popular entitlement programs.

Conclusion

The next president will serve at a time when fiscal issues will take on great importance. The retirement of the Baby Boomers will ramp up, increasing spending on health care and retirement programs, while interest on the debt is projected to take up a growing share of spending. The debt – already at \$13 trillion, and at 74 percent of GDP the highest level in U.S. history other than around World War II – is currently projected to grow by over \$6 trillion (or 3 percent of GDP) during his or her possible eight years in office. Having an honest discussion of our

36 CBO, “Temporary Assistance for Needy Families: Spending and Policy Options,” January 2015, Figure 1, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/49887-TANF.pdf>.

37 Center on Budget and Policy Priorities, “SNAP Costs Declining, Expected to Fall Much Further,” June 2015, <http://www.cbpp.org/research/snap-costs-declining-expected-to-fall-much-further>.

38 CBO, “The 2015 Long-Term Budget Outlook”, <https://www.cbo.gov/publication/50250>, and CRFB calculations.

fiscal policies is crucial to helping citizens understand the issues and trade-offs involved in the choices we make. The 16 myths we have outlined undermine that purpose. They involve soft-pedaling or ignoring the debt issue, overstating the adequacy or understating the consequences of possible solutions, and suggesting free lunches where none exist. While our fiscal situation requires a clear understanding of the possibilities we have and the problems with inaction, these myths mislead voters and muddy their understanding of the federal budget.

We will continue to point out the use of these myths in the campaign as they come up. CRFB will also be correcting or explaining candidates' statements as they come up in their new [Fiscal FactCheck series](#). Getting the facts right about the federal budget and candidates' proposals is important to helping voters understand the choices they will be making in November 2016.