

Livin' On a Prayer

Why the Deficit Deal Falls Short

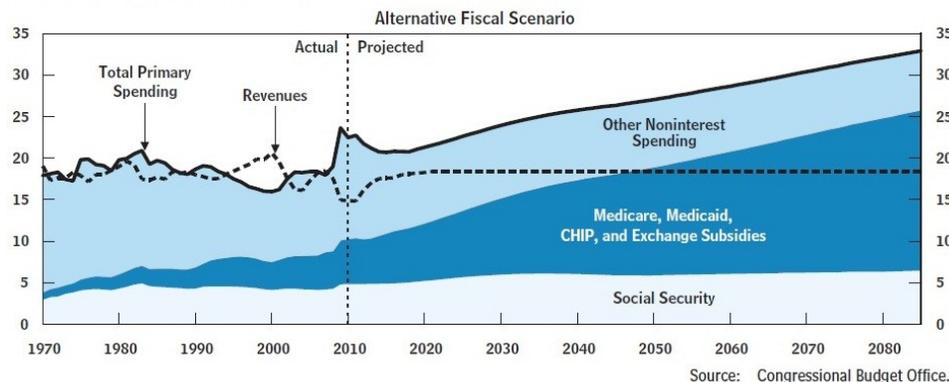
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Although most of the recent media coverage has focused on the \$14.3 trillion of national debt, the real issue is a measure known as the fiscal gap. The fiscal gap you ask? What is it and why is it so important? The easiest way to think about it is this: the national debt deals with the past while the fiscal gap looks at the future.

So what does our fiscal gap look like? Not good. In fact, the Congressional Budget Office (CBO) calls the fiscal gap outlook “daunting.” CBO projections¹ clearly show a sharp increase in federal spending for entitlement programs, primarily Medicare and Medicaid, in the decades ahead (see below).² The CBO concludes if policymakers want to close the fiscal gap and put the federal government on a sustainable budgetary path, they will need to increase revenues substantially, decrease spending significantly, or

Primary Spending and Revenues, by Category, Under CBO's Long-Term Budget Scenarios Through 2085

(Percentage of gross domestic product)



adopt some combination of those two approaches. The report of President Obama's Commission on Fiscal Responsibility and Reform, aptly entitled “The Moment of Truth”, reached similar conclusions last December.³

While it is true the policymakers managed to avoid an immediate default, the debt deal comes nowhere close to getting us even “halfway there” in terms of closing the fiscal gap since it addresses neither entitlements nor tax reform. It is also unlikely the debt deal will do much to help the U.S. retain its “AAA” debt rating for the same reason. Nonetheless, our policymakers have taken an important first step.

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¹ CBO's 2011 Long-Term Budget Outlook, June 2011

² The alternative fiscal scenario incorporates several changes to current law that are widely expected to occur or that would modify some provisions that might be difficult to sustain for a long period.

³ The National Commission on Fiscal Responsibility and Reform, “The Moment of Truth”, December 2010

