Attention: Deficit Disorder…The vexed question of the nation’s deficits, both actual and projected, has aroused a cacophony of opinions. Despite the tumult, however, there is an element of arithmetic that must be respected.

From The Budget and Economic Outlook: Fiscal Years 2006 to 2015, published by the Congressional Budget Office, January 2005:

“In the decades beyond CBO’s projection period, the aging of the baby-boom generation, combined with rising health care costs, will cause a historic shift in the United States’ fiscal situation. Over the next 30 years, the number of people age 65 or older will double, while the number of adults under age 65 will increase by less than 15 percent. Moreover, health care costs are likely to continue to grow faster than the economy. (Between 1960 and 2001, the average annual growth rate of national health expenditures exceeded the growth rate of GDP by 2.5 percentage points.)

Driven by rising health care costs, spending for Medicare and Medicaid is increasing faster than can be explained by the growth of enrollment and general inflation alone. If excess cost growth continued to average 2.5 percentage points in the future, federal spending for Medicare and Medicaid would rise from 4.2 percent of GDP today to about 11.5 percent of GDP in 2030…The Medicare trustees assume that excess cost growth will decline to 1 percentage point, on average; however, even at that rate, federal spending for Medicare and Medicaid would double to 8.4 percent of GDP by 2030.

Outlays for Social Security as a share of GDP are projected to grow by more than 40 percent in the next three decades under current law: from about 4.2 percent of GDP to more than 6 percent. Such costs are likely to creep up gradually thereafter. By contrast, federal revenues credited to Social Security are expected to remain close to their current level—around 5 percent of GDP—over that period.

Together, the growing resource demands of Social Security, Medicare, and Medicaid will exert pressure on the budget that economic growth alone is unlikely to alleviate. Consequently, policymakers face choices that involve reducing the growth of federal spending, increasing taxation, boosting federal borrowing, or some combination of those approaches.”

Federal Reserve Board Chairman Alan Greenspan testified at the March 2 Committee Hearing of the U.S. House of Representatives Budget Committee. In response to a congressman’s inquiry about the options available for reducing the nation’s dependence on foreign capital inflows, he replied that we have very limited choices. We are now borrowing the equivalent of almost 6 percent of our GDP annually, and we use it, essentially, to finance domestic investment. To curtail, at least in part, the amount of investment that is being made in the United States, we would have to either curtail domestic investment—a course he does not favor—or increase domestic savings.

Curtailing domestic investment would require us to slow the pace of housing construction or the amount of plant and equipment that we rely on to enhance our productivity. If we do not want to slow domestic investment, there is only one alternative, and that is to increase domestic savings. How? By bringing the federal budget closer to balance, either through a higher rate of household saving or through increased saving by corporations. That’s it. So our choices are limited.

Chairman Greenspan remarked that today’s limited possibilities for financing the current account deficit reminded him of the time in 1983 when he was chairman of the Social Security Commission. At their first meeting, he recalled, the commission members contemplated their options for shoring up the dwindling Social Security trust fund. They recognized right away that they could either raise taxes, lower benefits, or advert to general revenues. But, Chairman Greenspan recalled, for several meetings the commission resisted acknowledging the simple, but powerful, arithmetic of the situation until they finally exhausted themselves and concluded that there was no alternative to action.

The Chairman’s experience foretells what we know to be true: These deficit-inducing issues will be resolved—somehow. Let us work for good solutions.