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To Contain Future Budget, US Must Raise Taxes By 35%, Cut Entitlements 35%

To restrain the U.S.'s future budget crisis, the federal government must raise taxes by at least 35% and cut entitlements such as health care and Social Security by 35%, **International Monetary Fund** economists warned Monday in a new working paper.

While the projected ballooning of future costs of entitlements as the so-called baby boomer generation enters old age isn't new, the IMF paper's quantifying just how much the federal government will have trim its balance sheets sheds fresh light on the political hurdles ahead.

Raising taxes and cutting spending on health care, Social Security, Medicare and Medicaid are some of the most sensitive issues for voters.

The IMF paper, written by **Nicoletta Batini**, **Giovanni Callegari** and **Julia Guerreiro**, shows that if the government doesn't cut entitlements, it will have to raise taxes by 88% to pay for their costs.

Since the federal government has historically collected around 18% of gross domestic product in taxes, the mandatory entitlement programs may absorb all federal revenues as early as 2026, when the cost of servicing the debt is included in the calculation, the economists say.

The IMF officials use the **Congressional Budget Office**'s most realistic scenario for future U.S. budget outlooks, which say that President **Barack Obama**'s new health-care law will save some costs, but the ability of the **Independent Payment Advisory Board** to slash costs will be limited. Also, the IMF assumed that existing tax cuts remain until 2020, given that many analysts say it will be nearly impossible for the government to raise taxes.

The IMF's baseline scenario only describes how to contain future deficit bloating, not how to actually balance the budget.