Topics to Cover

- The Budget Outlook
- Consequences of High and Rising Federal Debt
- Criteria for Evaluating Possible Courses of Action
How Big Are Projected Federal Deficits and Debt?
Total Federal Deficits or Surpluses

Estimates from *The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013).*
Total Federal Revenues and Outlays

Estimates from The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013).
Projected Growth in Major Federal Spending Categories

(Percentage of GDP)

Major Health Care Programs
Social Security
Defense
Discretionary Spending
Nondefense
Discretionary Spending
Net Interest

Estimates from *The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013).*
Federal Debt Held by the Public

Estimates from The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013).
What Are the Consequences of High and Rising Federal Debt?
High and Rising Debt Relative to the Size of the Economy Is A Significant Concern for Several Reasons

- First: Crowding out of capital investment will be greater.

- Second: Lawmakers will have less flexibility to respond to unexpected challenges.

- Third: There will be a heightened risk of a fiscal crisis.
Fourth: Debt Would Be Even Larger If...

...Current laws were modified to delay or undo certain scheduled changes in policy.

For example, if lawmakers:

- Eliminated the automatic spending cuts that have just taken effect;
- Extended all of the tax provisions that are scheduled to expire;
- Prevented the reduction in Medicare’s payment rates for physicians scheduled for next January; and
- Made no other policy changes with offsetting budget effects...

Then, debt would rise to 87 percent of GDP by 2023.
Fifth: Original Caps on Discretionary Funding Are Very Low Relative to GDP

Estimates from *The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013)*. Estimates incorporate the assumption that the automatic spending reductions required by the Budget Control Act do not take effect, although the original caps on discretionary appropriations remain in place and are met through proportional reductions in defense and nondefense budget authority.
Sixth: 10-Year Projections Do Not Fully Reflect Long-Term Budget Pressures

Estimates from *The 2012 Long-Term Budget Outlook (June 2012).*
What Are Some Criteria for Evaluating Proposed Policy Changes?
Criterion #1: How Much Would Debt Be Reduced?

The more that debt is reduced, the more that the harms caused by high debt would be avoided—but also the greater the loss of government benefits and services or the burdens on individuals and businesses of higher taxes.
Debt Held by the Public Under Current Law and Alternative Budgetary Paths

Estimates from *Macroeconomic Effects of Alternative Budgetary Paths* (February 2013).
Criterion #2: How Quickly Would Debt Be Reduced?

The sooner deficits are cut, the less debt that will be accumulated—but also the greater the drag on economic activity over the next few years. Indeed, several provisions of current law that are bringing down the deficit will weaken output and employment this year.
Unemployment Rate

Estimates from *The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013).*
Criterion 3: How Would the Government’s Resources Be Allocated?

Estimates from *The Budget and Economic Outlook: Fiscal Years 2013 to 2023 (February 2013).*
Criterion #4: How Would Policy Changes Affect Longer-Term Economic Performance?

Possible effects of:

- Raising marginal tax rates on labor;
- Raising marginal tax rates on capital;
- Cutting government benefits; and
- Reducing government investment.
Criterion #5: Who Would Bear the Burden of Policy Changes?

Possible effects on:

- Distribution of burden among people at different income levels;
- Distribution of burden among people with similar income but other differences; and
- Distribution of burden among people in different generations.
Key Implication of CBO’s Budget Projections

Putting the debt on a sustainable path will ultimately require increases in taxes or cuts in government benefits or services for people who consider themselves to be in the middle class.