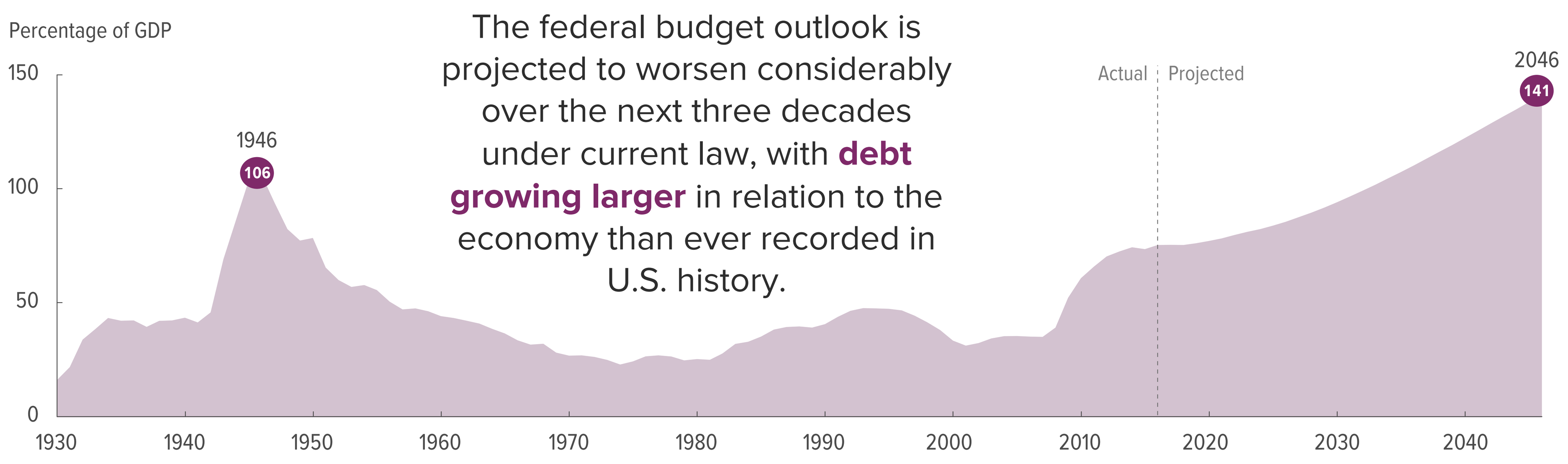
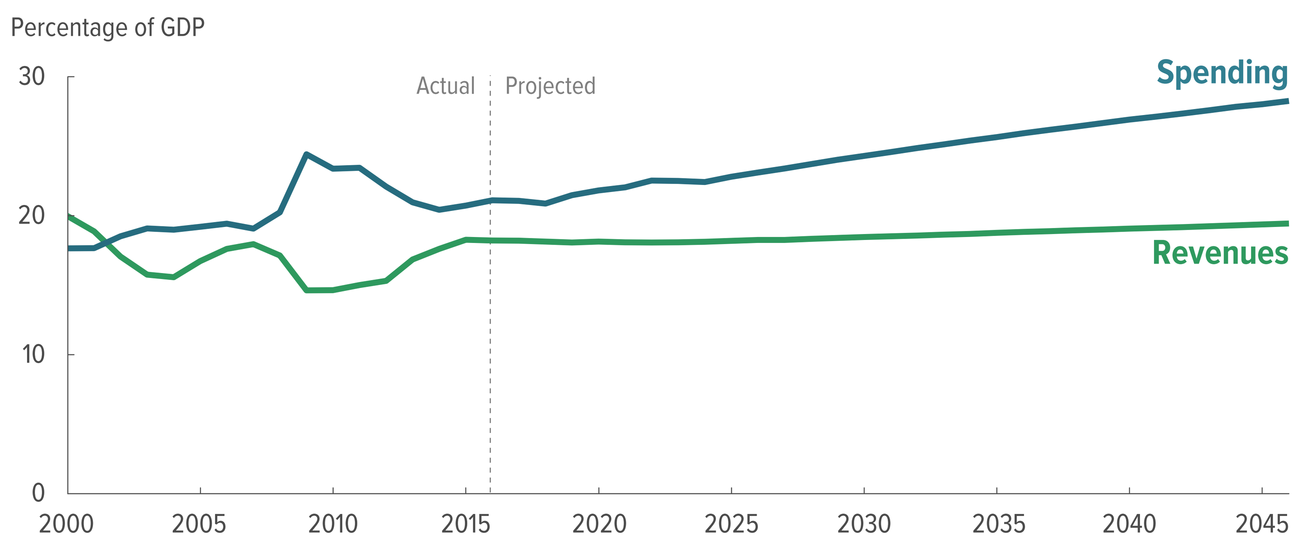
Congressional Budget Office

The 2016 Long-Term Budget Outlook

GROWING DEFICITS AND RISING DEBT

The federal budget outlook is projected to worsen considerably over the next three decades under current law, with **debt growing larger** in relation to the economy than ever recorded in U.S. history.

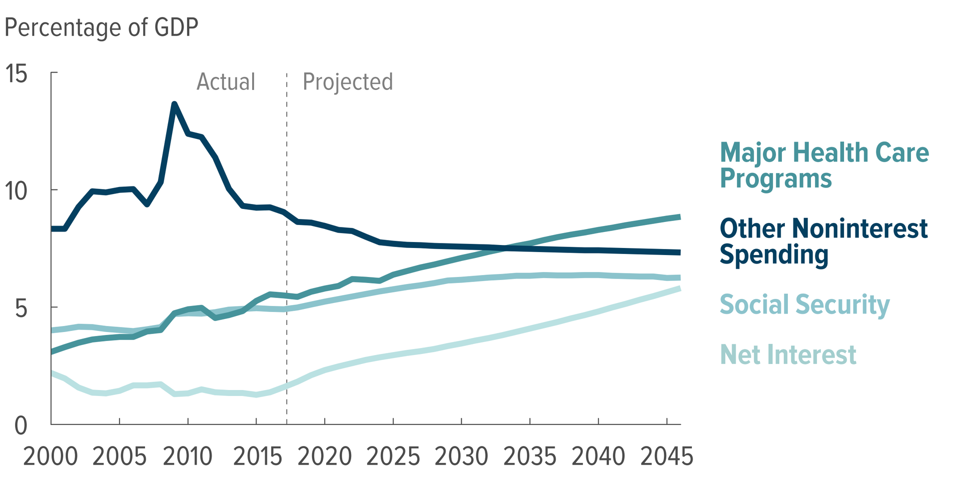


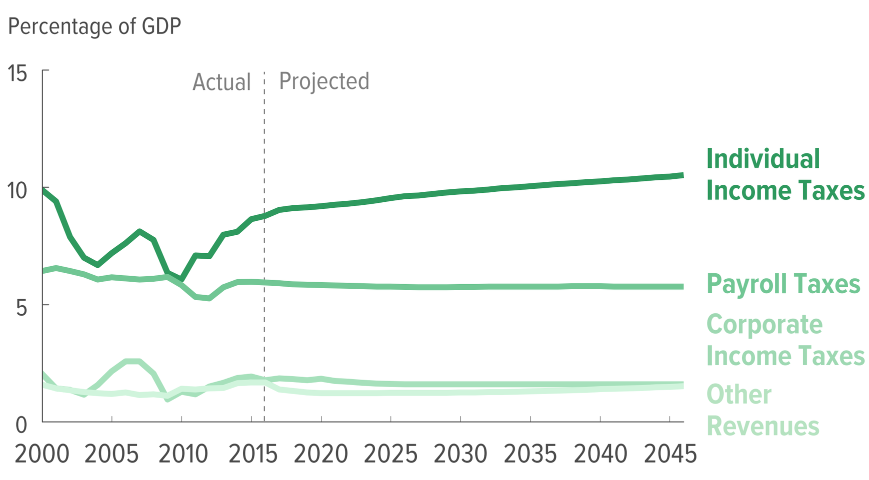


That rising debt would result from growing budget deficits; that is, **spending growth** would outpace **revenue growth**.

The spending growth would be driven by outlays for **Social Security**, the **major health care programs**, and **net interest**.

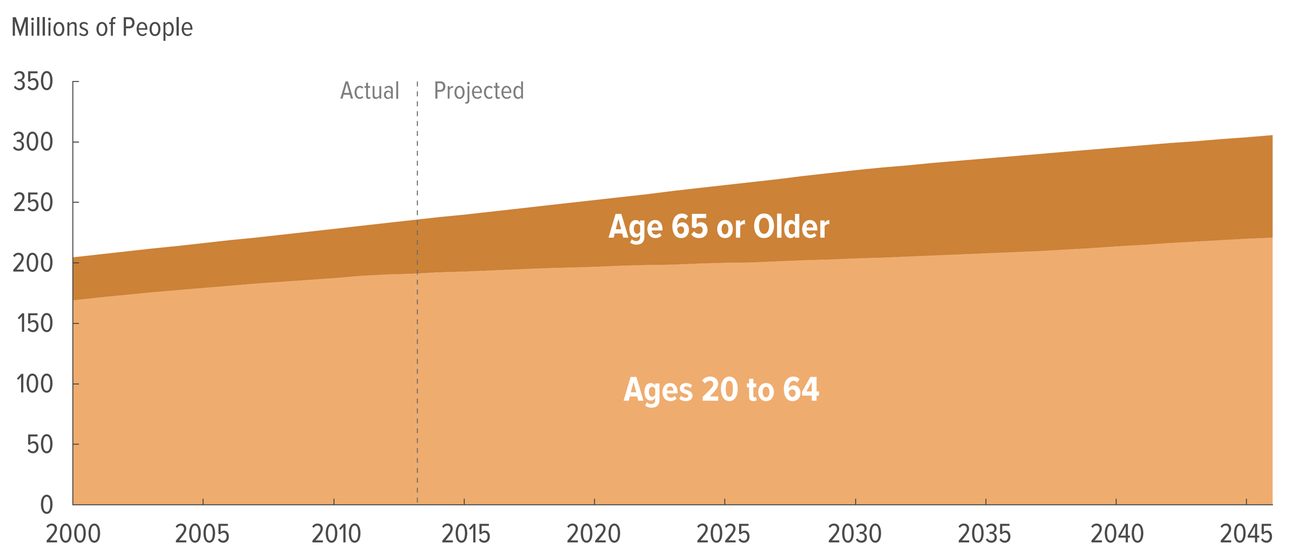
The revenue growth would be driven by steadily increasing receipts from **individual income taxes**.





Outlays for the major health programs consist of spending for Medicare (net of offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

KEY FACTORS UNDERLYING GROWTH IN SPENDING

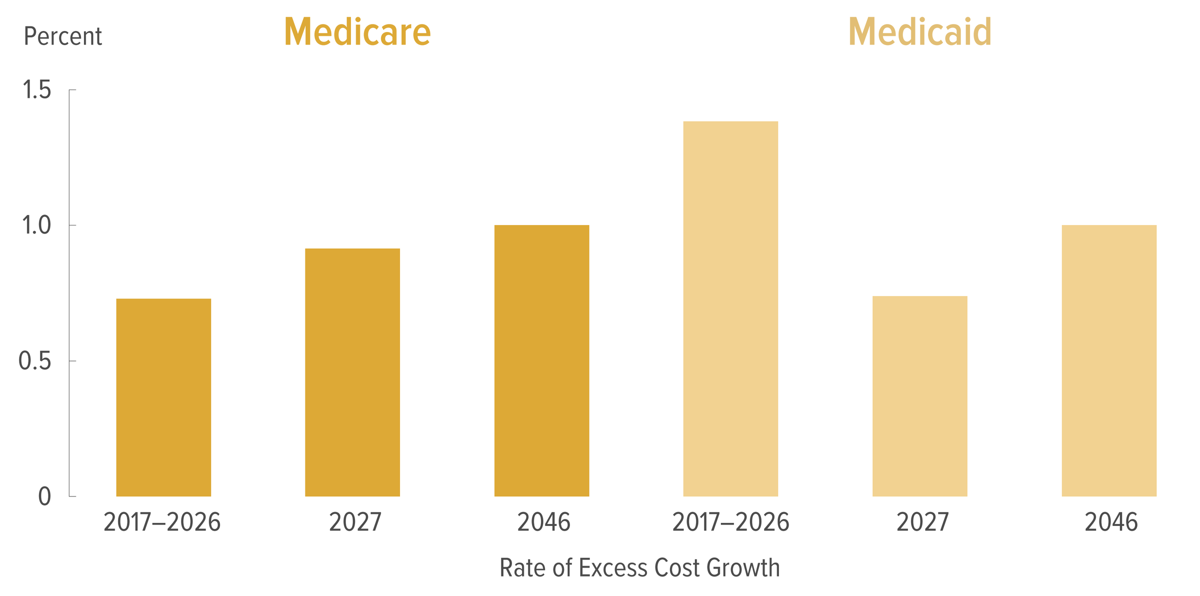


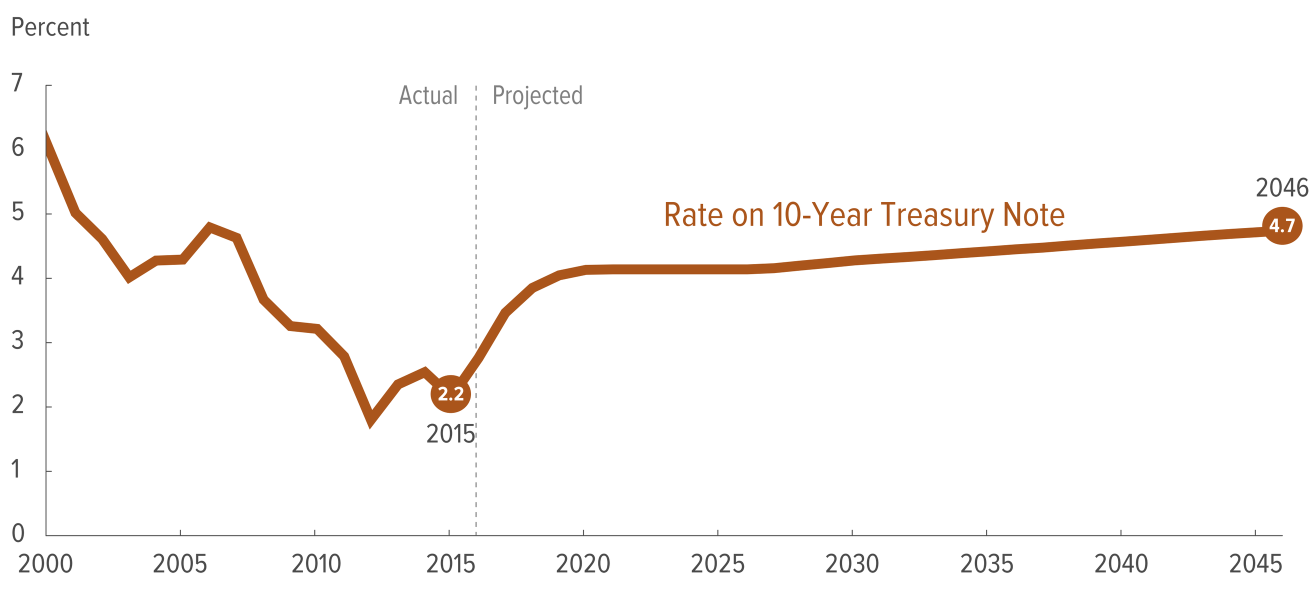
Aging

By 2046, 21 percent of the total population—compared with 15 percent today—will be age 65 or older, CBO anticipates. Social Security, Medicare, and Medicaid spending for those people would account for about half of all federal noninterest spending.

Health Care Spending per Person

CBO projects continued excess cost growth—that is, continued growth in health care spending per person that is faster than the growth of economic output per person.





Interest Rates

The growth of interest costs would result largely from interest rates' rising from unusually low levels. Greater federal borrowing would also boost interest costs.

THE SHIFTING COMPOSITION OF THE BUDGET

Spending

Percent	Social Security	Major Health Care Programs	Other Noninterest Spending	Net Interest
2016	23	26	44	6
2046	22	31	26	21

Revenues

	Individual Income Taxes	Payroll Taxes	Corporate Income Taxes	Other Revenues
2016	48	33	10	9
2046	54	30	8	8

CHANGES NEEDED TO MEET TWO GOALS FOR DEBT

If lawmakers aimed for **debt** in 2046 to equal . . .

39% of GDP (Its 50-year average)	**75%** of GDP (Its current level)

Each year, they would need to **increase revenues** or **reduce noninterest spending** by . . .

2.9% of GDP, which is equal to a **16%** increase in revenues or a **14%** cut in spending	**1.7%** of GDP, which is equal to a **9%** increase in revenues or an **8%** cut in spending

In 2017, that would amount to . . .

$560 billion, which is equal to **$1,700** per person	**$330 billion,** which is equal to **$1,000** per person

If the changes were increases (of equal percentage) in all types of revenues, one effect in 2017 is that **taxes per household** would be higher than under current law by . . .

$1,900	**$1,100**

Values are for households in the middle fifth of the income distribution. Under current law, their taxes are projected to average $12,200.

If the changes were cuts (of equal percentage) in all types of noninterest spending, one effect in 2017 is that **initial Social Security benefits** would be lower than under current law by . . .

$2,600	**$1,500**

Values are averages for people in the middle fifth of the lifetime earnings distribution who were born in the 1950s and who would claim benefits at age 65. Under current law, their benefits are projected to be $18,700.

CONSEQUENCES OF RISING DEBT

Less National Saving and Lower Income	Pressure for Larger Tax Increases or Spending Cuts	Reduced Ability to Respond to Unexpected Events	Greater Chance of a Fiscal Crisis

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Source: Congressional Budget Office, July 2016
For more information, see *The Long-Term Budget Outlook*, www.cbo.gov/publication/51580

All data are for federal fiscal years, which run from October 1 to September 30.

Numbers may not add up to totals because of rounding.