

The Budget Outlook

If current laws generally remain in place, the federal budget deficit will total \$544 billion in fiscal year 2016, the Congressional Budget Office estimates, well above the \$439 billion deficit posted for fiscal year 2015. After six consecutive years in which the deficit has declined relative to the size of the economy, this year's deficit—at 2.9 percent of gross domestic product (GDP)—is anticipated to increase for the first time since it peaked at 9.8 percent in 2009 (see Figure 1-1). As a result, debt held by the public (relative to the size of the economy), which declined last year for the first time in several years, is expected to rise again (as it did each year from 2007 to 2014). By CBO's estimate, debt held by the public will reach 76 percent of GDP in 2016, about 2 percentage points above last year's mark and equal to a larger percentage of GDP than in any year since 1951.

CBO constructs its 10-year baseline projections of federal revenues and spending under the assumption that current laws generally remain unchanged, following rules for those projections set in law.¹ CBO's baseline is not intended to be a forecast of budgetary outcomes; rather, it is meant to provide a neutral benchmark that policymakers can use to assess the potential effects of policy decisions. Under that assumption, in CBO's current baseline:

- Revenues are projected to remain roughly steady as a percentage of GDP through 2026, ranging between 17.9 percent and 18.3 percent, which is above their average of 17.4 percent over the 50 years from 1966 to 2015.
- Outlays are projected to rise as a share of GDP over the coming decade from 21.2 percent in 2016 to 23.1 percent in 2026 (the 50-year average is 20.2 percent). The increase in outlays reflects substantial growth in costs—to amounts well above historical averages—for benefit programs for the elderly, health care programs, and interest on the government's debt. The increase in those three areas would more than offset a significant projected decline in discretionary outlays relative to the size of the economy—outlays that are already more than 2 percentage points below their 50-year average.
- The deficit as a percentage of GDP has an upward trajectory over the projection period, growing from 2.9 percent this year to 4.9 percent in 2026 (see Table 1-1). Over the past 50 years, the annual deficit has averaged 2.8 percent of GDP.

Such increasing deficits over the next 10 years would cause debt held by the public to rise steadily. Relative to the nation's output, debt held by the public is projected to increase from 76 percent of GDP in 2016 to 86 percent at the end of 2026. At that point, federal debt would be the highest as a percentage of GDP since just after World War II. Such high and rising debt would have significant consequences, both for the economy and for the federal budget, including these:

- When interest rates returned to more typical, higher levels, federal spending on interest payments would increase substantially.
- Because federal borrowing reduces national saving over time, the nation's capital stock ultimately would be smaller, and productivity and total wages would be lower, than would be the case if the debt was smaller.
- Lawmakers would have less flexibility than otherwise to use tax and spending policies to respond to unexpected challenges.
- The likelihood of a fiscal crisis in the United States would increase. Specifically, the risk would rise of investors' becoming unwilling to finance the government's borrowing unless they were compensated with very high interest rates. If that occurred, interest rates on federal debt would rise suddenly and sharply relative to rates of return on other assets.

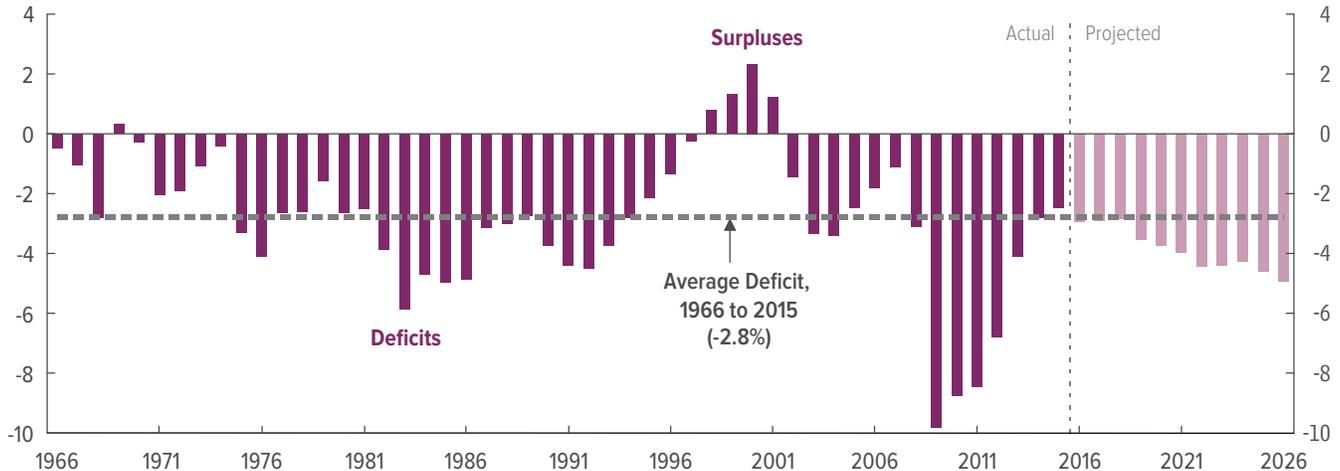
1. Section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) specifies the rules for developing baseline projections.

Figure 1-1.

Total Deficits or Surpluses

CBO projects that deficits will exceed 4 percent of GDP by 2022 as mandatory spending and interest payments rise while revenues remain relatively flat.

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Projected deficits and debt for the coming decade reflect the significant long-term budgetary challenges facing the nation. In particular, although revenues are projected to remain steady as a percentage of GDP over the coming decade, the aging of the population and the rising costs of health care are projected to substantially boost federal spending on Social Security and the government's major health care programs over the next 10 years and beyond. Unless spending for large benefit programs is reduced, revenues are allowed to rise more than they would under current law, or some combination of those approaches is adopted, debt will rise sharply relative to GDP after 2026.²

In addition, holding discretionary spending within the limits required under current law—an assumption that underlies CBO's current projections—may be quite difficult. Caps on discretionary budget authority were established by the Budget Control Act of 2011 (Public Law 112-25) for the 2012–2021 period, and automatic spending reductions further reduced those levels. Although subsequent legislation raised the limits for

2014 through 2017 relative to what they would have been after the automatic spending reductions, the caps and automatic spending reductions for 2018 through 2021 remain in place.³ CBO's baseline reflects those constraints.

In CBO's current baseline, therefore, the caps on defense and nondefense spending together rise by a total of \$3 billion in 2017 and then fall by \$5 billion in 2018, after which they increase at roughly the same rate as inflation. For its baseline projections after 2021, CBO assumes that such funding continues to grow with inflation. As a result, discretionary outlays would fall to an unusually small amount relative to the size of the economy: 5.2 percent of GDP in 2026. By comparison, the lowest percentage for discretionary spending in any year since 1962 (the earliest year for which such data have been reported) was 6.0 percent in 1999, and the average over the past 50 years has been 8.7 percent.

2. For a more detailed discussion of the consequences of elevated debt in particular and a long-term overview for the budget generally, see Congressional Budget Office, *The 2015 Long-Term Budget Outlook* (June 2015), www.cbo.gov/publication/50250.

3. Budget authority is provided by law to allow the government to incur financial obligations that will result in immediate or future outlays of federal funds. Most recently, the Bipartisan Budget Act of 2015 (P.L. 114-74) raised the limits for defense and nondefense funding by \$25 billion each for 2016 and by \$15 billion each for 2017 relative to what they would have been after the automatic spending reductions.

Table 1-1.

Deficits Projected in CBO's Baseline

Billions of Dollars

	Actual, 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total	
													2017- 2021	2017- 2026
Revenues	3,249	3,376	3,511	3,633	3,747	3,917	4,076	4,244	4,421	4,610	4,818	5,035	18,883	42,010
Outlays	3,687	3,919	4,072	4,206	4,485	4,727	4,968	5,288	5,498	5,699	6,044	6,401	22,458	51,388
Total Deficit	-439	-544	-561	-572	-738	-810	-893	-1,044	-1,077	-1,089	-1,226	-1,366	-3,575	-9,378
Net Interest	223	255	308	369	438	498	551	607	666	719	772	830	2,165	5,759
Primary Deficit ^a	-215	-289	-253	-203	-300	-312	-341	-438	-411	-370	-454	-536	-1,410	-3,619
Memorandum (As a percentage of GDP):														
Total Deficit	-2.5	-2.9	-2.9	-2.8	-3.5	-3.7	-4.0	-4.4	-4.4	-4.3	-4.6	-4.9	-3.4	-4.0
Primary Deficit ^a	-1.2	-1.6	-1.3	-1.0	-1.4	-1.4	-1.5	-1.9	-1.7	-1.5	-1.7	-1.9	-1.3	-1.6
Debt Held by the Public at the End of the Year	73.6	75.6	75.7	75.7	76.7	77.8	78.8	80.3	81.7	82.8	84.3	86.1	n.a.	n.a.

Source: Congressional Budget Office.

GDP = gross domestic product; n.a. = not applicable.

a. Excludes net interest.

CBO's current projections for the coming decade show a significant increase in deficits since its previous publication of 10-year projections, in August 2015.⁴ Deficits under current law are now projected to total \$8.6 trillion, or 3.8 percent of GDP, between 2016 and 2025 (which was the 10-year projection period that CBO used last year); in August, projected deficits for that period were about \$1.5 trillion and 0.8 percentage points of GDP below the agency's current projection. Almost half of that change results from recently enacted legislation, primarily the Consolidated Appropriations Act, 2016 (P.L. 114-113), the Fixing America's Surface Transportation Act (also called the FAST Act, P.L. 114-94), the Bipartisan Budget Act of 2015, and the National Defense Authorization Act for Fiscal Year 2016 (P.L. 114-92). (The effects of those new laws are discussed in more detail later in this chapter and Appendix A.)

CBO's revised economic forecast accounts for nearly 30 percent of the change to the cumulative deficit since

August; other, technical, adjustments account for about 20 percent. All told, the agency has reduced its projection of revenues by 2.9 percent through 2025 and increased its projection of outlays by 0.7 percent.

Although CBO's baseline generally does not incorporate potential changes in law, this chapter shows the ways in which some alternative policies would affect the budget over the next 10 years. For example, CBO has constructed a policy alternative under which funding for discretionary programs for 2017 through 2026 is kept at the amount provided for 2016. Under that alternative, discretionary spending over the 2017–2026 period would be \$746 billion less than the amounts projected in the baseline. Other alternative policies would result in larger deficits than those in the baseline. For example, current law provides for a gradual phaseout of the ability of companies with large investments in equipment to immediately deduct some of that expense from their taxable income. If, instead, the higher expensing rate currently in place (50 percent) was made permanent, revenues over the 2018–2026 period would be \$248 billion lower than projected in the baseline. (For more details, see "Alternative Assumptions About Fiscal Policy.")

4. For CBO's previous baseline budget projections, see Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2015 to 2025* (August 2015), www.cbo.gov/publication/50724.

A Review of 2015

In fiscal year 2015, the budget deficit dropped once again, to \$439 billion—almost 10 percent less than the \$485 billion shortfall recorded in 2014 and about one-third of the \$1.4 trillion deficit recorded in 2009. Revenues rose by \$227 billion (or 8 percent) and outlays increased by \$181 billion (or 5 percent). As a percentage of GDP, the deficit dropped from 2.8 percent in 2014 to 2.5 percent in 2015. Debt held by the public increased by \$337 billion in 2015, ending up at 74 percent of GDP—slightly lower than the percentage recorded in 2014, marking the first decline in federal debt (relative to the size of the economy) since 2007. Nevertheless, debt held by the public in 2015 was more than double the amount recorded in 2007, when it equaled 35 percent of GDP.

Revenues

Total revenues increased from 17.6 percent of GDP in 2014 to 18.2 percent in 2015. Most of the increase in 2015 stemmed from collections of individual income taxes, the largest revenue source, which rose by \$146 billion (or 10 percent), from 8.1 percent of GDP in 2014 to 8.7 percent in 2015—the highest percentage of GDP since 2001. In particular:

- Nonwithheld individual income taxes rose by \$78 billion (or 16 percent), mostly as a result of increases in capital gains realizations and other nonwage income in 2014 that led to higher final tax payments for 2014 (as reflected in amounts paid with tax returns filed in 2015). In addition, increases in nonwage income in 2015 led to higher quarterly estimated payments of taxes for 2015.
- Receipts from withheld individual income taxes rose by \$70 billion (or 6 percent), primarily because of increases in wages and salaries.

Receipts from payroll and corporate income taxes also increased but remained near the same percentage of GDP in 2015 as in 2014—together totaling 7.9 percent of GDP. Receipts from payroll taxes, the second-largest revenue source, grew by \$42 billion (or 4 percent); those receipts rose largely as a result of increases in wages and salaries. Revenues from corporate income taxes increased by \$23 billion (or 7 percent), reflecting growth in taxable profits.

In addition, miscellaneous fees and fines, a much smaller source of federal revenues, increased by \$13 billion

(or 35 percent), largely because of provisions of the Affordable Care Act (ACA) that established new collections from health insurers under the reinsurance and risk adjustment programs. (Those revenues were largely offset by associated outlays.) Revenues from fees and fines increased from 0.2 percent of GDP in 2014 to 0.3 percent in 2015.

Outlays

After declining relative to GDP for the preceding three years, federal spending rose in 2015 to 20.7 percent (or \$3.7 trillion) of GDP. Mandatory spending increased in 2015; outlays for discretionary programs and net interest declined.

Mandatory Spending. Outlays for mandatory programs (including spending for many benefit programs and certain other payments to people, businesses, nonprofit institutions, and state and local governments) rose by \$200 billion (or 9.5 percent) in 2015. By comparison, mandatory outlays grew at an average annual rate of 5.4 percent during the preceding decade (between 2004 and 2014).

Social Security. Spending for Social Security totaled \$882 billion in 2015, \$37 billion (or about 4 percent) more than in 2014. Beneficiaries received a 1.7 percent cost-of-living adjustment in January (which applied to three-quarters of fiscal year 2015); the increase in the previous year was 1.5 percent. In addition, the total number of people receiving benefits increased by 1.7 percent in 2015. That increase occurred only in the Old-Age and Survivors Insurance program; the total number of Disability Insurance beneficiaries (disabled workers and their dependents) declined by about 0.5 percent in 2015.

Major Health Care Programs. In 2015, federal spending for the major health care programs—Medicare, Medicaid, the Children’s Health Insurance Program, and subsidies offered through health insurance exchanges and related spending—exceeded Social Security outlays for the first time.⁵ In total, such spending equaled \$936 billion last year, an increase of \$105 billion (or about 13 percent).

Medicaid spending, which grew by \$48 billion (or 16 percent) last year—after increasing by \$36 billion (or 14 percent) in 2014—represented the largest increase.

5. Spending for Medicare is presented net of premium payments and other offsetting receipts, unless otherwise noted.

The sharp rise over the past two years occurred mainly because of new enrollees added by the 30 states plus the District of Columbia that had adopted the optional expansion of coverage authorized by the ACA. CBO estimates that the average monthly enrollment of newly eligible Medicaid beneficiaries was 55 percent higher in 2015 than in the previous year—a total of 9.6 million compared with 6.1 million in 2014.

Similarly, subsidies for health insurance purchased through the exchanges that were established under the ACA, as well as related spending, increased by \$23 billion in 2015, to a total of \$38 billion.⁶ That growth resulted from a significant increase in the number of people purchasing coverage through the exchanges as well as the fact that the subsidies were available for the entire fiscal year.⁷ (The subsidies did not become available until January 2014, three months into fiscal year 2014.) That growth also reflects the first year of spending for the ACA's risk adjustment and transitional reinsurance programs, which together resulted in about \$9 billion in outlays in 2015; under the ACA, payments to and from the government for those programs are specified to be equal and thus have no net budgetary effect over the life of the programs.⁸

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6. Those subsidies are structured as refundable tax credits—the portions of such credits that exceed a taxpayer's other income tax liabilities are classified as outlays; the portions that reduce tax payments are classified in the budget as reductions in revenues.
 7. In the March 2015 baseline, CBO and the staff of the Joint Committee on Taxation (JCT) projected that an average of about 8 million people per month would receive exchange subsidies in 2015. Additionally, the agencies projected that about 3 million people would not be eligible for subsidies but would purchase coverage through an exchange, for a total of 11 million people enrolled in coverage through exchanges in any given month, on average. CBO and JCT now estimate that about 9.5 million people enrolled in coverage purchased through the exchanges, on average, during 2015 and that 8 million of those enrollees received subsidies.
 8. The risk adjustment program transfers resources from health insurance plans that attract a relatively small proportion of high-risk enrollees (people with serious chronic conditions, for example) to plans that attract a relatively large proportion of such people. The reinsurance program makes payments to all plans that operate in the individual insurance market whose enrollees incur particularly high costs for medical claims—that is, costs above a specified threshold and up to a certain maximum. To cover those costs, the government collects a per-enrollee assessment from most private insurance plans. The collections for both programs are recorded as revenues.

Medicare spending in 2015 (net of premiums and other offsetting receipts) rose by \$34 billion, or nearly 7 percent—the fastest rate of growth recorded for the program since 2009 (after adjusting for shifts in the timing of certain payments). Part of that increase reflected the fact that certain statutory changes that reduced the rate of growth in Medicare spending had already been implemented. Those provisions will continue to constrain Medicare spending, but to roughly the same extent each year, so they no longer reduce its rate of growth. The increase in 2015 also reflected an expansion of about 3 percent in the number of Medicare beneficiaries and an escalation in the number or cost of services furnished to those beneficiaries, particularly under Part D (which covers outpatient prescription drugs).

Fannie Mae and Freddie Mac. Payments to the Treasury from Fannie Mae and Freddie Mac fell from \$74 billion in 2014 to \$23 billion in 2015 (such payments are recorded as reductions in outlays). That decline was partially attributable to a onetime revaluation in 2014 of certain tax assets held by Freddie Mac, which boosted its payments to the Treasury by nearly \$24 billion in that year. In addition, financial institutions made fewer payments to Fannie Mae and Freddie Mac in 2015 to settle allegations of fraud in connection with residential mortgages and certain other securities. The result is that the two entities' profits were smaller in 2015, as were their remittances to the Treasury.

Higher Education. Mandatory outlays for higher education include the estimated subsidy costs for federal student loans issued in the current year, revisions to the subsidy costs of loans made in past years, and mandatory spending for the Federal Pell Grant Program. Such outlays totaled \$22 billion in 2015—amounting to a net increase of \$34 billion over outlays in 2014 (which were -\$12 billion in 2014). Outlays in 2015 were positive primarily because the Department of Education recorded a revision to the subsidy costs for past loans that resulted in an \$18 billion increase in outlays (the 2014 revision increased outlays by \$1 billion).

The estimated subsidy costs of new student loans made in 2014 and 2015 were negative; that is, over the life of those loans, the amounts expected to be received by the government are greater than the payments expected to be made by the government, as measured on a present-value basis—as required by the Federal Credit Reform Act of

1990.⁹ In particular, the interest rates charged to student loan borrowers are well above the interest rates the federal government pays on its borrowing. Even after accounting for anticipated loan defaults, the federal government expects to receive more (on a present-value basis) in loan repayments and interest than it disburses for such loans.¹⁰ However, the subsidy rates in 2015 were less negative than those used in 2014 to estimate the costs of new loans, a difference that boosted outlays in 2015 relative to those recorded in 2014.

Spectrum Auctions. Under current law, the Federal Communications Commission occasionally auctions licenses for commercial use of the electromagnetic spectrum. The auctions' receipts are recorded as reductions in mandatory outlays rather than as revenues collected by the federal government. In 2014, net receipts totaled \$1 billion for a set of licenses that were of value primarily to a single business. By contrast, the 2015 auction awarded licenses for more bandwidth, which also had more desirable characteristics, thus spurring intense competition among several large telecommunications companies. As a result, collections surged to \$30 billion last year.

Discretionary Spending. In total, discretionary outlays declined in 2015 by \$13 billion (or 1 percent). For the fourth consecutive year, defense outlays dropped, declining by \$14 billion (or 2 percent). That reduction

stemmed from lower spending from funding designated for overseas contingency operations (war-related activities, primarily in Afghanistan), which fell by roughly \$20 billion, CBO estimates; other defense spending rose by \$6 billion. Measured as a share of GDP, outlays for defense declined from 3.5 percent in 2014 to 3.3 percent in 2015. By comparison, as recently as 2010, such outlays totaled 4.7 percent of GDP.

In contrast, nondefense discretionary outlays rose slightly last year, increasing by \$1 billion (or 0.1 percent) because of relatively small increases or decreases in outlays for various programs. Such spending dipped from 3.4 percent of GDP in 2014 to 3.3 percent in 2015.

Net Interest. Outlays in this budget category totaled \$223 billion in 2015, \$6 billion (or 2 percent) less than the amount recorded in 2014. Net interest outlays consist of interest paid on Treasury securities and other interest that the government pays minus the interest that it collects from various sources. The reduction in 2015 resulted primarily from a lower rate of inflation (relative to the rate in 2014), which resulted in smaller adjustments to the principal of inflation-protected securities. Because interest rates remained very low by historical standards, total outlays for net interest in 2015 were similar, in dollar terms, to those recorded 15 to 20 years ago, when federal debt was much smaller.

The Budget Outlook for 2016

If the laws that govern taxes and spending remain unchanged in fiscal year 2016, CBO projects, the budget deficit will increase by \$105 billion, to \$544 billion (see Table 1-2). At 2.9 percent of GDP, this year's deficit will be close to the 50-year average of 2.8 percent. Part of the increase in the deficit is attributable to a shift in the timing of some benefit payments from 2017 into 2016. Because October 1, 2016, falls on a weekend, certain payments that are due on that day will instead be made at the end of September, thus shifting them into fiscal year 2016. Without that shift, CBO estimates, the deficit would amount to \$500 billion in 2016, or 2.7 percent of GDP.

The anticipated increase in the budget shortfall in 2016 would reverse a six-year trend of shrinking deficits. CBO estimates that revenues will increase by about 4 percent in 2016 (about half the rate of increase recorded in 2015), but that outlays will rise by 6 percent, a full percentage

9. Under that act, a program's subsidy costs are calculated by subtracting the discounted present value of the government's projected receipts from the discounted present value of its projected payments. The estimated subsidy costs can be increased or decreased in subsequent years to reflect updated assessments of the payments and receipts associated with the program. Present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) today. The present value depends on the rate of interest (the discount rate) that is used to translate future cash flows into current dollars.

10. Under an alternative approach to valuing federal subsidy costs, called the fair-value approach, estimates are based on market values—market prices when those prices are available or approximations of market prices when directly comparable figures are unavailable—which more fully account for the cost of the risk the government takes on. In 2014, CBO estimated that accounting for student loan programs on a fair-value basis would show a net cost for those programs and substantially increase the estimated subsidy costs over the following 10 years. For further discussion of the fair-value approach, see Congressional Budget Office, *Fair-Value Accounting for Federal Credit Programs* (March 2012), www.cbo.gov/publication/43027.

Table 1-2.

CBO's Baseline Budget Projections

	Actual,												Total	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-	2017-
In Billions of Dollars														
Revenues														
Individual income taxes	1,541	1,621	1,739	1,827	1,902	1,987	2,084	2,184	2,292	2,406	2,529	2,657	9,539	21,608
Payroll taxes	1,065	1,101	1,143	1,182	1,222	1,264	1,314	1,365	1,417	1,471	1,531	1,593	6,126	13,503
Corporate income taxes	344	327	348	353	358	391	391	397	402	410	421	434	1,842	3,907
Other	299	327	280	272	264	274	287	298	310	322	337	351	1,376	2,993
Total	3,249	3,376	3,511	3,633	3,747	3,917	4,076	4,244	4,421	4,610	4,818	5,035	18,883	42,010
On-budget	2,478	2,580	2,682	2,774	2,859	2,999	3,126	3,260	3,401	3,552	3,720	3,895	14,441	32,269
Off-budget ^a	770	796	829	859	888	917	949	984	1,020	1,058	1,098	1,139	4,442	9,741
Outlays														
Mandatory	2,299	2,466	2,558	2,633	2,825	2,981	3,143	3,375	3,500	3,622	3,875	4,142	14,140	32,653
Discretionary	1,165	1,198	1,206	1,203	1,222	1,248	1,274	1,307	1,332	1,358	1,397	1,429	6,152	12,975
Net interest	223	255	308	369	438	498	551	607	666	719	772	830	2,165	5,759
Total	3,687	3,919	4,072	4,206	4,485	4,727	4,968	5,288	5,498	5,699	6,044	6,401	22,458	51,388
On-budget	2,944	3,147	3,258	3,343	3,563	3,741	3,914	4,158	4,291	4,411	4,668	4,932	17,818	40,278
Off-budget ^a	743	772	814	863	922	986	1,055	1,130	1,207	1,288	1,376	1,469	4,640	11,110
Deficit (-) or Surplus	-439	-544	-561	-572	-738	-810	-893	-1,044	-1,077	-1,089	-1,226	-1,366	-3,575	-9,378
On-budget	-466	-567	-576	-569	-704	-741	-787	-899	-890	-859	-948	-1,036	-3,377	-8,010
Off-budget ^a	27	23	15	-4	-34	-69	-105	-146	-187	-230	-278	-330	-197	-1,369
Debt Held by the Public	13,117	13,978	14,613	15,244	16,033	16,886	17,813	18,891	20,003	21,129	22,399	23,817	n.a.	n.a.
Memorandum:														
Gross Domestic Product	17,810	18,494	19,297	20,127	20,906	21,710	22,593	23,528	24,497	25,506	26,559	27,660	104,632	232,382
As a Percentage of Gross Domestic Product														
Revenues														
Individual income taxes	8.7	8.8	9.0	9.1	9.1	9.2	9.2	9.3	9.4	9.4	9.5	9.6	9.1	9.3
Payroll taxes	6.0	6.0	5.9	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.9	5.8
Corporate income taxes	1.9	1.8	1.8	1.8	1.7	1.8	1.7	1.7	1.6	1.6	1.6	1.6	1.8	1.7
Other	1.7	1.8	1.5	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total	18.2	18.3	18.2	18.1	17.9	18.0	18.0	18.0	18.0	18.1	18.1	18.2	18.0	18.1
On-budget	13.9	13.9	13.9	13.8	13.7	13.8	13.8	13.9	13.9	13.9	14.0	14.1	13.8	13.9
Off-budget ^a	4.3	4.3	4.3	4.3	4.2	4.2	4.2	4.2	4.2	4.1	4.1	4.1	4.2	4.2
Outlays														
Mandatory	12.9	13.3	13.3	13.1	13.5	13.7	13.9	14.3	14.3	14.2	14.6	15.0	13.5	14.1
Discretionary	6.5	6.5	6.2	6.0	5.8	5.7	5.6	5.6	5.4	5.3	5.3	5.2	5.9	5.6
Net interest	1.3	1.4	1.6	1.8	2.1	2.3	2.4	2.6	2.7	2.8	2.9	3.0	2.1	2.5
Total	20.7	21.2	21.1	20.9	21.5	21.8	22.0	22.5	22.4	22.3	22.8	23.1	21.5	22.1
On-budget	16.5	17.0	16.9	16.6	17.0	17.2	17.3	17.7	17.5	17.3	17.6	17.8	17.0	17.3
Off-budget ^a	4.2	4.2	4.2	4.3	4.4	4.5	4.7	4.8	4.9	5.1	5.2	5.3	4.4	4.8
Deficit (-) or Surplus	-2.5	-2.9	-2.9	-2.8	-3.5	-3.7	-4.0	-4.4	-4.4	-4.3	-4.6	-4.9	-3.4	-4.0
On-budget	-2.6	-3.1	-3.0	-2.8	-3.4	-3.4	-3.5	-3.8	-3.6	-3.4	-3.6	-3.7	-3.2	-3.4
Off-budget ^a	0.2	0.1	0.1	*	-0.2	-0.3	-0.5	-0.6	-0.8	-0.9	-1.0	-1.2	-0.2	-0.6
Debt Held by the Public	73.6	75.6	75.7	75.7	76.7	77.8	78.8	80.3	81.7	82.8	84.3	86.1	n.a.	n.a.

Source: Congressional Budget Office.

n.a. = not applicable; * = between -0.05 percent and zero.

a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

point faster than last year. A number of factors are responsible for those changes. After several years in which revenues grew faster than GDP—because of the economic recovery, among other circumstances—CBO now projects that in 2016 (and for the remainder of the projection period), revenue growth will be roughly in line with GDP. Receipts from individual income taxes are expected to grow more slowly in 2016 than in 2015 in part because rapid growth in nonwage income, especially capital gains realizations and business income, is not expected to continue. In addition, corporate income tax receipts are expected to decline this year for the first time since 2011, largely as a result of recently enacted tax legislation.

On the outlay side, this year's higher caps on discretionary funding will cause discretionary outlays to rise (after falling last year). In addition, net interest outlays are anticipated to increase rapidly in 2016 (after also falling last year), primarily because of higher interest rates. Mandatory spending is projected to continue to increase in 2016, although at a slower pace than in 2015 (the reasons are discussed below).

Revenues

CBO projects that if current laws remain unchanged, revenues will increase by \$127 billion in 2016, reaching \$3.4 trillion and edging up to 18.3 percent of GDP. Receipts of individual income taxes are expected to increase by about \$80 billion, from 8.7 percent of GDP to 8.8 percent. The largest source of the rise relative to GDP is continued economic growth, which causes people's income, in the aggregate, to rise faster than the rate of inflation. The inflation rate is used to adjust the tax brackets each year, and when incomes rise faster than inflation, more income is pushed into higher tax brackets (a phenomenon known as real bracket creep).

In the other direction, corporate tax receipts are expected to fall by \$17 billion in 2016, from 1.9 percent of GDP in 2015 to 1.8 percent this year, largely because of provisions in the Consolidated Appropriations Act, 2016, that extended, retroactively to the beginning of calendar year 2015, several expired tax provisions that reduce corporate (and individual) income taxes.

CBO expects remittances from the Federal Reserve to increase by \$16 billion in 2016, from 0.5 percent of GDP to 0.6 percent, because of a provision in the FAST Act that requires the Federal Reserve to remit most of its surplus account to the Treasury.

Outlays

In the absence of changes to laws governing federal spending, CBO estimates, outlays in 2016 will total \$3.9 trillion, \$232 billion more than in 2015. Outlays are projected to total 21.2 percent of GDP this year, about 0.5 percentage points above the percentage recorded in 2015.

Outlays in 2016 will be boosted, however, by the shift in timing of some payments from fiscal year 2017 to 2016 (because October 1, 2016, falls on a weekend). If not for that shift, CBO estimates, outlays in 2016 would increase by \$189 billion (or 5.1 percent)—still faster than the 4.3 percent average annual rate of growth between 2004 and 2014—and would equal 21.0 percent of GDP.

Mandatory Spending. Under current law, spending for mandatory programs will rise by \$168 billion (or 7.3 percent) in 2016, CBO estimates, amounting to 13.3 percent of GDP, up from the 12.9 percent recorded in 2015. Without the shift in the timing of some payments, mandatory spending would grow by \$129 billion (or 5.6 percent) and equal 13.1 percent of GDP. The largest year-over-year changes are as follows:

Social Security. CBO anticipates that, under current law, Social Security outlays will increase by \$28 billion (or 3.2 percent) in 2016, a slower rate of increase than in 2015, primarily because there will be no cost-of-living adjustment for beneficiaries in 2016 (beneficiaries received a cost-of-living increase in 2015). The number of Social Security beneficiaries is projected to grow by 1.7 percent this year, about the same as the increase in 2015.

Major Health Care Programs. Outlays for the federal government's major health care programs will increase by \$104 billion (or 11.1 percent) this year, CBO estimates. That amount overstates underlying growth in the major health care programs, however, because it reflects a \$24 billion shift in the timing of certain Medicare payments from 2017 into 2016. After adjusting for those payments, CBO anticipates that spending for the major health care programs will rise by \$80 billion (or 8.6 percent) in 2016, compared with \$105 billion (or 12.6 percent) last year.

Medicaid spending is expected to increase by \$31 billion (or 8.8 percent) in 2016; the projected rate of growth in outlays is a little over half the average rate of growth recorded over the two previous years, primarily because

the optional expansion of coverage authorized by the ACA will have been in place for two years and the rapid growth in enrollment that occurred during the initial stage of the expansion will have begun to moderate. CBO projects that under current law, total enrollment in the program will increase by about 2 percent in 2016, about a third of the rate of increase in 2015.

Similarly, subsidies that help people who meet income and other eligibility criteria to purchase health insurance through exchanges and to meet their cost-sharing requirements, along with related spending, are expected to increase by \$18 billion in 2016, reaching a total of \$56 billion. The higher spending reflects an anticipated increase in the number of people expected to receive subsidies for coverage purchased through exchanges. CBO and the staff of the Joint Committee on Taxation (JCT) estimate that about 11 million people will receive exchange subsidies, on average, during calendar year 2016, compared with an average of 8 million in 2015. Additionally, the agencies project that about 2 million other people will purchase coverage through an exchange but will not be eligible for subsidies—for a total of 13 million people, on average, enrolled in policies purchased through exchanges.

The enrollment projections used in this report for estimating exchange subsidies authorized by the ACA have been updated to reflect available information about developments in 2016, but, other than to incorporate the effects of enacted legislation, projections for years after 2016 have not been updated since March 2015. CBO will revise those projections for its next baseline, to be published in March 2016.¹¹

Spending for Medicare (net of premiums and other offsetting receipts and adjusted for shifts in the timing of certain payments) will rise by \$28 billion, or 5.2 percent, in 2016, CBO projects. That growth is below last year's rate of 6.8 percent primarily because of higher premium receipts, on net, resulting from provisions of the Bipartisan Budget Act of 2015 and other legislation that modified

Part B premiums for certain Medicare beneficiaries in calendar year 2016.

Higher Education. Reflecting the negative subsidy rates estimated for new student loans, CBO projects that mandatory outlays will total –\$6 billion in 2016, compared with \$22 billion in 2015. That \$28 billion reduction will occur in part because in 2015 the Department of Education recorded a revision to the subsidy costs for past loans that resulted in an \$18 billion increase in outlays; no such revision has yet been recorded in 2016, and CBO has no basis for predicting what revision, if any, might be made this year. Moreover, the estimated subsidy rates in 2016 are slightly more negative than those used in 2015 to estimate the costs of new loans.

Receipts From Spectrum Auctions. In 2015, net offsetting receipts from the auctioning of licenses to use a portion of the electromagnetic spectrum—which are recorded as offsets to mandatory outlays—reduced outlays by \$30 billion. A portion of the winning bids from the 2015 auction will reduce outlays in 2016 by \$11 billion. That difference will boost outlays in 2016 by \$19 billion relative to spending in 2015. Although the Federal Communications Commission plans to conduct another large auction in 2016, the receipts for those licenses will not be recorded in the budget until 2017.

Discretionary Spending. Discretionary budget authority enacted for 2016 totals \$1,168 billion, \$53 billion (or 4.7 percent) more than such funding in 2015: Defense funding has increased by \$21 billion (or 3.6 percent), and budget authority for nondefense discretionary programs has risen by \$32 billion (or 5.9 percent). If no additional appropriations are enacted for this year, discretionary outlays also will rise—by \$32 billion (or 2.8 percent) from the 2015 amounts, CBO projects.

Although funding for defense programs increased by \$21 billion in 2016, CBO estimates that outlays (adjusted for shifts in the timing of certain payments) will rise by only \$3 billion (or 0.4 percent) because slower-spending accounts (primarily for procurement, but also for research and development) received increases in budget authority whereas some faster-spending accounts (such as those for operations and maintenance) received less funding than they did a year ago. Outlays from funding designated for overseas contingency operations will drop by roughly \$5 billion (after declining by about \$20 billion in 2015) but all other defense spending will

11. Because of the complexity of the analysis involved, CBO and JCT generally produce one major update per year to those projections, which is incorporated into each year's March baseline and used as the basis for cost estimates for the remainder of the year. More discussion of the changes since August 2015 in CBO's projections for subsidies offered through health insurance exchanges is included in Appendix A; Chapter 3 presents a more detailed discussion of CBO's current baseline projections for such spending over the 2016–2026 period.

rise by about \$8 billion.¹² CBO estimates that defense outlays will total \$589 billion in 2016.

Outlays for nondefense programs are expected to rise by \$26 billion (or 4.4 percent) this year, to a total of \$609 billion. Nearly a quarter of that increase results from lower estimates of receipts credited to the Federal Housing Administration because of a lower negative subsidy rate for mortgage guarantees and an expected decline in the dollar volume of new guarantees in 2016. Because such receipts are recorded as reductions in discretionary outlays, the decline in estimated receipts causes overall spending for nondefense programs to increase. The remaining amount is the result of several relatively small increases to various programs.

Net Interest. CBO estimates that outlays for net interest will rise by \$32 billion (or 14 percent) in 2016, to \$255 billion. Although interest rates on securities issued by the Treasury are expected to remain very low by historical standards, they probably will rise over the course of the year. Those higher rates, along with a larger amount of debt, will boost interest payments, which will edge up to 1.4 percent of GDP in 2016, CBO estimates (still well below their 50-year average of 2.0 percent).

CBO's Baseline Budget Projections for 2017 to 2026

CBO constructs its baseline in accordance with provisions set forth in the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) and the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344). For the most part, those laws require that the agency's baseline projections incorporate the assumption that current laws governing taxes and spending in future years remain in place. Under that assumption for constructing CBO's baseline, the budget deficit is projected to remain just under 3.0 percent of GDP through 2018. After that, however, the deficit generally increases each year as a share of the economy, reaching 4.9 percent of GDP by 2026.

The pattern of stable deficits through 2018 is largely attributable to shifts in the timing of certain payments from one fiscal year to another because certain scheduled

payment dates fall on weekends; without those shifts, the deficit would rise in each year of the projection period. Although revenues are projected to remain roughly flat as a share of GDP, outlays are projected to increase each year, driven by the aging of the population, the rising costs of health care, and increasing interest payments.¹³

Revenues

From 2017 through 2026, revenues in CBO's baseline remain between 17.9 percent and 18.2 percent of GDP, largely reflecting offsetting movements in individual and corporate income taxes, payroll taxes, and remittances from the Federal Reserve.

Individual income taxes are projected to generate increasing revenues, relative to the size of the economy, growing from 8.8 percent of GDP in 2016 to 9.6 percent in 2026 (see Figure 1-2). That change stems most significantly from real bracket creep. In addition, taxable distributions from tax-deferred retirement accounts are expected to grow more rapidly than GDP in coming years as the population ages. Also, earnings from wages and salaries are expected to continue the recent trend of increasing faster for higher-income people than for others, causing a larger share of income to be subject to higher income tax rates and, therefore, further increasing revenues.

Because of the changing wage distribution, however, a growing share of people's wages and salaries moves above the maximum annual amount that is subject to the Social Security tax (currently \$118,500 for an individual taxpayer). That trend will reduce receipts from payroll taxes relative to GDP—by about three-fifths of the increase in income taxes stemming from the changing distribution. As a result, payroll tax receipts are projected to decline from 6.0 percent of GDP in 2016 to 5.8 percent by 2026.

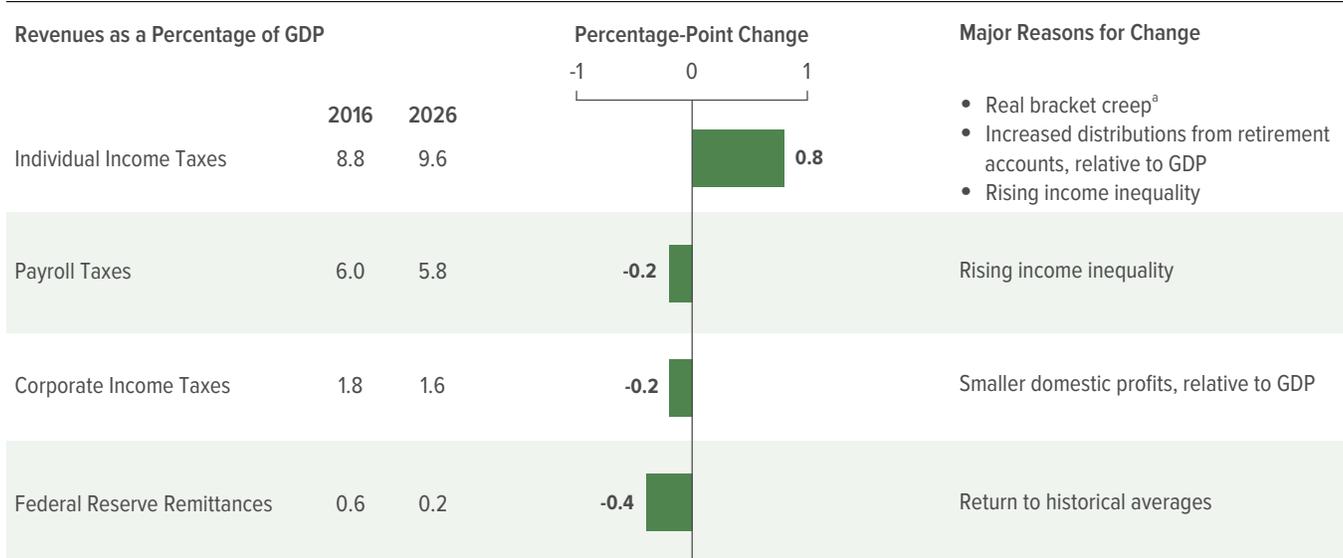
Remittances from the Federal Reserve, which have been quite high by historical standards since 2010, also are projected to decline relative to the size of the economy, primarily because of changes in the size and composition of the central bank's portfolio of securities. In CBO's

12. Funding provided to the Department of Defense in 2016 for overseas contingency operations includes some amounts that are intended to be used for regular activities.

13. Because October 1 will fall on a weekend in 2016, 2017, 2022, and 2023, certain payments that are due on those days will instead be made at the end of September, thus shifting them into the previous fiscal year. Those shifts noticeably boost projected deficits in fiscal years 2016 and 2022 but reduce them in fiscal years 2018 and 2024.

Figure 1-2.

Major Changes in Projected Revenues From 2016 to 2026



Source: Congressional Budget Office.

GDP = gross domestic product.

a. Real bracket creep occurs when more income is pushed into higher tax brackets because people’s incomes are rising faster than inflation.

baseline projections, those receipts fall to more typical levels, dropping from 0.6 percent of GDP in 2016 to about 0.2 percent of GDP for the 2018–2026 period.

CBO projects a decline in corporate income tax receipts, from 1.8 percent of GDP in 2016 to 1.6 percent by 2026, largely because of an anticipated drop in domestic economic profits relative to GDP. Profits are expected to decline because of rising labor costs and rising interest payments on businesses’ debt over the next several years, and because, in later years, CBO projects that nonlabor income will grow less rapidly than output, reversing an unusual trend seen since 2000.

Outlays

The Deficit Control Act requires CBO’s projections for most mandatory programs to be made in keeping with the assumption that current laws continue unchanged.¹⁴ Thus, CBO’s baseline projections for mandatory spending reflect expected changes in the economy, demographics, and other factors, as well as the across-the-board reductions in certain mandatory programs that are required under current law. CBO’s baseline incorporates the caps on discretionary funding that are currently in place through 2021 and then reflects the assumption that such funding keeps pace with inflation in later years.

Those elements of discretionary funding that are not constrained by the caps established by the Budget Control Act of 2011—for example, the appropriations designated for overseas contingency operations—are assumed to keep pace with inflation throughout the next decade. On that basis, total outlays in CBO’s baseline are projected to increase relative to GDP in most years through 2026—averaging 22.1 percent over the decade, which is about 2 percentage points above the 50-year average.¹⁵

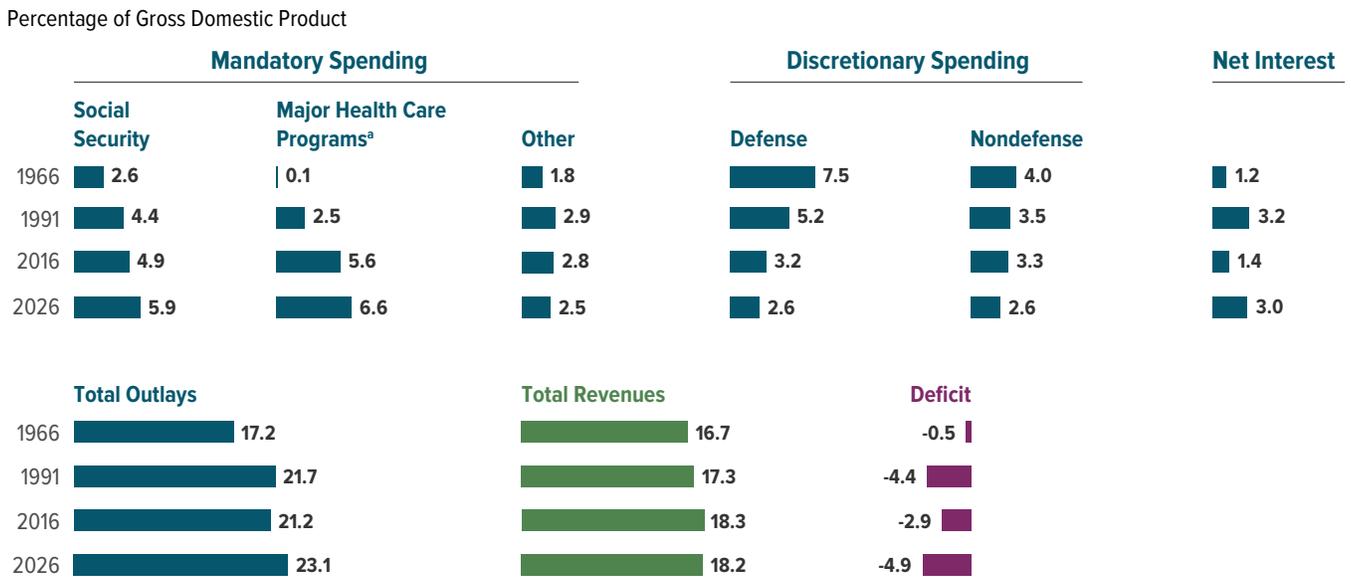
Mandatory spending (net of offsetting receipts and adjusted for shifts in the timing of certain payments) is projected to increase by 5 percent in 2017 and grow by an average of about 6 percent annually after that, reaching

14. The Deficit Control Act specifies some exceptions. For example, spending programs whose authorizations are set to expire are assumed to continue if they have outlays of more than \$50 million in the current year and were established at or before enactment of the Balanced Budget Act of 1997 (P.L. 105-33). Programs established after that law was enacted are not automatically assumed to continue but are considered individually by CBO in consultation with the House and Senate Budget Committees.

15. Without the shifts in the timing of certain payments, outlays would increase relative to GDP in each year of the projection period, CBO estimates.

Figure 1-3.

Spending and Revenues Projected in CBO’s Baseline, Compared With Actual Values in 1966 and 1991



Source: Congressional Budget Office.

a. Consists of Medicare (net of premiums and other offsetting receipts), Medicaid, the Children’s Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending.

15.0 percent of GDP in 2026 (compared with 12.9 percent in 2015). In particular, because of the aging of the population and rising health care costs, outlays for Social Security and the federal government’s major health care programs are projected to rise substantially relative to the size of the economy over the next 10 years (see Figure 1-3). In addition, growing debt and rising interest rates will boost net interest payments. Specifically, in CBO’s baseline:

- Outlays for Social Security are projected to increase from 4.9 percent of GDP in 2016 to 5.9 percent of GDP by 2026.
- Outlays for the major health care programs—Medicare, Medicaid, the Children’s Health Insurance Program, and subsidies offered through health insurance exchanges and related spending—are estimated to total 5.5 percent of GDP in 2016 and to grow rapidly in ensuing years, reaching 6.6 percent of GDP in 2026. (Medicare accounts for roughly three-quarters of that growth; the estimates here are adjusted for shifts in the timing of certain payments.)
- Net interest payments are anticipated to increase from 1.4 percent of GDP in 2016 to 3.0 percent of GDP in 2026—the highest ratio since 1996. Two factors drive

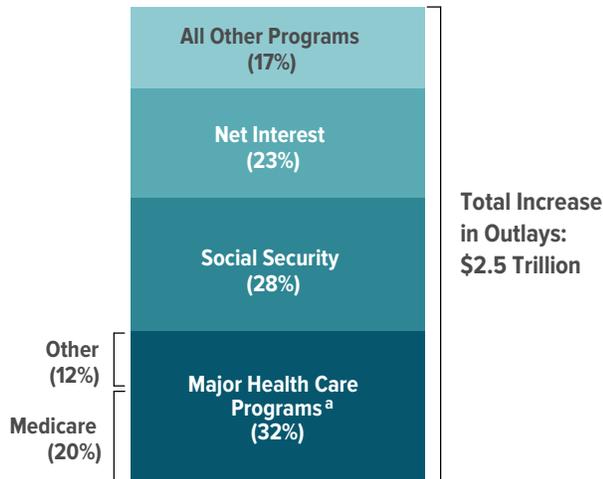
that sharp increase: rising interest rates and growing debt. The interest rate paid on 3-month Treasury bills is anticipated to increase from around 1 percent at the beginning of 2017 to 3.2 percent by mid-2019 (and remain there through 2026); and the interest rate on 10-year Treasury notes is projected to rise from around 3 percent early in 2017 to 4.1 percent by late 2019 (and remain there through 2026). Meanwhile, debt held by the public is projected to increase from 75.6 percent of GDP at the end of 2016 to 86.1 percent at the end of 2026.

Those three components of the budget account for 83 percent of the total increase in outlays over the coming decade and would be the largest categories of spending in the budget by the end of that period (see Figure 1-4). Social Security and Medicare alone account for nearly half of the total increase.

In contrast, CBO projects that under current law, all other spending (adjusted for shifts in the timing of certain payments) decreases from 9.2 percent of GDP in 2016 to 7.7 percent in 2026. That decline is projected to occur in part because spending for many of the other mandatory programs is expected to rise roughly with inflation (which itself is projected to be well below the rate of growth of nominal GDP). In addition, most

Figure 1-4.

Components of the Total Increase in Outlays in CBO's Baseline Between 2016 and 2026



Source: Congressional Budget Office.

Because October 1, 2016, falls on a weekend, certain payments that are due on that day will instead be made at the end of September, thus shifting them into fiscal year 2016. The data shown here are adjusted for the effects of those shifts.

a. Consists of Medicare (net of premiums and other offsetting receipts), Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending.

discretionary funding is capped through 2021 at amounts that increase more slowly than the growth of the economy. As a result, projected spending for defense and non-defense discretionary programs grows relatively slowly and falls relative to GDP under CBO's baseline assumptions. Discretionary outlays (adjusted for shifts in the timing of certain payments) are estimated to increase by 1.0 percent in 2017 and then to grow at an average rate of 1.9 percent between 2018 and 2026; that rate is less than half of the projected growth rate of nominal GDP, and as a result, discretionary outlays would drop from 6.5 percent of GDP in 2016 to 5.2 percent in 2026.

Outlays for defense, which account for about half of discretionary outlays, are projected to drop from 3.2 percent of GDP in 2016 to 2.6 percent in 2026, 2.3 percentage points below the average from 1966 to 2015 and the lowest share in any year since 1962 (the earliest year for which such data have been reported). Spending for non-defense discretionary programs is projected to drop from 3.3 percent of GDP in 2016 to 2.6 percent in 2026, 1.2 percentage points below the average from 1966 to 2015 and also the lowest share in any year since 1962.

Federal Debt

Federal debt held by the public consists mostly of the securities that the Treasury issues to raise cash to fund the federal government's activities and to pay off its maturing liabilities.¹⁶ The Treasury borrows money from the public by selling securities in the capital markets; that debt is purchased by various buyers in the United States, by private investors overseas, and by the central banks of other countries. Of the \$13.1 trillion in federal debt held by the public at the end of 2015, 54 percent (\$7.0 trillion) was held by domestic investors and 46 percent (\$6.1 trillion) was held by foreign investors.¹⁷ Other measures of federal debt are sometimes used for various purposes, such as to provide a more comprehensive picture of the government's financial condition or to account for debt held by federal trust funds.

Debt Held by the Public. Under the assumptions that govern CBO's baseline, the federal government is projected to borrow \$9.8 trillion from the end of 2016 through 2026, boosting debt held by the public to 86 percent of GDP by the end of the projection period (see Table 1-3).

That amount of debt relative to the size of the economy would be the greatest since 1947 and more than double the 50-year average of 39 percent. By historical standards, debt that high—and heading higher—would have significant negative consequences for the budget and the economy.

The amount that the Treasury borrows by selling securities (net of the maturing securities it redeems) is determined primarily by the annual budget deficit. However, several factors—collectively labeled “other means of financing” and not directly included in budget totals—also affect the government's need to borrow from the public. Those factors include changes in the government's cash balance and investments in the Thrift Savings Plan's G Fund, as well as the cash flows associated with federal credit programs (such as student loans), because only the

16. A small amount of debt held by the public is issued by other agencies, mainly the Tennessee Valley Authority.

17. The largest U.S. holders of Treasury debt are the Federal Reserve System (21 percent), individual households (9 percent), and mutual funds (8 percent); investors in China and Japan have the largest foreign holdings of Treasury securities, accounting for nearly 20 percent of U.S. public debt. For additional information, see Congressional Budget Office, *Federal Debt and Interest Costs* (December 2010), Chapter 1, www.cbo.gov/publication/21960.

Table 1-3.

Federal Debt Projected in CBO's Baseline

Billions of Dollars

	Actual, 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Debt Held by the Public at the Beginning of the Year	12,779	13,117	13,978	14,613	15,244	16,033	16,886	17,813	18,891	20,003	21,129	22,399
Changes in Debt Held by the Public												
Deficit	439	544	561	572	738	810	893	1,044	1,077	1,089	1,226	1,366
Other means of financing	-102	318	74	58	51	43	34	33	35	36	44	52
Total	337	862	635	630	789	853	927	1,078	1,112	1,126	1,270	1,418
Debt Held by the Public at the End of the Year	13,117	13,978	14,613	15,244	16,033	16,886	17,813	18,891	20,003	21,129	22,399	23,817
Debt Held by the Public at the End of the Year (As a percentage of GDP)	73.6	75.6	75.7	75.7	76.7	77.8	78.8	80.3	81.7	82.8	84.3	86.1
Memorandum:												
Debt Held by the Public Minus Financial Assets ^a												
In billions of dollars	11,755	12,501	13,042	13,593	14,309	15,096	15,965	16,985	18,037	19,100	20,300	21,641
As a percentage of GDP	66.0	67.6	67.6	67.5	68.4	69.5	70.7	72.2	73.6	74.9	76.4	78.2
Gross Federal Debt ^b	18,143	19,332	20,093	20,864	21,737	22,635	23,574	24,649	25,745	26,834	28,003	29,314
Debt Subject to Limit ^c	18,113	19,301	20,062	20,833	21,706	22,603	23,542	24,617	25,712	26,801	27,970	29,280
Average Interest Rate on Debt Held by the Public (Percent) ^d	1.7	1.8	2.1	2.4	2.7	2.9	3.1	3.2	3.3	3.4	3.4	3.5

Source: Congressional Budget Office.

GDP = gross domestic product.

- Debt held by the public minus the value of outstanding student loans and other credit transactions, cash balances, and other financial instruments.
- Federal debt held by the public plus Treasury securities held by federal trust funds and other government accounts.
- The amount of federal debt that is subject to the overall limit set in law. Debt subject to limit differs from gross federal debt mainly because most debt issued by agencies other than the Treasury and the Federal Financing Bank is excluded from the debt limit. That limit was most recently set at \$18.4 trillion but has been suspended through March 15, 2017. On March 16, 2017, the debt limit will be raised to its previous level plus the amount of federal borrowing that occurred while the limit was suspended.
- The average interest rate is calculated as net interest divided by debt held by the public.

subsidy costs of those programs (calculated on a present-value basis) are reflected in the budget deficit.

For two main reasons, CBO projects that the increase in debt held by the public will exceed the \$544 billion deficit in 2016 by \$318 billion. First, the Treasury has reinvested the Thrift Savings Plan's G Fund in Treasury securities after having disinvested about \$200 billion in 2015 as a result of debt-ceiling constraints.¹⁸ Second, the government's need for cash to finance new student loans and other credit programs will boost the debt by roughly \$90 billion in 2016. The subsidy costs for those credit

programs are part of the projected deficit for each year from 2017 to 2026, but the cash outlays needed to finance those programs each year are greater than the net subsidy costs, which are calculated on a present-value basis; CBO estimates that the government will need to borrow between \$30 billion and \$75 billion more per year during that period than the budget deficits would suggest.

Other Measures of Federal Debt. Three other measures are sometimes used in reference to federal debt:

- *Debt held by the public minus financial assets* subtracts from debt held by the public the value of the government's financial assets, such as student loans. That measure provides a more comprehensive picture of the government's financial condition and its overall impact on credit markets than does debt held by the public. Calculating that measure is not straightforward, however, because neither the financial assets to be included nor the methods for evaluating them are well defined. Under CBO's baseline assumptions, that measure is roughly 10 percent smaller than debt alone but varies roughly in line with it.
- *Gross federal debt* consists of debt held by the public and debt issued to government accounts (for example, the Social Security trust funds). The latter type of debt does not directly affect the economy and has no net effect on the budget. In CBO's projections, debt held by the public increases by \$9.8 trillion between the end of 2016 and the end of 2026, and debt held by government accounts rises by \$0.1 trillion. As a result, gross federal debt is projected to rise by \$10.0 trillion over that period and to total \$29.3 trillion at the end of 2026. About one-fifth of that sum would be debt held by government accounts.
- *Debt subject to limit* is the amount of debt that is subject to the statutory limit on federal borrowing; it differs from gross federal debt mainly because most debt issued by agencies other than the Treasury and the Federal Financing Bank is included in gross debt but excluded from the debt limit. Currently, there is no statutory limit on the issuance of new federal debt because the Bipartisan Budget Act of 2015 suspended the debt ceiling from November 2, 2015, through March 15, 2017. In the absence of any legislative action on the debt limit before the suspension ends, the amount of borrowing accumulated during that period will be added to the previous debt limit of \$18.1 trillion on March 16, 2017. In CBO's baseline

projections, the amount of outstanding debt subject to limit increases from \$19.3 trillion at the end of 2016 to \$29.3 trillion at the end of 2026. (For the purpose of those projections, CBO assumes that increases in the statutory ceiling will occur as necessary.)

Changes in CBO's Baseline Since August 2015

CBO completed its previous set of baseline projections in August 2015. Since then, the agency has increased its estimate of the deficit in 2016 by \$130 billion and its baseline projection of the cumulative deficit from 2016 through 2025 by \$1.5 trillion—from \$7.0 trillion to \$8.6 trillion—mostly because of a decline in its projections of revenues (see Table 1-4). Several factors led to those changes: Legislation enacted since last August was the largest factor, and it caused CBO to increase its deficit projection through 2025 by \$749 billion; a revised economic outlook raised that projection by \$437 billion; and other, technical, changes increased the projection by \$363 billion. (For additional details about those changes, see Appendix A.)

Changes Attributable to Legislation

CBO has lowered its revenue projections by \$425 billion over the 2016–2025 period as a result of legislation enacted since August. The largest effect on revenues stemmed from the Consolidated Appropriations Act, 2016, which, among other changes, retroactively and prospectively extended several provisions reducing corporate and individual income taxes that had expired at the end of calendar year 2014. According to estimates by JCT, the largest such reductions in revenues over the 2016–2025 period stem from permanent extensions of the research and experimentation tax credit (in modified form); the ability of businesses to defer certain foreign financing income; the ability of businesses with relatively small amounts of investment to immediately deduct all such investment (in modified form); and the option for individuals to take an itemized deduction for state and local sales taxes instead of state and local income taxes.

Also as a result of legislation, CBO has increased its projection of total outlays for the 2016–2025 period by \$324 billion. Changes to refundable income tax credits—primarily as a result of provisions contained in the Consolidated Appropriations Act, 2016, to permanently extend the American Opportunity Tax Credit and also to extend the expansions of the earned income tax credit and the child tax credit—increased mandatory outlays by \$154 billion. Also, discretionary spending in the baseline rose, on net, by \$56 billion because of legislation,

18. The Thrift Savings Plan is a retirement program, similar to a 401(k) plan, for federal civilian employees and members of the uniformed services. One component of that plan, the G Fund, is invested entirely in Treasury securities. Because the amount of outstanding debt in March 2015 reached the statutory ceiling, the Treasury had no room to continue borrowing under its standard procedures. In response, the Treasury disinvested participants' savings in the G Fund, as permitted by law. The Bipartisan Budget Act of 2015 suspended the debt ceiling on November 2, 2015, thus allowing the Treasury the ability to fully restore the securities to the G Fund.

Table 1-4.

Changes in CBO's Baseline Projections of the Deficit Since August 2015

Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total	
											2016-	2016-
											2020	2025
Deficit in CBO's August 2015 Baseline	-414	-416	-454	-596	-687	-767	-885	-895	-886	-1,008	-2,566	-7,007
Changes												
Legislative												
Revenues	-134	-91	-62	-48	-8	8	-7	-19	-29	-36	-343	-425
Outlays	30	31	16	31	35	37	39	42	45	17	143	324
Subtotal	-164	-123	-78	-78	-43	-29	-46	-61	-74	-53	-487	-749
Economic												
Revenues	-33	-39	-40	-53	-67	-82	-95	-108	-120	-132	-233	-771
Outlays	-16	-23	-32	-34	-37	-36	-37	-38	-42	-40	-142	-334
Subtotal	-17	-16	-9	-19	-30	-46	-58	-69	-79	-93	-92	-437
Technical												
Revenues	28	13	6	1	-12	-15	-13	-13	-13	-14	37	-30
Outlays	-23	20	37	46	38	36	42	39	39	59	118	333
Subtotal	51	-7	-31	-45	-50	-51	-55	-52	-51	-73	-81	-363
Increase (-) in the Deficit	-130	-146	-118	-142	-123	-126	-159	-182	-204	-218	-659	-1,549
Deficit in CBO's January 2016 Baseline	-544	-561	-572	-738	-810	-893	-1,044	-1,077	-1,089	-1,226	-3,225	-8,556
Memorandum:												
Changes in Revenues	-139	-117	-96	-100	-87	-88	-115	-139	-162	-182	-540	-1,226
Changes in Outlays	-9	28	22	42	37	38	44	43	42	37	120	323

Source: Congressional Budget Office.

primarily from increases in the caps on such funding for 2016 and 2017 and increased funding for surface transportation programs. The resulting growth in the estimate of federal borrowing due to enacted legislation led CBO to raise its projection of interest payments on federal debt by \$137 billion through 2025.

Changes Attributable to Revisions in the Economic Forecast

The baseline also reflects changes in CBO's economic forecast that were made through early December. They include updated projections of GDP, the unemployment rate, interest rates, inflation, and other factors that affect federal revenues and spending.¹⁹

Those updates to economic factors—primarily slower projected growth in economic output over the 10-year projection period—have caused the agency to lower its projections of revenues from each of the three major revenue sources (individual income taxes, corporate income

taxes, and payroll taxes) between 2016 and 2025. All told, CBO reduced its projections of revenues by \$771 billion for that 10-year period as a result of the changed economic outlook.

In addition, adjustments to economic factors caused CBO to reduce its estimates of outlays for the period

19. As noted in the Summary, CBO did not have enough time to incorporate into its budget projections the most recent updates to its economic forecast, which accounted for legislation enacted in December and for other developments through the end of that month. A preliminary analysis suggests that if CBO had incorporated those updates into its budget projections, as it will do in March, projected revenues would be between \$100 billion and \$200 billion (or 0.2 percent to 0.4 percent) higher over the 2016–2026 period than they are currently projected to be. Projected outlays also would be affected, but probably to a lesser extent. CBO will also make technical estimating changes in its March projections that could be larger than those amounts, in either direction.

by \$334 billion. Lower spending for net interest costs—primarily because CBO now anticipates lower inflation in 2016 and lower interest rates for much of the projection period—accounts for roughly half of that change (\$181 billion).

Technical Changes

CBO also made other, technical, changes to its projections. Those changes led to an increase of \$333 billion in projected outlays for the 2016–2025 period, mostly for mandatory programs (higher by \$258 billion). Higher spending for Medicaid (by \$187 billion) and veterans' benefits (\$152 billion) is partially offset by lower spending for Social Security (\$97 billion) in CBO's projections. In addition, technical changes boosted net interest costs in the baseline by \$72 billion, for two main reasons: Projected debt-service costs are higher—mostly because of the larger deficits attributable to technical factors—and projected receipts from the financing accounts associated with the government's credit programs are smaller (mostly stemming from a reduction in the projected volume of federal student loans). Projected revenues have been reduced by \$30 billion over the period for technical reasons.

Uncertainty in Budget Projections

Even if federal laws remained unchanged for the next decade, actual budgetary outcomes would differ from CBO's baseline projections because of unanticipated changes in economic conditions and in a host of other factors that affect federal spending and revenues. The agency aims for its projections to be in the middle of the distribution of possible outcomes, given the baseline assumptions about federal tax and spending policies, while recognizing that there will always be deviations from any such projections.

CBO's projections of outlays depend on the agency's economic projections for the coming decade, which include forecasts for such variables as interest rates, inflation, and the growth of real (inflation-adjusted) GDP. Discrepancies between those forecasts and actual economic outcomes can cause significant differences between baseline budgetary projections and budgetary outcomes.

For instance, CBO's current economic forecast anticipates that interest rates on 3-month Treasury bills will increase from around 1 percent at the beginning of 2017 to 3.2 percent by mid-2019 (and remain there through 2026) and that interest rates on 10-year Treasury notes will rise from

around 3 percent early in 2017 to 4.1 percent by late 2019 (and remain there through 2026). If interest rates were 1 percentage point higher or lower each year from 2017 through 2026 and if all other economic variables were unchanged, cumulative deficits projected for the 10-year period would be about \$1.6 trillion higher or lower, mostly as a result of changes in interest payments on Treasury debt. (For further discussion of how some key economic projections affect budget projections, see Appendix E.)

Uncertainty also surrounds myriad technical factors that can substantially affect CBO's baseline projections of outlays. For example, spending per enrollee for Medicare and Medicaid is very difficult to predict. If per capita costs in those programs rose 1 percentage point faster or slower per year than CBO has projected for the next decade, total federal outlays for Medicare and Medicaid would be roughly \$1 trillion lower or higher for that period.

Projections of revenues also are quite sensitive to a variety of factors. Revenues depend on total amounts of wages and salaries, corporate profits, and other income, all of which are encompassed by CBO's economic projections. For example, if the growth of real GDP and taxable income was 0.1 percentage point higher or lower per year than in CBO's baseline projections, deficits would be \$327 billion lower or higher over the 2017–2026 period.

Even fairly small deviations in revenues and outlays relative to CBO's projections could have a substantial effect on budget deficits. For example, if revenues projected for 2016 were too high or too low by 3 percent (a range that has included about two-thirds of the deviations between actual amounts and CBO's projections in the past), then actual revenues would be about \$100 billion lower or higher than in the agency's baseline.²⁰ Similarly, if outlays projected for 2016 were too high or too low by 3 percent, then outlays would deviate from CBO's baseline by about \$120 billion. Such differences for both revenues and outlays could largely offset each other, thus having little net effect on the deficit, or they could both push the deficit in the same direction, thus compounding the differences.

20. Projection errors have tended to be larger for longer horizons than for shorter ones. CBO's six-year revenue projections—those that estimate revenues for the fifth fiscal year after the year in which they are released—have, on average, overestimated revenues by 5.3 percent. The mean absolute error of those projections (that is, the average of the errors without regard to direction) is 10.4 percent. See Congressional Budget Office, *CBO's Revenue Forecasting Record* (November 2015), www.cbo.gov/publication/50831.

Table 1-5.

Budgetary Effects of Selected Policy Alternatives Not Included in CBO's Baseline

Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total	
												2017-	2017-
												2021	2026
Policy Alternatives That Affect Discretionary Outlays													
Increase Discretionary Appropriations at the Rate of Inflation After 2016 ^a													
Increase (-) in the deficit ^b	0	-23	-55	-69	-75	-81	-85	-88	-91	-94	-97	-303	-757
Debt service	0	*	-1	-4	-6	-10	-13	-16	-20	-24	-29	-21	-124
Freeze Discretionary Appropriations at the 2016 Amount ^c													
Increase (-) or decrease in the deficit ^b	0	-9	-16	-2	22	48	77	108	139	172	207	43	746
Debt service	0	*	*	-1	-1	1	3	6	11	17	24	-1	61
Policy Alternative That Affects Both Discretionary and Mandatory Outlays													
Prevent the Automatic Spending Reductions Specified in the Budget Control Act ^d													
Increase (-) in the deficit ^b	n.a.	-7	-65	-89	-97	-100	-105	-107	-110	-120	-97	-358	-897
Debt service	n.a.	*	-1	-4	-7	-11	-15	-20	-24	-29	-34	-24	-147
Policy Alternatives That Affect the Tax Code^e													
Extend Partial Expensing of Equipment Property ^f													
At 50 percent rate													
Increase (-) in the deficit ^b	n.a.	n.a.	-9	-21	-52	-56	-38	-27	-20	-15	-11	-138	-248
Debt service	n.a.	n.a.	*	-1	-2	-4	-6	-7	-8	-9	-10	-7	-47
At 30 percent rate													
Increase (-) in the deficit ^b	n.a.	n.a.	n.a.	n.a.	-30	-41	-27	-19	-14	-10	-7	-72	-149
Debt service	n.a.	n.a.	n.a.	n.a.	-1	-2	-3	-4	-5	-5	-6	-2	-26
Extend Other Expiring Tax Provisions ^g													
Increase (-) in the deficit ^b	0	-4	-12	-13	-15	-18	-19	-21	-23	-25	-28	-61	-178
Debt service	0	*	*	-1	-1	-2	-3	-3	-4	-5	-7	-4	-27

Continued

Alternative Assumptions About Fiscal Policy

CBO's baseline budget projections—which are constructed in accordance with provisions of law—are intended to show what would happen to federal spending, revenues, and deficits if current laws generally remained unchanged. Future legislative action, however, could lead to markedly different budgetary outcomes.

To assist policymakers and analysts who may hold differing views about the most useful benchmark against which to consider possible changes to laws, CBO has estimated the effects on budgetary projections of some alternative assumptions about future policies (see Table 1-5). The discussion below focuses on how those policy actions would directly affect revenues and outlays. Such changes

also would influence the costs of servicing the federal debt (shown separately in the table).

Discretionary Spending

Policymakers could vary discretionary funding in many ways from the amounts projected in the baseline. For example, if appropriations grew each year through 2026 at the same rate as inflation after 2016 rather than being constrained by the caps, discretionary spending would be \$757 billion higher over the 2017–2026 period than it is in CBO's baseline. If, by contrast, lawmakers kept appropriations for 2017 through 2026 at the nominal 2016 amount, total discretionary outlays would be \$746 billion lower over that period. Under that scenario (sometimes

Table 1-5.

Continued

Budgetary Effects of Selected Policy Alternatives Not Included in CBO's Baseline

Billions of Dollars

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total		
												2017-	2017-	
												2021	2026	
Policy Alternatives That Affect the Tax Code^e (Continued)														
Repeal Certain Postponed Health Taxes ^h														
Increase (-) in the deficit ^b	n.a.	n.a.	-13	-15	-18	-26	-29	-32	-36	-41	-46	-72	-256	
Debt service	n.a.	n.a.	*	-1	-1	-2	-3	-4	-6	-7	-9	-4	-34	
Memorandum:														
Deficit in CBO's Baseline	-544	-561	-572	-738	-810	-893	-1,044	-1,077	-1,089	-1,226	-1,366	-3,575	-9,378	

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

n.a. = not applicable; * = between -\$500 million and zero.

- a. These estimates reflect the assumption that appropriations will not be constrained by caps set by the Budget Control Act of 2011 as amended and will instead grow at the rate of inflation from their 2016 level. Discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries; other discretionary funding is inflated using the gross domestic product price index.
- b. Excludes debt service.
- c. This option reflects the assumption that appropriations would generally be frozen at the 2016 level through 2026.
- d. The Budget Control Act of 2011 specified that if lawmakers did not enact legislation originating from the Joint Select Committee on Deficit Reduction that would reduce projected deficits by at least \$1.2 trillion, automatic procedures would go into effect to reduce both discretionary and mandatory spending during the 2013–2021 period. Those procedures are now in effect and take the form of equal cuts (in dollar terms) in funding for defense and nondefense programs. For the 2018–2021 period, the automatic procedures lower the caps on discretionary budget authority specified in the Budget Control Act (caps for 2016 and 2017 were revised by the Bipartisan Budget Act of 2015); for the 2022–2026 period, CBO has extrapolated the reductions estimated for 2021. Nonexempt mandatory programs will be reduced through sequestration; those provisions have been extended through 2025. The budgetary effects of this option cannot be combined with either of the other alternatives that affect discretionary spending.
- e. The estimates are from CBO and the staff of the Joint Committee on Taxation and are preliminary.
- f. This alternative would extend the provisions that allow businesses with large amounts of investment to expense (immediately deduct from their taxable income) a portion of the cost of their investment in equipment and certain other property. Under current law, the portion that can be expensed is 50 percent through 2017, 40 percent in 2018, and 30 percent in 2019, after which the provisions expire. One option would extend the 50 percent allowance permanently beyond 2017, and the other option would extend the 30 percent allowance permanently beyond 2019. In both cases, the alternative would include provisions that allow businesses to accelerate alternative minimum tax credits in lieu of the partial-expensing provisions, which expire under current law after 2019. Policymakers could choose to extend the partial-expensing provisions at a percentage of either 30 percent or 50 percent, but not both; that is, the options could not be applied together and the separate budgetary estimates added together.
- g. This option would extend about 40 tax provisions that are scheduled under current law to expire before 2027. It does not include an extension of the partial-expensing provisions or a repeal of certain health provisions; those effects are shown separately.
- h. This option would repeal the health insurance provider tax, the medical device excise tax, and the excise tax on certain health insurance plans with high premiums. All were postponed for either one or two years in the Consolidated Appropriations Act, 2016. The estimate includes a decrease in revenues of \$277 billion over the 2018–2026 period and a decrease in outlays of \$21 billion over the 2020–2026 period; that decrease in outlays occurs because some people who would have otherwise been enrolled in insurance obtained through Medicaid and the exchanges would instead enroll in employment-based coverage if the tax on certain health insurance plans with high premiums was repealed.

called a freeze in appropriations), total discretionary spending would fall from 6.5 percent of GDP in fiscal year 2016 to 4.4 percent in 2026. (In CBO's baseline, such spending is already projected to fall to 5.2 percent of GDP in 2026, reflecting the caps on most new discretionary funding through 2021 and adjustments for inflation thereafter.)

Automatic Spending Reductions

The Budget Control Act of 2011 put in place automatic procedures to reduce discretionary and mandatory spending through 2021. Those procedures require equal reductions (in dollar terms) in defense and nondefense spending. The Bipartisan Budget Act of 2015 canceled the discretionary reductions for 2016 and 2017 and instead set new caps for those years. That act also extended the required reductions to mandatory spending (through a process called sequestration) through 2025. If lawmakers chose to prevent those automatic cuts each year—starting in 2017—without making other changes that reduced spending, total outlays over the 2017–2026 period would be \$897 billion (or about 2 percent) higher than the amounts in CBO's baseline. Total discretionary outlays would be \$764 billion (or 5.9 percent) higher, and outlays for mandatory programs—most of which are not subject to sequestration—would be \$134 billion (or 0.4 percent) higher.²¹

Revenues

A number of tax provisions are scheduled to expire over the next decade. Most have been extended several times. Most recently, the Consolidated Appropriations Act, 2016, made permanent some provisions that had expired or were scheduled to expire, and temporarily extended others. That law also phases out the ability of businesses with large amounts of investment to expense (immediately deduct from their taxable income) qualifying equipment investment, allowing those companies to expense 50 percent of such investment through 2017, 40 percent in 2018, and 30 percent in 2019, after which the partial-expensing provisions are scheduled to expire. That law also postponed for one or two years certain taxes related to health care.

21. Because of interactions between the effects of different policy options, the estimated budgetary effects of this option cannot be added to the estimated budgetary effects of either of the other alternatives that affect discretionary spending.

If the provision allowing for 50 percent expensing became permanent after 2017, it would reduce revenues by about \$248 billion over the 2018–2026 period, JCT estimates. If instead the provision allowing for 30 percent expensing became permanent after 2019, it would reduce revenues by about \$149 billion from 2020 through 2026. If all other tax provisions scheduled to expire before 2027 were permanently extended, CBO and JCT estimate, revenues would be lower by a total of \$178 billion over the 2017–2026 period.

Deficits also would increase if delays in the implementation of certain taxes established by the ACA were extended or made permanent. The Consolidated Appropriations Act, 2016, postponed for 2016 and 2017 the medical device tax, placed a moratorium on the health insurance tax for 2017, and postponed for two years (to 2020) the start of the tax on high-premium health insurance plans. Permanently repealing those taxes would reduce revenues (net of small reductions in outlays) by a total of \$256 billion over the 2018–2026 period.

The Long-Term Budget Outlook

Beyond the coming decade, the fiscal outlook is significantly more worrisome. In CBO's most recent long-term projections—which extend through 2046—budget deficits rise steadily under the extended baseline, which follows CBO's 10-year baseline projections for the first decade and then extends the baseline concept for subsequent years (see Table 1-6).²² Although long-term budget projections are highly uncertain, the aging of the

22. CBO has not fully updated its long-term projections, which were most recently issued in June 2015. Instead, for this report, CBO adopted a simplified approach that it has regularly used between full updates: The long-term projections incorporate the most current baseline for the first 10 years; for subsequent periods, they incorporate the interest rates as well as the growth rates for revenues, spending, and GDP from the agency's extended baseline in its most recent full update. For that June 2015 update, see Congressional Budget Office, *The 2015 Long-Term Budget Outlook* (June 2015), www.cbo.gov/publication/50250. For additional information about the simplified approach used here, see Congressional Budget Office, *Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Price, March 2015* (March 2015), pp. 13–14, www.cbo.gov/publication/49977. CBO expects to publish its next complete update of its long-term projections in the summer of 2016.

Table 1-6.

Key Projections in CBO's Extended Baseline

Percentage of Gross Domestic Product

	2016	2017	Projected Annual Average			
			2018-2021	2022-2026	2027-2036 ^a	2037-2046 ^a
Revenues						
Individual income taxes	8.8	9.0	9.1	9.4	9.9	10.5
Payroll taxes	6.0	5.9	5.8	5.8	5.7	5.8
Corporate income taxes	1.8	1.8	1.8	1.6	1.6	1.6
Other sources of revenues	1.8	1.5	1.3	1.3	1.3	1.5
Total Revenues	18.3	18.2	18.0	18.1	18.6	19.4
Outlays						
Mandatory						
Social Security	4.9	4.9	5.2	5.7	6.2	6.3
Major health care programs ^b	5.6	5.6	5.7	6.3	7.4	8.7
Other mandatory programs	2.8	2.8	2.7	2.5	2.3	2.0
Subtotal	13.3	13.3	13.6	14.5	15.9	17.0
Discretionary	6.5	6.2	5.8	5.3	5.2	5.2
Net interest	1.4	1.6	2.2	2.8	4.0	5.4
Total Outlays	21.2	21.1	21.5	22.6	25.1	27.6
Deficit	-2.9	-2.9	-3.5	-4.5	-6.6	-8.2
Debt Held by the Public at the End of the Period	76	76	79	86	116	155
Memorandum:						
Social Security						
Revenues ^c	4.5	4.5	4.4	4.4	4.4	4.4
Outlays ^d	4.9	4.9	5.2	5.7	6.2	6.3
Net Increase (-) in the Deficit ^e	-0.4	-0.4	-0.7	-1.3	-1.9	-2.0
Medicare						
Revenues	1.3	1.3	1.4	1.4	1.3	1.3
Outlays ^d	3.7	3.6	3.8	4.4	5.4	6.7
Offsetting Receipts	-0.5	-0.6	-0.6	-0.7	-0.9	-1.1
Net Increase (-) in the Deficit ^e	-1.9	-1.7	-1.8	-2.3	-3.2	-4.3
Gross Domestic Product at the End of the Period (Trillions of dollars)	18.5	19.3	22.6	27.7	41.4	63.7

Source: Congressional Budget Office.

This table satisfies a requirement specified in section 3111 of S. Con. Res. 11, the Concurrent Resolution on the Budget for Fiscal Year 2016.

The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2026 and then extending the baseline concept for the following 20 years.

- These projections do not reflect the macroeconomic feedback of the policies underlying the extended baseline after 2026, except for debt held by the public.
- Consists of Medicare (net of premiums and other offsetting receipts), Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending.
- Includes payroll taxes other than those paid by the federal government (which are intragovernmental transactions). Also includes income taxes paid on Social Security benefits, which are credited to the trust funds.
- Does not include outlays related to administration of the program, which are discretionary. For Social Security, outlays do not include intragovernmental offsetting receipts stemming from payroll taxes paid on behalf of federal employees to the Social Security trust fund.
- The net increase in the deficit shown in this table differs from the changes in the trust fund balance for the associated programs. It does not include intragovernmental transactions, interest earned on balances, and outlays related to administration of the programs.

population and growth in per capita spending on health care would almost certainly boost federal spending significantly relative to GDP after 2026 if current laws remained in effect. Federal revenues also would continue to increase relative to GDP under current law, but they would not keep pace with outlays. As a result, public debt would reach 155 percent of GDP by 2046 (taking into account the effects on the economy of the rising debt), CBO estimates, higher than any percentage previously recorded in the United States.²³

23. In June 2015, CBO's long-term projections showed debt of roughly 100 percent of GDP in 2040; debt held by the public in the 10-year baseline was about \$1.2 trillion less in 2025 than CBO currently estimates, and the projected deficits were smaller. As a result, CBO now estimates that debt held by the public in 2040 would be substantially higher if current laws remained in place.

Such high and rising debt relative to the size of the economy would dampen economic growth and thus reduce people's incomes compared with what otherwise would be the case. It would also increasingly restrict policymakers' ability to use tax and spending policies to respond to unexpected challenges, and it would boost the risk of a fiscal crisis in which the government would lose its ability to borrow at affordable rates.

Moreover, debt would still be on an upward path relative to the size of the economy in 2046, a trend that would ultimately be unsustainable. To avoid the negative consequences of high and rising federal debt and to put debt on a sustainable path, lawmakers will have to make significant changes to tax and spending policies—letting revenues rise more than they would under current law, reducing spending for large benefit programs below the projected amounts, or adopting some combination of those approaches.