



Congressional Budget Office

Testimony

The 2013 Long-Term Budget Outlook

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Chairman Ryan, Congressman Van Hollen, and Members of the Committee, thank you for inviting me to testify on the Congressional Budget Office's (CBO's) most recent analysis of the long-term outlook for the budget and the economy. My statement summarizes the report *The 2013 Long-Term Budget Outlook*, which CBO released last week.

Between 2009 and 2012, the federal government recorded the largest budget deficits relative to the size of the economy since 1946, causing federal debt to soar. Federal debt held by the public is now about 73 percent of the economy's annual output, or gross domestic product (GDP). That percentage is higher than at any point in U.S. history except a brief period around World War II, and it is twice the percentage at the end of 2007. If current laws generally remained in place, federal debt held by the public would decline slightly relative to GDP over the next several years, CBO projects. After that, however, growing deficits would ultimately push debt back above its current high level. CBO projects that federal debt held by the public would reach 100 percent of GDP in 2038, 25 years from now, even without accounting for the harmful effects that growing debt would have on the economy (see Figure 1). Moreover, debt would be on an upward path relative to the size of the economy, a trend that could not be sustained indefinitely.

Budget Projections for the Next 10 Years

The economy's gradual recovery from the 2007–2009 recession, the waning budgetary effects of policies enacted in response to the weak economy, and other changes to tax and spending policies have caused the deficit to shrink this year to its smallest size since 2008: roughly 4 percent of GDP, compared with a peak of almost 10 percent in 2009. If current laws governing taxes and spending were generally unchanged—an assumption that underlies CBO's 10-year baseline budget projections—the deficit would continue to drop over the next few years, falling to 2 percent of GDP by 2015. As a result, by 2018, federal debt held by the public would decline to 68 percent of GDP.¹

However, budget deficits would gradually rise again under current law, CBO projects, mainly because of increasing interest costs and growing spending for Social Security and the government's major health care programs (Medicare, Medicaid, the Children's Health Insurance Program, and subsidies to be provided through health insurance exchanges). CBO expects interest rates to rebound in coming years from their current unusually

low levels, sharply raising the government's cost of borrowing. In addition, the pressures of an aging population, rising health care costs, and an expansion of federal subsidies for health insurance would cause spending for some of the largest federal programs to increase relative to GDP. By 2023, CBO projects, the budget deficit would grow to almost 3½ percent of GDP under current law, and federal debt held by the public would equal 71 percent of GDP and would be on an upward trajectory.

Budget Projections for the Long Term

Looking beyond the 10-year period covered by its regular baseline projections, CBO produced an extended baseline that extrapolates those projections through 2038 (and, with even greater uncertainty, through later decades). Under the extended baseline, budget deficits would rise steadily and, by 2038, would push federal debt held by the public close to the percentage of GDP seen just after World War II—even without factoring in the harm that growing debt would cause to the economy.

By 2038, CBO projects, federal spending would increase to 26 percent of GDP under the assumptions of the extended baseline, compared with 22 percent in 2012 and an average of 20½ percent over the past 40 years. That increase reflects the following projected paths for various types of federal spending if current laws generally remain in place:

- Federal spending for the major health care programs and Social Security would increase to a total of 14 percent of GDP by 2038, twice the 7 percent average of the past 40 years.
- In contrast, total spending on everything other than the major health care programs, Social Security, and net interest payments would decline to 7 percent of GDP, well below the 11 percent average of the past 40 years and a smaller share of the economy than at any time since the late 1930s.

1. For details about CBO's most recent 10-year baseline, see Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023* (May 2013), www.cbo.gov/publication/44172. In July 2013, the Bureau of Economic Analysis (BEA) revised upward the historical values for GDP; CBO extrapolated those revisions for this report when projecting outcomes as a percentage of future GDP. Although CBO's projections of revenues, outlays, deficits, and debt over the 2013–2023 period have not changed since the baseline projections issued in May, those amounts measured as a percentage of GDP are now lower as a result of BEA's revisions. In this testimony, budgetary values presented as a percentage of GDP have been rounded to the nearest one-half percent.

