CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Keith Hall, Director

September 25, 2018

Honorable Jodey Arrington
U.S. House of Representatives
Washington, DC 20515

Re: Reducing primary deficits beginning in 2022

Dear Congressman:

At your request, the Congressional Budget Office has analyzed the effects of two illustrative scenarios in which primary deficits—that is, deficits excluding net outlays for interest—are reduced in relation to CBO's extended baseline beginning in 2022.[1] In the first scenario, primary deficits are 3 percent of gross domestic product (GDP) lower than they are in the extended baseline, and in the second, they are 1 percent of GDP lower than in the extended baseline. These scenarios are similar to those reducing primary deficits by constant shares of GDP that were analyzed in CBO's recent report *The Deficit Reductions Necessary to Meet Various Targets for Federal Debt*.[2] As in that report, CBO has made no assumptions about what policies would lead to reductions in primary deficits in relation to the extended baseline. Because particular policies can significantly alter incentives to work, save, and invest, the effects could be different from those presented here.

The specified reductions in primary deficits would result in debt that was lower than projected in CBO's extended baseline. In CBO's extended baseline projections, debt held by the public reaches 152 percent of GDP in 2048. If the primary deficit was reduced by 3 percent of GDP in 2022 (before the economic effects of that reduction were taken into account) and that reduction was maintained in subsequent years, debt in 2048 would equal 51 percent of GDP (see the figure on the next page). Moreover, debt would be on a downward trajectory. In particular, at the end of that period, debt as a share of GDP would decline by about ¾ percentage point each year. If instead the primary deficit was reduced by

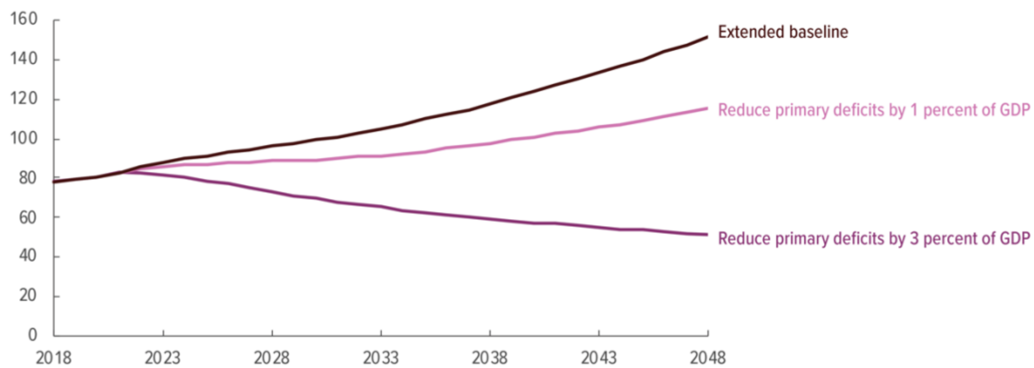
[1] The extended baseline generally reflects current law; it follows CBO's 10-year baseline projections through 2028 and then extends most of the concepts underlying those baseline projections through 2048. For a detailed description of the extended baseline, see Congressional Budget Office, *The 2018 Long-Term Budget Outlook* (June 2018), www.cbo.gov/publication/53919.

[2] See Congressional Budget Office, *The Deficit Reductions Necessary to Meet Various Targets for Federal Debt* (August 2018), www.cbo.gov/publication/54181. In that report, changes to primary deficits began in 2019.

1 percent of GDP in 2022 (before the economic effects of that reduction were taken into account) and that reduction was maintained in subsequent years, debt in 2048 would equal 115 percent of GDP. In that case, debt would be on an upward trajectory, and as a share of GDP, it would increase by about 2 percentage points each year at the end of the period.

Federal Debt Held by the Public

Percentage of GDP



I hope you find this information useful. Please contact me or Julie Topoleski if we can provide further assistance.

Sincerely,

Keith Hall
Director