



CONGRESSIONAL BUDGET OFFICE

# **The 2019 Long-Term Budget Outlook in 23 Slides**

August 2019

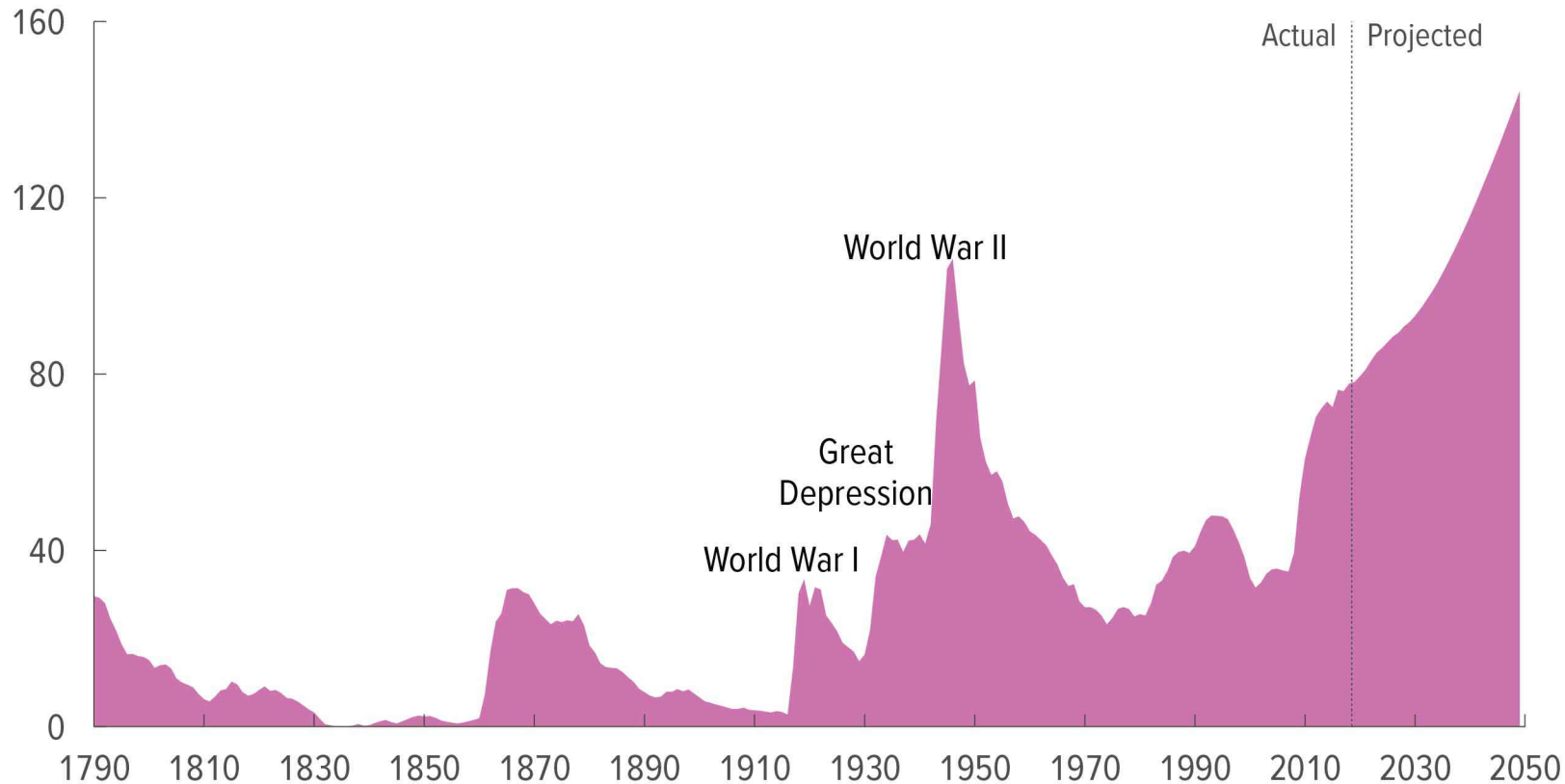
*For more details, see [www.cbo.gov/publication/55331](https://www.cbo.gov/publication/55331).*

The report from which these slides are drawn, *The 2019 Long-Term Budget Outlook*, is based on CBO's most recent 10-year projections. The economic projections were published in Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029* (January 2019), [www.cbo.gov/publication/54918](https://www.cbo.gov/publication/54918). The budget projections were published in Congressional Budget Office, *Updated Budget Projections: 2019 to 2029* (May 2019), [www.cbo.gov/publication/55151](https://www.cbo.gov/publication/55151).

Each year, the Congressional Budget Office issues its extended baseline projections—a set of projections of what federal spending, revenues, deficits, and debt would be for the next 30 years if current laws generally did not change.

# Federal Debt Held by the Public Since 1790

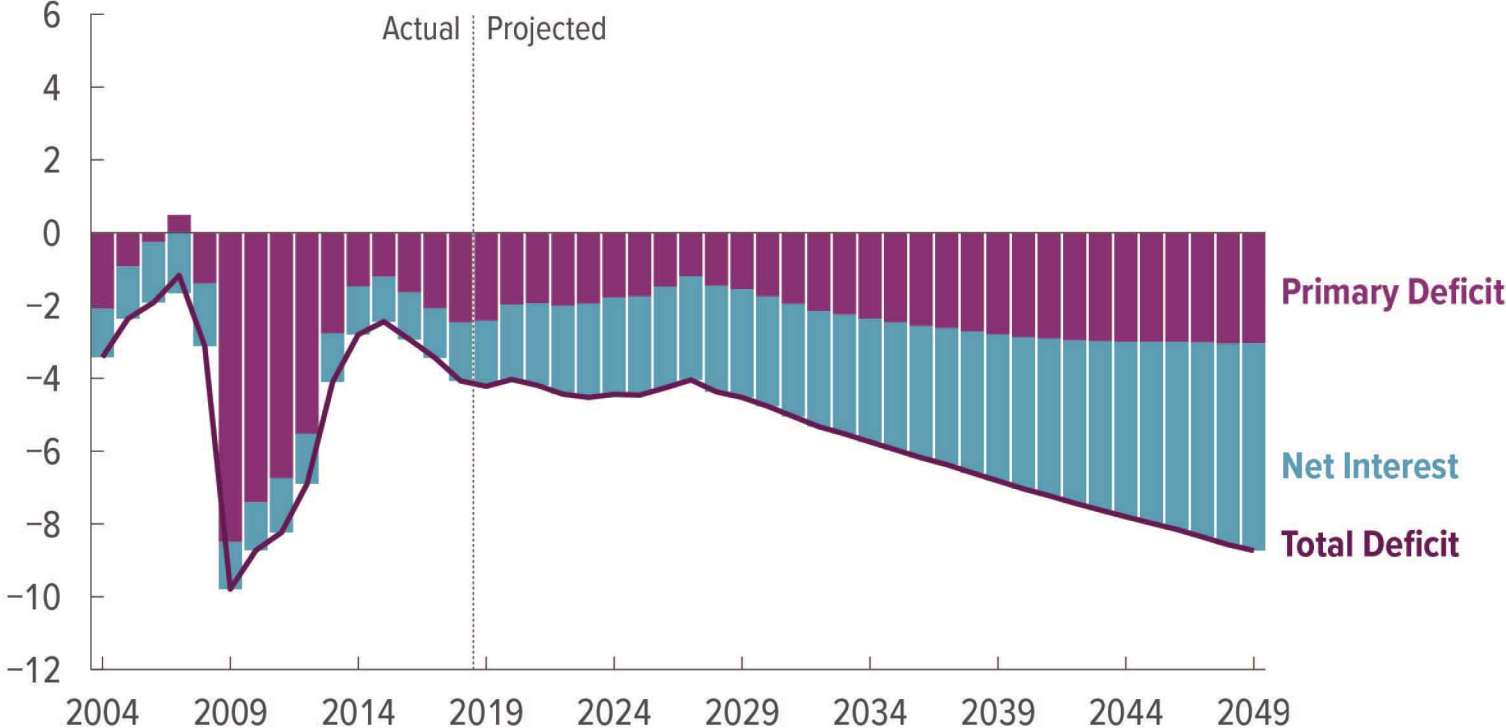
Percentage of Gross Domestic Product



Currently equaling 78 percent of gross domestic product (GDP), federal debt held by the public is at its highest level since shortly after World War II. In CBO's projections, it grows sharply over the next 30 years, reaching 144 percent of GDP by 2049, an unprecedented level. Such large and growing debt poses substantial risks for the nation and presents policymakers with significant challenges.

# Total Deficit, Primary Deficit, and Net Interest

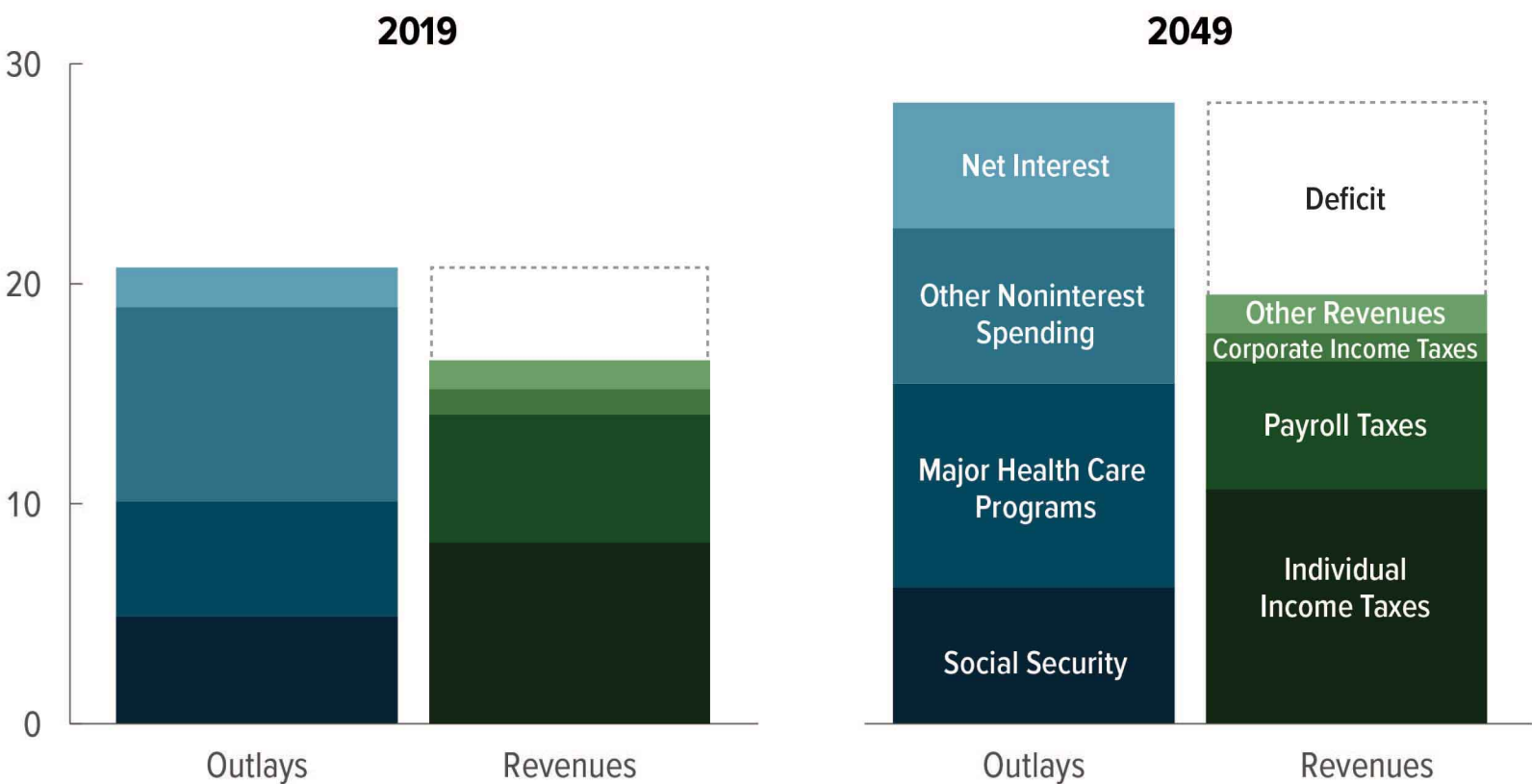
Percentage of Gross Domestic Product



In CBO’s extended baseline projections, deficits grow from 4.2 percent of GDP in 2019 to 8.7 percent in 2049, driving up debt. Net spending for interest on debt accounts for more than half of the growth in total deficits.

# The Federal Budget in 2019 and 2049

Percentage of Gross Domestic Product



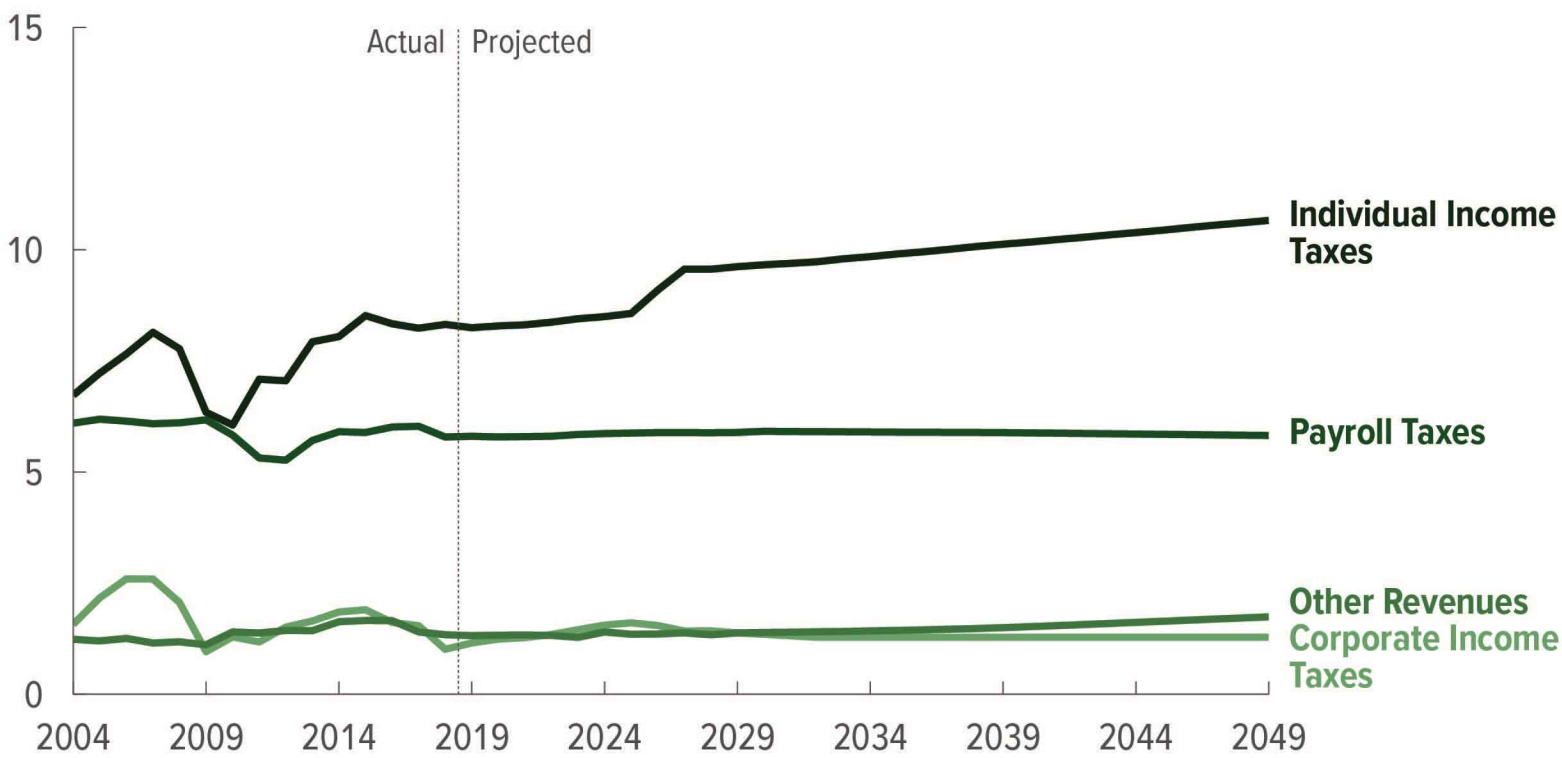
Deficits increase because growth in spending outpaces growth in revenues.

The category called other noninterest spending consists of all federal spending other than that for Social Security, the major health care programs, and net interest. Spending for major health care programs consists of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending. Other revenues consist of excise taxes, remittances to the Treasury from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines.

In CBO's projections, **federal revenues** increase as a percentage of GDP—from 16.5 percent in 2019 to 19.5 percent in 2049.

# Federal Revenues

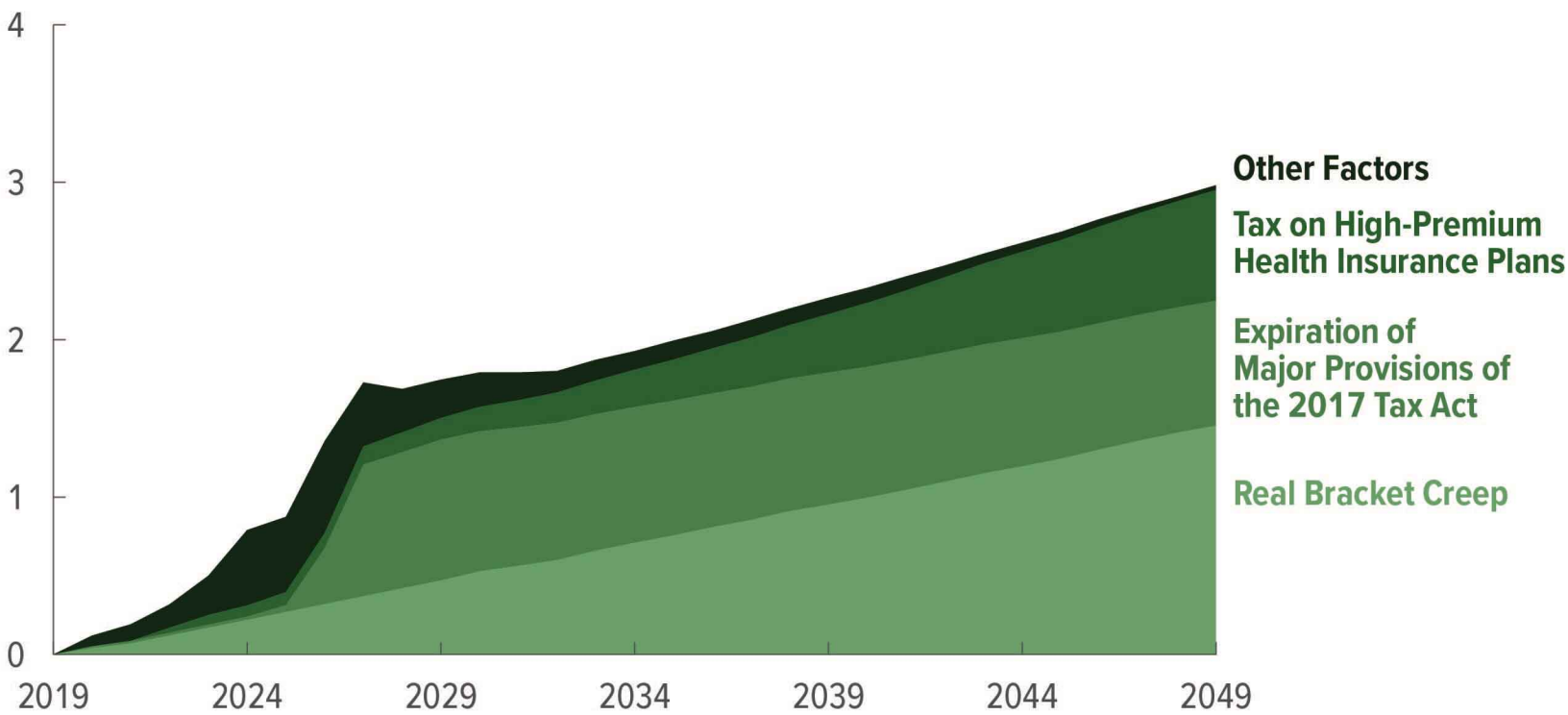
Percentage of Gross Domestic Product



Increases in receipts from individual income taxes account for most of the rise in total revenues. Receipts from all other sources combined increase slightly as a percentage of GDP.

# Increases in Federal Revenues

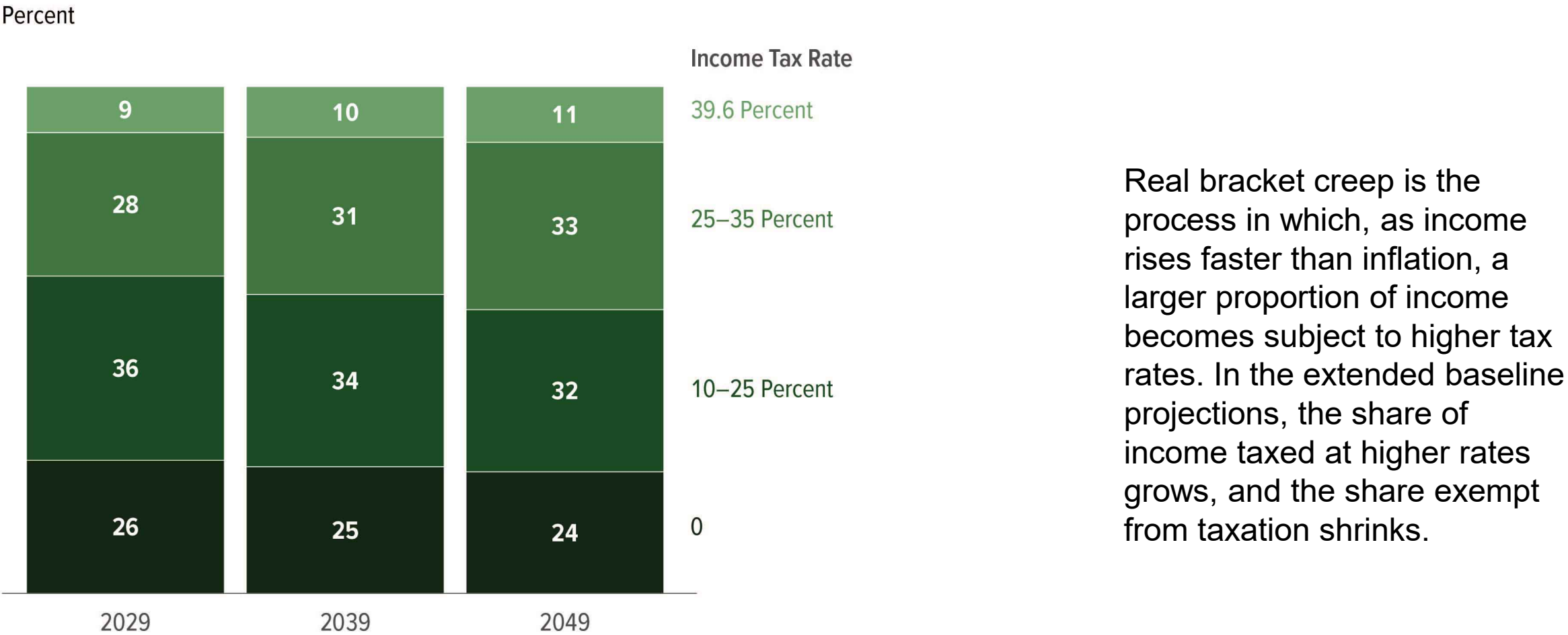
Percentage of Gross Domestic Product



Revenues are projected to grow steadily over the next several years, rise sharply following the expiration of certain temporary provisions of the 2017 tax act at the end of 2025, and then resume steady growth. Over the long term, real bracket creep is the largest source of revenue growth.



# Shares of Income Taxed at Different Rates Under the Individual Income Tax System



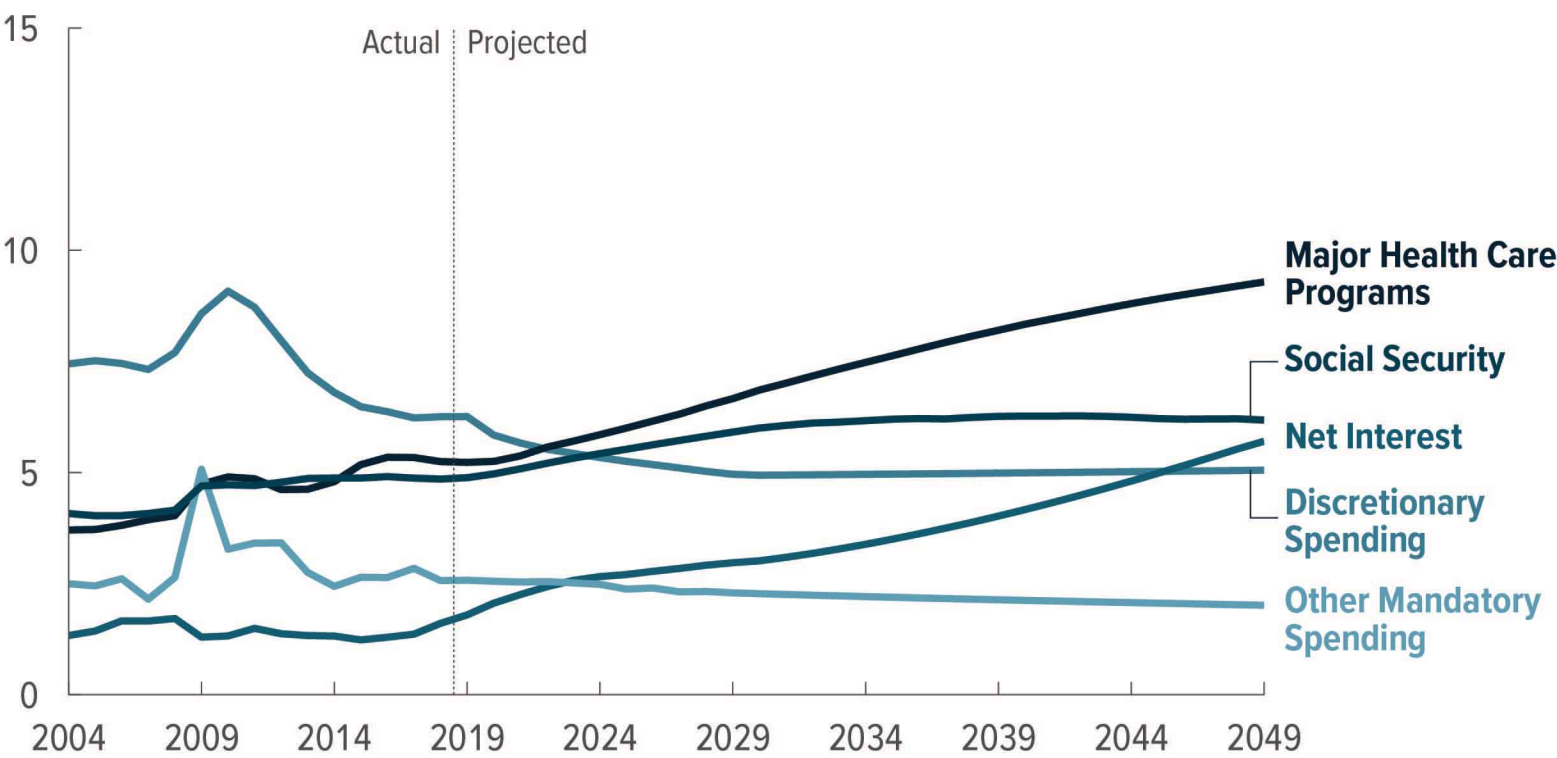
For more information on how real bracket creep contributes to rising tax revenues over time, see Congressional Budget Office, *How Income Growth Affects Tax Revenues in CBO's Long-Term Budget Projections* (June 2019), [www.cbo.gov/publication/55368](https://www.cbo.gov/publication/55368).

**Federal spending** grows from 20.7 percent of GDP today to 28.2 percent in 2049. Three factors explain most of the projected growth in spending:

- Rising interest costs,
- The aging of the population, and
- Rising health care costs per beneficiary.

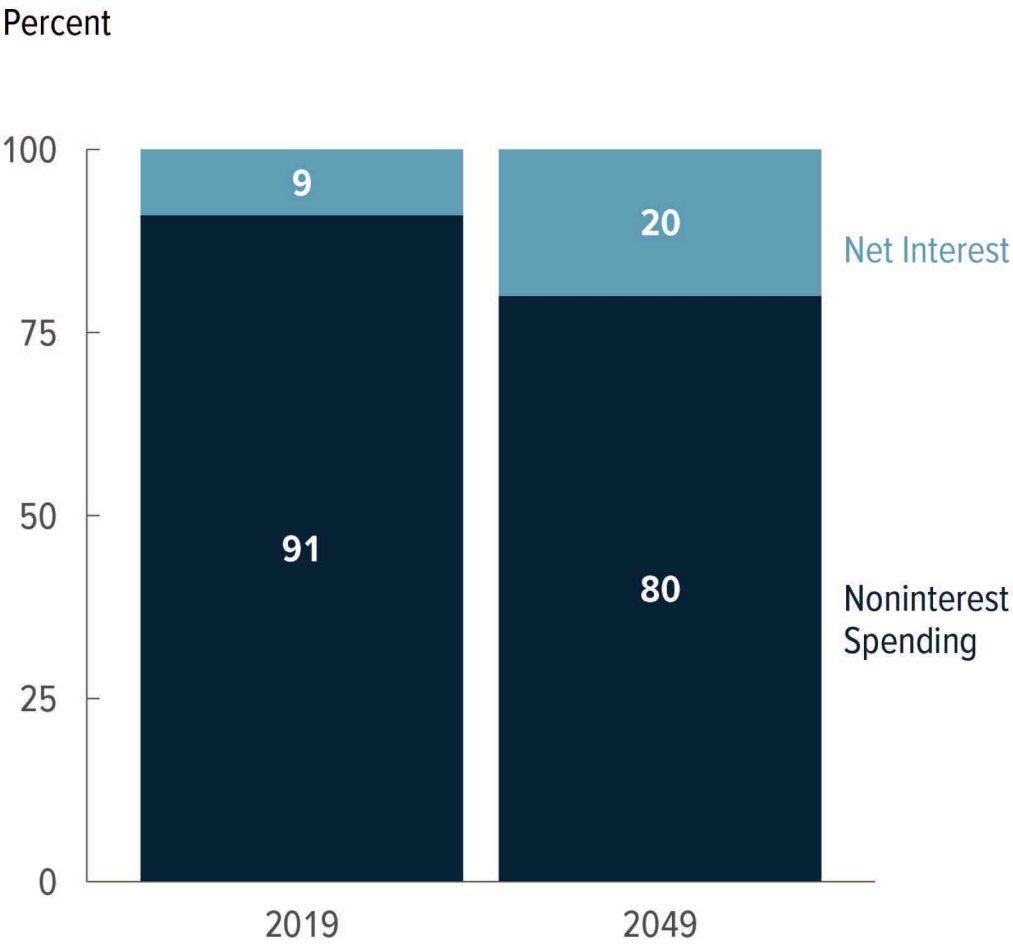
# Federal Outlays

Percentage of Gross Domestic Product



Spending increases, as a percentage of GDP, for net interest, the major health care programs, and Social Security. That spending growth is partially offset by declining discretionary and other mandatory spending.

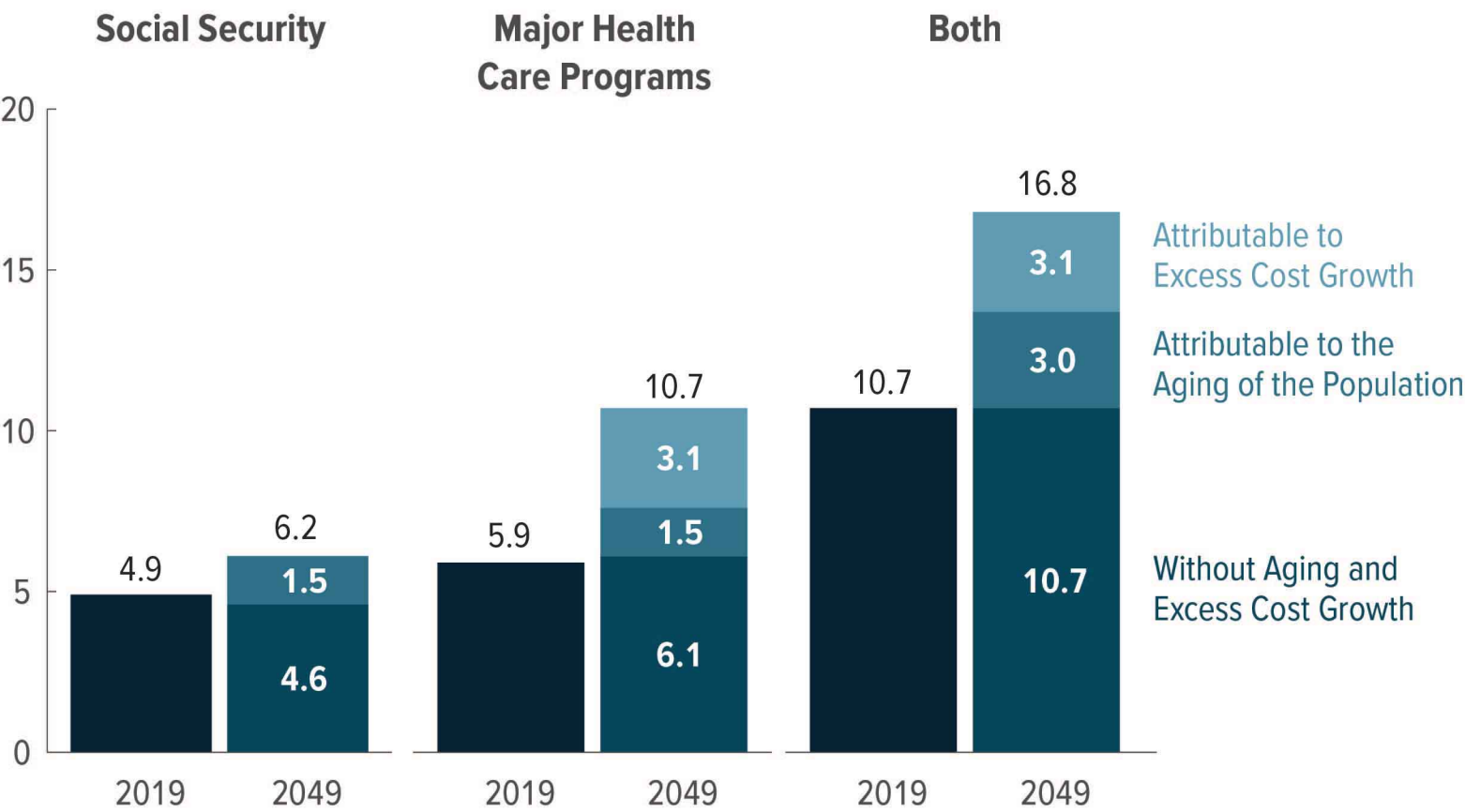
# Composition of Federal Outlays



The federal government’s net interest costs are projected to climb sharply as interest rates rise from their currently low levels and as debt accumulates. Projected net outlays for interest more than double as a share of total federal spending by 2049.

# Spending for Social Security and the Major Health Care Programs in 2019 and 2049

Percentage of Gross Domestic Product



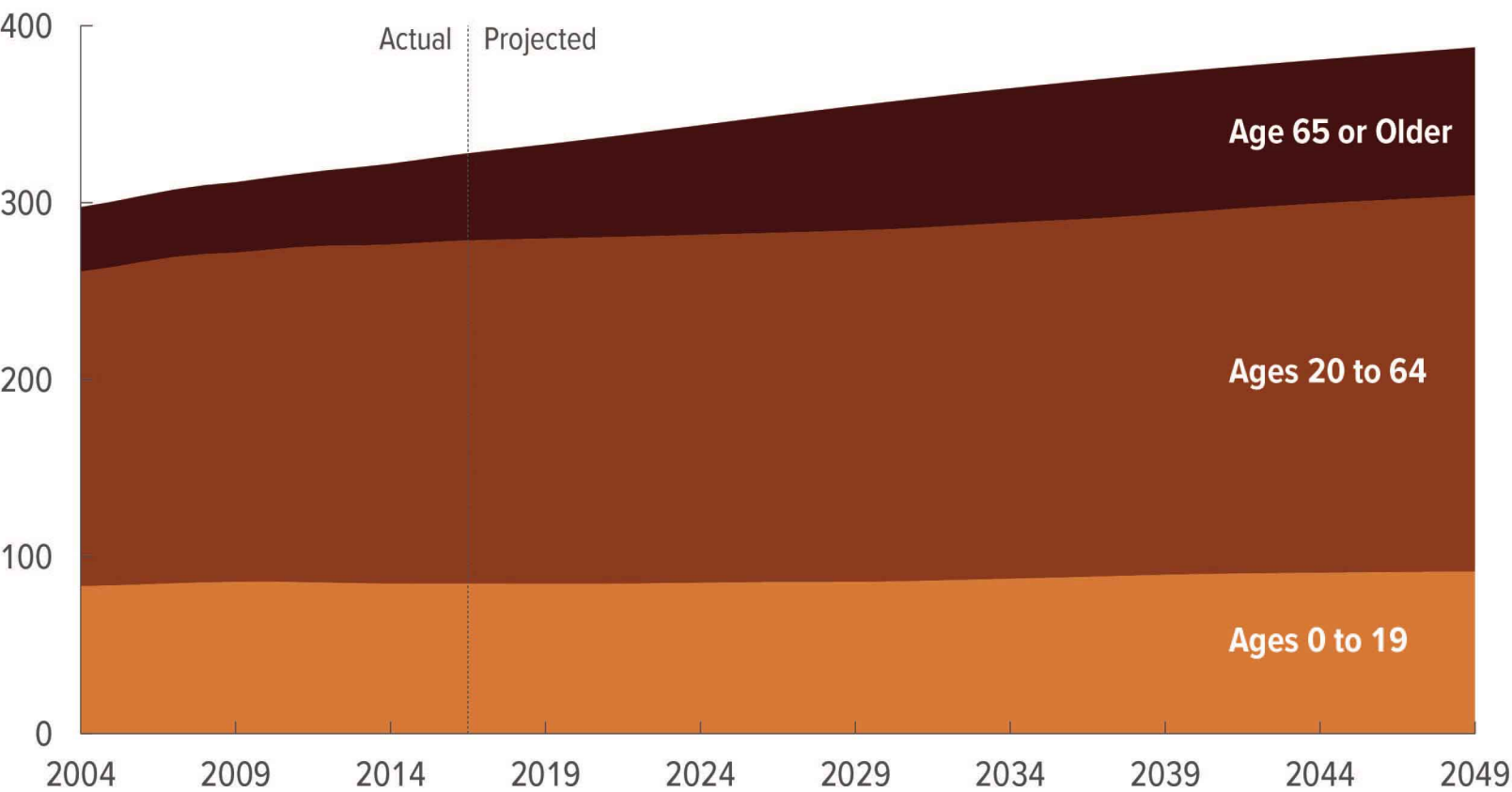
About half of the increase in total spending for Social Security and the major health care programs results from the aging of the population, and the other half results from rising health care costs per beneficiary (excess cost growth).

All of the spending growth for Social Security and about one-third of the spending growth for Medicare and the other major health care programs results from aging. The remaining two-thirds of the spending growth for health programs results from excess cost growth.

Excess cost growth is the extent to which growth in health care costs per person, adjusted to remove the effects of aging, exceeds growth in potential GDP (the economy's maximum sustainable output) per person.

# Population, by Age Group

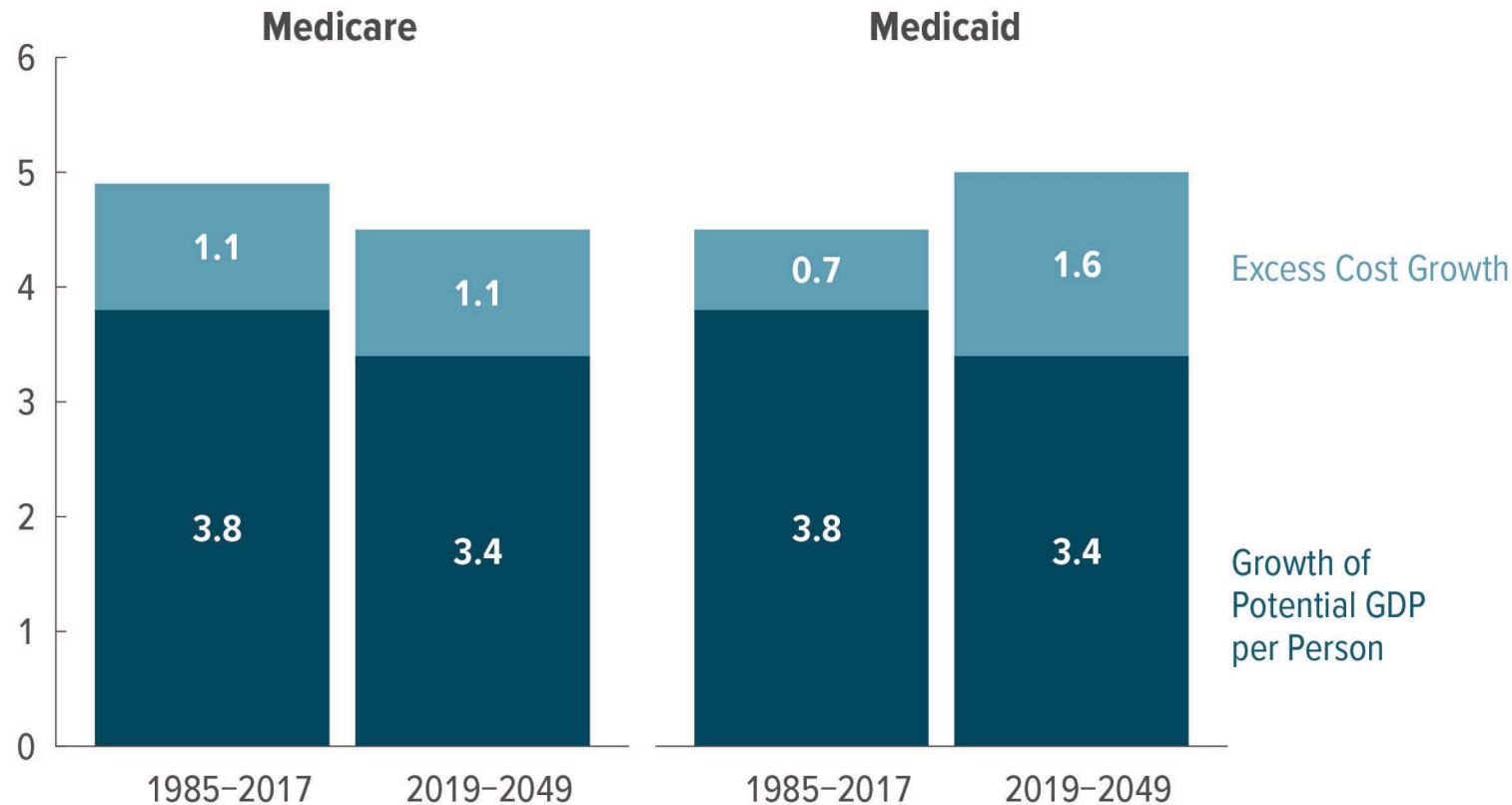
Millions of People



As baby boomers age and as life expectancy continues to increase, the percentage of the population age 65 or older will grow significantly, boosting the number of beneficiaries of Social Security and the major health care programs—and thereby increasing spending for those programs.

# Average Annual Growth of Health Care Costs per Beneficiary

Percent



Excess cost growth drives spending growth for Medicare and the other major health care programs, as it has in the past. On average, health care costs grow more quickly than the economy does.

Budget projections are inherently uncertain. Even if future tax and spending policies did not vary from those specified in current law, budgetary outcomes would undoubtedly differ from those in CBO's extended baseline projections.

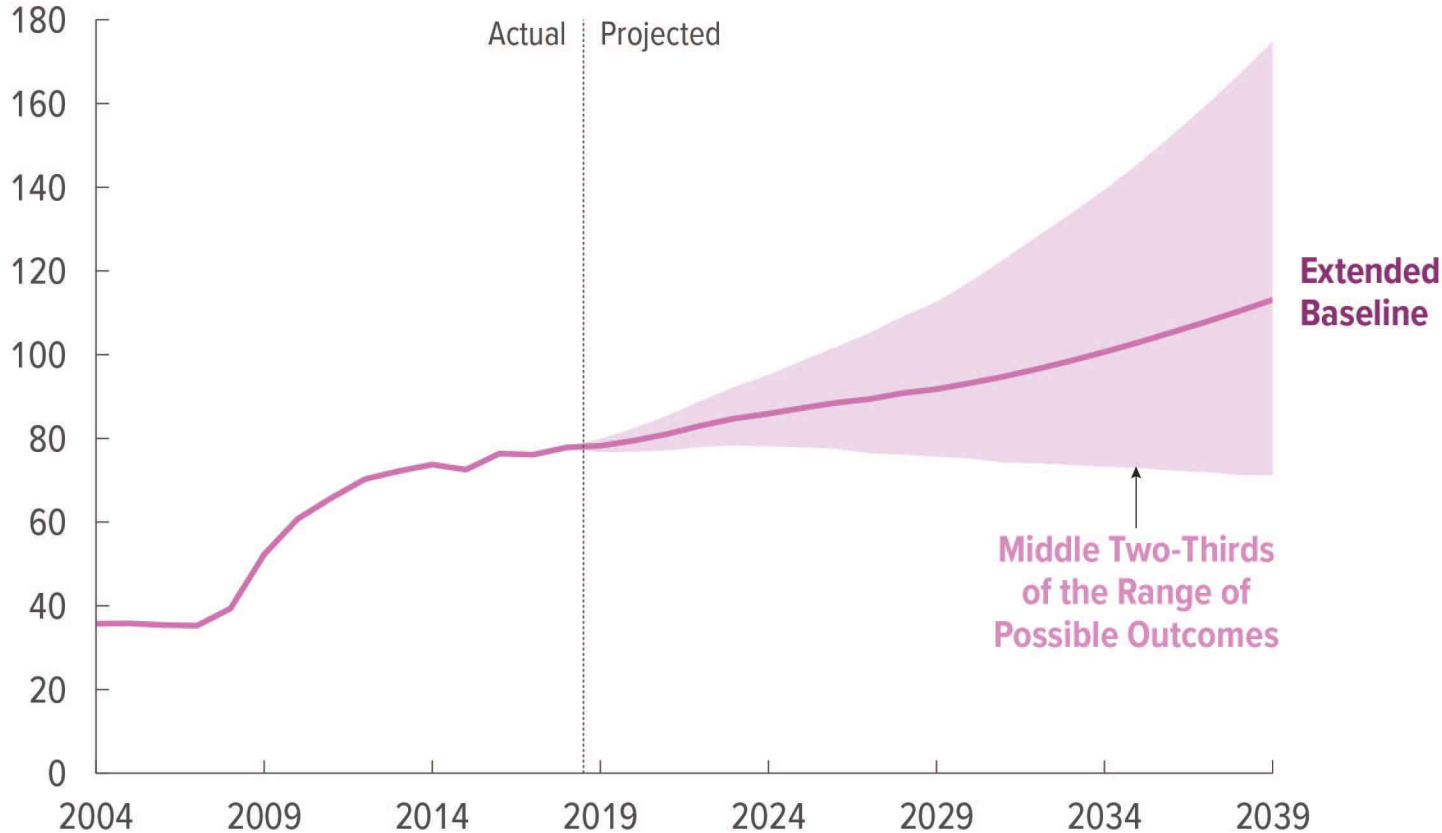
To quantify that uncertainty, CBO examined the extent to which federal debt, measured as a percentage of GDP, would differ if a set of key factors—several demographic and economic factors and the growth of health care costs—deviated from the paths underlying the extended baseline projections.

The agency also analyzed the sensitivity of its budget projections to higher and lower values for some of those factors in isolation.



# Uncertainty in CBO's Projections of Federal Debt Held by the Public

Percentage of Gross Domestic Product

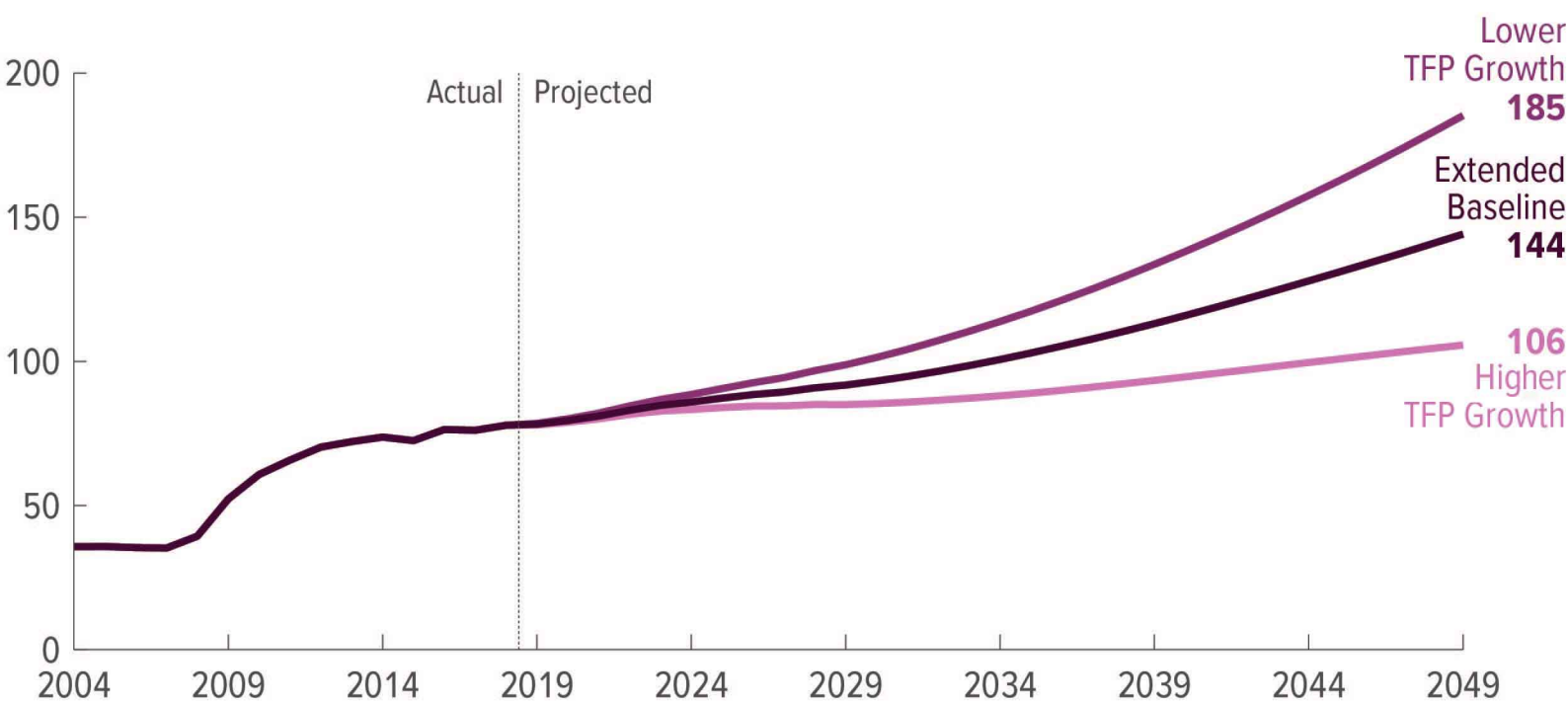


Even if the values of economic and demographic factors differed from those underlying the extended baseline projections, in 20 years, federal debt would probably be much higher than it is today.

CBO estimates that there is a two-thirds chance that federal debt would be between 71 percent and 175 percent of GDP in 2039 if current laws generally remained unchanged.

# Federal Debt If Total Factor Productivity Growth Differed From the Values Underlying CBO's Projections by 0.5 Percentage Points

Percentage of Gross Domestic Product

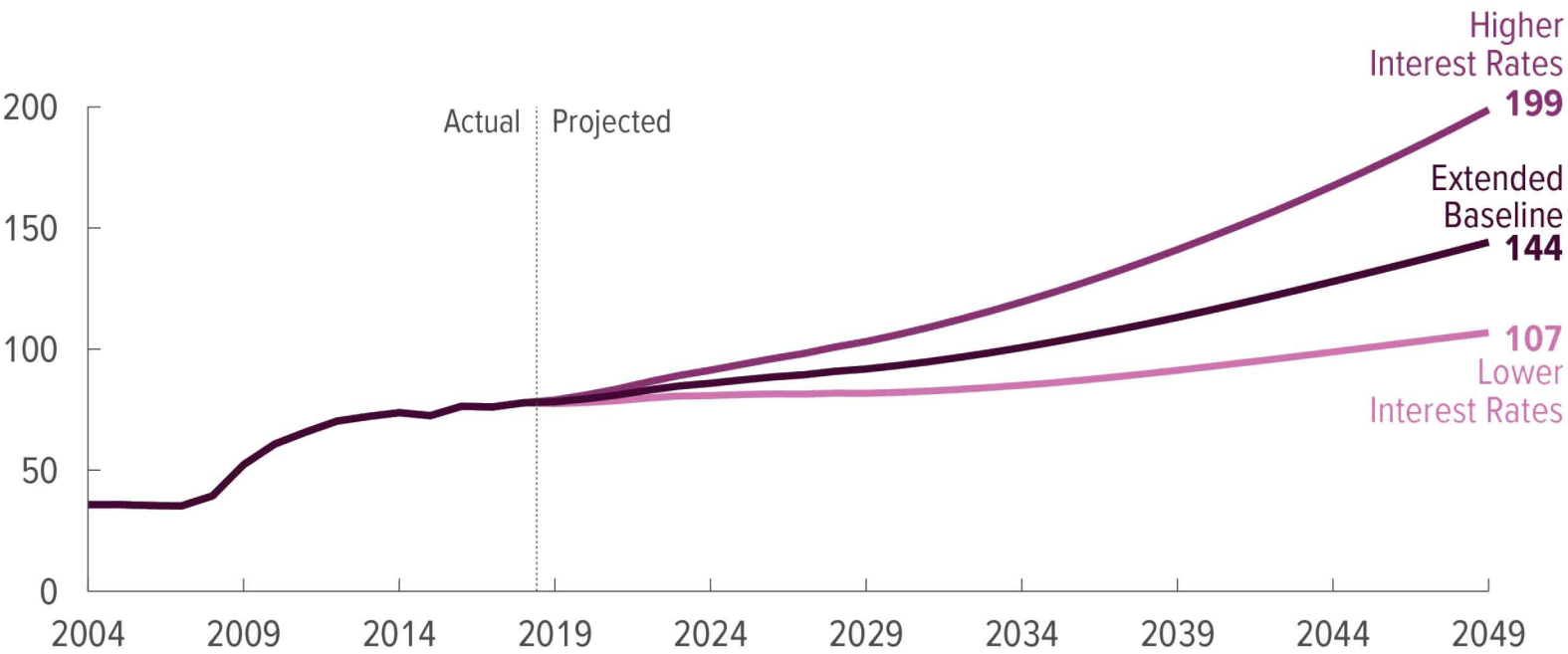


Even if total factor productivity grew more quickly than CBO estimated when constructing the extended baseline projections, federal debt in 2049 would still be higher than it is today, . . .

TFP = total factor productivity, which is average real (inflation-adjusted) output per unit of combined labor and capital services.

# Federal Debt If Interest Rates Differed From the Values Underlying CBO's Projections by 1 Percentage Point

Percentage of Gross Domestic Product



... and the same would be true if interest rates were lower than CBO estimated.

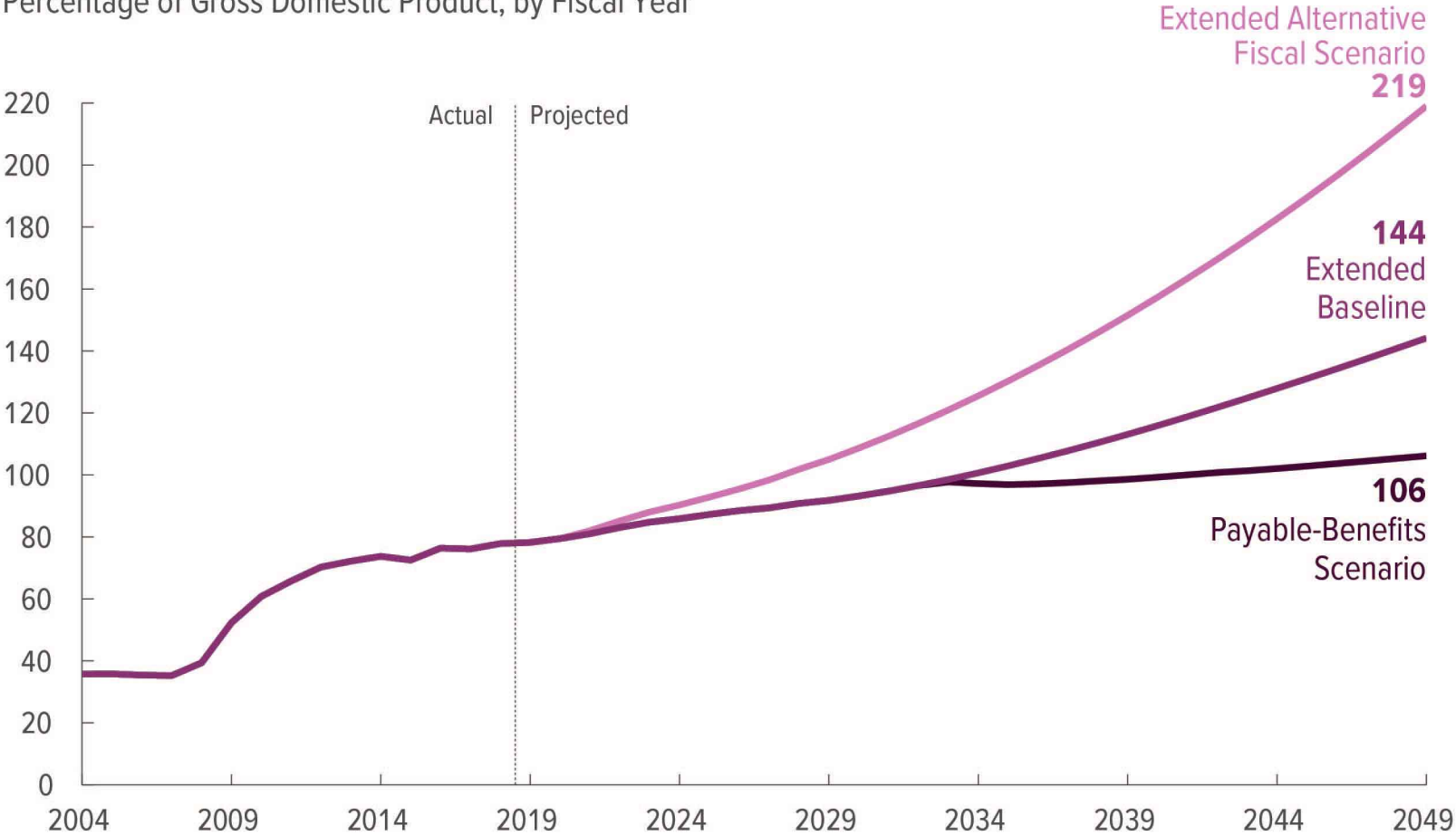
CBO's extended baseline projections are constructed under the assumption that current laws generally do not change. But CBO also examined budgetary outcomes under two alternative scenarios:

- An extended alternative fiscal scenario, under which substantial tax increases and discretionary spending cuts would not take place as scheduled and current law would be changed to maintain certain other policies now in place; and
- A payable-benefits scenario, in which Social Security benefits would be limited to the amounts payable from dedicated funding sources once Social Security's combined trust funds were exhausted in 2032.

CBO also estimated the size of changes in spending or revenues that would be needed if lawmakers wanted to achieve some specific targets for federal debt.

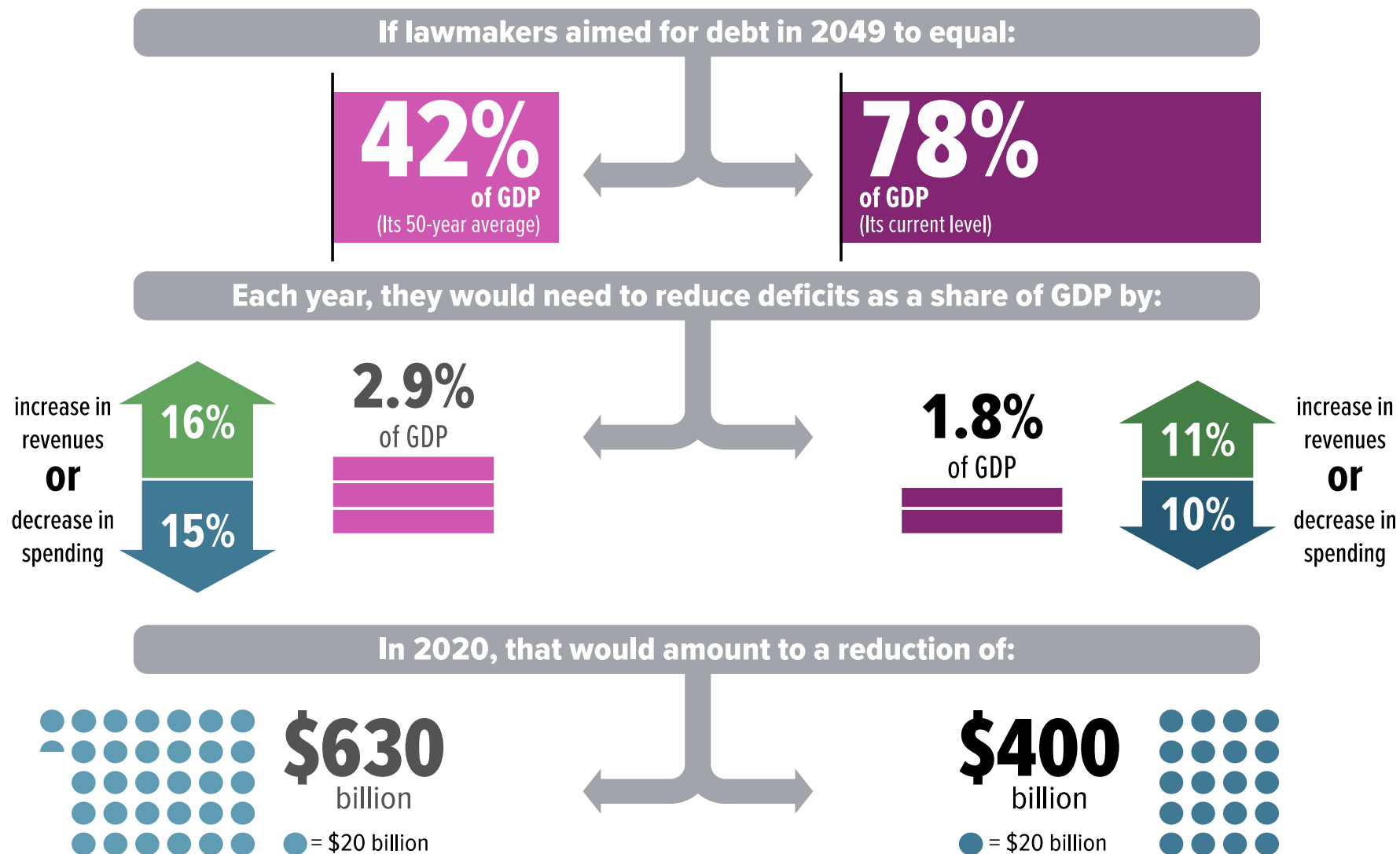
# Debt Under Three Scenarios

Percentage of Gross Domestic Product, by Fiscal Year



Debt would be greater under the extended alternative fiscal scenario, and less under the payable-benefits scenario, than it is in the extended baseline projections.

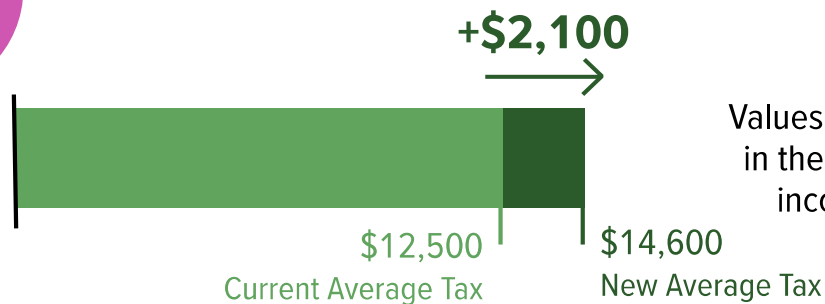
# The Size of Policy Changes Needed to Make Federal Debt Meet Two Possible Goals in 2049



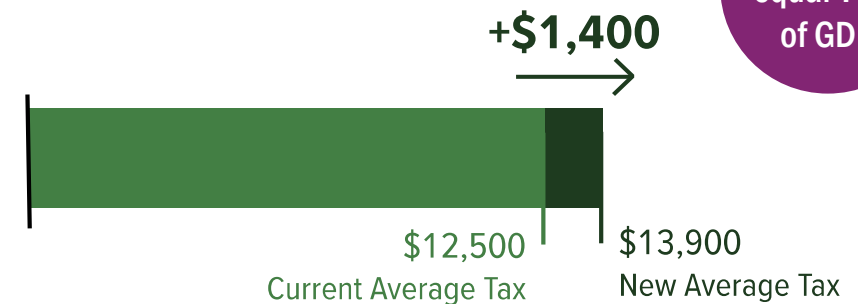
# The Size of Policy Changes Needed to Make Federal Debt Meet Two Possible Goals in 2049 (Continued)

For debt to  
equal 42%  
of GDP

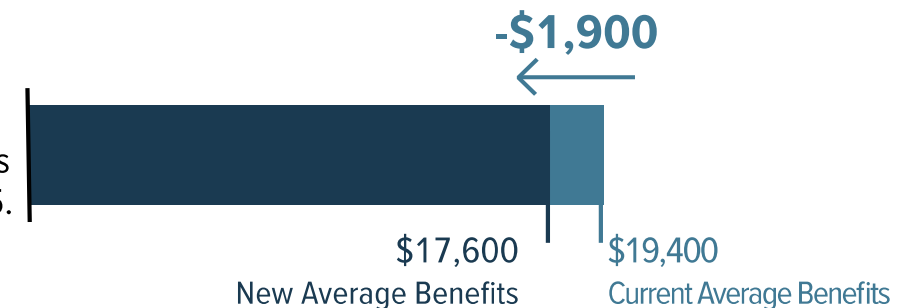
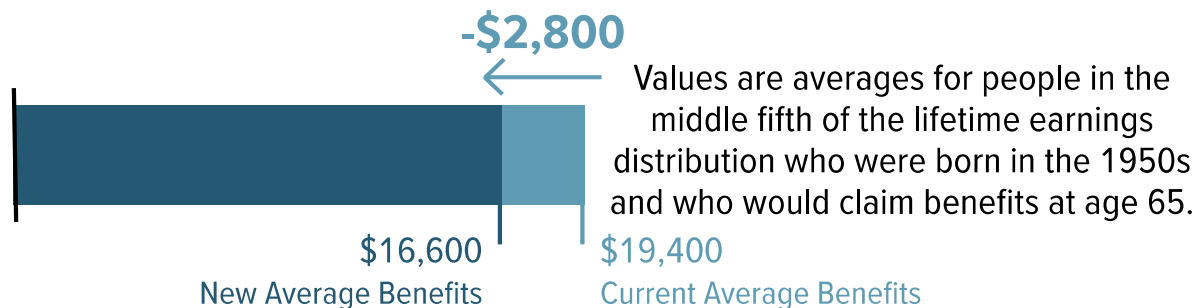
If the changes were equal percentage increases in all types of revenues, taxes per household in 2020 would be higher than they would be under current law by:



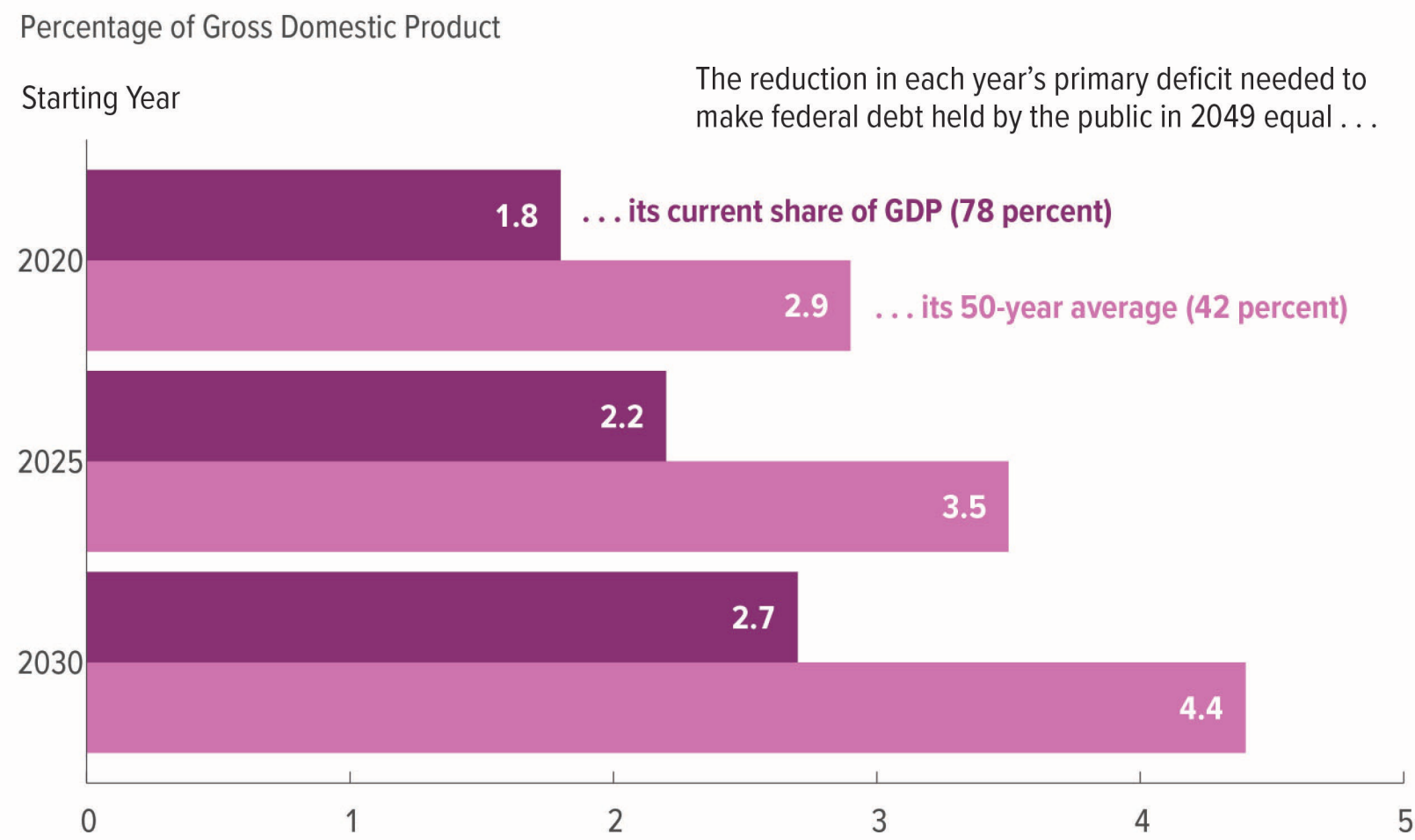
For debt to  
equal 78%  
of GDP



If the changes were equal percentage cuts in all types of noninterest spending, initial Social Security benefits in 2020 would be lower than they would be under current law by:



# How Timing Affects the Size of Policy Changes Needed to Make Federal Debt Meet Two Possible Goals in 2049



The longer lawmakers waited to implement those policies, the larger the annual deficit reductions would need to be. Moreover, the later such policy changes occurred, the more the burden would rest on younger generations.



# About This Document

Aaron Betz, Devrim Demirel, Edward Gamber, Ed Harris, John McClelland, Marina Miller, Xiaotong Niu, Charles Pineles-Mark, Ricci Reber, and Julie Topoleski contributed to this document.

For more details, see *The 2019 Long-Term Budget Outlook* (June 2019), [www.cbo.gov/publication/55331](https://www.cbo.gov/publication/55331), which is the result of work by many analysts at CBO.