Testimony

The 2020 Long-Term Budget Outlook

Phillip L. Swagel
Director

Before the
Subcommittee on Fiscal Responsibility and Economic Growth
Committee on Finance
United States Senate

October 7, 2020
Chairman Cassidy, Ranking Member Hassan, and Members of the Subcommittee, thank you for inviting me to testify about the Congressional Budget Office's most recent long-term budget projections, which the agency released in September in the report *The 2020 Long-Term Budget Outlook*. Today, I will focus on the long-term fiscal challenges facing the nation that are the subject of that report.

Each year, CBO issues a set of long-term budget projections—often referred to as the extended baseline projections—that provide estimates of what federal debt, deficits, spending, and revenues would be over the next 30 years if current laws generally remained unchanged. Relative to the size of the economy, federal debt is higher in this year’s projections than it was in last year’s projections. The economic disruption caused by the 2020 coronavirus pandemic and the federal government’s response to it contribute significantly to that difference.

### Debt and Deficits

Federal debt held by the public is projected to equal 195 percent of gross domestic product (GDP) in 2050, and the deficit is projected to equal 13 percent of GDP.

In CBO’s projections, federal debt held by the public surpasses its historical high of 106 percent of GDP in 2023 and continues to climb in most years thereafter. In 2050, debt as a percentage of GDP is nearly 2.5 times what it was at the end of last year.

Deficits grow from an average of 4.8 percent of GDP from 2010 to 2019 to an average of 10.9 percent from 2041 to 2050, driving up debt. Net spending for interest rises rapidly and accounts for much of the growth in total deficits in the last two decades of the projection period.
Federal spending grows from an average of 21.3 percent of GDP from 2010 to 2019 to an average of 29.3 percent from 2041 to 2050.

Net spending for interest, measured as a share of GDP, nearly quadruples over the last two decades of the projection period. In addition, after the effects of increased spending associated with the pandemic dissipate, spending as a share of GDP increases for the major health care programs and Social Security.
Revenues

In CBO's projections, federal revenues increase from an average of 16.4 percent of GDP from 2010 to 2019 to an average of 18.4 percent from 2041 to 2050.

Increases in receipts from individual income taxes account for most of the rise in total revenues. Those receipts increase in 2025 because of the expiration of nearly all provisions of the 2017 tax act that affect individual income taxes.
Policy Changes Needed to Meet Various Targets for Debt

The reduction in the annual primary deficit (which excludes net spending for interest) needed to make federal debt held by the public in 2050 equal a certain goal would be smaller the sooner the policy changes were implemented.

CBO examined goals for debt in 2050 to equal . . .

<table>
<thead>
<tr>
<th>Deficit Reduction Needed, by Starting Year</th>
<th>CBO examined goals for debt in 2050 to equal . . .</th>
</tr>
</thead>
<tbody>
<tr>
<td>2025 3.6 percent of GDP (Its 2019 amount)</td>
<td>79 percent of GDP (Its 2019 amount)</td>
</tr>
<tr>
<td>2030 2.9 percent of GDP (Roughly its current amount)</td>
<td>100 percent of GDP (Roughly its current amount)</td>
</tr>
<tr>
<td>2035 3.6 percent of GDP</td>
<td>5.9 percent of GDP (Roughly its current amount)</td>
</tr>
</tbody>
</table>

Over the long term, the largest source of growth in tax revenues is real bracket creep—the process in which, as income rises faster than inflation, a larger proportion of income becomes subject to higher tax rates.
The Long-Term Budget Outlook is one of a series of reports on the state of the budget and the economy that the Congressional Budget Office issues each year. This testimony summarizes that report. In keeping with CBO’s mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations.

The full report and supplemental data files, which were prepared by many people at CBO, are available on the agency’s website at www.cbo.gov/publication/56516. This testimony is available at www.cbo.gov/publication/56665.

Phillip L. Swagel
Director