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

Phillip L. Swagel, Director

March 14, 2023

Honorable Sheldon Whitehouse
Chairman
Committee on the Budget
United States Senate
Washington, DC 20510

Honorable Ron Wyden
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

Re: Spending Reductions That Would Balance the Budget in 2033

Dear Chairman Whitehouse and Chairman Wyden:

In the Congressional Budget Office's current baseline projections, the deficit reaches $2.9 trillion, or 7.3 percent of gross domestic product (GDP), in 2033.[1] In response to your request, this letter provides information about the two budgetary paths you specified, which would eliminate that deficit through reductions in spending. Those paths are illustrative, and the analysis presented here does not represent a cost estimate for legislation.

CBO's calculations show the following:

- The budget would be balanced in 2033 if all noninterest outlays were gradually reduced starting in 2024 so that they were 29 percent less than the amount in the agency's baseline projections in 2033. Under that path, revenues equal the baseline amounts, which reflect the scheduled expiration of certain provisions of the 2017 tax act.

- If those tax provisions were extended, revenues would be lower than they are in CBO's baseline projections, and larger reductions in spending would be needed to balance the budget. In that case, the budget would be balanced in 2033 if noninterest spending was

[1] CBO's baseline projections show what the federal budget and the economy would look like in the current year and over the next 10 years if current laws governing taxes and spending generally remained unchanged. See Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033* (February 2023), www.cbo.gov/publication/58848.

gradually reduced from 2024 to 2033 so that in that final year it was 35 percent less than the amount in CBO's baseline projections adjusted to incorporate the extension of the tax provisions.

- If some categories of noninterest spending were not subject to those reductions, the cuts in other types of spending would have to be larger.

The Budgetary Paths That CBO Analyzed

CBO first examined the two budgetary paths that you specified (see Figure 1 on page 7).[2] The specified reductions in spending do not reflect an analysis of any specific policies that might be implemented to bring about those paths.

Path With Baseline Revenues. Under this path, the deficit would be eliminated by reducing noninterest outlays to 15.3 percent of GDP in 2033. Noninterest outlays would be reduced each year so that they were lower than they are in CBO's baseline projections—0.6 percent of GDP lower in 2024, 1.3 percent of GDP lower in 2025, and so on, until they were 6.4 percent of GDP lower in 2033. That year, noninterest outlays would be 29 percent less than they are in CBO's baseline projections.

Revenues would be the same as they are in CBO's current baseline budget projections. Because cuts in noninterest spending would reduce federal borrowing, net outlays for interest in 2033 would also be less than they are in CBO's baseline. Together, those reductions would eliminate the deficit in 2033.

Path Incorporating Extensions of Certain Provisions of the 2017 Tax Act. Under this path, revenues and outlays would be adjusted to account for CBO's most recent estimates of the effects of extending certain provisions of the 2017 tax act—namely, the changes to individual income tax provisions, the higher estate and gift tax exemptions, the changes to the tax treatment of investment costs, and changes to certain business tax

[2] For an example of a previous report that provided an analysis of budgetary paths, see Congressional Budget Office, *Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Enzi, September 2017* (September 2017), www.cbo.gov/publication/53152.

provisions implemented under that law.[3] The adjustments made to account for extending those provisions would increase deficits in relation to the amounts in CBO's baseline projections, so larger reductions in spending than those under the first path would be required to balance the budget in 2033.

Noninterest outlays would be reduced to 14.2 percent of GDP in 2033—1.1 percent of GDP less than they would be under the path with baseline revenues. Noninterest outlays would be reduced each year in relation to the amounts in CBO's baseline projections: They would be 0.8 percent of GDP lower than those in the baseline in 2024, 1.5 percent of GDP lower in 2025, and so on, until they were 7.6 percent of GDP lower in 2033. That year, noninterest outlays would be 35 percent less than they are in CBO's baseline projections adjusted to incorporate the extension of the tax provisions. The spending cuts combined with the resulting reductions in net outlays for interest would eliminate the deficit in 2033.

How Paths Differ From Policies. The budgetary paths you specified are illustrative and do not correspond to any specific spending policies. Legislation could reduce mandatory spending by making fewer people eligible for benefits or by reducing benefit amounts. Legislation could reduce discretionary spending by providing less funding for certain activities. It would take time for reductions in budget authority to result in reductions in outlays.

Spending Reductions With Some Categories Excluded

In the second part of the analysis, CBO analyzed the percentage decrease in outlays that would be needed if certain categories of spending that you specified were excluded from the reductions and were instead continued at baseline levels.

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[3] For details about the budgetary effects of those alternative assumptions about future revenue policies related to the 2017 tax act, see Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), Table 5-2, www.cbo.gov/publication/57950. For this analysis, CBO extrapolated using those estimates, adjusting them to reflect its current economic forecast. First, the agency adjusted the effects on the primary deficit to account for differences in its forecast of GDP. The agency then recalculated the debt service costs by using its current forecast of interest rates. The estimated effects of those alternative assumptions do not account for any resulting changes to the economy or for how those changes could, in turn, affect the budget.

Under the Congressional Budget Act of 1974, the staff of the Joint Committee on Taxation is responsible for estimating the cost of a change to tax law. Their estimate for the cost of extending provisions of the 2017 tax act could be higher or lower than the extrapolation that CBO used in the second budgetary path.

If some noninterest spending was excluded from the reduction, the percentage reduction in outlays in the remaining categories needed to balance the budget would be greater than the percentage required when all noninterest outlays are reduced.

Specifically, under the budgetary path with baseline revenues, noninterest spending in the applicable categories would need to be reduced in relation to the amounts in CBO's baseline projections by the following percentages in 2033 (see Table 1 on page 8):

- 29 percent, when the reduction is applied to all noninterest outlays;
- 41 percent, when the reduction is applied to all noninterest outlays other than those for Social Security;
- 57 percent, when the reduction is applied to all noninterest outlays other than those for Social Security and Medicare; and
- 86 percent, when the reduction is applied to all noninterest outlays other than those for Social Security, Medicare, defense discretionary programs, and mandatory veterans' programs.[4]

The corresponding reductions under the budgetary path incorporating extensions of certain provisions of the 2017 tax act are larger: 35 percent, 48 percent, 67 percent, and 100 percent (see Table 2 on page 9). Under that path, eliminating all noninterest outlays other than those for Social Security, Medicare, defense discretionary programs, and mandatory veterans' programs would, according to CBO's calculations, result in a very small deficit rather than a balanced budget in 2033. In that case, outlays for all major health care programs other than Medicare, all income security programs, all federal civilian and retirement programs, all other mandatory programs except for Social Security and veterans' programs, and all nondefense discretionary programs would be reduced to zero.

Limitations of the Analysis

This analysis is more simplified and mechanical than the more comprehensive approach CBO would typically use when estimating the effects of particular policies and thus has several limitations.

[4] For this analysis, Medicare outlays are net of offsetting receipts, which are mostly premiums paid by beneficiaries.

It does not account for any behavioral effects of the budgetary changes, some of which might change revenues or spending for certain programs. For example, a reduction in spending on income security programs or Medicaid could affect spending for Social Security, Medicare, or veterans' programs.

This analysis also does not account for the effects that the reductions in spending would have on the economy in the short term or the effects that decreased federal borrowing would have on the economy in the long term:

- Reductions in spending would decrease demand for goods and services in the short term below what it otherwise would be, and thus, they would be expected to hold down economic growth and income in the short term.

- Over the longer term, the resulting reduction in deficits and the associated decrease in federal borrowing would push down interest rates and thus increase private investment in capital, causing output to be higher than it would be otherwise. More private investment would increase the amount of capital per worker, making workers more productive and leading to higher wages, which would increase people's incentives to work and thereby lead to a larger supply of labor. Additionally, more private investment tends to reduce deficits.

Because the paths do not account for the effects of the policies that would be implemented to reduce spending, the analysis does not incorporate the ways in which changes in fiscal policy could affect productivity growth or people's incentives to work or save.

I hope this information is helpful to you. If you have any additional questions, please contact me.

Sincerely,

Phillip L. Swagel
Director

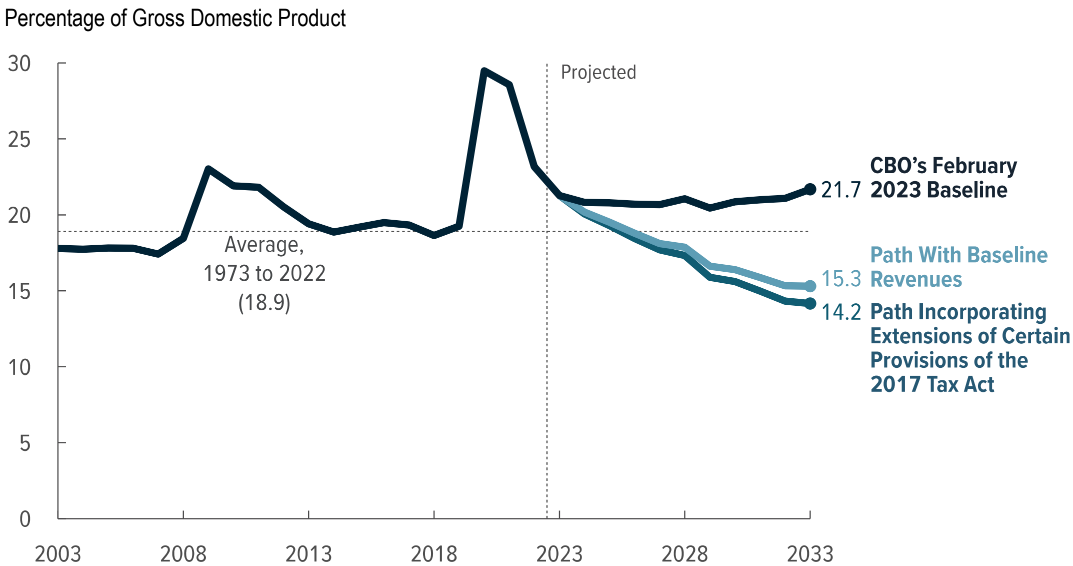
Attachments

cc: Honorable Chuck Grassley
Ranking Member
Committee on the Budget

Honorable Mike Crapo
Ranking Member
Committee on Finance

Figure 1. [Return to Text]

Noninterest Outlays in CBO's Baseline and Under Two Specified Paths to Balance the Budget in 2033



Data source: Congressional Budget Office.

Table 1. [Return to Text]

CBO's Projections for 2033 Under a Budgetary Path With Baseline Revenues

			Reductions Applied to All Noninterest Outlays Except Those for . . .		
	CBO's February 2023 Baseline Projections	Reductions Applied to All Noninterest Outlays	Social Security	Social Security and Medicare	Social Security, Medicare, Defense Discretionary Programs, and Mandatory Veterans' Programs
Percentage Reduction in Outlays	**n.a.**	**29**	**41**	**57**	**86**
			In Billions of Dollars		
Revenues	**7,100**	**7,100**	**7,100**	**7,100**	**7,100**
Outlays					
Social Security	2,350	1,660	2,350	2,350	2,350
Medicare	1,730	1,220	1,030	1,730	1,730
Defense Discretionary Programs	1,110	780	660	480	1,110
Mandatory Veterans' Programs	390	270	230	170	390
Nondefense Discretionary Programs	1,270	900	750	550	180
Major Health Care Programs Excluding Medicare	1,010	710	600	440	150
Income Security Programs	440	310	260	190	60
Federal Civilian and Military Retirement	280	190	160	120	40
Other Mandatory Programs	150	100	90	60	20
Offsetting Receipts	-200	-140	-120	-90	-30
Subtotal, Noninterest Outlays	**8,520**	**6,010**	**6,010**	**6,010**	**6,010**
Net Interest	1,430	1,090	1,090	1,090	1,090
Total Outlays	**9,950**	**7,100**	**7,100**	**7,100**	**7,100**
Deficit	-2,850	0	0	0	0
			As a Percentage of Gross Domestic Product		
Revenues	**18.1**	**18.1**	**18.1**	**18.1**	**18.1**
Outlays					
Social Security	6.0	4.2	6.0	6.0	6.0
Medicare	4.4	3.1	2.6	4.4	4.4
Defense Discretionary Programs	2.8	2.0	1.7	1.2	2.8
Mandatory Veterans' Programs	1.0	0.7	0.6	0.4	1.0
Nondefense Discretionary Programs	3.2	2.3	1.9	1.4	0.5
Major Health Care Programs Excluding Medicare	2.6	1.8	1.5	1.1	0.4
Income Security Programs	1.1	0.8	0.7	0.5	0.2
Federal Civilian and Military Retirement	0.7	0.5	0.4	0.3	0.1
Other Mandatory Programs	0.4	0.3	0.2	0.2	0.1
Offsetting Receipts	-0.5	-0.4	-0.3	-0.2	-0.1
Subtotal, Noninterest Outlays	**21.7**	**15.3**	**15.3**	**15.3**	**15.3**
Net Interest	3.6	2.8	2.8	2.8	2.8
Total Outlays	**25.3**	**18.1**	**18.1**	**18.1**	**18.1**
Deficit	-7.3	0	0	0	0

Data source: Congressional Budget Office.

Nominal values have been rounded to the nearest $10 billion. Numbers sometimes do not add up to totals because of rounding. n.a. = not applicable.

Table 2.

[Return to Text]

CBO's Projections For 2033 Under a Budgetary Path Incorporating Extensions of Certain Provisions of the 2017 Tax Act

	CBO's February 2023 Baseline Projections, Adjusted to Incorporate the Extension of Certain Tax Provisions	Reductions Applied to All Noninterest Outlays	Reductions Applied to All Noninterest Outlays Except Those for . . . Social Security	Social Security and Medicare	Social Security, Medicare, Defense Discretionary Programs, and Mandatory Veterans' Programs
Percentage Reduction in Outlays	**n.a.**	**35**	**48**	**67**	**100**
			In Billions of Dollars		
Revenues	**6,680**	**6,680**	**6,680**	**6,680**	**6,680**
Outlays					
Social Security	2,350	1,530	2,350	2,350	2,350
Medicare	1,730	1,130	900	1,730	1,730
Defense Discretionary Programs	1,110	720	580	370	1,110
Mandatory Veterans' Programs	390	250	200	130	390
Nondefense Discretionary Programs	1,270	830	660	420	0
Major Health Care Programs Excluding Medicare	1,010	660	520	330	0
Income Security Programs	460	300	240	150	0
Federal Civilian and Military Retirement	280	180	140	90	0
Other Mandatory Programs	150	90	80	50	0
Offsetting Receipts	-200	-130	-100	-70	0
Subtotal, Noninterest Outlays	**8,540**	**5,560**	**5,560**	**5,560**	**5,590**
Net Interest	1,520	1,120	1,120	1,120	1,120
Total Outlays	**10,060**	**6,680**	**6,680**	**6,680**	**6,700**
Deficit	-3,380	0	0	0	-20
			As a Percentage of Gross Domestic Product		
Revenues	**17.0**	**17.0**	**17.0**	**17.0**	**17.0**
Outlays					
Social Security	6.0	3.9	6.0	6.0	6.0
Medicare	4.4	2.9	2.3	4.4	4.4
Defense Discretionary Programs	2.8	1.8	1.5	0.9	2.8
Mandatory Veterans' Programs	1.0	0.6	0.5	0.3	1.0
Nondefense Discretionary Programs	3.2	2.1	1.7	1.1	0
Major Health Care Programs Excluding Medicare	2.6	1.7	1.3	0.9	0
Income Security Programs	1.2	0.8	0.6	0.4	0
Federal Civilian and Military Retirement	0.7	0.5	0.4	0.2	0
Other Mandatory Programs	0.4	0.2	0.2	0.1	0
Offsetting Receipts	-0.5	-0.3	-0.3	-0.2	0
Subtotal, Noninterest Outlays	**21.7**	**14.2**	**14.2**	**14.2**	**14.2**
Net Interest	3.9	2.8	2.8	2.8	2.8
Total Outlays	**25.6**	**17.0**	**17.0**	**17.0**	**17.1**
Deficit	-8.6	0	0	0	-0.1

Data source: Congressional Budget Office.

Nominal values have been rounded to the nearest $10 billion. Numbers sometimes do not add up to totals because of rounding. n.a. = not applicable.