

The Budget Outlook and Options for Reducing the Deficit

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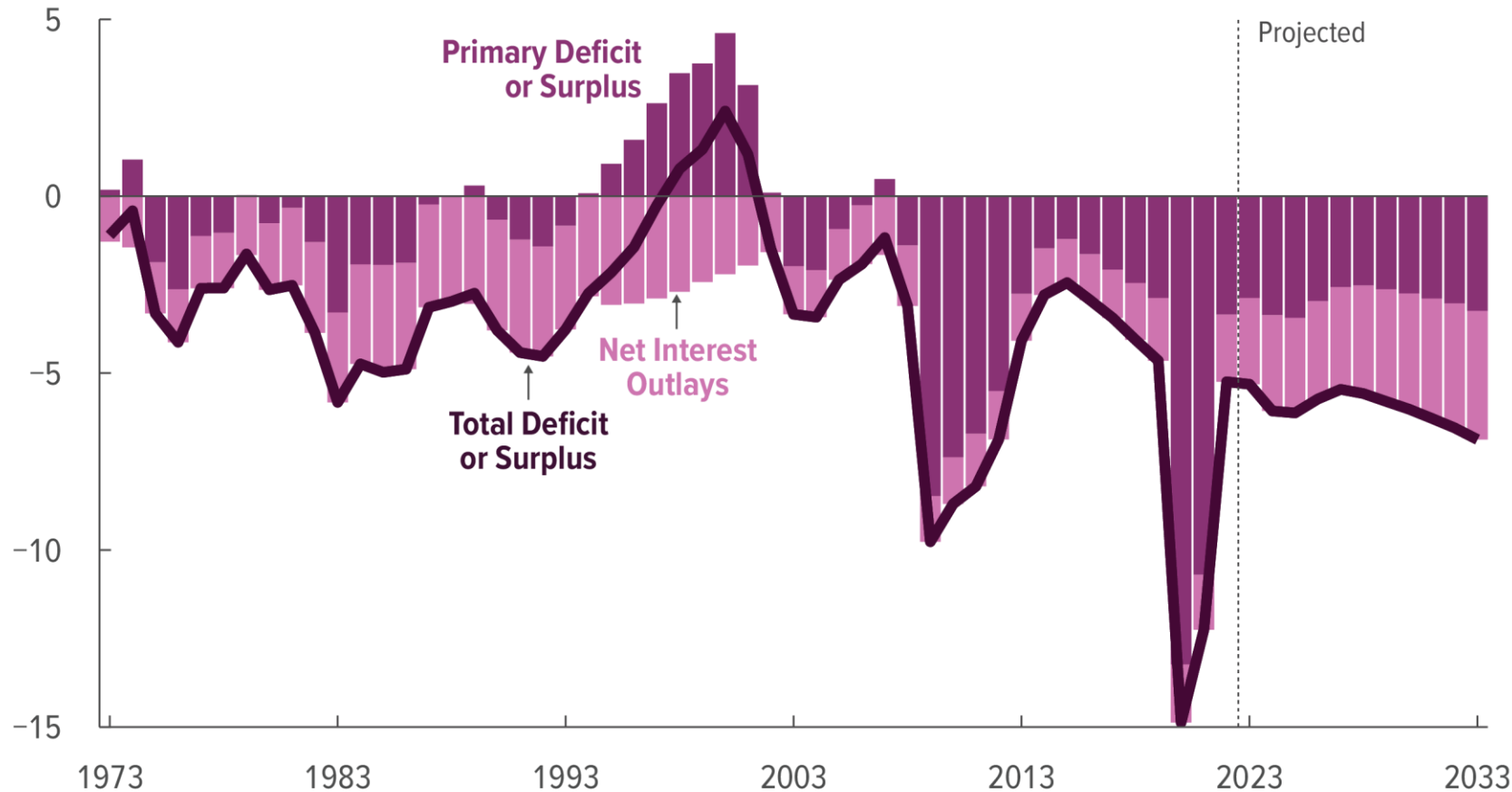
Key Points

CBO's baseline projections suggest that, over the long term, changes in fiscal policy would need to be made to address the rising costs of interest and mitigate other adverse consequences of high and rising debt.

- In coming decades, the aging of the population and rising health care costs will put increasing pressure on the federal budget.
- Revenues under current law will not keep pace with spending.
- Major trust funds will be exhausted within 10 years, reducing benefits for vulnerable people.
- Changes to both spending and revenues could be made in many ways.
- Undertaking new initiatives that were paid for would not improve the fiscal trajectory.
- The longer action is delayed, the larger the policy changes would need to be.

Total Deficits, Primary Deficits, and Net Interest Outlays

Percentage of Gross Domestic Product

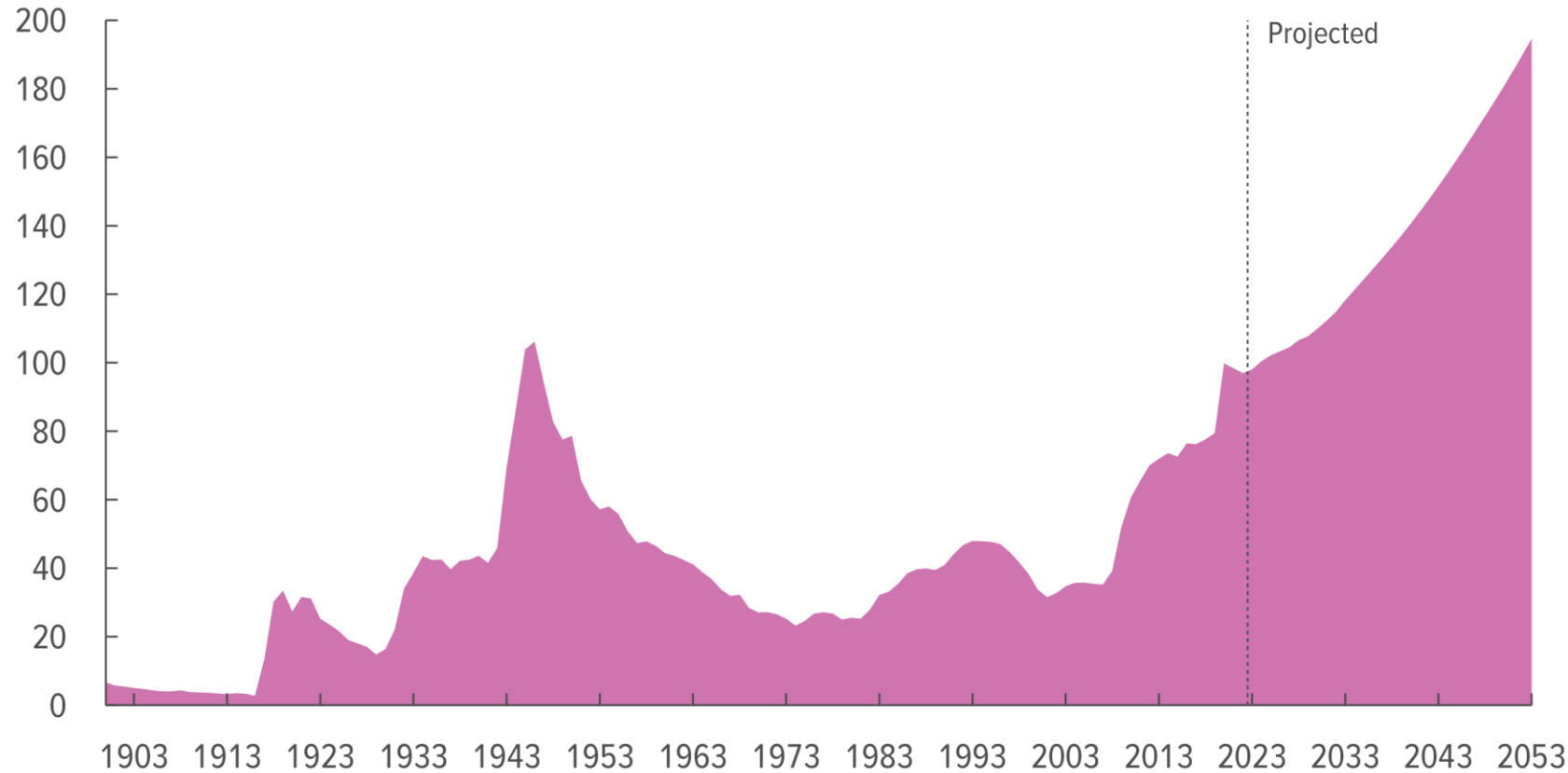


In CBO's projections, primary deficits (that is, revenues minus noninterest outlays) average 3.0 percent of GDP from 2024 to 2033, about double their average over the past 50 years, and total about \$10 trillion.

Net interest outlays average 3.1 percent of GDP during the projection period and also total roughly \$10 trillion.

Federal Debt Held by the Public

Percentage of Gross Domestic Product

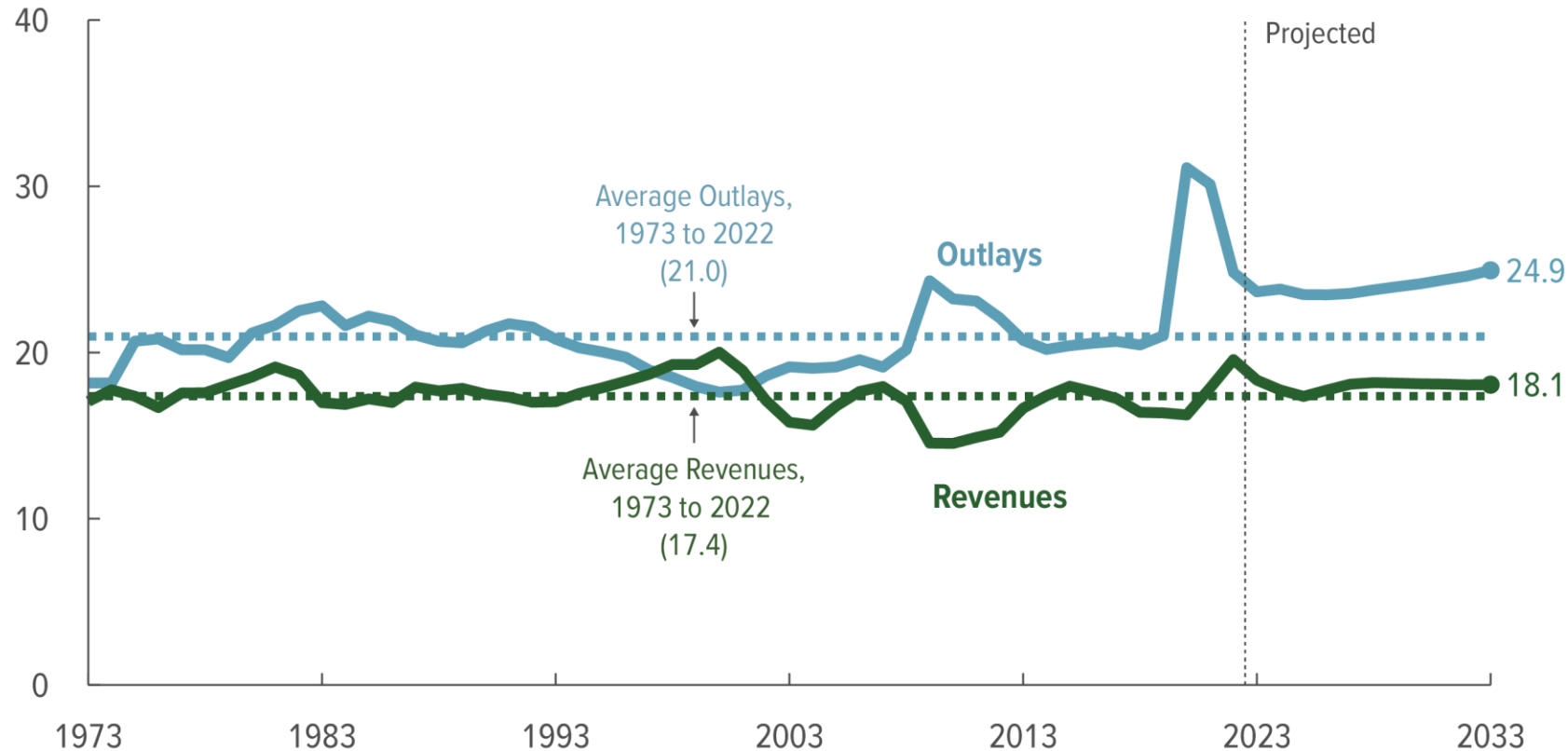


Federal debt held by the public is projected to increase in each year of the projection period and to reach 118 percent of GDP in 2033—higher than it has ever been.

In the two decades that follow, growing deficits are projected to push federal debt higher still, to 195 percent of GDP in 2053.

Total Outlays and Revenues

Percentage of Gross Domestic Product

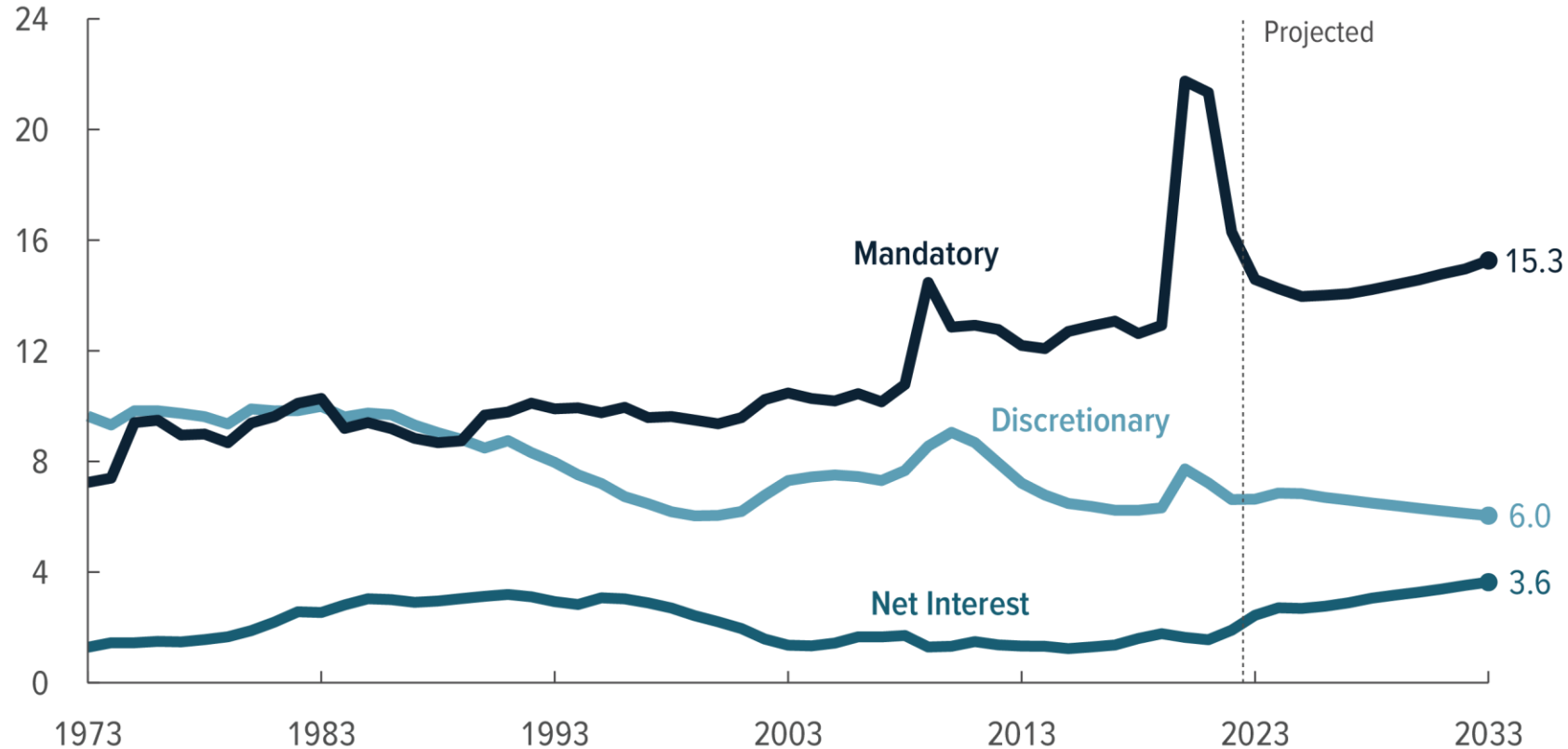


Measured as a percentage of GDP, projected outlays remain about the same for the next several years, as growth in outlays for interest payments and mandatory spending is offset in part by waning pandemic-related spending.

Outlays and revenues equal or exceed their 50-year averages in each year of the 2024–2033 period.

Outlays

Percentage of Gross Domestic Product



In CBO's projections, rising spending on Social Security and Medicare boosts mandatory outlays, but total discretionary spending falls in relation to GDP.

As the cost of financing the nation's debt grows, net outlays for interest increase substantially and, beginning in 2030, exceed their previous peak.

Revenues

Percentage of Gross Domestic Product



After reaching a historic high in 2022, receipts from individual income taxes are projected to fall in 2023 because collections from taxes on capital gains realizations and other sources, which have been strong in recent years, fall in CBO's projections.

Receipts are projected to rise again after 2025 because of the scheduled expiration of certain provisions of the 2017 tax act.

What Has CBO Said About the Debt Limit?

Because tax receipts through April were less than CBO anticipated in February, the agency now estimates that there is a significantly greater risk that the Treasury will run out of funds in early June.

Net of refunds, receipts collected in 2023 through April were about \$250 billion less than CBO anticipated in February, when it published its most recent baseline projections. That shortfall stems mainly from smaller-than-anticipated payments of individual and corporate income taxes.

CBO had previously projected, in *Federal Debt and the Statutory Limit, February 2023*, that extraordinary measures would probably be exhausted between July and September 2023. That report noted that the agency's projection was uncertain, particularly because receipts in April could be more or less than expected, and that the Treasury could run out of funds sooner.

CBO's next report on federal debt and the statutory limit will be published tomorrow.

Projected Savings From Options for Reducing the Deficit

Billions of Dollars

Option	Title	Savings, 2023–2032
1	Establish Caps on Federal Spending for Medicaid	501 to 871
2	Limit State Taxes on Health Care Providers	41 to 526
3	Reduce Federal Medicaid Matching Rates	68 to 667
4	Increase the Premiums Paid for Medicare Part B	57 to 448
5	Reduce Medicare Advantage Benchmarks	392
6	Reduce Tax Subsidies for Employment-Based Health Insurance	500 to 893
7	Reduce Social Security Benefits for High Earners	40 to 184
8	Set Social Security Benefits to a Flat Amount	270 to 593
9	Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes	670 to 1,204
10	Reduce Spending on Other Mandatory Programs	580
11	Reduce the Department of Defense’s Annual Budget	995
12	Reduce Nondefense Discretionary Spending	332
13	Increase Individual Income Tax Rates	502 to 1,329
14	Eliminate or Limit Itemized Deductions	541 to 2,507
15	Impose a New Payroll Tax	1,136 to 2,253
16	Impose a Tax on Consumption	1,950 to 3,050
17	Impose a Tax on Emissions of Greenhouse Gases	571 to 865

The range of savings for an option reflects the effects of different policy specifications for that option. See CBO, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), Table 1, www.cbo.gov/publication/58164. For a related discussion, see Phillip L. Swagel, “Options for Reducing the Deficit,” *CBO Blog* (March 6, 2023), www.cbo.gov/publication/58981.

Key Points Reiterated

CBO's baseline projections suggest that, over the long term, changes in fiscal policy would need to be made to address the rising costs of interest and mitigate other adverse consequences of high and rising debt.

- In coming decades, the aging of the population and rising health care costs will put increasing pressure on the federal budget.
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