Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

CBO's Analysis of the Long-Term Budgetary Outlook

November 16, 2023

Presentation at the University of Michigan's
71st Annual Economic Outlook Conference

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For information about the event, see www.lsa.umich.edu/econ/rsqe/conference.html.

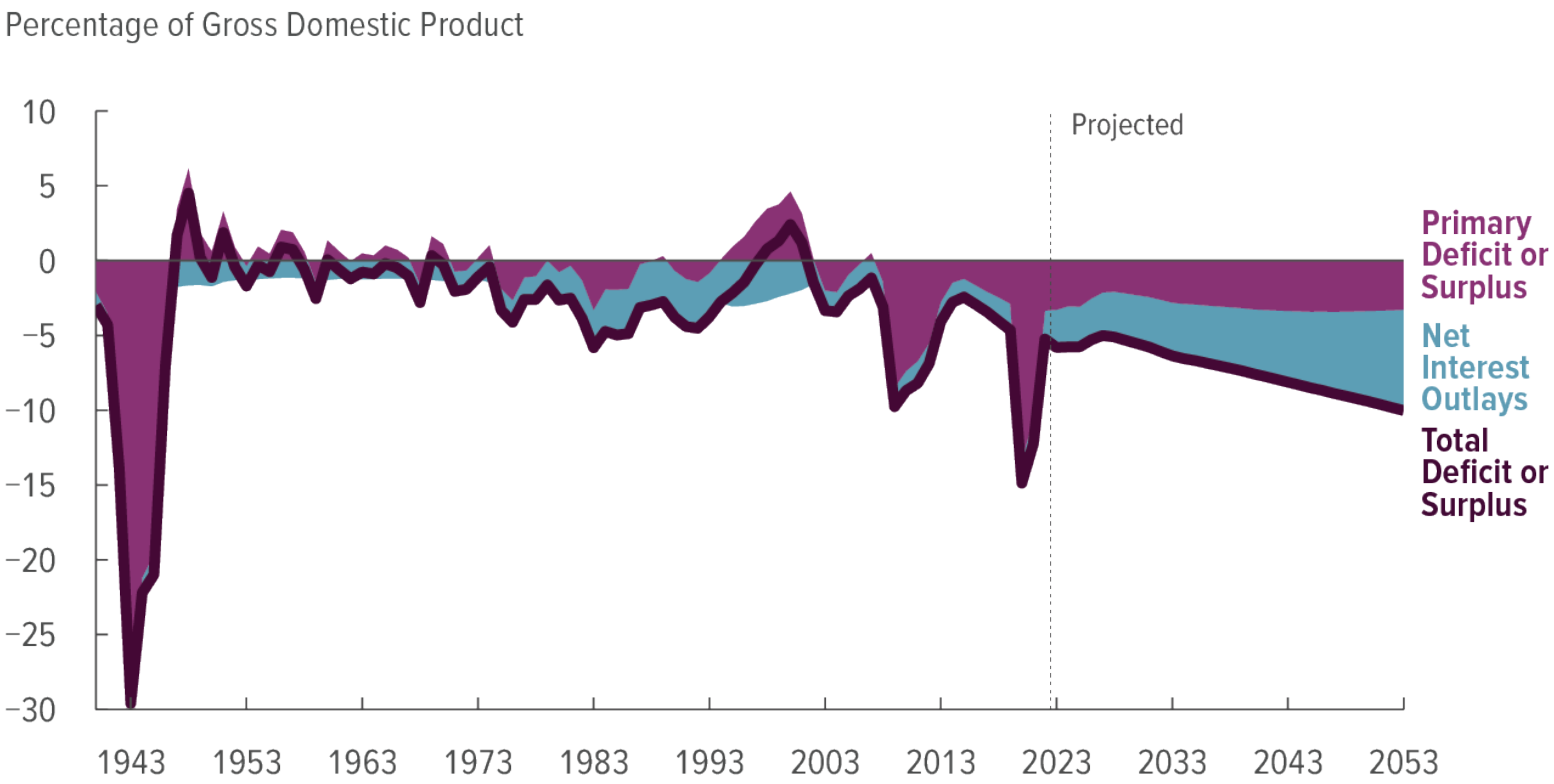
The 2023 Long-Term Outlook for the Federal Budget

Each year, the Congressional Budget Office provides the Congress with its projections of what the federal budget and the economy would look like over the next 30 years if current laws generally remained unchanged.

Those projections show the estimated effects of demographic trends, economic developments, and health care costs on federal spending, revenues, deficits, and debt.

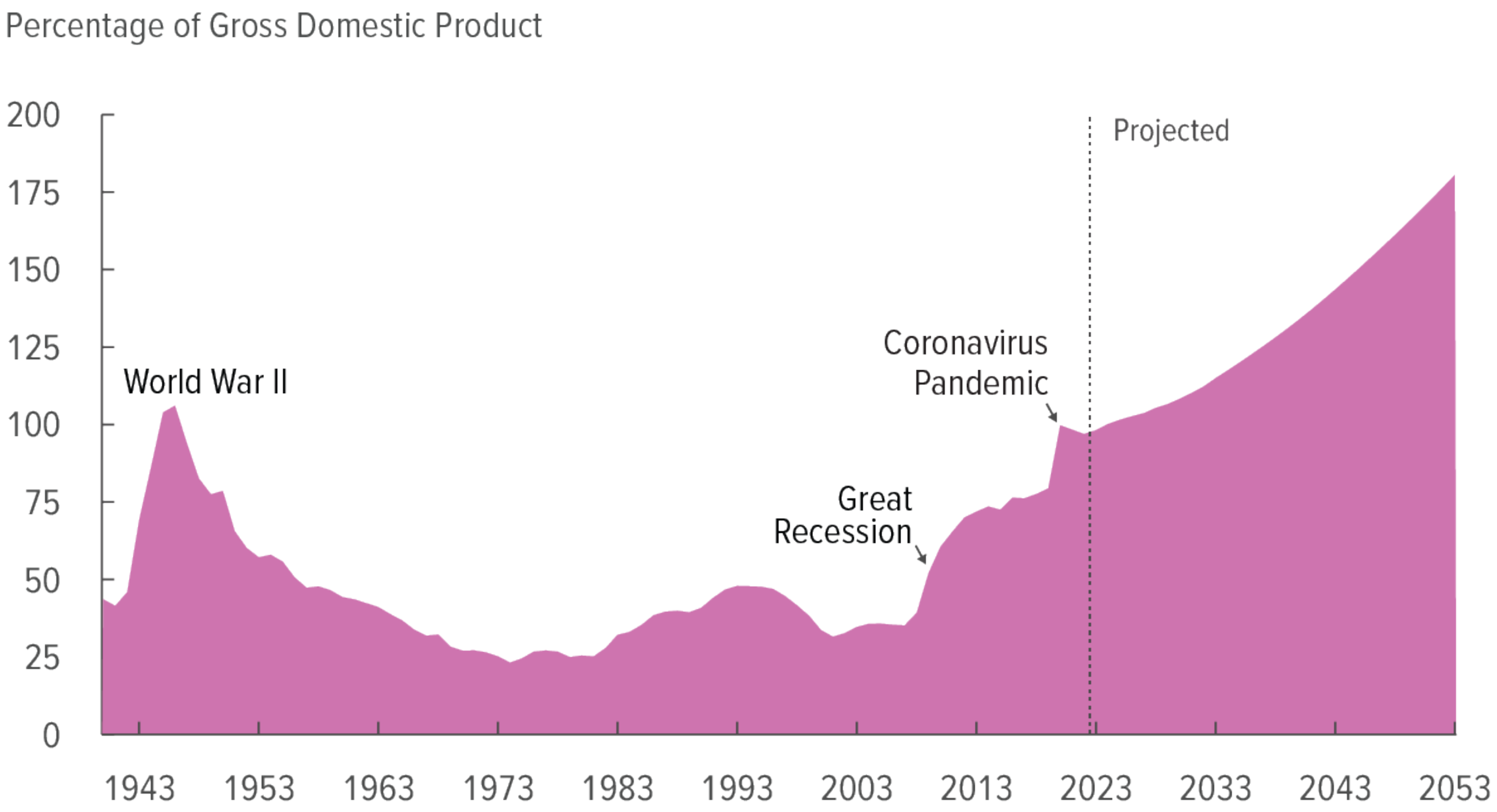
For details about the projections in this section, see Congressional Budget Office, *The 2023 Long-Term Budget Outlook* (June 2023), www.cbo.gov/publication/59014 .

Total Deficits, Primary Deficits, and Net Interest



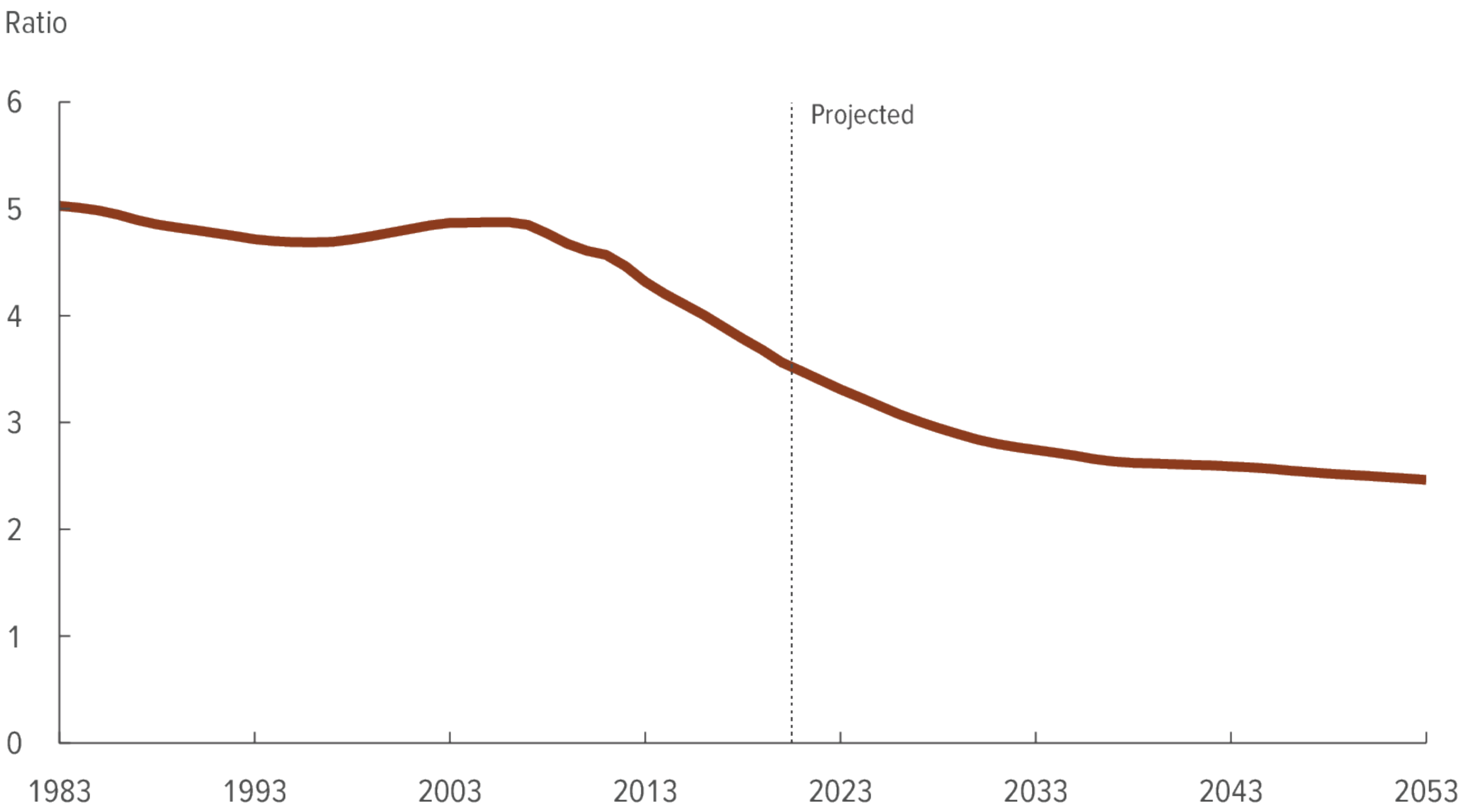
Primary deficits, which exclude net interest costs, equal 3.3 percent of gross domestic product (GDP) in both 2023 and 2053. Combined with rising interest rates, those large and sustained primary deficits cause net outlays for interest to almost triple in relation to GDP.

Federal Debt Held by the Public



In CBO's projections, debt rises in relation to GDP over the next three decades, exceeding any previously recorded level—and it is on track to continue growing after 2053.

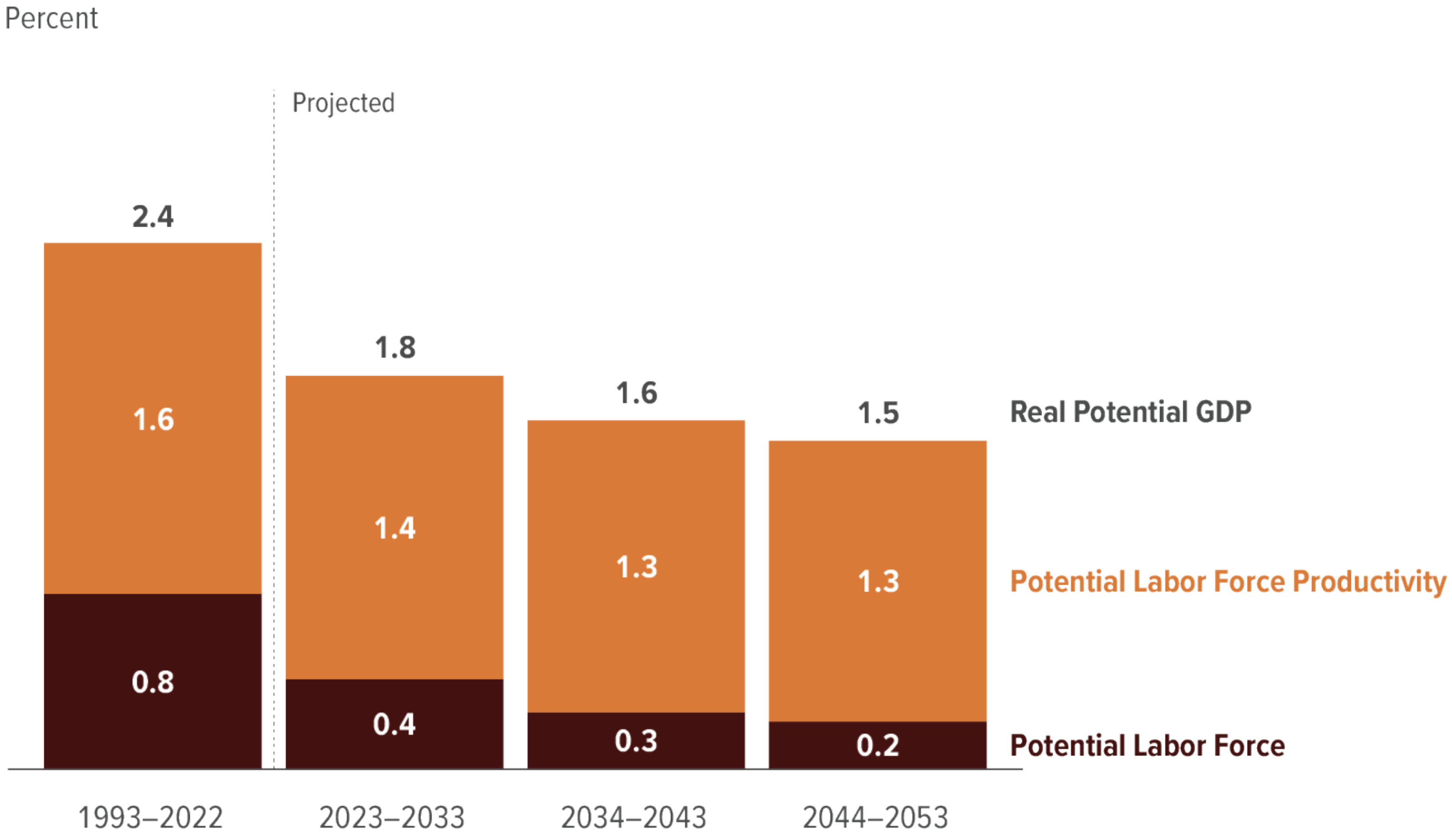
Size of the Population Ages 20 to 64 in Relation to the Population Age 65 or Older



In CBO’s projections, the number of people ages 20 to 64 measured in relation to the number of people age 65 or older declines.

In particular, the number of people in the younger age group—who are more likely to work and who generally pay more in taxes—grows more slowly than the number of people in the older age group—who are less likely to work, generally pay less in taxes, and are generally eligible for Social Security and Medicare.

Average Annual Growth of Real Potential GDP and Its Components

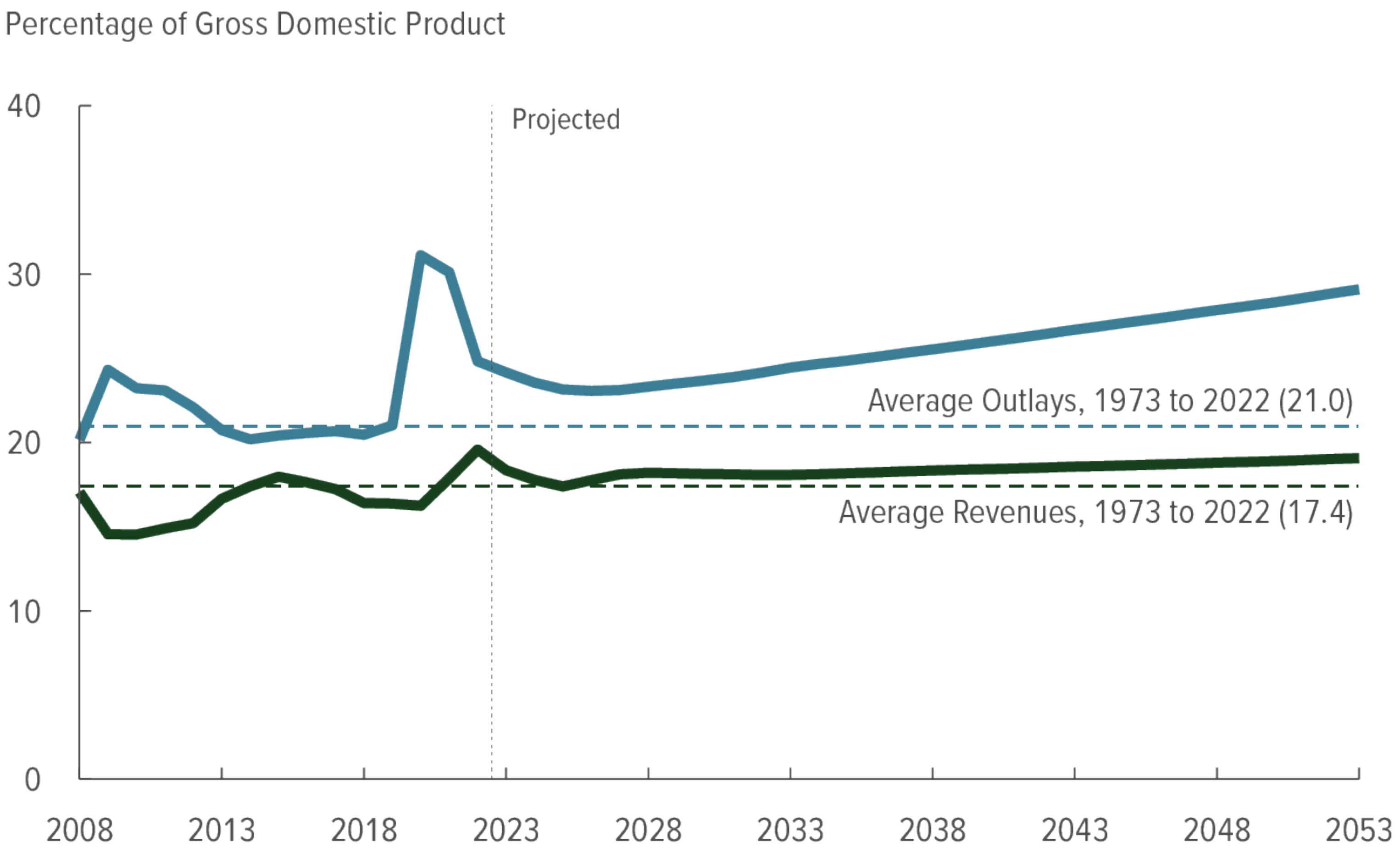


In CBO's projections, real potential GDP grows more slowly throughout the 2023–2053 period than it has, on average, over the past 30 years.

That slower growth is explained by slower growth in the potential labor force and in potential labor force productivity.

Real potential GDP is the maximum sustainable output of the economy, adjusted to remove the effects of inflation.

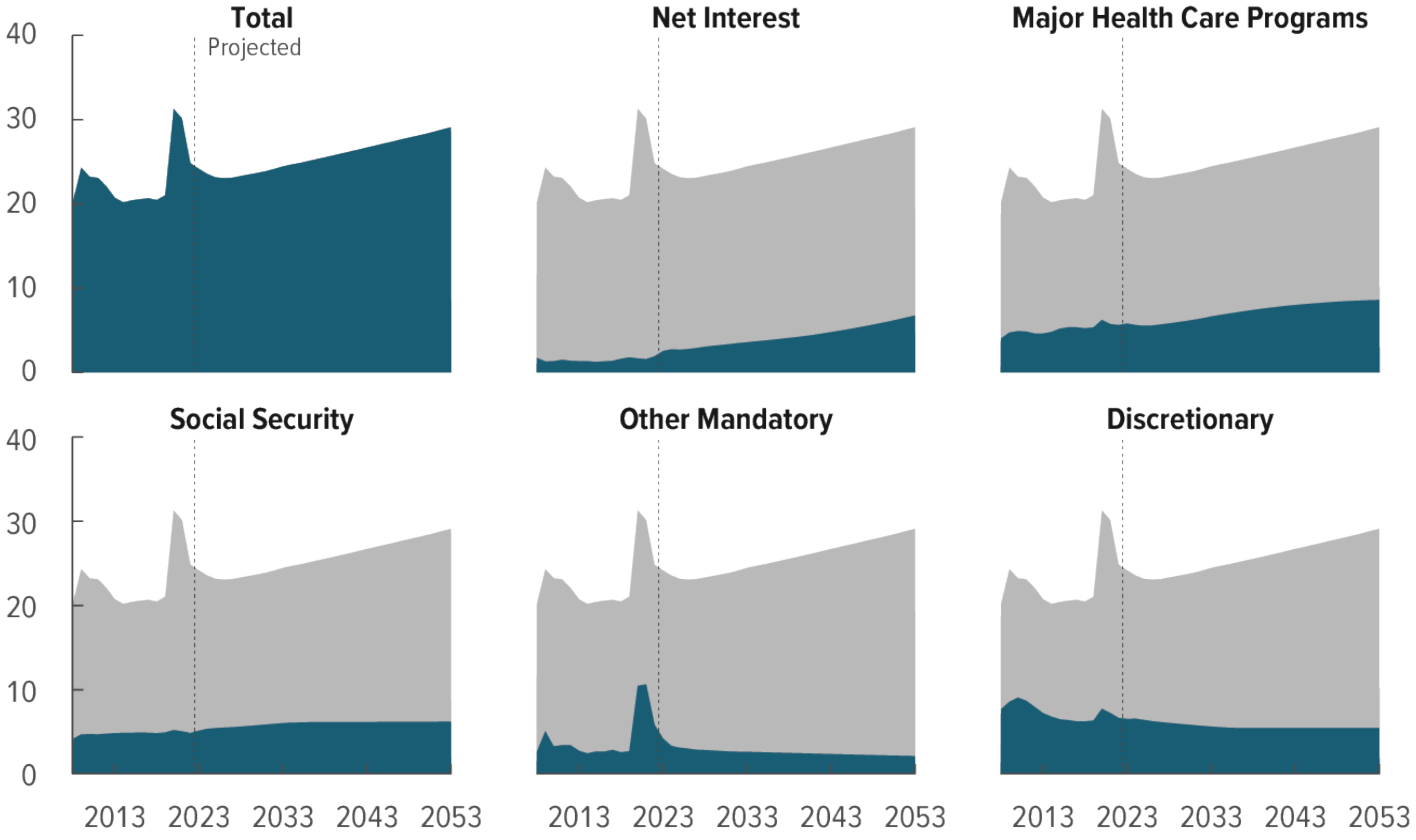
Total Outlays and Revenues



In most years, growth in outlays is projected to outpace growth in revenues, resulting in widening budget deficits.

Outlays, by Category

Percentage of Gross Domestic Product



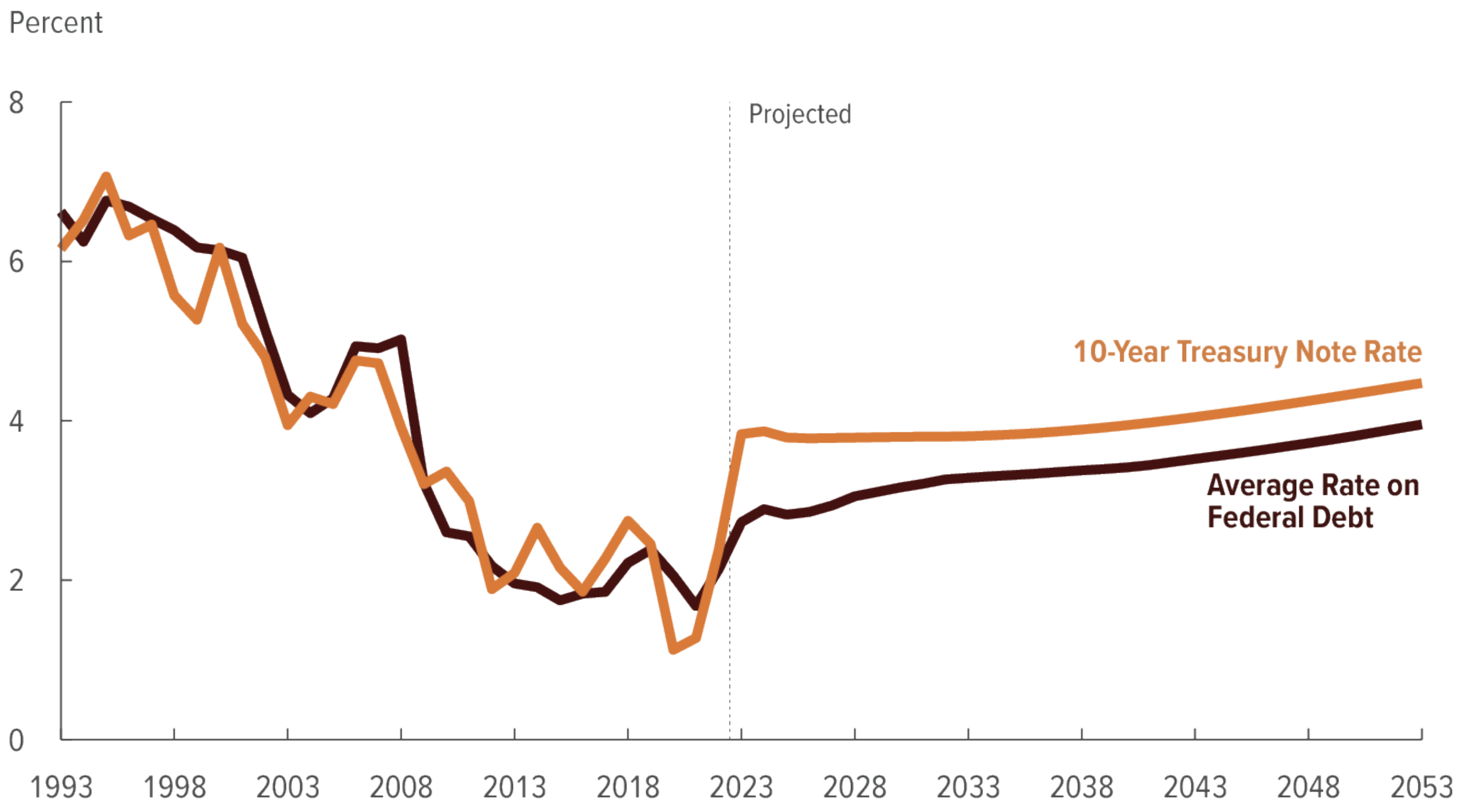
Rising interest rates and mounting debt cause net outlays for interest to increase from 2.5 percent of GDP in 2023 to 6.7 percent in 2053.

Outlays for the major health care programs rise from 5.8 percent of GDP to 8.6 percent as the average age of the population increases and health care costs grow.

The aging of the population also pushes up outlays for Social Security, which increase from 5.1 percent of GDP to 6.2 percent.

Outlays for major health care programs consist of spending on 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 Mandatory" consists of all mandatory spending other than that for Social Security and the major health care programs. It includes the refundable portions of the earned income tax credit, the child tax credit, and the American Opportunity Tax Credit.

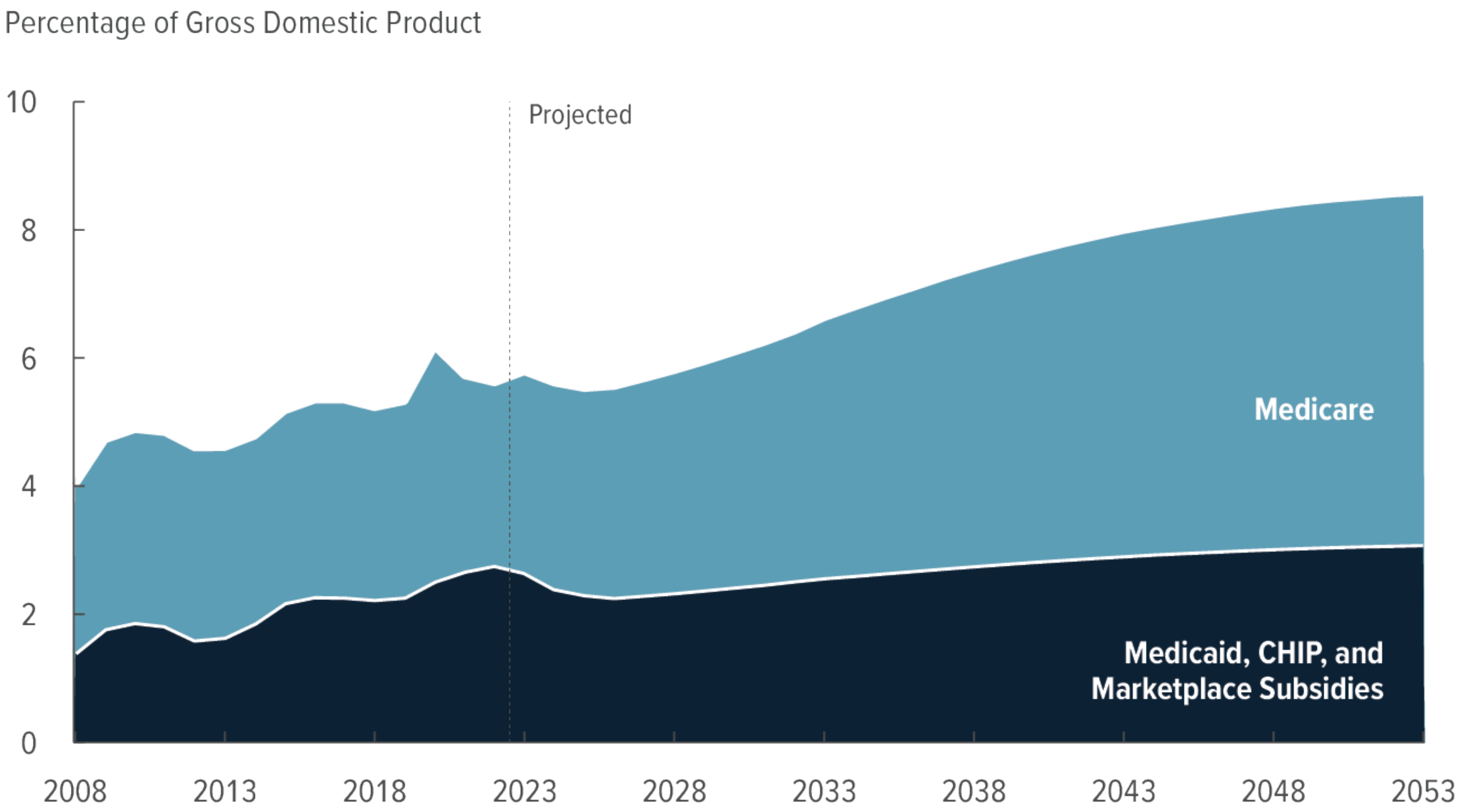
Average Interest Rates



Interest rates—which, along with primary deficits, help determine net outlays for interest—rise through 2053 but remain lower than they have been, on average, over the past three decades.

Projected interest rates remain below that average for several reasons, including slower growth of the labor force, an increase in savings available for investment, and slower growth of total factor productivity.

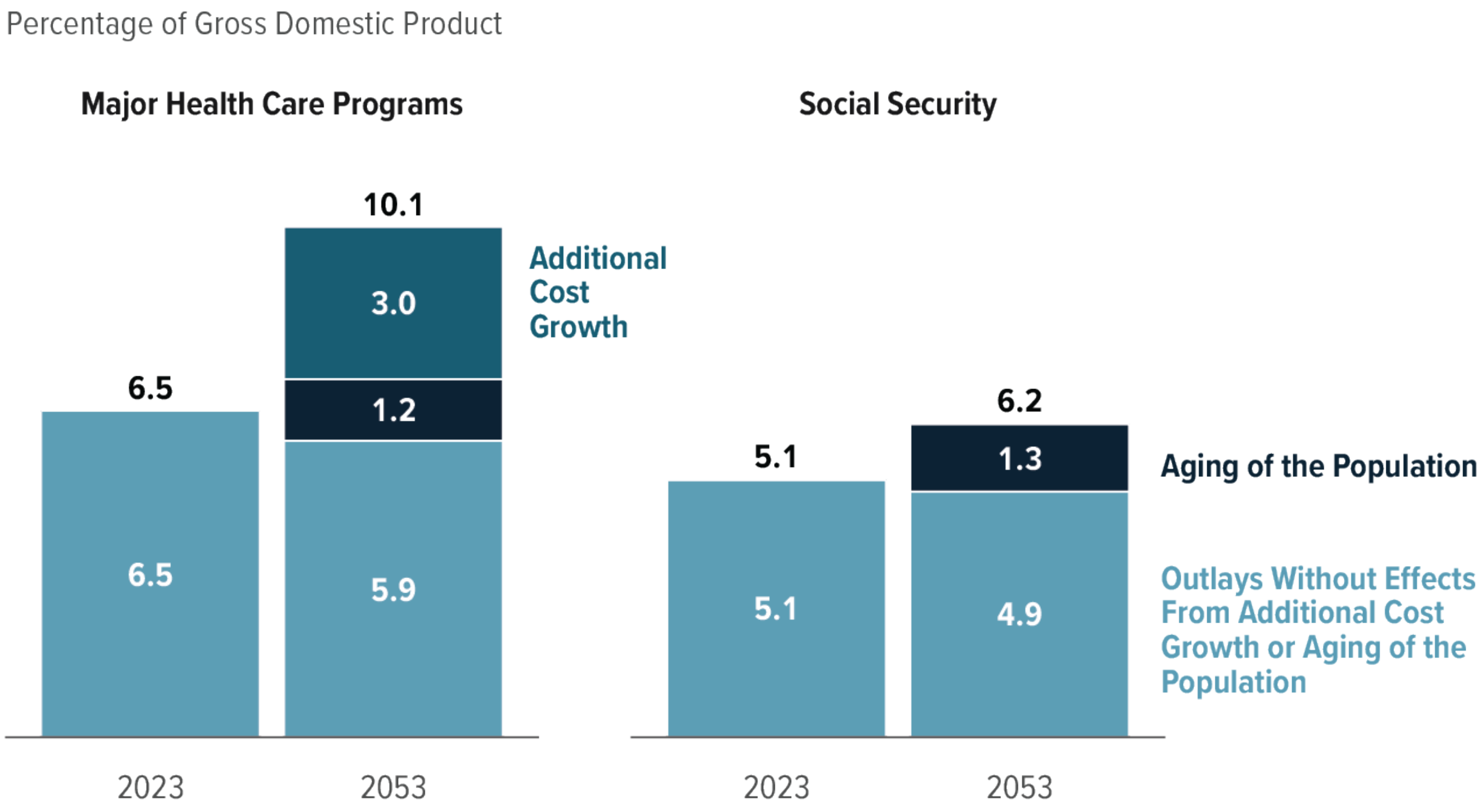
Composition of Outlays for the Major Health Care Programs



Spending on Medicare is projected to account for more than four-fifths of the increase in spending on the major health care programs over the next 30 years.

Outlays for Medicare are net of premiums and other offsetting receipts. “Marketplace Subsidies” refers to outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending. CHIP = Children’s Health Insurance Program.

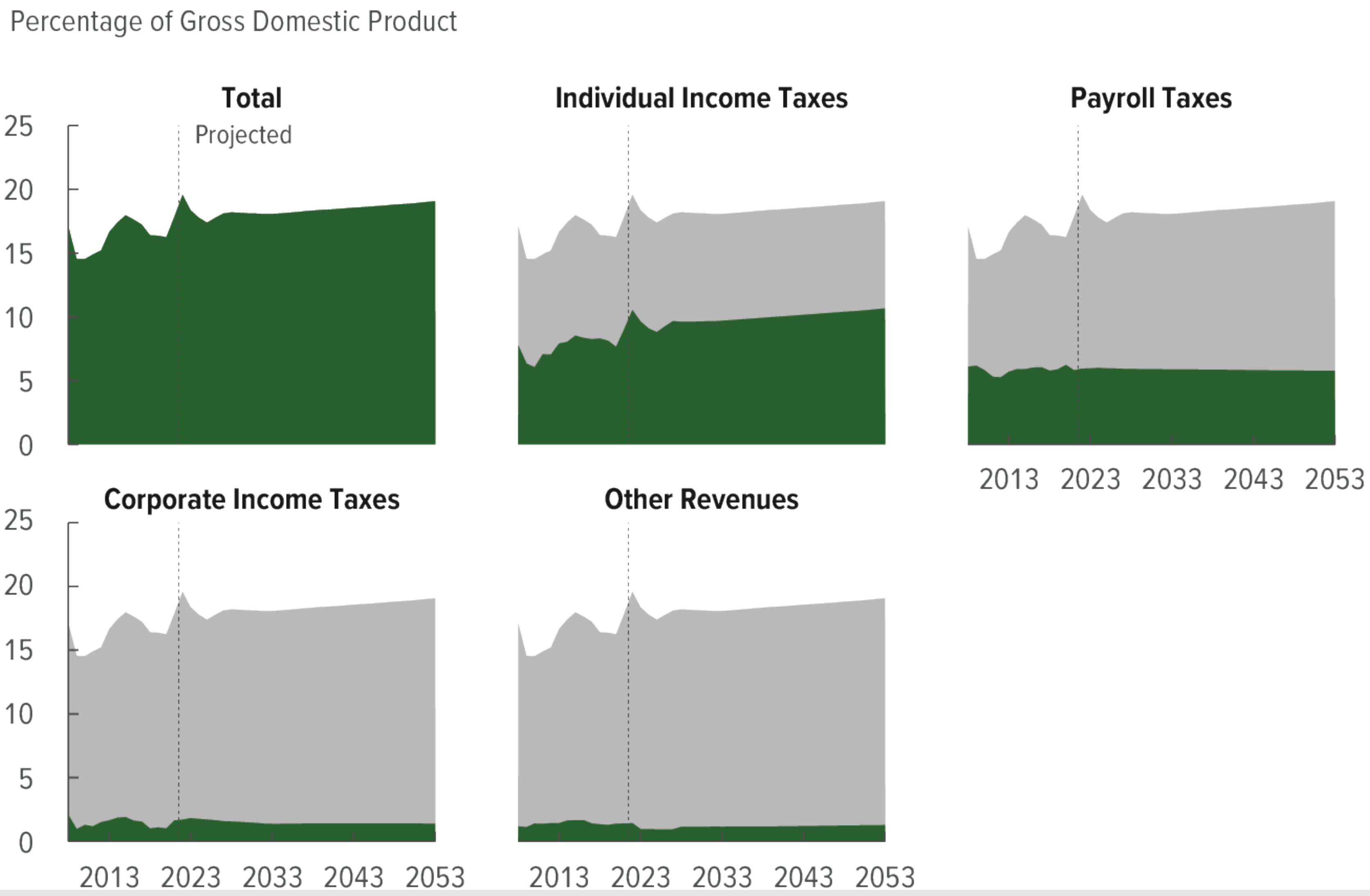
Composition of Growth in Outlays for the Major Health Care Programs and Social Security



Growth in spending on the major health care programs is largely driven by cost growth above and beyond that accounted for by demographic changes or the growth of potential GDP per person. Spending on those programs, as well as spending on Social Security benefits, is also boosted by the aging of the population.

The spending on the major health care programs examined here consists of gross spending on Medicare (which does not account for premiums or 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. Additional cost growth is the extent to which the growth rate of nominal health care spending per person (adjusted for demographic changes) exceeds the growth rate of potential GDP per person. Potential GDP is the maximum sustainable output of the economy.

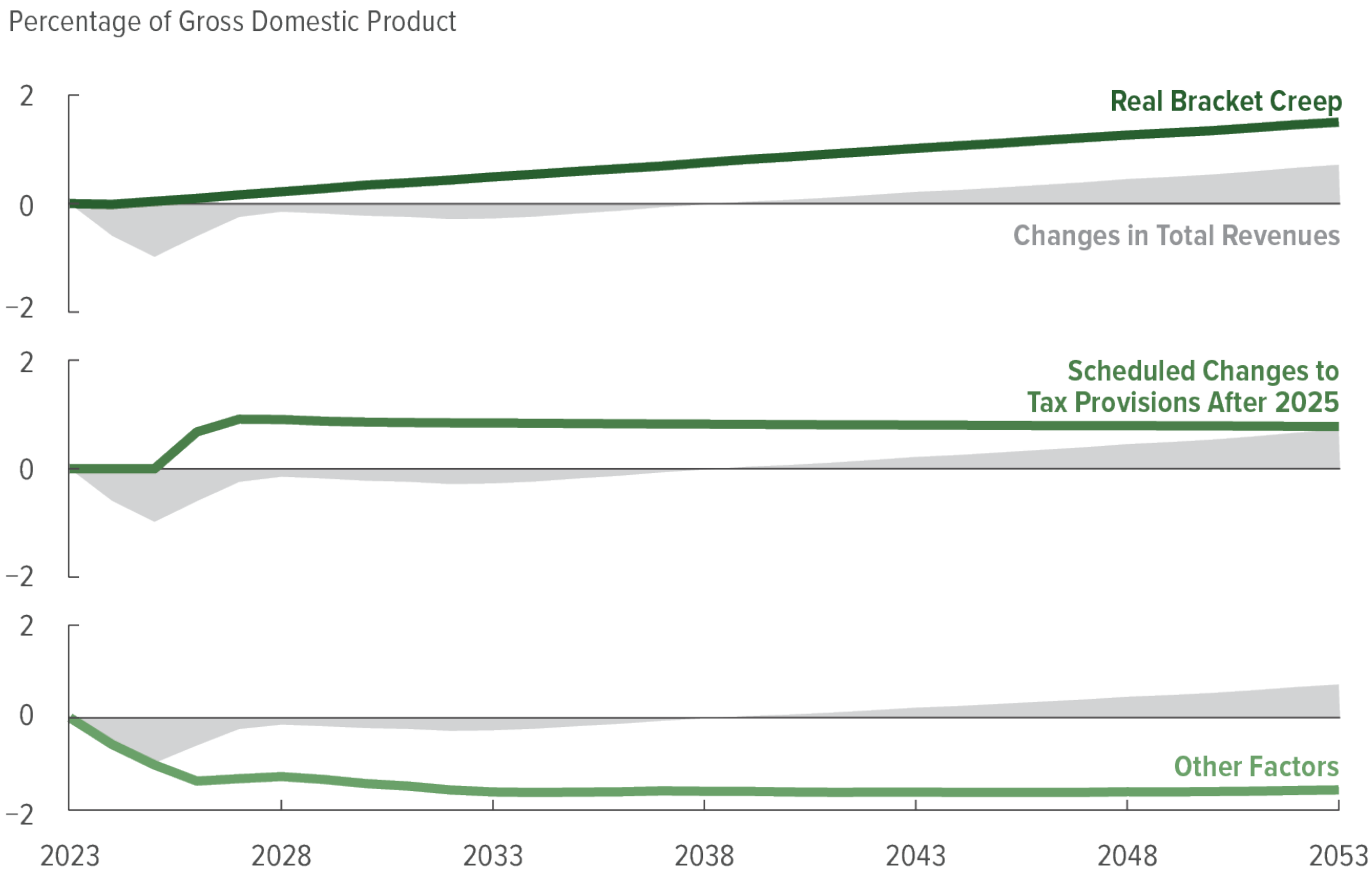
Revenues, by Source



From 2023 to 2053, total revenues, measured as a percentage of GDP, grow by about 1 percentage point. Individual income taxes account for nearly all of that growth.

Receipts from payroll and corporate taxes decline by small amounts in relation to GDP over the 30-year period.

Key Factors Contributing to Changes in Revenues



The largest source of growth in revenues is real bracket creep: As income rises faster than prices, a larger proportion of income becomes subject to higher tax rates.

After 2025, another source of growth in revenues is the scheduled expiration of certain provisions of the 2017 tax act.

Other factors partially offset those effects. In 2023 and 2024, for example, revenues fall in relation to GDP as a temporary boost to tax receipts observed in recent years abates.

Uncertainty of CBO’s Long-Term Projections

CBO’s economic projections are subject to a high degree of uncertainty. For instance, the possibility that growth in the labor force or in productivity could be faster or slower than expected makes CBO’s projections of labor market conditions and economic output uncertain. Other key sources of uncertainty are future monetary policy and the path of interest rates.

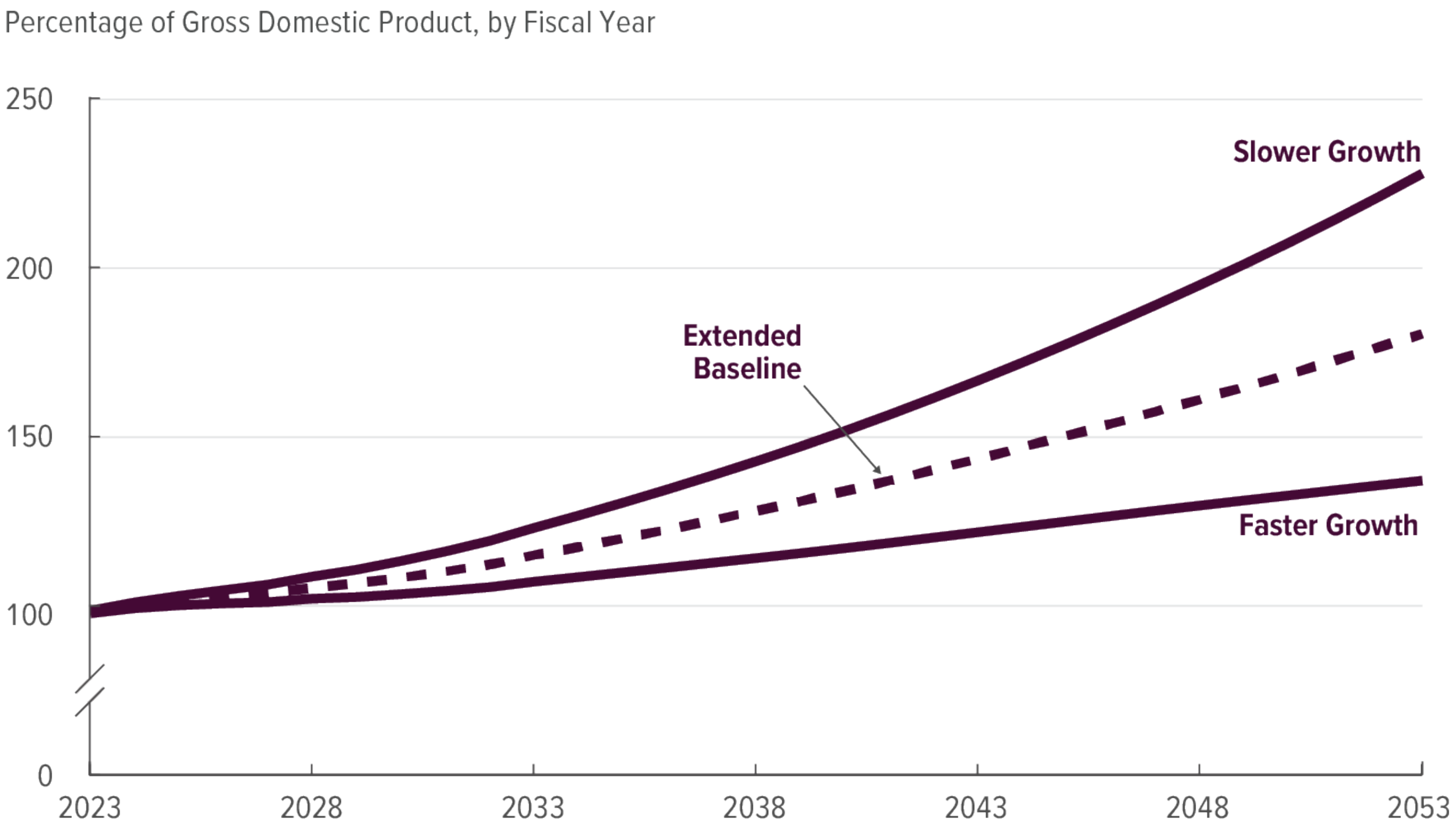
CBO’s long-term demographic projections are subject to significant uncertainty because, compounded over many years, even small changes in rates of fertility, mortality, or net immigration could greatly affect outcomes later in the projection period.

Alternative Scenarios

CBO analyzed eight scenarios that differ from those underlying its long-term baseline budget projections—six that vary economic outcomes and two that vary spending or revenues.

For details about the analysis in this section, see Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget* (July 2023), www.cbo.gov/publication/59233.

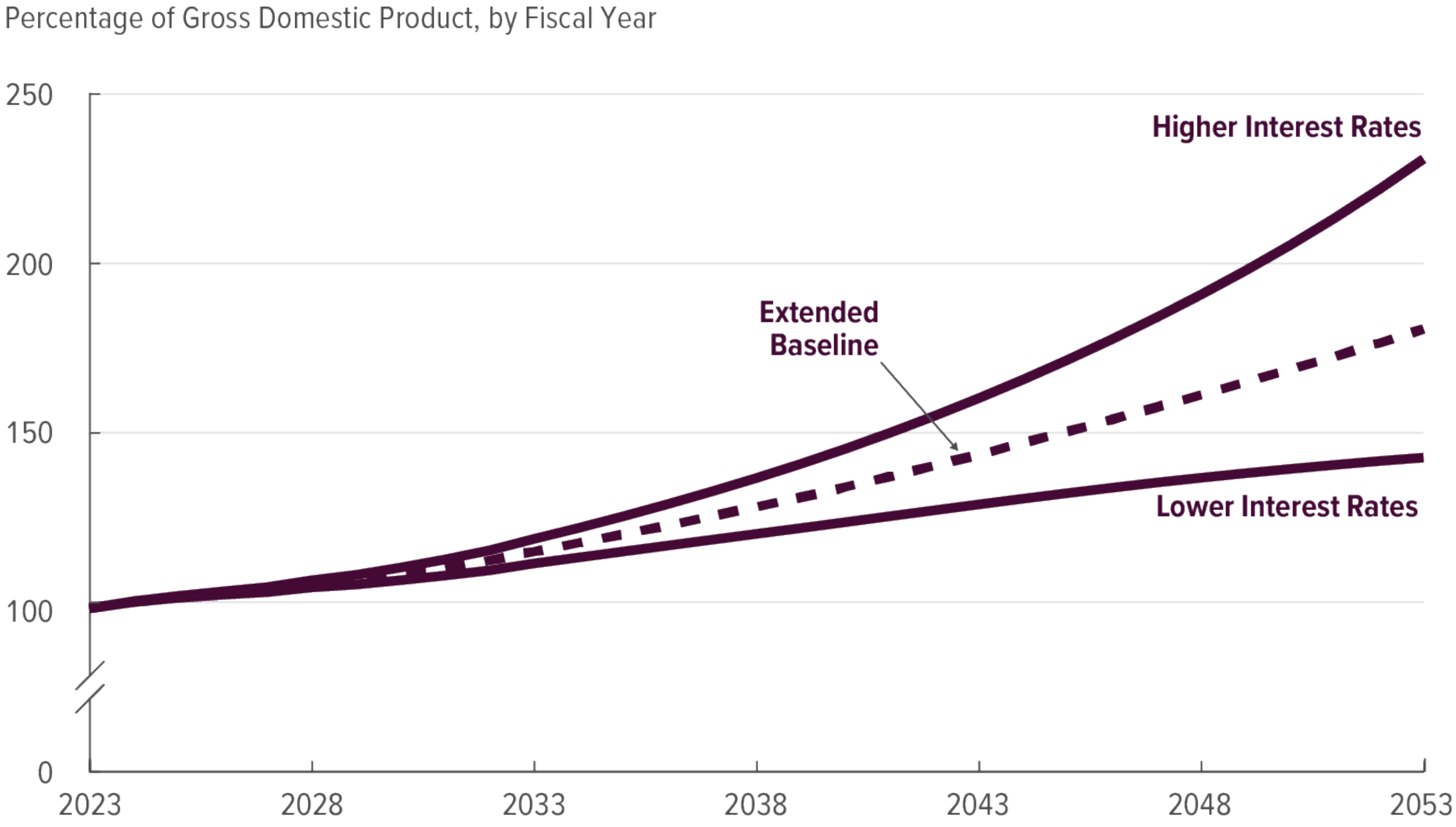
Federal Debt Under the Baseline and Two Scenarios in Which Total Factor Productivity Growth Differs



If the productivity of labor and capital in the nonfarm business sector grew 0.5 percentage points per year faster or slower than CBO projects, federal debt held by the public in 2053 would equal 137 percent of GDP or 228 percent of GDP, respectively.

Total factor productivity growth is the growth of real output (that is, output adjusted to remove the effects of inflation) per unit of combined labor and capital services in the nonfarm business sector.

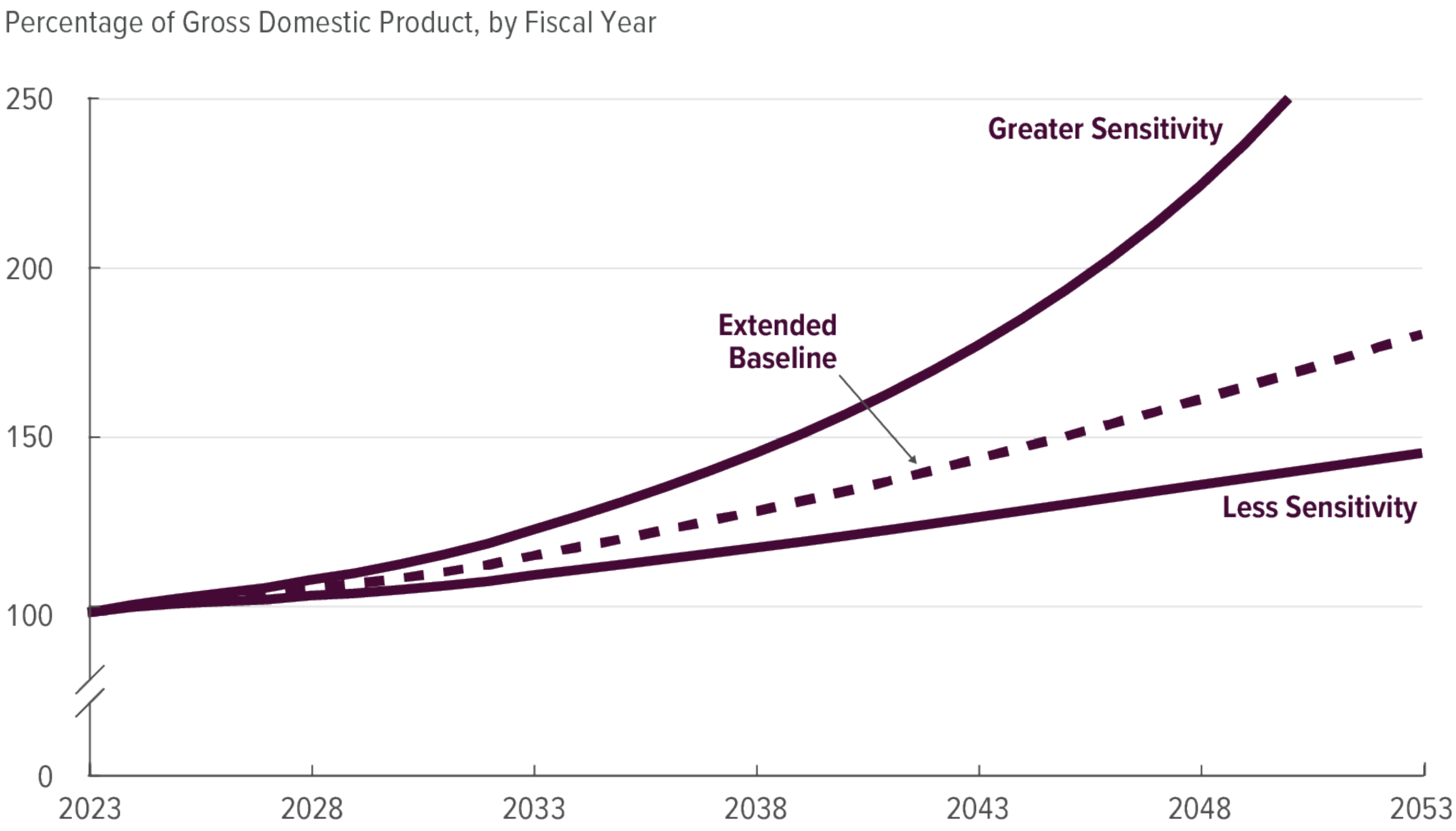
Federal Debt Under the Baseline and Two Scenarios in Which Interest Rates Differ



If the average interest rate on federal debt was above or below the baseline projection by an amount that started at 5 basis points in 2023 and changed by that amount in each year thereafter, federal debt held by the public in 2053 would be 231 percent of GDP or 143 percent of GDP, respectively.

In the higher-interest-rates scenario, the average interest rate on federal debt is boosted above the rate underlying CBO's extended baseline by a differential that starts at 5 basis points in 2023 and increases by 5 basis points each year (before macroeconomic effects are accounted for)—that is, the interest rate is 5 basis points higher than the baseline rate in 2023, 10 basis points higher than the baseline rate in 2024, 15 basis points higher than the baseline rate in 2025, and so on. In the lower-interest-rates scenario, the average interest rate on federal debt is pushed below the rate underlying CBO's extended baseline analogously. A basis point is one-hundredth of a percentage point.

Federal Debt Under the Baseline and Two Scenarios in Which Private Investment's Sensitivity to Deficits Differs



If government borrowing reduced private investment by twice as much as it does in CBO's long-term projections or had no effect on that investment, federal debt held by the public in 2053 would exceed 250 percent of GDP or would equal 145 percent of GDP, respectively.

Under the greater-sensitivity scenario, the effect of federal borrowing on private investment is twice as large as it is in CBO's extended baseline. Under the less-sensitivity scenario, federal borrowing has no effect on private investment.

The Historical Rates Scenario

In the first scenario in which spending or revenues differ, discretionary spending and revenues are at their 30-year historical averages as a percentage of GDP between 2023 and 2053.

Under that scenario, discretionary spending would equal 7.1 percent of GDP and revenues would equal 17.2 percent of GDP in every year, 1.4 percentage points more and 1.2 percentage points less, respectively, than they average in CBO's extended baseline projections.

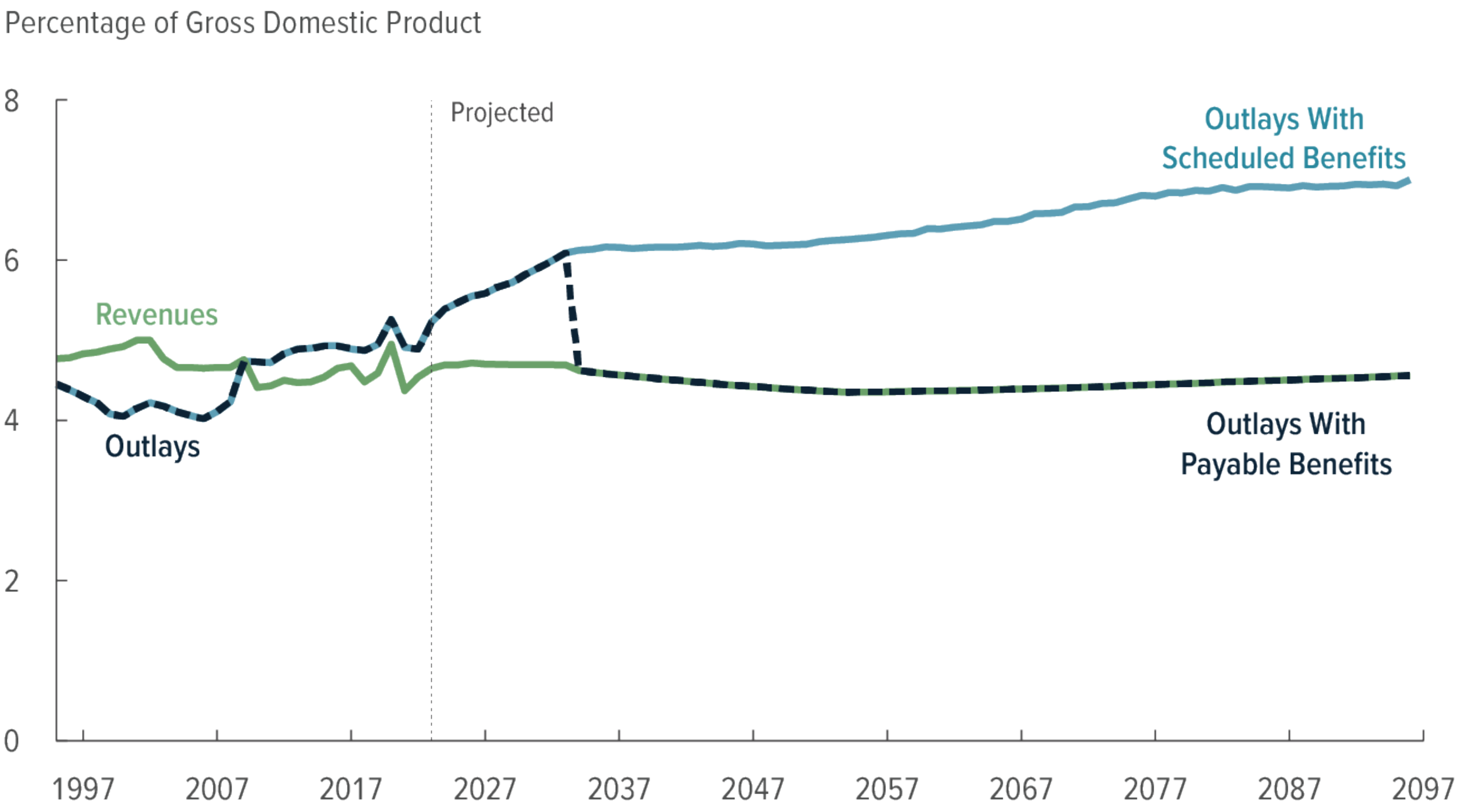
The Payable Benefits Scenario

In the second scenario in which spending or revenues differ, Social Security benefits are limited to the amounts payable from dedicated funding sources after the combined trust funds are exhausted (that is, their balances reach zero) in fiscal year 2033.

To project the effects of that change, CBO estimated the total reduction in annual Social Security benefits that would be necessary for the program's outlays to match its revenues in each year after 2033.

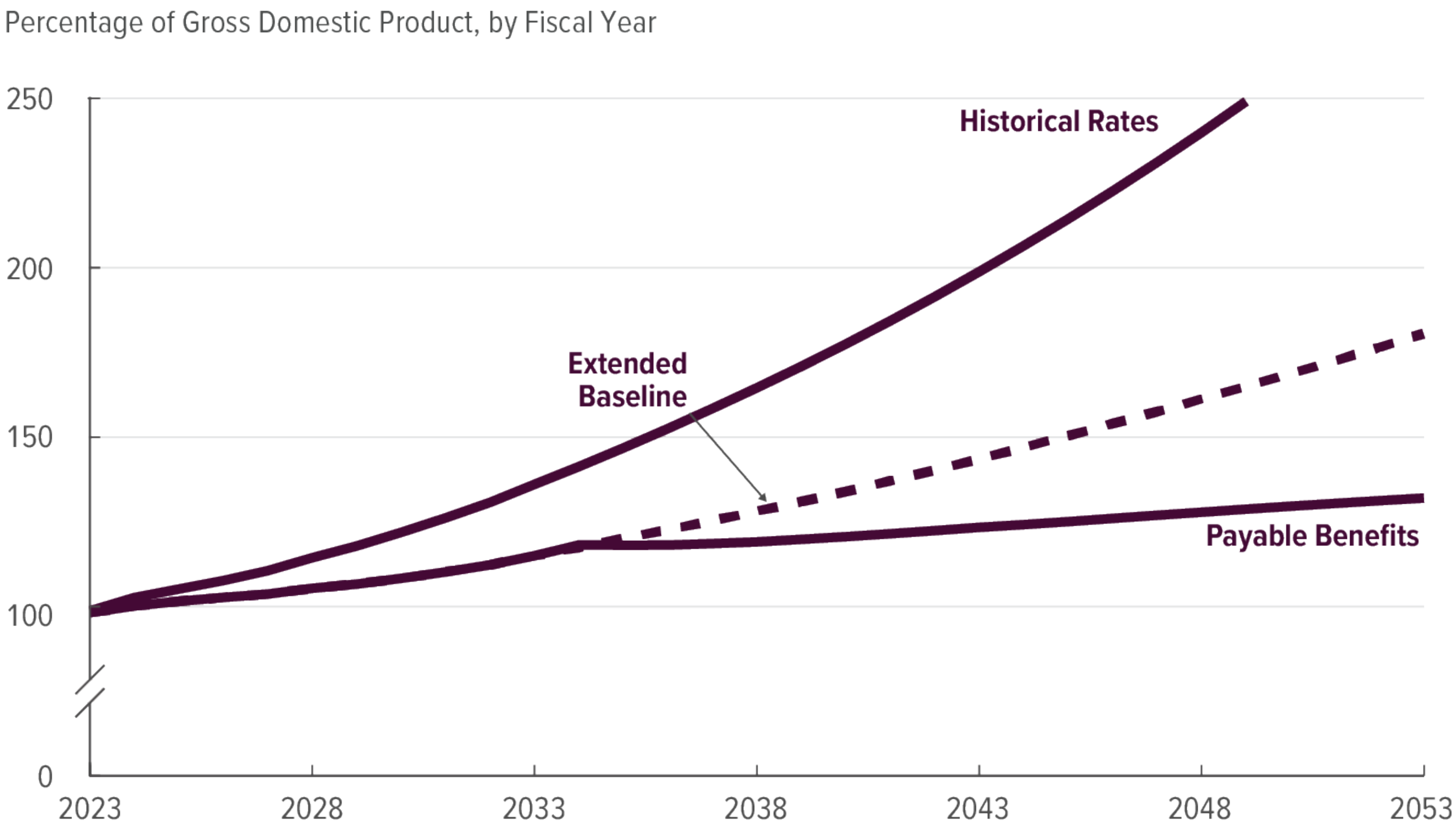
CBO's extended baseline projections reflect the assumption that the Social Security Administration will pay benefits as scheduled under current law regardless of the status of the program's trust funds. That approach is consistent with the requirement that CBO's 10-year baseline budget projections incorporate the assumption that funding for such programs is sufficient to make all payments required by law. For additional discussion of a scenario in which the program continues to pay benefits as scheduled under current law, regardless of whether the program's two trust funds have sufficient balances to cover those payments, see Congressional Budget Office, *CBO's 2023 Long-Term Projections for Social Security* (June 2023), www.cbo.gov/publication/59184.

Social Security Outlays and Revenues, With Scheduled and Payable Benefits



In CBO's projections, Social Security outlays in a payable benefits scenario are smaller than in its extended baseline projections. The required reduction would amount to 25 percent in 2034 and would rise gradually to 28 percent in 2053, relative to the amounts in CBO's extended baseline projections.

Federal Debt Under the Baseline and Two Scenarios in Which Revenues and Spending Differ



If, between 2023 and 2053, discretionary spending and revenues were at their 30-year historical averages as a percentage of GDP, then federal debt held by the public in 2053 would exceed 250 percent of GDP.

If, instead, Social Security benefits were limited to the amounts payable from dedicated funding sources after the combined trust funds are exhausted in fiscal year 2033, federal debt held by the public in 2053 would equal 132 percent of GDP.

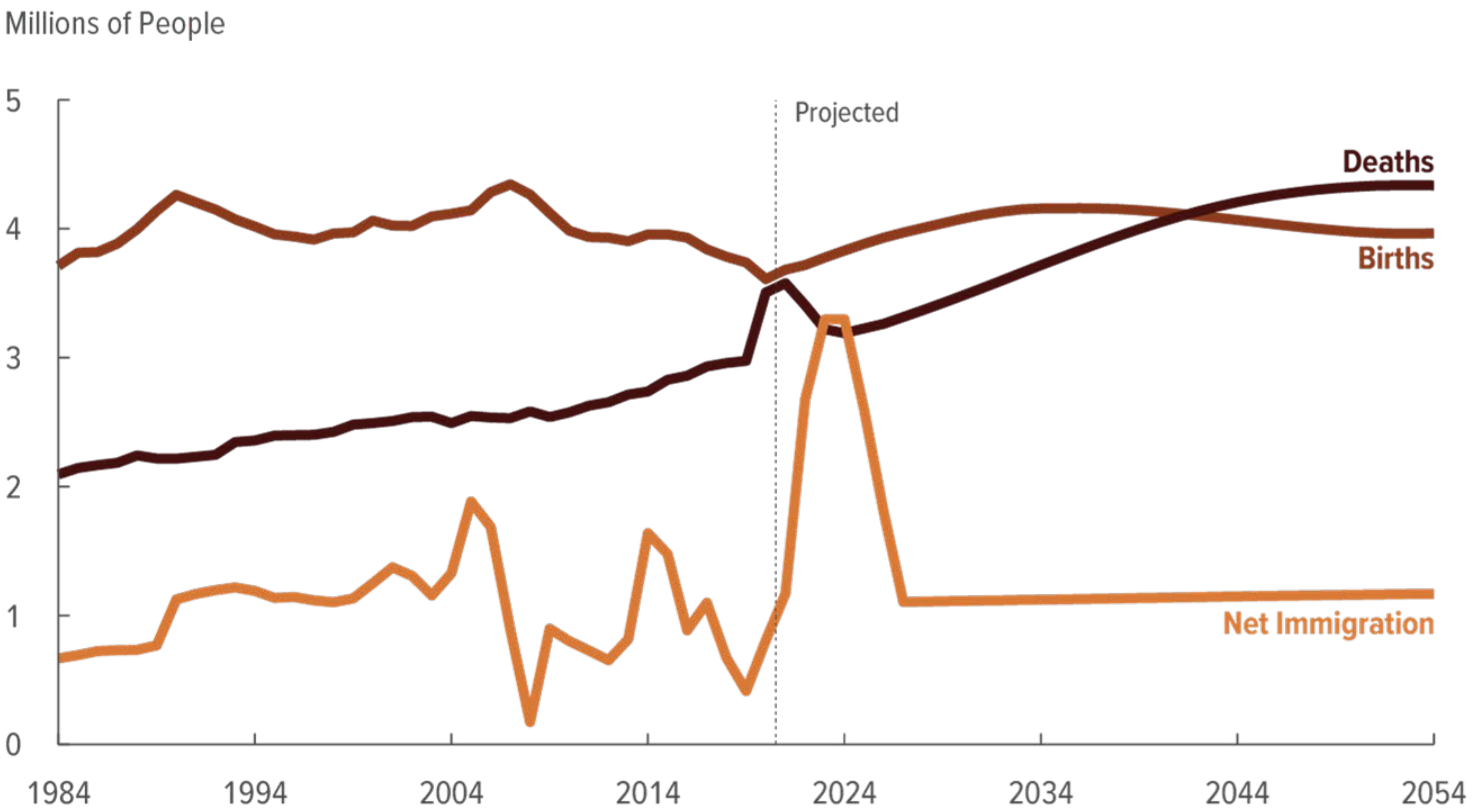
In the historical rates scenario, discretionary outlays equal 7.1 percent of GDP and revenues equal 17.2 percent of GDP over the entire projection period. In the payable benefits scenario, Social Security benefits are limited to the amounts payable from dedicated funding sources.

CBO's Preliminary 2024 Demographic Projections

Each year, CBO provides the Congress with its projections of what population growth would look like over the next 30 years if current laws generally remained unchanged. That growth is determined by births, deaths, and net immigration.

For details about these preliminary projections, see testimony of Julie Topoleski, Director of Labor, Income Security, and Long-Term Analysis, Congressional Budget Office, before the Joint Economic Committee, *CBO's Demographic Projections* (November 15, 2023), www.cbo.gov/publication/59683.

Births, Deaths, and Net Immigration



In CBO's preliminary projections, fertility rates remain lower than the replacement rate (the fertility rate required for a generation to exactly replace itself in the absence of immigration), mortality rates generally continue to decline, and immigration becomes an increasingly important part of overall population growth.