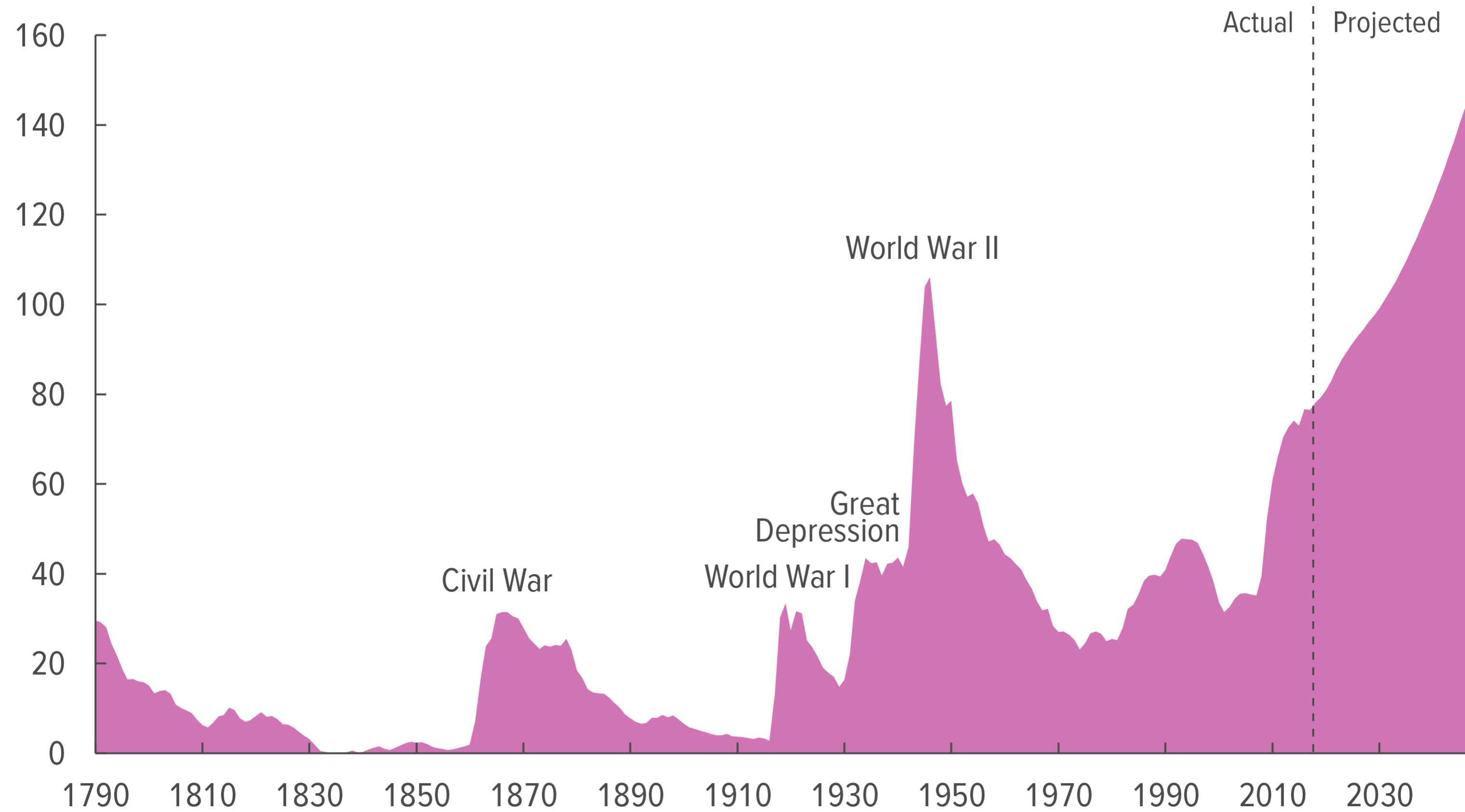
CONGRESSIONAL BUDGET OFFICE

The 2018 Long-Term Budget Outlook in 25 Slides

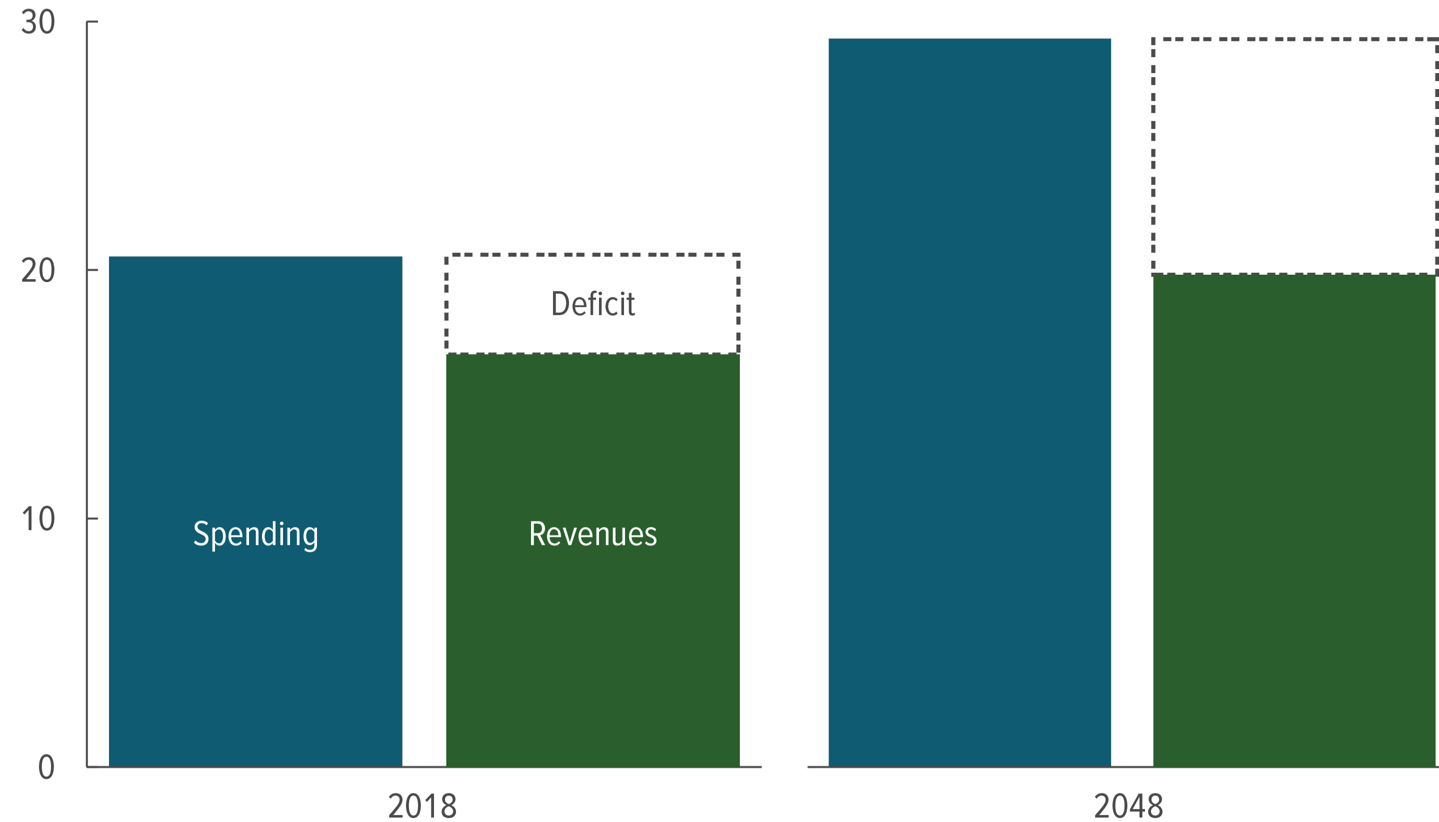
September 2018

For more details, see www.cbo.gov/publication/53919.

The 2018 Long-Term Budget Outlook is based on CBO's 10-year economic projections published in spring 2018. CBO updated those economic projections in *An Update to the Economic Outlook: 2018 to 2018* (August 2018). For more details, see www.cbo.gov/publication/54318.

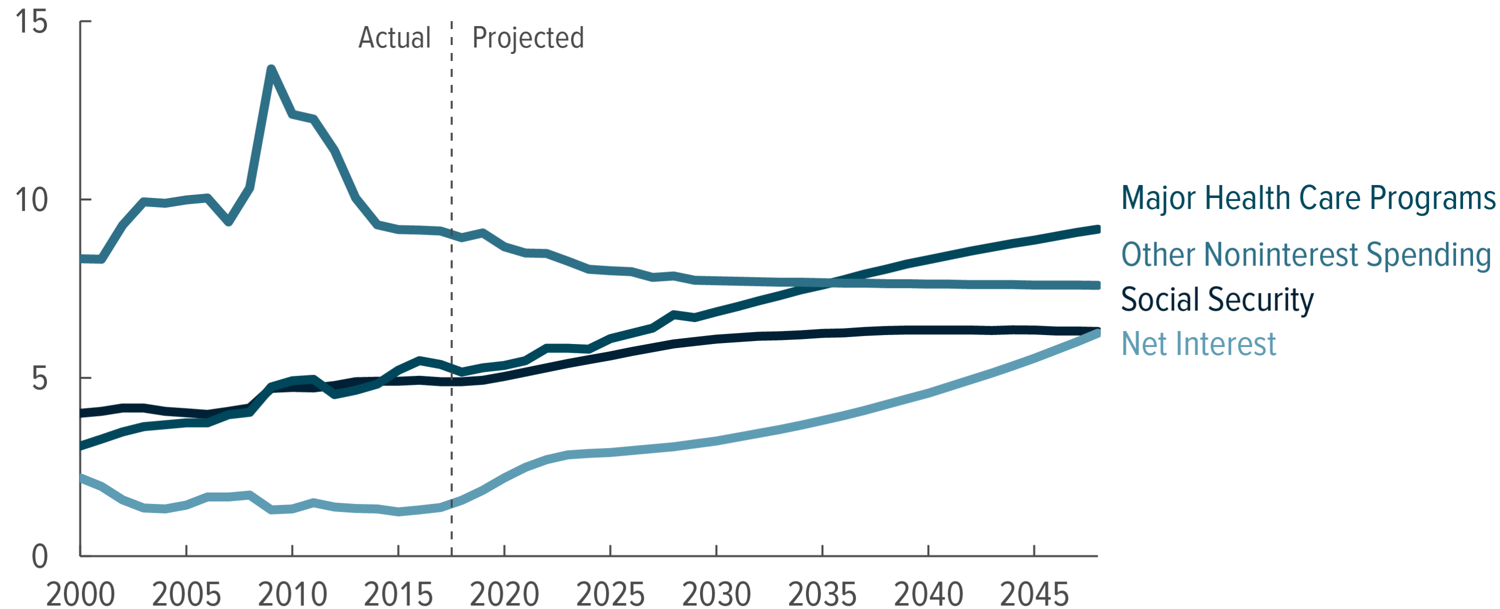


If current laws generally remained unchanged, **federal debt** held by the public would grow sharply over the next 30 years, reaching unprecedented levels.



Debt would rise because growth in total **spending** would outpace growth in total **revenues**, resulting in larger **budget deficits**.

Federal spending would grow from 21 percent of gross domestic product (GDP) today to 29 percent in 2048.

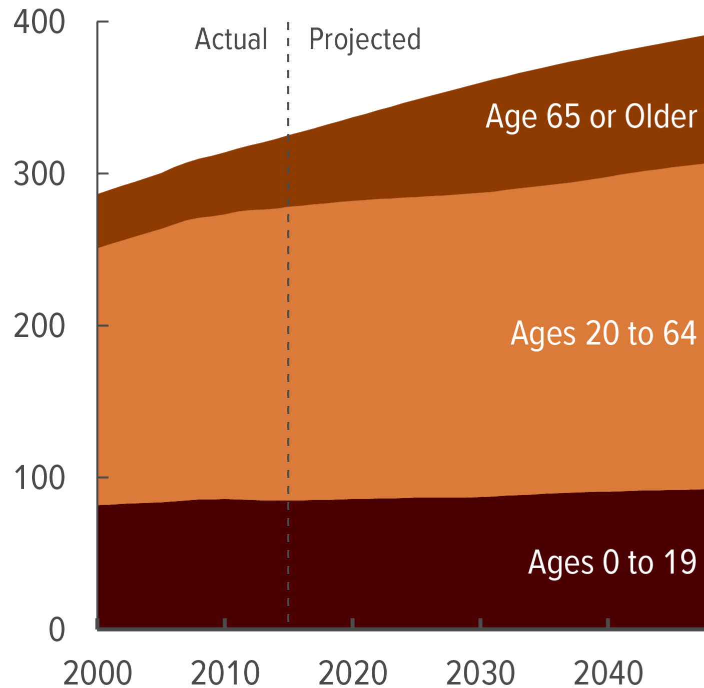


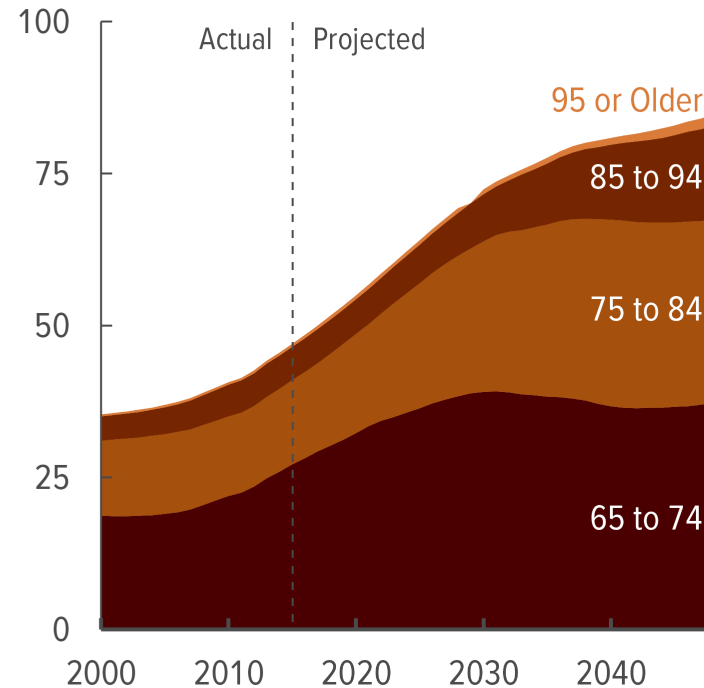
Spending would increase, as a percentage of GDP, for interest on the government's debt, the major health care programs, and Social Security. That spending growth would be partially offset by declining spending for other programs.

Spending for the major health care programs consists of outlays 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.

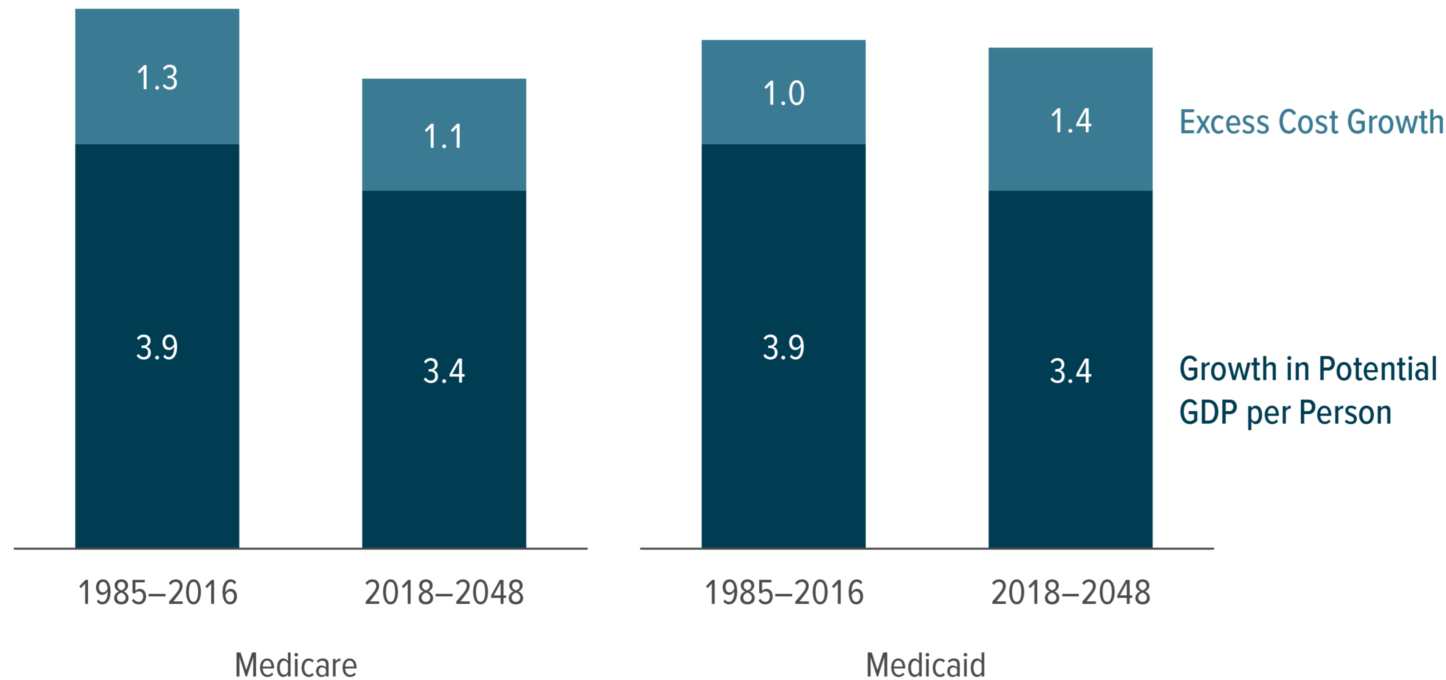
Other noninterest spending consists of all federal spending other than that for Social Security, the major health care programs, and net interest. It includes discretionary spending and spending for other mandatory programs.

Three factors explain most of the projected growth in spending: aging, rising health care costs per person, and rising interest costs.



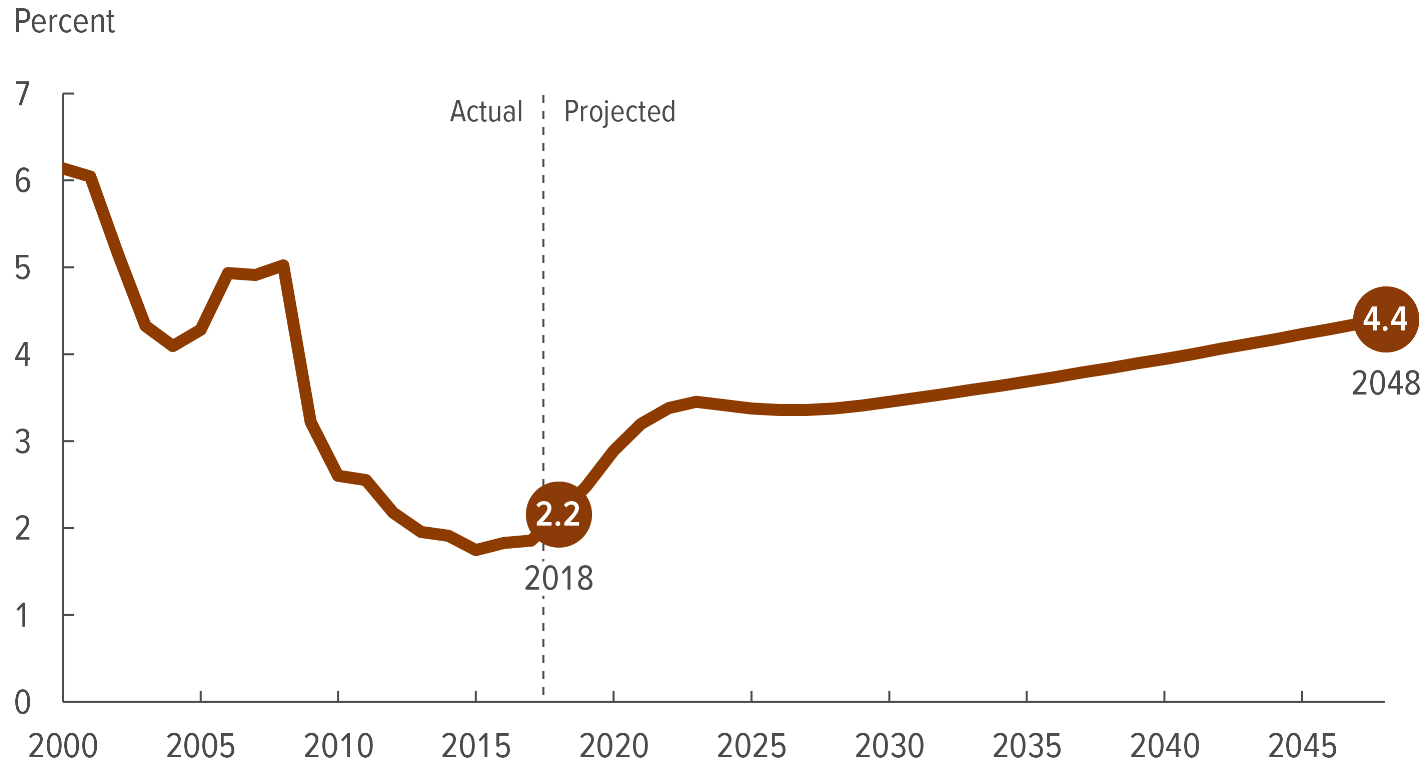


Much of the spending growth for Social Security and the major health care programs (primarily Medicare) results from the **aging of the population.** As members of the baby-boom generation age and as life expectancy continues to rise, the percentage of the population age 65 or older will grow sharply, boosting the number of beneficiaries of those programs.

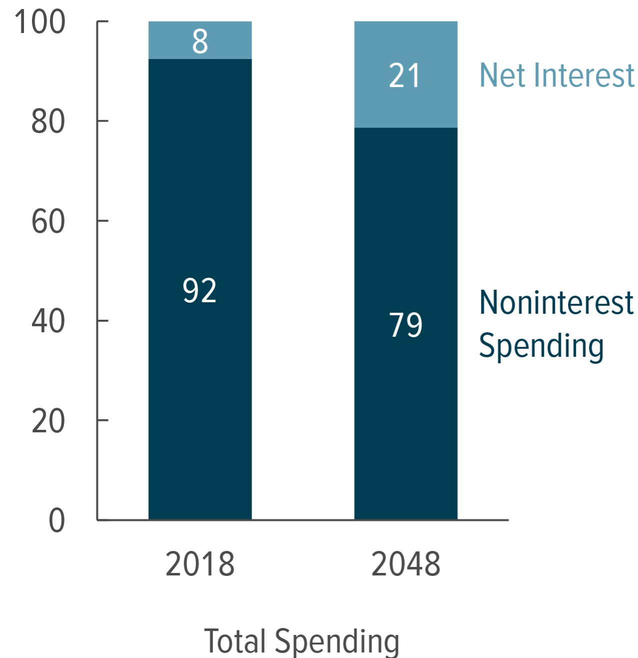


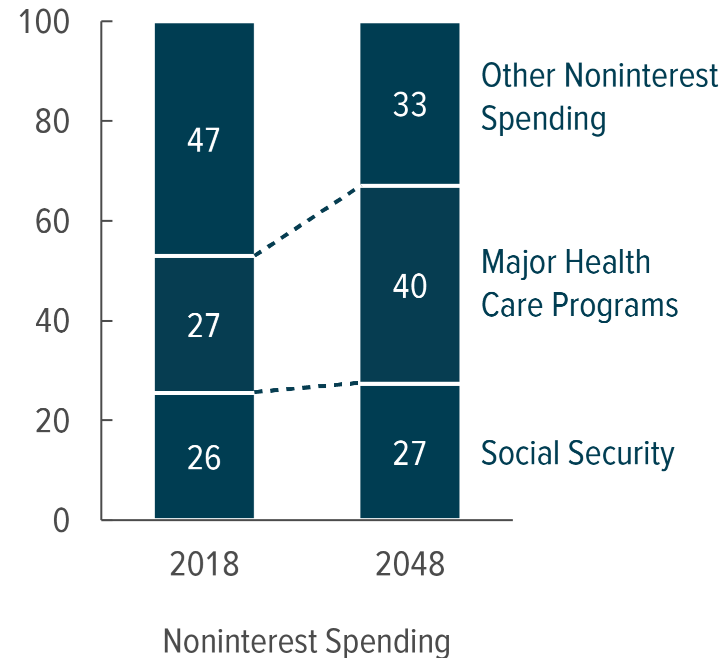
Excess cost growth is the extent to which **average annual growth in health care costs per person**, adjusted for demographic changes to remove the effects of aging, exceeds growth in potential GDP per person. It has contributed to increases in total federal health care spending as a share of GDP in the past and is projected to do so in the future.

The averages of the components (excess cost growth and growth in potential GDP per person) are estimated separately using weighted regression, with twice as much weight placed on the latest year as on the earliest year. As a result, the components do not add up exactly to the average growth in health care costs per person (adjusted for demographic changes to remove the effects of aging), particularly over history, when growth rates varied substantially from year to year.



The federal government's net interest costs are projected to climb sharply as the **average interest rate** on federal debt held by the public rises and as debt accumulates.



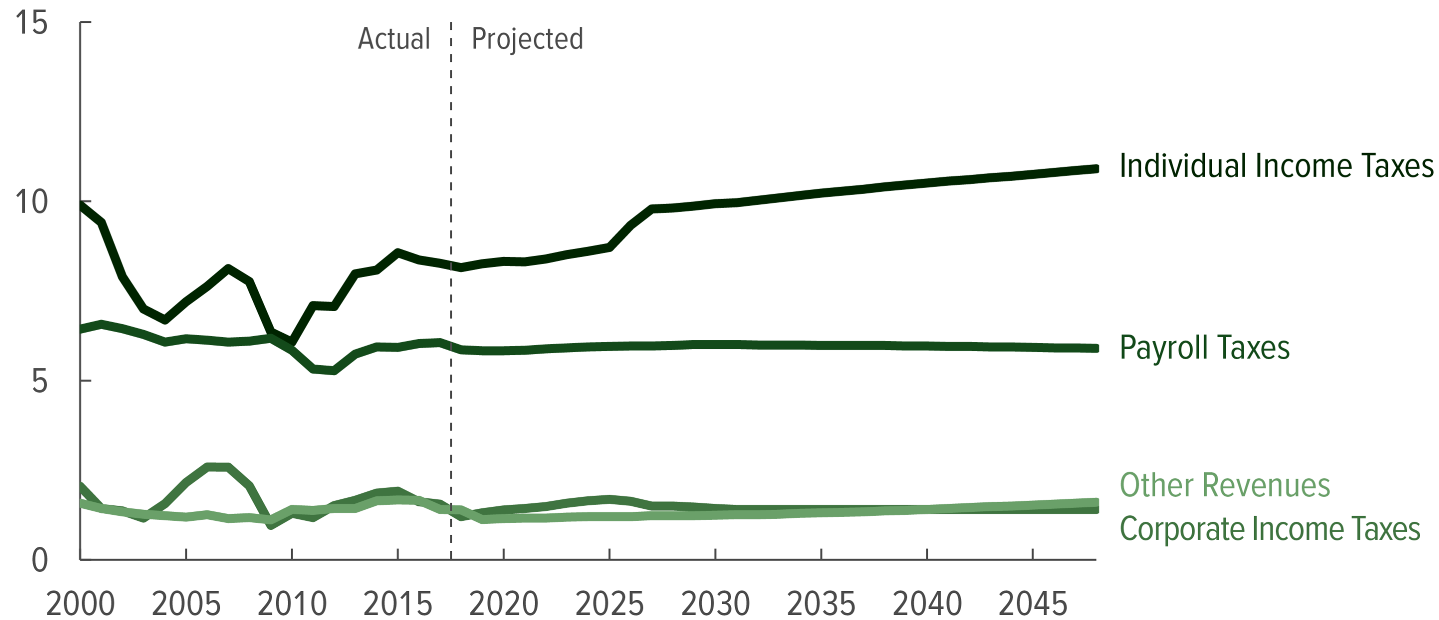


The growth in spending for Social Security, the major health care programs, and net interest would continue to reshape the spending patterns of the U.S. government. Spending for net interest would account for a much greater portion of **total federal spending** by 2048 than it does today, and spending on Social Security and the major health care programs would account for a much larger share of all **federal noninterest spending**.

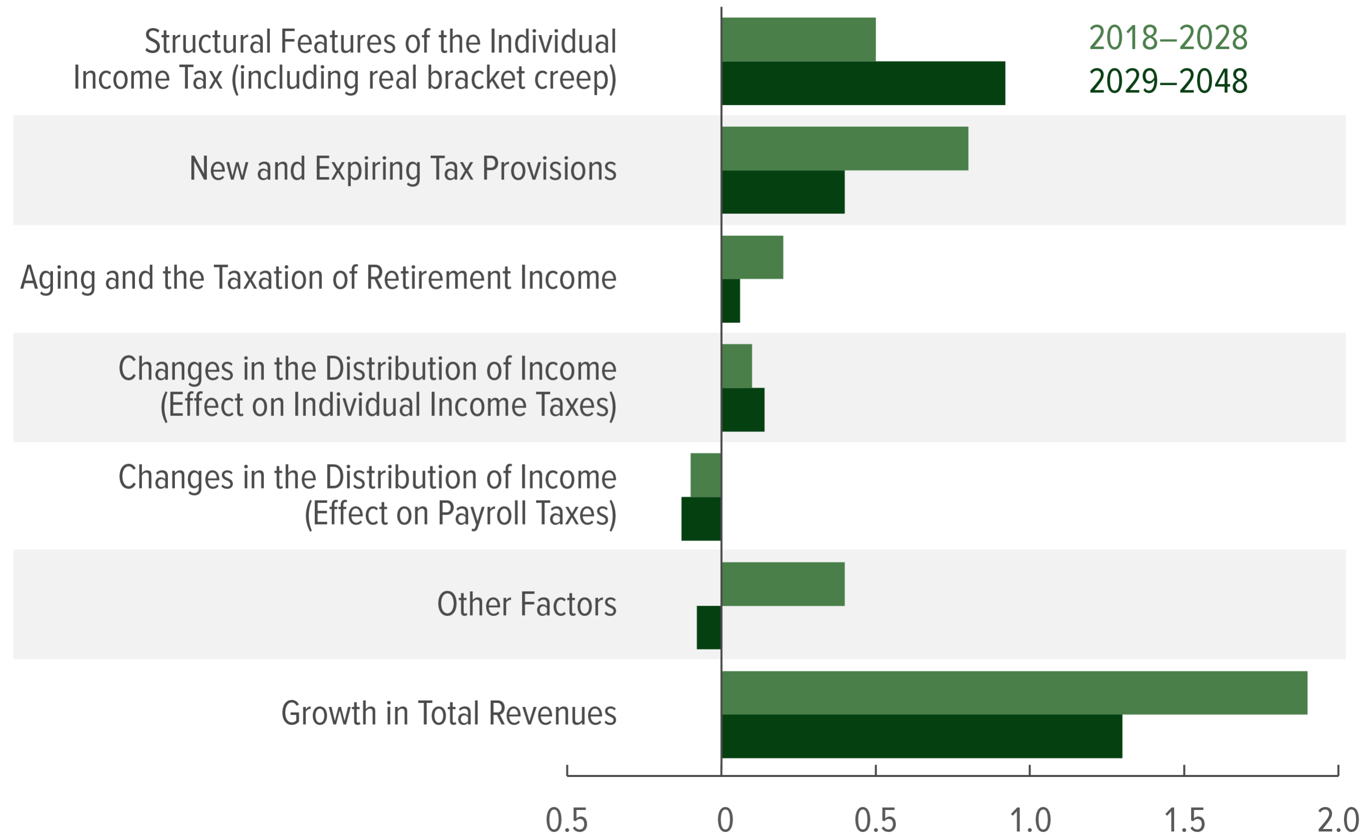
Spending for the major health care programs consists of outlays for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

Other noninterest spending consists of all federal spending other than that for Social Security, the major health care programs, and net interest. It includes discretionary spending and spending for other mandatory programs.

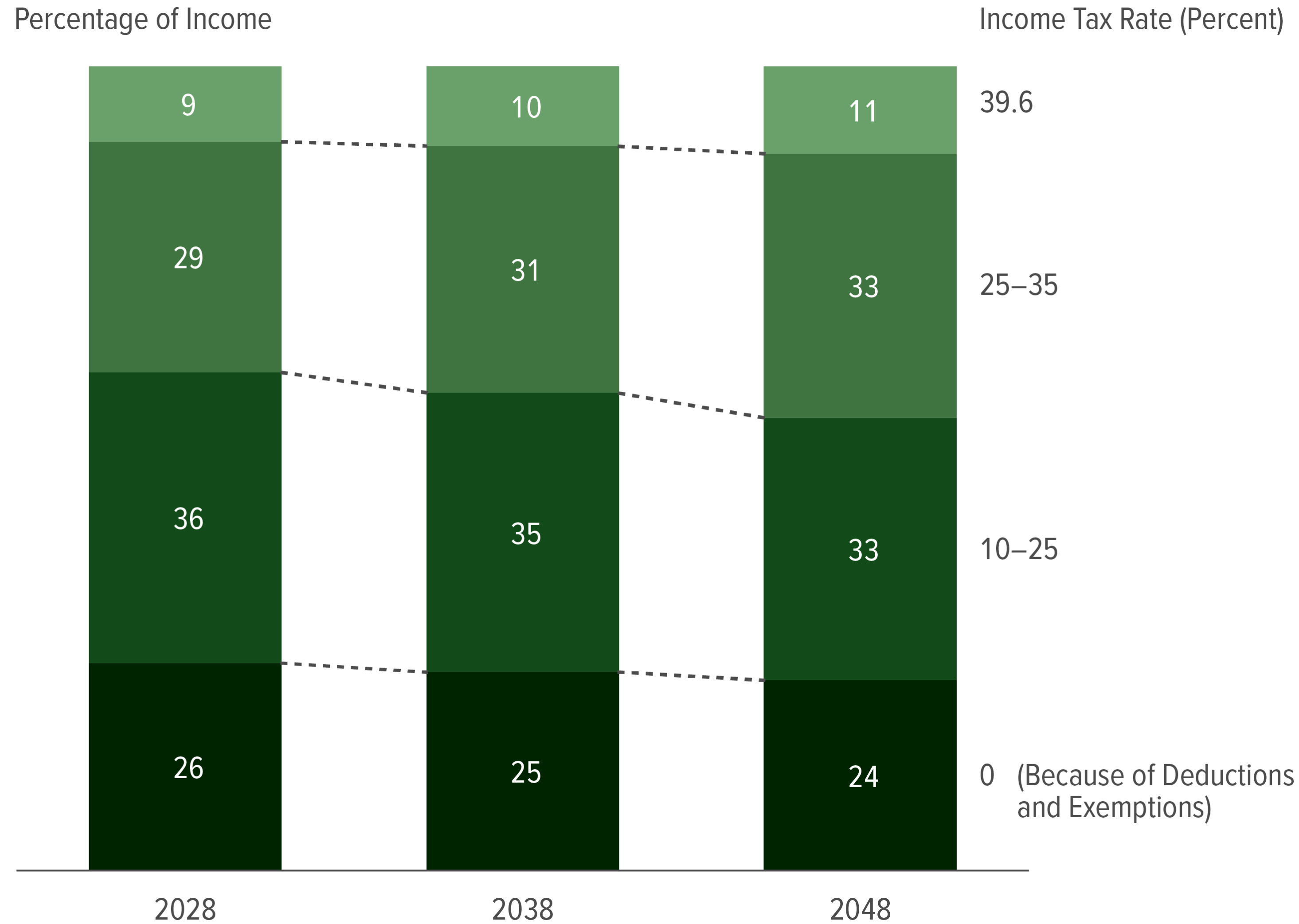
Federal revenues would also increase—from 16.6 percent of GDP in 2018 to 19.8 percent in 2048—if current laws generally remained unchanged, but they would not keep pace with spending growth.



Increases in receipts from individual income taxes would account for most of the **projected rise in total revenues as a share of GDP**. Receipts from all other sources combined are projected to increase slightly.

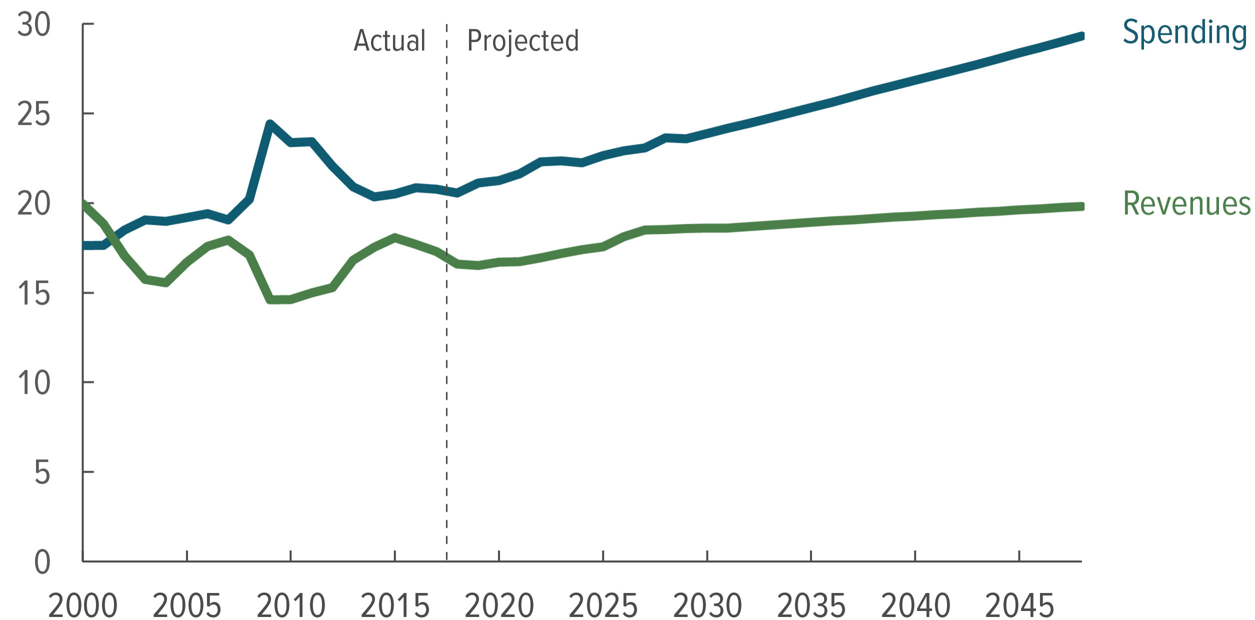


The largest **sources of growth in revenues** are structural features of the individual income tax system and provisions of law that change future taxes, including a new tax on certain employment-based health insurance plans that is set to take effect in 2022 and the scheduled expiration in 2026 of most of the provisions of Public Law 115-97 (originally called the Tax Cuts and Jobs Act) that directly affect the individual income tax rate.



Real bracket creep occurs as **the share of income** in higher tax brackets increases because people's income rises faster than the price index that is used to adjust tax brackets and other parameters of the tax system. It is the largest contributor to the growth in revenues over the 2028–2048 period.

Because the growth in revenues would not keep pace with the growth in spending over the long term, budget deficits would grow.

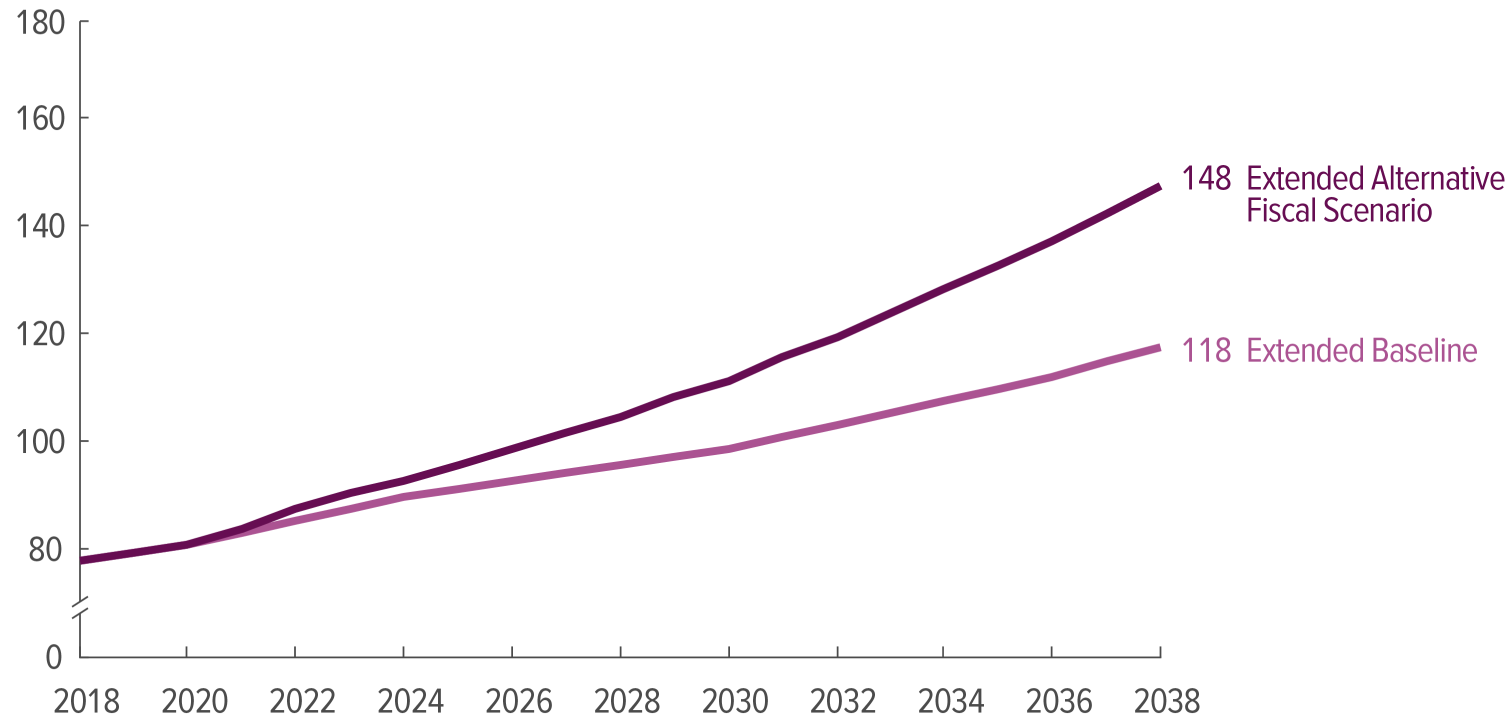


In total, deficits would rise from 3.9 percent of GDP in 2018 to 9.5 percent in 2048 as **spending** outpaces **revenues**.

Adjusted to exclude the effects of timing shifts that occur because fiscal year 2018 began on a weekend, the budget deficit in 2018 would be higher, at 4.2 percent of GDP.

As a result, federal debt is projected to total 152 percent of GDP in 2048, nearly double what it is today. The prospect of a large and growing federal debt poses substantial risks for the nation and presents policymakers with significant challenges.

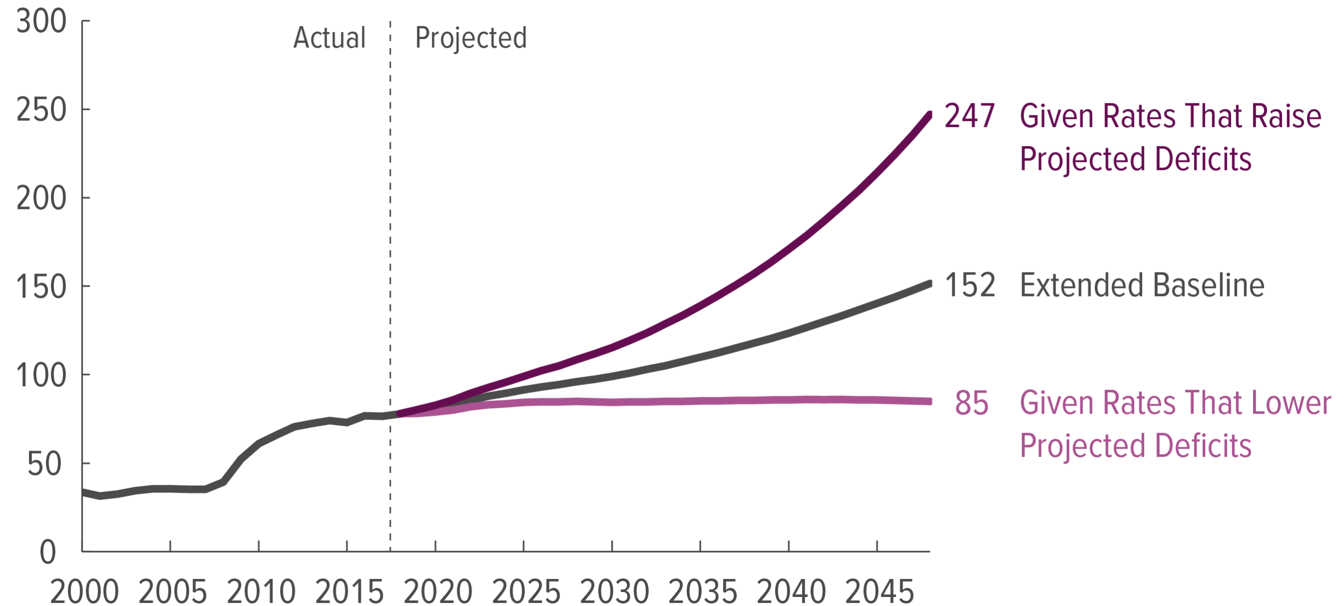
If lawmakers changed current law to maintain certain policies now in place, even larger increases in debt would occur.



Under CBO's extended alternative fiscal scenario, **federal debt** would equal 148 percent of GDP in 2038 and continue to rise in later years. Under that scenario, the individual income tax provisions of Public Law 115-97 do not expire and discretionary spending equals a larger percentage of GDP than under the extended baseline.

For details about the extended alternative fiscal scenario, see Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for Fiscal Policy* (August 2018), www.cbo.gov/publication/54325.

Long-term budget projections are uncertain.
Even if future tax and spending policies did not vary from those specified in current law, budgetary outcomes could differ because of unexpected changes in the economy, demographics, and other factors.



For example, **federal debt** could differ sharply from the amounts in CBO's projections if rates of labor force participation, productivity growth, federal borrowing, and excess cost growth varied such that deficits were higher or lower than in CBO's projections.

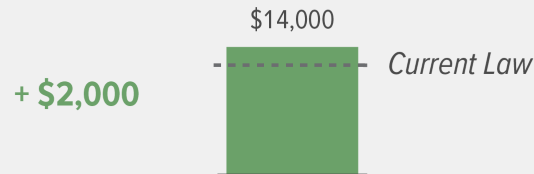
The degree of variation in the rates was based on CBO's assessment of historical movements and on possible future developments. For details about the analytical approach, see Congressional Budget Office, *The 2016 Long-Term Budget Outlook* (July 2016), Chapter 7, www.cbo.gov/publication/51580.

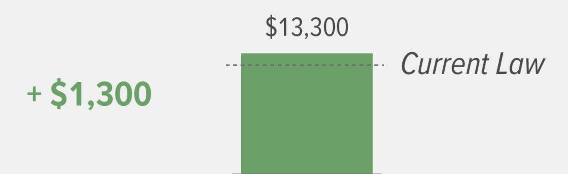
To put the budget on a sustainable path, lawmakers would have to make major changes to tax policies, spending policies, or both.

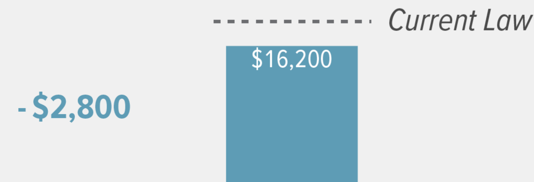
CBO estimated the size of changes in spending or revenues that would be needed if lawmakers wanted to achieve some specific targets for federal debt held by the public by making changes that equal a constant share of GDP.

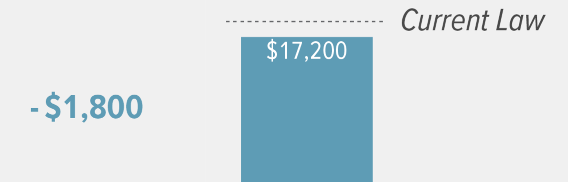
If lawmakers aimed for debt in 2048 to equal...	**41% of GDP** (Its 50-year average)	**78% of GDP** (Its current level)
They would need to reduce annual deficits by...	**3.0% of GDP,** which is equal to a 17% ▲ increase in revenues or a 15% ▼ cut in spending	**1.9% of GDP,** which is equal to a 11% ▲ increase in revenues or a 10% ▼ cut in spending
In 2019, that would amount to...	**$630 billion**	**$400 billion**

Target level of debt in 2048	**41% of GDP** (Its 50-year average)	**78% of GDP** (Its current level)
If the changes were increases (of equal percentage) in all types of revenues, one effect in 2019 is that taxes per household would be higher than they would be under current law by...[a]	+ $2,000	+ $1,300
If the changes were cuts (of equal percentage) in all types of noninterest spending, one effect in 2019 is that initial Social Security benefits would be lower than they would be under current law by...[b]	- $2,800	- $1,800





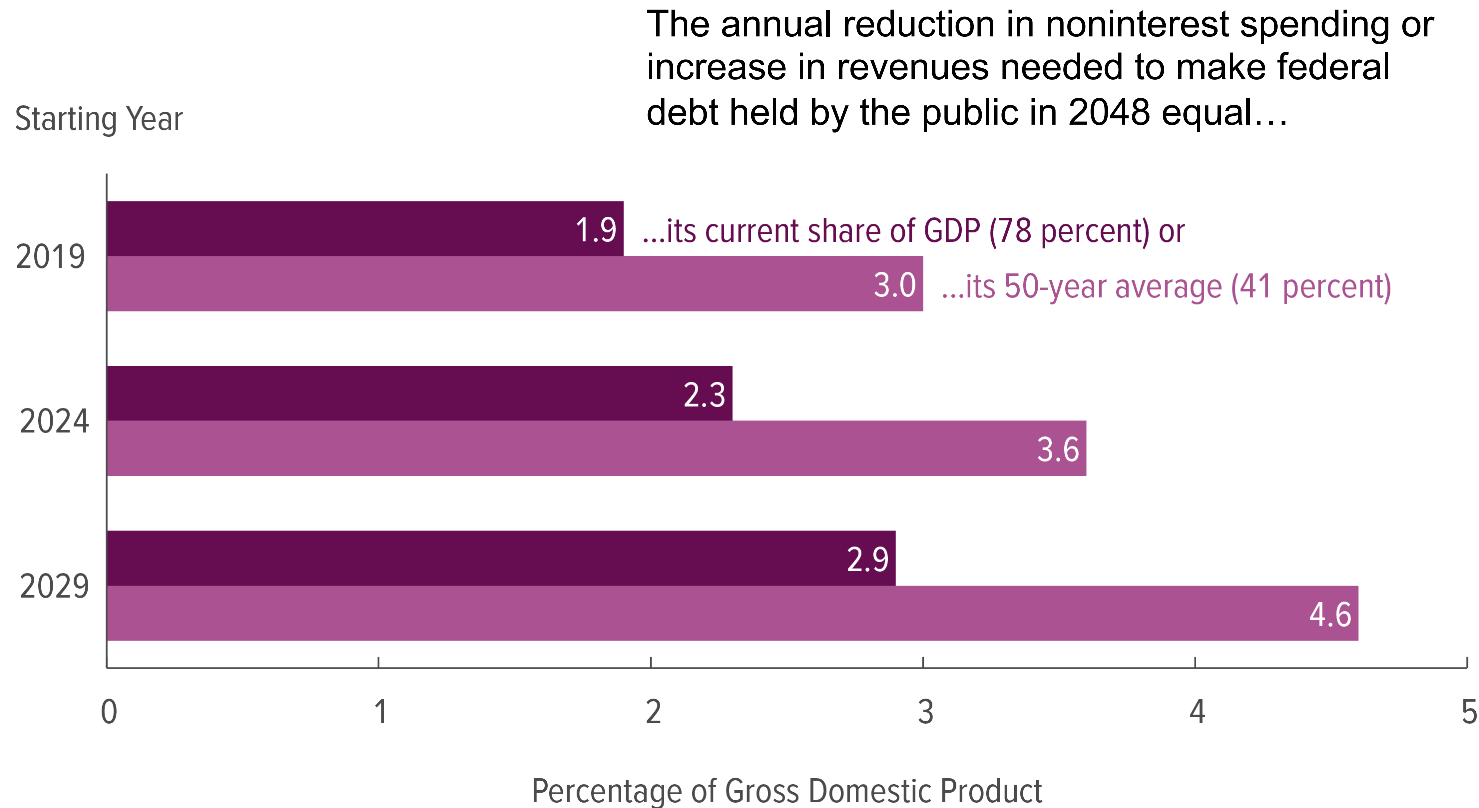




a. Values are for households in the middle fifth of the income distribution. Under current law, their taxes are projected to average $12,000 in 2019.

b. Values are averages for people in the middle fifth of the lifetime earnings distribution who were born in the 1950s and who would claim benefits at age 65. Under current law, their benefits are projected to be $19,000 in 2019.

CBO also assessed the extent to which the size of policy adjustments would change if such reductions in deficits were delayed.



If lawmakers chose to wait five or 10 years to implement the policies, an even larger **annual reduction in noninterest spending or increase in revenues** would be needed.

About This Document

Stephanie Hugie Barello, 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 2018 Long-Term Budget Outlook* (June 2018), www.cbo.gov/publication/53919, which is the result of work by many analysts at CBO.