CHAPTER

1

The Budget Outlook for the Next 30 Years

Overview

By the end of this year, federal debt held by the public is projected to equal 78 percent of gross domestic product (GDP)—its highest level since shortly after World War II. If current laws generally remained unchanged, growing budget deficits would boost federal debt drastically over the next 30 years, the Congressional Budget Office projects. Debt would reach 92 percent of GDP by the end of the next decade and 144 percent by 2049 (see Table 1-1). That level of debt would be the highest in the nation's history by far, and it would be on track to increase even more. Although long-term projections are very uncertain, in CBO's assessment, even if a key set of factors, including productivity growth and interest rates, were favorable for the fiscal situation over the next three decades, debt as a share of GDP would most likely rise if current laws remained unchanged. If lawmakers changed current laws to maintain certain policies now in place—most significantly, if they prevented a cut in discretionary spending in 2020 and an increase in individual income taxes in 2026—the result would be even larger increases in debt (see Chapter 2). The prospect of such high and rising debt poses substantial risks for the nation and presents policymakers with significant challenges.

What CBO's Projections Represent

The long-term projections of federal spending, revenues, deficits, and debt in this report are consistent with the 10-year baseline budget projections that CBO published in May 2019 and the economic forecast that the agency published in January 2019.[1] They extend most of the concepts underlying those 10-year budget projections for an additional 20 years, and they reflect the macroeconomic effects of projected fiscal policy over that 30-year period. Together, those long-term projections constitute the agency's *extended baseline* projections.

CBO's 10-year and extended baseline projections are not predictions of budgetary outcomes. Rather, they represent the agency's best assessment of future spending, revenues, deficits, and debt under the assumption that current laws generally remain unchanged. In doing so, they give lawmakers a point of comparison from which to measure the effects of proposed legislation.

How Federal Debt Has Grown in Recent Years

Debt held by the public is the amount that the federal government has borrowed in financial markets by issuing Treasury securities to pay for its operations and activities.[2] Debt as a percentage of GDP is a useful measure for comparing amounts of debt in different years because it removes the effects of changes in prices, population, output, and income—all of which affect the nation's ability to finance the debt. That measure places the effects of potential adjustments to the budget within the context of the nation's resources. Examining whether debt as a percentage of GDP is increasing is therefore a simple and meaningful way to assess the budget's sustainability.

Federal debt held by the public has ballooned over the past decade. At the end of 2007, federal debt stood at 35 percent of GDP, but deficits arising from the 2007–2009 recession and subsequent policies caused debt to grow sizably in relation to the economy over the next five years. By the end of 2012, debt as a share of GDP had doubled, reaching 70 percent. The upward trajectory has generally continued since then, and debt is projected to be 78 percent of GDP by the end of this year—a very high level by historical standards. (Over the past

1. See Congressional Budget Office, *Updated Budget Projections: 2019 to 2029* (May 2019), www.cbo.gov/publication/55151, and *The Budget and Economic Outlook: 2019 to 2029* (January 2019), www.cbo.gov/publication/54918.

2. When the federal government borrows in financial markets, it competes with other participants for financial resources and, in the long term, crowds out private investment, thus reducing economic output and income. By contrast, federal debt held by trust funds and other government accounts represents internal transactions of the government and does not directly affect financial markets. (Together, that debt and debt held by the public make up gross federal debt.) For more discussion, see Congressional Budget Office, *Federal Debt and Interest Costs* (December 2010), www.cbo.gov/publication/21960. Several factors not directly included in the budget totals also affect the government's need to borrow from the public. They include fluctuations in the government's cash balance as well as the cash flows of the financing accounts used for federal credit programs.