

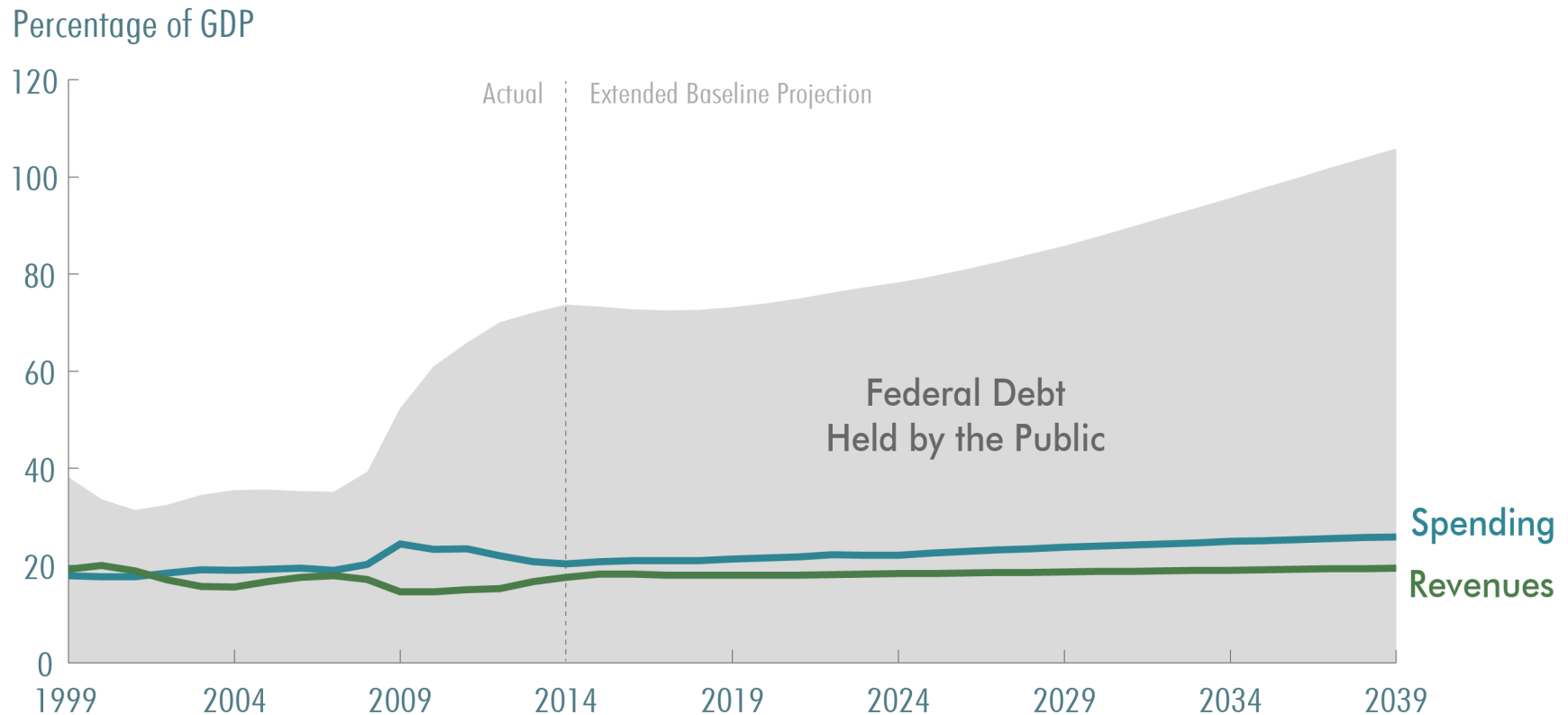
# **The 2014 Long-Term Budget Outlook in 26 Slides**

July 2014

For more details, see [www.cbo.gov/publication/45471](http://www.cbo.gov/publication/45471).

**Although the gap between federal spending and revenues has narrowed recently, it would widen over the long term if current laws remained in place.**

# Federal Debt, Spending, and Revenues

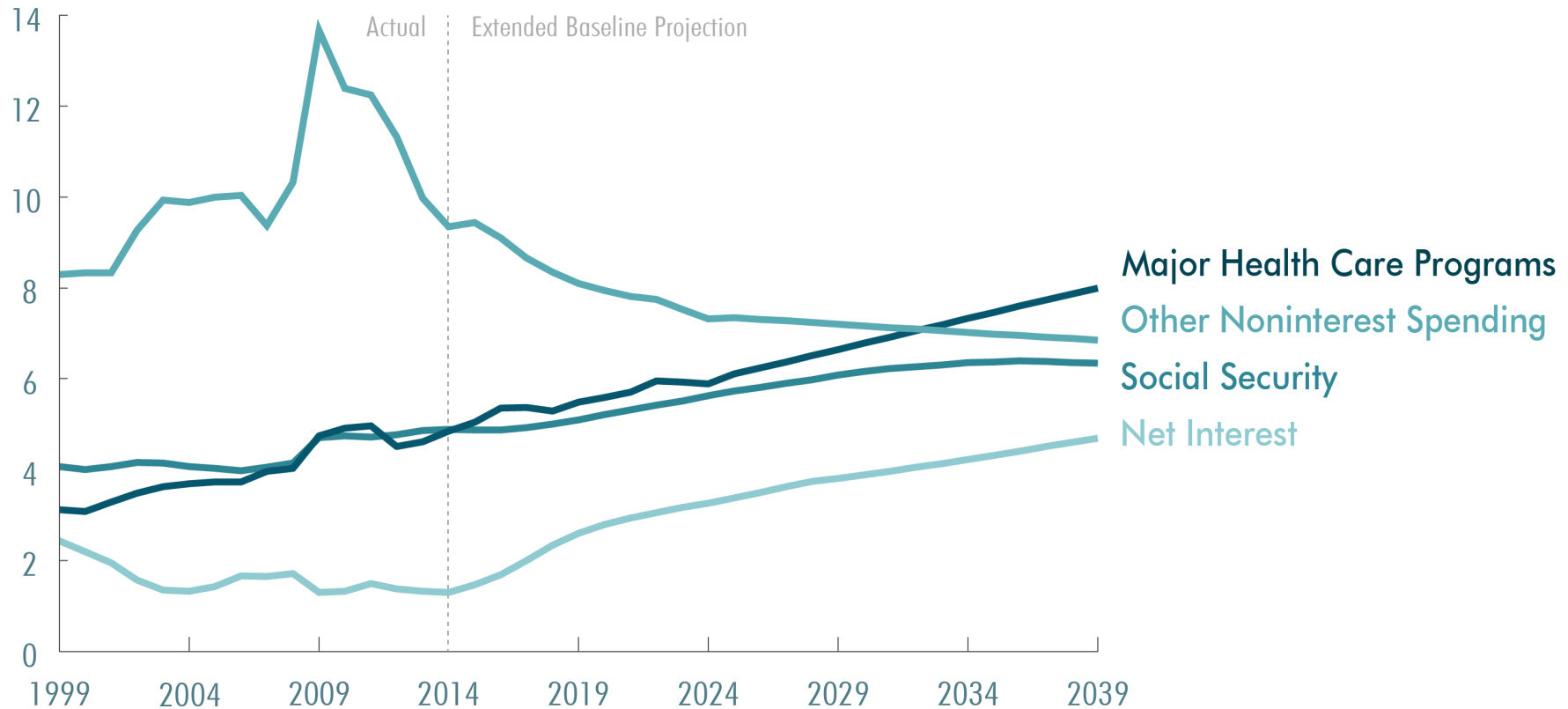


CBO's long-term projections show a substantial imbalance in the federal budget over the long term, with revenues falling well short of spending if current laws governing taxes and spending stayed generally the same. After the next few years, growing budget deficits would push federal debt back to and above its current high level. By 2039, federal debt held by the public would exceed 100 percent of gross domestic product (GDP), CBO projects, a level seen only once before in U.S. history (just after World War II).

**Federal spending is projected to rise noticeably relative to the size of the economy because of growth in a few of the largest programs and escalating interest costs.**

# Components of Federal Spending

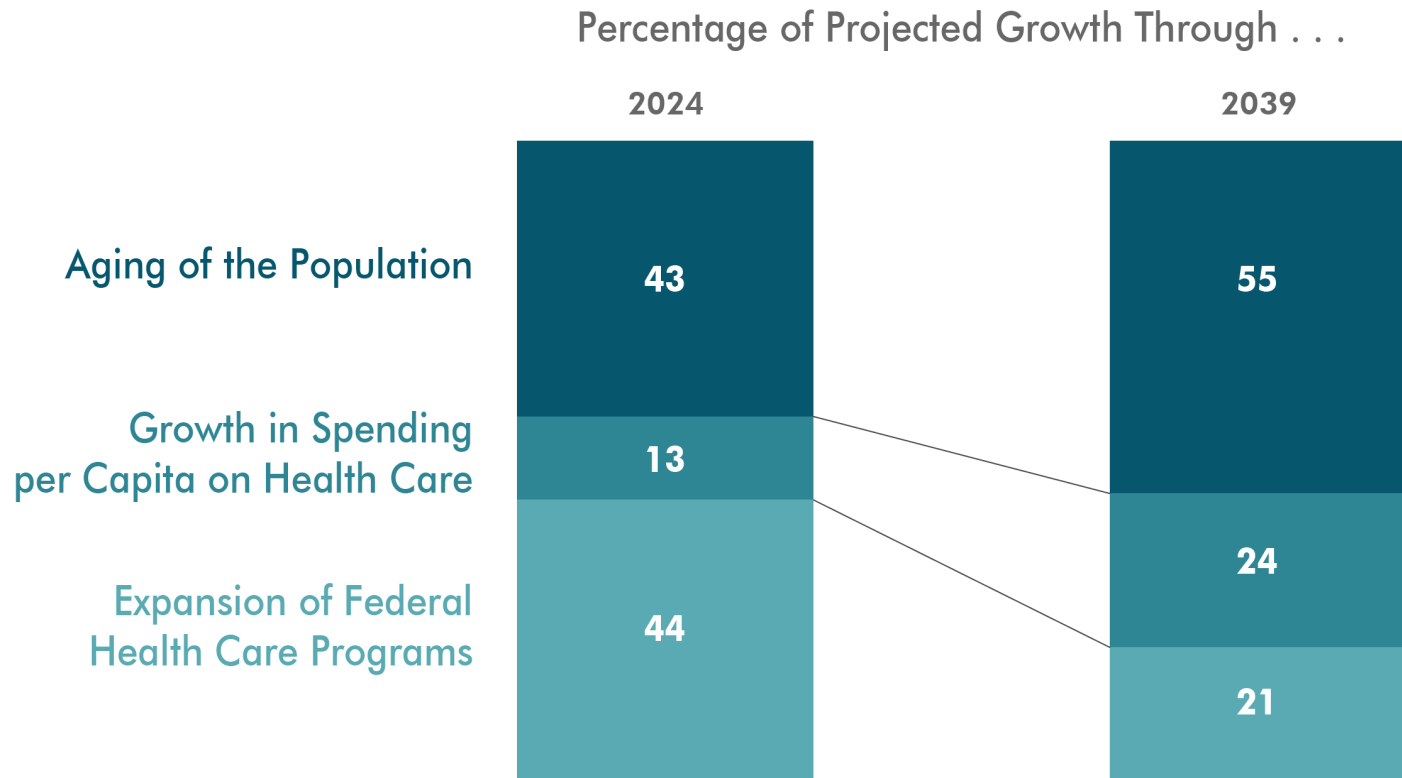
Percentage of GDP



The federal government's spending for Social Security and major health care programs (Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through the exchanges created under the Affordable Care Act) is expected to rise significantly over the next 25 years. The same is true for net interest payments because interest rates are expected to rebound from their unusually low levels and because federal debt would be much larger. Meanwhile, under current law, other noninterest spending is projected to decline to a smaller percentage of GDP than has been the case since the late 1930s.

**A combination of three factors explains the large growth in Social Security and the government's major health care programs.**

# Causes of Projected Growth in Federal Spending for Social Security and Major Health Care Programs



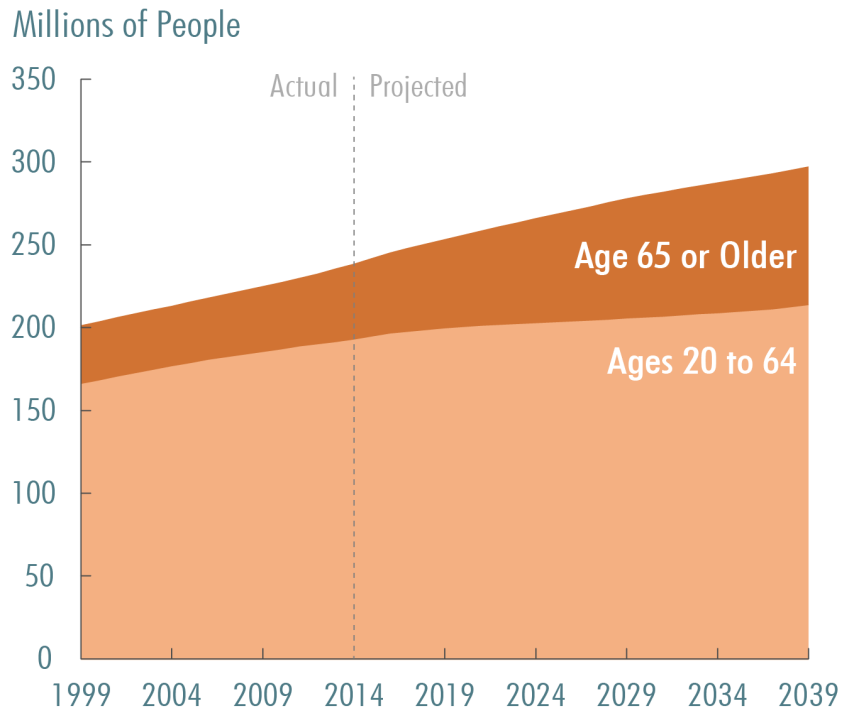
The aging of the U.S. population will increase the share of the population receiving benefits and also affect the average age (and thus the average health care costs) of beneficiaries. Health care costs per beneficiary, adjusted for demographic changes, will grow faster than economic output per capita, CBO projects, as they have historically. Medicaid will continue to expand under the Affordable Care Act and subsidies for health insurance purchased through the exchanges created under that law will grow, CBO estimates.

**Among those three factors, the aging of the population is the key driver of spending over the next 25 years.**

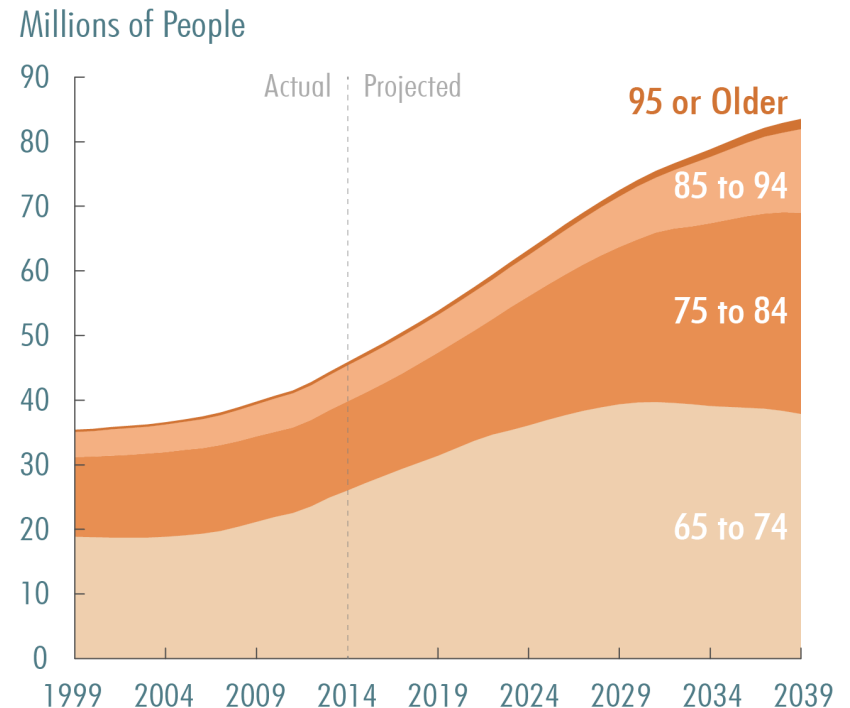


# Changes in Population, by Age Group

Population Age 65 or Older  
Relative to the Population Ages 20 to 64



Number of People Age 65 or Older,  
by Age Group

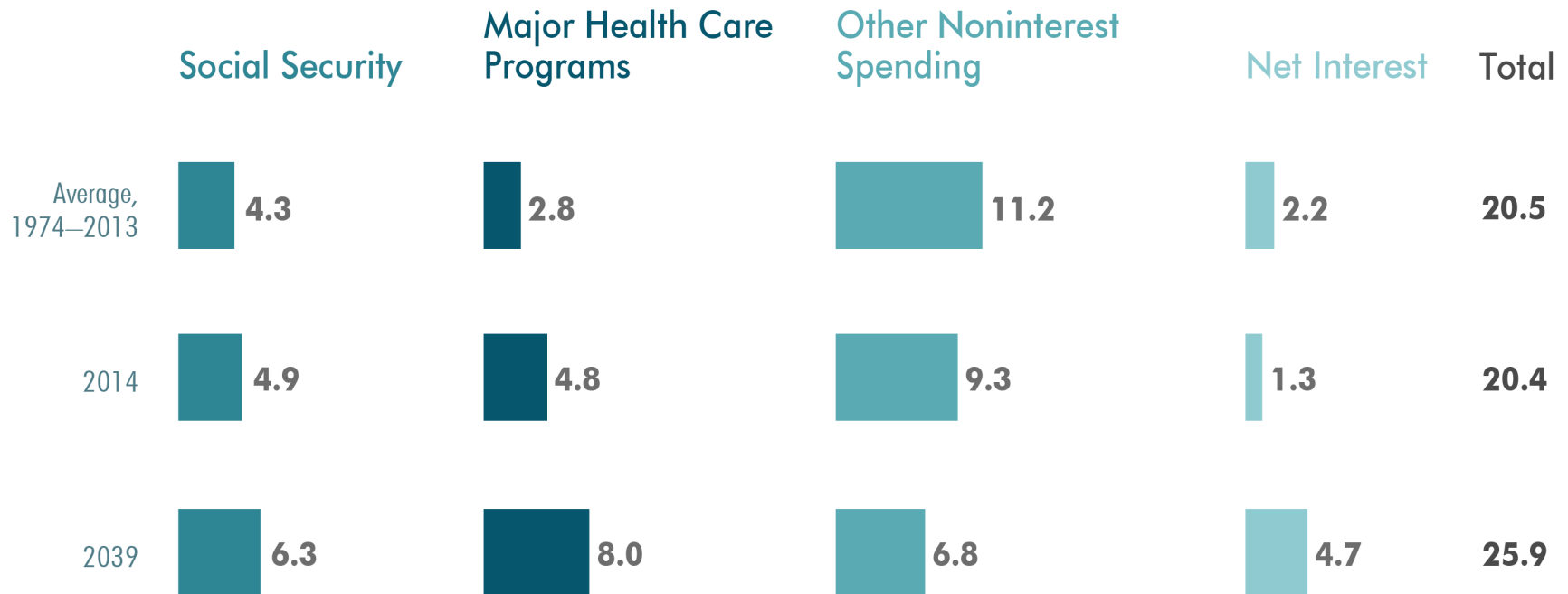


The number of people age 65 or older will increase by about 80 percent between now and 2039, CBO projects. As more members of the baby-boom generation reach retirement age and as longer life spans lead to longer retirements, a significantly larger share of the population will receive benefits from Social Security and Medicare. The aging of the population will cause the total amount of those benefits scheduled to be paid under current law to grow faster than the economy.

**Unless substantial changes are made to Social Security and major health care programs, spending for those programs will equal a much larger percentage of GDP in the future than it has in the past.**

# Federal Spending Under CBO's Extended Baseline, Compared With Past Averages

Percentage of GDP

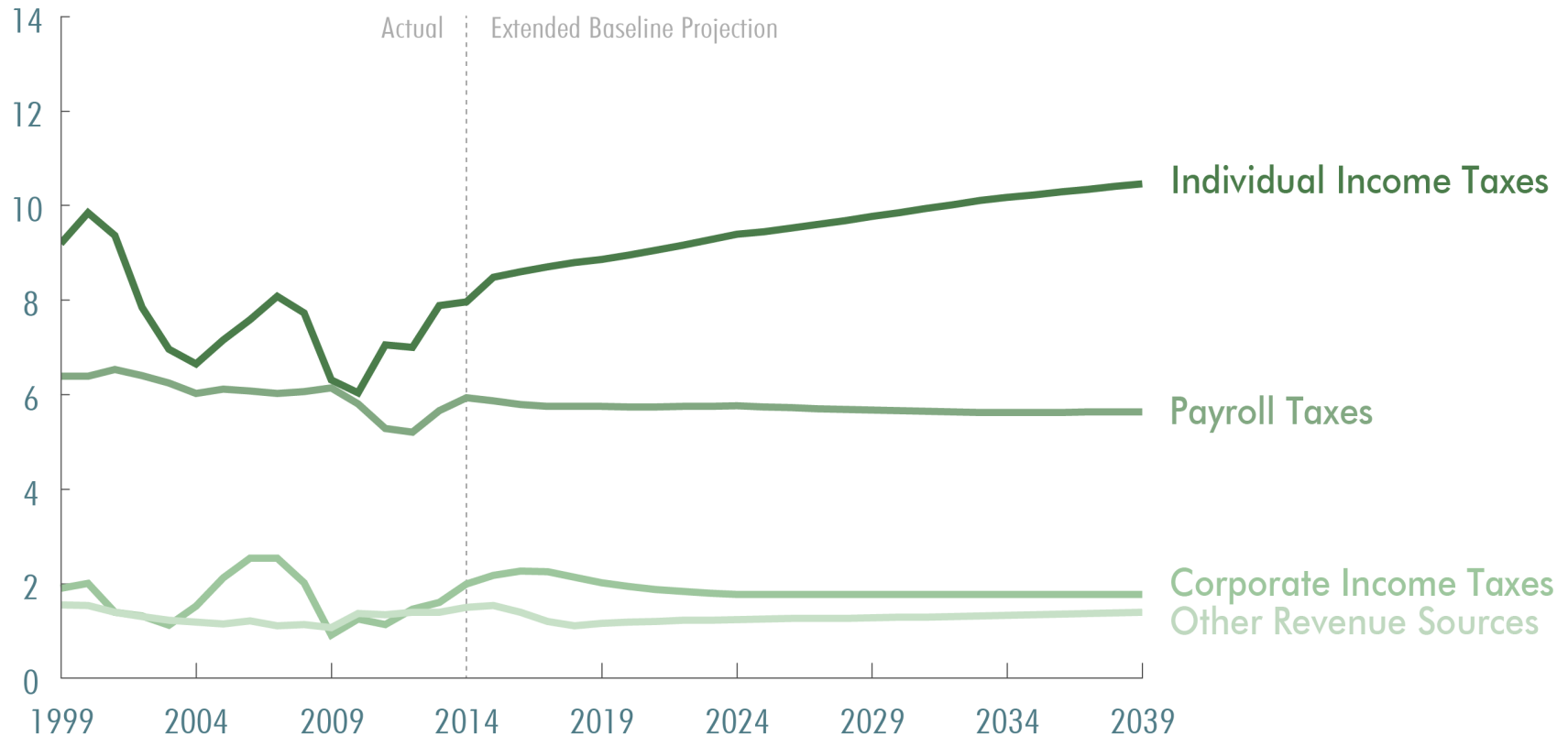


Together, spending for Social Security and major health care programs is projected to increase to more than 14 percent of GDP by 2039, twice the average of the past 40 years. In contrast, other noninterest spending is projected to decline to less than 7 percent of GDP, well below the average over the past four decades. All told, total spending is projected to reach nearly 26 percent of GDP in 2039, compared with about 20½ percent this year and, on average, over the past 40 years.

**Federal revenues** are projected to rise significantly above levels experienced in recent years, mainly as the result of increased receipts from individual income taxes.

# Components of Federal Revenues

Percentage of GDP



Under current law, individual income taxes—the bulk of revenues—would rise as a percentage of GDP over the next decade because of structural features of the individual income tax system and the continued economic recovery. Those revenues would continue to rise thereafter, mainly because people’s income is expected to grow faster than inflation, pushing more income into higher tax brackets over time.

**In total, revenues would constitute a larger percentage of GDP in the future than they have, on average, over the past few decades if current tax laws remained generally unchanged.**

# Federal Revenues Under CBO's Extended Baseline, Compared With Past Averages

Percentage of GDP



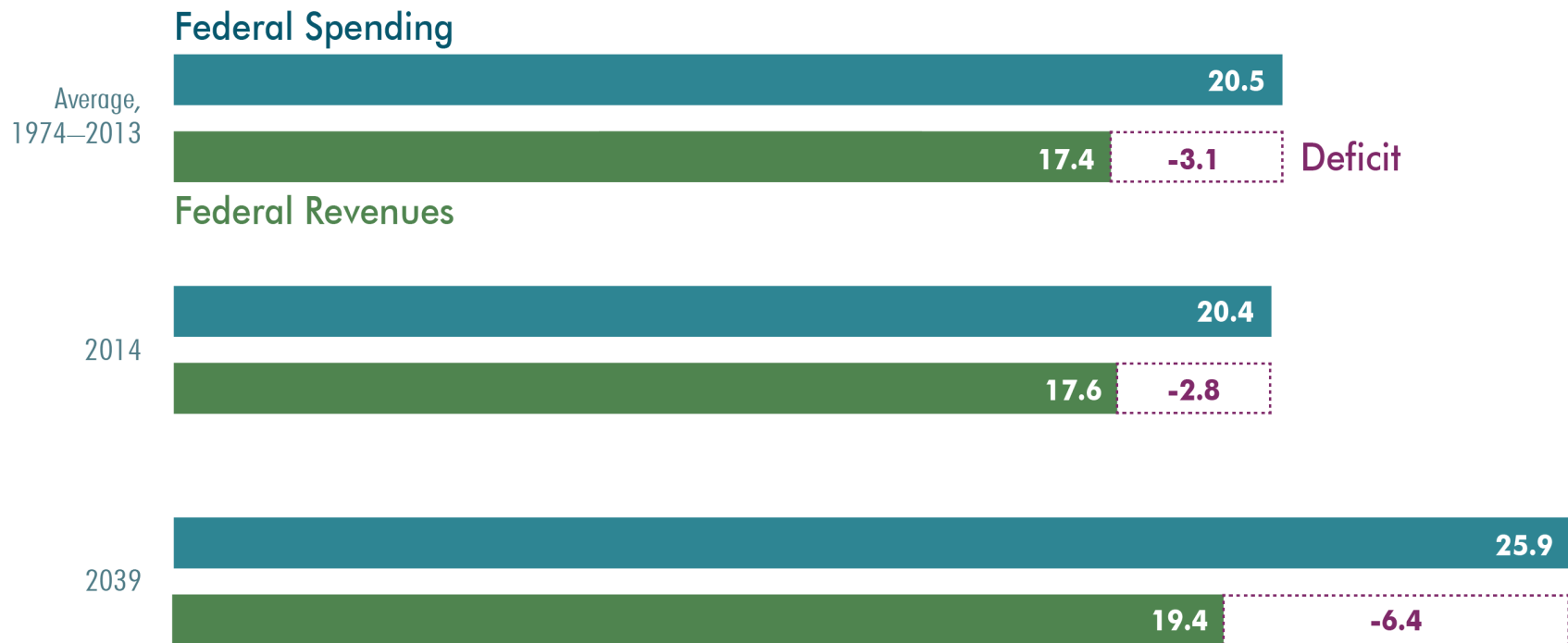
Revenues are projected to equal about 19½ percent of GDP in 2039 under current law—2 percentage points more than the average over the past 40 years. But the composition of revenues would shift: Receipts from individual income taxes would rise by more than 2 percentage points of GDP, whereas receipts from all other sources, taken together, would decline slightly as a percentage of GDP.

**Even so, if federal tax and spending policies remained generally unchanged, growth in revenues would not keep pace with growth in spending over the next 25 years, resulting in larger budget deficits.**



# Spending, Revenues, and Deficits Under CBO's Extended Baseline, Compared With Past Averages

Percentage of GDP

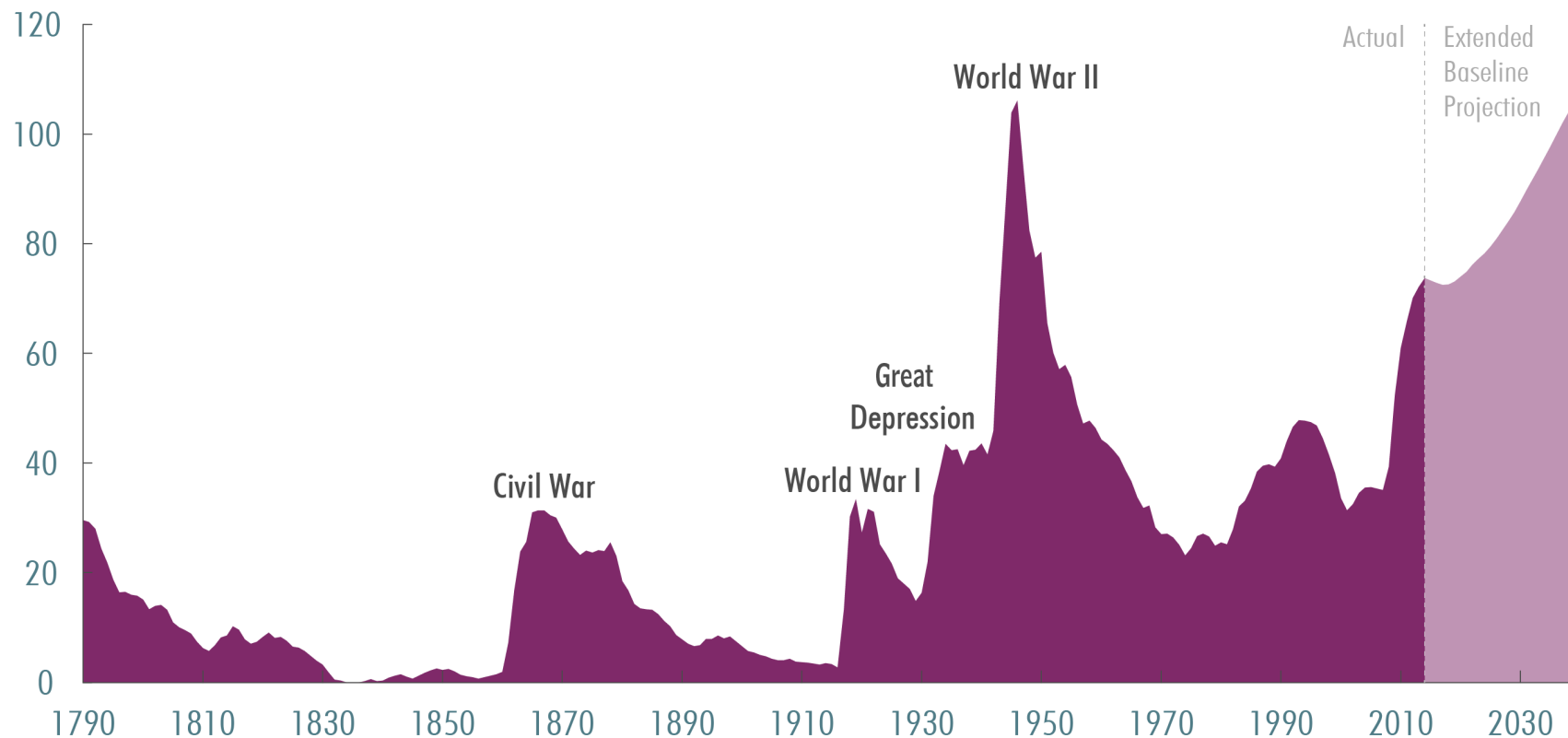


Spending for some of the largest federal programs and for net interest payments would be much larger as a share of the economy than it has been, CBO projects. In contrast, revenues would grow only slightly faster than GDP. As a result, by 2039, the deficit would equal about 6½ percent of GDP, more than twice its average over the past four decades.

**With large and growing deficits, debt would exceed its current percentage of GDP after 2020 and continue rising, a path that would ultimately be unsustainable.**

# Federal Debt Held by the Public

Percentage of GDP



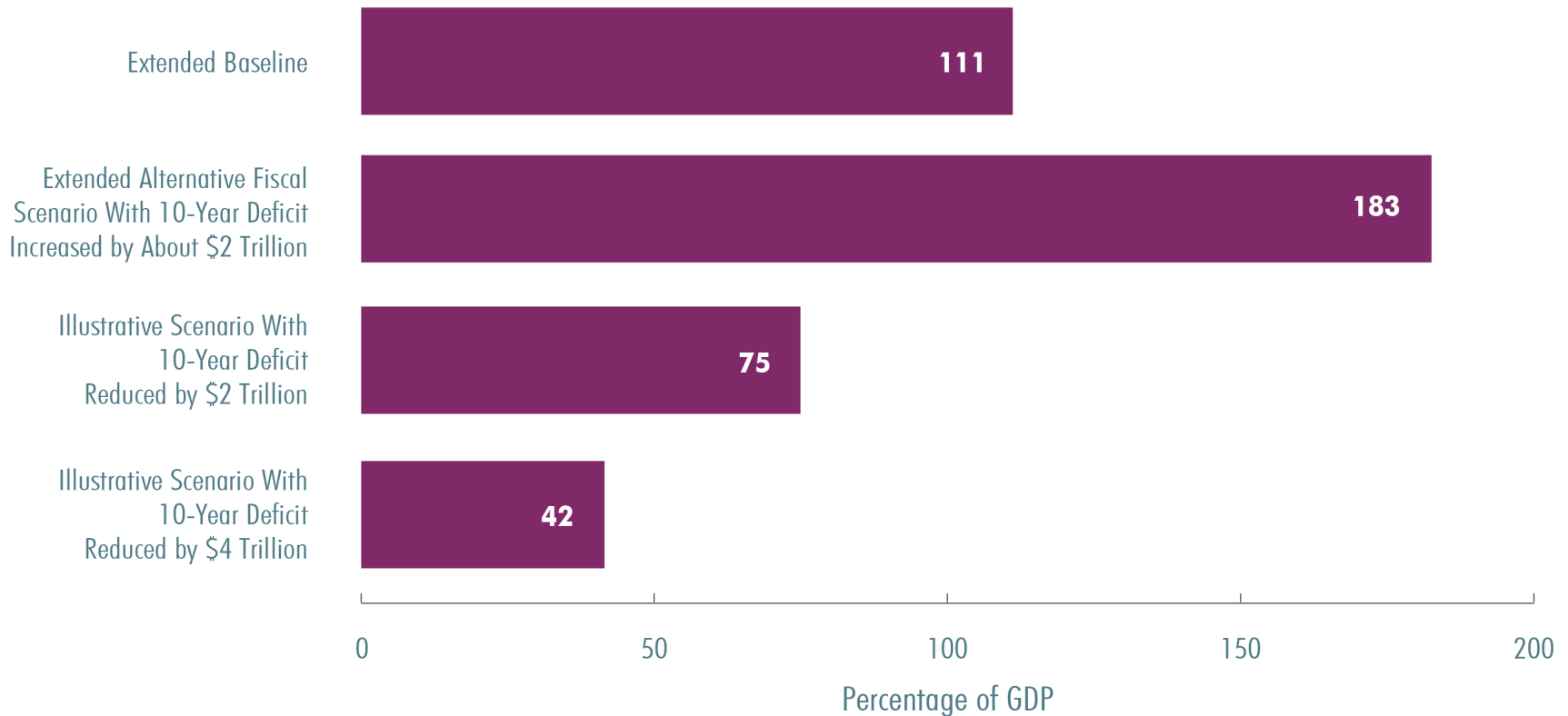
By 2039, federal debt would reach 106 percent of GDP—equal to the percentage at the end of 1946 and more than two and a half times the average percentage during the past several decades—even without accounting for the negative economic effects of higher debt.

**The detailed projections presented so far are CBO's "extended baseline," which represents CBO's best assessment of how the economy and other factors would affect revenues and spending if current laws remained unchanged—but they do not incorporate the harmful effects that the large and growing debt would have on the economy, further worsening the budget outlook.**

**CBO also projected the budgetary outcomes with those effects included, as well as alternative sets of fiscal policies and their resulting effects on federal debt.**

# Federal Debt in 2039 Under Various Budget Scenarios

Incorporating economic feedback, CBO projects that debt as a percentage of GDP in 2039 would be . . .

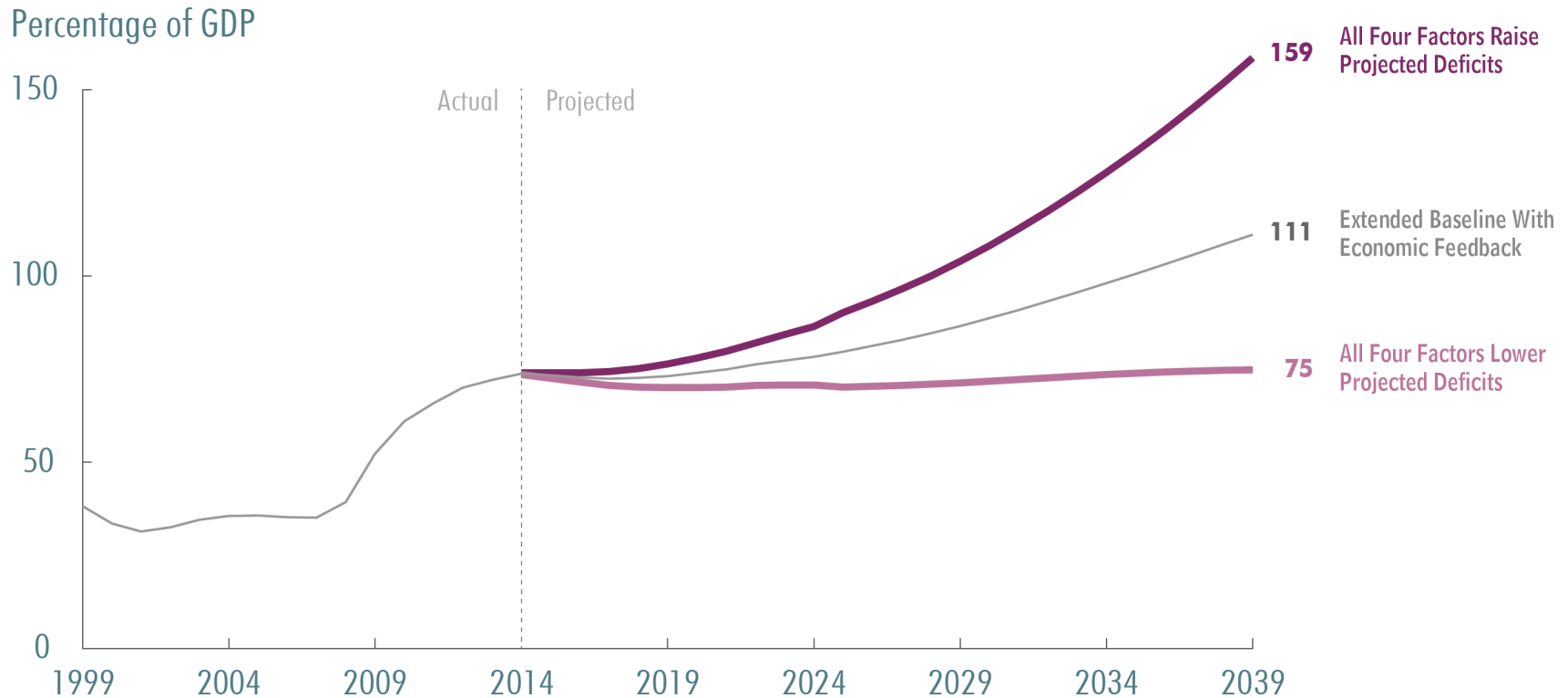


Factoring in the economic effects of growing debt would make budgetary outcomes worse, boosting projected debt held by the public to 111 percent of GDP in 2039 under the extended baseline. CBO also analyzed how the budget and the economy would evolve under three additional sets of fiscal policies—one that would result in larger deficits and more debt than the amounts in the extended baseline and two illustrative scenarios that would result in smaller deficits and lower debt.

**CBO estimated how variation in four key factors would affect projected budgetary outcomes: the rate of decline in mortality, productivity growth, interest rates, and growth in federal health care spending.**

**The main implication of CBO's central estimates applies under a wide range of possible values for those factors—namely, if current laws generally remained unchanged, federal debt, which is already high by historical standards, would be at least as high and probably considerably higher 25 years from now.**

# Federal Debt Given Different Rates of Mortality Decline, Productivity Growth, Interest, and Growth of Federal Health Care Spending



CBO projected budgetary outcomes with four factors varying by amounts based on their past variation as well as on the agency's consideration of possible future developments. If all four factors varied simultaneously so as to increase projected deficits, federal debt held by the public in 2039 would reach about 160 percent of GDP. Conversely, in a case in which all four factors varied in a way that lowered deficits, debt in 2039 would equal 75 percent of GDP, about what it is now.

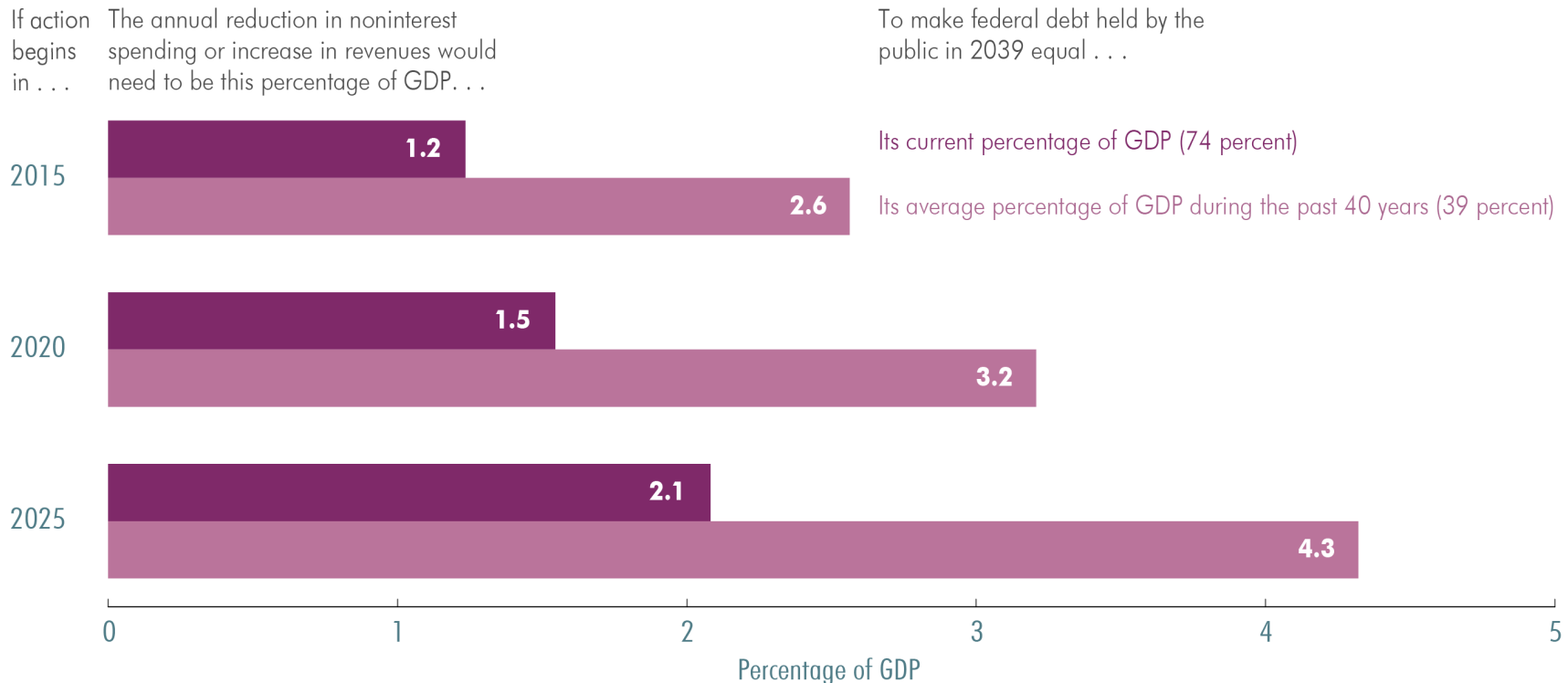
**Large and growing amounts of debt would have significant negative consequences, including:**

- **Reducing the total amounts of national saving and income in the long term;**
- **Increasing the government's interest payments, thereby putting more pressure on the rest of the budget;**
- **Limiting lawmakers' flexibility to respond to unforeseen events; and**
- **Increasing the likelihood of a fiscal crisis, in which interest rates on federal debt would rise suddenly and sharply relative to rates of return on other assets.**



**One way to think about the long-term fiscal imbalance under CBO's extended baseline is to assess the changes in noninterest spending or revenues that would be needed to achieve a chosen goal for federal debt.**

# The Timing and Size of Policy Changes Needed to Make Federal Debt Meet Two Goals



The size of the needed changes in noninterest spending or revenues would depend on the amount of federal debt that lawmakers consider appropriate. CBO examined two goals, but others are possible. In deciding how quickly to implement policies, lawmakers face trade-offs: Waiting would mean a greater accumulation of debt, larger changes needed to achieve a particular long-term outcome, and more uncertainty about future policies; acting sooner would weaken the economy's current expansion and give people little time to plan and adjust.

**To put the federal budget on a sustainable path for the long term, lawmakers would have to make significant changes—reducing spending for large benefit programs below the projected levels, letting revenues rise more than they would under current law, or adopting some combination of those approaches.**

## About This Document

Leigh Angres, Christine Bogusz, and Maureen Costantino prepared these slides.

For more details, see CBO's report *The 2014 Long-Term Budget Outlook* (July 2014), [www.cbo.gov/publication/45471](http://www.cbo.gov/publication/45471), which is the result of work by many analysts at CBO.