



# Congressional Budget Office

## CBO's Updated Budget Outlook

**Presentation at the Macroeconomic Advisers'  
24<sup>th</sup> Annual Washington Policy Seminar**

Douglas W. Elmendorf

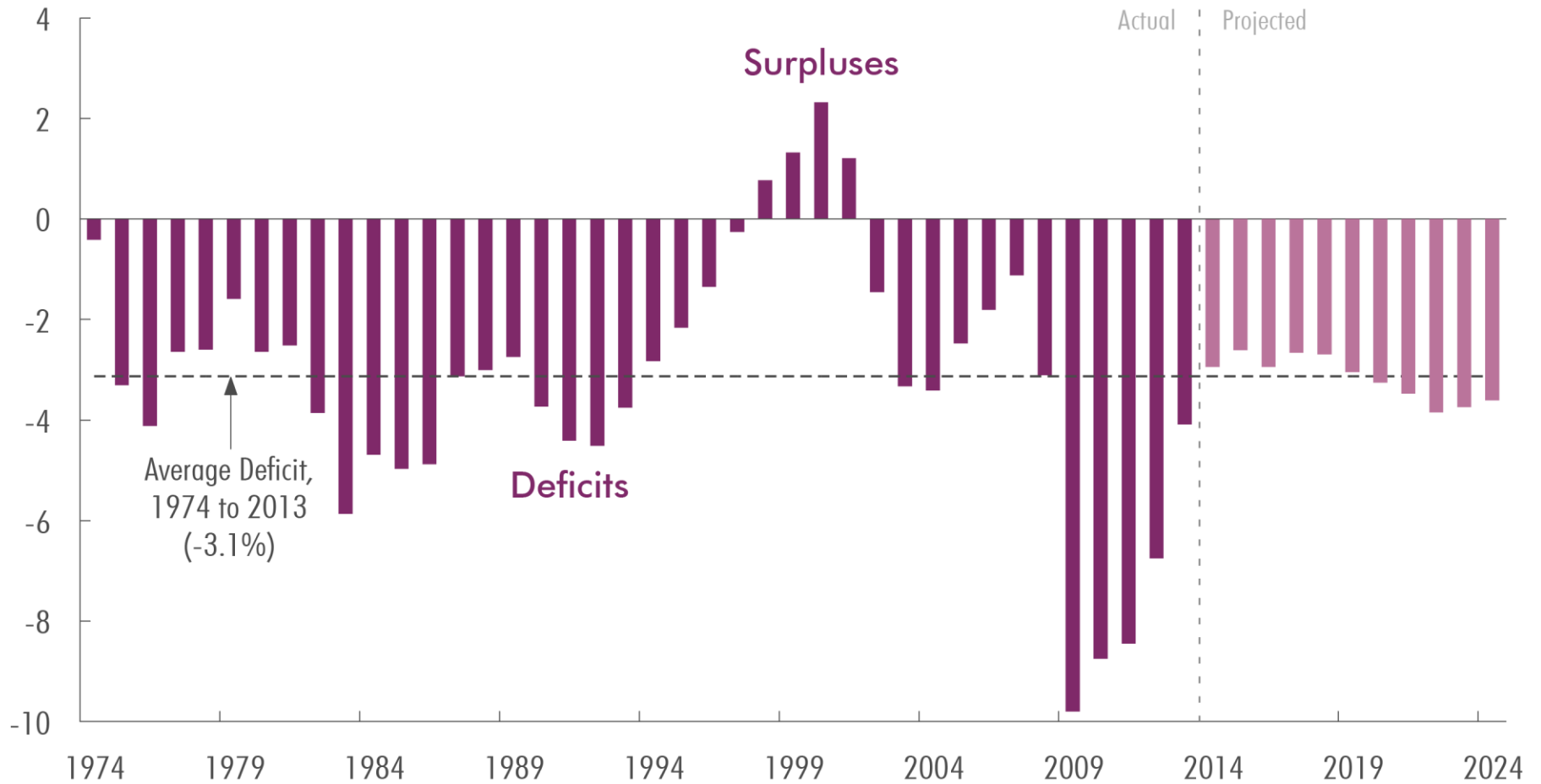
Director

September 10, 2014

Notes for the slides can be found at the end of the presentation.

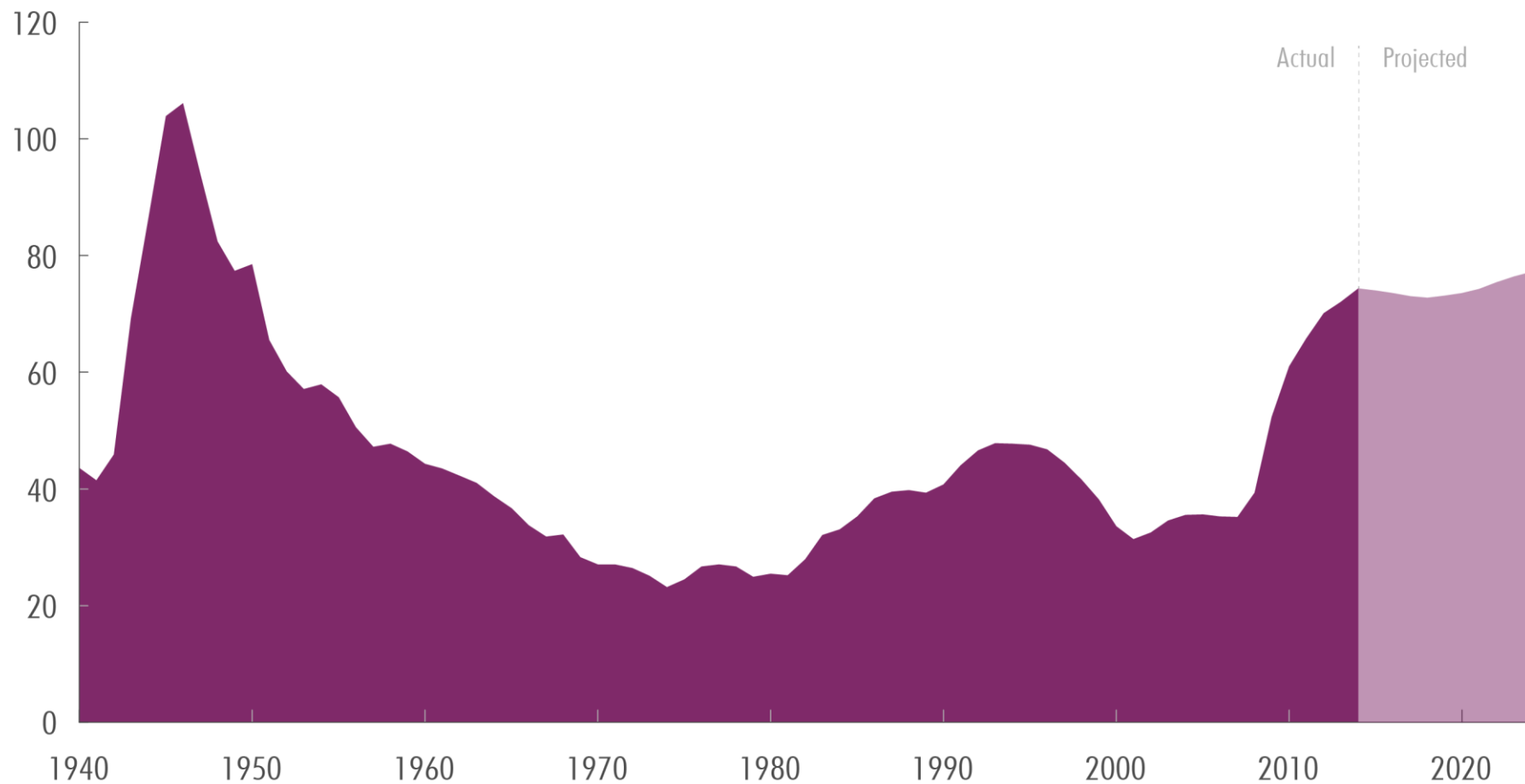
# Federal Deficits or Surpluses

Percentage of GDP



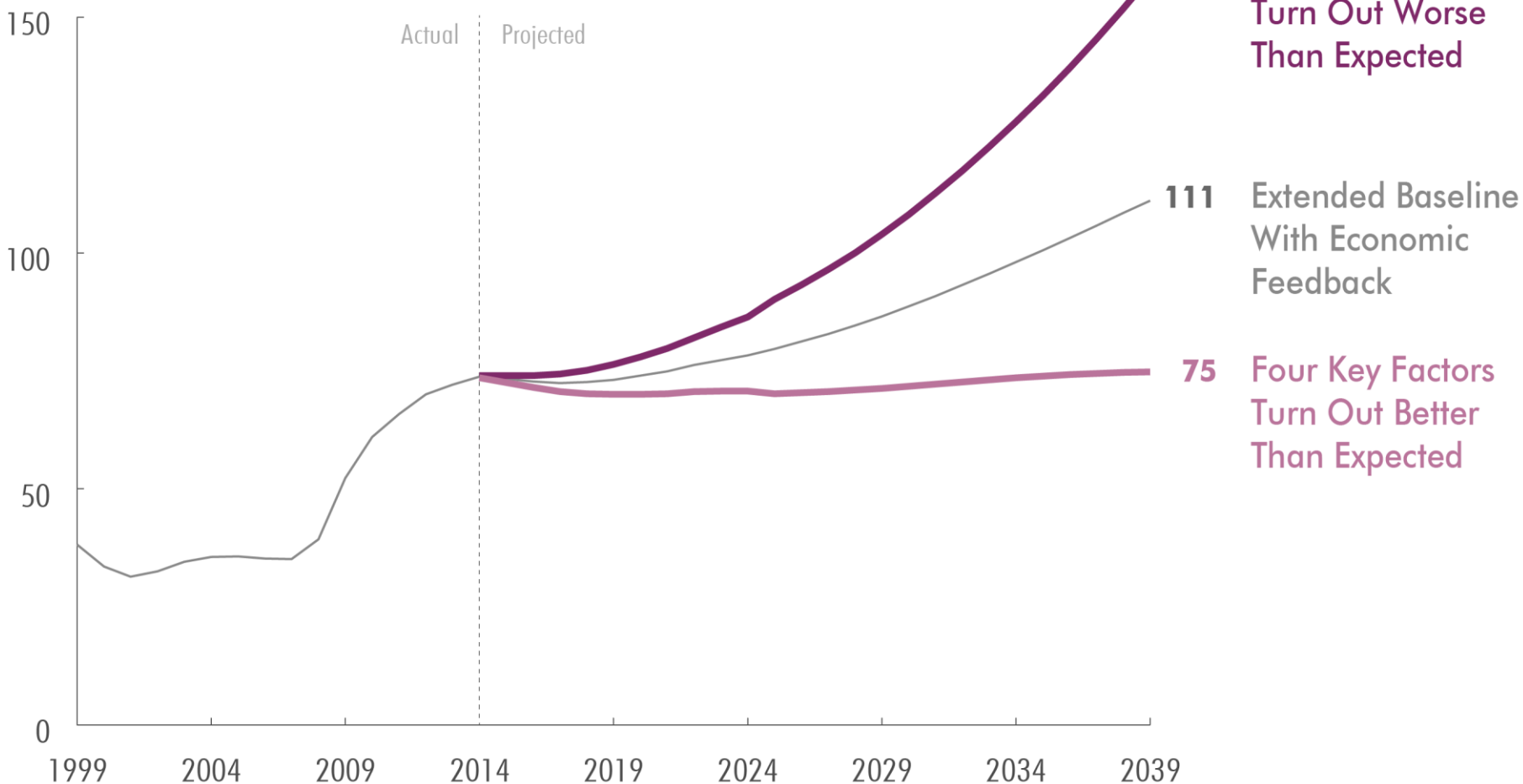
# Federal Debt Held by the Public

Percentage of GDP



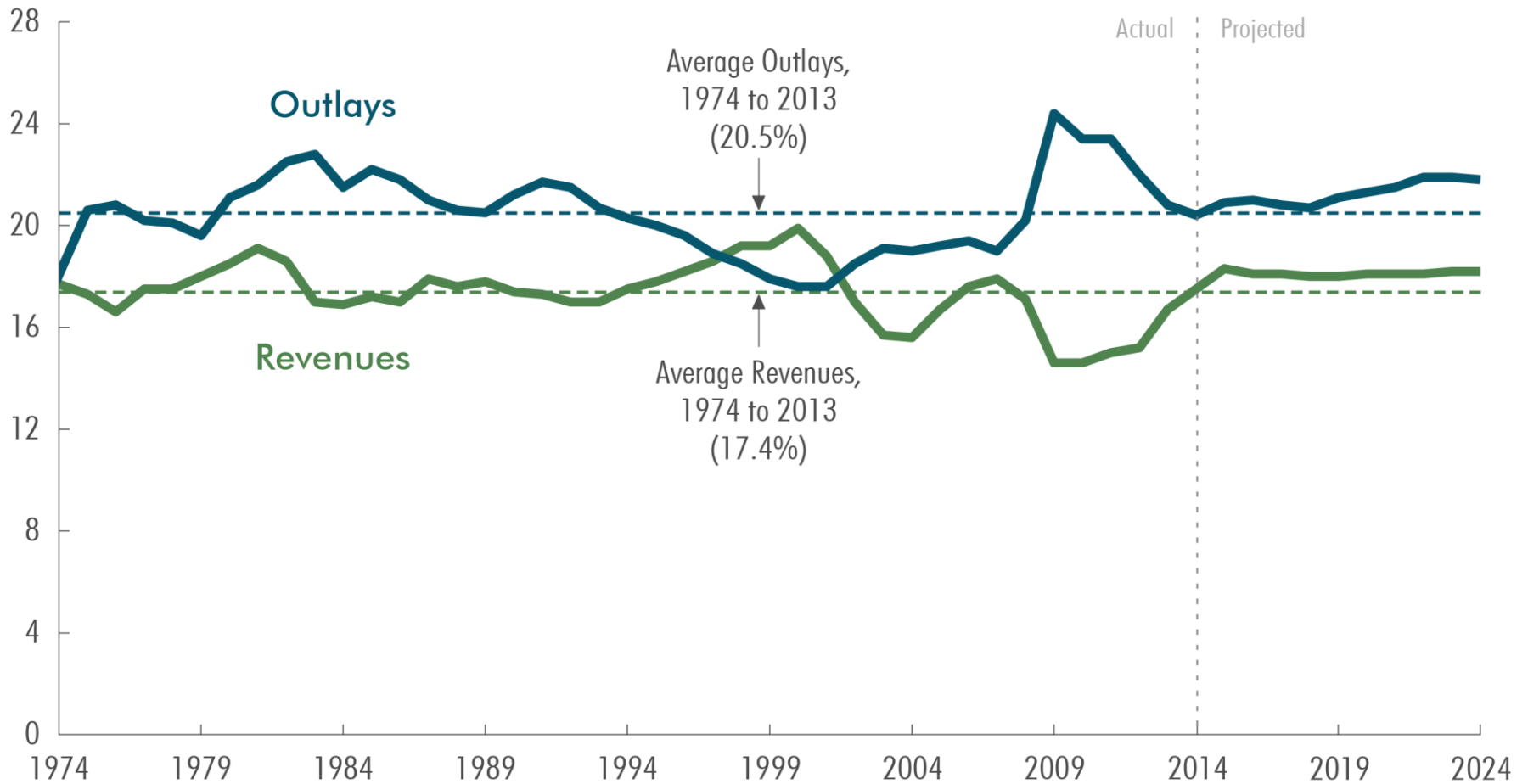
# Under Current Law, Federal Debt Would Increase Even Further in the Long Run

Percentage of GDP

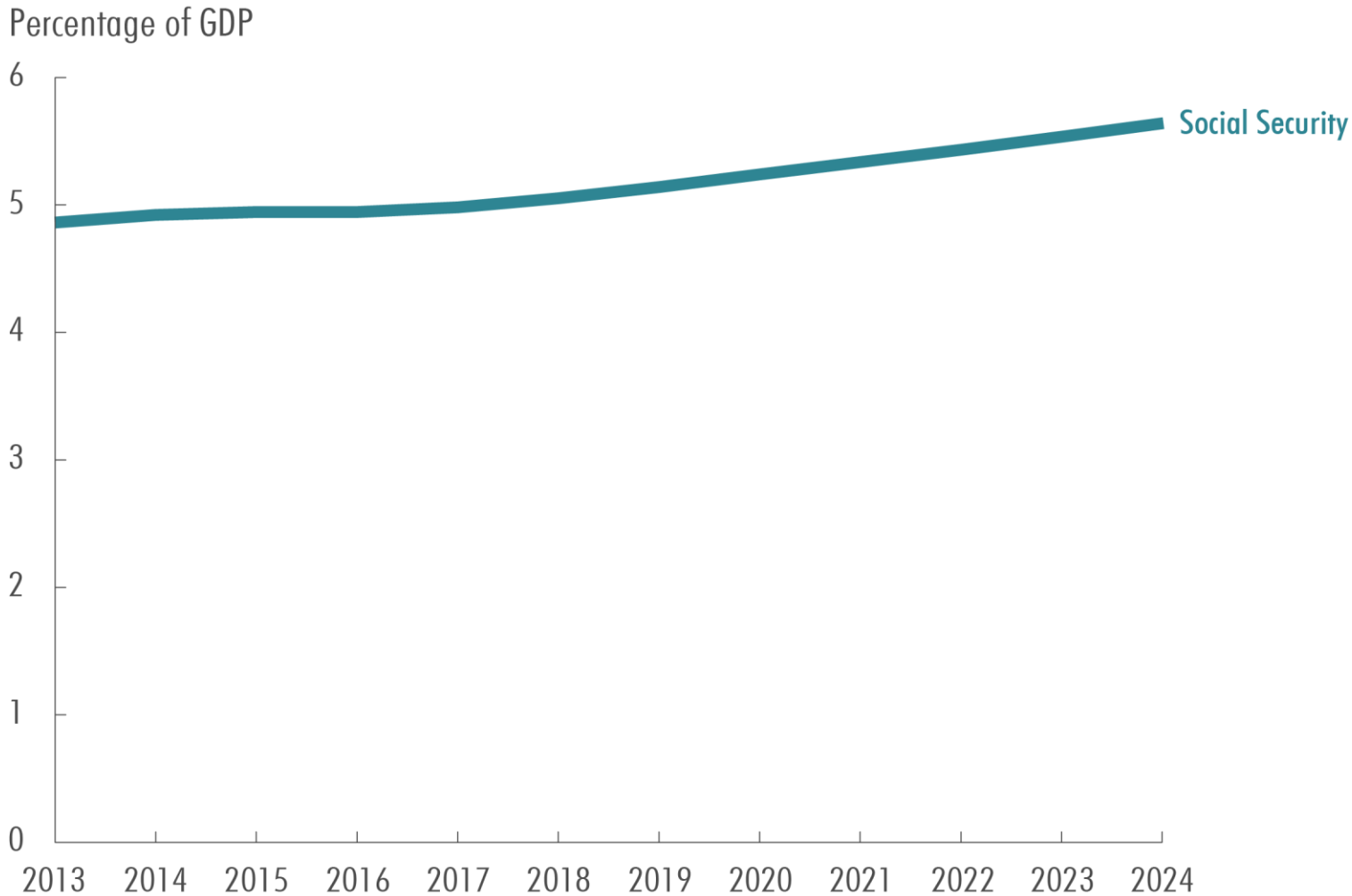


# Total Outlays and Revenues

Percentage of GDP

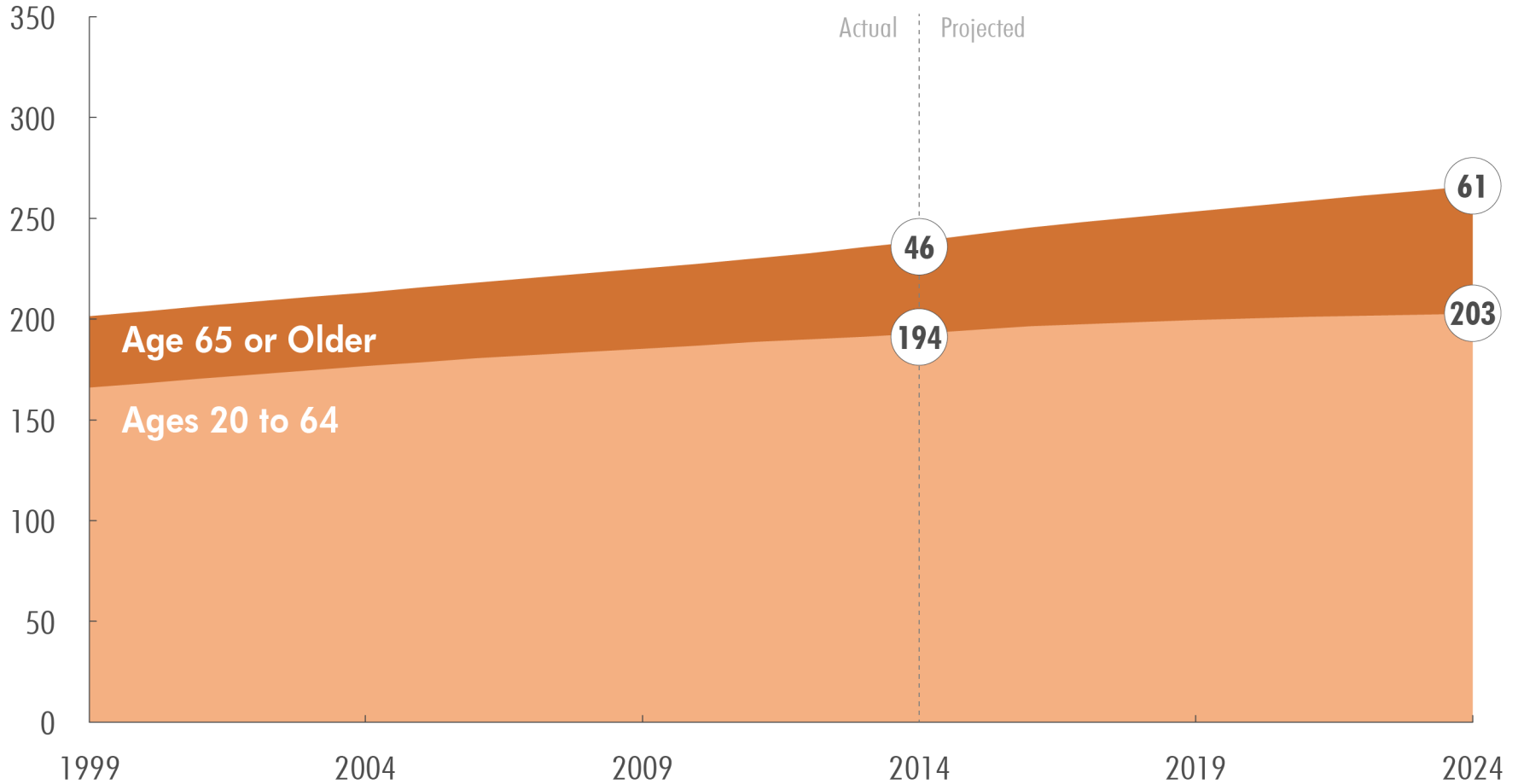


# Federal Spending Will Shift Toward Social Security and Health Care Programs and Away from Other Activities

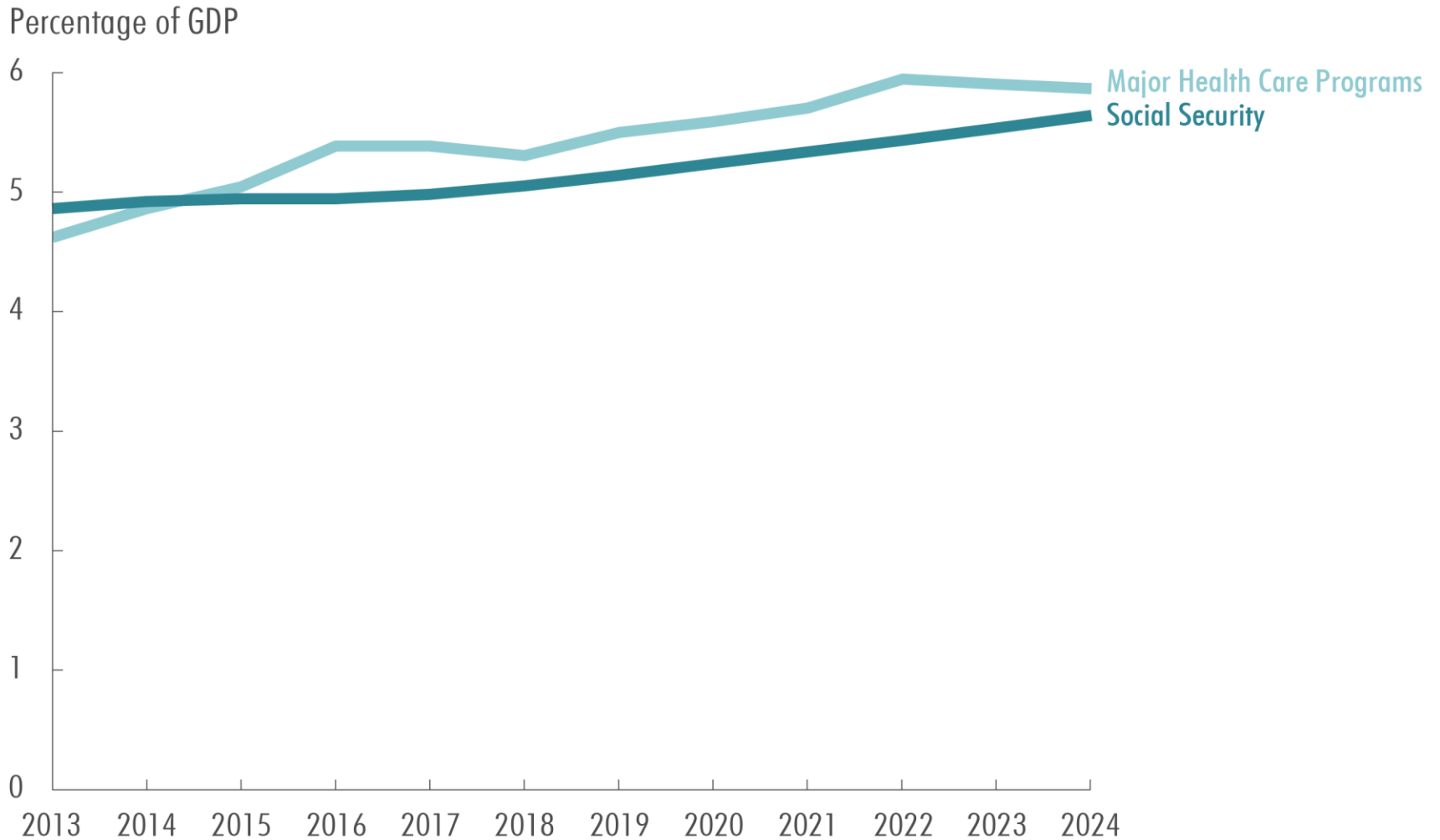


# The Share of the Population Age 65 or Older Is Rising Substantially

Millions of People



# Federal Spending Will Shift Toward Social Security and Health Care Programs and Away from Other Activities





# Federal Spending for Major Health Care Programs Will Increase Relative to GDP for Three Main Reasons

## Percentage of Projected Growth in Spending Through 2024

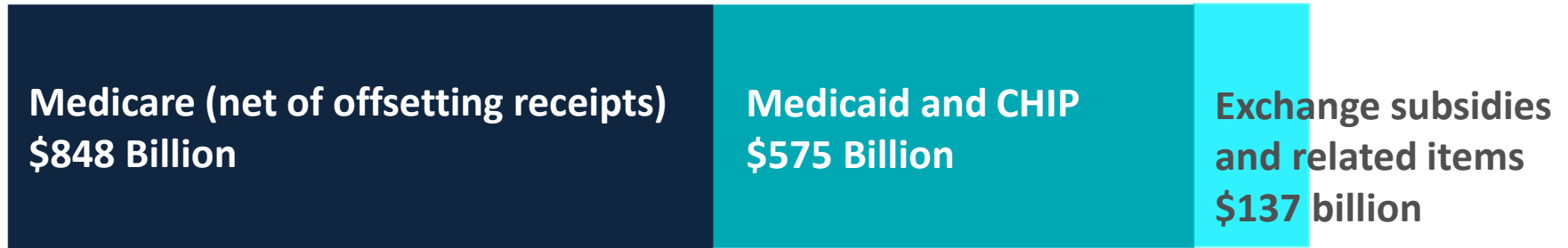
---

Population Aging	21
Rising Costs of Health Care Per Person	17
Expansion of Federal Subsidies for Health Insurance Through Medicaid and Exchanges	62

---

# Even After the Affordable Care Act Is Fully Implemented, Most Federal Spending for Health Care Will Support Care for Older People

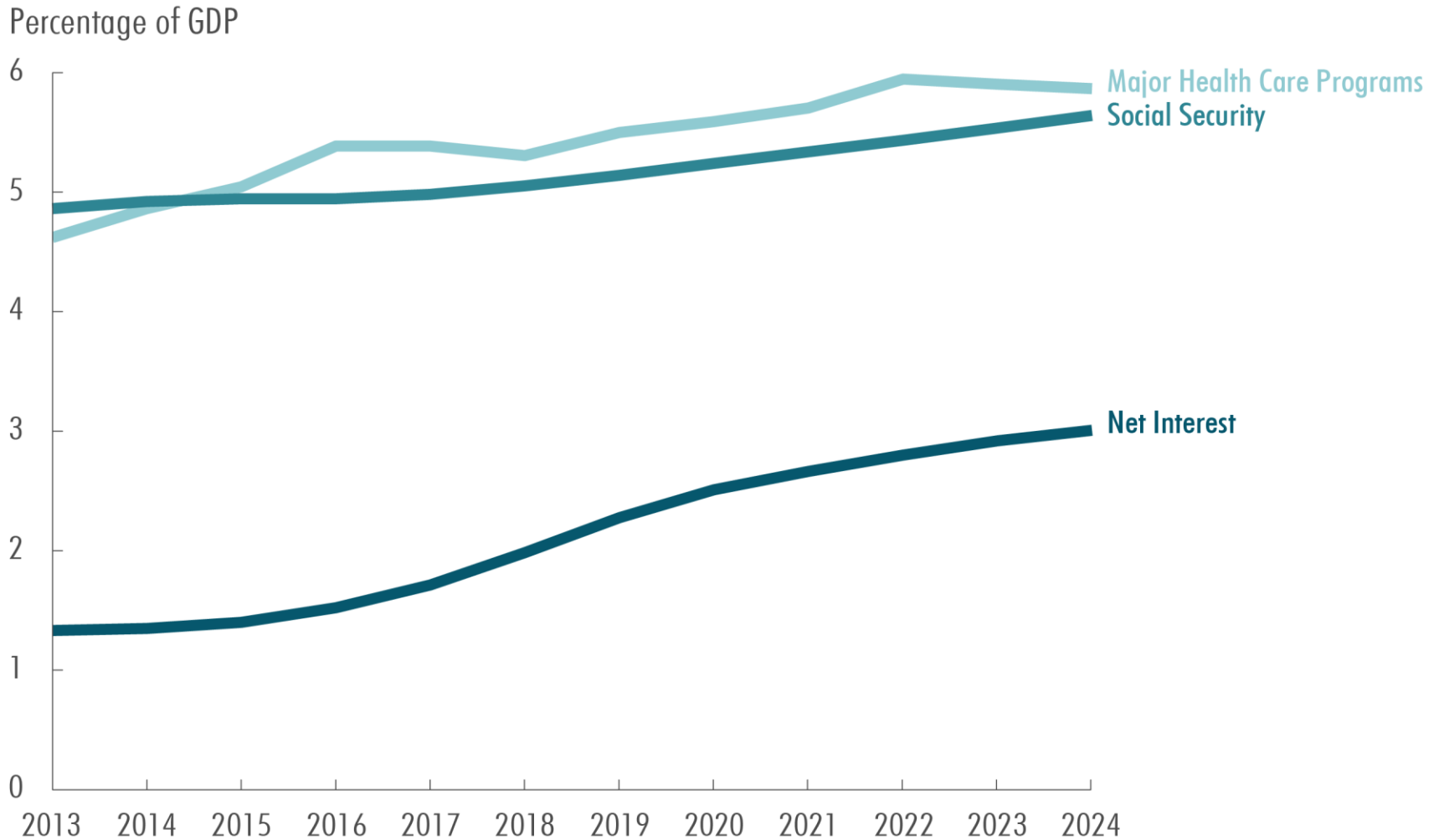
CBO's projections for 2024:



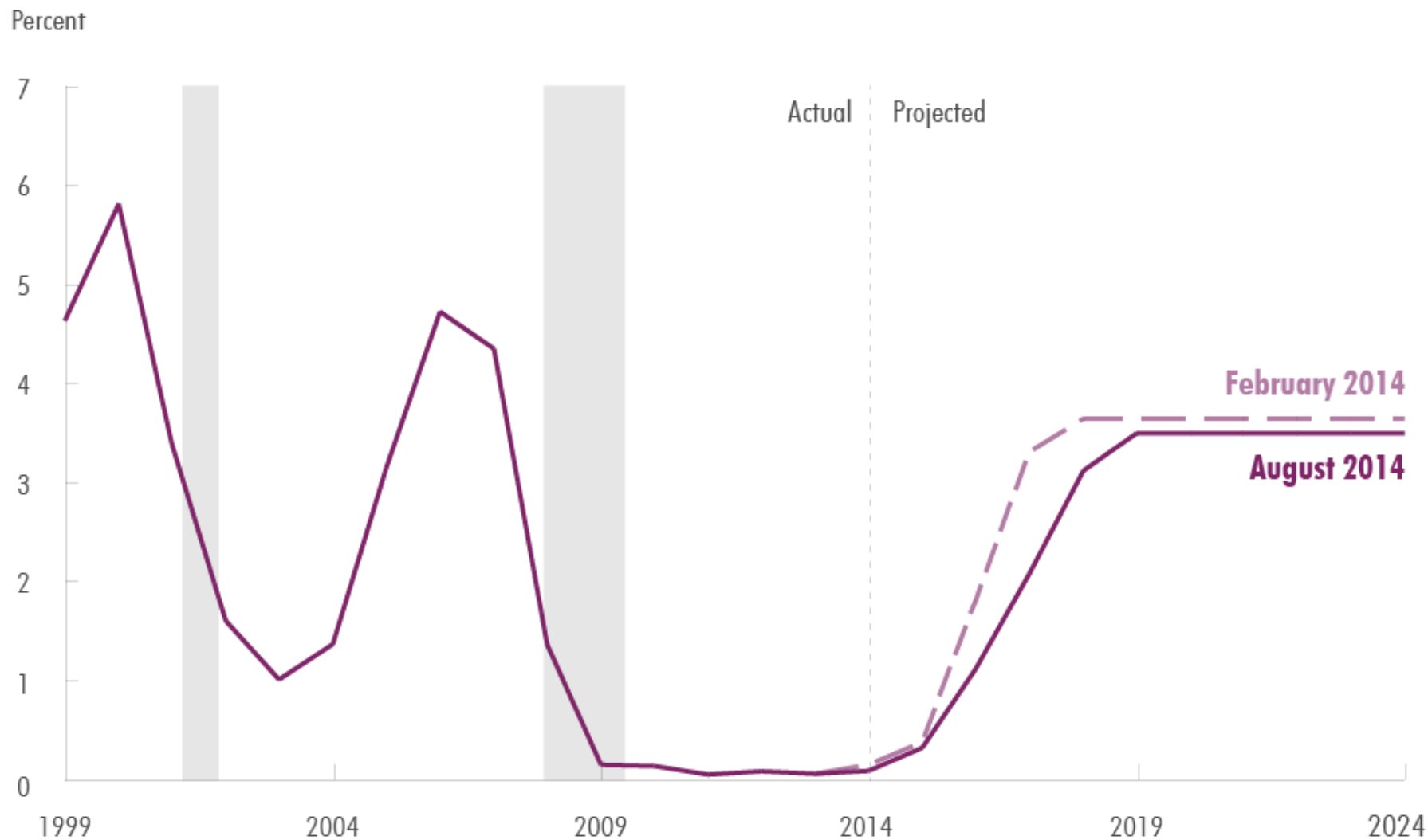
Federal spending in 2024 for the major health care programs will finance care for:



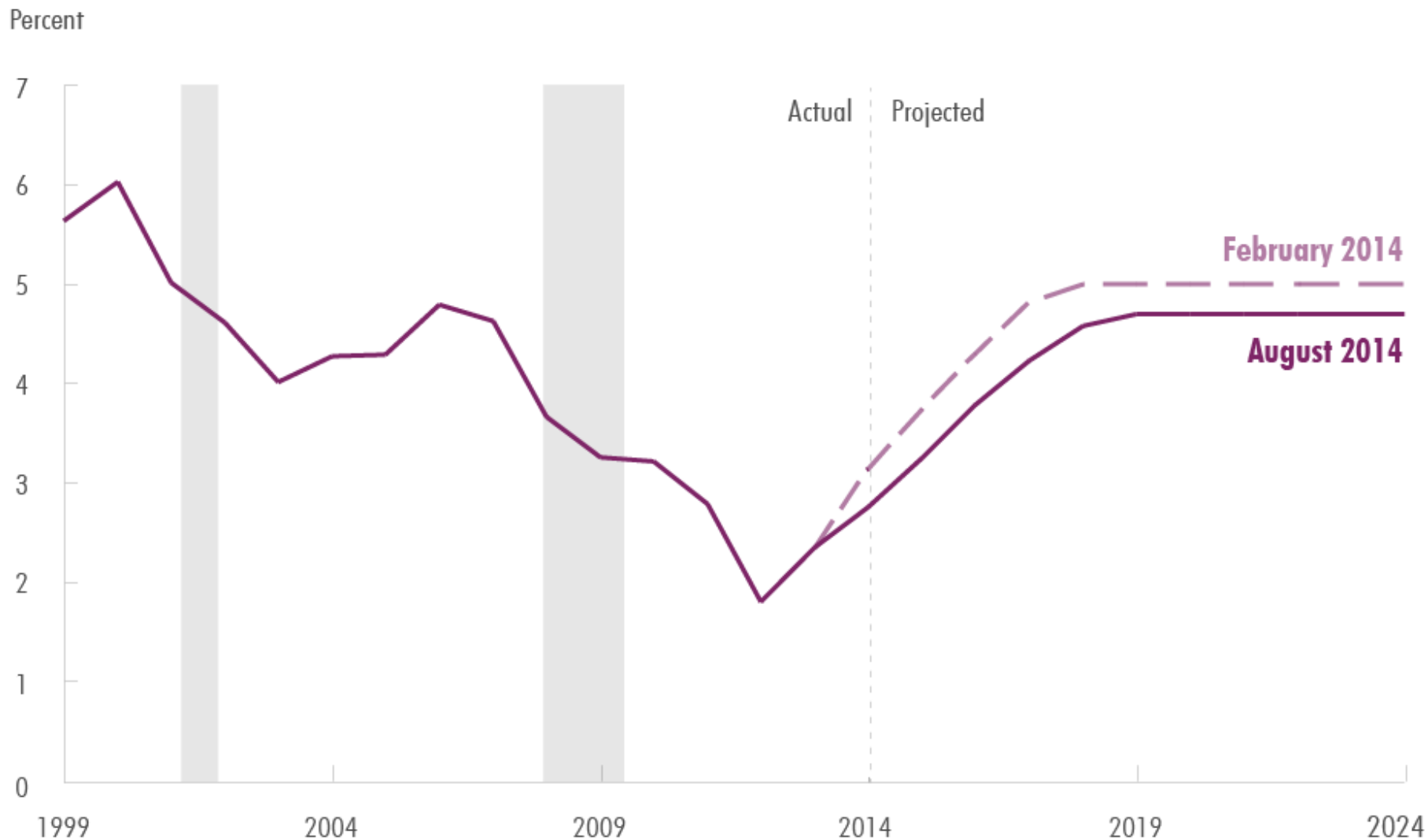
# Federal Spending Will Shift Toward Social Security and Health Care Programs and Away from Other Activities



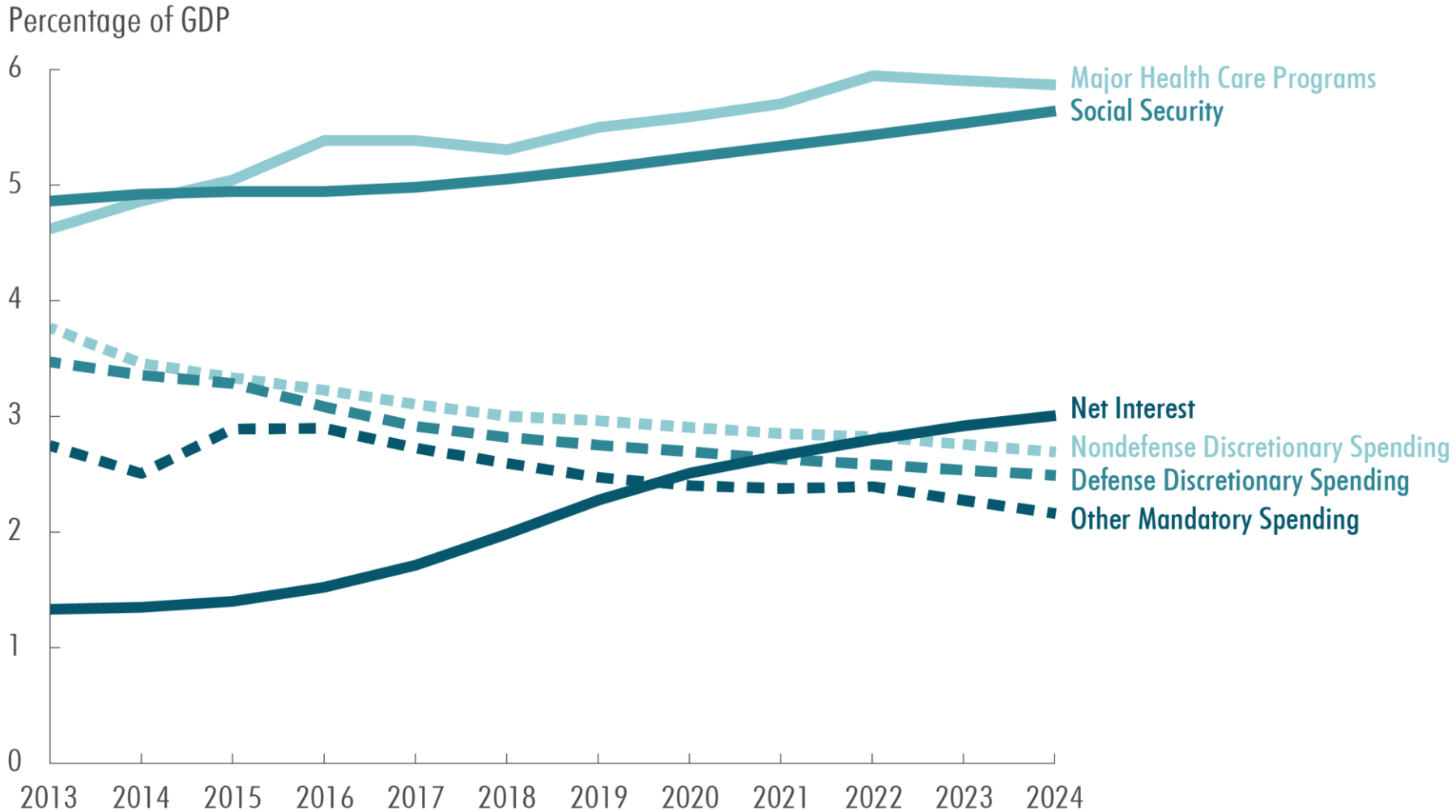
# CBO's Current and Previous Projections of the Interest Rate on 3-Month Treasury Bills



# CBO's Current and Previous Projections of the Interest Rate on 10-Year Treasury Notes



# Federal Spending Will Shift Toward Social Security and Health Care Programs and Away from Other Activities



Statutory caps constrain ***total defense*** and ***total nondefense*** discretionary appropriations through 2021.

The difficult decisions about how large the appropriations will be for ***specific programs and activities*** will be made year-by-year in the future.

To keep defense spending within the caps, policymakers could:

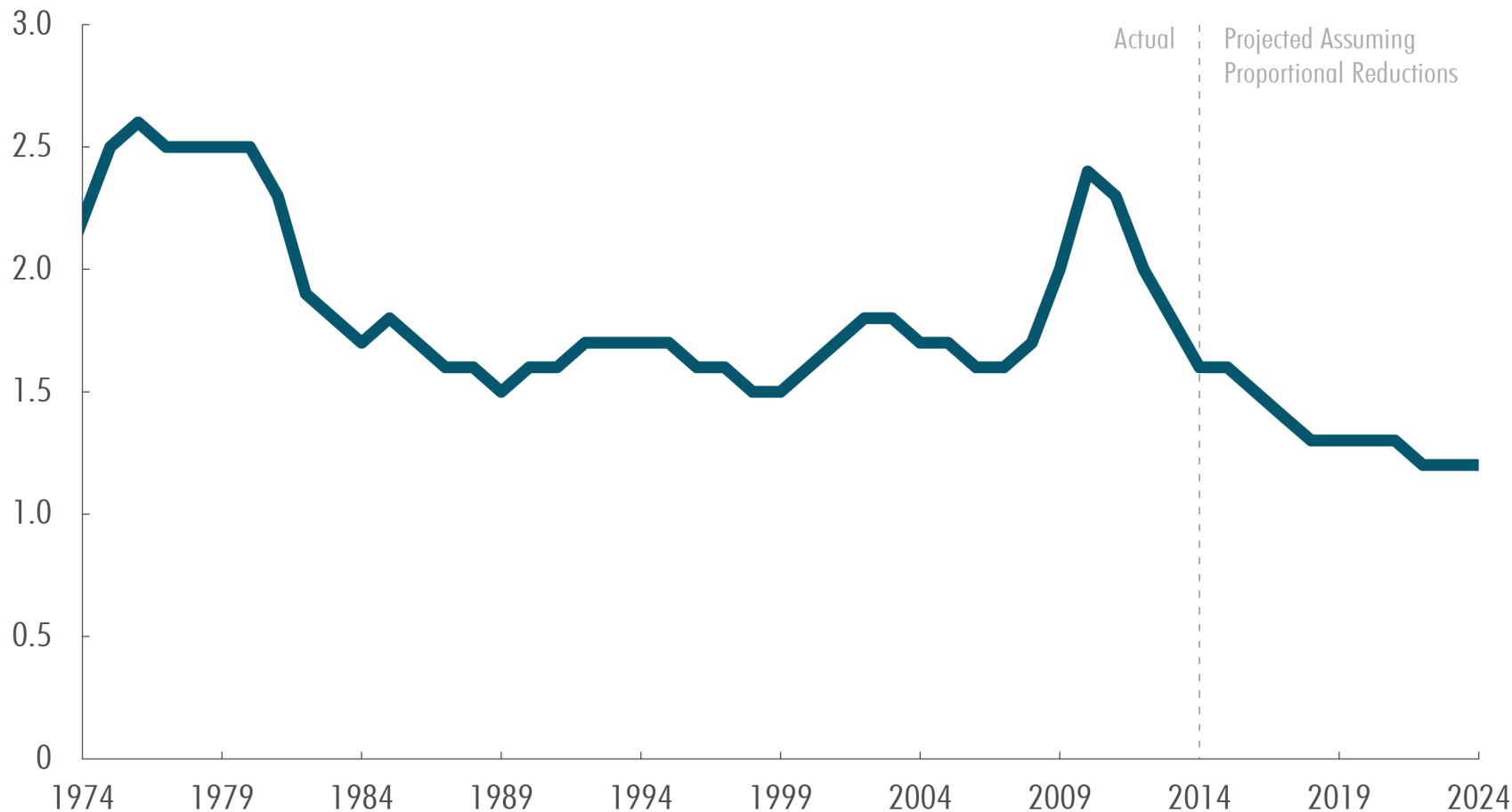
- Reduce the size of the military—for example, the number of brigade combat teams in the Army or major warships in the Navy;
- Decrease the per-unit costs of the military—for example, compensation per service member or operating expenses; or
- Both.

If changes occurred entirely through cutting the size of the military, the required cuts would be more than 20 percent.

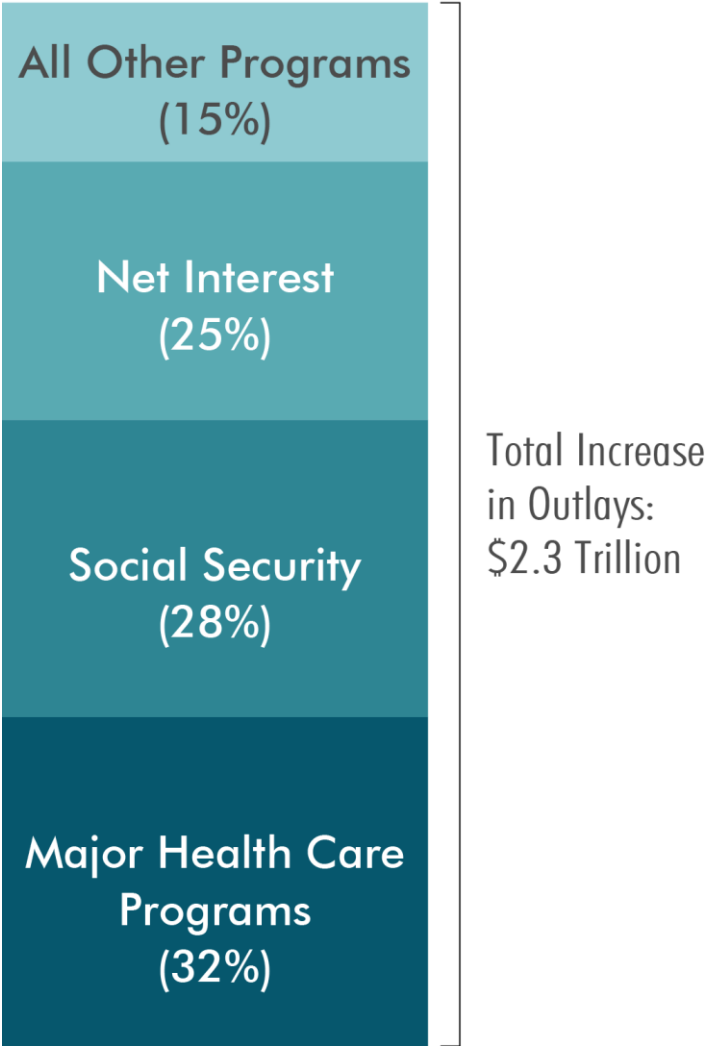


# If Investment Remained the Same Share of Nondefense Discretionary Spending as in the Past, It Would Reach Its Lowest Percentage of GDP in Decades

Percentage of GDP



# Three Types of Spending Account for 85 Percent of Total Projected Increase in Annual Spending Over Coming Decade

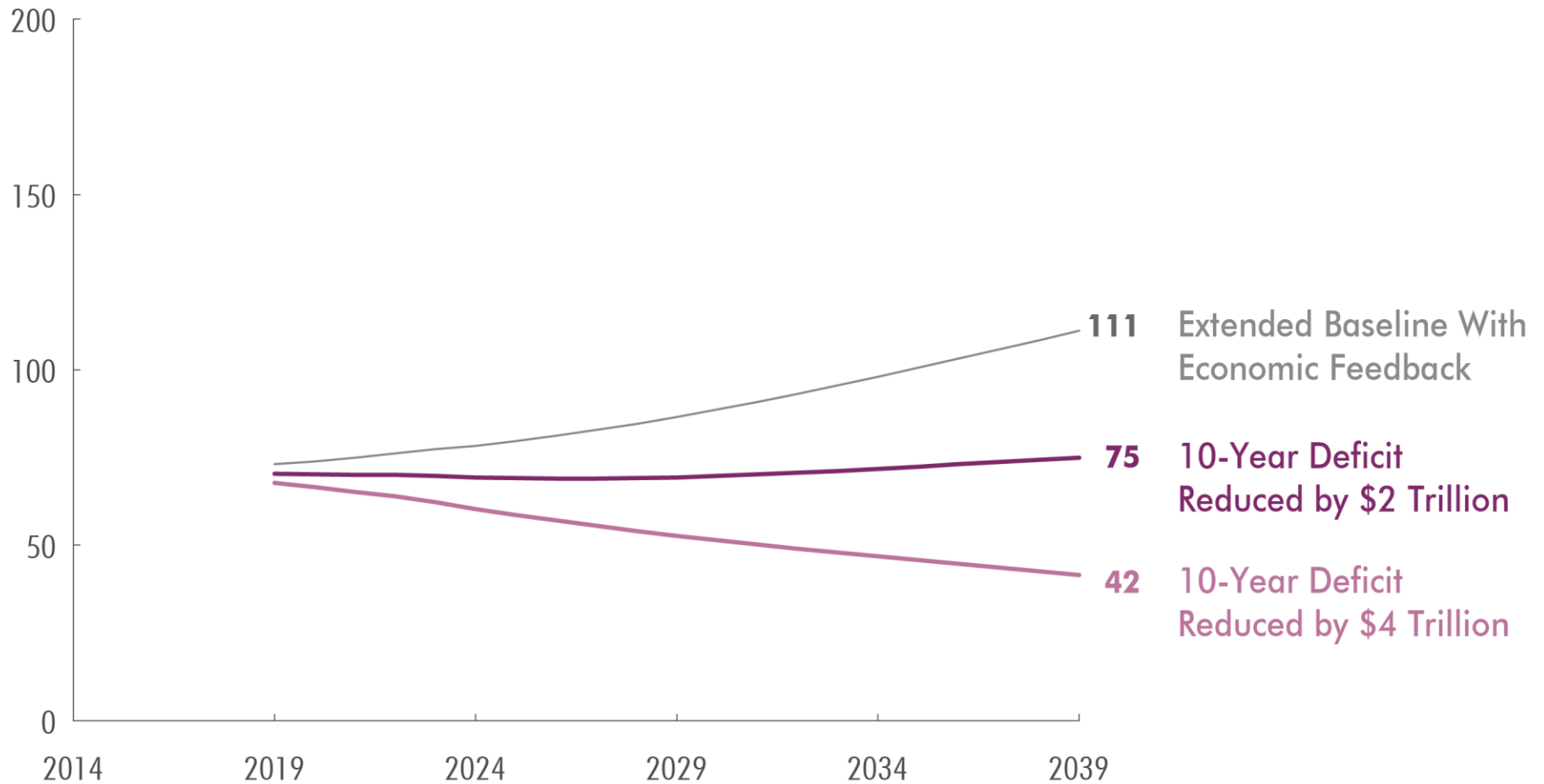


The largest federal programs are becoming much more expensive because of the retirement of the baby boomers and the rising costs of health care. As a result, even with federal spending for all programs other than Social Security and the major health care programs on track to reach its smallest share of GDP since at least 1940, federal debt remains on an unsustainable path.

We will need to cut benefits from those large programs relative to current law, raise tax revenue above its historical percentage of GDP to pay for the rising cost of those programs, or do both.

# Putting Federal Debt on a Sustainable Path Requires Significant Changes in Policy

Percentage of GDP



Moreover, if one wanted to raise federal spending for programs other than Social Security and health care closer to its historical percentage of GDP—while still reaching a chosen target for federal debt—the changes in taxes and benefits from those large programs would need to be even larger.

# Notes

**Slides 1-2, 4-5, 7, 9-10, 13, and 17:** For more information, see *An Update to the Budget and Economic Outlook: 2014 to 2024* (August 2014), [www.cbo.gov/publication/45653](http://www.cbo.gov/publication/45653). Major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies offered through health insurance exchanges and related spending. Medicare spending is net of offsetting receipts.

**Slides 3, 6, 8, and 19:** For more information, see *The 2014 Long-Term Budget Outlook* (July 2014), [www.cbo.gov/publication/45471](http://www.cbo.gov/publication/45471).

**Slides 11 and 12:** For more information, see *An Update to the Budget and Economic Outlook: 2014 to 2024* (August 2014), [www.cbo.gov/publication/45653](http://www.cbo.gov/publication/45653), and *The Budget and Economic Outlook: 2014 to 2024* (February 2014), [www.cbo.gov/publication/45010](http://www.cbo.gov/publication/45010).

**Slide 16:** This figure is drawn from *Federal Investment* (December 2013), [www.cbo.gov/publication/44974](http://www.cbo.gov/publication/44974), and projections have been updated to reflect data in *An Update to the Budget and Economic Outlook: 2014 to 2024* (August 2014), [www.cbo.gov/publication/45653](http://www.cbo.gov/publication/45653).