



United States Senate Budget Committee

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CBO's Revised Outlook Still Projects Unsustainable Debt Path

Despite Modest Improvement, Debt Will Grow \$8.3 Trillion By 2023

The Congressional Budget Office's updated budget outlook projects that, under the baseline rules the agency is required by law to follow, spending will total \$46.677 trillion over the next 10 years, revenues will total \$40.336 trillion, and the debt will climb to \$25.228 trillion by the end of 2023. These figures assume the continuation of the spending cuts required by the Budget Control Act of 2011 (BCA) and the tax increases that took effect on January 1.

Deficits And Debt

Deficits over the budget horizon (2014–2023) total \$6.340 trillion, \$618 billion lower than the \$6.958 trillion projected in February. All of the changes are categorized as technical, resulting not from a revised economic outlook, but rather from tuning projections to take into account new information from the President's budget submission and recent revenue and spending data. Despite the seemingly significant drop in the deficit, net changes to revenues and spending are each less than one percent of February estimates.

CBO has lowered its estimate of the FY 2013 deficit to \$642 billion, \$203 billion below its February estimate of \$845 billion. Higher revenues account for \$105 billion of the improvement in the deficit, while lower expenditures account for \$98 billion. The lower expenditures are principally from higher payments to the government from Fannie Mae and Freddie Mac, which are recorded in the budget as negative outlays (rather than revenues).

Deficits would decline to a low of \$378 billion in 2015 in CBO's projections, but then begin to increase steadily throughout the projection period and beyond. In the eight years after 2015, revenues are projected to grow by 45.9 percent, while spending is projected to increase by 55.0 percent. During the same period, inflation is expected to increase by 19.5 percent and real economic growth by 24.9 percent. Spending is thus projected to grow much faster than the underlying economy, setting the stage for a future fiscal crisis.

Under the May baseline scenario, gross debt is expected to increase by \$8.341 trillion over the next 10 years, up from the \$16.887 trillion level expected at the end of the current fiscal year. Gross debt is expected to increase by \$836 billion in FY 2013 when other means of financing are taken into account.

Revenues

CBO indicated last week in its [Monthly Budget Review](#) that the agency underestimated the surge in final payments submitted with 2012 tax returns, which largely accounts for the increase in 2013 receipts. That review noted that the \$72 billion increase in tax settlements compared to last year came about because "higher-income taxpayers, anticipating changes in tax law, realized more income in 2012." Simply put, CBO underestimated how much tax rates matter, and how strongly individuals would respond to the specter of sharply increased tax rates.

For the 10-year budget horizon, CBO expects that revenues will total \$40.336 trillion, only \$95 billion (0.2 percent) above the February estimates. Receipts are expected to total \$4.959 trillion in 2023, an increase of 76.3 percent from today's levels. CBO projects revenues will reach 19.1 percent of gross domestic product (GDP) in that year, significantly above their average of 17.9 percent of GDP over the past 40 years.

Discretionary Spending

CBO's discretionary baseline includes the effects of the BCA sequestration for 2013 (ordered on March 1) and the reductions in the statutory discretionary caps required by the BCA for fiscal years 2014–2021. After sequestration, 2013 regular discretionary appropriations (excluding war, emergency, and program integrity spending) total approximately \$988 billion. They will decline to \$967 billion for 2014 in the baseline, consistent with OMB's estimate of the statutory caps. (It is worth noting that the reductions in 2014 are not implemented on an across-the-board basis, but rather through the setting of priorities in the appropriations process.)

As shown in the table below, the total of the 2014 caps is \$21 billion below 2013, but the 2014 defense number is \$20 billion below 2013, while the non-defense number is \$1 billion below 2013.

Discretionary Spending in CBO's Baseline (in \$ billions of regular budget authority)			
	<u>2012 enacted</u>	<u>2013 post-sequester</u>	<u>2014 baseline</u>
Defense	553	518	498
Non-defense	<u>490</u>	<u>470</u>	<u>469</u>
Total	1,043	988	967

When compared with 2012 enacted, the BCA as amended has had the effect of reducing 2013 discretionary budget authority by a total of \$55 billion, or 5.3 percent. This amount is divided roughly 60 percent defense and 40 percent non-defense, resulting in a reduction in defense of 6.3 percent versus a 4.1 percent reduction for non-defense. For 2014, defense appropriations will decrease by an additional 3.9 percent while non-defense appropriations are virtually unchanged.

Mandatory Spending

Mandatory spending, excluding net interest, is expected to total \$28.670 trillion over the next 10 years. Total mandatory spending in 2023 will be \$3.617 billion, an increase of 79.1 percent from today's levels. CBO estimates for such spending are \$268 billion (0.9 percent) below February's levels, primarily from lower projected spending for Social Security, Medicare, and Medicaid.

The fastest growth in mandatory spending is found in federal health care programs, fueled by the introduction of Obamacare health insurance exchange subsidies in 2014. The cost of federal health care spending is expected to double over the next 10 years, reaching \$1.590 trillion in 2023, or 27.2 percent of all federal spending. Over 10 years, such programs will cost \$12.010 trillion, with \$949 billion coming from health insurance exchanges, subsidies, and related programs.

Net interest spending, or the costs of paying the interest on our large and growing national debt, will total \$5.216 trillion over the next 10 years. The interest costs on prior deficit spending grow from \$223 billion today to \$823 billion in 2023, an increase of 369 percent. Net interest costs will surpass the base defense budget in 2019, just six years from now.