United States Senate Budget Committee

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Long-Term Budget Outlook Shows Urgent Need For Spending Restraint

The Congressional Budget Office's updated Long-Term Budget Outlook projects a relentless rise in federal debt held by the public after a shallow decline for the next few years. Debt held by the public (which ignores debt borrowed from and owed by the government to trust funds such as Social Security) will increase from 73 percent of GDP today to 100 percent in 25 years, and 245 percent of GDP at the end of the 75 years covered in the report. According to CBO, debt at these levels would reduce national saving, increase budgetary pressures for destabilizing tax increases or spending cuts, reduce the nation's ability to respond to domestic and international problems, and increase the odds of a future fiscal crisis.

The rise in the debt is driven by spending increases. Tax hikes in the American Taxpayer Relief Act (ATRA) and a modest rebound in the economy will result in revenues growing from 15 percent to 17 percent of GDP since last year, consistent with their 40-year average. New taxes on investment income and employer-based health plans included in the Affordable Care Act, along with the continuing burden of ATRA's income tax hikes, will cause revenues as a share of GDP to reach 19 percent of GDP in a decade, 20 percent of GDP in 2038, and fully one-quarter of the nation's economic output in 75 years.

Despite projections of revenues reaching historical highs, CBO projects spending will significantly outpace revenues under current law. Total federal spending is expected to grow from 21 percent of GDP today to 26 percent in 25 years, and an incredible 39 percent of the economy in 75 years.

Most of the projected growth in noninterest spending in CBO's projections comes from Medicare, Medicaid, CHIP, and Affordable Care Act exchange subsidies. Fully one-quarter of the growth in government health care spending is attributable to policies in the President's health law.

Interest payments on the growing debt also would soar, increasing from about 1 percent of GDP today to 3 percent of GDP in 10 years and 12 percent of GDP in 75 years. As a share of the budget, net interest payment increase from about 6 percent today, to 14 percent in 10 years and 31 percent at the end of the projection period.

CBO's long-term economic analysis indicates that higher interest rates on federal debt would crowd out private investment, slowing economic growth. Growth would also be lower if taxes were raised to keep pace with rapidly increasing spending.

CBO's projections assume current law, including the continuation of the spending restraint in the Budget Control Act. CBO also found that if Congress backed away from the BCA, did not pay for the Medicare "doc fix," and failed to make changes to entitlements and mandatory programs other than Social Security and Medicare (largely welfare programs) to restrain their growth, debt held by the public would rise to 190 percent of GDP in 2038—almost double what CBO projects for current law. Under these same assumptions, GNP per person (a common measure of overall wellbeing in an economy) could be 12 percent lower in 2038. CBO did not make these alternative calculations beyond the next 25 years.