Figure 1.

The Size of Policy Changes Needed Over 25 Years to Make Federal Debt Meet Two Possible Goals in 2040

If Lawmakers Aimed for . . .

Debt in 2040 to Equal Its 50-Year Average of **38%** of GDP . . .

Debt in 2040 to Equal Its Current Level of **74%** of GDP . . .

How Much Would They Need to Increase Revenues or Reduce Noninterest Spending per Year?

2.6% of GDP, which is equal to a **14%** Increase in **Revenues** or **13%** Cut in **Spending**

1.1% of GDP, which is equal to a **6%** Increase in **Revenues** or **5½%** Cut in **Spending**

What Would That Increase in Revenues or Reduction in Noninterest Spending Amount to in 2016?

$480 billion, which is equal to **$1,450** per person

$210 billion, which is equal to **$650** per person

What If the Changes Were Increases (of Equal Percentage) in All Types of Revenues?

+$1,700

One effect in 2016 is that, on average, **taxes on households** would be higher than under current law.

+$750

Values are for households in the middle fifth of the income distribution. Those taxes are projected to be $12,300 under current law.

What If the Changes Were Cuts (of Equal Percentage) in All Types of Noninterest Spending?

-$2,400

One effect is that **initial Social Security benefits** would be lower than under current law.

-$1,050

Values are averages for people in the middle fifth of the lifetime earnings distribution who were born in the 1950s and who would claim benefits at age 65. Those benefits are projected to be $18,650 (in 2016 dollars) under current law.

Source: Congressional Budget Office.

Notes: The values shown in this figure are relative to CBO's extended baseline. The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2025 and then extending the baseline concept for the rest of the long-term projection period. The sizes of the policy changes do not account for the macroeconomic feedback of the policies that might be used to achieve the goals or, in the case of the goal to reduce debt to 38 percent of GDP, of the reduction in debt.

GDP = gross domestic product.

- Spending cuts or tax increases that were implemented several years from now would have a smaller negative effect on output and employment in the short term. However, waiting for some time before reducing spending or increasing taxes would result in a greater accumulation of debt, which would represent a greater drag on output and income in the long term and increase the size of the policy changes needed to reach the chosen target for debt.

CBO has estimated how much a delay in deficit reduction would increase the size of the policy changes needed to achieve a chosen goal for debt. If the goal was to reduce debt to its 50-year historical average by 2040, but lawmakers waited to implement new policies until 2021, the combination of increases in revenues and reductions in noninterest spending over the 2021–2040 period would need to equal 3.2 percent of GDP—0.6 percentage points more than if policy changes took effect in 2016. If lawmakers chose the same goal but postponed taking action until 2026, the necessary policy changes over the 2026–2040 period would amount to 4.2 percent of GDP.

Even if policy changes that shrank deficits in the long term were not implemented for several years, making decisions about them sooner rather than later could hold down longer-term interest rates, reduce uncertainty, and enhance businesses' and consumers' confidence. Such decisions could thereby make output and employment higher in the next few years than they would have been otherwise.

This testimony reiterates the summary of *The 2015 Long-Term Budget Outlook*, which is one in a series of reports on the state of the budget and the economy that CBO issues each year. Prepared with guidance from Linda Bilheimer, Wendy Edelberg, Benjamin Page, Julie Topoleski, and David Weiner, the report represents the work of many people at CBO. In accordance with CBO's mandate to provide objective, impartial analysis, neither the report nor this testimony makes recommendations. Both are available on CBO's website, at www.cbo.gov/publication/50250 and www.cbo.gov/publication/50178, respectively.

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