An Update to the Budget and Economic Outlook: 2019 to 2029

Federal outlays, adjusted to exclude shifts in the timing of certain payments, are projected to climb from 21.0 percent of GDP in 2020 to 23.0 percent in 2029 (see Figure 1-2).

Deficits are projected to average 4.7 percent of GDP over the 2020–2029 period. Over the past 50 years, deficits have averaged 2.9 percent of GDP; and in years when the unemployment rate has been below 6 percent, deficits averaged just 1.5 percent of GDP.

Primary deficits—that is, deficits excluding net outlays for interest—are projected to decrease over time, averaging 2.7 percent of GDP from 2020 through 2024 and 2.2 percent from 2025 through 2029. At the same time, because of projected increases in interest rates and federal borrowing, net interest outlays grow steadily, from 1.8 percent of GDP in 2020 to 2.6 percent in 2029 (see Figure 1-3 on page 14).

Those deficits are projected to boost federal debt held by the public, which consists mostly of the securities that the Treasury issues to raise cash to fund federal activities and pay off the government’s maturing liabilities. The net amount that the Treasury borrows by issuing those securities (calculated as the amounts that are sold minus the amounts that have matured) is influenced primarily by the annual budget deficit.

Consequently, under current law, debt held by the public would increase in upcoming years. In CBO’s baseline, after accounting for all of the government’s borrowing needs, debt held by the public rises from $17.8 trillion at the end of 2020 to $29.3 trillion at the end of 2029 (see Table 1-3 on page 15). As a percentage of GDP, that debt would increase from 79 percent in 2019 to 95 percent by the end of the projection period (see Figure 1-4 on page 16). At that point, such debt would be the largest since 1946 and more than twice the 50-year average.

Outlays
Over the coming decade, CBO projects, federal outlays would grow at an average annual rate of 5 percent, reaching $7.1 trillion in 2029 (adjusted to exclude the effects of timing shifts). Outlays for Social Security, Medicare, and net interest account for about two-thirds of that $2.7 trillion increase.
High and rising federal debt would reduce national saving and income in the long term; increase the government’s interest payments, thereby putting more pressure on the rest of the budget; limit lawmakers’ ability to respond to unforeseen events; and increase the likelihood of a fiscal crisis.

Source: Congressional Budget Office. For details about the sources of data used for past debt held by the public, see Congressional Budget Office, Historical Data on Federal Debt Held by the Public (July 2010), www.cbo.gov/publication/21728.

The extended baseline generally reflects current law, following CBO’s 10-year baseline budget projections through 2027 and then extending most of the concepts underlying those baseline projections for the rest of the long-term projection period (in this case, through 2047).
Controlling the budget is a difficult process.

- The Balanced Budget and Emergency Control Act (also known as the Gramm-Rudman-Hollings Deficit Reduction Act, or GRH).
  - Passed in 1985 in an attempt to control the budget.
  - Initiated automatic spending cuts once the budget deficit started missing specified targets.
  - The cuts were avoided by gimmicks, such as changing the targets.
Application: Efforts to Control the Deficit

Failure to meet GRH deficit targets led to the 1990 adoption of the Budget Enforcement Act (BEA):

- Rather than trying to target a deficit *level*, the BEA aimed to restrain government *growth*.
- It created the pay-as-you-go process (PAYGO), which prohibited any policy from increasing the *estimated* deficit in the next six-year period.
- If deficits increase, the President must issue a *sequestration requirement*, which reduces direct spending by a fixed percentage.
- Apparently successful in reducing spending.
Application: Efforts to Control the Deficit

PAYGO expired on September 30, 2002, and has not been renewed.

- President Bush proposed renewing PAYGO in 2004...
  - ... but not before passing a budget that cut taxes and increased spending.
- President Obama has publicly supported PAYGO legislation...
  - ... but his proposed budget would increase deficits to almost $2 trillion in the near term.
Projected versus Actual Surplus/Deficit

- Projected surplus/deficit 5 years previous
- Actual surplus/deficit

Billions of dollars

Year


$546.8 billion
4.3

APPLICATION: The Financial Shenanigans of 2001

• The bill itself contained numerous tax cuts operating on erratic schedules.

• Many of the cuts would phase in over periods longer than in any prior American legislation, backloading most of the fiscal impact toward 2010.

• Convoluted scheduling allowed legislators to claim action had been taken on a wide range of issues, while delaying the fiscal consequences associated with these actions.
Capital Market Equilibrium

Price of capital (Interest rate), $r$

Supply of savings, $S_2$

Demand for capital, $D_1$

Quantity of capital, $K$

$r_2$  $r_1$  $A$  $B$

$K_2$  $K_1$
Figure 4.7. Public wealth in the United States, 1770-2010

Public debt is worth 1 year of national income in the U.S. in 1950 (almost as much as assets)

Sources and series: see piketty.pse.ens.fr/capital21c

Source: Piketty (2014)
SUMMARY

The Budget and Economic Outlook: 2018 To 2028

Deficits Are Projected to Be Larger Than CBO Previously Estimated

The deficit that CBO now estimates for 2018 is roughly double when measured as a percentage of GDP. In contrast, discretionary spending in the projections declines in relation to the size of the economy.

For the 2018–2027 period, CBO now projects a cumulative deficit that is $1.6 trillion larger than the $10.1 trillion that the agency anticipated in June. Projected revenues are lower by $1.0 trillion, and projected outlays are higher by $0.5 trillion.

Laws enacted since June 2017—above all, the three mentioned above—are estimated to make deficits $2.7 trillion larger than previously projected between 2018 and 2027, an effect that results from reducing revenues by $1.7 trillion (or 4 percent) and increasing outlays by $1.0 trillion (or 2 percent). The reduction in projected revenues stems primarily from the lower individual income tax rates that the tax act has put in place for much of the period. Projected outlays are higher mostly because the other two pieces of legislation will increase discretionary spending. Those revenue reductions and spending increases would result in larger deficits and thus in higher interest costs than CBO previously projected.

In contrast, revisions to CBO’s economic projections caused the agency to reduce its estimate of the cumulative deficit by $1.0 trillion. Expectations of faster growth in the economy and in wages and corporate profits led to an increase of $1.1 trillion in projected tax receipts from all sources. Other changes had relatively small net effects on the projections.

Debt Held by the Public Is Projected to Approach 100 Percent of GDP

As deficits accumulate in CBO’s projections, debt held by the public rises from 78 percent of GDP (or $16 trillion) at the end of 2018 to 96 percent of GDP (or $29 trillion) by 2028. That percentage would be the largest since 1946 and well more than twice the average over the past five decades (see Summary Figure 2).

Such high and rising debt would have serious negative consequences for the budget and the nation:

2. Those estimates generally reflect the budgetary effects reported in CBO’s cost estimates at the time the new laws were enacted and do not include the budgetary effects of information that has become available in recent months about the 2017 tax act. Those adjustments are classified as technical updates.
CBO projects that economic activity will expand at a pace this year and next that will lower the unemployment rate and place upward pressure on inflation and interest rates.


Real GDP is the output of the economy adjusted to remove the effects of inflation. The unemployment rate is a measure of the number of jobless people who are available for work and are actively seeking jobs, expressed as a percentage of the labor force. The overall inflation rate is based on the price index for personal consumption expenditures; the core rate excludes prices for food and energy.

For real GDP growth and inflation, percentage changes are measured from the fourth quarter of one calendar year to the fourth quarter of the next. For the unemployment and interest rates, data are fourth-quarter values.

GDP = gross domestic product.
The Deficit in 2018
CBO estimates that, under current law, the budget deficit in 2018 will be $804 billion, $139 billion more than the shortfall last year. That increase would be even larger if not for shifts in the timing of certain payments. The 2018 deficit will be reduced by $44 billion because certain payments that would ordinarily have been made on October 1, 2017 (the first day of fiscal year 2018), were instead made in fiscal year 2017 because October 1 fell on a weekend.\(^2\) For 2017, the net effect of those timing shifts and of similar shifts in spending from fiscal year 2017 into fiscal year 2016 was to increase outlays by $3 billion. If not for those shifts, the estimated deficit in 2018 would have been $186 billion more than last year’s shortfall, climbing from $662 billion in 2017 to $848 billion this year.

CBO projects that, under current law, revenues—which rose by 1.5 percent in 2017—will increase by only 0.6 percent (or $21 billion) this year, to $3.3 trillion. The main reason for the smaller increase is the effect of Public Law 115-97 (referred to here as the 2017 tax act), which, on net, will reduce revenues by an estimated $144 billion (or 0.7 percent of GDP) in 2018.

Outlays (adjusted to exclude the effects of the timing shifts)—which rose by 4.4 percent in 2017—will increase by 5.2 percent (or $208 billion) this year, to $4.2 trillion, CBO estimates. All three major components of spending contribute to that increase:

- Net outlays for interest are anticipated to jump from $263 billion in 2017 to $316 billion in 2018, an increase of 20 percent (or $53 billion). Higher interest rates this year account for most of that change.

- Discretionary outlays are expected to rise by 7 percent (or $84 billion) this year, significantly faster than the 2 percent increase in 2017 and the fastest rate of increase since 2010. The rapid growth projected for discretionary outlays stems primarily from recently enacted legislation.

- Mandatory spending is expected to increase by almost 3 percent (or $71 billion) in 2018, to $2.6 trillion. That rate of growth, which occurs for many different reasons, is roughly half the rate of increase recorded for such outlays in 2017.
Table 1-1.

CBO’s Baseline Budget Projections, by Category

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<tr>
<th></th>
<th>Actual, 2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
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<th>2029</th>
<th>Total 2020-2029 In Billions of Dollars</th>
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<td>n.a.</td>
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</table>

Source: Congressional Budget Office.

n.a. = not applicable; * = between zero and 0.05 percent.

a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

[** Values corrected on September 24, 2019]
Through 2021, CBO’s baseline incorporates the caps on budget authority for discretionary programs that are currently in place; in later years, the baseline reflects the assumption that such funding keeps pace with inflation (consistent with the provisions of Section 257 of the Deficit Control Act). Some elements of discretionary funding are not constrained by the caps and are generally assumed to grow with inflation from the amounts provided in 2017: the appropriations designated for overseas contingency operations; activities designated as emergency requirements; disaster relief (up to certain limits); certain efforts to reduce overpayments in benefit programs; and programs designated in the 21st Century Cures Act (P.L. 114-255), subject to the limits set in that legislation.  

For 2018, the caps on discretionary budget authority are $5 billion lower than for 2017—$3 billion lower for nondefense programs and $2 billion lower for defense programs. (That estimate incorporates the automatic reductions required by law and excludes adjustments for overseas contingency operations and other activities not constrained by the caps.) However, the changes in budget authority relative to 2017 incorporated in the baseline differ from the changes in the cap levels for two main reasons:

- Discretionary budget authority for nondefense programs declines by $24 billion in 2018; much of that decline—$17 billion—stems from reductions in mandatory budget authority that are included in the current continuing resolution for 2017 to help keep appropriations within the limit set by the cap on nondefense funding. (When reductions in mandatory programs are included in appropriation acts, the savings are credited against the discretionary funding provided in those acts in judging compliance with the caps.) Over the past six years, such offsets to discretionary budget authority have averaged about $18 billion a year; none have yet been included in CBO’s baseline for 2018 because no such changes have been enacted for that year. Without such offsets, discretionary budget authority in 2018 would have to be noticeably lower than the funding in 2017 in order to comply with the caps.

- Budget authority for defense programs is $2 billion greater in 2018 than in 2017 largely because funding for overseas contingency operations is assumed to grow from this year’s amount at the rate of inflation.
CBO’s baseline projections reflect the assumption that funding provided for 2022 by the Infrastructure Investment and Jobs Act (P.L. 117-58) continues each year with adjustments for inflation, the standard assumption for appropriations. If that funding was not assumed to continue beyond the amounts stated in that act, the deficit, including associated debt-service costs, would be smaller by 0.5 percent of GDP, and debt would be lower by about 2.5 percent of GDP in 2032. (For more information on other alternatives to CBO’s baseline projections, see Chapter 5.)

Long-Term Budgetary Pressures
Beyond 2032, if current laws remained generally unchanged, deficits would continue to grow relative to the size of the economy over the following 20 years, keeping debt measured as a percentage of GDP on an upward trajectory throughout that period. Those large budget deficits would arise because outlays—particularly for interest on federal debt and for Medicare—would grow steadily under current law, and revenues would not keep pace with those outlays.

Deficits
Under the assumption that current laws governing taxes and spending generally remain in place, the amount by which the government’s outlays exceed its revenues will fall from $2.8 trillion in 2021 to $1.0 trillion in 2023. That shortfall is similar, in nominal terms, to the one recorded in 2019 before the onset of the pandemic. The budget deficit is projected to increase in most years thereafter, reaching $2.3 trillion in 2032. Relative to the size of the economy, this year’s deficit is projected to total 4.2 percent of GDP, about a third as large as the 12.4 percent shortfall recorded last year.

The Deficit in 2022
According to CBO’s projections, under current law, the budget deficit in 2022 will be $1.0 trillion, $1.7 trillion less than the shortfall recorded last year, as spending in response to the pandemic wanes and revenues increase. That decrease would be larger if not for a shift in the timing of certain payments. Because October 1, 2022 (the first day of fiscal year 2023), falls on a weekend, certain payments that would ordinarily be made on
Beyond the coming decade, the fiscal outlook is more challenging. In CBO’s current long-term projections, which extend through 2052, budget deficits grow steadily relative to GDP. Those long-term projections follow CBO’s 10-year baseline projections for the coming decade and then extend the baseline concept for subsequent years (see Table 1-4 on page 18). Long-term budget projections are highly uncertain. Nevertheless, growing debt and rising interest rates would cause net outlays for interest as a percentage of GDP to rise rapidly through 2052. In addition, growth in per capita spending on health care and the aging of the population would boost federal outlays significantly relative to GDP over that period if current laws generally remained in effect.

Federal revenues also would increase relative to GDP under current law, but they would not keep pace with outlays. As a result, CBO estimates, public debt would reach 185 percent of GDP by 2052, higher than any percentage previously recorded in the United States (see Figure 1-8).

Moreover, debt is on track to grow even larger after 2052. To avoid the negative consequences of large and growing federal debt and to put debt on a sustainable path, lawmakers would have to make significant changes to tax and spending policies—increasing revenues more than they would under current law, reducing spending for large benefit programs below the projected amounts, or adopting some combination of those approaches.

The Long-Term Outlook for the Budget

Federal debt held by the public is projected to increase in most years in the projection period, reaching 110 percent of GDP in 2032—higher than it has ever been. In the two decades that follow, growing deficits are projected to push federal debt higher still, to 185 percent in 2052.

Figure 1-8.

Federal Debt Held by the Public, 1900 to 2052

Federal debt held by the public is projected to increase in most years in the projection period, reaching 110 percent of GDP in 2032—higher than it has ever been. In the two decades that follow, growing deficits are projected to push federal debt higher still, to 185 percent in 2052.

Data source: Congressional Budget Office. See www.cbo.gov/publication/57950#data.

GDP = gross domestic product.

14. Details on the long-term budget projections presented here are included with the supplemental data for this report, available online at www.cbo.gov/publication/57950. CBO expects to publish The 2022 Long-Term Budget Outlook in July.

15. For further discussion, see Congressional Budget Office, The Economic Effects of Waiting to Stabilize Federal Debt (April 2022), www.cbo.gov/publication/57867.
reach 19.6 percent of GDP this year—the largest that receipts have been as a share of the economy in more than two decades.

Outlays, which rose by 4 percent in 2021, are projected to decrease by 15 percent (or $1.0 trillion) this year, to $5.8 trillion, as pandemic-related spending falls. (The amount for 2022 and the projections for outlays and deficits cited throughout the remainder of the chapter reflect adjustments to exclude the effects of timing shifts.) As a percentage of GDP, outlays are estimated to fall from 30.5 percent in 2021 to 23.5 percent this year. That decrease is the net result of changes to the three major components of federal spending:

- Mandatory spending is expected to fall by 24 percent (or $1.1 trillion) in 2022, to $3.7 trillion, as spending related to the pandemic declines rapidly.3

- Discretionary outlays are projected to rise by 5 percent (or $81 billion) this year, to $1.7 trillion. That rate of increase is faster than the 1 percent rate of increase observed last year but slower than the 22 percent jump in 2020.4 (The growth in discretionary outlays that occurred in 2020 stemmed primarily from legislation enacted in response to the ongoing pandemic.)

- Net outlays for interest are expected to rise from $352 billion in 2021 to $399 billion in 2022, an increase of 13 percent (or $47 billion). Higher inflation this year accounts for most of that change because it boosts the principal of inflation-protected securities, which are recorded as outlays for interest.

### Deficits From 2023 to 2032

In CBO’s baseline projections, the budget deficit—relative to GDP—grows from 3.7 percent next year to 4.7 percent in 2025 and remains near that amount through 2027. Thereafter, the deficit increases further,

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3. Mandatory spending consists of outlays for some federal benefit programs, such as Social Security, Medicare, and Medicaid, and certain other payments to people, businesses, nonprofit institutions, and state and local governments. It is governed by statutory criteria and is not normally controlled by the annual appropriation process.

4. Discretionary spending is controlled by appropriation acts that specify the amounts that are to be provided for a broad array of government activities, including, for example, defense, law enforcement, and transportation.
Hutchins Center Fiscal Impact Measure: Total
Fiscal Policy Contribution to Real GDP Growth, percentage points

Source: Hutchins Center calculations from Bureau of Economic Analysis and Congressional Budget Office data; grey shaded areas indicate recessions and yellow shaded areas indicate projection.