Congressional **CBO** Budget Office
Summary

The Long-Term Budget Outlook

Under current law, the federal budget is on an unsustainable path—meaning that federal debt will continue to grow much faster than the economy over the long run. Although great uncertainty surrounds long-term fiscal projections, rising costs for health care and the aging of the U.S. population will cause federal spending to increase rapidly under any plausible scenario for current law. Unless revenues increase just as rapidly, the rise in spending will produce growing budget deficits and accumulating debt. Keeping deficits and debt from reaching levels that would cause substantial harm to the economy would require increasing revenues significantly as a percentage of gross domestic product (GDP), decreasing projected spending sharply, or some combination of the two.

For decades, spending on the federal government's major health care programs, Medicare and Medicaid, has been growing faster than the economy (as has health care spending in the private sector). The Congressional Budget Office (CBO) projects that if current laws do not change, federal spending on Medicare and Medicaid combined will grow from roughly 5 percent of GDP today to almost 10 percent by 2035 (what this report describes as the intermediate term) and to more than 17 percent by 2080 (what this report considers to be the long term). That projection means that in 2080, without changes in policy, the federal government would be spending almost as much, as a share of the economy, on just its two major health care programs as it has spent on all of its programs and services in recent years. (For a description of CBO's projection methodology, see the June 2009 background paper *CBO's Long-Term Model: An Overview.*)

Under current law, spending on Social Security is also projected to rise over time as a share of GDP, albeit much less dramatically. CBO projects that Social Security spending will increase from less than 5 percent of GDP today to about 6 percent in 2035 and then roughly stabilize at that level through 2080. Under the assumptions used for CBO's long-term projections, government spending on activities other than Medicare, Medicaid, Social Security, and interest on federal debt—activities such as national defense and a wide variety of domestic programs—is projected to decline or stay roughly stable as a share of GDP in future decades.

Almost all of the projected growth in federal spending other than interest payments on the debt comes from growth in spending on the three largest entitlement programs—Medicare, Medicaid, and Social Security. By CBO's estimates, the increase in spending for Medicare and Medicaid as a share of GDP will account for 80 percent of spending increases for the three entitlement programs between now and 2035 and 90 percent of spending growth between now and 2080. Thus, reducing overall government spending relative to what would occur under current fiscal policy would require fundamental changes in the trajectory of federal health spending. Slowing the growth rate of outlays for Medicare and Medicaid is the central long-term challenge for federal fiscal policy.

Federal spending on Medicare, Medicaid, and Social Security will grow relative to the economy both because health care spending per beneficiary is projected to increase and because the population is aging. Spending on Medicare and Medicaid will be driven by both factors, while Social Security spending will rise because of the population's aging. Between now and 2035, aging is projected to make the larger contribution to the growth of spending for those three programs as a share of GDP. After 2035, continued increases in health care spending per beneficiary are projected to dominate the growth in spending for the three programs.

The current recession has little effect on long-term projections of noninterest spending and revenues. But CBO estimates that in fiscal years 2009 and 2010, the federal government will record its largest budget deficits as a share of GDP since shortly after World War II. As a result of those deficits, federal debt held by the public will soar from 41 percent of GDP at the end of fiscal year 2008 to 60 percent at the end of fiscal year 2010. Higher debt results in permanently higher spending to pay interest on that debt (unless the debt is later paid off). Federal interest payments already amount to more than 1 percent of GDP; unless current law changes, that share would rise to 2.5 percent by 2020.

CBO's long-term budget projections raise fundamental questions about economic sustainability. If outlays grew as projected and revenues did not rise at a corresponding rate, annual deficits would climb and federal debt would grow significantly. Large budget deficits would reduce national saving, leading to more borrowing from abroad and less domestic investment, which in turn would depress income growth in the United States. Over time, the accumulation of debt would seriously harm the economy. Alternatively, if spending grew as projected and taxes were raised in tandem, tax rates would have to reach levels never seen in the United States. High tax rates would slow the growth of the economy, making the spending burden harder to bear. Policymakers could mitigate the economic damage from rapidly rising debt by putting the nation on a sustainable fiscal course, which would require some combination of lower spending and higher revenues than the amounts now projected. Making such changes sooner rather than later would lessen the risks that current fiscal policy poses to the economy.