

ISSUE BRIEF

No. 3625 | JUNE 5, 2012

CBO's Long-Term Budget Outlook: Congress Must Act

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Not surprisingly, the latest Congressional Budget Office (CBO) long-term budget outlook projects a disturbing and unsustainable rate of growth in federal spending, deficits, and debt. Equally troubling, however, is the growing urgency of the problem: The “long term” is drawing nearer.

The longer Congress delays, the more wrenching will be the policy changes needed to correct the government's fiscal course—and the deeper will be the economic damage of undisciplined spending and growing deficits and debt.

The Troubling Long-Term Outlook. As in the past, CBO presents its analysis from two perspectives, only one of which offers a near-realistic outlook. Though called the “extended alternative fiscal scenario,” this projection reflects CBO's estimate of the most likely policies in

coming decades—and the prospects remain grim¹:

- The government's debt held by the public—what the government owes to credit markets—approaches the size of the entire economy by 2022, a dangerous 93 percent of gross domestic product (GDP). It then mushrooms to nearly double the economy's output by 2037.
- Net interest payments for the government's debt will surge from 1.4 percent of GDP today to 9.5 percent in 2037.
- Total spending swells to 24.3 percent of GDP in a decade (by 2022)—far more than the historical average of 20.2 percent of GDP—and continues to grow from there. Even excluding interest payments, government spending exceeds its historical level by 2022 and continues to mount thereafter.
- Although tax revenues reach their historical level of 18.1 percent of GDP in 2016 and then continue to rise, the rate of spending growth outraces revenue, requiring increased borrowing and debt to make up the difference.

CBO's other presentation, its “extended baseline scenario,” shows similar trends, though its deficits are smaller. This is in part because the estimate—intended to reflect laws currently in place—projects lower spending; for example, it assumes that Congress will allow sharp scheduled reductions in Medicare physician payments, which it has rejected every year since 2002. It also assumes sharply higher revenues mainly due to the scheduled expiration of the Bush-era tax policies.

The scenario is useless for at least three reasons. First, not even President Obama is proposing all the massive tax increases it assumes. Second, as CBO concedes, the projection fails to account for the stifling economic effect of sharply higher tax rates. Third, the projection foresees tax burdens well in excess of 20 percent of GDP for an extended period, which the U.S. economy has never sustained and are probably impossible with the current tax code.²

The growing debt that CBO projects in its more realistic alternative scenario has severe economic consequences. It would reduce real (inflation-adjusted) gross national product by about 4.5 percent in 2027 and by a staggering 13.5 percent in 2037, CBO estimates. The government's net

This paper, in its entirety, can be found at <http://report.heritage.org/ib3625>

Produced by the Thomas A. Roe Institute for Economic Policy Studies

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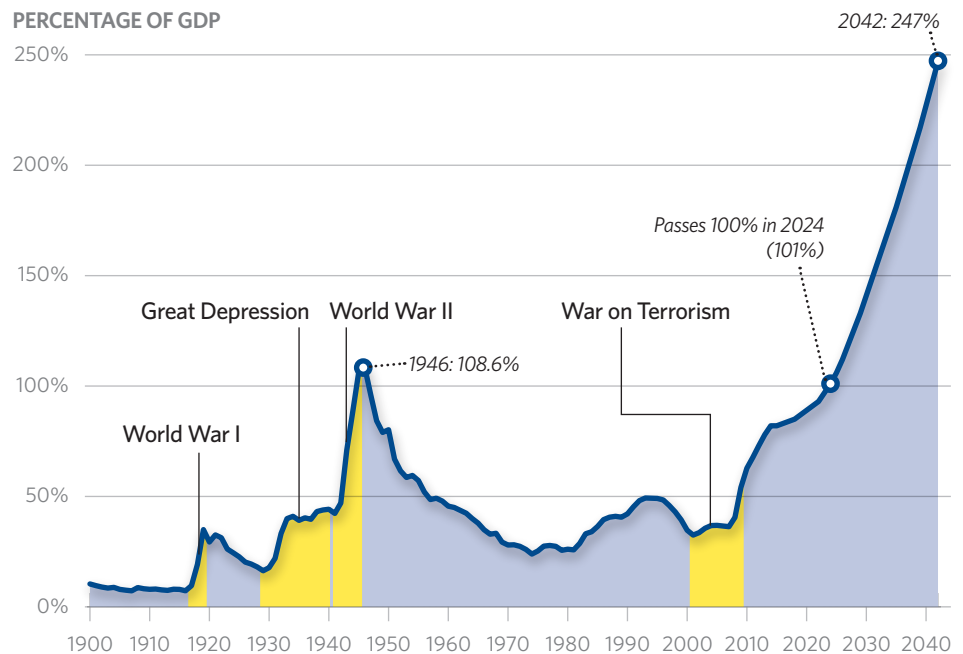
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CHART 1

Publicly Held Debt Set to Skyrocket

Runaway spending on Medicare, Medicaid, and Social Security will drive federal debt to unsustainable levels over the next few decades. Total national debt consists of publicly held debt, the debt most relevant to credit markets, and intergovernmental debt, debt that one part of the government owes to specific programs, such as the Social Security Trust Fund.

Source: U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2013* (Washington, D.C.: U.S. Government Printing Office, 2012), Historical Tables, <http://www.whitehouse.gov/omb/budget/Historicals> (accessed May 9, 2011); and Congressional Budget Office, *2012 Long-Term Budget Outlook, Alternative Fiscal Scenario*, June 5, 2012, <http://www.cbo.gov/publication/43288> (accessed June 5, 2012).



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interest costs would grow, forcing tax increases or benefit cuts. The debt would also increase the likelihood of a fiscal crisis, “during which investors would lose confidence in the government’s ability to manage the budget and the government would thereby lose its ability to borrow at affordable rates.” CBO then dryly observes: “Such a crisis would confront policymakers with extremely difficult choices and probably have a very significant negative impact on the country.”³

Source of the Problem: Entitlement Spending. As in prior reports, nearly *all* the growth CBO projects in non-interest spending as a share of GDP over the long term comes from mandatory spending, particularly the government’s major health care programs: Medicare, Medicaid, the State Children’s Health Insurance Program, and the Obamacare subsidies. Along with Social Security, they will soak up about 18.5 percent of GDP by mid-century—nearly all the annual

average of total federal spending over the past 50 years and more than the historical average of total tax revenue. Thus, if left unchanged, these programs will increasingly crowd out funds for all other government programs, including national defense.

What Congress Should Do. Correcting this disastrous fiscal course will require significant policy reforms—especially in the major entitlement programs—and delay only makes the problem worse. As CBO puts it: “The longer the

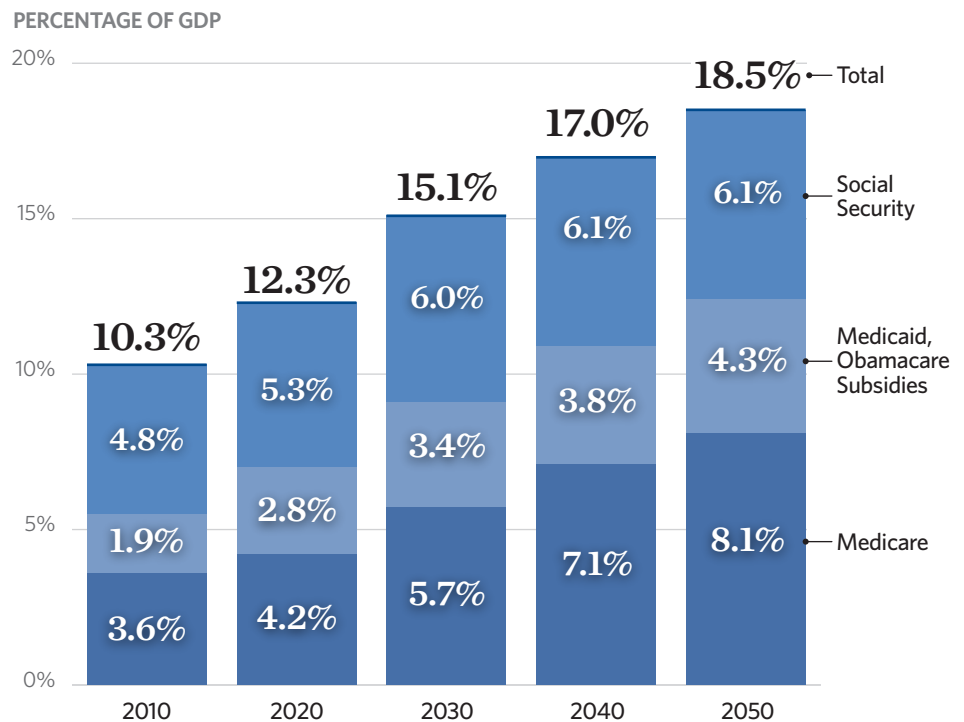
1. Congressional Budget Office, *2012 Long-Term Budget Outlook: Alternative Fiscal Scenario*, June 5, 2012, <http://www.cbo.gov/publication/43288> (accessed June 5, 2012).
 2. Veronique de Rugy, “Hauser’s Law: This Reality Isn’t Negotiable,” *The Corner*, November 29, 2010, <http://www.nationalreview.com/corner/254034/hausers-law-reality-isnt-negotiable-veronique-de-rugy> (accessed June 5, 2012); and W. Kurt Hauser, “There’s No Escaping Hauser’s Law,” *The Wall Street Journal*, November 26, 2010, http://online.wsj.com/article/SB10001424052748703514904575602943209741952.html?_nocache=1338471072082&user=welcome&mg=id-wsj (June 5, 2012).
 3. Congressional Budget Office, *2012 Long-Term Budget Outlook: Alternative Fiscal Scenario*, p. 30.

CHART 2

Entitlement Spending Will Nearly Double by 2050

Spending on Medicare, Medicaid, Social Security, and the Obamacare subsidies will soar as 78 million baby boomers retire and health care costs climb. Total spending on federal health care programs will nearly double. Future generations will be left with an untenable debt burden.

Source: Congressional Budget Office, 2012 *Long-Term Budget Outlook, Alternative Fiscal Scenario*, June 5, 2012, <http://www.cbo.gov/publication/43288> (accessed June 5, 2012).



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necessary adjustments were delayed, the greater would be the unfavorable consequences of the mounting debt; the more uncertain individuals, businesses, and financial markets would be about future government policies; and the more drastic the ultimate changes in policy would need to be.⁴ All of this would leave future generations worse off.

Congress should do the following:

- **Get back to budgeting.** In the absence of regular budgets for the past three years, lawmakers have resorted to various ad hoc

maneuvers and spend-as-you-go legislation that only push off serious fiscal policy choices for a few months or for a new Congress. Meanwhile, spending, deficits, and debt have worsened. Serious budgeting requires, first, a coherent fiscal plan—a budget resolution—to guide spending decisions in a comprehensive way. Adopting such a resolution is not an option: It is required by statute. For those who write the federal laws to neglect this legal obligation is a stunning abdication of duty. Such negligence also exacerbates the

government’s budgetary problems, both near- and long-term. The House, to its credit, has passed budget resolutions, both this year and last, that make substantial efforts to address these issues.⁵ The Senate should follow suit—though it has deliberately shirked this obligation for the past three years.

- **Address the fiscal cliff now, not later.** As last week’s mediocre jobs report demonstrates, the gathering budgetary storm clouds threatening to burst at the end

4. Ibid., p. 31.

5. See Alison Acosta Fraser and Patrick Louis Knudsen, “The Ryan Budget: Confronting the Nation’s Spending Crisis,” Heritage Foundation *Issue Brief* No. 3546, March 21, 2012, <http://www.heritage.org/research/reports/2012/03/ryans-budget-confronting-the-nations-government-spending-crisis>; and Brian M. Riedl, Robert E. Moffit, and Romina Boccia, “Ten Myths of Ryan’s House Budget Plan,” Heritage Foundation *WebMemo* No. 3253, May 13, 2011, <http://www.heritage.org/research/reports/2011/05/ten-myths-of-ryans-house-budget-plan>.

of the year are already producing deep uncertainties in the economy, slowing growth.⁶ Among these is a doomsday of huge tax increases, known as “Taxmageddon,” that would spike taxes by nearly \$500 billion in 2013 alone.⁷ Also looming is a set of crude, indiscriminate spending cuts called “sequestration,” a product of last year’s debt ceiling “resolution,” the Budget Control Act. It would, among other things, impose reckless cuts in national defense while shielding nearly all the spending in the Big Three entitlements—the principal contributors to the cancer of spending and debt. The House has already acted,⁸ but nothing more can happen if the Senate refuses to address the problem.

- **Lay the groundwork for addressing the long-term crisis.** The aging of the U.S. population,

and the burdens this puts on federal entitlement programs, has begun: The first of the baby boomers have already started to retire. While supporting their incomes and medical needs, the U.S. economy must also generate sufficiently robust growth to improve standards of living for future generations. By draining ever-greater shares of economic resources, increasing government spending stifles the economy’s potential for growth. That is why reducing long-term spending is the key to sustainable economic growth.

Preventing “Austerity”

Taking these steps does not suggest a future of pain and sacrifice. It does not demand “austerity.” Restructuring the government’s major entitlements, for example, can make them more effective, efficient, affordable, and fiscally sustainable in

the long run. By easing the burden of government spending and debt, these steps would improve the prospects for sustainable, long-term economic growth.

Such policies are not out of reach. One example is The Heritage Foundation proposal, *Saving the American Dream*, which contains a range of entitlement and tax reforms that achieve a balanced budget in 10 years and ensure long-term prosperity for future generations.⁹

But Congress’s failure to take action, if it continues, will only add to the mounting debt the country faces, smothering its potential prosperity. That is where the real threat of austerity lies.

—*Patrick Louis Knudsen is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*

6. James Sherk and Rea S. Hederman Jr., “Heritage Employment Report: May Jobs Report Has No Spring in Its Step,” Heritage Foundation *Issue Brief* No. 3619, June 1, 2012, <http://www.heritage.org/research/reports/2012/06/heritage-employment-report-may-jobs-report-has-no-spring-in-its-step>.

7. Curtis S. Dubay, “Taxmageddon: Massive Tax Increase Coming in 2013,” Heritage Foundation *Issue Brief* No. 3558, April 4, 2012, <http://www.heritage.org/research/reports/2012/04/taxmageddon-massive-tax-increase-coming-in-2013>.

8. Patrick Louis Knudsen, “Why Budget ‘Reconciliation’ Matters,” Heritage Foundation *Issue Brief* No. 3593, May 7, 2012, <http://www.heritage.org/research/reports/2012/05/why-budget-reconciliation-matters>.

9. Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, at <http://www.heritage.org/research/reports/2011/05/saving-the-american-dream-the-heritage-plan-to-fix-the-debt-cut-spending-and-restore-prosperity>.