



Congressional Budget Office
U.S. Congress

AABPA Panel

The Long Term Budget Outlook

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The analysis and conclusions here are those of the author and should not be interpreted as those of the Congressional Budget Office



CBO's *Long Term Budget Outlook*

- Last updated December 2005
- No single long-term projection; six scenarios with (lower/higher revenues)*(higher/intermediate/lower outlays)
- Six an even number of scenarios, no accident
- Before showing numbers, four main points to take away from the Long-Term Budget Outlook...



Point 1: Important to convey why problem exists and show uncertainty...

- Long term budget projections depend on both economic and policy assumptions
- Other groups' projections focus on single numbers; their goal is to simplify for the audience and/or to motivate policy action
- Appropriate policy responses should be linked to problem: if budget expected to worsen because of health costs, focus there



Point 2: Health and aging are important, but there are other issues...

- Most analysts (rightly) focus on differential health cost growth and aging as the two most important long-term budgetary issues
- Other spending is expected to fall as a percent of GDP in the long run; decisions about extending expiring tax provisions, real bracket creep, and indexing the AMT also key
- Could in principle accommodate some aging/health increases in high revenue scenarios



Point 3: Differential health cost growth and aging are separable issues...

- Aging will affect all of the big three, but health cost growth just Medicare and Medicaid
- Social Security has one big level-shift problem (baby boom) and one lesser long-term growth problem (rising life expectancy)
- Differential health cost growth drives an immediate and permanent wedge between the growth of outlays and revenues



Point 4: When characterizing budget situation, show imbalances as flows...

- CBO reports show expected annual flow imbalances (as a % of GDP) rather than one summary present value imbalance
- First, the time path matters: is it a level-shift problem (Social Security) or divergent trend problem (differential health cost growth)?
- Second reason is keeping the scale of the problem(s) in perspective: what does it mean to say we have a 40 trillion dollar problem?

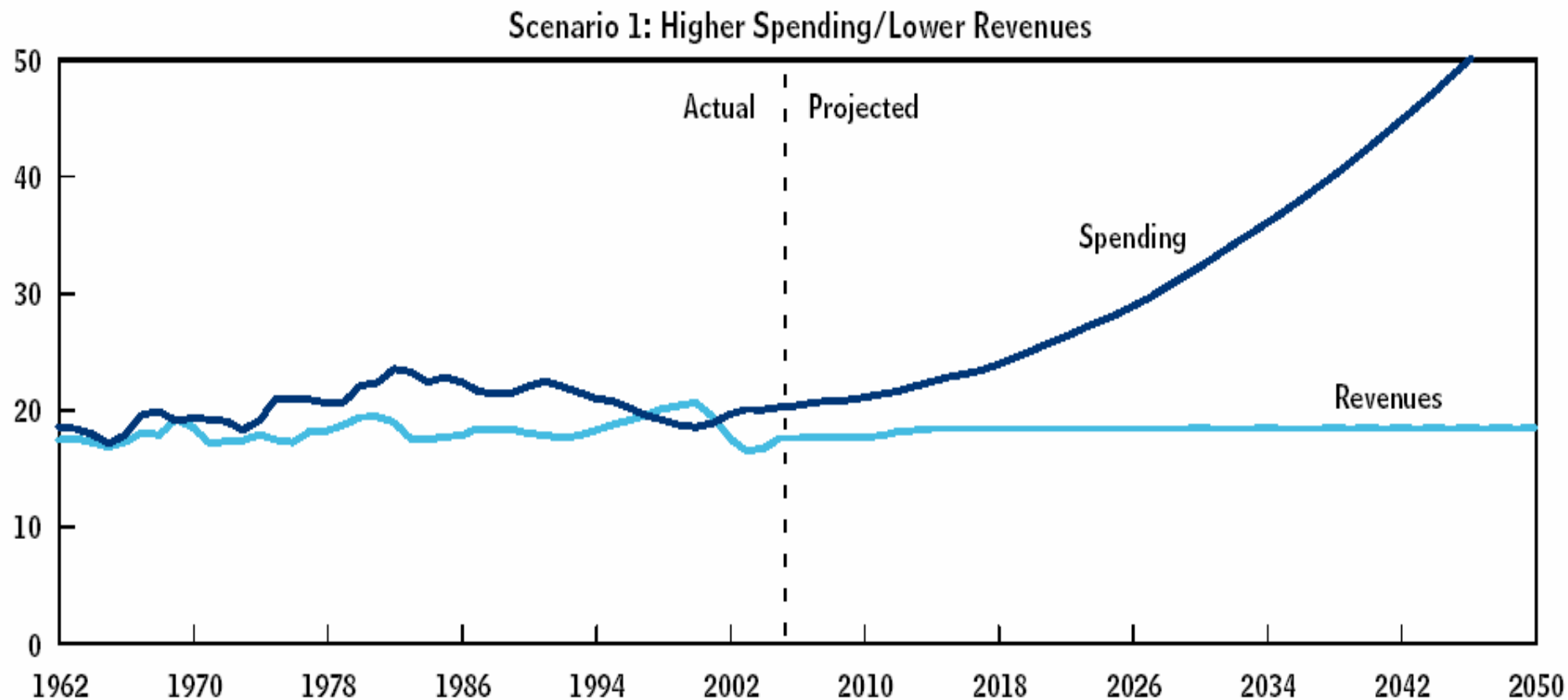


Scenario 1: Paul Revere rides again!

Figure 1-1.

Total Federal Spending and Revenues Under CBO's Long-Term Budget Scenarios

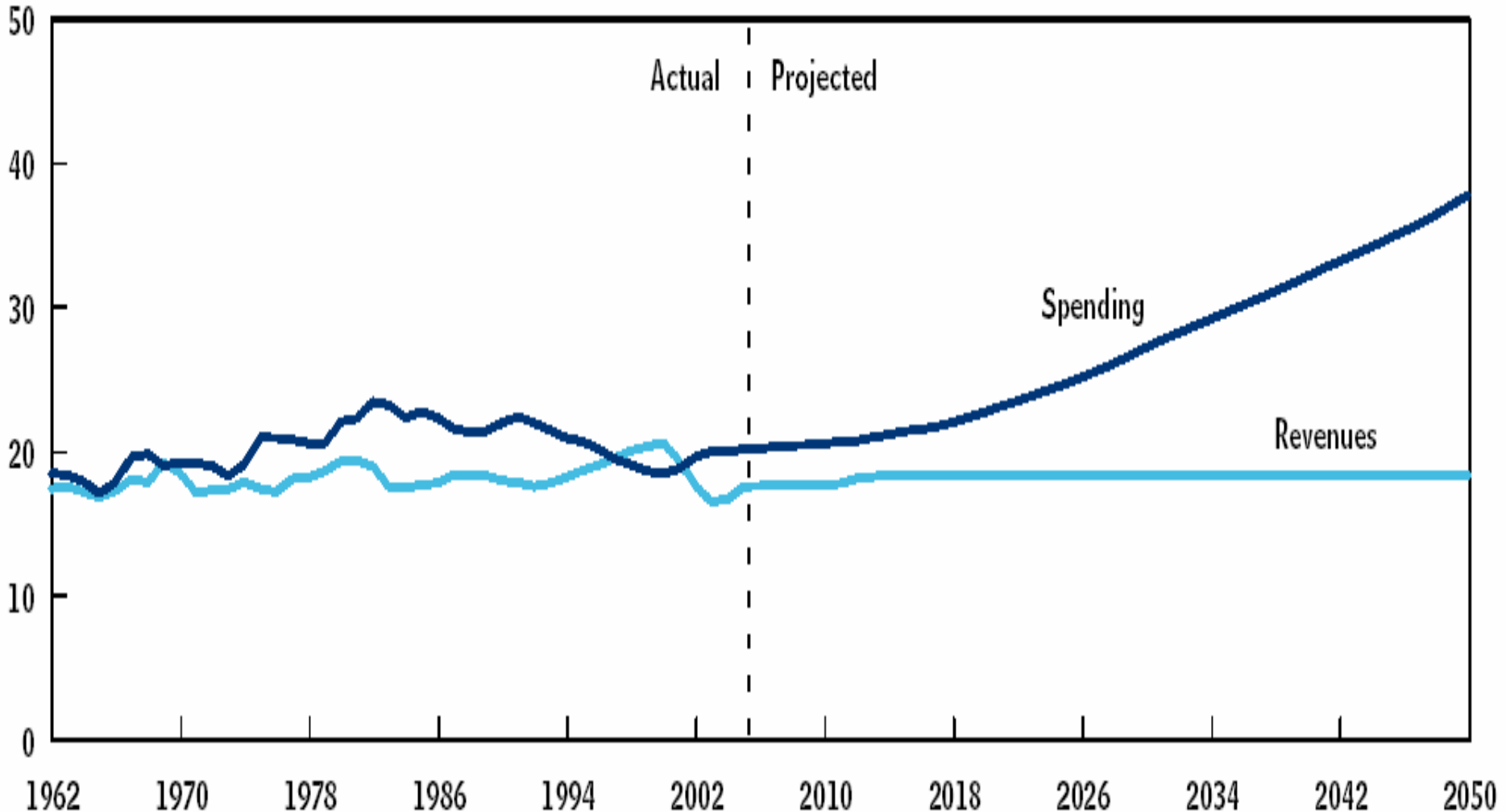
(Percentage of gross domestic product)





What if differential cost growth 1%?

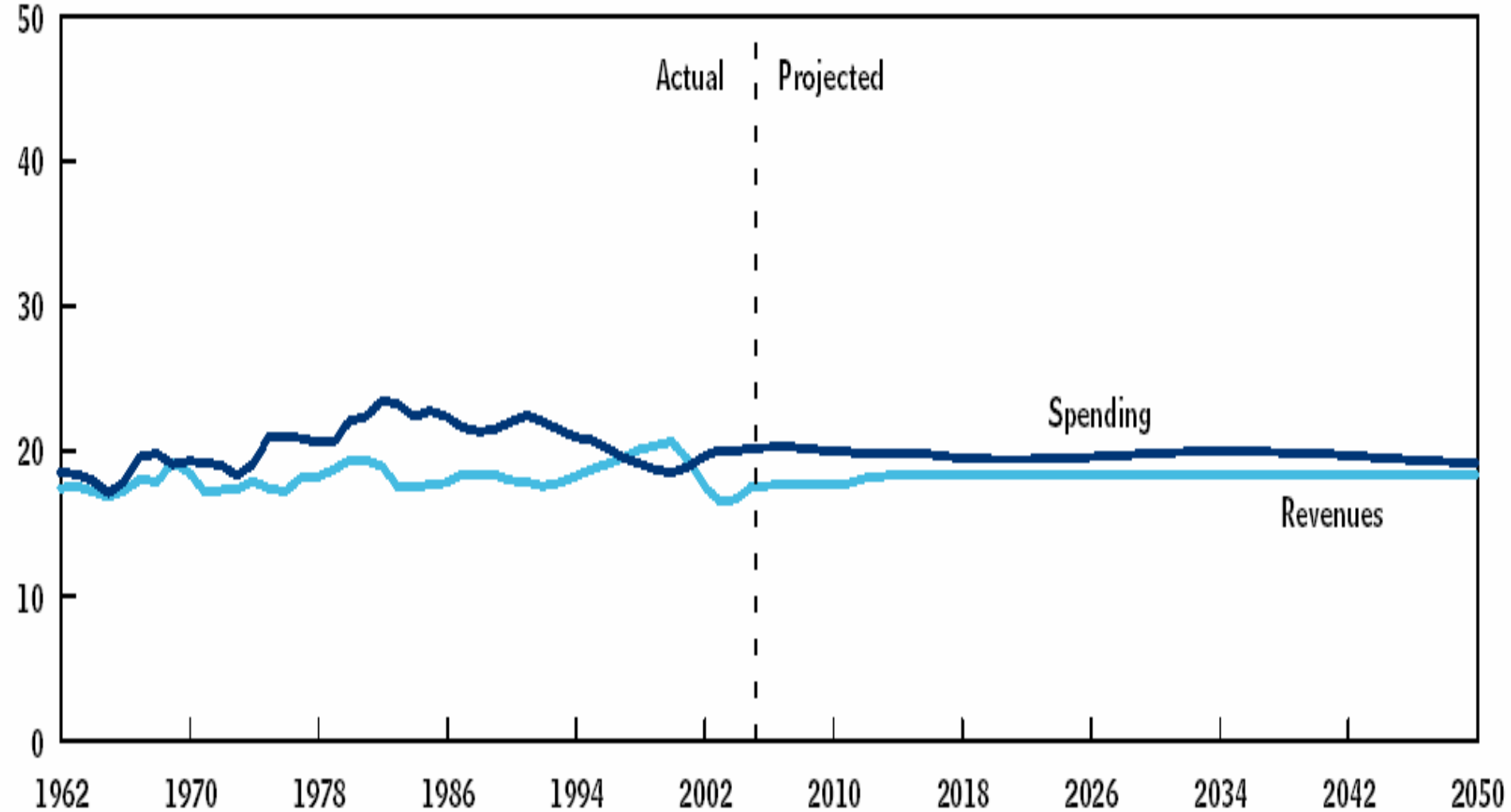
Scenario 2: Intermediate Spending/Lower Revenues





Differential cost=0 (to make a point...)

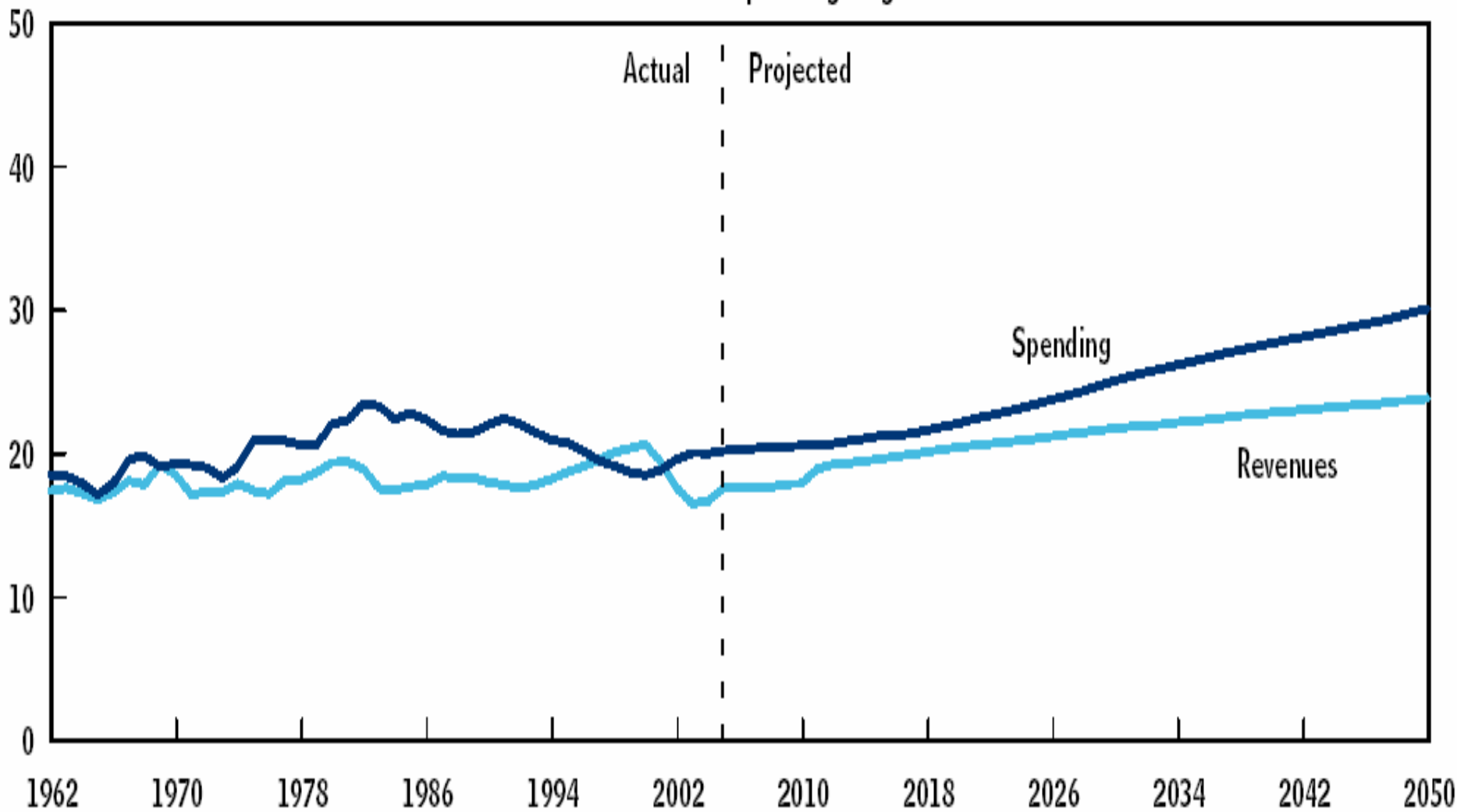
Scenario 3: Lower Spending/Lower Revenues





Intermediate cost/current law taxes...

Scenario 5: Intermediate Spending/Higher Revenues





Outlays under three scenarios...

Table 1-1.

Alternative Long-Term Paths for Primary Spending

(Percentage of gross domestic product)

	2010	2030 ^a	2050 ^a
Higher-Spending Path			
Defense	3.5	2.7	2.0
Social Security	4.2	6.0	6.6
Medicare and Medicaid	5.3	12.0	21.9
Other ^b	5.8	5.0	4.0
Total	18.9	25.6	34.4
Intermediate-Spending Path			
Defense	3.4	2.0	1.5
Social Security	4.2	6.0	6.4
Medicare and Medicaid	5.0	9.2	12.6
Other ^b	5.8	5.3	4.9
Total	18.4	22.5	25.3
Lower-Spending Path			
Defense	3.4	2.0	1.4
Social Security	4.2	5.9	6.3
Medicare and Medicaid	4.7	6.2	7.0
Other	5.5	3.8	2.7
Total	17.9	17.9	17.3



High cost path...

	2010	2030 ^a	2050 ^a
Defense	3.5	2.7	2.0
Social Security	4.2	6.0	6.6
Medicare and Medicaid	5.3	12.0	21.9
Other ^b	5.8	5.0	4.0
Total	<u>18.9</u>	<u>25.6</u>	<u>34.4</u>



Intermediate cost path...

	2010	2030 ^a	2050 ^a
Defense	3.4	2.0	1.5
Social Security	4.2	6.0	6.4
Medicare and Medicaid	5.0	9.2	12.6
Other ^b	5.8	5.3	4.9
Total	18.4	22.5	25.3



Low cost path...

	2010	2030 ^a	2050 ^a
Defense	3.4	2.0	1.4
Social Security	4.2	5.9	6.3
Medicare and Medicaid	4.7	6.2	7.0
Other	5.5	3.8	2.7
Total	<u>17.9</u>	<u>17.9</u>	<u>17.3</u>

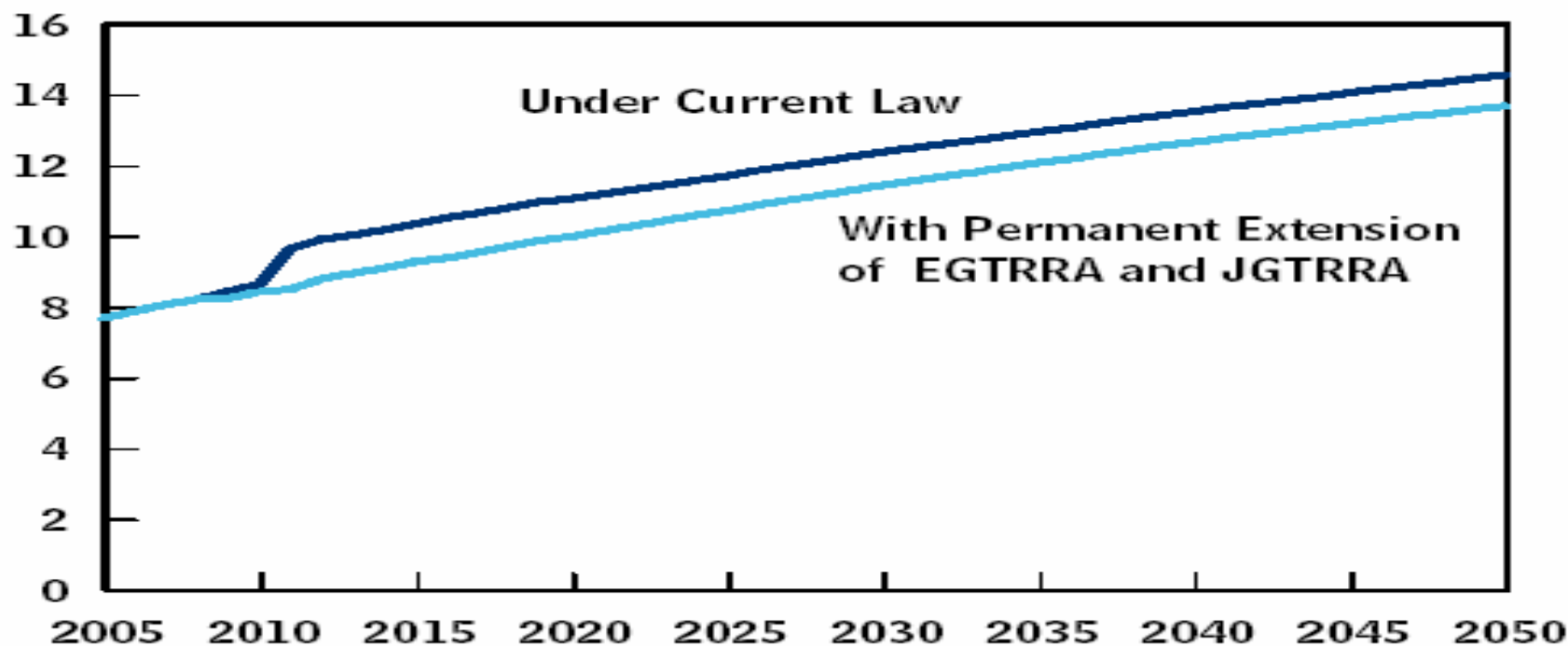


Revenues: expiring tax provisions will matter...

Figure 5-3.

Individual Income Tax Liabilities Under Current Law and Under a Permanent Extension of EGTRRA and JGTRRA

(Percentage of gross domestic product)



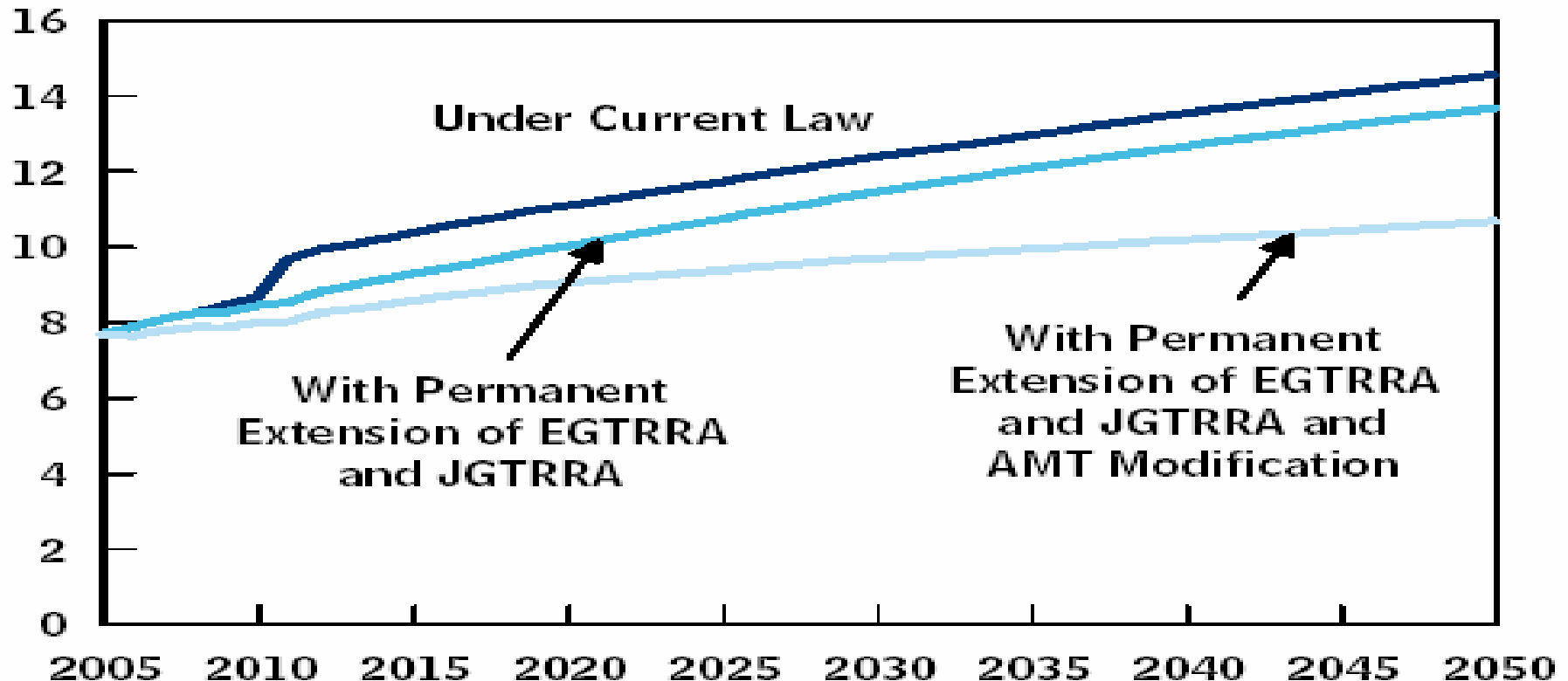


...but long-run more about the AMT and real bracket creep.

Figure 5-5.

Individual Income Tax Liabilities Under Three Policy Alternatives

(Percentage of gross domestic product)





Implications for debt to GDP ratios

Figure 1-2.

Federal Debt Held by the Public Under CBO's Long-Term Budget Scenarios

(Percentage of gross domestic product)

