Q. How accurate are long-run federal budget projections?

A. Some elements of spending—health care costs and interest on the federal debt—are difficult to predict. But even in the best scenarios, the debt will remain a significant problem.

The Congressional Budget Office (CBO) has been making periodic long-run budget projections since the 1990s. Since then, policies have changed—as have the economic and demographic assumptions underlying the analysis. But the lesson from these projections has remained the same: the United States is on an unsustainable fiscal path. That is to say, if policies are not reformed, the public debt will grow until no prudent investor will buy US Treasury securities.

CAUSES OF RISING PUBLIC DEBT

The most important underlying cause of our rising public debt is population aging. The result is pressure on Social Security, the largest program in the budget, and on Medicare and Medicaid, the largest health insurance programs. Aging is easy to forecast because life expectancy has increased steadily and current age demographics are well known. More difficult to forecast are birth rates and growth of the taxpaying population, but birth rates have remained low for a long time with no surprises.

Per person health costs have risen faster than incomes, after adjusting for the population aging that has driven the projected rise in total spending. But this "excess cost growth" is difficult to forecast. After constituting most total health cost growth for decades, excess cost growth slowed abruptly in the 2000s. And no one knows whether the slowdown will last or will be a one-time phenomenon.

Structural changes in the delivery of health care may hold down cost growth in the long run. On the other hand, excess cost growth might resume at historically familiar rates. In recent long-run projections, CBO has assumed that excess cost growth will indeed resume, but at a rate lower than the historical average.

MAJOR DISRUPTIONS TO THE GROWTH RATE OF PUBLIC DEBT

With Social Security and major health programs expected to grow faster than the economy and tax revenues, the deficit and public debt are expected to grow faster and interest on the debt to become a growing part of the budget problem. Over the twenty or so years that CBO has been making long-term budget projections, this basic story has held true. But three major surprises have caused the debt-GDP ratio to rise more slowly than predicted in some periods and faster in others.

The most important surprise slowing the growth of the debt-GDP ratio has been the dramatic fall in interest rates during the Great Recession. Despite a rise in the debt-GDP ratio from 39.3 percent in 2008 to 74.1 percent in 2014, the interest bill on the debt actually fell absolutely! The second surprise involved a huge

Background

How accurate are long-run federal budget projections?

surge in revenues related to the dot-com boom of the 1990s. It caused the debt-GDP ratio to fall from the mid-1990s to 2001, when the ratio was supposed to rise according to all long-term projections. The last surprise was the Great Recession that caused the debt-GDP ratio to rise far faster than could be explained by the increase in Social Security and health programs.

Despite the two big surprises the made the long-term outlook appear better than expected and the one surprise that made it look worse, the fundamentals of long-term projections have held true. Social Security and health programs have been on a strong upward trend propelled by aging and health costs, and there is little reason to expect this trend to evaporate. Because Social Security and health programs are therefore expected to become a greater and greater share of total spending, it is less and less likely that their effect on the deficit will be overwhelmed by surprises.

At the end of 2017 and the beginning of 2018, lawmakers faced with projections of ever-worsening deficits decided to cut taxes and increase previously legislated ceilings on discretionary spending. The long-term budget outlook took a very large step in a bad direction.

Further Reading

Congressional Budget Office. 2015. *The 2015 Long-Term Budget Outlook*. Washington, DC: Congressional Budget Office.

Penner, Rudolph G. 2016. "The Reliability of Long-Term Budget Projections." In *Fixing Fiscal Myopia*, 43–57. Washington, DC: Bipartisan Policy Center.