TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

THE DECADE OF DEFICITS: THE LATEST OMINOUS PROJECTIONS FROM THE CONGRESSIONAL BUDGET OFFICE

Erald Kolasi and C. Eugene Steuerle

March 27, 2020

In January, the Congressional Budget Office (CBO) released its first economic and budgetary outlook of the decade. Even prior to the recent COVID-19 crisis, along with its attendant impact on the budget, CBO projected a deficit of more than $1 trillion for fiscal year 2020. The federal budget is on track for seemingly endless, unsustainable, and rising deficits. The CBO report showed current deficits already averaging over 4 percent of gross domestic product (GDP); they averaged just 1.5 percent of GDP over the past 50 years during strong economic times. As recovery from the current recession occurs, and new tax and spending measures are considered, they must build upon the base of what our spending and tax systems have already set in motion.

Total spending is increasing at a faster rate than revenues and national income, while mandatory spending programs, which continue automatically without new appropriations, are expanding at a faster rate than discretionary spending programs. Meanwhile, health care, Social Security, and interest costs almost totally dominate this growth in spending, with other government programs in significant decline. In recent years, the federal government has not taken any decisive steps to alter this overall fiscal trajectory.

TOTAL BUDGETARY CHANGES FROM ALL SOURCES

This brief analyzes the budgetary outlook from CBO's January 2020 projections, the first of the new decade (CBO 2020). The projections show federal deficits rising and future growth in spending being almost entirely driven by increases in spending on health care, Social Security, and interest on the debt. Interest costs grow because the government does not collect enough taxes to pay its current bills or even raise enough revenue to slow down the growth in federal debt relative to national income. Most other spending programs are scheduled to decline quite significantly as a share of both total spending and national income.

CBO releases regular budget updates throughout the year, providing an evolving snapshot of both the US economy and the nation's fiscal trajectory. In this brief, we start with figures from the latest January 2020 report. Our analysis focuses on changes in spending, taxes, and deficits, largely because changes in spending and taxes point to where the government is heading rather than to past trends. In its budgetary process, Congress largely focuses on how new programs will add to existing budgetary structures or on incremental changes to existing programs, tweaking and modifying the budget as they deem necessary.

On the financing side, extra revenues over time come from the additional tax revenues that accompany economic growth. Of course, new legislation can both reduce and increase revenues. Additional borrowing is another source of extra funding. The sum of all changes in financing sources equals the sum of all additional spending. In its estimates based on "current law," CBO assumes that the legislation currently in place is what determines future revenues and spending. This convention implies that the tax cuts enacted in 2017 will expire (as required by that legislation), though most analysts believe many of those tax cuts will be extended. Thus, expected revenues in future years may be overstated.

Many changes in revenues and expenditures in the budget, such as the automatic growth in annual Social Security benefits, are entrenched long before policymakers begin their negotiations. Steuerle and Quakenbush (2016) used this basic idea to propose a new framework for analyzing budgets and fiscal initiatives. Their framework starts off with an initial baseline equivalent to federal spending and financing as projected under current law. They then distinguish between passive and active changes: passive changes are those built into current law that lawmakers essentially accept without any alterations, and active changes are new changes proposed to the existing budgetary framework.

In the next section, we analyze the long-term fiscal landscape by looking at the passive changes that will shape the budgets for 2030 compared with 2019, incorporating 11 years of change. We analyze the budget over such a long period (rather than considering only the next fiscal year) because many federal programs take years to implement and produce a significant effect. By looking at longer-term changes from current levels, we can quickly measure which budget categories are growing, remaining stable, or shrinking.

We also use an "income statement" approach for analyzing the budget, because the total change in spending must equal the total change in financing sources, meaning revenues raised by taxes and borrowing. Finally, we adjust our results for inflation. Unfortunately, almost all budget presentations, including those by the President's administration and CBO, do not make such an adjustment. To understand the confusion this creates, consider a defense budget that grows 20 percent nominally over an 11-year period when inflation averages 2 percent a year. Because inflation has increased by more than 20 percent over that period, this hypothetical defense budget would decline in real (inflation-adjusted) terms. Only by converting to real dollars can we get a sense of the changes in priorities reflected in the budget.

FEDERAL BUDGET UNDER CURRENT LAW

Under current law, CBO estimates that real or inflation-adjusted total federal spending would increase by nearly $1.6 trillion by 2030 relative to 2019 (CBO 2020). In 2019, spending on mandatory programs (programs built into the law and, for the most part, requiring no appropriation by Congress) and interest on the debt constituted about 70 percent of total spending. By contrast, spending on mandatory programs and interest on the federal debt would reach 76 percent of total spending by 2030, leaving about 24 percent for discretionary programs. The interest payment component of that spending growth has become quite large, even with relatively low interest rates, largely because the federal government continues to collect far less tax revenue than necessary to cover its spending.

These figures become starker still when we look at growth in spending as a share of growth in revenues. Social Security would constitute about 32 percent of total growth in spending over the next decade. Medicare would represent about 31 percent of total growth, interest on the debt would be 18 percent, and Medicaid along with other health care subsidies would constitute about 11 percent. Other mandatory spending would increase by about $3 billion in real terms, while nondefense discretionary spending would increase by $49 billion. Defense spending (again in real dollars) would also see a modest boost during this period, rising by roughly $51 billion.

TABLE 1

Changes in Real Spending and Financing under Current Law, 2019–30

Billions of 2019 dollars

	2019	2030	Total change	Share of change (%)
Spending				
Social Security	1,038	1,545	507	32.5
Total health	1,127	1,794	667	42.8
Medicare	644	1,134	490	31.5
Medicaid	409	587	178	11.4
Health insurance subsidies	56	57	1	0.1
Children’s Health Insurance Program	18	16	(2)	(0.1)
Other mandatory	570	573	3	0.2
Defense discretionary	676	727	51	3.3
Nondefense discretionary	660	709	49	3.1
Net interest	376	657	281	18.0
Total spending	4,447	6,005	1,575	100.0
Financing				
Total revenues	3,462	4,608	1,146	73.6
Borrowing (deficits)	985	1,397	412	26.4
Total financing	4,447	6,005	1,558	100.0

Sources: Authors’ estimates based on *The Budget and Economic Outlook: 2019 to 2030* (CBO 2020).
Note: Health insurance subsidies include spending under the Affordable Care Act. Components may not sum to totals because of rounding. We use the same inflation rates assumed by the Congressional Budget Office.

Thus, Social Security, health, and interest on the debt, by themselves, would constitute 93 percent of the expected total growth in spending. These three categories would absorb 127 percent of the forecasted total growth in revenues. But this percentage is likely an understatement because current tax law assumes expiration of some of the tax cuts enacted in 2017.

Table 2 shows federal spending levels as a share of GDP. We compare the 2019 spending figures to real GDP in 2019 and the 2030 spending figures to real GDP in 2030. Our results show that federal spending constitutes a bigger share of the economic pie in 2030 than it does in 2019. Total federal spending increases from 21 percent of GDP in 2019 to 23.4 percent in 2030, and the gain is almost entirely driven by additional spending for mandatory programs and interest costs.

TABLE 2

Changes in Real Spending and Financing under Current Law, 2019–30

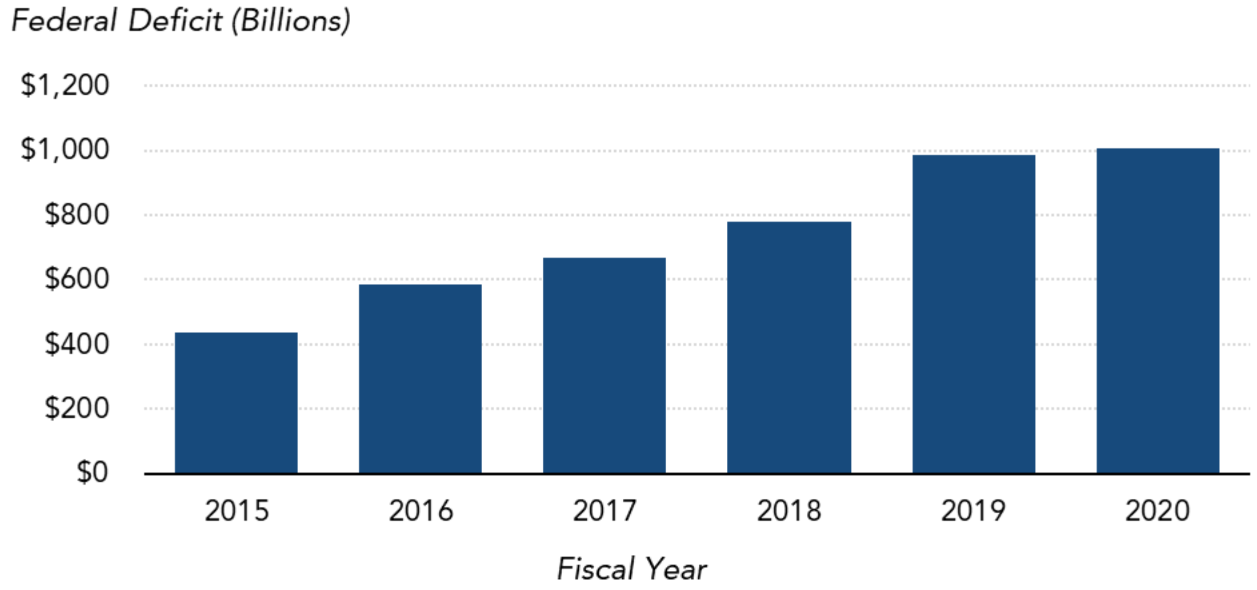
Billions of 2019 dollars

	2019 GDP Share	2030 GDP Share
Spending		
Social Security	4.9	6.0
Total health	5.3	7.0
Medicare	3.0	4.4
Medicaid	1.9	2.3
Health insurance subsidies	0.3	0.2
Children’s Health Insurance Program	0.1	0.1
Other mandatory	2.7	2.2
Defense discretionary	3.2	2.8
Nondefense discretionary	3.1	2.8
Net interest	1.8	2.6
Total spending	20.9	23.4
Financing		
Total revenues	16.3	18.0
Borrowing (deficits)	4.6	5.4
Total financing	20.9	23.4

Sources: Authors’ estimates based on *The Budget and Economic Outlook: 2020 to 2030* (CBO 2020).

FIGURE 1

Federal Deficits in the Past Five Fiscal Years



Source: "Deficit Tracker," Bipartisan Policy Center, March 9, 2020; 2020 projection comes from CBO (2020) prior to the COVID-19 crisis.

RECENT LAWS AND BEYOND

Since August 2019, when CBO issued its last budget update, Congress passed two pieces of legislation that had an important effect on CBO's projections in January 2020. The Consolidated Appropriations Act and the Further Consolidated Appropriations Act together "provided annual appropriations for the entire federal government for 2020, amended several tax provisions, and made changes to certain mandatory programs" (CBO 2020, 32). CBO attributes "most of the $505 billion increase" in projected deficits over the 2020-29 period to the removal of several health care taxes, which are expected to reduce revenues (CBO 2020, 62).

Congress regularly increases appropriations over and above what current law requires but usually does so at a much lower rate than the mandatory spending growth and even the growth rate in the economy. Further, the fate of the 2017 tax cuts is an important unknown. CBO and the Joint Committee on Taxation originally estimated that the 2017 tax cuts would increase the debt by about $1.5 trillion over the next 10 years (TPC 2018). But a subsequent CBO estimate in April 2018 put the debt increase at $1.9 trillion over the 10-year budget window (CBO 2018). If the tax cuts are extended, they would substantially increase the deficit and interest costs. In its August 2019 update, CBO released an alternative budget scenario that looked at the fiscal effects of extending certain provisions of the 2017 tax legislation. CBO concluded that the nominal deficit in 2029 would be $293 billion larger if the tax cuts were extended (CBO 2019). That comes out to an inflation-adjusted figure of about $240 billion in 2019 dollars. Nevertheless, it's these numbers are estimates that come with huge uncertainties. CBO has stated that "assessing the act's effect on receipts may not be possible, because it will be difficult to disentangle changes in revenues caused by the tax act from changes driven by other factors" (CBO 2019, 12).

CONCLUSION

The period of deficit reduction that followed the Great Recession turned out to be a temporary lull. Federal budget deficits have been rising steadily over the past few years, and, even before the COVID-19 crisis, there has been no sign of any major reduction on the horizon. Spending on Social Security, Medicare, and interest on the debt will continue to dominate the future growth in federal spending levels even as they already constitute most federal spending. Their growth rates alone far exceed the expected growth in revenues. Other programs continue to decline in importance as a share of GDP and of total spending. In recent years, this has been the case even when Congress appropriates more to them than current law requires.

REFERENCES

CBO (Congressional Budget Office). 2018. *The Budget and Economic Outlook: 2018 to 2028*. Washington, DC: CBO.

———. 2020. *The Budget and Economic Outlook: 2020 to 2030*. Washington, DC: CBO.

———. 2019. An Update to The Budget and Economic Outlook: 2019 to 2029. Washington, DC: CBO.

Steuerle, C. Eugene, and Caleb Quakenbush. 2016. "How Budget Offices Should Reframe Our Long-Term Budget Problems." In *Fixing Fiscal Myopia: Why and How We Should Emphasize the Long Term in Federal Budget,* edited by the Bipartisan Policy Center, 22–42. Washington, DC: Bipartisan Policy Center.

(TPC) Urban-Brookings Tax Policy Center. 2018. *Tax Policy Center Briefing Book.* Washington, DC: TPC.

ACKNOWLEDGMENTS

This brief was funded by the Peter G. Peterson Foundation. We are grateful to the foundation and to all our funders, who make it possible for the Urban-Brookings Tax Policy Center to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban-Brookings Tax Policy Center, the Urban Institute, the Brookings Institution, their trustees, or their funders.

The Tax Policy Center is a joint venture of the Urban Institute and Brookings Institution. For more information, visit taxpolicycenter.org or email info@taxpolicycenter.org.

Copyright © 2020. Tax Policy Center. All rights reserved. Permission is granted for reproduction of this file, with attribution to the Urban-Brookings Tax Policy Center.