Congressional Budget Office

Presentation to the Macroeconomic Advisers’ Washington Policy Seminar

The Medium-Term Budget Outlook and Policy Options

September 14, 2011

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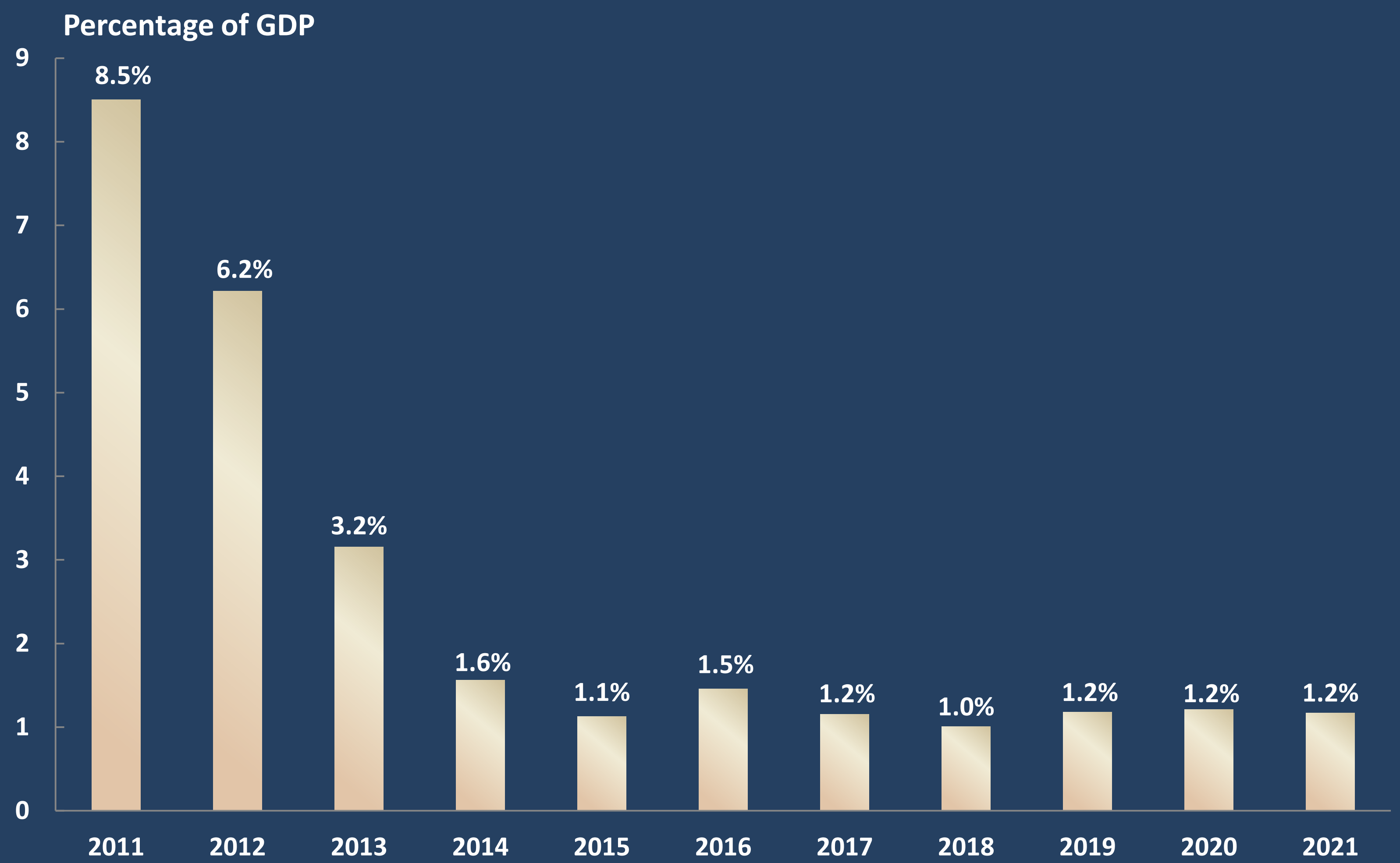
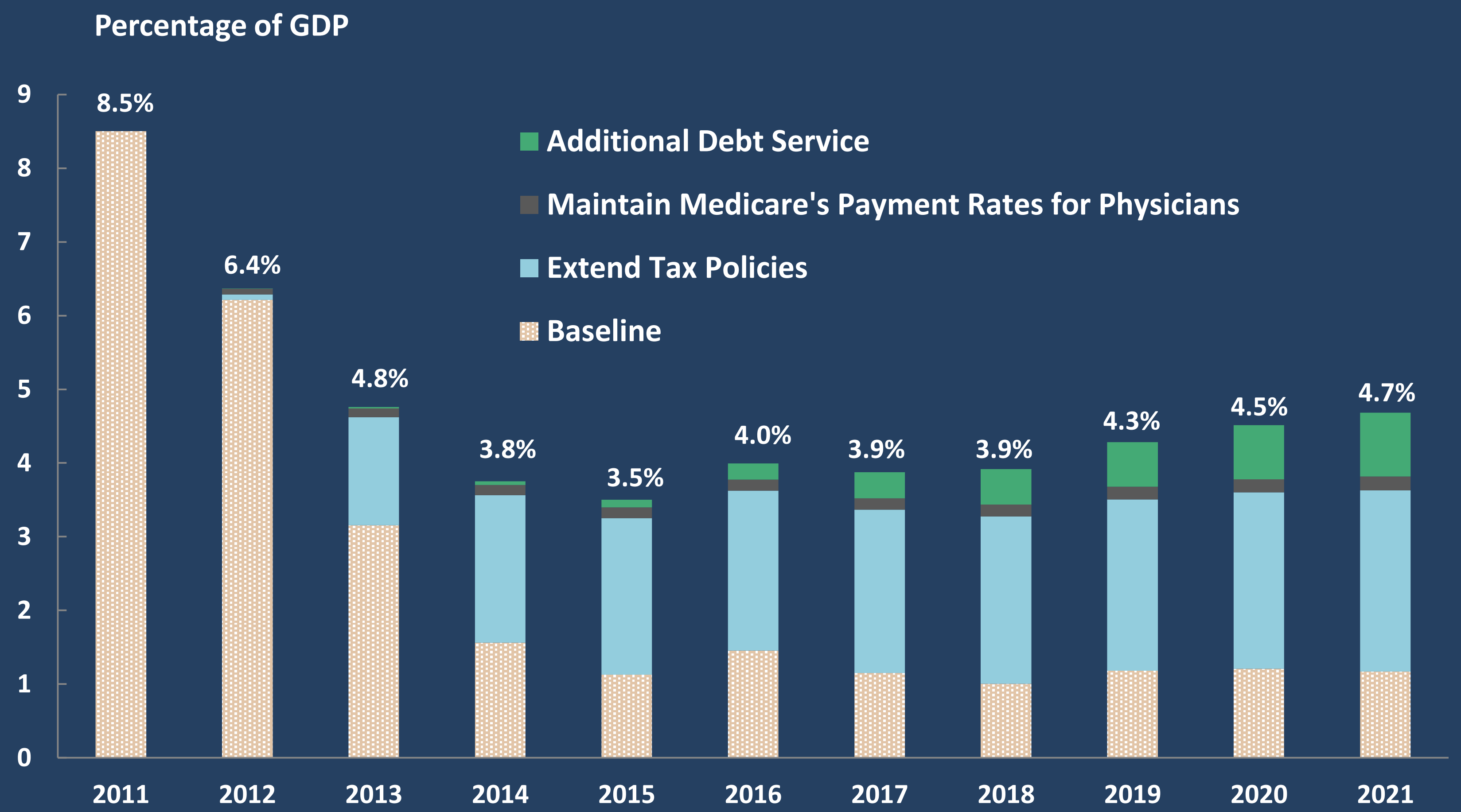
Deficits in CBO's Current-Law Baseline Projections



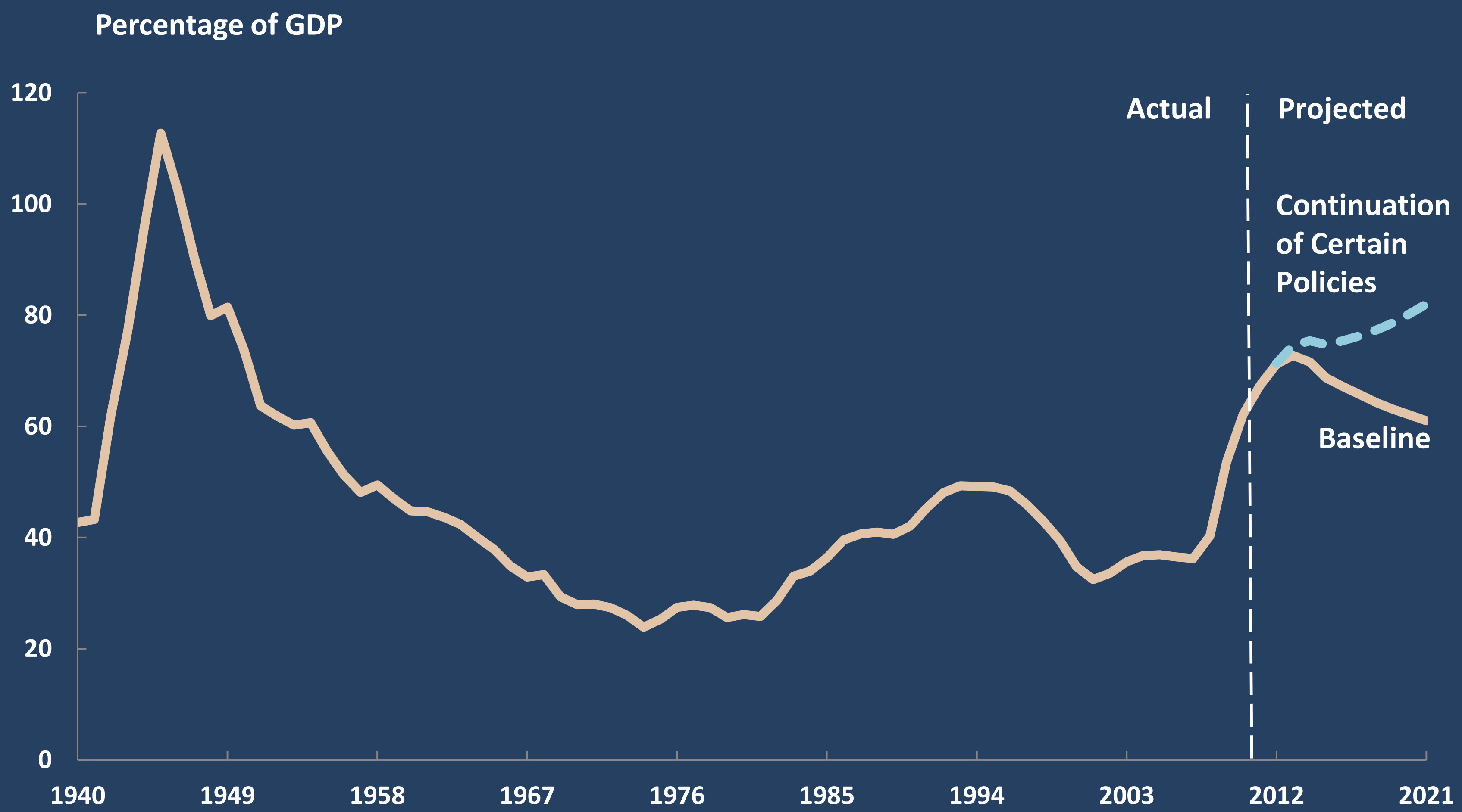
Policies Included in the Current-Law Baseline

- Certain provisions of the 2010 tax act, including extensions of lower rates and expanded credits and deductions originally enacted in 2001, 2003, and 2009, expire at the end of 2012;
- The two-year extension of provisions designed to limit the reach of the alternative minimum tax, the extensions of unemployment compensation, and the one-year reduction in the payroll tax all expire at the end of 2011;
- Sharp reductions in Medicare's payment rates for physicians' services take effect at the end of 2011;
- Funding for discretionary spending declines over time in real terms, in accordance with the caps established under the Budget Control Act; and
- Additional deficit reduction of more than $1 trillion will be implemented as required under that act.

Deficits in CBO's Baseline and Assuming A Continuation of Certain Policies



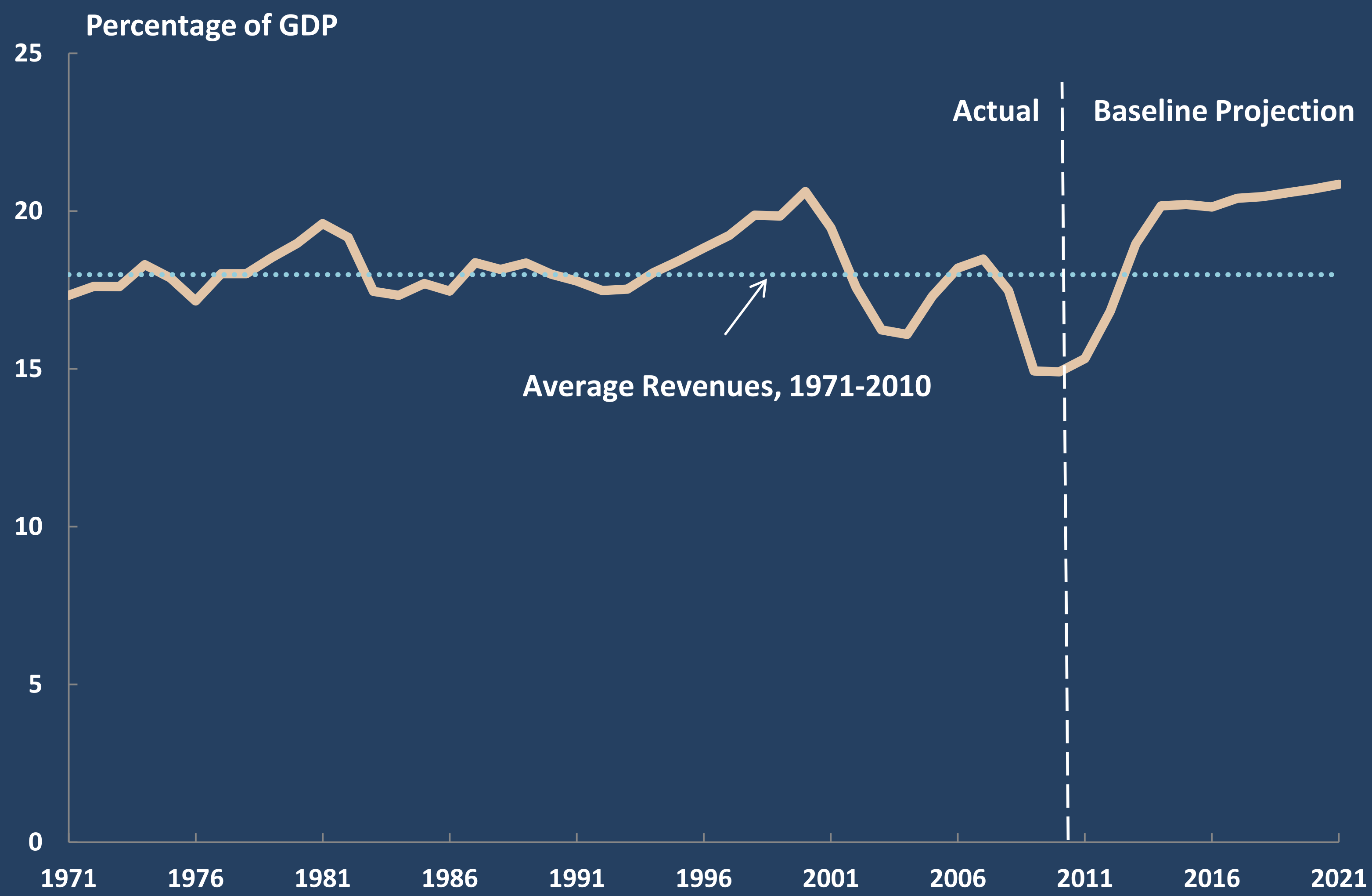
Federal Debt Held by the Public



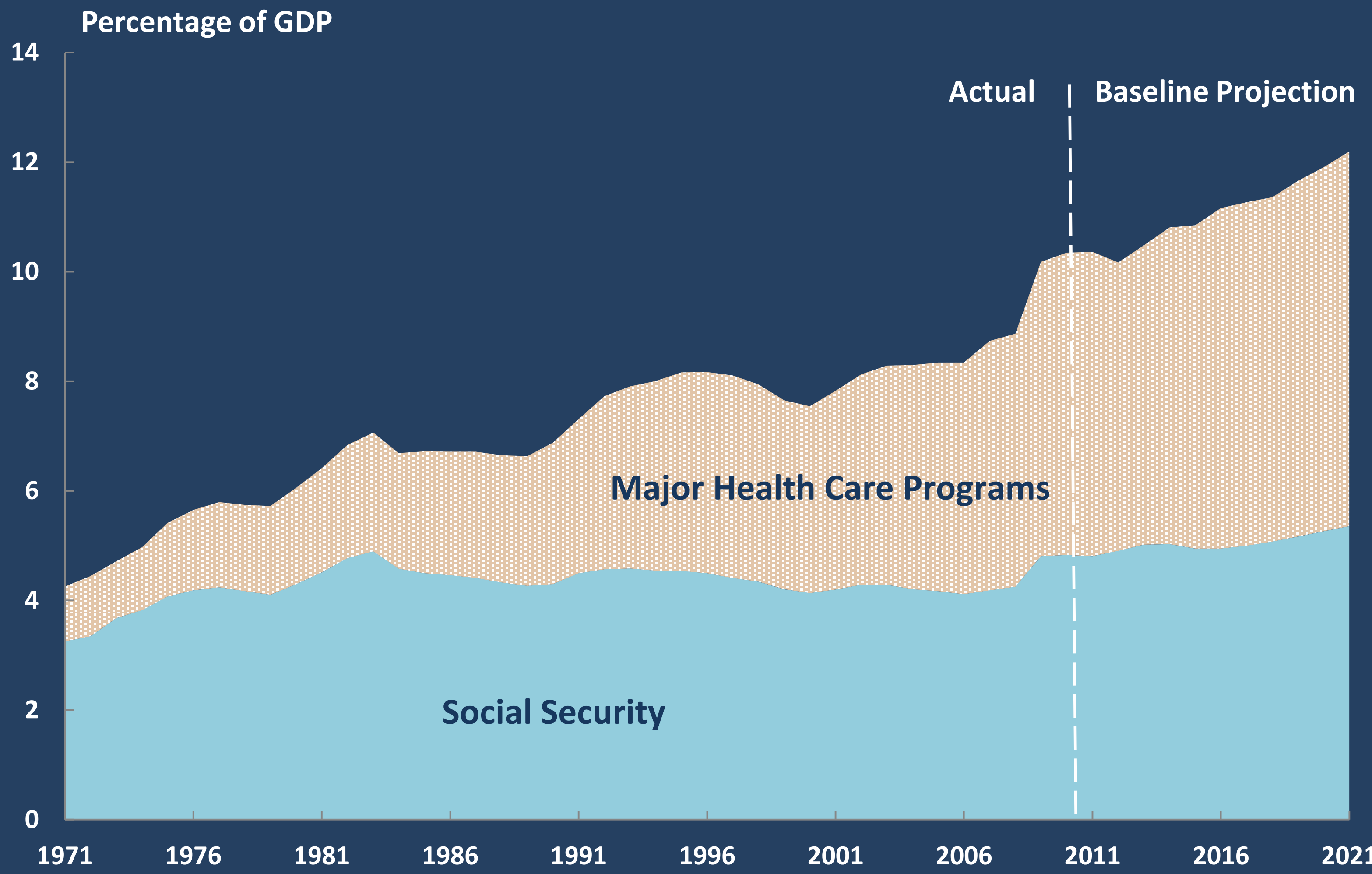
The Backdrop for Federal Budget Policy

The past combination of policies cannot be repeated when it comes to the federal budget: The aging of our population and the rising cost of health care have changed the backdrop for budget policy in a fundamental way.

Total Federal Revenues

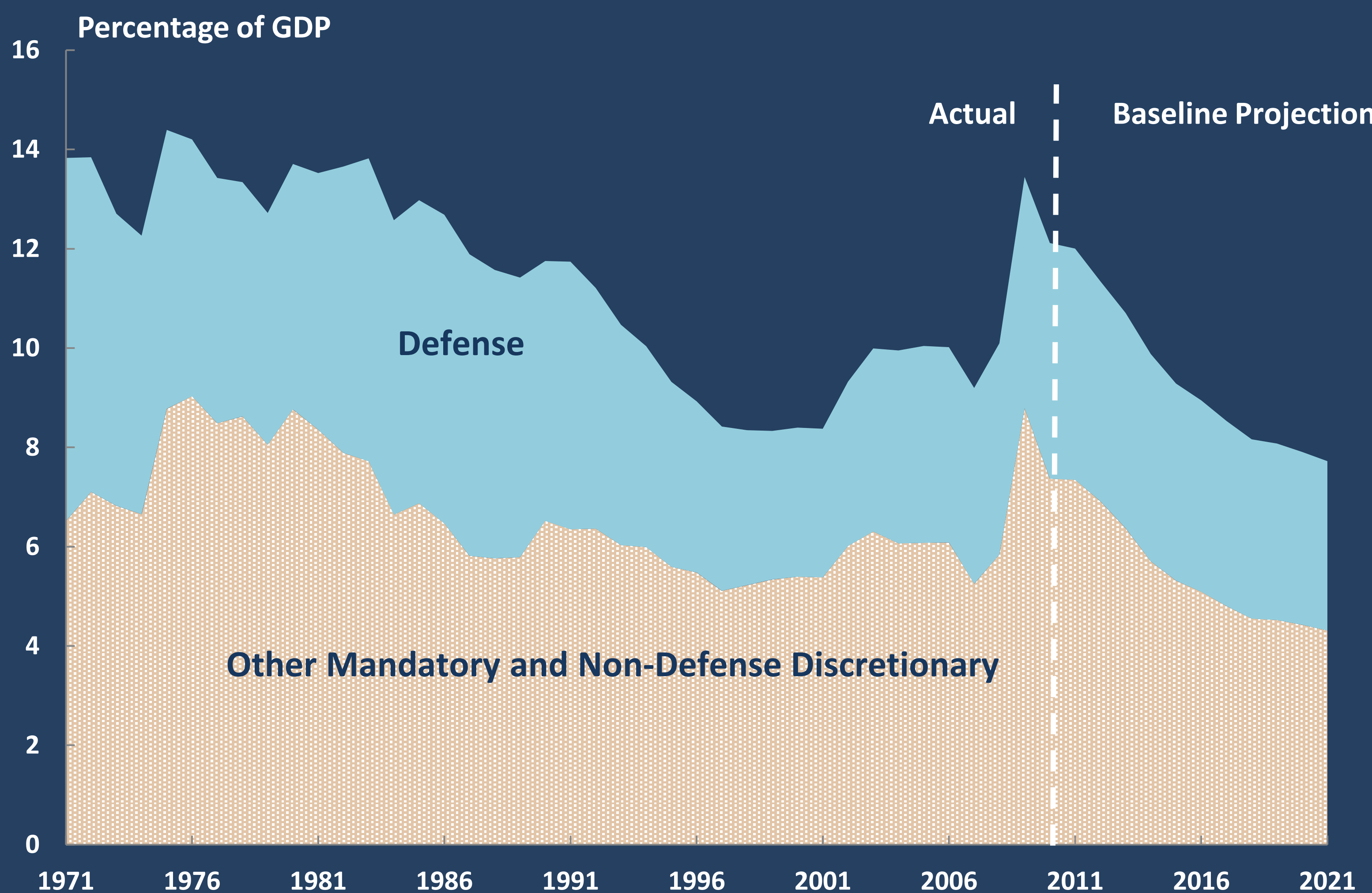


Outlays for Social Security and the Major Health Care Programs



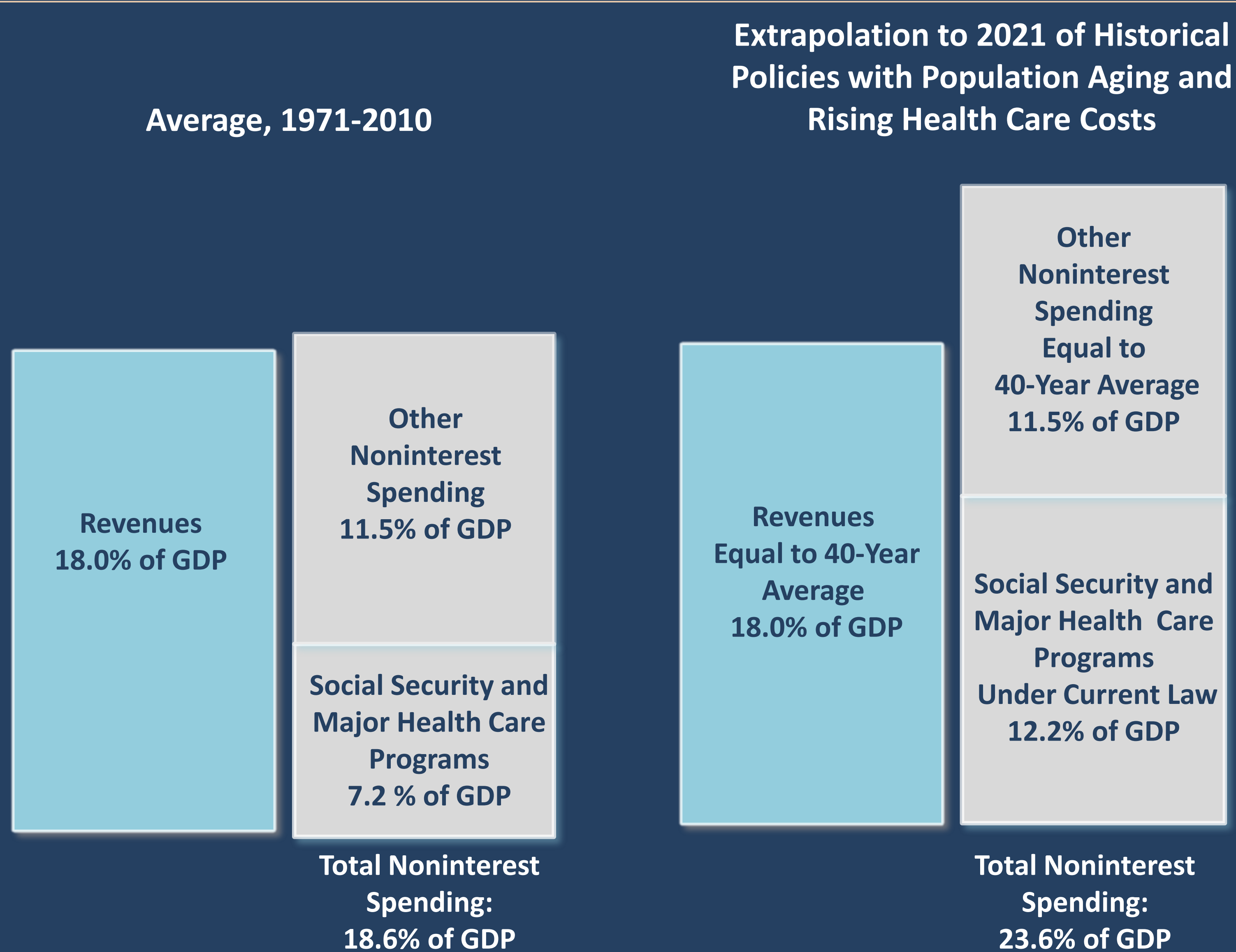
Note: Major health care programs include Medicare, Medicaid, the Children's Health Insurance Program, and exchange subsidies and related spending.

Other Components of Federal Noninterest Spending



Note: When constructing its baseline, CBO assumes that discretionary appropriations will adhere to the statutory caps recently enacted into law by the Budget Control Act of 2011 (Public Law 112-25). Because the caps do not constrain appropriations for military operations in Afghanistan and Iraq (or for similar activities), such outlays are assumed to equal $159 billion (the amount provided for 2011), adjusted in future years for inflation. In this figure, all other funding is assumed to be reduced proportionately, relative to the funding that would be necessary to keep pace with inflation, in order to keep total discretionary funding within the caps on appropriations other than those for war-related purposes.

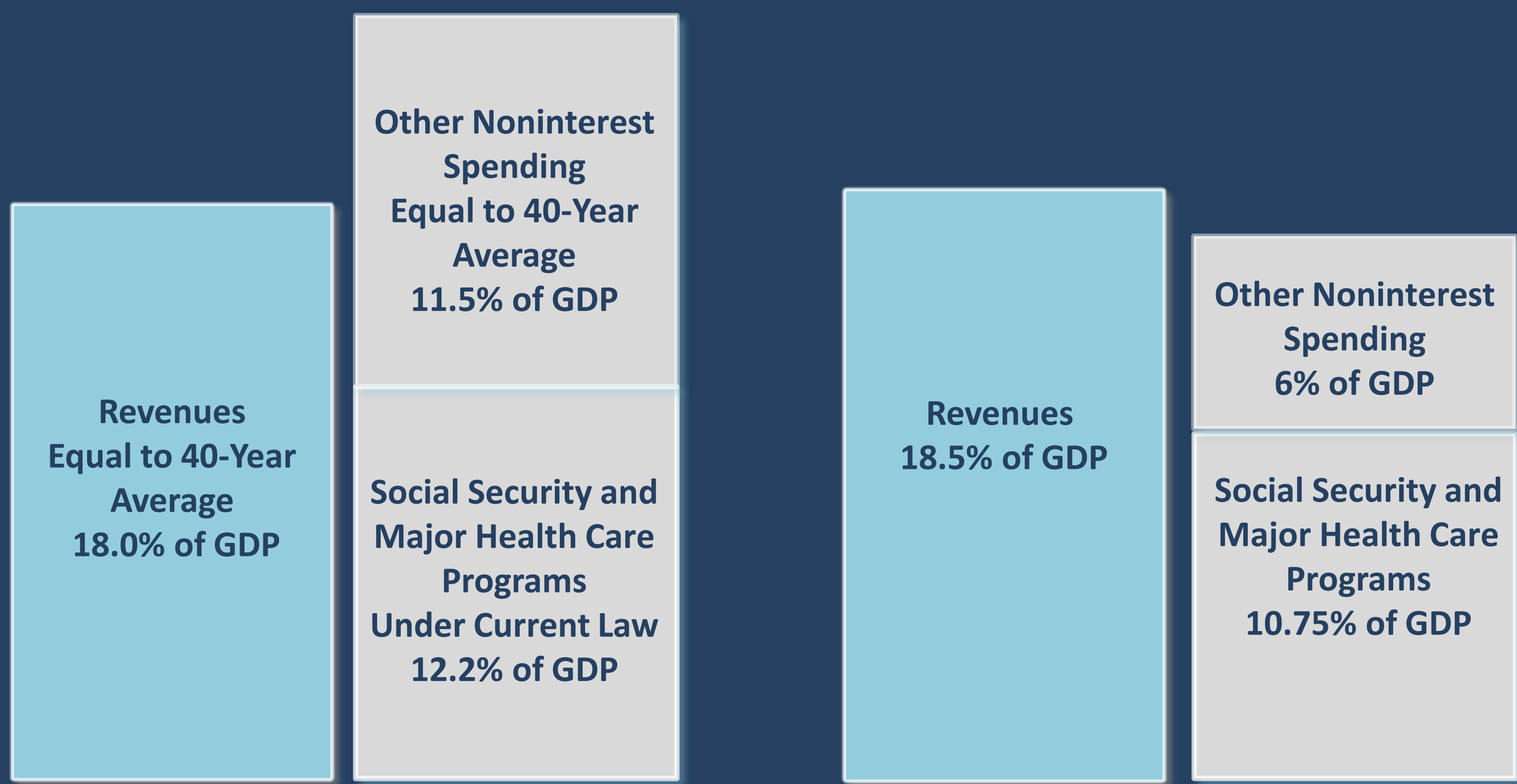
Revenues and Noninterest Spending, Historically and Extrapolated to 2021 with Population Aging and Rising Health Care Costs



Extrapolation Compared With Congressman Ryan's Proposal

Extrapolation to 2021 of Historical Policies with Population Aging and Rising Health Care Costs

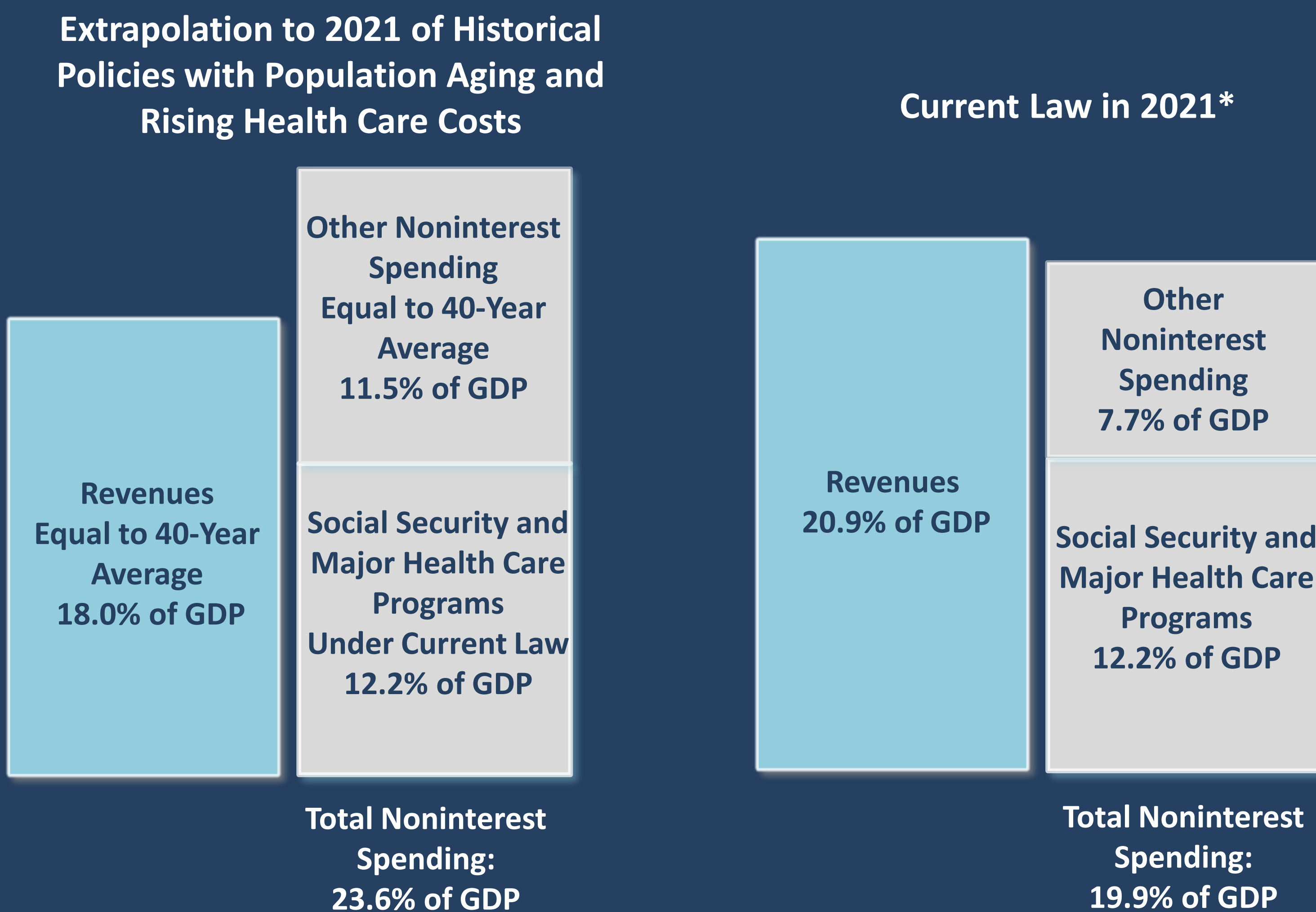
Congressman Ryan's Proposal in 2022



Total Noninterest Spending: 23.6% of GDP

Total Noninterest Spending: 16.75% of GDP

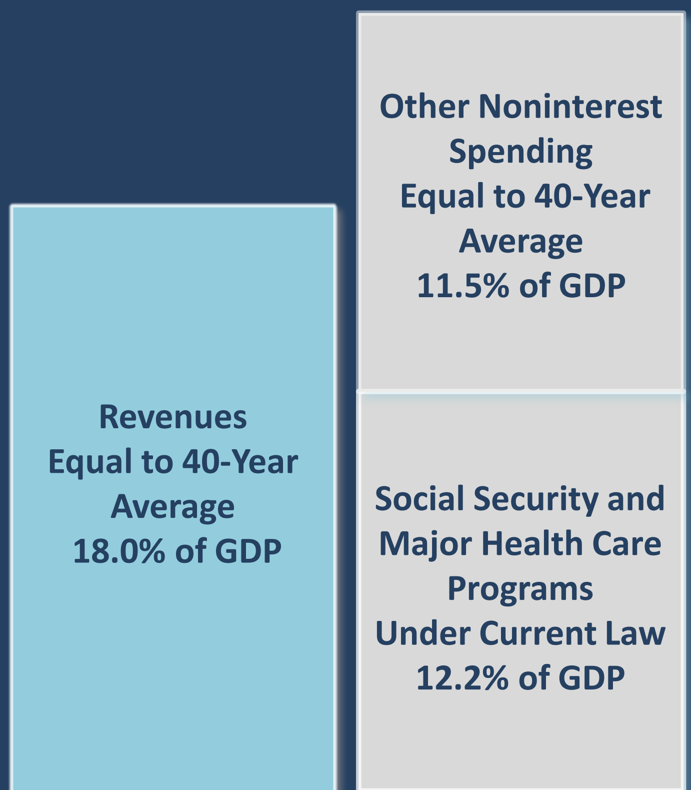
Extrapolation Compared With Current Law



* The Budget Control Act of 2011 (Public Law 112-25) created the Joint Select Committee on Deficit Reduction to propose further deficit reduction totaling at least $1.5 trillion over 10 years. The act also specified automatic procedures for reducing spending by as much as $1.2 trillion if legislation originating with the new deficit reduction committee does not achieve savings of at least $1.2 trillion. CBO has incorporated that amount of deficit reduction in its baseline—including an amount equal to 0.7 percent of GDP in 2021 including savings in debt-service costs—but has no basis for allocating that amount between revenues and outlays.

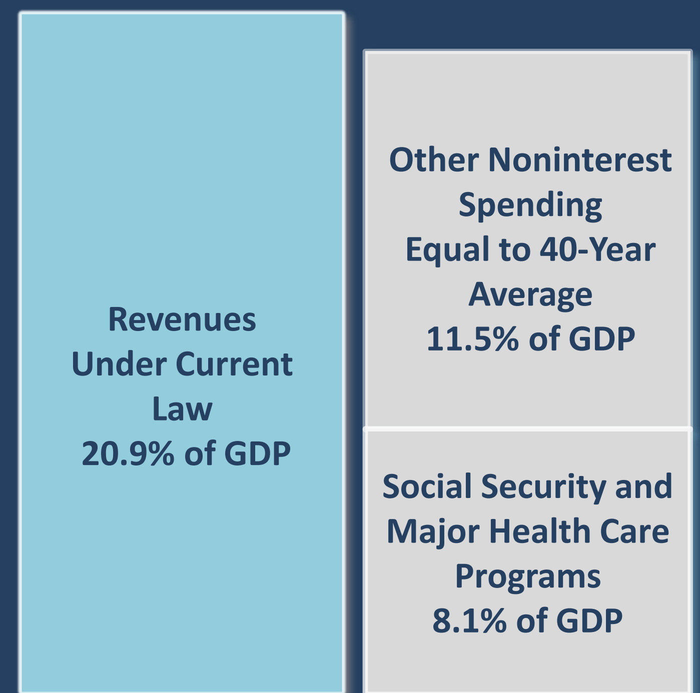
Extrapolation Compared With Hypothetical Large Cuts in Social Security and Major Health Care Programs

Extrapolation to 2021 of Historical Policies with Population Aging and Rising Health Care Costs



Total Noninterest Spending: 23.6% of GDP

Cut Spending for Social Security and Major Health Care Programs by 1/3



Total Noninterest Spending: 19.6% of GDP

Where Do We Go From Here?

Given the aging of the population and rising costs for health care, attaining a sustainable federal budget will require the United States to deviate from the policies of the past 40 years in at least one of the following ways:

- Raise federal revenues significantly above their average share of GDP;
- Make major changes to the sorts of benefits provided for Americans when they become older; or
- Substantially reduce the role of the rest of the federal government relative to the size of the economy.