



Testimony

The Budget and Economic Outlook: 2020 to 2030

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Chairman Yarmuth, Ranking Member Womack, and Members of the Committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy, which we released yesterday.

CBO projects continued economic growth and job creation over the coming decade but also a worrisome trajectory for the federal budget. Not since World War II has the country seen deficits during times of low unemployment that are as large as those that we project—nor, in the past century, has it experienced large deficits for as long as we project.

The Economy

We project that real gross domestic product (GDP) will expand at a solid rate of 2.2 percent this year, driving continued job creation and a historically low unemployment rate. We anticipate that consumer spending, spurred by rising wages and household wealth, will remain strong; we also expect business investment to rebound as several of the factors that weighed on it last year abate. In particular, we expect higher oil prices to boost investment in the energy sector and the impact of trade barriers on economic growth to diminish.

We also project that for several years, the economy will be producing more than what we estimate to be its sustainable level of output, leading to higher inflation and interest rates after a decade in which both remained low, on average. In our projections for the later years of the coming decade, GDP growth moderates and settles back to its maximum sustainable rate of 1.7 percent. That maximum sustainable rate is projected to be lower than its long-term historical average, mainly because the population is aging and the labor force is expected to grow more slowly than it has in the past.

Deficits

In our projections, which incorporate the assumption that current laws governing taxes and spending generally remain unchanged, the federal budget deficit is \$1.0 trillion this year and averages \$1.3 trillion per year between 2021 and 2030. Measured as a percentage of economic output, the deficit widens from 4.6 percent of GDP in 2020 to 5.4 percent in 2030. Over the past 50 years, the average annual deficit equaled 3.0 percent of GDP, and it was generally much smaller when the economy was strong.

Revenues and Spending

Revenues will grow in our expanding economy. If current laws did not change, federal revenues would rise from 16.4 percent of GDP in 2020 to 18.0 percent of GDP in 2030. Those projections reflect a scheduled increase in individual income taxes at the end of 2025, among other things.

Spending is projected to grow more than revenues, widening the gap between the two. In our projections, federal outlays climb from 21.0 percent of GDP to 23.4 percent over the next decade. That growth has two sources: increased spending for mandatory programs and interest on federal debt.

The increase in mandatory outlays over the decade—from 12.9 percent of GDP to 15.2 percent—is attributable partly to the aging of the population. Another major factor is the growth of health care costs, which has slowed in recent years but is still projected to be faster than economic growth. Those two long-term trends affect Social Security and Medicare in particular, and they are expected to persist beyond 2030.

As for the increase in interest spending, one of its causes is the large deficits, which lead the federal government to borrow more each year in our projections. Another cause is rising interest rates over the next decade. All in all, the federal government's net interest outlays are projected to increase from 1.7 percent of GDP in 2020 to 2.6 percent in 2030.

Debt

As a result of the persistently large deficits, federal debt held by the public is projected to rise to \$31.4 trillion at the end of 2030—an amount equal to 98 percent of GDP. At that point, debt would be higher as a percentage of GDP than at any point since just after World War II and more than double what it has averaged over the past 50 years. We project that the gap between spending and revenues would continue to widen over the following two decades and that debt would reach 180 percent of GDP by 2050, well above the highest percentage ever recorded in the United States. And it would be headed still higher.

That debt path would dampen economic output over time. Rising interest costs associated with the debt would increase interest payments to foreign debt holders and thus reduce the income of U.S. households by increasing

amounts. Such a significant increase in federal borrowing would also elevate the risk of a fiscal crisis. In addition, it could limit lawmakers' ability to adopt deficit-financed fiscal policies to respond to unforeseen events or for other purposes. Negative economic and financial effects that were less abrupt but still significant—such as expectations of higher inflation or an increased burden of financing public and private activity—would also have a greater chance of occurring. Those effects would worsen the consequences associated with high and rising federal debt.

In Closing

The U.S. economy is doing well, with low unemployment and rising wages that have drawn people off the sidelines and back into the labor force. But the economy's performance makes the large and growing deficit all the more noteworthy.

To be sure, interest rates remain low today, suggesting that there is time to address our fiscal challenges and that fiscal policy could be used as a tool to address other challenges facing the nation, if the Congress chose to do so. But our projections also suggest that over the long term, changes in fiscal policy must be made to address the budget situation, because our debt is growing on an unsustainable path.

The Budget and Economic Outlook: 2020 to 2030 is one of a series of reports on the state of the budget and the economy that the Congressional Budget Office issues each year. The report satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. This testimony highlights key issues related to that report.

In accordance with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations. The report, a visual summary of its findings, and supplemental data files are available on CBO's website at www.cbo.gov/publication/56020. This testimony is available at www.cbo.gov/publication/56064.



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