Fiscal Outlook for the 116th Congress:
New Divided Government, Old Budget Battles
Key Takeaways

1) The U.S. is on an unsustainable long-term fiscal path

2) Major entitlement programs are key drivers, and the problem cannot be solved without reform

3) Under almost any scenario, more revenues will be necessary

4) Entitlement programs and the ongoing need for fiscal adjustment are crowding out discretionary programs (e.g., investments)

5) While not the problem in and of itself, our broken budget process has not helped the situation
Federal Debt Is Set to Soar

Historical

Post-War "Boom"

World War II Build-Up

Balanced Budget Era

The "Great Recession"

Projected

Debt held by the Public (Percentage of GDP)


Source: Congressional Budget Office
Federal Deficits Could Reach $2 Trillion by 2028

Source: Congressional Budget Office.

Note: Years shown are fiscal years.
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Widening Gap Between Outlays and Revenues

Outlays

Revenues

Historical

Projection

Sources: Congressional Budget Office, Bipartisan Policy Center
Composition of the 2018 Federal Budget

Social Security: 24%
Major Healthcare Programs: 25%
Defense: 15%
Other Domestic Spending: 28%
Net Interest: 8%

Sources: Congressional Budget Office, Bipartisan Policy Center calculations.
Note: Defense spending shown is only defense discretionary.
Health Care Costs Are the Primary Driver of the Debt

Percentage of GDP

- Health Care Spending
- Social Security
- Discretionary Spending (defense and non-defense)
- Other Mandatory Spending (e.g., federal pensions, unemployment compensation, etc.)

Source: Congressional Budget Office
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Composition of Federal Revenues Over Time

- Individual Income Taxes
- Payroll Taxes
- Corporate Taxes
- Other (customs duties, excise taxes, etc.)

Source: Congressional Budget Office
During the balanced budget era, revenues averaged ~19% of GDP.

Post-tax law, CBO/JCT project only ~17% over the next decade.

-0.5% (portion lost due to tax law)

Sources: Congressional Budget Office, Joint Committee on Taxation. Note: Y-axis does not start at zero.
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Entitlements and Interest Crowding Out Other Priorities

Sources: Congressional Budget Office, Bipartisan Policy Center calculations
Defense Outlays Near Modern-Era Low

Defense Outlays (discretionary)

Historical Average (1967-2017)

Lowest level Since WWII (1999)

Effects of Bipartisan Budget Act of 2018

Budget Control Act of 2011 Enacted

Sources: Congressional Budget Office, Bipartisan Policy Center
Non-defense Outlays Near Modern-Era Low

- Non-Defense Outlays (discretionary)
- Historical Average (1967-2017)
- Lowest level since WWII (1999)
- Budget Control Act of 2011 enacted
- Effects of Bipartisan Budget Act of 2018

Percentage of GDP
Sources: Congressional Budget Office, Bipartisan Policy Center
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Complex Budget Process Has Produced Poor Outcomes

Sources: Government Accountability Office, Congressional Research Service, Bipartisan Policy Center
Debt Limit Reinstatement Coming March 2019

The federal debt limit will be reinstated at around $22 trillion on March 2, 2019.

- The government will not default on its obligations on March 2.

- The Treasury Secretary will begin to use emergency borrowing authority – known as “extraordinary measures” – to fully-funded government operations for some time.

- If policymakers do not act on the debt limit, BPC estimates that Treasury will have sufficient cash to meet all financial obligations until at least the mid-summer of 2019.
The Economy Is Humming Along

Unemployment Rate

“Great Recession” causes unemployment spike

Median Federal Reserve Target Rate (4.5%)

Current unemployment below target rate (4.0%)

Sources: Bureau of Labor Statistics, Federal Reserve
Note: Data shown are Civilian Unemployment Rate, seasonally adjusted.
Debt Usually Drops During Economic Expansions. Not This Time.

Source: Office of Management and Budget, Congressional Budget Office
Concluding Thoughts and Looking Ahead

• Fiscal policymaking is a delicate balance between short-term political priorities and long-run economic costs.

• Vast majority of economists agree – **deficits and debt matter**

• The hard questions:
  
  o How much of either is too much?
  
  o At what point does debt become a problem, especially for the U.S.?
  
  o What is the appropriate path to right-size U.S. debt?
Q & A