



The Daily Dish

The Long-Term Budget Outlook

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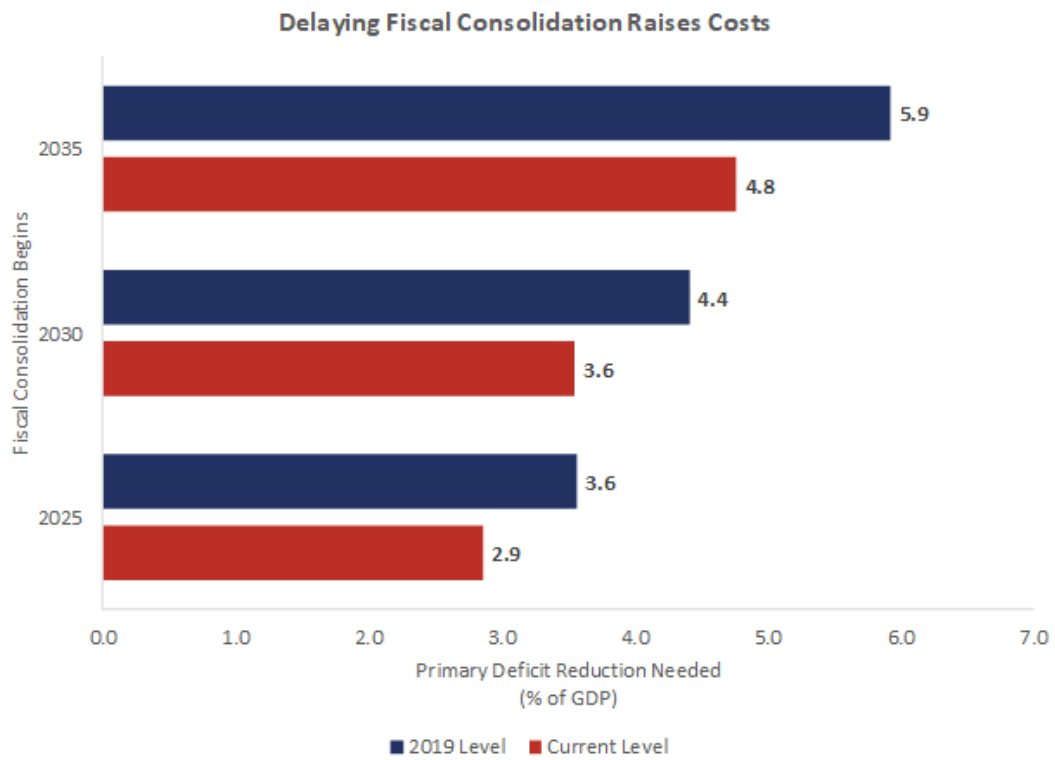
Eakinomics: The Long-Term Budget Outlook

In the midst of the COVID-19 pandemic, with the economy climbing out of the sharpest downturn in U.S. history, few people are focused on the fiscal situation in 2050. But Monday the Congressional Budget Office (CBO) issued its latest [Long-Term Budget Outlook](#), which reminded Americans that they cannot ignore the future reality for very long. For those Eakinomics readers (or, admittedly, writers) who prefer the Cliff's Notes version, AAF's Gordon Gray has a nice [summary](#) of the highlights.

The first insight is that federal debt in the hands of the public will reach 195 percent of gross domestic product (GDP) in 2050. That is, of course, if Congress does not pass new legislation that worsens the deficit and adds more debt. It certainly will, however, so this is a rough lower bound to the size of the problem.

The second insight is that fighting the COVID-19 recession has added considerably to the debt – the 2050 projection is up from 180 percent of GDP – but has not really changed the outlook for spending or revenue after the next couple of years. Both return to their baseline growth patterns, i.e. spending outgrowing revenues as far as the eye can see. The fact that Congress passed something as consequential and *transitory* as the COVID-19 response is somewhat remarkable.

The final insight is the most important one. Gray leads with a relatively innocuous warning: “Before long, stabilizing the debt will require an unprecedented fiscal consolidation.” But if one reads further, he spells out exactly what that means. “CBO has also been calculating what is essentially the cost of delaying needed fiscal consolidation, shown in Figure 3 [reproduced below]. To hold debt held by the public as a share of GDP to about current levels, 100 percent, in 2050 would require an *annual* reduction (relative to CBO projections) in the primary deficit (a revenue increase, spending decrease, or both, excluding net interest) of 2.9 percent if begun in 2025. This sum amounts to \$598 billion in 2020. Achieving the same level of debt in 2050 would require a much larger fiscal consolidation if delayed until 2030, or 2035.”



The unsustainable fiscal outlook cannot be ignored forever. More important, the longer Congress waits to act, the harder stabilizing the debt outlook will be.