

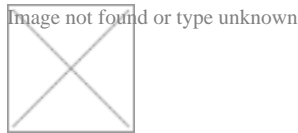


Insight

The 2014 Long-Term Budget Outlook: What Changed?

GORDON GRAY | JULY 15, 2014

In September of 2013, the Congressional Budget Office (CBO) released its long-range budget and economic projections, covering the period 2013 to 2088. The report conveyed CBO's estimate that by 2039, debt held by the public would reach 102 percent of GDP, and would reach 245 percent of GDP by 2088. The July 2014 update is generally similar but several factors have contributed to revisions that have worsened the debt outlook in the nearer-term, but improved it over the longer term. Under the latest projections, debt held by the public will be 106 percent of GDP by 2039 and 222 percent of GDP in 2088. Importantly these are incremental; the basic trajectory remains the same: unsustainable debt accumulation that poses serious risk to the U.S. economy.



The nearer trend deterioration in the debt outlook is where there is greater certainty in the projections; debt in excess of 100 percent of GDP has only been seen twice in U.S. history. International capital markets would likely never tolerate borrowing of twice that level.

The nearer-term deterioration largely reflects a lower level of GDP. As CBO notes, the nominal debt level reached by 2039 is roughly the same in the current projection as that projected in September of 2013, but the economy that must bear it is now projected to be smaller. CBO incorporated additional adjustments, including a lower projection of interest rates and further reductions in the rate of growth in health care costs. These factors are outweighed by the diminution in GDP in the nearer term, but over the longer term, the debt outlook has partially improved – but subject to factors and over a time period subject to much greater uncertainty.