The Need to Expand the Focus of the Congressional Budget Office 2020 Long-Term Budget Outlook

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Working Draft: October 16, 2020

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The Congressional Budget Office regularly provides a touch of reality regarding the trends in the U.S. federal budget and its impact on the U.S. economy. Its September 21st report on the 2020 Long-Term Budget Outlook (https://www.cbo.gov/publication/56598) is no exception. Its summary highlights,

- **Deficits.** Even after the effects of the 2020 coronavirus pandemic fade, deficits in coming decades are projected to be large by historical standards. In CBO’s projections, deficits increase from 5 percent of gross domestic product (GDP) in 2030 to 13 percent by 2050—larger in every year than the average deficit of 3 percent of GDP over the past 50 years.

- **Debt.** By the end of 2020, federal debt held by the public is projected to equal 98 percent of GDP. The projected budget deficits would boost federal debt to 104 percent of GDP in 2021, to 107 percent of GDP (the highest amount in the nation’s history) in 2023, and to 195 percent of GDP by 2050. High and Rising federal debt makes the economy more vulnerable to rising interest rates and, depending on how that debt is financed, rising inflation. The growing debt burden also raises borrowing costs, slowing the growth of the economy and national income, and it increases the risk of a fiscal crisis or a gradual decline in the value of Treasury securities.

- **Spending.** After the effects of increased spending associated with the pandemic dissipate, spending as a percentage of GDP rises in CBO’s projections. With growing debt and higher interest rates, net spending for interest nearly quadruples in relation to the size of the economy over the long term, accounting for most of the growth in total deficits. Also increasing are spending for Social Security (mainly owing to the aging of the population) and for Medicare and the other major health care programs (because of rising health care costs per person and, to a lesser degree, the aging of the population).

- **Revenues.** Once the effects of decreased revenues associated with the economic disruption caused by the pandemic dissipate, revenues measured as a percentage of GDP are projected to rise. After 2025, they increase in CBO’s projections largely because of scheduled changes in tax rules, including the expiration of nearly all of the changes made to individual income taxes by the 2017 tax act. After 2030, they continue to rise—but that growth does not keep pace with the growth in spending. Most of the long-term growth in revenues is attributable to the increasing share of income that is pushed into higher tax brackets.

It provides a clear warning about the problems in civil spending that are driven by entitlements, and the growth of spending on social security and major health programs, which will rise from 10.8% of the GDP to 17% in 2050 – driven by what the CBO calls excessive cost growth. It also projects a major rise in mandatory spending after the current peak for COVID-19 related spending has passed. Social Security costs will rise from 4.2% of the GDP in 1990 to 6.3% in 2050. Major Health Care Programs will rise from 2.3% to 9.3%, and interest will rise from 3.1% of the GDP to 8.1%.

These are all critical issues, but so are the trends in discretionary spending, as well as in the areas like defense and foreign affairs. The need to provide even more domestic aid spending to provide relief from the impact of COVID-19 makes it almost certain that both defense and foreign aid spending will come under pressure once the election is over – and that such pressure will grow steadily once the FY2022 budget request is submitted in February 2021. The efforts to reshape defense around the new strategy of competition with Russia and China as well as the need to define a U.S. post-ISIS and Afghan defense posture are only two of the issues involved.
The CBO analysis comes very close, however, to treating discretionary spending as if it didn’t exist. There are only a few passing references to any aspect of the content of such spending in an Appendix at the end of the budget projections like,

Discretionary spending as a share of GDP in 2020 and 2021 is higher in CBO’s current projections than it was in last year’s projections; that increase stems from legislation enacted to address the pandemic and related economic disruption. Over the next three decades, such spending is projected to be higher than it was projected to be last year, primarily because of the higher caps on discretionary funding for 2020 and 2021 put in place by the Bipartisan Budget Act of 2019 (Public Law 116-37). In CBO’s current projections, discretionary spending in 2049 is 5.6 percent of GDP—0.5 percentage points higher than it was in last year’s projections.

All the analysis focuses on the total costs of all discretionary spending, and none deal with the reasons for changes in projected spending.

The practical problem is that ignoring national security spending tends to have a striking political effect. Much of the commentary on defense spending ignores the fact that it may actually shrink the burden on the U.S. economy because it is a major source of jobs and a key force in improving the U.S. technology base. “War fatigue” has also led to estimates of defense spending that include long-term interest costs and outyear costs for future retirement and medical treatment. The end result is to exaggerate the burden of defense spending and foreign aid without accounting for their broader cost on the impact of entitlement and civil programs on the budget and the economy.

The CBO has at least mentioned some of these costs and trends in the past. Important as the trends in mandatory civil spending are, it should address discretionary spending, and it should put all of the “drivers” in the budget in context. The recent CBO long-term budget outlook does not even begin to do this.