NEWS RELEASE

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NEW LONG-TERM DEFICIT PROJECTIONS PAINT GRIM PICTURE

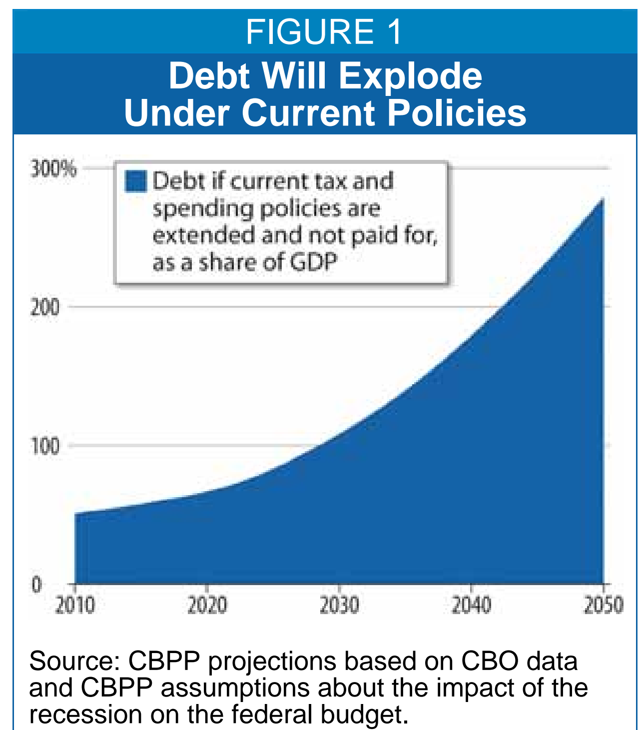
Rising Health Costs, Aging Population Are Biggest Challenges; Expected Economic Recovery Package Not a Big Factor

The nation faces a grim long-term budget outlook even after the economy recovers from the current recession, with the prospect of skyrocketing deficits and debt in the coming decades that will far eclipse all previous levels, the Center on Budget and Policy Priorities reported today.

Driving this grim outlook are at least three factors: (1) swiftly rising health care costs, (2) the aging of the population, and (3) an eroding federal revenue base, according to "The Long-Term Fiscal Outlook Is Bleak" (http://www.cbpp.org/12-16-08bud.htm).

Under current budget policies, the federal debt will skyrocket from a projected 46 percent of gross domestic product in 2009 to 279 percent of GDP in 2050 — more than two and a half times the record 110 percent at the end of World War II, the Center says. This assumes Congress will make the 2001 and 2003 tax cuts permanent and won't change policies governing large programs like Medicare or otherwise reform the health care system.

Debt of this size would threaten serious harm to the economy and the budget. By 2050, interest payments alone would soak up 80 percent of annual federal revenues, according to the Center analysis.



Source: CBPP projections based on CBO data and CBPP assumptions about the impact of the recession on the federal budget.

"The problem we face is so large that both taxes and programs will have to be on the table when serious conversations about long-term deficit reduction begin," said Robert Greenstein, the Center's executive director.

Closing the long-term budget gap would require the equivalent of an immediate and permanent 24 percent increase in revenues or an immediate and permanent 20 percent reduction in all government programs, from Social Security and veterans' health care to defense, law enforcement, and aid to the poor.

Comprehensive Health Reform Needed

As noted, the key factors driving long-term deficits and debt are rising health care costs, the aging of the population, and an eroding federal revenue base. The first two will cause the "big three" domestic programs — Medicare, Social Security, and Medicaid — to grow significantly faster than the economy or federal revenues in coming decades.

Addressing the nation's fiscal problems will require fundamental reforms to slow cost growth throughout the nation's health care system, both public and private, for two reasons, the Center reports. First, rising costs in the overall health care system are largely driving the projected increase in Medicare and Medicaid costs. Second, rapid increases in private health care spending reduce federal tax revenues, since compensation provided in the form of health benefits is generally exempt from taxation.

Decision on Future of Tax Cuts Will Have a Major Impact

If current tax policies — such as the 2001 and 2003 tax cuts — are continued and health care cost growth is not tamed, revenues will decline as a share of GDP in coming decades, falling well below their levels of recent decades, the analysis finds.

Policymakers could shrink the fiscal problem through 2050 almost in half by allowing the tax cuts to expire as scheduled in 2010 or offsetting the cost of any of the tax cuts they choose to extend. The savings would start almost immediately (in 2011) and reduce projected interest payments on the debt by a larger amount each year. By itself, however, this wouldn't place the nation on a sustainable long-term fiscal path, and Congress almost certainly will not adopt such a course, the Center said.

Recession-Related Costs Not a Significant Cause of Long-Term Problem

The current recession, the financial bailouts, and the economic recovery package Congress is expected to pass early next year will add significantly to short-term deficits. They will, however, have only a small budgetary impact on the long-term deficit problem, because they are temporary. *Temporary* costs — even if very large in the short run — add much less to the long-term fiscal gap than *permanent* costs (such as extending the tax cuts) because their total costs are small relative to the total size of the economy over the long-run. The above-mentioned costs related to this recession account for just 4 percent of the Center's projected long-term budget gap.

"Right now, policymakers are correctly focusing on stabilizing the financial markets and the economy, even though these steps will increase deficits in the short term," said James Horney, the Center's director of federal fiscal policy. "But as soon as the economy recovers, we're going to have to make significant sacrifices on both the tax and spending sides of the budget to get long-term deficits under control."

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The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.