How Will the Federal Budget Change over the Decade if Congress Does Nothing?

Estimates from Fiscal Policies in Place at the Start of 2019

C. Eugene Steuerle and Caleb Quakenbush

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When Congress and the President shape the federal budget, debates typically focus on aggregate spending and revenue levels—as summarized in tables by budget analysts—and more specifically on comparisons from one fiscal year to the next. In Steuerle and Quakenbush (2016), we argue that fiscal policy could benefit from a wider reframe that examines long-term, inflation-adjusted *changes* in spending and taxes. In this brief, we present these numbers using the Congressional Budget Office's January budget and economic baseline to help the public evaluate budget changes already built into the law if it stays on its current path.

Adjusting budget numbers for inflation and calculating real changes from current levels might sound like a technical exercise better relegated to an appendix for academics. But examining and presenting real changes reveals important realities about how public resources are shifting over time in ways that nominal-dollar calculations cannot. After all, as inflation compounds over time, it appears to show growth that is not real. For example, if nominal spending for a program increases by 20 percent by 2029 compared with 2018, but inflation has averaged 2 percent over those 11 years, then the program ends up with less purchasing power than it did at the start of that period.

Analyzing real budget trends under current law also allows us to identify which federal spending programs grow automatically at rates so fast they consume an increasing share of revenues each year—without any action from lawmakers. Those fast-growing programs then leave a smaller share of resources for policymakers to allocate to new needs or opportunities or problems voters have elected them to address. By more clearly showing how the budget is changing, lawmakers and the public can be better equipped to reform programs and better align spending with current needs.

Total Real Spending Increases by $1.5 Trillion

By 2029, fiscal policies in place by the end of 2018 would increase real spending by roughly $1.5 trillion relative to its level in 2018. Adding that amount to current levels, total real spending will increase to $5.6 trillion, or 23.6 percent of GDP (up from 20.4 percent of GDP in 2018).

The biggest increases in spending are in health ($559 billion), Social Security ($402 billion), and net interest payments to government bondholders ($417 billion). Other mandatory programs, which include programs for food assistance, veterans, agricultural subsidies, and federal employee retirement, round out spending increases ($84 billion).

The automatic growth of Social Security and health spending result from more than just growth in numbers of elderly or eligible participants. Other drivers of growth in these categories include an automatic increase in real annual benefits for each generation of retirees; new medical drugs and treatments, which are often automatically covered by public health insurance programs; and only limited constraints on the prices that health care providers charge Medicare and Medicaid (Steuerle 2014).

Meanwhile, interest costs grow because of ever-rising deficits and projections of higher interest rates in the future.

Discretionary spending, the portion of spending Congress allocates each year to pay for the military, training and education, research and development, public safety, and government administration across most federal departments is projected to decline in real terms and quite significantly as a share of GDP. The defense budget is projected to be roughly flat—about $6 billion less than 2018 levels—while the rest of the discretionary budget declines $35 billion. Overall discretionary spending as a share of GDP will decline to historically low levels, to about 2.5 percent each for defense and nondefense activities.

In an economy with real growth, wages generally grow faster than inflation. As a result, when a category of the budget generally grows slower than the economy or wage levels, that almost inevitably means a decline in services provided to the public. Thus, the roughly zero growth in real discretionary spending as real wages rise implies a significant decline in some combination of military personnel, workers who enforce and administer laws on taxes, housing, transportation, air traffic control, emergency management, consumer protection, and many other functions of government, as well as government contractors who build highways, respond to environmental damage, and perform government-financed research.

On the flip side, the substantial growth in health spending will likely support significant growth in health care workers: doctors, nurses, health insurance agents, and administrators.

Total Real Revenues Increase $1.2 Trillion, with Deficits Covering the Rest

How will lawmakers pay for the total increase in spending?

About $1.2 trillion, or about 80 percent, of payments will come from tax increases.

Relative to 2018 levels, taxes increase along with economic growth. However, under current law, revenues also increase because some individual tax cuts enacted in 2017 will expire. Also, individual wages increase a bit faster than do individual income tax bracket adjustments, creating what is called "bracket creep." In total, about three-fifths of the $1.2 trillion revenue increase comes from individual income tax increases.

Most of the remaining revenue increases come from payroll taxes dedicated to social insurance programs like Social Security. These grow at a rate closer to the real economic growth rate.

Corporate income taxes comprise a much smaller share of revenues than historically because most of TCJA's corporate tax cuts are permanent. Some corporate tax cuts enacted in 2017, however, were concentrated in the early years after TCJA became law, leading to a higher growth rate relative to the low base in 2018 than would be expected from economic growth alone.

Deficits Increase by $316 Billion

Because spending is projected to increase faster than revenue over the decade, borrowing must increase to make up the difference.

Deficits would rise by $316 billion to about $1.1 trillion. Without significant budget reform, even this projection is optimistic. History shows that Congress will face very strong pressure to provide some relief to the squeezed discretionary programs. It is highly likely that Congress would extend many of the individual tax cuts enacted in 2017 rather than allow them to expire.

Why This Path Threatens Today's Growth—Not Only in the Future

The purpose of this exercise is to emphasize that our current budget path likely reflects no one's idea—neither the public's nor their elected representatives'—of the priorities they would set today. Most of the automatic growth in the budget was enacted years and decades before current needs and opportunities could be known. To reorient that path and set new priorities requires telling the public that some promises for higher benefits and low taxes cannot be met. Moreover, to change that path requires formal support from both houses of Congress and the President.

As a consequence of those past commitments, all new spending is scheduled to go to only three program areas: Social Security, major health programs, and interest payments on the national debt. Almost any other potential spending priority—children, programs that promote opportunity such as education and support for workers, infrastructure, and even basic administration—is scheduled to decline in relative and absolute importance, as it does not share in the growing resources that government will gather and spend.

Even if Congress acts to avert some of that decline, particularly in discretionary programs, by increasing deficits, such action comes at the cost of higher interest payments in future years. This further squeezes all areas of spending other than payments to bondholders. Politically, it also asks future taxpayers to receive ever less in goods and services for the taxes they pay.

Thus, this unsustainable budget creates problems today, not only in the future. There is a substantial squeeze on almost all areas of the budget other than health, Social Security, and interest, despite a long period of economic expansion. These costs don't await some future financial collapse. Indeed, almost all programs oriented toward growth—investments in work, saving, education, skills, and capital—will continue to suffer as long as we operate under the type of budget path set out in current law.

TABLE 1

Changes in Real Spending and Financing Scheduled under Current Law

Billions of 2018 dollars, except where noted

	2018 level	2029 level	Total change	Share of change	Growth rate
Spending					
Social Security	982	1,484	502	33.0%	3.8%
Major health	*1,061*	*1,620*	*559*	*36.8%*	*3.9%*
Medicare	605	984	379	24.9%	4.5%
Medicaid	389	561	172	11.3%	3.4%
CHIP	17	15	(2)	-0.1%	-1.1%
ACA—exchanges subsidies	49	60	11	0.7%	1.8%
Other mandatory	476	560	84	5.5%	1.5%
Defense discretionary	622	616	(6)	-0.4%	-0.1%
Nondefense discretionary	642	607	(35)	-2.3%	-0.5%
Net interest	325	742	417	27.4%	7.8%
Total spending	**4,108**	**5,629**	**1,522**	**100.0%**	**2.9%**
Financing					
Individual income taxes	1,684	2,389	706	46.4%	3.2%
Payroll taxes	1,171	1,463	292	19.2%	2.0%
Corporate income taxes	205	342	137	9.0%	4.8%
All other revenues	270	340	71	4.6%	2.1%
Total revenues	*3,329*	*4,534*	*1,206*	*79.2%*	*2.8%*
Borrowing (deficits)	*779*	*1,095*	*316*	*20.8%*	*3.1%*
Total financing	**4,108**	**5,629**	**1,522**	**100.0%**	**2.9%**

Source: Authors' calculations from CBO 2019.

Notes: ACA = Affordable Care Act; CHIP = Children's Health Insurance Program. Numbers may not sum to totals because of rounding.

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About the Authors

Eugene Steuerle is an Institute fellow and the Richard B. Fisher chair at the Urban Institute and a cofounder of the Urban-Brookings Tax Policy Center. Among past positions, he was deputy assistant secretary of the US Department of the Treasury for Tax Analysis (1987–89), president of the National Tax Association (2001–02), codirector of the Urban-Brookings Tax Policy Center, chair of the 1999 Technical Panel advising Social Security on its methods and assumptions, and chair of the 2015–16 National Academy of Sciences Committee on Advancing the Power of Economic Evidence to Inform Investments in Children, Youth, and Families. Between 1984 and 1986, he was the economic coordinator and original organizer of the Treasury's tax reform effort. Steuerle is the author, coauthor, or coeditor of 18 books, including *Dead Men Ruling*, *Nonprofits and Government* (3rd edition) and *Contemporary US Tax Policy* (2nd edition). He blogs regularly at TaxVox and Government We Deserve.

Caleb Quakenbush is a research associate at the Urban Institute, where he works with the Opportunity and Ownership initiative, the Program on Retirement Policy, and the Urban-Brookings Tax Policy Center. His areas of research include the interaction of federal tax and transfer programs, Social Security, state and local pensions, low-income finance, mobility, and federal budget issues. Before joining Urban, Quakenbush was a supplemental instructor for microeconomics at American University while completing a BS in economics. He holds an MS in applied economics from Johns Hopkins University.

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500 L'Enfant Plaza SW
Washington, DC 20024

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