Congressional Budget Office

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The Long-Term Budgetary Impact of Paths for Federal Revenues and Spending Specified by Chairman Ryan

At the request of the Chairman of the House Budget Committee, Congressman Paul Ryan, the Congressional Budget Office (CBO) has calculated the long-term budgetary impact of paths for federal revenues and spending specified by the Chairman and his staff. The calculations presented here represent CBO's assessment of how the specified paths would alter the trajectories of federal debt, revenues, spending, and economic output relative to the trajectories under two scenarios that CBO has analyzed previously. Those calculations do not represent a cost estimate for legislation or an analysis of the effects of any given policies. In particular, CBO has not considered whether the specified paths are consistent with the policy proposals or budget figures released today by Chairman Ryan as part of his proposed budget resolution.

The amounts of revenues and spending to be used in these calculations for 2012 through 2022 were provided by Chairman Ryan and his staff. The amounts for 2023 through 2050 were calculated by CBO on the basis of growth rates, percentages of gross domestic product (GDP), or other formulas specified by Chairman Ryan and his staff. For all years, the Chairman specified that there would be no spending for subsidies to purchase health insurance through new exchanges established under the Affordable Care Act. CBO calculates that, under the specified paths, federal revenues and spending would evolve as follows:

- Revenues—from 15½ percent of GDP in 2011 to 19 percent in both 2030 and 2050;
- Medicare—from 3¼ percent of GDP in 2011 to 4¼ percent in 2030 and 4¾ percent in 2050;
- Medicaid and the Children's Health Insurance Program (CHIP)—from 2 percent of GDP in 2011 to 1¼ percent in 2030 and 1 percent in 2050;
- Social Security—from 4¾ percent of GDP in 2011 to 6 percent in both 2030 and 2050; and
- Other mandatory spending and all discretionary spending—from 12½ percent of GDP in 2011 to 5¾ percent in 2030 and 3¾ percent in 2050.

Under those paths for revenues and spending, federal debt held by the public would be 53 percent of GDP at the end of fiscal year 2030 and 10 percent at the end of fiscal year 2050.

Those figures are compared in this report with updated long-term calculations for two budget scenarios examined in *CBO's 2011 Long-Term Budget Outlook*; both of those scenarios represent extensions of current laws or policies in different forms. Under those scenarios, federal spending in 2050 would be close to 7 percent of GDP for Medicare (including offsetting receipts, discussed below); more than 4 percent of GDP for Medicaid, CHIP, and subsidies to be provided through insurance exchanges; 6 percent of GDP for Social Security; and about 8 percent of GDP for other mandatory spending and all discretionary spending. Under one of those scenarios, revenues would rise to about 26 percent of GDP in 2050, and debt held by the public would decline to 40 percent of GDP in that year; under the other of those scenarios, in 2050, revenues would be 18½ percent of GDP, and debt held by the public more than 200 percent of GDP.

Higher debt tends to imply lower output and income in the long run than does lower debt, because increased government borrowing generally draws money away from, or "crowds out," private investment in productive capital. As a result, the debt that would occur under the paths specified by the Chairman and his staff would lead to higher national income over the long term than would occur with the higher amounts of debt under the other two scenarios.

The specified paths of revenues and spending would change the federal budget in various ways that differ significantly from historical trends and current policies. The consequences of those changes would depend on both the specific policies that were implemented to generate those paths of revenues and spending and the ways in which the nation's health care and health insurance systems and other parts of the economy evolved in response to those policies.

CBO's Approach

CBO's most recent long-term budget projections were issued in June 2011, in *CBO's 2011 Long-Term Budget Outlook*. Those projections included two scenarios—an extended baseline scenario, which adhered closely to current law, and an alternative fiscal scenario, which incorporated several changes to current law that were widely expected to occur or that would modify some provisions of law that might be difficult to sustain for a long period.

Since the release of *CBO's 2011 Long-Term Budget Outlook*, the agency has updated its budget projections spanning the next 10 years to incorporate changes in law and updates in the agency's economic forecast and technical estimating procedures. CBO's most recent projections for the next decade were presented in *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012), including both a baseline and an alternative fiscal scenario. For the long-term calculations discussed here, CBO has incorporated those 10-year projections and, for years beyond 2022, has used the interest rates and growth rates for spending and revenues for the two scenarios in last year's *Long-Term Budget Outlook*. The result is interim versions of CBO's long-term projections, encompassing both an extended baseline scenario and an extended alternative fiscal scenario. In June, the agency plans to release fully updated versions of both scenarios consistent with the recent 10-year projections, but also incorporating updates to the long-term economic outlook and to CBO's technical estimating procedures. The results discussed here stop in 2050 because uncertainty about the economy and the budgetary effects of given policies in the more distant future makes calculations beyond that point less meaningful.

The budget estimates that CBO presents here are based on benchmark economic projections. CBO's benchmark projections are not intended as a forecast of the path of the economy under any of the scenarios that CBO considers but, rather, are meant to serve as a stable economic foundation for comparing the direct budgetary effects of alternative policies.[1] For the first 10 years, they are CBO's most recent economic projections, which were presented in *The Budget and Economic Outlook: Fiscal Years 2012 to 2022* (January 2012). After 2022, they incorporate an assumption of a stable ratio of debt to GDP and a continuation of historical economic trends.

Specified Paths for Federal Revenues and Spending

For each of the fiscal years 2012 to 2022, Chairman Ryan and his staff specified amounts of total revenues and spending for major categories of the federal budget. For 2022, total revenues were set at $4,601 billion; net spending on Medicare, $855 billion; spending on Medicaid and CHIP, $332 billion; spending on Social Security, $1,340 billion (matching CBO's projected amount under current law); and spending on other mandatory programs together with defense and nondefense discretionary programs, $1,747 billion. For 2023 and later, Chairman Ryan and his staff specified rules by which revenues and spending would evolve:

- **Revenues**. Starting from 18¾ percent of GDP in 2023, revenues would rise by one-tenth of 1 percent of GDP per year until they reach 19 percent of GDP in 2025 and then stay at that level.

- **Net Medicare Spending**. For people enrolled in the program prior to 2023, net Medicare spending—including offsetting receipts, which are mostly payments of premiums—would grow at the same rate as under the extended baseline scenario. For people born in 1958 or later (that is, people who turn 65 in 2023 or later) or for those who otherwise become eligible for the program in 2023 or later, net Medicare spending is calculated as follows: Total spending for those beneficiaries in 2023 would be set to a total that works out to be $7,500 (in 2023 dollars) for each new 65-year-old beneficiary on a full-year-equivalent basis. Total spending would grow in subsequent years with nominal growth in per capita GDP plus 0.5 percentage points per year, and with an adjustment for the health status and number of beneficiaries who entered the program in 2023 or later. In addition, the eligibility age for

[1] For more discussion, see Congressional Budget Office, *CBO's 2011 Long-Term Budget Outlook* (June 2011), Chapter 2.

Medicare would increase by two months per year beginning in 2023 until reaching age 67 in 2034.[2]

- **Federal Medicaid and CHIP Spending**. Federal spending for Medicaid and CHIP would increase from the $332 billion specified for 2022 at an annual rate that equals the sum of the annual growth rates of the consumer price index for all urban consumers (CPI-U) and the total U.S. population. (For all years, the Chairman specified that there would be no spending for subsidies to purchase health insurance through new exchanges established by the Affordable Care Act.)[3]
- **Social Security Spending**. Social Security spending would grow at the same rate as in CBO's June 2011 extended baseline scenario.
- **All Other Federal Spending Apart from Interest Payments**. Other mandatory spending together with defense and nondefense discretionary spending would start at $1,739 billion in 2023 and then grow with the GDP price index.

Budgetary and Economic Outcomes

During the coming decades, the aging of the population and rising costs of health care will push spending for Social Security, Medicare, Medicaid, and other federal health care programs considerably higher as a percentage of GDP if current laws remain in place. If that growth in spending is coupled with revenues that are held close to the average share of GDP that they have represented for the past 40 years, the resulting deficits will increase federal debt to unsupportable levels. That would be the result under CBO's extended alternative fiscal scenario. To prevent that outcome, policymakers will have to substantially restrain the growth of spending for those programs, raise revenues above their historical share of GDP, or pursue some combination of those two approaches.

By 2030, and even more so in 2040 and 2050, total federal debt, deficits, and spending would all be lower under the paths specified by Chairman Ryan and his staff than under both CBO's extended baseline scenario and its extended alternative fiscal scenario (see Table 1). Lower debt would increase private investment and would lead to greater economic output and income in the long run under the specified paths than under CBO's two scenarios.

Debt and Deficits

At the end of fiscal year 2011, federal debt held by the public was 68 percent of GDP. The paths for revenues and spending specified by Chairman Ryan and his staff would lead to debt equal to 61 percent of GDP in 2023, 53 percent in 2030, and 10 percent in 2050. That debt would be a much smaller share of GDP than

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[2] CBO has not analyzed the policies that might be implemented to produce such a path for Medicare spending, including a premium-support approach to Medicare of the sort that Chairman Ryan and other Members of Congress have recently discussed.

[3] The Affordable Care Act comprises the Patient Protection and Affordable Care Act (P.L. 111-148) and the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152).

under CBO's two scenarios. Under the baseline scenario, debt would fall to 57 percent of GDP in 2030 and 40 percent in 2050, CBO projects. Under the alternative fiscal scenario, debt would rise to 128 percent of GDP in 2030 and to more than 200 percent in 2050.

Budget deficits under the specified paths would be around 1 percent of GDP in the 2020s and would decline further after 2030. The budget would reach a slight surplus in 2040 and would show growing surpluses in the following 10 years. Under CBO's baseline scenario, deficits would be 2 percent of GDP or less from 2023 to 2050, and the budget would be nearly in balance in 2050. In contrast, under the alternative fiscal scenario, deficits would rise steadily from 2023 to 2050, reaching an astronomical 21 percent of GDP in 2050.

Revenues and Spending
In the Chairman's specifications, revenues are fixed at 19 percent of GDP starting in 2025. That amount is well below revenues projected under the baseline scenario and just slightly above revenues assumed under the alternative fiscal scenario.

Under the specified paths, by 2030, 39 percent of Medicare beneficiaries would be subject to the spending constraints established for the program (that is, they will have entered the program in 2023 or later); that share would rise to 91 percent by 2050. Net federal spending on Medicare—including offsetting receipts, which are mostly payments of premiums—would be 4¼ percent of GDP in 2030 and 4¾ percent in 2050, CBO calculates (see Table 2).[4] In contrast, by 2050, net Medicare spending would grow to 6½ percent of GDP under the baseline scenario and to 7¼ percent of GDP under the alternative fiscal scenario.

Federal spending on Medicaid and CHIP under the specified paths would be 1¼ percent of GDP in 2030 and 1 percent of GDP in 2050—compared with more than 4 percent of GDP in 2050 for spending on those programs plus exchange subsidies in CBO's two scenarios. Spending on Social Security would be the same as under CBO's two scenarios. Other mandatory spending and defense and nondefense discretionary spending would decline sharply as a share of GDP—from 12½ percent of GDP in 2011 to 5¾ percent in 2030 and 3¾ percent in 2050—compared with about 8 percent of GDP in 2050 under CBO's two scenarios.

[4] In *CBO's 2011 Long-Term Budget Outlook* and the agency's *Long-Term Analysis of a Budget Proposal by Chairman Ryan* (April 5, 2011), Medicare spending was reported as a gross amount that excluded offsetting receipts such as payments of premiums. Those receipts were included in the category "Other Mandatory and Defense and Nondefense Discretionary Spending." In this report, to present a unified picture of the finances for Medicare, spending for the program is reported as a net amount that includes offsetting receipts.

Economic Output

Budgetary policies affect the economy in a variety of ways. This report focuses on the long-run effects of different paths of government debt.[5] All else being equal, scenarios with higher debt tend to imply lower output and income in the long run than do scenarios with lower debt, because increased government borrowing generally crowds out private investment in productive capital, leading to a smaller stock of capital than would otherwise be the case. (To encompass a range of estimates of those effects in the economic literature, CBO has developed two sets of estimates for each scenario, one with relatively weak economic effects of fiscal policies, and one with relatively strong economic effects.)[6] Moreover, that same crowding out leads to increases in interest rates, raising the government's interest payments and therefore further boosting government deficits and debt. A perpetually rising path of debt relative to GDP is unsustainable.

Under the specified paths, a declining ratio of debt to GDP would lead to less crowding out of investment, boosting gross national product (GNP) by up to 1 percent in 2030 and by 2 percent to 6 percent in 2050 compared with CBO's benchmark economic projections (see Table 3).[7] Under CBO's baseline scenario, a more gradual decline in debt would boost GNP by less than half a percent in 2030 and by 1 percent to 2 percent in 2050 relative to the agency's benchmark. Under the alternative fiscal scenario, by contrast, a rising ratio of debt to GDP would crowd out a substantial amount of investment, lowering GNP by 3 percent to 10 percent in 2030 and by 5 percent to 28 percent in 2040. By 2050, the ratio of debt to GDP under that scenario would rise well above historical levels, and the effect on GNP would be larger than in the previous two decades. Because the estimated effects of debt on the economy rely on historical observations, however, CBO cannot make meaningful estimates of the effects under those conditions.

Interpreting the Calculations

The preceding projections for debt, revenues, spending, and economic output are highly uncertain for many reasons. Future budgetary outcomes will depend in large part on future policies—as evidenced by the fact that CBO's two scenarios and the paths specified by Chairman Ryan and his staff, which use the same projections of future economic conditions but different assumptions about spending and tax policies, produce widely different paths for federal debt and

[5] Other economic effects of budgetary policies include the effects of marginal tax rates on incentives to work and save, the effect of government transfer programs on work and saving, and the effect of productive government investment on output over the long run. This report focuses on the effects of the amount of debt because the specified paths do not provide enough detail to allow for a more comprehensive analysis.

[6] On the basis of a continuing review of the relevant economic research, CBO has expanded the range of its estimates of the effects of debt on private investment. For the calculations in this report, an additional dollar of debt reduces investment by amounts ranging from 10 cents to 50 cents. Previous analyses using the same methodology used a range of 20 cents to 50 cents.

[7] GNP differs from GDP primarily by including the income that U.S. residents earn from their investments abroad and excluding the income that nonresidents earn from their investments in this country. In the context of this analysis of debt, GNP provides a more complete measure of the total income of U.S. residents.

other variables. Budgetary outcomes will depend on other factors as well, including changes in the economy, demographic trends, and international developments.[8] Even small differences on an annual basis can have significant effects when cumulated over several decades. Moreover, the macroeconomic impact of the specified paths or of the budgetary outcomes under CBO's two scenarios could lie outside the ranges of estimates reported here, depending on the specific policies chosen to achieve those budgetary paths or outcomes, the responses of households and businesses to those policies, and numerous other factors.

In interpreting the calculations presented above for debt, revenues, spending, and economic output, various considerations regarding each of those categories are important.

Debt

Under CBO's extended baseline scenario, debt held by the public would be a larger share of GDP during the next 30 years than it has been in most of the country's history, but that share would be declining very gradually from close to its current level. In contrast, the extended alternative fiscal scenario would be impossible to sustain indefinitely, as the government's debt would skyrocket to levels unprecedented in the United States. Under the specified paths, debt held by the public would decline relative to GDP more rapidly than under the baseline scenario and would reach a level by 2050 that is low by historical standards (see Figure 1).

Revenues

Under the baseline scenario, revenues would reach higher levels relative to the size of the economy than ever recorded in the nation's history, as rising incomes raise average tax rates. Under the alternative fiscal scenario, revenues would remain at their average share of GDP during the past 40 years. Under the specified path, revenues would be only slightly higher than their historical average share.

Medicare

The baseline scenario incorporates policies restraining Medicare spending that are embedded in current law. Such policies include the sustainable growth rate mechanism, which determines the payment rates for physicians; payments to other providers in the fee-for-service portion of Medicare that would grow more slowly over roughly the next two decades than the cost of their inputs; and the Independent Payment Advisory Board (established by the Affordable Care Act), which is required to make changes to the Medicare program to reduce spending if the growth in such spending is projected to exceed certain targets. The restraints on Medicare spending could lead to reduced access to health care; diminished quality of care for Medicare beneficiaries; greater efficiency of health care delivery; less investment in new, high-cost technologies; or some combination of

[8] For further discussion, see Congressional Budget Office, *CBO's 2011 Long-Term Budget Outlook*, pp. 16–20.

those outcomes. CBO does not have the capability at this time to estimate effects of that sort.

The alternative fiscal scenario incorporates less restraint on Medicare spending. Specifically, payments for physicians would not be reduced as they would be under the sustainable growth rate mechanism, and payments to other providers would grow more rapidly than under the baseline scenario after roughly the next decade. The remaining restraints on Medicare spending could also have the potential consequences noted for the baseline scenario, but presumably to a much lesser extent because the restraints would be much less tight. Again, CBO does not have the capability to estimate such effects.

Under the specified path, average real (inflation-adjusted) spending for new enrollees in Medicare would rise in coming decades but at a much slower rate than would occur under the other policy scenarios that CBO has analyzed (see Figure 2). Average net Medicare spending for 65-year-olds in 2011 was $5,500. Under the baseline scenario, average spending per 66-year-old in 2030 would be $8,600 in 2011 dollars (56 percent more); under the alternative fiscal scenario, that spending would rise to $9,600 in 2011 dollars (75 percent more); and under the specified path, it would be $7,400 in 2011 dollars (35 percent more).[9] In 2050, the corresponding spending for a 67-year-old would be, in 2011 dollars, $17,000 under the baseline scenario, $19,100 under the alternative fiscal scenario, and $11,100 under the specified path.[10] By 2050, spending for new enrollees under the specified path would be 35 percent below that for the baseline scenario and 42 percent below that for the alternative fiscal scenario.

The implications of that substantial cut in spending relative to the other policy scenarios are unclear, because they would depend on *both* the specific policies that were implemented to generate that spending amount *and* the ways in which the nation's health care and health insurance systems reacted to those policies. Possible consequences include the same kinds of effects noted for the baseline and alternative fiscal scenarios—reduced access to health care; diminished quality of care; increased efficiency of health care delivery; less investment in new, high-cost technologies; or some combination of those outcomes. In addition, beneficiaries might face higher costs, which could in turn reinforce some of the other effects. At least some of those effects would of necessity be a great deal stronger than under the baseline scenario or alternative fiscal scenario because spending would be so much lower. However, as with the other scenarios, CBO does not have the capability at this time to estimate such effects for the specified path of Medicare spending.

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[9] In 2023, the corresponding spending for a 65-year-old would be, in 2011 dollars, $6,300 under the baseline scenario, $6,600 under the alternative fiscal scenario, and $5,900 ($7,500 in 2023 dollars) under the specified path.

[10] In 2040, the corresponding spending for a 67-year-old would be, in 2011 dollars, $12,800 under the baseline scenario, $14,300 under the alternative fiscal scenario, and $9,500 under the specified path.

Medicaid, CHIP, and Exchange Subsidies

Under both the baseline scenario and the alternative fiscal scenario, spending on Medicaid, CHIP, and exchange subsidies would rise over time relative to GDP owing to the rising costs of health care, the expansion of health insurance coverage and provision of subsidies through health insurance exchanges established under the Affordable Care Act, and the aging of the population.

The specified path would cause federal spending on Medicaid and CHIP to decline relative to GDP in coming decades, rather than to rise sharply as in the other policy scenarios that CBO has analyzed, and would include no exchange subsidies (see Figure 3). As a result, by 2050, such spending would be 76 percent below what would occur for Medicaid, CHIP, and exchange subsidies under the baseline scenario and 78 percent below what would occur under the alternative fiscal scenario. Because spending on CHIP and exchange subsidies represents a relatively small share of the amounts in the baseline and alternative fiscal scenarios, most of the reduction would have to come from the Medicaid program.

At this time, CBO cannot estimate the effects that the specified path for federal outlays for Medicaid and CHIP would have on access to health care or the quality of care for beneficiaries of those programs, nor can CBO assess the effects of that path on the budgets of state governments (which share in the costs of Medicaid and CHIP). The implications of that substantial cut in spending relative to the other policy scenarios would depend on both the specific policies that were implemented to generate the specified spending amount and the ways in which the nation's health care and health insurance systems, as well as state governments, reacted to those policies.

The responses of the states would be of particular importance. If states were given additional flexibility to allocate federal funds for Medicaid and CHIP according to their own priorities, they might be able to improve the efficiency of those programs in delivering health care to low-income populations. Nevertheless, even with significant efficiency gains, the magnitude of the reduction in spending relative to such spending in the other scenarios means that states would need to increase their spending on these programs, make considerable cutbacks in them, or both. Cutbacks might involve reduced eligibility for Medicaid and CHIP, coverage of fewer services, lower payments to providers, or increased cost-sharing by beneficiaries—all of which would reduce access to care.

Because the specified paths for health spending do not include spending for exchange subsidies, the number of people without health insurance would be much higher than under CBO's other scenarios.

Other Mandatory Spending and Discretionary Spending

Under the baseline scenario, spending on all federal programs other than Social Security and the major health care programs reflects the discretionary spending caps and automatic enforcement procedures that are set to take effect in January 2013 and to continue through 2021.[11] Under the alternative fiscal scenario, in

[11] See Congressional Budget Office, *The Budget and Economic Outlook, Fiscal Years 2012 to 2022* (January 2012), pp. 12–13.

contrast, the spending reductions from the automatic enforcement procedures set to take effect in 2013 are assumed not to occur. Starting in 2023, other mandatory and all discretionary spending under both scenarios generally increases with GDP.

The specified path for spending on all federal programs other than Social Security and the major health care programs would cause such spending to grow much more slowly than in CBO's two scenarios—and to decline sharply as a share of GDP, from 12½ percent in 2011 to 5¾ percent in 2030 and 3¾ percent in 2050. By comparison, spending in this category has exceeded 8 percent of GDP in every year since World War II. Spending for defense alone has not been lower than 3 percent of GDP in any year during that period.

The consequences of such large reductions in spending relative to the size of the economy would depend on the specific policy choices made to achieve the specified amounts of spending. Different policy choices would have different effects on different groups of people, segments of the economy, and activities of the federal government.

Economic Output

Those budgetary paths would induce changes in the economy that would in turn have further effects on the federal budget. Those further effects are not included in the budgetary calculations presented in this report, which are based on CBO's economic benchmark.

Under the baseline scenario and the specified paths, increases in output relative to the economic benchmark would increase taxable income, which would increase the amount of revenues collected. In addition, lower debt would reduce interest rates, which would lower the government's borrowing costs. Both of those effects would reduce government debt, but that reduction would be small in comparison with the reduction in debt shown earlier.[12] In contrast, under the alternative fiscal scenario, economic output and taxable income would decrease and interest rates would increase relative to the economic benchmark, thereby increasing government debt. The effects on economic output would be much larger under that scenario than under the baseline scenario or the specified paths, so the impact of those economic effects on the budget would also be much larger.

[12] For related analysis, see Congressional Budget Office, *The Macroeconomic and Budgetary Effects of an Illustrative Policy for Reducing the Federal Budget Deficit* (July 2011).

Joyce Manchester and Julie Topoleski of CBO's Health and Human Resources Division prepared this report under the supervision of Linda Bilheimer. Tom Bradley, Wendy Edelberg, Holly Harvey, Jean Hearne, Jonathan Huntley, Kirstin Nelson, Benjamin Page, and Michael Simpson contributed significantly to the report. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations. It and other CBO publications are available on the agency's Web site (www.cbo.gov).

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Table 1.

Federal Deficits (or Surpluses) and Debt

(Percentage of gross domestic product)

	Actual, 2011	Projected 2023	2030	2040	2050
			Paths Specified by Chairman Ryan and His Staff[a]		
Total Revenues	15½	18¾	19	19	19
Total Spending	24	20¼	20¼	18¾	16
Deficit (-) or Surplus	-8¾	-1¼	-1¼	¼	3
Debt Held by the Public	68	61	53	38	10
			Extended Baseline Scenario (Interim)[b]		
Total Revenues	15½	21¼	22½	24½	26¼
Total Spending	24	23	24½	26	26½
Deficit (-) or Surplus	-8¾	-1¾	-2	-1½	-¼
Debt Held by the Public	68	61	57	53	40
			Extended Alternative Fiscal Scenario (Interim)[b]		
Total Revenues	15½	18½	18½	18½	18½
Total Spending	24	25¼	29	34	39¼
Deficit (-) or Surplus	-8¾	-6¾	-10½	-15½	-21
Debt Held by the Public	68	96	128	194	>200

Source: Congressional Budget Office.

a. Amounts of revenues and spending for 2012 through 2022 were provided by Chairman Ryan and his staff. The specified paths of revenues and spending thereafter would set federal spending for major health care programs according to specified formulas, leave Social Security spending as it would be under current law, and set all other spending (excluding interest) and revenues on the basis of specified growth rates or specified percentages of GDP. For all years, the Chairman specified that there would be no spending for subsidies to purchase health insurance through new exchanges established by the Affordable Care Act.

b. The extended baseline scenario and extended alternative fiscal scenario reflect projections through 2022 from *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012) extrapolated into future years using rates of interest and growth rates for revenues and spending from *CBO's 2011 Long-Term Budget Outlook* (June 2011).

Table 2.

Federal Spending Excluding Interest

(Percentage of gross domestic product)

	Actual, 2011	Projected 2023	2030	2040	2050
		Paths Specified by Chairman Ryan and His Staff[a]			
Major Mandatory Health Care Programs[b]	5	5	5½	6	5¾
Medicare[b]	3¼	3½	4¼	4¾	4¾
Medicaid and CHIP	2	1¼	1¼	1	1
Social Security	4¾	5½	6	6	6
Other Mandatory and Defense and Nondefense Discretionary Spending[b]	12½	6¾	5¾	4¾	3¾
Total Spending Excluding Interest	**22½**	**17¼**	**17½**	**16¾**	**15½**
		Extended Baseline Scenario (Interim)[c]			
Major Mandatory Health Care Programs[b]	5	6¾	7¾	9½	10¾
Medicare[b]	3¼	3¾	4½	5½	6½
Medicaid, CHIP, and Exchange Subsidies	2	3	3¼	4	4¼
Social Security	4¾	5½	6	6	6
Other Mandatory and Defense and Nondefense Discretionary Spending[b]	12½	8	8	7¾	7¾
Total Spending Excluding Interest	**22½**	**20¼**	**21¾**	**23¼**	**24½**
		Extended Alternative Fiscal Scenario (Interim)[c]			
Major Mandatory Health Care Programs[b]	5	7	8¼	10¼	11¾
Medicare[b]	3¼	4	5	6¼	7¼
Medicaid, CHIP, and Exchange Subsidies	2	3	3½	4	4½
Social Security	4¾	5½	6	6	6
Other Mandatory and Defense and Nondefense Discretionary Spending[b]	12½	8½	8½	8¼	8¼
Total Spending Excluding Interest	**22½**	**21**	**22¾**	**24¾**	**26**

Source: Congressional Budget Office.

Note: CHIP = Children's Health Insurance Program.

a. Amounts of revenues and spending for 2012 through 2022 were provided by Chairman Ryan and his staff. The specified paths of revenues and spending thereafter would set federal spending for major health care programs according to specified formulas, leave Social Security spending as it would be under current law, and set all other spending (excluding interest) and revenues on the basis of specified growth rates or specified percentages of GDP. For all years, the Chairman specified that there would be no spending for subsidies to purchase health insurance through new exchanges established by the Affordable Care Act.

b. In *CBO's Long-Term Budget Outlook* (June 2011), Medicare offsetting receipts were included in the category of other mandatory and defense and nondefense spending. In this table, those receipts are included as offsets to gross spending in the Medicare category rather than in the "other" category.

c. The extended baseline scenario and extended alternative fiscal scenario reflect projections through 2022 from *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012) extrapolated into future years using rates of interest and growth rates for revenues and spending from *CBO's 2011 Long-Term Budget Outlook* (June 2011).

Table 3.

Impact on Real Gross National Product of Various Budgetary Scenarios Relative to CBO's Long-Term Economic Benchmark

(Percent)

	Projected			
	2023	2030	2040	2050
	Paths Specified by Chairman Ryan and His Staff[a]			
Impact on GNP with Weaker Economic Effects of the Fiscal Policies	*	*	1	2
Impact on GNP with Stronger Economic Effects of the Fiscal Policies	*	1	3	6
	Extended Baseline Scenario (Interim)[b]			
Impact on GNP with Weaker Economic Effects of the Fiscal Policies	0	*	*	1
Impact on GNP with Stronger Economic Effects of the Fiscal Policies	0	*	1	2
	Extended Alternative Fiscal Scenario (Interim)[b]			
Impact on GNP with Weaker Economic Effects of the Fiscal Policies	-1	-3	-5	n.a.
Impact on GNP with Stronger Economic Effects of the Fiscal Policies	-5	-10	-28	n.a.

Source: Congressional Budget Office.

Notes: Gross national product, or GNP, differs from gross domestic product (the more common measure of the output of the economy) primarily by including the income that U.S. residents earn from their investments abroad and excluding the income that nonresidents earn from their investments in this country. The range of estimates shown stems from varying assumptions about how much deficits "crowd out" investment in capital goods such as factories and computers (because a larger portion of people's saving is being used to purchase government securities).

For the first 10 years, the benchmark economic projections are CBO's most recent near-term economic projections, which were presented in *The Budget and Economic Outlook: Fiscal Years 2012 to 2022* (January 2012). After 2022, the benchmark projections incorporate an assumption of a stable ratio of debt to GDP and a continuation of historical economic trends.

* = between 0 and 0.5 percent.

n.a. = not applicable. The projected ratio of debt to GDP is well above historical levels. Because the estimated effects of debt on the economy rely on historical observations, CBO cannot make meaningful estimates of the effects under those conditions.

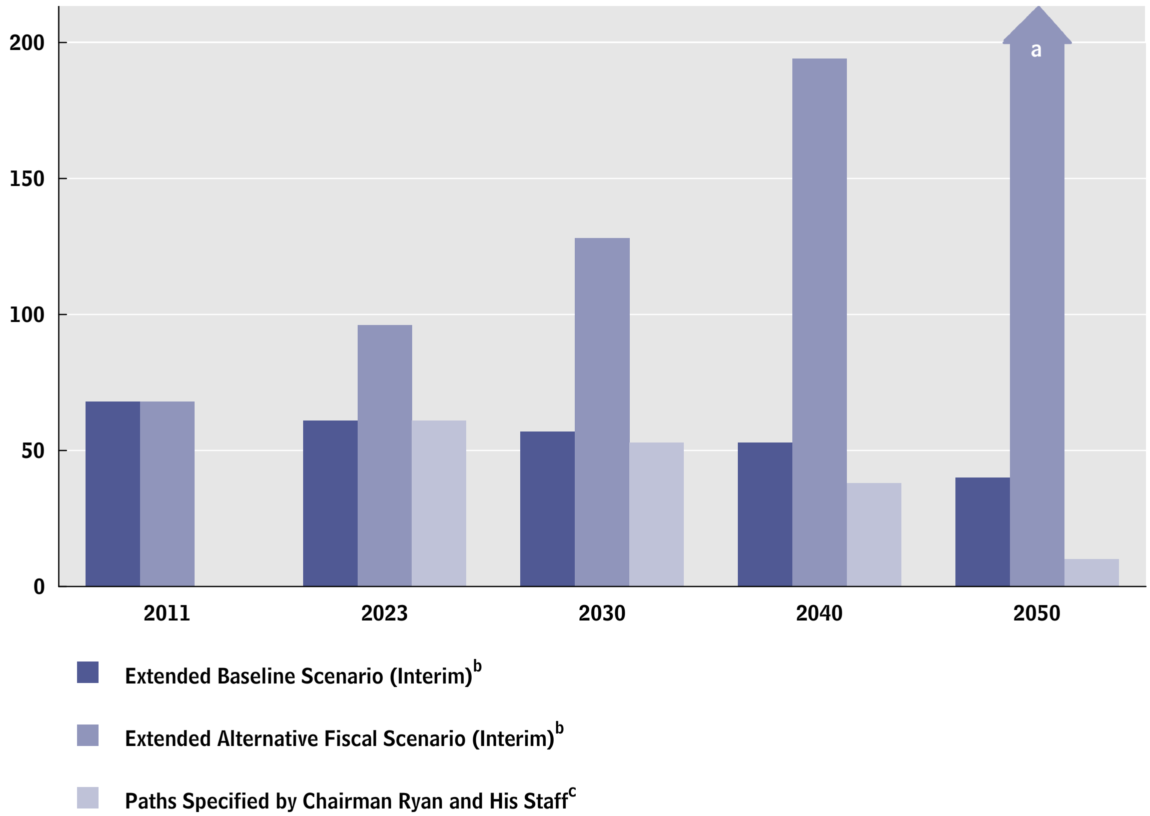
a. Amounts of revenues and spending for 2012 through 2022 were provided by Chairman Ryan and his staff. The specified paths of revenues and spending thereafter would set federal spending for major health care programs according to specified formulas, leave Social Security spending as it would be under current law, and set all other spending (excluding interest) and revenues on the basis of specified growth rates or specified percentages of GDP. For all years, the Chairman specified that there would be no spending for subsidies to purchase health insurance through new exchanges established by the Affordable Care Act.

b. The extended baseline scenario and extended alternative fiscal scenario reflect projections through 2022 from *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012) extrapolated into future years using rates of interest and growth rates for revenues and spending from *CBO's 2011 Long-Term Budget Outlook* (June 2011).

Figure 1.

Debt Held by the Public

(Percentage of gross domestic product)



Source: Congressional Budget Office.

a. Debt would be greater than 200 percent of gross domestic product.

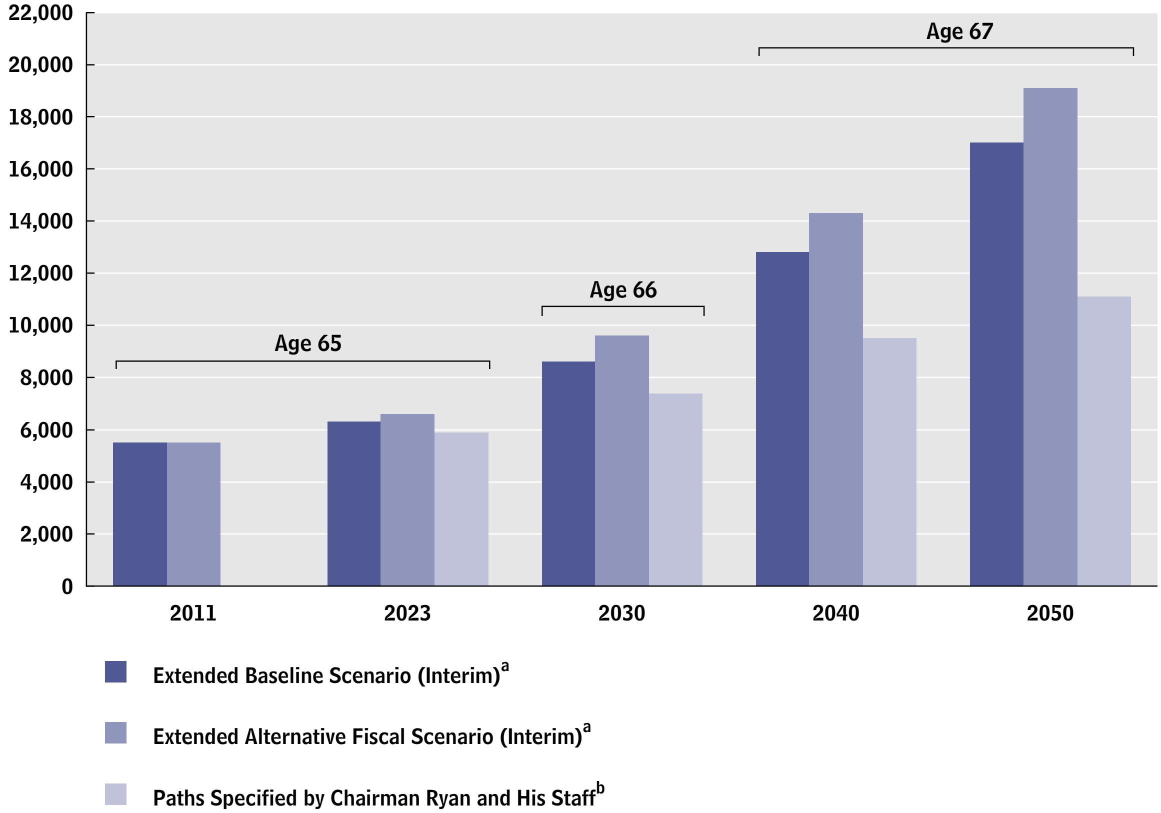
b. The extended baseline scenario and extended alternative fiscal scenario reflect projections through 2022 from *Updated Budget Projections: Fiscal Years 2012 to 2022* (March 2012) extrapolated into future years using rates of interest and growth rates for revenues and spending from *CBO's 2011 Long-Term Budget Outlook* (June 2011).

c. Amounts of revenues and spending for 2012 through 2022 were provided by Chairman Ryan and his staff. The specified paths of revenues and spending thereafter would set federal spending for major health care programs according to specified formulas, leave Social Security spending as it would be under current law, and set all other spending (excluding interest) and revenues on the basis of specified growth rates or specified percentages of GDP. For all years, the Chairman specified that there would be no spending for subsidies to purchase health insurance through new exchanges established by the Affordable Care Act.

Figure 2.

Average Inflation-Adjusted Medicare Spending for Beneficiaries of Certain Ages

(2011 dollars)



Source: Congressional Budget Office.

Note: The averages depicted are net of Medicare offsetting receipts. The value for the specified paths in 2023 is $5,900 in 2011 dollars and $7,500 in 2023 dollars.

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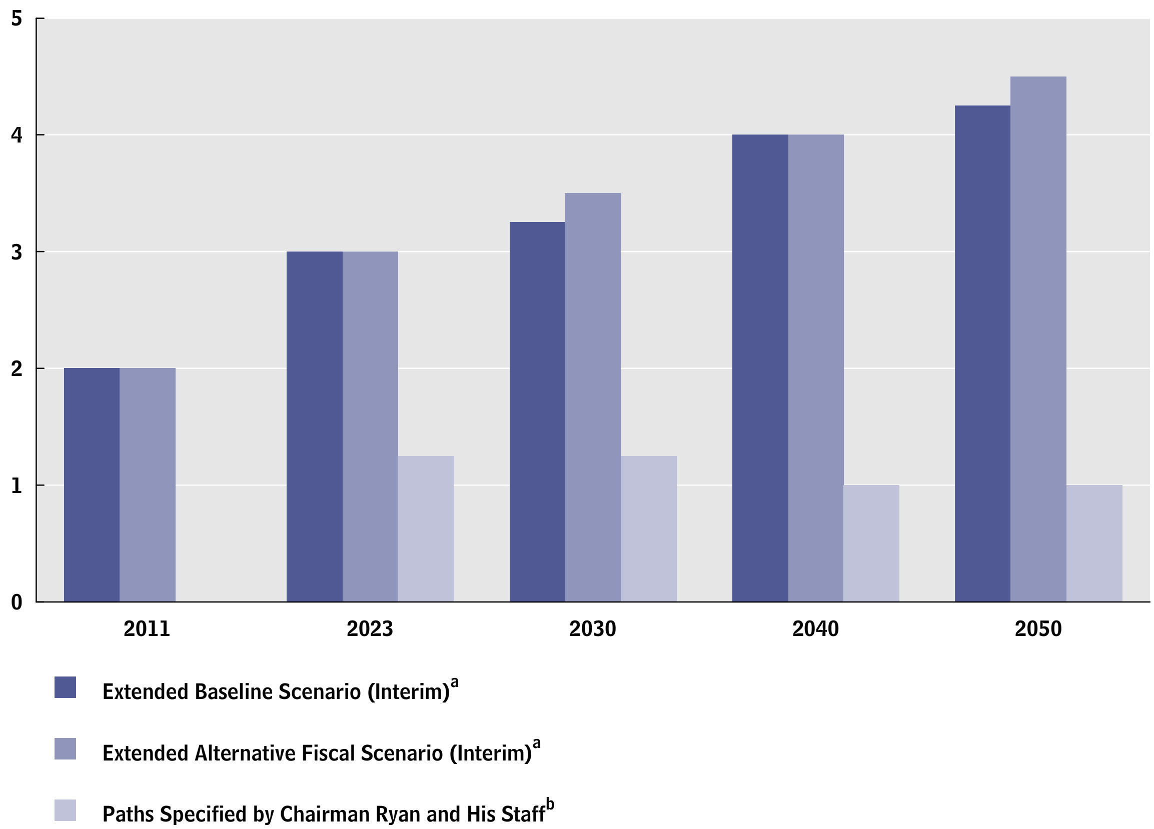
Figure 3.

Federal Spending for Medicaid, CHIP, and Exchange Subsidies

(Percentage of gross domestic product)



Source: Congressional Budget Office.

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