GAO FISCAL OUTLOOK & THE DEBT

# Fiscal Outlook: Federal Fiscal Outlook

GAO's federal budget simulations provide a broad context for considering policy options. An understanding of fiscal exposures—programs that may expose the government to future spending—can also inform these considerations.

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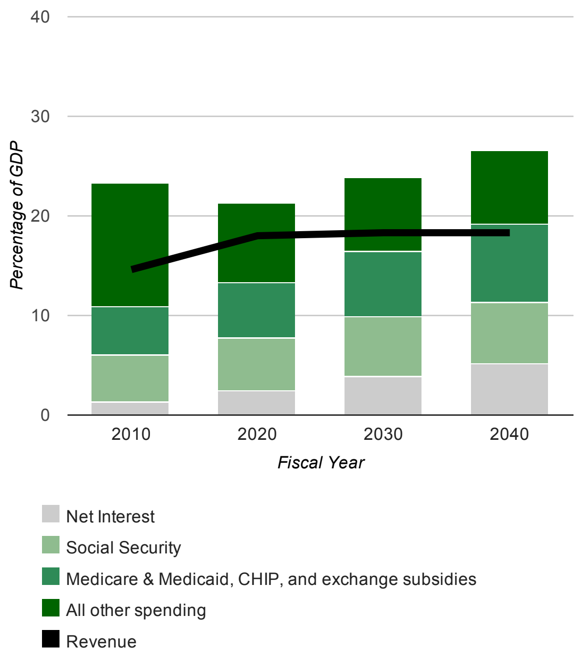
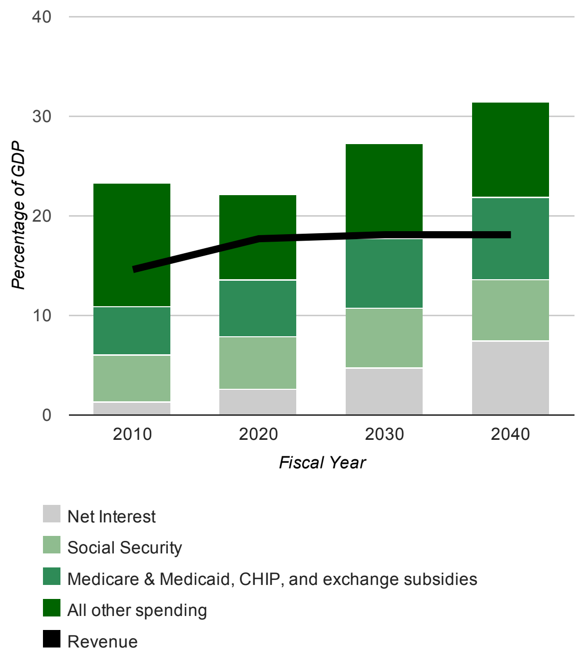
## Baseline Extended Simulation vs. Alternative Simulation

The Baseline Extended simulation generally assumes current laws continue into the future, including the discretionary spending limits and other spending reductions established by the Budget Control Act of 2011 (BCA) and revised by subsequent legislation. The Alternative simulation illustrates what happens if historical trends continue. The simulations also illustrate two potential paths for future health care cost growth. In the Baseline Extended simulation, the cost-containment mechanisms enacted in the Patient Protection and Affordable Care Act are assumed to be fully implemented and effective, slowing growth of health care spending over the long term. However, the Medicare Trustees, Congressional Budget Office (CBO), and the Centers for Medicare & Medicaid Services Office of the Actuary (CMS Actuary) have questioned whether certain cost-containment mechanisms can be sustained over the long term. This is reflected in the Alternative simulation in which policies that would restrain spending growth are phased out over time.

Both simulations show spending on interest, Social Security, and the major health programs absorbing increasing shares of revenue. When "all other spending"—or spending on such categories as national defense, homeland security, veterans' health care, mass transit, education, and basic research for future economic growth—is included, deficits reach more than 9 percent of GDP in 2030 in GAO's Alternative simulation.




Source: GAO.
Note: Data are from GAO's Spring 2015 simulation based on the Trustees' intermediate assumptions for Social Security and current law assumptions for Medicare.
Baseline Extended Simulation data: txt pdf



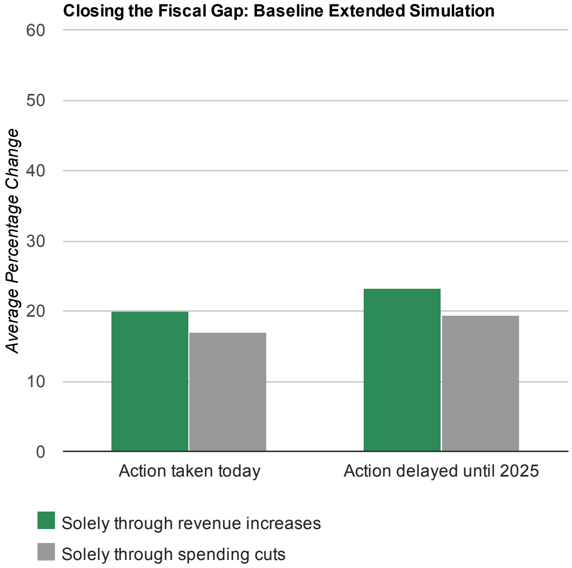

Source: GAO.
Note: Data are from GAO's Spring 2015 simulation based on the Trustees' intermediate assumptions for Social Security and the CMS Actuary's illustrative alternative assumptions for Medicare.
Alternative Simulation data: txt pdf

## Closing the Fiscal Gap

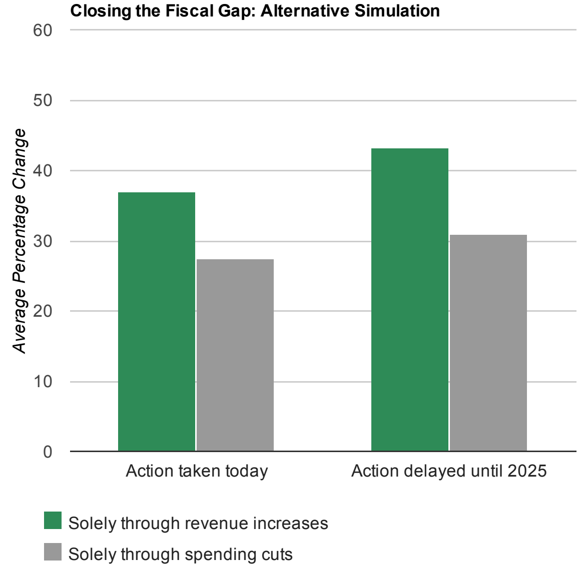
Significant action to change the long-term fiscal path must be taken soon to minimize the disruption to individuals and the economy. The entire range of federal activities and spending—entitlement programs, other mandatory spending, discretionary spending, and revenue—will need to be reexamined. As we move forward, the federal government will need to make tough choices in setting priorities and ensuring that spending leads to positive results.

The fiscal gap represents the difference, or gap, between revenue and noninterest spending over a certain period, such as 75 years, that would need to be closed in order to keep debt held by the public at the end of the period from exceeding today's level. The 75-year fiscal gap under GAO's Baseline Extended simulation is 3.6 percent of GDP. The 75-year fiscal gap in GAO's Alternative simulation is 6.7 percent of GDP. Closing the gap requires tax increases, spending reductions, or, more likely, a combination of the two. For example, to close the fiscal gap under GAO's Baseline Extended simulation, either revenue would have to be almost 20 percent higher, or noninterest spending would have to be about 17 percent lower (or some combination of the two) on average each year over the 75-year period to keep debt held by the public as a share of GDP in 2089 from exceeding the level at the beginning of 2015. To close the fiscal gap under GAO's Alternative simulation, either revenue would have to be 37 percent higher, or noninterest spending would have to be about 27 percent lower (or some combination of the two) on average each year over the same period. Even more significant changes would be needed to reduce debt to lower levels.

Further, delaying action increases the size of actions needed and the risk that the eventual changes will be disruptive and destabilizing to the economy and individuals. If no actions were taken for the next decade, revenue would have to be 43 percent higher, or noninterest spending would have to be about 31 percent lower (or some combination of the two) on average each year over the remaining 65-year period under the Alternative simulation to bring debt held by the public back to its 2015 level by 2089.




Source: GAO.
Note: Data are from GAO's Spring 2015 simulation based on the Trustees' intermediate assumptions for Social Security and current law assumptions for Medicare.
Baseline Extended Simulation data: txt pdf




Source:GAO.
Note: Data are from GAO's Spring 2015 simulation based on the Trustees' intermediate assumptions for Social Security and the CMS Actuary's illustrative alternative assumptions for Medicare.
Alternative Simulation data: txt pdf