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Updated Budget Projections Show Fiscal Toll of COVID-19 Pandemic
June 24, 2020

The United States is currently experiencing one of its sharpest economic crises in modern history as a result of the global COVID-19 pandemic and efforts to minimize contagion. Both the economic crisis itself and the federal government's aggressive response have massively expanded deficits. This borrowing is largely appropriate as deficit spending can help offset the negative economic effects of a recession and spread the costs of emergencies over time.

However, the United States *entered* the current crisis facing trillion-dollar deficits and an unsustainable debt trajectory during a period of strong economic growth. Now, the long-term fiscal outlook is even worse. The Congressional Budget Office (CBO) recently released an interim economic baseline through 2030 and fiscal projections through 2021.[i] Based on these estimates, we have produced our own medium- and long-term budget projections.

Our projections show that:

- Deficits will expand by $5.7 trillion over the 2020-2030 window as a result of the current crisis and response to date, to almost $20 trillion under current law.
- The budget deficit will total $3.7 trillion (17.9 percent of GDP) in 2020 and average $1.6 trillion (6.3 percent of GDP) per year from 2021 through 2030.
- As a share of the economy, debt will grow from 79 percent of GDP before the crisis to 101 percent by the end of 2020 and 118 percent of GDP by 2030.
- By 2050, debt will reach 220 percent of GDP and deficits will total 14.4 percent.
- All major trust funds will exhaust their reserves in just over a decade: The Highway Trust Fund in 2021, the Medicare Hospital Insurance trust fund in 2023, and the theoretically combined Social Security trust funds by 2031.
- Under a scenario in which various expiring provisions are continued and more economic relief is enacted, deficits would average $2 trillion per year (7.8 percent of GDP) between 2021 and 2030 and reach 18 percent of GDP by 2050; debt would grow to 131 percent of GDP by 2030 and 269 percent by 2050.

Though short-term borrowing is necessary to fight the current crisis, deficits are far from costless. As a result of the current crisis, debt will likely eclipse the size of the economy this year, a decade earlier than previously projected. When the economy does recover, this elevated level of debt, if not ultimately brought under control, threatens to slow income growth, increase interest payments, place upward pressure on interest rates, reduce the fiscal space available to respond to future needs or emergencies, place an undue burden on future generations, and heighten the risk of a fiscal crisis.

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Fig. 1: Summary Table of Pre- and Post-Crisis Current Law Budget Projections

	Dollars		Percent of GDP	
	Pre-Crisis	Post-Crisis	Pre-Crisis	Post-Crisis
Deficit Projections				
FY 2020	$1.1 trillion	$3.7 trillion	4.9%	17.9%
FY 2021	$1.0 trillion	$2.1 trillion	4.3%	9.9%
FY 2030	$1.7 trillion	$1.7 trillion	5.5%	5.6%
Total, FY 2020 to 2030	$14.2 trillion	$19.9 trillion	4.8%	7.5%
FY 2040	$3.8 trillion	$4.5 trillion	8.4%	10.2%
FY 2050	$7.8 trillion	$9.1 trillion	12.0%	14.4%
Debt Projections				
FY 2020	$17.8 trillion	$20.7 trillion	81%	101%
FY 2021	$18.8 trillion	$22.7 trillion	82%	108%
FY 2030	$31.3 trillion	$36.9 trillion	98%	118%
FY 2040	$59.7 trillion	$70.8 trillion	131%	159%
FY 2050	$117.3 trillion	$139.2 trillion	181%	220%

Source: Pre-crisis projections are based on data from the Congressional Budget Office's March 2020 budget projections. Post-crisis projections are based on the Congressional Budget Office's April 2020 near-term budget projections and its May 2020 Interim Economic Projections.

Fig. 2: Summary Table of Pre- and Post-Crisis Alternative Scenario* Budget Projections

	Dollars		Percent of GDP	
	Pre-Crisis	Post-Crisis	Pre-Crisis	Post-Crisis
Deficit Projections				
FY 2020	$1.1 trillion	$3.9 trillion	4.9%	19.0%
FY 2021	$1.0 trillion	$2.5 trillion	4.4%	11.7%
FY 2030	$2.4 trillion	$2.4 trillion	7.5%	7.6%
Total, FY 2020 to FY 2030	$16.9 trillion	$23.9 trillion	5.6%	8.8%
FY 2040	$5.1 trillion	$5.8 trillion	11.1%	13.0%
FY 2050	$7.8 trillion	$11.5 trillion	12.0%	18.1%
Debt Projections				
FY 2020	$17.8 trillion	$21.0 trillion	81%	102%
FY 2021	$18.8 trillion	$23.3 trillion	82%	111%
FY 2030	$34.1 trillion	$40.9 trillion	106%	131%
FY 2040	$71.6 trillion	$84.1 trillion	157%	189%
FY 2050	$147.1 trillion	$170.2 trillion	227%	269%

Source: Pre-crisis projections are based on data from the Congressional Budget Office's March 2020 budget projections. Post-crisis projections are based on the Congressional Budget Office's April 2020 near-term budget projections and its May 2020 Interim Economic Projections. *Pre-crisis Alternative Scenario projections assume discretionary spending grows with GDP and various expiring tax provisions are continued; post-crisis Alternative Scenario projections assume the aforementioned but also assume an additional $1 trillion of fiscal relief is enacted.

Fig. 3: Summary Table of Pre- and Post-Crisis Trust Fund Exhaustion Projections

	Pre-Crisis Exhaustion Date	Post-Crisis Exhaustion Date
Highway Trust Fund	2022	2021
Medicare Hospital Insurance Trust Fund	2026	2023
Social Security Trust Funds (theoretically combined)	2032	2031

Source: Pre-crisis projections are based on data from the Congressional Budget Office's June 2019 long-term budget projections. Post-crisis projections are based on the Congressional Budget Office's March 2020 budget projections.

The COVID-19 Crisis Dramatically Increased Deficits

Prior to the onset of the COVID-19 pandemic, annual budget deficits were projected to total $1.1 trillion this year and $14.2 trillion through 2030. As a result of the crisis and the responses enacted to date, we estimate deficits will expand by a further $5.7 trillion over the next decade, totaling $19.9 trillion.

$2.4 trillion of this $5.7 trillion increase is the direct result of enacted legislation – including almost $200 billion from the Families First Coronavirus Response Act (FFCRA), $1.7 trillion from the Coronavirus Aid, Recovery, and Economic Security (CARES) Act, and nearly $500 billion from the Paycheck Protection and Health Care Enhancement Act and Paycheck Protection Program Flexibility Act.[ii]

We estimate an additional $2.1 trillion increase in deficits from economic feedback as a result of the $15.7 trillion (5.3 percent) reduction in nominal GDP projected by CBO over the next decade, as well as lower projected employment and interest rates. This feedback will mostly come from lower revenue, but also from increased spending on automatic stabilizers such as Supplemental Nutrition Assistance Program (SNAP) benefits and unemployment insurance, and reduced spending on Social Security benefits and interest payments.

As a result of this combined $4.5 trillion in increased deficit spending, we estimate an additional $1.2 trillion in debt service costs (separate from the effect of lower interest rates).

Fig. 4: Bridge from Pre-COVID Deficit Projections to New CRFB Projections (Billions, 2020-2030)

	Current Law	Alternative Scenario
Pre-Crisis Deficit (CBO March 2020)	**$14,164**	**$16,936**
Coronavirus Preparedness & Response Supplemental Appropriations Act	$8	$8
Families First Coronavirus Response Act	$192	$192
Coronavirus Aid, Recovery, & Economic Security (CARES) Act	$1,721	$1,721
Paycheck Protection Program & Health Care Enhancement Act and Paycheck Protection Program Flexibility Act	$483	$483
Additional Fiscal Relief (not yet enacted)	n/a	$1,000
Effect of Economic Changes (including interest rates)	$2,119	$2,004
Debt Service as a result of above changes	$1,212	$1,441
Total Increase in Projected Deficits	***$5,735***	***$6,840***
Projected Deficit (CRFB)	**$19,899**	**$23,776**
Projected Deficit as a Share of GDP	*7.5%*	*8.8%*

Source: Congressional Budget Office and CRFB calculations.

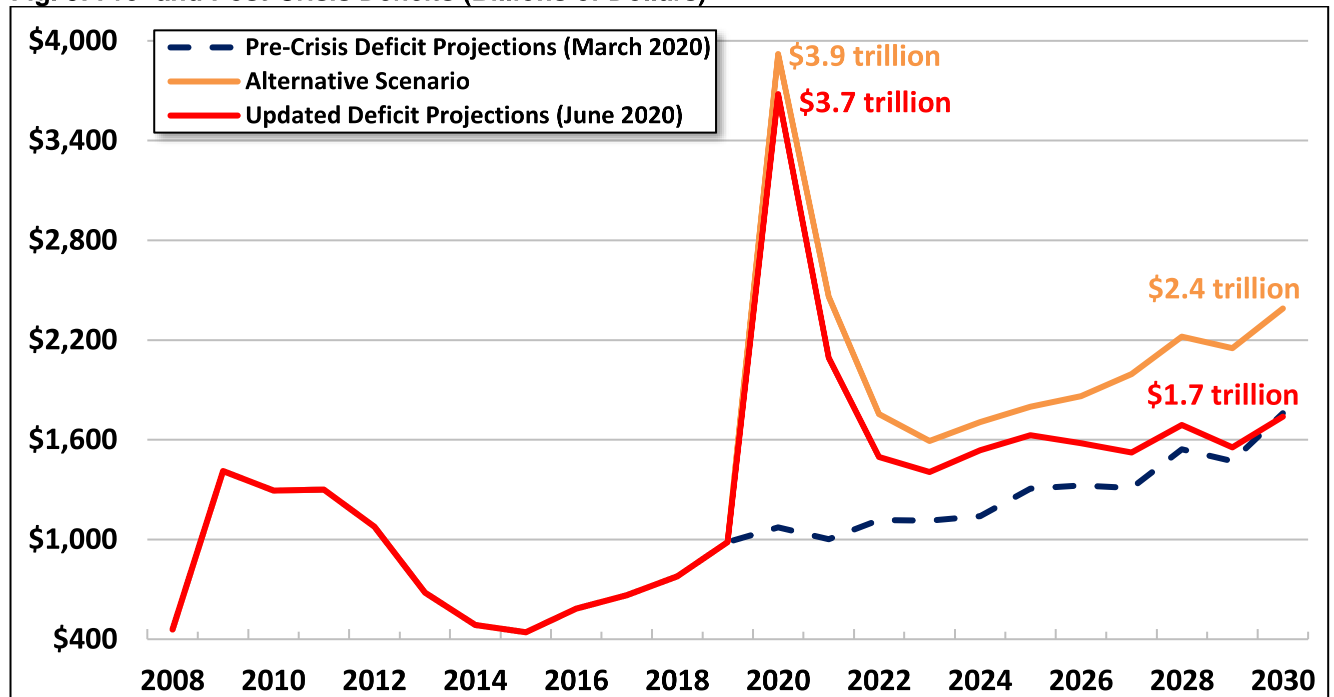
Realistically, deficits could be much higher. Our Alternative Scenario builds on CBO's Alternative Fiscal Scenario (AFS), which assumes discretionary spending grows with GDP and various expiring tax cuts are continued. Our scenario also assumes $1 trillion of additional economic relief is enacted. Under this scenario, deficits would total $23.8 trillion through 2030, $6.8 trillion more than under CBO's AFS projection from March, and $9.6 trillion more than under pre-crisis current law.

Deficits and Debt Will Reach New Highs

CBO estimates that, under current law, budget deficits will rise from [$984 billion] (4.6 percent of GDP) in 2019 to [$3.7 trillion] (17.9 percent of GDP) this year and $2.1 trillion (9.9 percent of GDP) in 2021. We project deficits will further decline to a low of $1.4 trillion (6.1 percent of GDP) in 2023, before rising steadily to $1.7 trillion (5.5 percent of GDP) by 2030.

In other words, nominal deficits will *never* fall below their previous record of $1.4 trillion and will resume their upward trajectory soon. Over the next decade, deficits will average 7.4 percent of GDP – compared to a projected average of 4.8 percent before the crisis.

Fig. 5: Pre- and Post-Crisis Deficits (Billions of Dollars)



Source: Congressional Budget Office and CRFB calculations.

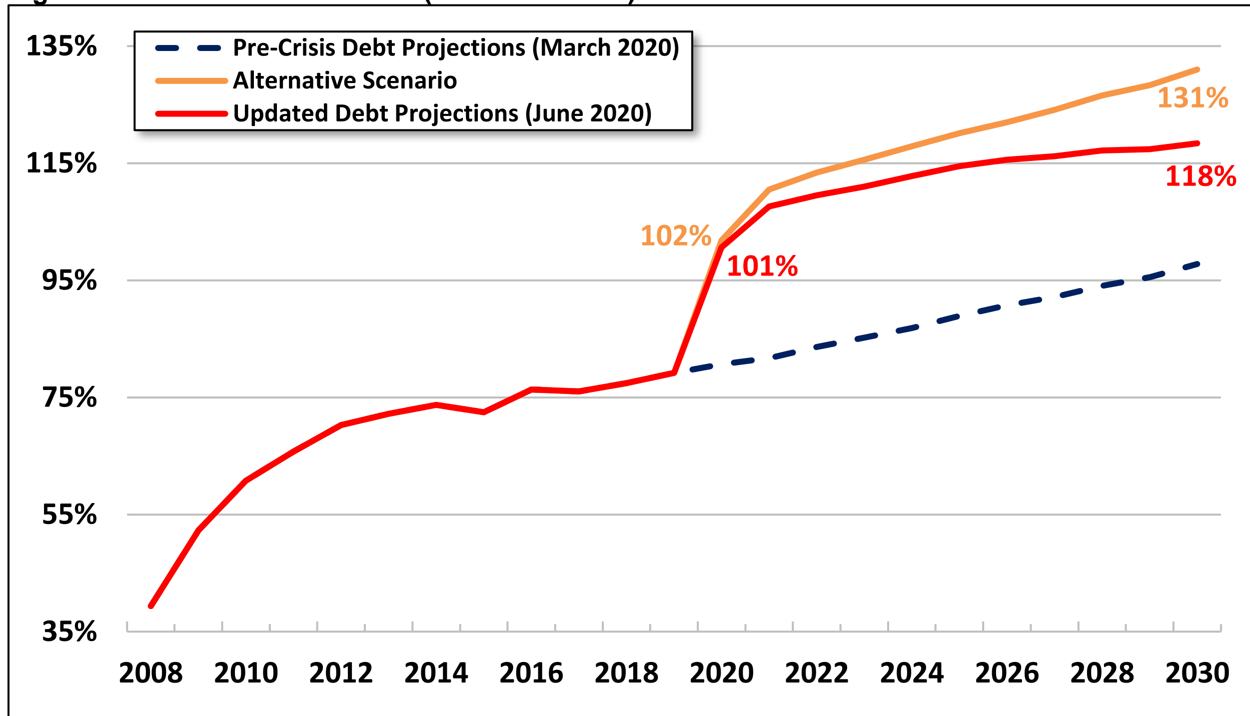
Our Alternative Scenario assumes the extension of most expiring tax cuts, discretionary spending levels that grow with the economy, and enactment of an additional $1 trillion of economic relief in the form of additional state and local aid and an extension and phase-out of expanded unemployment insurance benefits. We do not incorporate further economic feedback from these changes. Under this scenario, deficits will total $3.9 trillion (19.0 percent of GDP) this year, fall to $1.6 trillion (6.9 percent of GDP) by 2023, and then rise gradually to $2.4 trillion (7.6 percent of GDP) by 2030.

Deficits under this scenario would average 8.8 percent of GDP over the 2020-2030 window – nearly twice as high as the average deficit level seen over the past decade and more than three times as high as the average level during the decade prior.

High and rising deficits will drive the national debt to new heights over the next decade. We project debt held by the public will grow by $19.5 trillion through 2030 under current law, from $17.4 trillion at the end of February 2020 to $36.9 trillion by the end of fiscal year 2030.

As a share of the economy, CBO estimates debt will eclipse the size of the economy this year and surpass the all-time record of 106 percent of GDP next year, reaching 108 percent by the end of 2021. We project debt will continue to grow, reaching 118 percent of GDP by 2030.

Fig. 6: Pre- and Post-Crisis Debt (Percent of GDP)



Source: Congressional Budget Office and CRFB calculations.

Importantly, the comparably modest growth in projected debt-to-GDP between 2021 and 2030 is partially a function of temporarily accelerated economic growth as the economy continues to recover under CBO's projections. As a share of potential GDP, we estimate debt will rise to 95 percent of GDP by the end of 2020, 101 percent by the end of 2021, and 118 percent by the end of 2030 – somewhat more slowly in the early years but more rapidly over time.

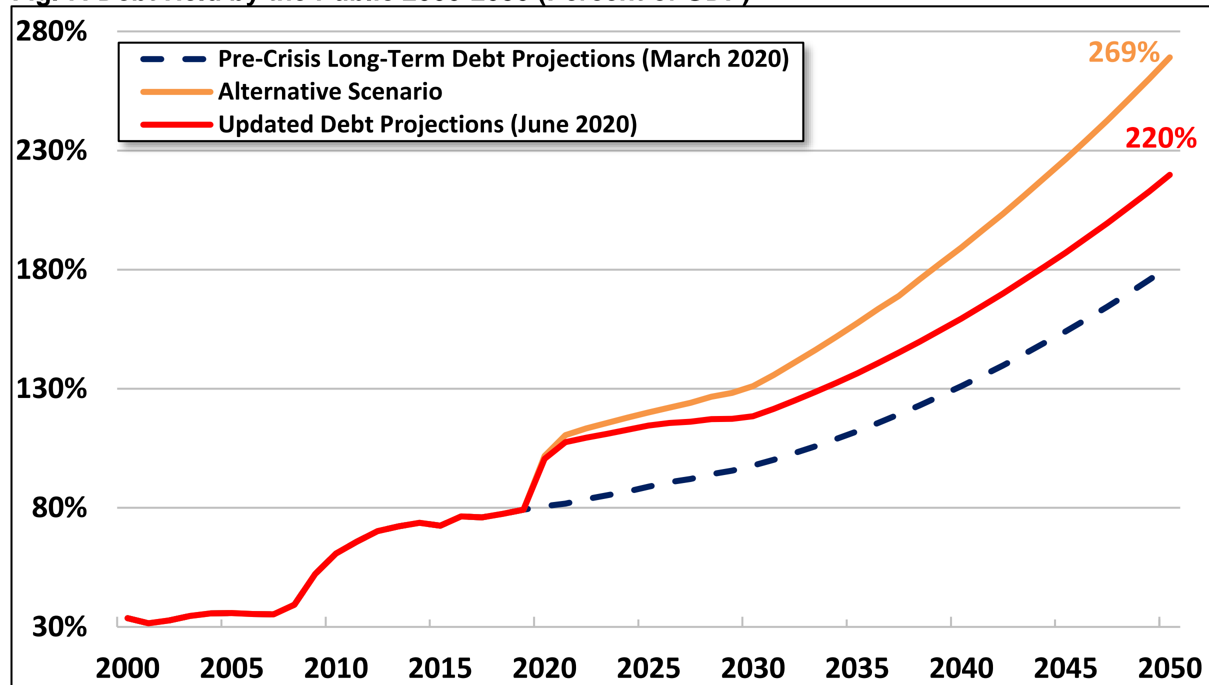
Furthermore, debt could be significantly higher if lawmakers enact additional emergency legislation to combat the current crisis and extend certain policies enacted in the last several years. Under our Alternative Scenario, debt would grow to nearly $41 trillion (131 percent of GDP) by 2030. Like in our current law projections, debt would exceed the size of the economy this year and surpass the all-time record next year. Most of the divergence from current law would occur after 2025 when the individual income tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA) are scheduled to expire.

The Long-Term Fiscal Outlook is Even More Troubling

Though long-term projections are far more uncertain than our (already uncertain) ten-year estimates, we project debt will rise dramatically over the next three decades.

We project debt under current law will rise from 118 percent of GDP in 2030 to 159 percent by 2040 and 220 percent of GDP by 2050. Under our Alternative Scenario, debt would grow to 189 percent of GDP by 2040, double the size of the economy by 2042, and ultimately reach 269 percent of GDP by 2050. These figures could be somewhat smaller if the current crisis has a lasting effect on interest rates in future decades.

Fig. 7: Debt Held by the Public 2000-2050 (Percent of GDP)



Source: Congressional Budget Office and CRFB calculations.

We project that long-term deficits under current law will grow from $1.7 trillion (5.6 percent of GDP) in 2030 to $3.2 trillion (8.6 percent of GDP) in 2035, $4.6 trillion (10.2 percent of GDP) in 2040, and $9.1 trillion (14.4 percent of GDP) in 2050.

Under our Alternative Scenario, deficits would rise from $2.4 trillion (7.6 percent of GDP) in 2030 to $4.1 trillion (11.0 percent of GDP) in 2035, $5.8 trillion (13.0 percent of GDP) in 2040, and $11.5 trillion (18.1 percent of GDP) in 2050.

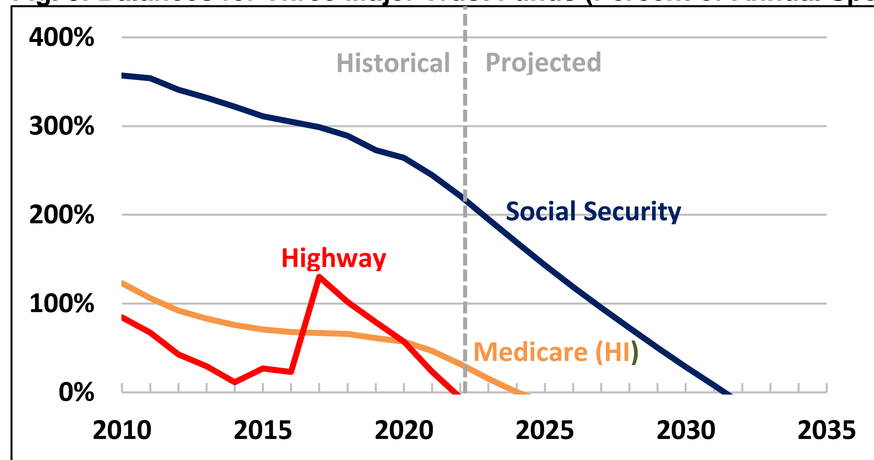
Either scenario would be unprecedented. The deficit has never surpassed 5 percent of GDP outside of a war or recession and has never exceeded 10 percent at any point except during World War II.

Major Trust Funds Are Headed Toward Insolvency

A number of important federal programs are financed through dedicated revenue sources and managed through federal trust funds. Under our new projections, we estimate several major trust funds, along with the PBGC multi-employer and flood insurance funds (which we have not re-estimated), will run out of reserves by early next decade.

Specifically, we project the Highway Trust Fund (HTF) will be depleted by 2021, the Medical Hospital Insurance (HI) trust fund by 2023, the Social Security Disability Insurance (SSDI) trust fund will be depleted at some point in the 2020s, and the Social Security Old-Age and Survivors Insurance (OASI) trust fund by 2031. We project the theoretically combined Social Security Trust funds will run out of reserves by 2031. Others have similarly projected an earlier insolvency date.[iii]

Fig. 8: Balances for Three Major Trust Funds (Percent of Annual Spending)



Source: CRFB calculations based on Congressional Budget Office data.

All of these funds will run out of reserves earlier than under CBO's pre-COVID projections. CBO's most recent projections show the highway trust fund being depleted in fiscal year 2022, the HI Trust Fund in 2026, and the Social Security trust funds in 2032.[iv]

Earlier depletion dates are driven by declining gas tax revenue as a result of reduced driving, declining payroll tax revenue as a result of less employment and lower wages, lower interest rate payments on trust fund reserves, and more disability applications. These factors are partially offset by lower Social Security benefits and smaller cost-of-living adjustments, slower assumed growth in medical costs, higher mortality, and postponement of certain infrastructure spending. Our projections did not attempt to estimate the effect of the current crisis on hospital utilization, nor on immigration – either of which could affect our results.

Perhaps more troubling than earlier depletion dates is the time lost by not addressing solvency over the last decade. If policymakers choose to address the state of the trust funds in 2022, the HTF will have already been depleted, lawmakers will only have a year to address the Medicare shortfall, and there will be less than a decade left to address Social Security's looming insolvency.

Borrowing is Currently Helpful, But Can Cause Great Harm Over Time

Given the immense economic damage and human suffering caused by the COVID-19 pandemic, increased federal borrowing today is not only inevitable, but in many ways desirable. Today's massive levels of borrowing can allow policymakers to distribute some of the acute financial pain associated with the current crisis over time. It can also help to boost aggregate demand during a period of depressed (and suppressed) spending, and can secure household and business balance sheets until the economy fully re-opens. This borrowing still comes with economic and fiscal costs even as they are partially offset by lower interest rates and deflationary pressures.

While the current crisis clearly necessitates short-term borrowing to mitigate economic damage and spread costs over time, high and rising debt could have serious consequences if continued once the crisis ends and the economy recovers.

In normal times, when the economy is operating near its potential and the Federal Reserve is no longer buying large quantities of long-term debt, increased federal borrowing tends to crowd out private investment. This leads to fewer buildings, machinery, and equipment, as well as less new ventures and technologies, which in turn depresses worker productivity, slowing income growth.

Last June, CBO estimated average income in 2050 would be nearly 10 percent lower if debt is allowed to continue growing unsustainably – as projected in CBO's Alternative Fiscal Scenario – as opposed to being gradually reduced to historic levels. Earlier this year, the Penn Wharton Budget Model (PWBM) estimated that if the current crisis added 6 percent of GDP to the debt by 2030 (one third of what we project), that extra debt would permanently reduce wages and economic output by a further 0.6 to 0.8 percent.

High and rising debt also puts upward pressure on interest rates (which are low in spite of – not because of – high debt), increases the share of the budget spent on interest, reduces fiscal space available to address the next emergency or opportunity, heightens dependency on foreign borrowing, further burdens future generations, and increases the risk of a financial, inflation, or other type of fiscal crisis.

As we recently explained, low interest rates do not mean there is no cost of borrowing, nor can the Federal Reserve indefinitely purchase U.S. debt at its current pace without consequence. Moreover, it will be far more difficult to reduce debt after the current crisis ends than it was after World War II.

It would be an economic mistake to discontinue fiscal support too soon or too abruptly. However, the United States cannot continue on its current path forever. Ultimately, significant tax increases and spending cuts will be needed to secure faltering trust funds, stabilize debt levels, and foster robust long-term economic growth.

Conclusion

The United States entered the current public health and economic crisis fiscally unprepared, running higher deficits than at any time since the Great Recession and holding more debt than at any time in history outside of World War II and its aftermath. The current crisis worsened the nation's fiscal position and policymakers rightly enacted deficit-increasing fiscal support to bolster the economy and mitigate the impact on economic growth in the short- and medium-term.

We estimate that legislative and economic changes will increase total borrowing by $5.7 trillion over a decade relative to pre-COVID projections. As a result, deficits will total $19.9 trillion from 2020 to 2030 and debt will rise from about 80 percent of GDP prior to the crisis to 101 percent this year, 118 percent by 2030, and 220 percent by 2050. Meanwhile, the crisis has pushed the insolvency dates of the major trust funds up from pre-crisis estimates. We now project the Highway Trust Fund will be insolvent by 2021, the Medicare Hospital Insurance trust fund by 2023, and the combined Social Security OASDI trust funds by 2031.

Under our Alternative Scenario — which assumes another $1 trillion of additional relief is enacted, discretionary spending grows with GDP, and various expiring tax cuts are continued — the situation would be far worse. In this case, deficits would total $23.9 trillion through 2030 while debt would rise to 131 percent of GDP by 2030 and 269 percent by 2050.

While projections come with a wide range of uncertainty, they clearly illustrate the fiscal toll of the COVID-19 pandemic and the bleak underlying fiscal outlook that predated it.

While short-term borrowing is necessary and even desirable to fight the current public health and economic crisis, it is not without costs. Ultimately, high and rising debt will lead to slower income growth, higher interest payments, upward pressure on interest rates, less fiscal space to respond to the next recession or emergency, an undue debt burden on future generations, and a greater risk of a fiscal crisis.

Once the crisis subsides, policymakers must turn their attention to long-term debt and deficit reduction to get the country on solid fiscal ground.

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[i] All years are fiscal years, unless otherwise noted.

[ii] Because the Paycheck Protection Program (PPP) is undersubscribed, we believe this bill would cost less than scored by CBO. However, the Paycheck Protection Program Flexibility Act would increase the direct and indirect cost of the PPP so we assume it restores net costs to CBO's score. This assumption is rough and represents an approximation rather than an effort to re-estimate the legislation.

[iii] The Bipartisan Policy Center has estimated that another Great Recession would accelerate Social Security insolvency from 2035 under the Trustees' estimate to 2029. Penn-Wharton Budget Model has estimated the current crisis could advance the date of insolvency from 2036 under its baseline somewhere between 2032 and 2034 depending on the pace of recovery.

[iv] The Social Security Trustees project a later insolvency date for the combined trust funds of 2035, excluding the effects of the current crisis.