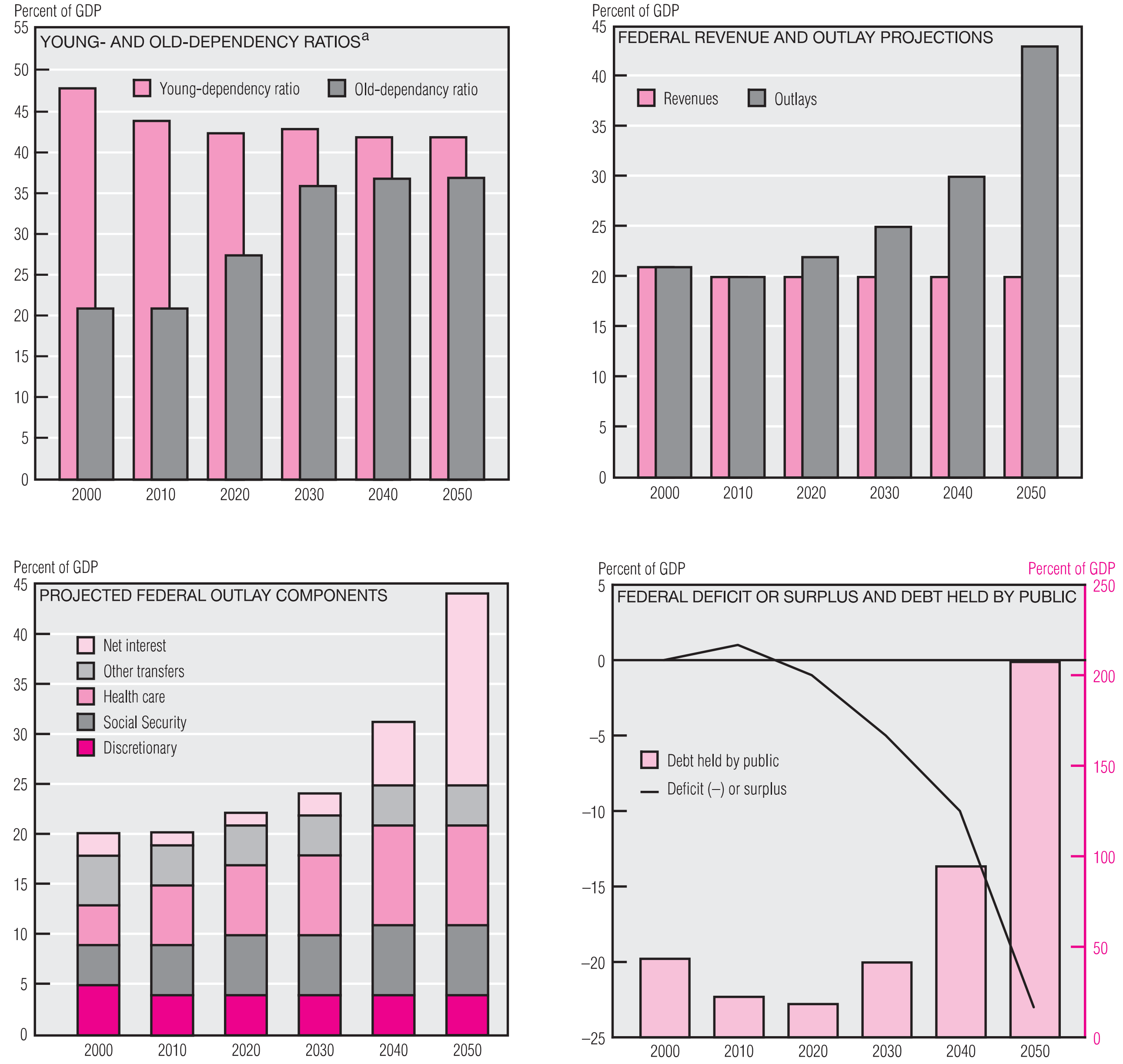
Demographic Change and the Long-term Budget Outlook



a. The young- and old-dependency ratios show the number of persons under 20 and over 64, respectively, to the number of persons aged 20–64.
NOTE: Budget data are reported on a National Income and Product Account basis.
SOURCES: Congressional Budget Office; and Social Security Administration.

Demographic change will be the main determinant of budget allocations over much of the next century. Low birth rates, an aging population, and increasing survival rates promise to swell the “old-dependency ratio” —the number of those over 65 as a share of those aged 20–64—from 21% today to 37% by the year 2050. The fiscal burden of supporting the elderly through greater Social Security and health care outlays will be eased somewhat by the declining “young-dependency ratio” —the number of those under 20 as a share of those aged 20–64—which is projected to fall from 48% today to 42% by 2050. These figures are subject to uncertainty, especially for years far in the future, mostly because of unpredictable future fertility rates.

Under current fiscal policy, total federal revenues as a share of GDP are expected to remain relatively constant at about one-fifth through 2050. However, the Congressional Budget Office expects total outlays as a share of GDP to increase from 22% in 1997 to 25% by 2030, then to surge to 43% by 2050.

Federal discretionary spending is projected to decline from 5% of GDP in 1997 to 4% by 2050. However, by the year 2050, Social Security outlays will take up 7% of GDP, and health care 10%, more than double their current levels of 3% and 4%, respectively. As spending outstrips revenue, federal deficits and debt held by the public will grow, forcing a steep increase in net interest payments, which will leap from 3% to 19% of GDP by 2050—almost as large a share as the entire federal budget today.