The Congressional Budget Office’s projections suggest that, if current policies remain in place, federal revenues will grow at the same pace as GDP and will stay at just below 20% of GDP through 2070 (under mid-range economic and demographic assumptions). However, federal expenditures as a percent of GDP will begin to rise after 2013. The increase will be sustained over several decades, reaching one-third of GDP by 2070.

This means that near-term surpluses, however large, will be converted into long-term deficits that are larger still. As a result, it is projected that federal debt will be paid off by 2010 and the Treasury will hold positive cash balances through the year 2050—again assuming that current policies remain unchanged.

The chief reason for the projected growth in federal expenditures relative to GDP is baby boomers’ transition from middle age to retirement, which will swell outlays on Social Security, Medicare, and Medicaid. Among these, Social Security is expected to have the slowest growth in outlays as a percent of GDP (from 4% now to nearly 6% by 2070). Medicare and Medicaid will grow faster relative to GDP. For example, Medicare expenditures, currently at just over 2% of GDP, are expected to escalate to 9.6% by 2070.

The more rapid rise in health care outlays may be explained by increases in the unit costs of providing care, which are likely to occur as better but more expensive procedures become available and the use of health care services intensifies over time.