Selected Charts on the Long-Term Fiscal Challenges of the United States

October 2020
Federal debt is on an unsustainable path

**Debt Held by the Public (% of GDP)**

- **Civil War**
- **WWI**
- **Great Depression**
- **WWII**
- **Great Recession**
- **Pandemic**
- **Projected 195% in 2050**


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The growing debt is caused by a structural mismatch between spending and revenues.

**Federal Spending and Revenues (% of GDP)**

- **Average Spending (1985–2019)**
- **Average Revenues (1985–2019)**
- **Spending**
- **Revenues**

Net interest costs are projected to rise sharply

**NET INTEREST (BILLIONS OF DOLLARS)**

Actual | Projected

10-Year Interest Costs: $3.7 trillion

By 2050, interest costs are projected to be more than three times what the federal government has historically spent on R&D, infrastructure, and education combined.

FEDERAL SPENDING (% OF GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D 2.5%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Infrastructure 1.6%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Education 2.2%</td>
<td></td>
</tr>
</tbody>
</table>


NOTE: Infrastructure excludes defense.
Over the past decade, the U.S. spent more on interest on the national debt than it did on other national priorities.

**Federal Spending from FY2010 to FY2019 (Billions of Dollars)**

- **Net Interest Costs**: $2.5 Trillion
- **Veterans Benefits and Services**: $1.5 Trillion
- **Education**: $1.1 Trillion
- **Transportation**: $0.9 Trillion
- **Administration of Justice**: $0.6 Trillion
- **Natural Resources & Environment**: $0.4 Trillion


**Note:** Education includes education, training, employment, and social services.
Spending for mandatory programs and interest is projected to outpace all other non-interest spending.

**Federal Spending (% of GDP)**

- Social Security and Major Healthcare Programs
- All Other Non-interest Spending
- Net Interest

**Source:** Congressional Budget Office, *The 2020 Long-Term Budget Outlook*, September 2020.

**Note:** The major healthcare programs include Medicare (net), Medicaid, the Children’s Health Insurance Program, and spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

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The elderly population is growing rapidly and living longer

U.S. POPULATION AGE 65+ (MILLIONS)

Medical spending increases rapidly with age

**Healthcare Spending per Capita by Age Group (Dollars)**

- **0–18**: $3,749
- **19–44**: $4,856
- **45–64**: $10,212
- **65–84**: $16,977
- **85+**: $32,903

*Source: Centers for Medicare and Medicaid Services, National Health Expenditures by Age and Gender, April 2019.*

*Note: Data are for 2014.*

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Total U.S. health spending (public and private) is projected to rise to nearly one-fifth of the economy by 2025.

**National Health Expenditures (% of GDP)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>1990</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>2000</td>
<td>13%</td>
<td>17%</td>
</tr>
<tr>
<td>2010</td>
<td>17%</td>
<td>18%</td>
</tr>
<tr>
<td>2020</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>2025</td>
<td>19%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Centers for Medicare and Medicaid Services, National Health Expenditures, March 2020.*

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United States per capita healthcare spending is nearly three times the average of other developed countries.

**Healthcare Costs per Capita (Dollars)**

- Spain: $3,616
- United Kingdom: $4,653
- Japan: $4,823
- Australia: $5,187
- France: $5,376
- Canada: $5,418
- Germany: $6,646
- Switzerland: $7,732
- United States: $11,072
- OECD Average: $4,034


**NOTES:** Data are for 2019. Chart uses purchasing power parities to convert data into U.S. dollars. OECD average excludes the United States.
Although the United States spends more on healthcare than other developed countries, its health outcomes are generally not any better.

**Health Status**
- **Life Expectancy at Birth**
  - Worst: Latvia
  - Best: Japan
  - U.S.
- **Infant Mortality**
  - Worst: Colombia
  - Best: Estonia
  - U.S.

**Quality of Primary Care**
- **Unmanaged Asthma**
  - Worst: Latvia
  - Best: Mexico
  - U.S.
- **Unmanaged Diabetes**
  - Worst: Mexico
  - Best: Iceland
  - U.S.

**Quality of Acute Care**
- **Safety During Childbirth**
  - Worst: Canada
  - Best: Poland
  - U.S.
- **Heart Attack Mortality**
  - Worst: Mexico
  - Best: Iceland
  - U.S.

NOTES: Data are not available for all countries for all metrics. Data are for 2019 or latest available.
As the population ages, fewer workers will be paying taxes to support each Social Security beneficiary.

**Workers per Beneficiary**

<table>
<thead>
<tr>
<th>Year</th>
<th>Workers per Beneficiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>3.2</td>
</tr>
<tr>
<td>2000</td>
<td>3.4</td>
</tr>
<tr>
<td>2020</td>
<td>2.8</td>
</tr>
<tr>
<td>2040</td>
<td>2.2</td>
</tr>
</tbody>
</table>


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Social Security will run a cumulative cash deficit of $2.9 trillion between now and 2035.

**Social Security Surpluses/Deficits (% of GDP)**

- **Actual**
- **Projected**

**2020–2035**
Deficit: $2.9 Trillion

Trust Fund Depleted in 2035


NOTES: Surplus/deficit numbers exclude interest income. The total deficit of $2.9 trillion is the present value of the cash deficits between 2020 and 2034. The Old-Age & Survivors Insurance trust fund is projected to be depleted in 2034 and lead to a 24 percent cut in benefits that year; the Disability Insurance trust fund is projected to be depleted in 2065 at which time benefits would be reduced by 8 percent.

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Low-income seniors rely on Social Security benefits for a major share of their retirement income

**SOCIAL SECURITY BENEFITS (% OF TOTAL INCOME)**

- **Lowest Quintile** (Under $13,499): 81%
- **Second Quintile** ($13,499–$23,592): 81%
- **Middle Quintile** ($23,592–$39,298): 61%
- **Fourth Quintile** ($39,298–$72,129): 39%
- **Highest Quintile** (Over $72,129): 15%

NOTE: A quintile is one-fifth of the population. Data are for 2014.

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Discretionary spending is projected to drop below its historical average

**% of Federal Spending**

- 2010: 61%
- 2020: 75%
- 2030: 75%

**Mandatory Spending and Net Interest Costs**

- 2010: 39%
- 2020: 25%
- 2030: 25%

**% of GDP**

- Actual Discretionary Spending
- Projected Discretionary Spending

Defense spending accounts for about half of total discretionary spending

2019 Discretionary Outlays: $1,338 Billion

- Defense
- Transportation
- Veterans' Benefits and Services
- Education
- Health
- Administration of Justice
- International Affairs
- General Government
- Housing Assistance
- Natural Resources and Environment
- General Science, Space and Technology
- Community and Regional Development
- Training, Employment, and Social Services

NOTES: Health includes funding for agencies that provide healthcare services or engage in health research, such as the National Institutes of Health, Centers for Disease Control and Prevention, and Indian Health Service. General government includes central executive and legislative functions as well as the administrative costs of Social Security, Medicare, and income security programs. Energy ($5 billion) is included in Transportation. Agriculture ($6 billion) is included in Natural Resources and Environment. Veterans’ benefits primarily consists of medical and hospital care.

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The United States spends more on defense than the next 10 countries combined.

DEFENSE SPENDING (BILLIONS OF DOLLARS)

- **China**: $726 Billion
- **United States**: $732 Billion
- **India**:
- **Russia**:
- **Saudi Arabia**:
- **France**:
- **Germany**:
- **United Kingdom**:
- **Japan**:
- **South Korea**:
- **Brazil**:

NOTES: Figures are in U.S. dollars converted from local currencies using market exchange rates. Data for the United States are for fiscal year 2019, which ran from October 1, 2018 through September 30, 2019. Data for the other countries are for calendar year 2019. The source for this chart uses a definition of defense spending that is more broad than budget function 050 and defense discretionary spending.

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Non-defense discretionary spending funds a wide range of programs

Non-defense Discretionary Outlays in 2019 (Billions of Dollars): $661 Billion

<table>
<thead>
<tr>
<th>Program</th>
<th>Outlay (Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>$100</td>
</tr>
<tr>
<td>Veterans' Benefits and Services</td>
<td>$85</td>
</tr>
<tr>
<td>Education</td>
<td>$72</td>
</tr>
<tr>
<td>Health</td>
<td>$66</td>
</tr>
<tr>
<td>Administration of Justice</td>
<td>$59</td>
</tr>
<tr>
<td>International Affairs</td>
<td>$52</td>
</tr>
<tr>
<td>General Government</td>
<td>$51</td>
</tr>
<tr>
<td>Natural Resources and Environment</td>
<td>$44</td>
</tr>
<tr>
<td>General Science, Space, and Technology</td>
<td>$32</td>
</tr>
<tr>
<td>Community and Regional Development</td>
<td>$27</td>
</tr>
<tr>
<td>Training, Employment, and Social Services</td>
<td>$23</td>
</tr>
</tbody>
</table>

NOTES: Health includes funding for agencies that provide healthcare services or engage in health research, such as the National Institutes of Health, Centers for Disease Control and Prevention, and Indian Health Service. General government includes central executive and legislative functions as well as the administrative costs of Social Security, Medicare, and income security programs. Energy ($5 billion) is included in Transportation. Agriculture ($6 billion) is included in Natural Resources and Environment. Veterans' benefits primarily consists of medical and hospital care.

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The federal government collects revenues from a variety of sources

2019 Total Revenues
$3,464 Billion

- Corporate Income Taxes 7%
- Payroll Taxes 36%
- Individual Income Taxes 50%
- Excise Taxes 3%
- Customs Duties 2%
- Other 3%

NOTE: Other includes estate and gift taxes, income from the Federal Reserve, and miscellaneous fees and fines.

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The U.S. tax system is progressive, with higher-income taxpayers facing higher tax rates

**Effective Federal Tax Rates by Type (% of Expanded Cash Income in 2019)**

- Excise Tax
- Estate Tax
- Corporate Income Tax
- Payroll Tax
- Individual Income Tax

**Lowest Quintile**
- 3%

**Second Quintile**
- 8%

**Middle Quintile**
- 13%

**Fourth Quintile**
- 17%

**80-90th Percentile**
- 20%

**90-95th Percentile**
- 22%

**95-99th Percentile**
- 23%

**Top 1 Percent**
- 29%

**Top 0.1 Percent**
- 30%


**Notes:** Individual income tax rates for the lowest and second quintiles are negative and are netted against the payroll tax rate. A quintile is one-fifth of the population. In 2019 dollars, the income breaks are: 20% $25,300; 40% $50,700; 60% $91,200; 80% $163,600; 90% $239,600; 95% $339,200; 99% $818,700; 99.9% $3,803,800.

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The top 1 percent of taxpayers generate 26 percent of total federal tax revenues.

Notes: Federal tax revenues include revenues from the excise tax, estate tax, corporate income tax, payroll tax, and individual income tax. Data are for 2019. In 2019, a tax unit was in the top 1 percent if its income was $818,700 or higher, as measured by expanded cash income.
Income growth since 1979 is larger for high-income earners, even when including transfers and taxes.

**Average Annual Income After Transfers and Taxes (2016 Dollars)**

- **Top 1 Percent**: incomes up 226%
- **Top Quintile**: incomes up 100%
- **Middle Quintile**: incomes up 42%
- **Lowest Quintile**: incomes up 84%

**Source:** Congressional Budget Office, *The Distribution of Household Income*, 2016, July 2019.

**Notes:** Increases calculated for 1979–2016. Income after transfers and taxes is comprised of market income plus income from social insurance programs (i.e., Social Security), plus means-tested transfers received (i.e., Medicaid), minus federal taxes. The top quintile includes households that are also in the top 1 percent.

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Total tax expenditures are large in comparison to annual income taxes collected and to the government’s major programs.

**Budgetary Cost in 2019 (Billions of Dollars)**

- **All Tax Expenditures**: $1.5 Trillion
- **Individual & Corporate Income Tax Revenues**: $1.9 Trillion
- **Social Security**: $1.0 Trillion
- **Defense**: $676 Billion
- **Medicare**: $644 Billion


**Notes:** Tax expenditures are deductions, credits, exclusions, and preferential rates. The estimates for tax expenditures do not account for any interactive effects of combining various provisions. Medicare spending is net of premiums and payments from the states. Defense represents discretionary defense spending.

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## Six popular tax provisions accounted for a large majority of annual tax expenditures for individuals

<table>
<thead>
<tr>
<th>Major Individual Tax Expenditures</th>
<th>Budgetary Costs (2019)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exclusion of pension contributions and earnings*</td>
<td>$250 billion</td>
</tr>
<tr>
<td>Reduced rates of tax on dividends and long-term capital gains</td>
<td>$177 billion</td>
</tr>
<tr>
<td>Exclusion of employer contributions for medical insurance and care**</td>
<td>$153 billion</td>
</tr>
<tr>
<td>Child Tax Credit</td>
<td>$118 billion</td>
</tr>
<tr>
<td>Earned Income Tax Credit (EITC)</td>
<td>$70 billion</td>
</tr>
<tr>
<td>Tax credits for health insurance purchased through marketplaces</td>
<td>$53 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$821 billion</strong></td>
</tr>
</tbody>
</table>


**NOTE:** *Includes defined benefit plans, defined contribution plans, plans covering partners and sole proprietors, and IRAs. **Estimate includes employer-provided health insurance purchased through cafeteria plans and TRICARE medical insurance.*
The top 1 percent of taxpayers receive 24 percent of the benefit from individual income tax expenditures.

Distribution of Individual Income Tax Expenditures

- Top 1 Percent: 24%
- All Other Taxpayers: 76%

NOTES: Data are projected for 2019. Data only includes non-business tax expenditures that are claimed on individual tax returns.
The growing federal debt is projected to reduce family incomes substantially.

**Income Loss for a Four-Person Family, on Average (2019 Dollars)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Income Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>2028</td>
<td>-$4,000</td>
</tr>
<tr>
<td>2038</td>
<td>-$8,000</td>
</tr>
<tr>
<td>2048</td>
<td>-$16,000</td>
</tr>
</tbody>
</table>


Note: The income measures are based on CBO’s projections of real gross national product per person. The income loss is the difference between the income level if debt rises as it does under current law and the income level if debt remains near its current share of gross domestic product.
Waiting to act raises the cost of stabilizing the debt

Size of Annual Budget Changes Needed to Stabilize the Debt (% of GDP)

- 2025: 2.9%
- 2030: 3.6%
- 2035: 4.8%

If Fiscal Reforms Begin in...


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Solutions Initiative 2019: Projected federal debt

DEBT HELD BY THE PUBLIC (% OF GDP)

Current Policy

Center for American Progress
Bipartisan Policy Center
Manhattan Institute
American Enterprise Institute
Economic Policy Institute
Progressive Policy Institute
American Action Forum


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