CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

March 21, 2025

Honorable David Schweikert
Chairman
Joint Economic Committee
U.S. House of Representatives
Washington, DC 20515

Re: Projections of Deficits and Debt Under Alternative Scenarios for the Budget and Interest Rates

Dear Mr. Chairman:

This letter responds to your request for an analysis of projected deficits and debt under alternative scenarios for the budget and interest rates. Specifically, you asked how the Congressional Budget Office's baseline projections of deficits and debt—which reflect the scheduled expiration of certain provisions of the 2017 tax act (Public Law 115-97) under current law—would change if all provisions of that act were extended permanently. You also asked how the projections would change further if interest rates were higher than expected.

In the extended baseline projections that CBO published in March 2024, primary deficits (which exclude net outlays for interest) average 2.2 percent of gross domestic product (GDP) over the 2024–2054 period and equal 2.2 percent of GDP in 2054.[1] Total deficits average 6.7 percent of GDP over that period and reach 8.5 percent of GDP in 2054. Federal debt held by the public increases from 99 percent of GDP to 166 percent of GDP—exceeding any previously recorded level and on track to increase further.

[1] CBO's long-term budget projections, referred to as the extended baseline, build on the agency's 10-year baseline projections. The extended baseline published in March 2024 incorporates the effects of legislation enacted through January 3, 2024, and accounts for economic developments and information available as of December 5, 2023. It relies on demographic projections reflecting developments through November 21, 2023. Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024), www.cbo.gov/publication/59711.

CBO estimates that if provisions of the 2017 tax act were extended and there were no other changes to fiscal policy, debt held by the public would reach 214 percent of GDP in 2054, 47 percentage points higher than in the long-term baseline projections. If interest rates also increased each year until they were higher by 1 percentage point (before accounting for macroeconomic effects), debt held by the public would grow even larger, exceeding 250 percent of GDP in 2054.[2]

A Scenario With Provisions of the 2017 Tax Act Extended

You asked CBO to analyze the effects of an alternative budget scenario in which provisions of the 2017 tax act that changed the individual income tax are extended indefinitely, including lower statutory tax rates, the changes to allowable deductions, the larger child tax credit, the 20 percent deduction for certain business income, and the income levels at which the alternative minimum tax takes effect. CBO's analysis also accounted for the effects of permanently extending the higher estate and gift tax exemptions, permanently extending provisions that allow businesses to immediately deduct the full cost of certain investments, and maintaining the rules that were in effect in 2024 for several business tax provisions.[3] Many other provisions of the 2017 tax act are permanent and are therefore reflected in CBO's baseline projections as well as in this alternative scenario.

In the alternative scenario, deficits and debt are larger than they are in CBO's extended baseline (see Figure 1):

- Primary deficits over the first decade of the projection period (fiscal years 2025 to 2034) are about $4 trillion larger. By 2054, the primary deficit equals 3.7 percent of GDP, 1.5 percentage points higher than in CBO's extended baseline.

- The total deficit in 2054 equals 12.3 percent of GDP, 3.8 percentage points higher than in CBO's extended baseline.

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[2] In this analysis, CBO reports specific economic or budgetary outcomes only when debt is projected to be less than 250 percent of GDP—but not because the agency considers that level of debt to be a fiscal tipping point. (CBO cannot predict with any confidence whether or when abrupt macroeconomic changes or sudden shifts in financial markets might occur in response to the amount and trajectory of federal debt.) Rather, assessing the economic effects of debt that exceeds 250 percent of GDP would require CBO to reevaluate the economic relationships in its current models.

[3] For details of those provisions and estimates of the effects of extending them, see Table 2 in Congressional Budget Office, *Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues* (May 2024), www.cbo.gov/publication/60114.

- Debt held by the public in 2054 equals 214 percent of GDP, 47 percentage points higher than in CBO's extended baseline.

Economic growth would be faster in the first several years after the extension of the tax provisions and slower over the longer term than in the extended baseline, and interest rates would be higher.[4]

A Scenario With Provisions of the 2017 Tax Act Extended and Higher Interest Rates

You also asked CBO to analyze the effects of a scenario in which provisions of the 2017 tax act were extended and the average interest rate on federal debt increased until it was 1 percentage point higher than in the extended baseline—before accounting for macroeconomic feedback effects that would further increase interest rates. Accounting for those macroeconomic effects, CBO estimates that the rate in 2052 (the last year federal debt held by the public is below 250 percent of GDP) would be 5.4 percent, 1.7 percentage points higher than in the extended baseline. To construct that estimate, CBO modeled a gradual increase in the average interest rate on federal debt, raising the rate in the baseline projections by 5 basis points in 2025 and by another 5 basis points in each year thereafter until it was 1 percentage point higher than in the extended baseline (in 2044).

In this scenario, primary deficits are the same as they are in the scenario without higher interest rates. Total deficits and debt are larger, reflecting higher interest costs.

- The total deficit in 2052 equals 16.6 percent of GDP, 8.1 percentage points higher than in CBO's extended baseline.

- Debt held by the public in 2054 is greater than 250 percent of GDP, significantly higher than in CBO's extended baseline.

[4] For more information about the economic effects of extending provisions of the 2017 tax act, see Congressional Budget Office, *How the Expiring Individual Income Tax Provisions in the 2017 Tax Act Affect CBO's Economic Forecast* (December 2024), www.cbo.gov/publication/60986, and "CBO's Model for Estimating the Effects on New Investment of Deductions to Recover the Cost of Capital" (December 2024), www.cbo.gov/publication/60985; and Staff of the Joint Committee on Taxation, "Overview of JCT Methodology for Analyzing the Macroeconomic Effects of Proposed Changes in Tax Law" (December 2024), https://tinyurl.com/4v26ukjt.

How CBO Projected Those Outcomes

CBO's long-term budget projections build on the agency's baseline projections, which are constructed in accordance with a set of rules. Most of those rules are statutory—they are found in the Congressional Budget and Impoundment Control Act of 1974, the Balanced Budget and Emergency Deficit Control Act of 1985, the Federal Credit Reform Act of 1990, the Budget Control Act of 2011, and other laws.

To reflect the budget scenario that you described, CBO employed the methods it used to estimate deficits and debt under several alternative economic and budgetary scenarios in a previous report.[5] CBO used estimates from the staff of the Joint Committee on Taxation of the budgetary effects of extending provisions of the 2017 tax act through 2034 and projected those effects through 2054. CBO then considered how deficits and debt would differ if the average interest rate on federal debt rose to be 1 percentage point higher than it is in the extended baseline.

In either scenario, tax policies would differ significantly from current law. Those changes would affect the economy in ways that would feed back into the budget, further changing spending and revenues. In the simplified analysis presented here, CBO accounted for four of those economic effects:

- Effective marginal tax rates on income from labor would be lower than they are in the extended baseline. Those lower tax rates would encourage people to work and save more and would thus increase output.[6]

- Effective marginal tax rates on income from most types of capital would also be lower. Those lower rates would encourage saving and investment, further boosting output.[7]

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[5] Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget* (May 2024), www.cbo.gov/publication/60169.

[6] The effective marginal tax rate on labor income is the share of an additional dollar of such income that is paid in federal individual income taxes and payroll taxes, averaged across taxpayers in proportion to their labor income.

[7] The effective marginal tax rate on capital income is the share of the return on an additional dollar of investment made in a particular year that will be paid in federal taxes over the life of that investment.

- Overall demand for goods and services would be higher. Higher after-tax income would boost consumer spending, leading output to increase.

- Federal debt would be larger. The increase in federal borrowing would draw resources away from investment in capital goods and services, thus reducing the stock of private capital and decreasing output.

The changes in tax policies could alter incentives in other ways that affect the economy significantly over the long term. For example, those changes might affect businesses' choices about how they are structured, and those choices might, in turn, alter the effective marginal tax rate on capital income. Similarly, changes in the tax treatment of mortgage debt would affect households' decisions about how much to save.

I hope this information is helpful to you. Please contact me if you have any questions.

Sincerely,

Phillip L. Swagel
Director

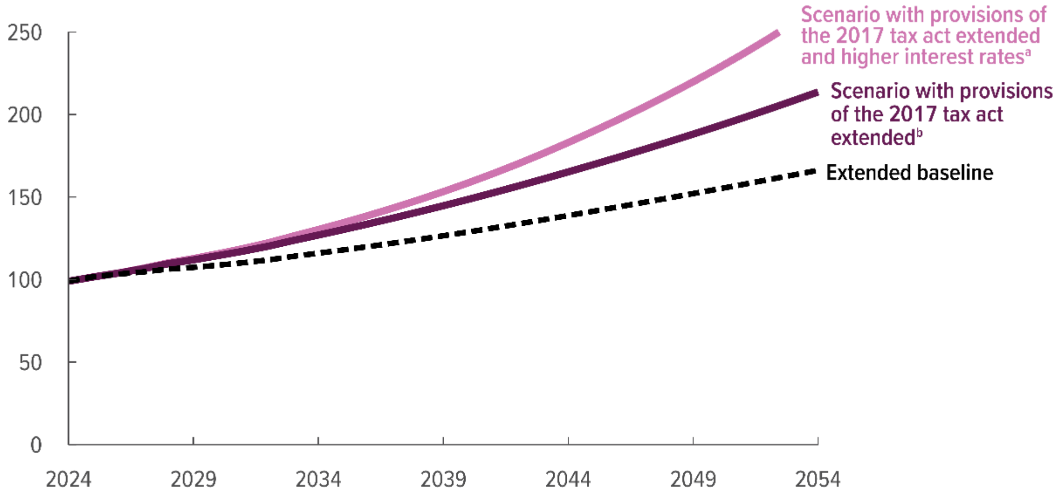
cc: Honorable Maggie Hassan
Ranking Member
Joint Economic Committee

Honorable Eric Schmitt
Vice Chairman
Joint Economic Committee

Figure 1.

Federal Debt Under the Extended Baseline and Alternative Scenarios

Percentage of GDP



Data source: Congressional Budget Office.

CBO's long-term budget projections, referred to as the extended baseline, build on the agency's 10-year baseline projections. The extended baseline published in March 2024 incorporates the effects of legislation enacted through January 3, 2024, and accounts for economic developments and information available as of December 5, 2023. It relies on demographic projections reflecting developments through November 21, 2023. Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024), www.cbo.gov/publication/59711.

The 2017 tax act refers to Public Law 115-97.

GDP = gross domestic product.

a. Under this scenario, provisions of the 2017 tax act are extended and the average interest rate on federal debt is raised above the rate underlying CBO's extended baseline by a differential that starts at 5 basis points in 2025 and increases by 5 basis points in each subsequent year (before macroeconomic effects are accounted for) until it reaches 1 percentage point. That is, the interest rate is 5 basis points higher than the baseline rate in 2025, 10 basis points higher in 2026, 15 basis points higher in 2027, and so on. (A basis point is one one-hundredth of a percentage point.)

b. Under this scenario, provisions of the 2017 tax act are extended.