The above chart examines the most recent *Long-Term Budget Outlook* Congressional Budget Office projections of federal debt held by the public for the next 25 years. Projections are shown under the CBO baseline, alternative scenario, and the alternative scenario incorporating crowding out effects. Data from this most likely scenario are only given through 2027 because at this gargantuan level of debt, CBO’s model no longer presents realistic results.

Even under the (extremely unrealistic) best case scenario seen above, debt continues to grow faster than the economy, increasing from around 60% of GDP in 2010 to 80% of GDP in 2035.

The CBO baseline uses spending and revenue provisions, *as they exist under current law*. Under this scenario, the Bush tax cuts are allowed to expire, the alternative minimum tax remains un-indexed to inflation, and revenue and spending in the health care bill occur as planned (note that these promises have already begun to be broken; projected cuts in Medicare reimbursement have been put off three times already this year). Even CBO finds this scenario highly unlikely.

This is why the scenario in black projects what CBO deems a more likely scenario. In the world of the *alternative scenario*, widely expected policy changes occur. Politicians cave in political pressures and the reimbursement of Medicare physicians gradually increases, spending is not bound by PAYGO and the alternative minimum tax is not allowed to cover an increasing amount of middle class families. Things look bad in this case, but when the dynamic effects of government debt on the economy are incorporated, things look even worse.

When government borrows money, there is less money available for the private sector to invest in capital; this results in decreased economic output in the long-run. Economists refer to this effect as *crowding out*. The red line shown above captures the most likely projection of debt as a percentage of GDP, incorporating crowding out effects.

In today’s world, where politicians are subject to political pressure, investors are subject to competition with the government for capital, and citizens watch their government for cues before spending and investing, debt held by the public as a percentage of GDP skyrockets to 188% of GDP by 2027. From there, not even CBO can know where the economy will go.

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