The government’s net cost before taxes and other revenues for fiscal year 2019 was $5.1 trillion - an increase of $526.8 billion (11.6 percent) from fiscal year 2018.

Net cost equals gross costs of $5.3 trillion, less earned program revenues (e.g., Medicare premiums, national park entry fees), and then adjusted for gains or losses from assumption changes used to estimate future federal employee and veterans benefits payments.

The increase in net cost is attributable to the combined effect of many offsetting increases and decreases across the government, including, but not limited to: a $210.0 billion increase in program and military retirement costs at DOD, a $70.7 billion increase at VA due mostly to changes in actuarial losses from experience for veteran benefits costs, $79.8 billion and $62.6 billion increases at HHS and the SSA, respectively, largely due to benefits payments, and an $87.3 billion net cost decrease at DOE mainly from comparatively lower increases in environmental liability estimates.

Total government tax and other revenues grew by $236.7 billion (7.0 percent) to about $3.6 trillion for fiscal year 2019.

The government deducts the $3.6 trillion in tax and other revenues from its $5.1 trillion net cost (with some adjustments) to derive its fiscal year 2019 “bottom line” net operating cost of $1.4 trillion, a $286.1 billion increase over fiscal year 2018.

By comparison, the government’s budget deficit for fiscal year 2019 was $984.4 billion – an increase of $205.4 billion over fiscal year 2018. The $460.7 billion difference between the budget deficit and net operating cost is primarily due to accrued costs (incurred but not necessarily paid) that are included in net operating cost, but not the budget deficit. These include but are not limited to estimated future costs of federal employee and veteran benefits.
An Unsustainable Fiscal Path

The long-term fiscal projections indicate that the government’s debt-to-GDP ratio will rise from 79 percent in 2019 to 474 percent over the 75-year projection period, and will continue to rise thereafter, if current policy is kept in place. The projections in this Financial Report show that current policy is not sustainable. These projections assume that current policy will continue indefinitely, and are, therefore, neither forecasts nor predictions. While the projections are inherently uncertain, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely.

The primary deficit is the difference between non-interest spending and receipts. The ratio of the primary deficit to GDP is useful for gauging long-term fiscal sustainability. This ratio spiked from FY 2009 through FY 2012 due to the financial crisis of 2008-09, the ensuing severe recession, and increased spending and temporary tax reductions enacted to stimulate the economy and support recovery. As the economic recovery took hold, the primary deficit-to-GDP ratio fell, averaging 2.1 percent from FYs 2013-2019. The ratio is projected to rise to 2.9 percent in FY 2020 and then shrink slightly through FY 2024 as the economy grows. After FY 2024, increased spending for Social Security and health programs is projected to result in increasing primary deficits that will peak in FY 2040 at 3.9 percent. This effect is due to the continued retirement of the baby boom generation and increases in health care costs. After FY 2040, the ratio is projected to gradually decrease to 2.5 percent by FY 2094 as the aging of the population slows. The primary deficit projections, along with those for interest rates and GDP, determine the debt-to-GDP ratio projections.

These projections assume the individual income and estate and gift tax provisions of the TCJA are permanently extended and discretionary spending grows at essentially the same rate as nominal GDP beyond 2022. Congressional action is required to extend the provisions of the TCJA. GDP, interest, and other economic and demographic assumptions are the same as those that underlie the most recent Social Security and Medicare Trustees’ Report projections, adjusted for historical revisions that occur annually. See Note 23 for more information.

If changes in policy are not so abrupt as to slow economic growth, then the sooner policy changes are adopted, the smaller the changes to revenue and/or spending will be required to return the government to a sustainable fiscal path.