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**Presentation to the
Fixed Income Forum's
Spring Roundtable**

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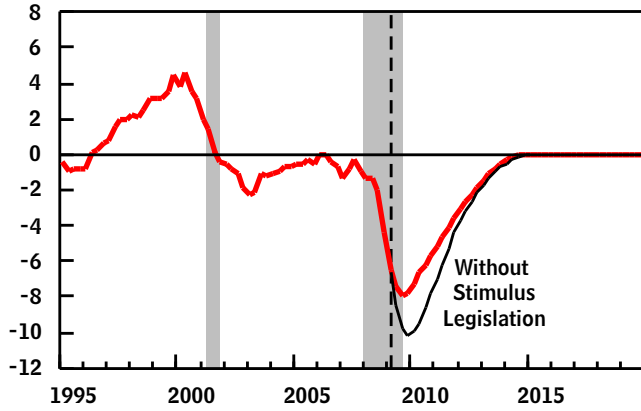
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Figure

The Gap Between Actual and Potential Output

(Percentage of potential GDP)



Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Note: The gap is the difference between real (inflation-adjusted) gross domestic product and its estimated potential level (which corresponds to a high level of use of labor and capital resources).

Table 2-3.

Estimated Macroeconomic Impacts of the American Recovery and Reinvestment Act of 2009, Fourth Quarters of Calendar Years 2009 to 2019

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP (Percentage change from baseline)											
Low estimate of effect	1.4	1.1	0.4	0.1	0	0	-0.1	-0.2	-0.2	-0.2	-0.2
High estimate of effect	3.8	3.4	1.2	0.5	0.3	0.2	0.1	0	0	0	0
GDP Gap ^a (Percent)											
Baseline	-7.4	-6.3	-4.1	-2.2	-0.7	-0.1	0	0	0	0	0
Low estimate of effect	-6.1	-5.3	-3.7	-2.0	-0.6	-0.1	0	0	0	0	0
High estimate of effect	-3.9	-3.2	-2.9	-1.7	-0.5	0	0.1	0	0	0	0
Unemployment Rate (Percent)											
Baseline	9.0	8.7	7.5	6.4	5.5	5.0	4.8	4.8	4.8	4.8	4.8
Low estimate of effect	8.5	8.1	7.2	6.3	5.4	5.0	4.8	4.8	4.8	4.8	4.8
High estimate of effect	7.8	6.8	6.6	6.0	5.3	4.9	4.8	4.8	4.8	4.8	4.8
Employment (Millions of jobs)											
Baseline	141.6	143.3	146.2	149.3	152.1	153.9	154.9	155.7	156.4	157.0	157.7
Low estimate of effect	142.4	144.5	146.8	149.6	152.2	153.9	155.0	155.7	156.4	157.0	157.7
High estimate of effect	143.9	146.9	148.0	150.0	152.4	154.1	155.0	155.7	156.4	157.0	157.7

Source: Congressional Budget Office.

- a. Real GDP is gross domestic product, excluding the effects of inflation. The GDP gap is the percentage difference between gross domestic product and CBO's estimate of potential GDP. Potential GDP is the estimated level of output that corresponds to a high level of use of labor and capital resources. A negative gap indicates a high unemployment rate and low utilization rates for plant and equipment.
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Table 2-1.**CBO's Economic Projections for Calendar Years 2009 to 2019**

	Estimated	Forecast			Projected Annual Average	
	2008 ^a	2009	2010	2011	2012-2015	2016-2019
Year to Year (Percentage change)						
Nominal GDP (Billions of dollars)	14,257	14,047	14,576	15,233	18,138 ^b	21,164 ^c
Nominal GDP	3.3	-1.5	3.8	4.5	4.5	3.9
Real GDP	1.1	-3.0	2.9	4.0	3.6	2.3
GDP Price Index	2.2	1.5	0.8	0.5	0.9	1.6
PCE Price Index ^d	3.3	-0.1	1.1	1.0	1.0	1.6
Core PCE Price Index ^e	2.0	1.0	0.8	0.7	0.9	1.6
Consumer Price Index ^f	3.8	-0.7	1.4	1.2	1.2	1.9
Core Consumer Price Index ^g	2.3	1.5	1.1	0.9	1.1	1.9
Calendar Year Average (Percent)						
Unemployment Rate	5.8	8.8	9.0	7.7	5.6	4.8
Three-Month Treasury Bill Rate	1.4	0.3	0.9	1.8	4.0	4.7
Ten-Year Treasury Note Rate	3.7	2.9	3.4	4.0	5.1	5.6
Tax Bases (Billions of dollars)						
Economic profits	1,496	1,269	1,386	1,547	1,822 ^b	1,940 ^c
Wages and salaries	6,543	6,496	6,743	6,953	8,315 ^b	9,709 ^c
Tax Bases (Percentage of GDP)						
Economic profits	10.5	9.0	9.5	10.2	10.4	9.5
Wages and salaries	45.9	46.2	46.3	45.6	45.9	45.9
Fourth Quarter to Fourth Quarter (Percentage change)						
Nominal GDP	1.0	-0.3	4.9	4.6	4.4	3.9
Real GDP	-0.9	-1.5	4.1	4.1	3.4	2.3
GDP Price Index	1.9	1.3	0.8	0.5	0.9	1.6
PCE Price Index ^d	1.7	0.5	1.0	0.9	1.1	1.6
Core PCE Price Index ^e	1.8	0.7	0.8	0.7	1.0	1.6
Consumer Price Index ^f	1.5	0.6	1.3	1.1	1.3	1.9
Core Consumer Price Index ^g	2.0	1.4	1.0	0.8	1.2	1.9

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

Notes: GDP = gross domestic product; PCE = personal consumption expenditure.

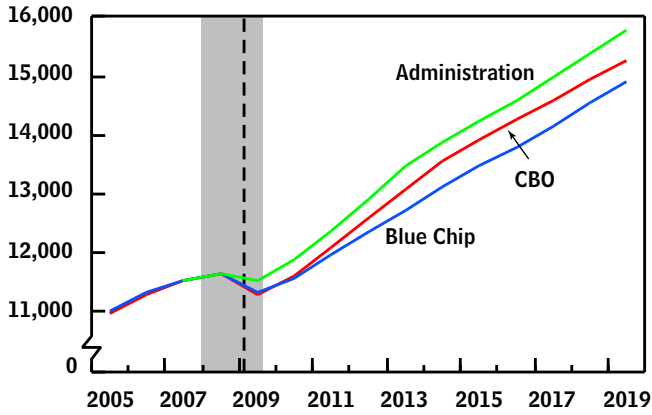
Economic projections for each year from 2009 to 2019 appear in Appendix A.

- a. Figures for the consumer price index, the unemployment rate, and the interest rates are actual values; the other 2008 figures are estimates.
- b. Level in 2015.
- c. Level in 2019.
- d. The PCE chained price index.
- e. The PCE chained price index excluding prices for food and energy.
- f. The consumer price index for all urban consumers.
- g. The consumer price index for all urban consumers excluding prices for food and energy.

Figure

**Comparison of Projections of Real
Gross Domestic Product**

(Billions of 2000 dollars)

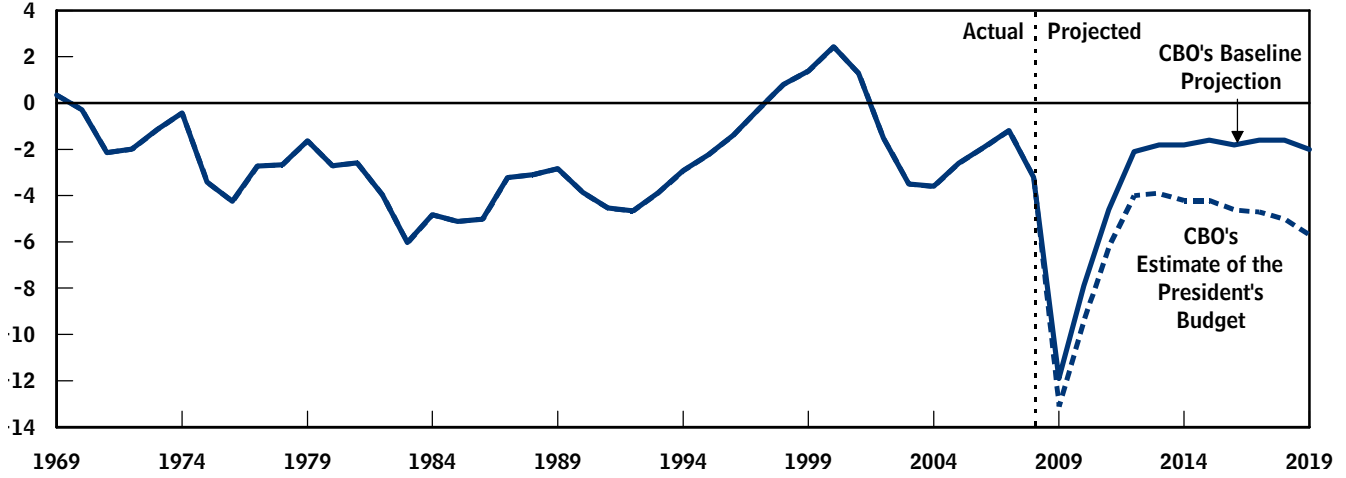


Sources: Congressional Budget Office; Office of Management and Budget; Department of Commerce, Bureau of Economic Analysis; and Aspen Publishers, Inc., *Blue Chip Economic Indicators* (March 10, 2009).

Figure 1-1.

Total Deficits or Surpluses, 1969 to 2019

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Table 1-1.**Comparison of Projected Revenues, Outlays, and Deficits in CBO's March 2009 Baseline and CBO's Estimate of the President's Budget**

(Billions of dollars)

	Actual 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total, 2010- 2014	Total, 2010- 2019
CBO's Baseline														
Revenues	2,524	2,186	2,334	2,783	3,086	3,281	3,436	3,610	3,761	3,927	4,083	4,247	14,921	34,550
Outlays	2,983	3,853	3,473	3,476	3,417	3,581	3,746	3,892	4,088	4,239	4,408	4,671	17,693	38,991
Total Deficit	-459	-1,667	-1,139	-693	-331	-300	-310	-282	-327	-312	-325	-423	-2,772	-4,441
CBO's Estimate of the President's Budget														
Revenues	2,524	2,159	2,289	2,586	2,917	3,095	3,231	3,387	3,522	3,669	3,807	3,950	14,118	32,452
Outlays	2,983	4,004	3,669	3,556	3,575	3,767	3,979	4,172	4,417	4,619	4,830	5,139	18,546	41,723
Total Deficit	-459	-1,845	-1,379	-970	-658	-672	-749	-785	-895	-949	-1,023	-1,189	-4,429	-9,270
Difference Between the President's Budget and CBO's Baseline														
Revenues	n.a.	-26	-45	-198	-169	-187	-205	-223	-240	-257	-276	-297	-804	-2,097
Outlays	n.a.	151	196	80	158	186	233	280	329	380	422	468	853	2,732
Total Deficit^a	n.a.	-177	-241	-278	-327	-373	-438	-503	-568	-637	-698	-765	-1,657	-4,829
Memorandum:														
Total Deficit as a Percentage of GDP														
CBO's baseline	-3.2	-11.9	-7.9	-4.6	-2.1	-1.8	-1.8	-1.6	-1.8	-1.6	-1.6	-2.0	-3.5	-2.5
CBO's estimate of the President's budget	-3.2	-13.1	-9.6	-6.4	-4.2	-4.1	-4.3	-4.4	-4.8	-4.9	-5.1	-5.7	-5.6	-5.3
Debt Held by the Public as a Percentage of GDP														
CBO's baseline	40.8	54.8	60.1	62.0	61.6	60.7	60.2	59.5	59.0	58.5	56.1	56.1	n.a.	n.a.
CBO's estimate of the President's budget	40.8	56.8	64.7	68.3	70.1	71.4	73.2	75.2	77.5	79.9	79.3	82.4	n.a.	n.a.

Source: Congressional Budget Office.

Note: GDP = gross domestic product; n.a. = not applicable.

a. Negative numbers indicate an increase relative to the baseline deficit.

Table 1-2.**CBO's Baseline Budget Projections**

	Actual 2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total, 2010- 2014	Total, 2010- 2019
In Billions of Dollars														
Revenues														
Individual income taxes	1,146	968	1,043	1,359	1,525	1,658	1,767	1,878	1,986	2,101	2,205	2,317	7,352	17,838
Corporate income taxes	304	174	206	281	339	339	328	338	335	334	336	332	1,493	3,167
Social insurance taxes	900	891	926	972	1,022	1,074	1,117	1,154	1,190	1,231	1,275	1,322	5,111	11,284
Other	174	153	160	171	200	211	223	239	250	261	268	277	965	2,261
Total Revenues	2,524	2,186	2,334	2,783	3,086	3,281	3,436	3,610	3,761	3,927	4,083	4,247	14,921	34,550
On-budget	1,866	1,533	1,666	2,089	2,360	2,515	2,634	2,776	2,897	3,029	3,151	3,279	11,264	26,396
Off-budget	658	653	668	695	726	766	802	834	864	898	932	968	3,657	8,154
Outlays														
Mandatory spending	1,595	2,463	2,004	1,988	1,921	2,023	2,118	2,205	2,345	2,450	2,558	2,753	10,053	22,365
Discretionary spending	1,135	1,221	1,302	1,285	1,240	1,239	1,244	1,256	1,279	1,300	1,320	1,352	6,310	12,816
Net interest	253	170	167	203	256	320	385	431	464	489	530	566	1,330	3,810
Total Outlays	2,983	3,853	3,473	3,476	3,417	3,581	3,746	3,892	4,088	4,239	4,408	4,671	17,693	38,991
On-budget	2,508	3,330	2,920	2,904	2,825	2,964	3,101	3,216	3,376	3,485	3,609	3,823	14,713	32,223
Off-budget	475	523	553	572	592	618	645	676	712	754	799	848	2,980	6,768
Deficit (-) or Surplus	-459	-1,667	-1,139	-693	-331	-300	-310	-282	-327	-312	-325	-423	-2,772	-4,441
On-budget	-642	-1,798	-1,254	-815	-464	-448	-468	-440	-479	-456	-458	-544	-3,449	-5,827
Off-budget	183	130	115	123	134	148	157	158	152	144	133	121	677	1,385
Debt Held by the Public	5,803	7,703	8,658	9,340	9,712	10,016	10,372	10,684	11,034	11,365	11,334	11,753	n.a.	n.a.
Memorandum:														
Gross Domestic Product	14,222	14,057	14,405	15,061	15,774	16,496	17,241	17,957	18,688	19,436	20,191	20,966	78,977	176,215
As a Percentage of Gross Domestic Product														
Revenues														
Individual income taxes	8.1	6.9	7.2	9.0	9.7	10.0	10.2	10.5	10.6	10.8	10.9	11.0	9.3	10.1
Corporate income taxes	2.1	1.2	1.4	1.9	2.1	2.1	1.9	1.9	1.8	1.7	1.7	1.6	1.9	1.8
Social insurance taxes	6.3	6.3	6.4	6.5	6.5	6.5	6.5	6.4	6.4	6.3	6.3	6.3	6.5	6.4
Other	1.2	1.1	1.1	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.3
Total Revenues	17.7	15.5	16.2	18.5	19.6	19.9	19.9	20.1	20.1	20.2	20.2	20.3	18.9	19.6
On-budget	13.1	10.9	11.6	13.9	15.0	15.2	15.3	15.5	15.5	15.6	15.6	15.6	14.3	15.0
Off-budget	4.6	4.6	4.6	4.6	4.6	4.6	4.7	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Outlays														
Mandatory spending	11.2	17.5	13.9	13.2	12.2	12.3	12.3	12.3	12.5	12.6	12.7	13.1	12.7	12.7
Discretionary spending	8.0	8.7	9.0	8.5	7.9	7.5	7.2	7.0	6.8	6.7	6.5	6.4	8.0	7.3
Net interest	1.8	1.2	1.2	1.3	1.6	1.9	2.2	2.4	2.5	2.5	2.6	2.7	1.7	2.2
Total Outlays	21.0	27.4	24.1	23.1	21.7	21.7	21.7	21.7	21.9	21.8	21.8	22.3	22.4	22.1
On-budget	17.6	23.7	20.3	19.3	17.9	18.0	18.0	17.9	18.1	17.9	17.9	18.2	18.6	18.3
Off-budget	3.3	3.7	3.8	3.8	3.8	3.7	3.7	3.8	3.8	3.9	4.0	4.0	3.8	3.8
Deficit (-) or Surplus	-3.2	-11.9	-7.9	-4.6	-2.1	-1.8	-1.8	-1.6	-1.8	-1.6	-1.6	-2.0	-3.5	-2.5
On-budget	-4.5	-12.8	-8.7	-5.4	-2.9	-2.7	-2.7	-2.5	-2.6	-2.3	-2.3	-2.6	-4.4	-3.3
Off-budget	1.3	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.8	0.7	0.7	0.6	0.9	0.8
Debt Held by the Public	40.8	54.8	60.1	62.0	61.6	60.7	60.2	59.5	59.0	58.5	56.1	56.1	n.a.	n.a.

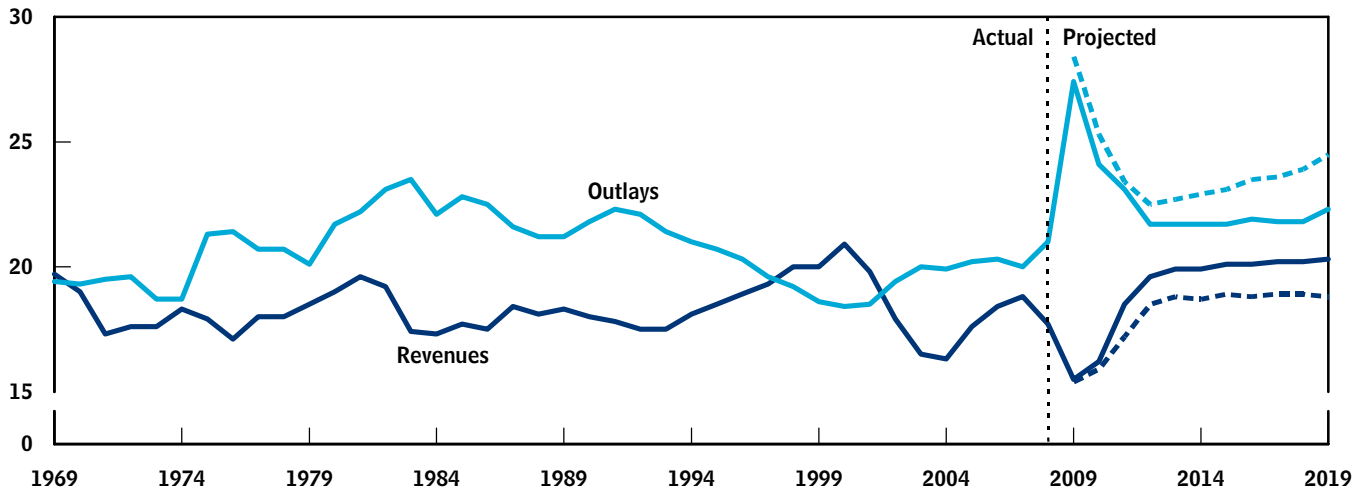
Source: Congressional Budget Office.

Note: n.a. = not applicable.

Figure 1-2.

Total Revenues and Outlays as a Percentage of Gross Domestic Product in CBO's Baseline and the President's Budget

(Percent)



Source: Congressional Budget Office.

Note: Dashed lines represent CBO's estimate of revenues and outlays as a share of gross domestic product in the President's budget.

Table 1-4.**CBO's Estimate of the President's Budget**

	Actual												Total,	Total,
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010- 2014	2010- 2019
In Billions of Dollars														
Revenues														
On-budget	1,866	1,506	1,621	1,891	2,192	2,329	2,429	2,554	2,658	2,772	2,875	2,982	10,461	24,302
Off-budget	658	653	668	695	726	766	802	833	864	897	932	968	3,656	8,151
Total	<u>2,524</u>	<u>2,159</u>	<u>2,289</u>	<u>2,586</u>	<u>2,917</u>	<u>3,095</u>	<u>3,231</u>	<u>3,387</u>	<u>3,522</u>	<u>3,669</u>	<u>3,807</u>	<u>3,950</u>	<u>14,118</u>	<u>32,452</u>
Outlays														
Mandatory spending	1,595	2,588	2,135	2,025	2,020	2,121	2,225	2,318	2,466	2,581	2,694	2,895	10,526	23,480
Discretionary spending	1,135	1,246	1,362	1,315	1,273	1,279	1,294	1,319	1,351	1,377	1,402	1,438	6,523	13,409
Net interest	253	170	172	216	282	367	460	536	601	661	734	806	1,497	4,834
Total	<u>2,983</u>	<u>4,004</u>	<u>3,669</u>	<u>3,556</u>	<u>3,575</u>	<u>3,767</u>	<u>3,979</u>	<u>4,172</u>	<u>4,417</u>	<u>4,619</u>	<u>4,830</u>	<u>5,139</u>	<u>18,546</u>	<u>41,723</u>
On-budget	2,508	3,481	3,115	2,983	2,982	3,148	3,333	3,496	3,704	3,864	4,030	4,290	15,562	34,946
Off-budget	475	523	553	573	594	619	646	676	713	755	800	849	2,984	6,777
Deficit (-) or Surplus	-459	-1,845	-1,379	-970	-658	-672	-749	-785	-895	-949	-1,023	-1,189	-4,429	-9,270
On-budget	-642	-1,975	-1,494	-1,092	-790	-819	-905	-942	-1,046	-1,092	-1,155	-1,308	-5,101	-10,644
Off-budget	183	130	115	122	132	147	156	157	151	143	132	119	672	1,374
Debt Held by the Public	5,803	7,987	9,319	10,292	11,055	11,770	12,628	13,508	14,491	15,523	16,013	17,277	n.a.	n.a.
Memorandum:														
Gross Domestic Product	14,222	14,057	14,405	15,061	15,774	16,496	17,241	17,957	18,688	19,436	20,191	20,966	78,977	176,215
As a Percentage of Gross Domestic Product														
Revenues														
On-budget	13.1	10.7	11.3	12.6	13.9	14.1	14.1	14.2	14.2	14.3	14.2	14.2	13.2	13.8
Off-budget	4.6	4.6	4.6	4.6	4.6	4.6	4.7	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Total	<u>17.7</u>	<u>15.4</u>	<u>15.9</u>	<u>17.2</u>	<u>18.5</u>	<u>18.8</u>	<u>18.7</u>	<u>18.9</u>	<u>18.8</u>	<u>18.9</u>	<u>18.9</u>	<u>18.8</u>	<u>17.9</u>	<u>18.4</u>
Outlays														
Mandatory spending	11.2	18.4	14.8	13.4	12.8	12.9	12.9	12.9	13.2	13.3	13.3	13.8	13.3	13.3
Discretionary spending	8.0	8.9	9.5	8.7	8.1	7.8	7.5	7.3	7.2	7.1	6.9	6.9	8.3	7.6
Net interest	1.8	1.2	1.2	1.4	1.8	2.2	2.7	3.0	3.2	3.4	3.6	3.8	1.9	2.7
Total	<u>21.0</u>	<u>28.5</u>	<u>25.5</u>	<u>23.6</u>	<u>22.7</u>	<u>22.8</u>	<u>23.1</u>	<u>23.2</u>	<u>23.6</u>	<u>23.8</u>	<u>23.9</u>	<u>24.5</u>	<u>23.5</u>	<u>23.7</u>
On-budget	17.6	24.8	21.6	19.8	18.9	19.1	19.3	19.5	19.8	19.9	20.0	20.5	19.7	19.8
Off-budget	3.3	3.7	3.8	3.8	3.8	3.8	3.7	3.8	3.8	3.9	4.0	4.0	3.8	3.8
Deficit (-) or Surplus	-3.2	-13.1	-9.6	-6.4	-4.2	-4.1	-4.3	-4.4	-4.8	-4.9	-5.1	-5.7	-5.6	-5.3
On-budget	-4.5	-14.1	-10.4	-7.3	-5.0	-5.0	-5.2	-5.2	-5.6	-5.6	-5.7	-6.2	-6.5	-6.0
Off-budget	1.3	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.8	0.7	0.7	0.6	0.9	0.8
Debt Held by the Public	40.8	56.8	64.7	68.3	70.1	71.4	73.2	75.2	77.5	79.9	79.3	82.4	n.a.	n.a.

Source: Congressional Budget Office.

Note: n.a. = not applicable.



Summary

This report presents the Congressional Budget Office's (CBO's) latest projections for the budget and economic outlook, updating the projections published in early January 2009. In addition, CBO has reviewed the President's budgetary proposals contained in the February publication *A New Era of Responsibility: Renewing America's Promise*, and this report summarizes CBO's preliminary analysis of that budget plan. (CBO will review the complete plan after the Administration submits it to the Congress later this spring.)

CBO's updated budget projections indicate that:

- Largely as a result of the enactment of recent legislation and the continuing turmoil in financial markets, CBO's baseline projections of the deficit have risen by more than \$400 billion in both 2009 and 2010 and by smaller amounts thereafter. Those projections assume that current laws and policies remain in place. Under that assumption, CBO now estimates that the deficit would total almost \$1.7 trillion (11.9 percent of gross domestic product, or GDP) this year and \$1.1 trillion (7.9 percent of GDP) next year—the largest deficits as a share of GDP since 1945. Deficits would shrink to about 2 percent of GDP by 2012 and remain in that vicinity through 2019.
- Under current laws and policies, outlays are projected to decline from 27.4 percent of GDP in 2009 to about 22 percent in 2012 and subsequent years, as spending related to the current recession phases out, problems in the financial markets fade, and discretionary spending—under the assumptions used for the baseline—declines as a share of GDP.

- At the same time, under current laws and policies, revenues are estimated to rise from 15.5 percent of GDP in 2009 to about 20 percent in 2012 and subsequent years. Much of that projected increase in revenues results from the growing impact of the alternative minimum tax (AMT) and, even more significant, the scheduled expiration in December 2010 of provisions enacted in the recent economic stimulus legislation and in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).

CBO's analysis of the President's budget proposals indicates that:

- As estimated by CBO and the Joint Committee on Taxation, the President's proposals would add \$4.8 trillion to the baseline deficits over the 2010–2019 period. CBO projects that if those proposals were enacted, the deficit would total \$1.8 trillion (13.1 percent of GDP) in 2009 and \$1.4 trillion (9.6 percent of GDP) in 2010. It would decline to about 4 percent of GDP by 2012 and remain between 4 percent and 6 percent of GDP through 2019.
- The cumulative deficit from 2010 to 2019 under the President's proposals would total \$9.3 trillion, compared with a cumulative deficit of \$4.4 trillion projected under the current-law assumptions embodied in CBO's baseline. Debt held by the public would rise, from 41 percent of GDP in 2008 to 57 percent in 2009 and then to 82 percent of GDP by 2019 (compared with 56 percent of GDP in that year under baseline assumptions).

- Proposed changes in tax policy would reduce revenues by an estimated \$2.1 trillion (or 6.1 percent) over the next 10 years. The proposals with the greatest effect on the budget include modifications to and the permanent extension of provisions of the 2001 and 2003 tax legislation (EGTRRA and JGTRRA); extension of the Making Work Pay tax credit; indexing of the exemption amounts for the AMT; implementation of a cap-and-trade program to reduce greenhouse-gas emissions; and limits on itemized deductions.
- Proposed changes in spending programs would add \$1.7 trillion (excluding debt service) to outlays over the next 10 years, an increase of 4.4 percent above baseline levels. Outlays for refundable tax credits, higher spending for payments to physicians under Medicare, and increased discretionary spending for a variety of annually appropriated programs account for the bulk of those changes. Interest costs associated with greater borrowing would add another \$1.0 trillion to deficits over the 2010–2019 period.
- CBO's estimates of deficits under the President's budget exceed those anticipated by the Administration by \$2.3 trillion over the 2010–2019 period. The differences arise largely because of differing projections of baseline revenues and outlays. CBO's projection of baseline deficits exceeds the Administration's

estimate (prepared on a comparable basis) by about \$1.6 trillion.

CBO's current assessment of economic developments indicates that:

- Although the economy is likely to continue to deteriorate for some time, the enactment of the American Recovery and Reinvestment Act and very aggressive actions by the Federal Reserve and the Treasury are projected to help end the recession in the fall of 2009. In CBO's forecast, on a fourth-quarter-to-fourth-quarter basis, real (inflation-adjusted) GDP falls by 1.5 percent in 2009 before growing by 4.1 percent in both 2010 and 2011.
- For the next two years, CBO anticipates that economic output will average about 7 percent below its potential—the output that would be produced if the economy's resources were fully employed. That shortfall is comparable with the one that occurred during the recession of 1981 and 1982 and will persist for significantly longer—making the current recession the most severe since World War II. In CBO's forecast, the unemployment rate peaks at 9.4 percent in late 2009 and early 2010 and remains above 7.0 percent through the end of 2011. With a large and sustained output gap, inflation is expected to be very low during the next several years.