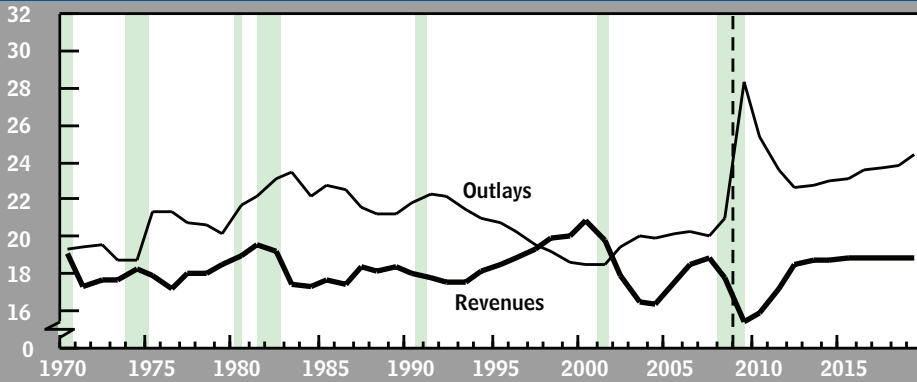
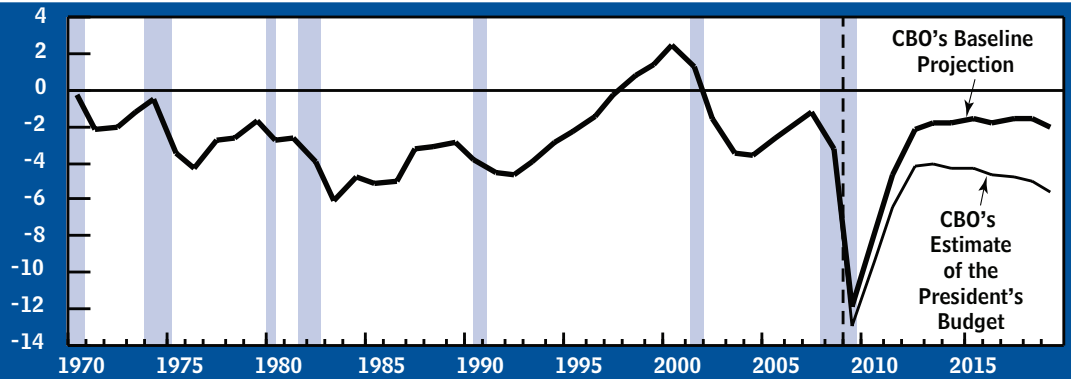


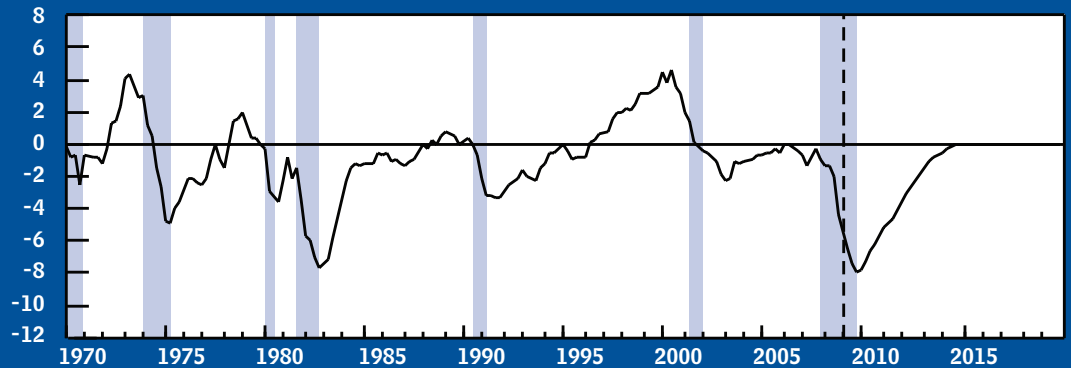
A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook

**Total Deficit or Surplus
(Percentage of GDP)**



**Revenues and Outlays
Under the
President's Budget
(Percentage of GDP)**

**The Gap Between
Actual and
Potential Output
(Percentage of GDP)**



MARCH 2009



**A Preliminary Analysis of the
President's Budget and an Update of
CBO's Budget and Economic Outlook**

March 2009

Notes

Unless otherwise indicated, years referred to in describing the economic outlook are calendar years, and years referred to in describing the budget outlook are federal fiscal years (which run from October 1 to September 30).

Numbers in the text and tables may not add up to totals because of rounding.

The figures use dashed vertical lines to separate actual from projected data and use shaded vertical bars to indicate periods of recession. (A recession extends from the peak of a business cycle to its trough.)



Preface

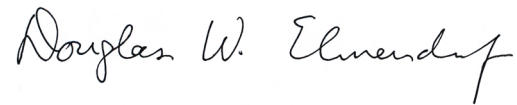
In response to a request by the Senate Committee on Appropriations, the Congressional Budget Office (CBO) offers this analysis. It includes a new economic forecast, updated budget projections, and the agency's work to date in analyzing the President's budgetary proposals for fiscal year 2010, as described in brief in the Office of Management and Budget's *A New Era of Responsibility: Renewing America's Promise*, released in February 2009. Once the Administration has released the details of those proposals, CBO will complete its analysis.

The baseline spending projections and the estimates of the President's spending proposals were prepared by the staff of CBO's Budget Analysis Division under the supervision of Peter Fontaine, Theresa Gullo, Janet Airis, Tom Bradley, Kim Cawley, Jeffrey Holland, Sarah Jennings, Kate Massey, and Sam Papenfuss. The baseline revenue estimates were prepared by the staff of CBO's Tax Analysis Division under the supervision of Frank Sammartino, Mark Booth, and David Weiner. Pamela Greene coordinated the analysis of the President's revenue proposals, and the Joint Committee on Taxation prepared most of the estimates of them. (A detailed list of contributors to the spending and revenue projections appears in Appendix B.)

The economic outlook was prepared by the Macroeconomic Analysis Division under the direction of Robert Dennis, Kim Kowalewski, and John F. Peterson. Robert Arnold and Christopher Williams developed the economic forecast and projections. David Brauer, Juan Contreras, Naomi Griffin, Juann Hung, Wendy Kiska, Mark Lasky, Damien Moore, Benjamin Page, William Randolph, Frank Russek, Marika Santoro, Sven Sinclair, David Torregrosa, Steven Weinberg, and Susan Yang contributed to the analysis. Holly Battelle and Eric Miller provided research assistance.

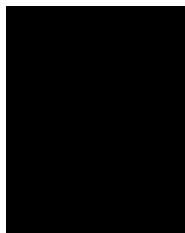
Barry Blom of CBO's Projections Unit was the lead author for Chapter 1. David Brauer wrote Chapter 2. Eric Miller compiled Appendix A.

John Skeen and Sherry Snyder edited the report, with help from Kate Kelly. Denise Jordan-Williams and Linda Lewis Harris assisted in its preparation. Maureen Costantino designed the cover and prepared the report for publication. Lenny Skutnik printed the initial copies, Linda Schimmel handled the distribution, and Simone Thomas prepared the electronic version for CBO's Web site (www.cbo.gov).

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large, stylized initial 'D'.

Douglas W. Elmendorf
Director

March 2009



Contents

	<i>Summary</i>	<i>vii</i>
1	CBO's Baseline and Estimate of the President's Budget	1
	CBO's Baseline Budget Projections	1
	Changes in CBO's Baseline Since January 2009	4
	CBO's Estimate of the President's Budget	11
2	The Economic Outlook	19
	Recent Economic Developments	21
	CBO's Short-Term Forecast	27
	The Outlook Through 2019	30
	Comparison with CBO's January Forecast	33
	Comparison with Other Forecasts	33
A	CBO's Economic Projections for 2009 to 2019	37
B	Contributors to the Revenue and Spending Projections	41

Tables

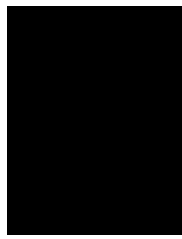
1-1.	Comparison of Projected Revenues, Outlays, and Deficits in CBO's March 2009 Baseline and CBO's Estimate of the President's Budget	2
1-2.	CBO's Baseline Budget Projections	3
1-3.	Changes in CBO's Baseline Projections of the Deficit Since January 2009	6
1-4.	CBO's Estimate of the President's Budget	10
1-5.	CBO's Estimate of the Effect of the President's Budget on Baseline Deficits	12
2-1.	CBO's Economic Projections for Calendar Years 2009 to 2019	20
2-2.	Consensus Forecasts of Foreign Economies' Inflation-Adjusted Growth of GDP, 2009	27
2-3.	Estimated Macroeconomic Impacts of the American Recovery and Reinvestment Act of 2009, Fourth Quarters of Calendar Years 2009 to 2019	30
2-4.	Key Assumptions in CBO's Projection of Potential Output	31
2-5.	CBO's Current and Previous Economic Projections for Calendar Years 2009 to 2019	32
2-6.	Comparison of CBO, Administration, and <i>Blue Chip</i> Economic Projections for Calendar Years 2009 to 2019	34
2-7.	Comparison of Economic Forecasts by the Federal Reserve and CBO for Calendar Years 2009, 2010, and 2011	36
A-1.	CBO's Year-by-Year Forecast and Projections for Calendar Years 2009 to 2019	38
A-2.	CBO's Year-by-Year Forecast and Projections for Fiscal Years 2009 to 2019	39

Figures

1-1.	Total Deficits or Surpluses, 1969 to 2019	11
1-2.	Total Revenues and Outlays as a Percentage of Gross Domestic Product in CBO's Baseline and the President's Budget	14
2-1.	The GDP Gap, 1965 to 2015	21
2-2.	The Unemployment Rate	21
2-3.	Uncertainty in Projections of Real GDP	22
2-4.	Vacant Homes, 1965 to 2008	23
2-5.	Spread Between the Three-Month Libor and the Expected Federal Funds Rate, January 2007 to March 2009	24

Figures (Continued)

2-6.	Real Personal Consumption Expenditures, January 1965 to January 2009	25
2-7.	Initial Claims for Unemployment Insurance, January 1965 to February 2009	25
2-8.	The Trade Balance, 1965 to 2008	26
2-9.	Core Consumer Price Index, 1985 to 2011	28



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.

CBO's Baseline and Estimate of the President's Budget

Since the Congressional Budget Office (CBO) last issued its baseline projections, in January 2009, the outlook for the budget deficit has deteriorated further.¹ Enactment of stimulus legislation and omnibus appropriations, a worsening of the economic outlook, and other factors have increased CBO's projections of the deficit by more than \$400 billion in both 2009 and 2010 and by smaller amounts thereafter. As a result, if current policies remain the same, CBO now anticipates that the deficit will 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 (see Table 1-1).

CBO has also analyzed the policy proposals outlined in the President's preliminary budget request.² Under those policies, 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. The cumulative deficit over the 2010–2019 projection period would equal \$9.3 trillion and would average 5.3 percent of GDP. Debt held by the public would rise from 57 percent of GDP in 2009 to 82 percent of GDP in 2019.

CBO's Baseline Budget Projections

CBO's baseline projections are estimates of federal revenues and spending for the next 10 years under the assumption that current laws and policies remain in place. The projected deficit for fiscal year 2009 under that assumption—\$1.7 trillion—is up significantly from

the \$1.2 trillion projected in January. (Additional funding likely to be requested for military operations in Iraq and Afghanistan would add to that total.) The increase in the projected deficit results primarily from legislation enacted since January and from an updated assessment of the costs of actions taken in response to the turmoil affecting the financial markets. In particular, enactment of the economic stimulus legislation—the American Recovery and Reinvestment Act of 2009 (ARRA, Public Law 111-5)—will boost outlays in 2009 by \$120 billion and reduce revenues by \$65 billion, CBO and the Joint Committee on Taxation (JCT) estimate. In addition, CBO has increased its estimate of outlays in 2009 associated with the Troubled Asset Relief Program (TARP) by over \$150 billion.³ Most of the remaining change in CBO's baseline estimate for 2009 reflects lower tax receipts as well as higher costs for federal operation of Fannie Mae and Freddie Mac, the two government-sponsored enterprises that guarantee mortgages and mortgage-backed securities and that have now been taken over by the government.

Under current laws and policies, the budget deficit in 2010 would total \$1.1 trillion, CBO estimates—\$436 billion higher than projected in January. The cumulative deficit for the 2010–2019 period has also increased significantly since January. Under the assumption that current laws remain in place over the next 10 years, CBO projects baseline deficits totaling \$4.4 trillion (2.5 percent of GDP) from 2010 to 2019, roughly \$1.3 trillion higher than its previous projection of \$3.1 trillion. Most of the change in the 10-year deficit

1. For CBO's previous baseline budget projections, see Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2009 to 2019* (January 2009).

2. See Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise* (February 26, 2009).

3. The TARP was created by the Emergency Economic Stabilization Act of 2008 (P.L. 110-343) in October 2008 to enable the Secretary of the Treasury to purchase or insure troubled assets.

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.

projection is attributable to recent legislative actions, with changes in other factors having largely offsetting effects on projected deficits.

As a percentage of GDP, the baseline budget deficit peaks in 2009 and then falls in each year through 2013, when it reaches 1.8 percent of GDP (see Table 1-2). The baseline deficit is projected to roughly stabilize as a share of output thereafter, ranging between 1.6 percent and 2.0 percent of GDP through 2019.

Revenues in CBO's baseline grow from a low of 15.5 percent of GDP this year to 19.9 percent in 2013 and remain at roughly 20 percent of GDP thereafter. Much of that increase results from the growing impact of the alternative minimum tax (AMT) and, even more significant, the scheduled expiration in December 2010 of provisions originally enacted in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), as well as tax provisions enacted in ARRA.

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.

As a percentage of GDP, outlays in the baseline peak in 2009 at 27.4 percent of GDP and then fall to 21.7 percent in 2012. They remain roughly constant thereafter, at about 22 percent of GDP from 2013 to 2019.

CBO generally constructs its baseline in accordance with the provisions set forth in the Balanced Budget and Emergency Deficit Control Act of 1985 and the Congressional Budget and Impoundment Control Act of 1974. (Although the provisions of the Deficit Control Act that pertain to the baseline expired at the end of September 2006, CBO has continued to use that law's specifications as guidance in preparing its baseline.) The resulting baseline projections are not intended to be a prediction of future budget outcomes. Rather, they serve as a benchmark that lawmakers can use to measure the effects of spending or revenue proposals, such as those in the President's budget.

To project revenues and mandatory spending, CBO assumes that current laws continue unchanged in the future, with only a few exceptions.⁴ That approach includes the assumption that various changes in tax law enacted since 2001 expire as scheduled, by the end of December 2010, causing revenues to rise thereafter.

The Deficit Control Act also provides guidelines for CBO's projections of discretionary spending, so CBO normally assumes that appropriations each year are equal to the current year's budget authority adjusted for inflation and for certain other factors. However, CBO, with the agreement of the budget committees, deviated from that procedure for its current baseline. Because of the unusual size and nature of the funding provided in ARRA, the \$283 billion in discretionary budget authority provided in that act has not been extrapolated in CBO's baseline (that is, funding projected for subsequent years is based on enacted appropriations excluding those in ARRA).

4. The Deficit Control Act specified that mandatory spending programs whose authorizations are set to expire should be assumed to continue if they have outlays of more than \$50 million in the current year and were established on or before the date when the Balanced Budget Act of 1997 was enacted. Programs established after that date are not automatically assumed to continue. The Deficit Control Act also specified that expiring excise taxes whose revenues are dedicated to trust funds should be assumed to be extended at their current rates. The law did not provide for the extension of other expiring tax provisions, even if they had been routinely extended in the past.

Changes in CBO's Baseline Since January 2009

Revisions to CBO's baseline incorporate enacted legislation as well as economic data and technical information that have become available since CBO completed its previous baseline projections in January.

Since January, CBO has increased its current-law estimate of the 2009 deficit by \$481 billion, to \$1.7 trillion (see Table 1-3). Much of that change stems from lower estimated revenues and the increased costs attributable to the TARP. Over the 2010–2019 period, CBO has increased its estimate of the cumulative deficit by \$1.3 trillion—mostly because of recently enacted legislation. Nearly half of that projected increase occurs in 2010 and 2011, largely as a result of the 2009 stimulus legislation (ARRA). Revisions stemming from CBO's updated economic forecast are substantial but are mostly offsetting between the revenue and outlay sides of the budget; changes in economic assumptions reduce projections of revenues and outlays by \$1.3 trillion to \$1.4 trillion over the 10-year period. Changes resulting from technical adjustments are roughly \$177 billion for 2009, primarily because of revised estimates of the cost of the TARP and the conservatorship of Fannie Mae and Freddie Mac, as well as reductions in estimated revenue. Technical adjustments have much smaller effects in subsequent years.

Legislative Changes

CBO estimates that enacted legislation will increase the deficit by \$195 billion in 2009 and by \$1.3 trillion over the 2010–2019 period. Nearly all of that increase is attributable to the economic stimulus legislation.⁵

Changes in Outlays. Legislation enacted since January will increase outlays by \$134 billion in 2009 and by \$1.2 trillion over the 2010–2019 period, according to CBO's estimates. Much of that change results from the enactment of ARRA, but some is attributable to passage of the Omnibus Appropriations Act of 2009 (P.L. 111-8)

5. ARRA also affected CBO's economic projections by increasing output significantly in the short run and reducing it slightly in the long run relative to what otherwise would have occurred. For discussions of the estimated economic impact of ARRA, see Chapter 2 of this report and Congressional Budget Office, "Estimated Macroeconomic Impacts of the American Recovery and Reinvestment Act of 2009," letter to the Honorable Charles E. Grassley (March 2, 2009).

and the reauthorization of the Children's Health Insurance Program (CHIP).

Economic Stimulus. Provisions in ARRA will increase outlays in 2009 by \$120 billion in CBO's estimates; \$90 billion of that total is classified as mandatory outlays, and the remaining \$30 billion affects discretionary programs. Over the 10-year period, additional outlays resulting from the stimulus package are estimated to total \$456 billion, nearly evenly split between mandatory and discretionary programs.⁶

Children's Health Insurance. The Children's Health Insurance Program Reauthorization Act of 2009 (P.L. 111-3) reauthorized and expanded CHIP through 2013 and increased federal funding for the program, relative to January baseline figures. CBO estimates that the act will increase mandatory outlays by \$2 billion in 2009 and by \$38 billion between 2010 and 2019.

Omnibus Appropriations. The Omnibus Appropriations Act of 2009, enacted in March, provided funding for the rest of fiscal year 2009 for all agencies except the Departments of Defense, Homeland Security, and Veterans Affairs, which received their appropriations last fall. The funding in that bill (on an annualized basis) is about \$20 billion greater than the amount in the continuing resolution, which provided funding for the first part of the fiscal year and was the basis for CBO's January baseline projections. CBO therefore estimates that the omnibus legislation will increase discretionary outlays by \$9 billion for 2009; assuming similar appropriations (adjusted for inflation) over the 2010–2019 period adds \$260 billion to the baseline totals.

Net Interest. Recently enacted legislation directly increased the deficit for 2009 by an estimated \$195 billion and the cumulative baseline deficit by \$863 billion. Interest costs on the additional debt required to fund those deficits are estimated to boost net interest costs by \$404 billion over the 10-year period. Therefore, projected outlays between 2010 and 2019 have risen by \$1.3 trillion as the result of enacted legislation.

Changes in Revenues. As a result of recently enacted legislation, CBO has reduced its estimate of revenues by \$61 billion for 2009 and by \$76 billion for the 2010–

2019 period. The largest change occurs in 2010, for which CBO has reduced its projection by \$173 billion; over the following nine years, however, legislation accounts for an upward revision to revenues of \$97 billion.

Economic Stimulus. The largest legislative changes stem from enactment of ARRA. Several provisions of that law account for most of the impact on revenues: the new Making Work Pay tax credit, which is in effect through 2010; one year of relief to individuals from the AMT; and business tax provisions related to depreciation and income from cancellation of indebtedness. JCT and CBO estimate that ARRA will lower revenues by \$245 billion over the 2009–2010 period and produce small gains beginning in 2012, yielding a net reduction of revenues totaling \$212 billion over the 2009–2019 period.⁷

Children's Health Insurance. CBO also adjusted its baseline projections of revenues to incorporate the effects of an increase in the tobacco tax enacted in the Children's Health Insurance Program Reauthorization Act of 2009; those increases will raise revenues by \$4 billion in 2009 and \$71 billion over the 2010–2019 period, CBO estimates.

Economic Changes

In its updated economic forecast, CBO modified projections of real GDP, inflation, interest rates, the unemployment rate, and other economic variables (for details, see Chapter 2). The weaker outlook for the economy generates an upward revision of \$43 billion to the estimated 2009 deficit. Over the following 10 years, economic changes significantly affect estimates of revenues and outlays; those changes largely offset each other, however, because lower projections of inflation have reduced CBO's estimates of both revenues and outlays. CBO has lowered its projection of revenues by nearly \$1.3 trillion but its estimate of outlays by \$1.4 trillion. Overall, CBO's updated economic forecast leads to a \$101 billion reduction in the cumulative budget deficit over the next 10 years.

Changes in Revenues. As a result of changes to its economic outlook since January, revenues under current law would be lower by \$45 billion in 2009, by \$14 billion in

6. See Congressional Budget Office, cost estimate for the conference agreement for H.R. 1 (February 13, 2009).

7. Those estimates do not reflect the impact of the legislation on the economy.

Table 1-3.**Changes in CBO's Baseline Projections of the Deficit Since January 2009**

(Billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total, 2010- 2014	Total, 2010- 2019
Total Deficit as Projected in January 2009	-1,186	-703	-498	-264	-257	-250	-234	-272	-234	-188	-235	-1,972	-3,135
Legislative Changes													
Revenues	-61	-173	-1	17	10	13	14	13	12	12	7	-133	-76
Outlays													
Mandatory outlays													
Stimulus	90	116	56	12	10	16	6	-4	-3	-1	-1	209	205
CHIP	2	5	7	8	9	3	1	1	1	1	1	33	38
Other	2	*	*	1	1	4	5	5	6	6	7	5	34
Subtotal, mandatory	95	120	63	20	20	23	12	3	4	6	6	247	277
Discretionary outlays													
Stimulus	30	103	71	35	20	12	6	2	1	1	*	241	251
Other Defense	1	1	1	1	1	1	1	1	1	1	1	6	13
Other Nondefense	8	19	23	24	24	25	25	26	26	27	27	115	246
Subtotal, discretionary	39	124	95	60	46	38	33	29	28	29	29	362	510
Net interest	1	5	13	22	31	41	48	54	59	63	69	112	404
Subtotal, outlays	134	250	171	102	97	101	92	86	91	98	104	720	1,191
Total, Legislative Changes^a	-195	-422	-172	-84	-86	-89	-78	-73	-79	-86	-97	-853	-1,267
Economic Changes													
Revenues	-45	-14	-24	-45	-71	-109	-145	-175	-201	-232	-259	-263	-1,276
Outlays													
Mandatory outlays													
Social Security	0	0	-6	-17	-28	-39	-48	-54	-58	-62	-67	-90	-378
Other COLA programs	0	*	-2	-6	-9	-12	-15	-21	-18	-19	-20	-29	-122
Medicare	-1	*	-2	-6	-12	-17	-22	-26	-31	-36	-42	-37	-194
Medicaid	1	*	-3	-6	-9	-14	-17	-19	-22	-24	-27	-31	-140
Unemployment	5	2	1	*	-1	-2	-2	-3	-3	-3	-3	-1	-15
Other	-1	-2	-2	-1	-2	-1	-2	*	-4	-4	-4	-8	-22
Subtotal, mandatory	4	*	-14	-36	-61	-84	-105	-123	-136	-148	-164	-195	-871
Discretionary outlays	*	1	-4	-13	-27	-41	-51	-58	-64	-70	-76	-84	-404
Net interest													
Debt service	*	1	1	2	1	-1	-3	-4	-4	-4	-4	3	-17
Rate effect and inflation	-5	5	3	-19	-38	-24	-13	-5	-2	3	5	-73	-85
Subtotal, net interest	-5	5	5	-18	-37	-25	-16	-9	-6	-2	2	-71	-101
Subtotal, outlays	-1	6	-13	-67	-126	-150	-172	-190	-206	-220	-238	-350	-1,377
Total, Economic Changes^a	-43	-20	-11	23	55	41	27	15	5	-12	-21	87	101

Continued

Table 1-3.

Continued

Changes in CBO's Baseline Projections of the Deficit Since January 2009

(Billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010- 2014	2010- 2019
Technical Changes													
Revenues	-66	-12	-17	-11	-11	-11	-6	-5	-6	-6	-5	-62	-89
Outlays													
Mandatory outlays													
TARP	152	15	0	0	0	0	0	0	0	0	0	15	15
Fannie Mae and Freddie Mac	52	5	7	8	8	2	1	*	-1	-1	-1	30	28
Medicare	-2	-2	4	11	13	19	13	11	15	21	17	45	123
Deposit Insurance	-5	6	10	11	7	*	-6	-6	-7	-6	*	34	9
Other	3	2	4	2	2	2	3	2	3	3	5	12	27
Subtotal, mandatory	200	26	25	31	31	23	11	7	10	17	20	137	201
Discretionary outlays	-2	-10	5	*	1	1	*	*	*	*	*	-4	-4
Net interest													
Debt service	1	3	4	8	16	27	33	38	44	50	56	57	278
Other	-21	-37	-39	-44	-48	-49	-52	-53	-55	-33	-12	-218	-424
Subtotal, net interest	-21	-35	-35	-37	-32	-22	-19	-15	-12	16	44	-161	-146
Subtotal, outlays	177	-19	-5	-5	*	1	-9	-8	-1	33	64	-28	51
Total, Technical Changes^a	-243	7	-11	-5	-11	-12	3	3	-4	-38	-69	-34	-140
Total Impact on the Deficit^a	-481	-436	-194	-67	-43	-61	-48	-55	-78	-136	-188	-801	-1,307
Total Deficit as Projected in March 2009	-1,667	-1,139	-693	-331	-300	-310	-282	-327	-312	-325	-423	-2,772	-4,441
Memorandum:													
Total Revenue Changes	-172	-199	-41	-38	-72	-108	-137	-168	-195	-226	-258	-458	-1,441
Total Outlay Changes	310	237	153	29	-29	-47	-88	-113	-117	-90	-70	342	-135

Source: Congressional Budget Office.

Source: Congressional Budget Office.

Note: * = between -\$500 million and \$500 million; CHIP - Children's Health Insurance Program; COLA = cost-of-living adjustment;

TARP = Troubled Asset Relief Program.

a. Negative numbers indicate an increase in the deficit.

2010, and by \$1.3 trillion, or 3.5 percent, over the 2010–2019 period, CBO estimates. Baseline revenues are now lower because the projection for nominal GDP has decreased by more than \$7 trillion, or 3.9 percent, over the 10-year period. Compared with the previous forecast, the outlook for lower nominal GDP stems from a reduction in the level of real economic activity in 2009 as well as lower inflation in 2009 and beyond. Lower projected GDP, in turn, leads to a drop in estimated wages and salaries, corporate profits, and other taxable income.

Changes in Outlays. Changes in CBO's economic forecast have little effect on projected outlays in 2009. However, economic changes—particularly a reduction in various measures of inflation—have significantly decreased projected spending over the following 10 years; CBO has lowered its estimate of outlays by \$1.4 trillion, or 3.5 percent, for that period. Over 60 percent of that total change (\$871 billion) results from adjustments to spending for mandatory programs, particularly Social Security, retirement benefits for federal employees, Medicare, and Medicaid. About 30 percent (\$404 billion) results from reduced estimates of discretionary outlays because the

inflation rates used to project future funding are now lower. The remaining change (\$101 billion) stems from a decrease in estimated interest on the federal debt.

Social Security and Other Indexed Programs. Over the 10-year baseline period, CBO has reduced estimated outlays by \$500 billion for federal retirement and benefit programs, including Social Security, because projected cost-of-living adjustments (COLAs) have fallen since January. No COLAs are currently projected for such programs from 2010 through 2012; the COLA would amount to less than 2 percent in all future years (an average of 0.8 percentage points below CBO's previous projections for years after 2011). As a result, estimated outlays for 2010 to 2019 are \$378 billion lower for Social Security benefits and \$122 billion lower for other federal programs that incorporate a COLA in their benefit calculations (such as civil service retirement, veterans' compensation and pensions, and other federal retirement programs).

Medicare. Payment rates for most Medicare services are adjusted each year on the basis of the estimated rate of inflation. Because inflation is estimated to be lower, payment rates for most Medicare services are now projected to drop over the 2010–2019 period. By 2019, payment rates will be about 6 percent lower than previously estimated. CBO has therefore reduced projected Medicare spending over that period by \$194 billion.

Medicaid. The lower inflation forecast has trimmed projections of Medicaid payment rates over the 2010–2019 period, thus reducing estimated Medicaid outlays by approximately \$140 billion.

Discretionary Programs. Reductions in the factors used to extrapolate discretionary spending (the GDP price index and the employment cost index for wages and salaries) diminish projected discretionary outlays by \$404 billion over the 10-year period.

Net Interest. From 2010 to 2019, CBO's projection of net interest has been reduced by \$101 billion. About one-third of that change stems from lower anticipated inflation adjustments on Treasury Inflation-Protected Securities (TIPS); the rest results from lower projections of other interest rates (mostly for the 2012–2014 period) and from debt-service costs related to other economic changes.

Technical Changes

In updates to CBO's baselines, changes not attributable to economic or legislative activity are classified as technical. For 2009, such revisions increase the deficit by \$243 billion; they result from adjustments to expected outlays (\$177 billion) and expected revenues (\$66 billion). Over the following 10 years, technical changes account for small increases in deficit projections, averaging about \$14 billion a year.

Changes in Revenues. Adjustments to CBO's technical assumptions reduce projected revenues by \$66 billion in 2009 and by \$89 billion from 2010 to 2019. The most significant change stems from smaller-than-expected collections from employers' withholding of income and payroll (social insurance) taxes from employees' paychecks. Starting in December, those collections dropped significantly compared with a year ago, presumably reflecting, at least in part, substantial decreases in year-end bonuses and increasing job losses. However, the year-over-year declines in withholding have continued past the traditional bonus season and are greater than implied by macroeconomic data on labor market activity. CBO assumes that this downward effect on revenues will diminish over the next few years, as most forms of taxable income return to their historical relationship to GDP.

Changes in Outlays. In 2009, technical adjustments increase estimated outlays by \$177 billion. Increased subsidy costs estimated for the TARP, Fannie Mae, and Freddie Mac total roughly \$200 billion. That increase is partially offset by a reduction in net interest of \$21 billion.

Over the 2010–2019 period, technical changes boost estimated outlays by \$51 billion (0.1 percent)—the result of a \$201 billion increase in mandatory outlays (dominated by a \$123 billion increase in Medicare outlays) that is partially offset by a \$146 billion decrease in net interest outlays.

Troubled Asset Relief Program. Since January, CBO has raised its estimate of the net cost (on a present-value basis) of the transactions covered by the TARP by \$152 billion for 2009 and by \$15 billion for 2010. Those revisions stem from three factors—changes in financial market conditions, new transactions, and a small shift in the anticipated timing of disbursements.

Since CBO's previous estimate was completed, market yields on securities issued by the firms that have received TARP funds have increased, thereby boosting the estimated subsidy cost of the Treasury's purchases of preferred stock, asset guarantees, and loans to automakers. Also, the Treasury announced additional deals with Bank of America and American International Group (AIG) as well as participation of up to \$50 billion in the Administration's foreclosure mitigation plan, all of which involve subsidy rates that are higher than the averages in the previous baseline.⁸

Finally, CBO assumed that more transactions would occur after October 1, which pushes the recognition of more of the subsidy cost into fiscal year 2010.

Fannie Mae and Freddie Mac. As a result of the degree of management and financial control that the federal government currently exercises over Fannie Mae and Freddie Mac, CBO has determined that the two corporations should now be included in the federal budget. In January, CBO estimated the subsidy cost for their existing business when the takeover occurred (\$200 billion recorded in 2009) and the estimated subsidy costs for future activities (nearly \$40 billion for 2009 and smaller amounts thereafter). Since January, however, the condition of the two entities has turned out to be worse than expected; as a result, CBO has increased its estimate of the present value of future losses for Fannie Mae and Freddie Mac by \$52 billion for 2009—most of which stems from loans and guarantees inherited at the time of the conservatorship—and by \$28 billion for their activities between 2010 and 2019.⁹

Medicare. CBO has raised its projection of Medicare outlays over the 2010–2019 period by \$123 billion because of technical factors (although that increase is largely offset by the decrease in estimated Medicare outlays resulting from CBO's updated economic forecast). The technical changes in the Medicare baseline are the net effect of a \$167 billion increase in projected spending for Parts A

and B and a \$46 billion reduction in projected spending for Part D. (Parts A and B cover medical and surgical benefits; Part D covers prescription drugs.) The major component of the higher projected spending for Parts A and B is a 2 percent increase in projected enrollment because of greater participation in Social Security's Disability Insurance (DI) program. (Beginning two years after they become eligible for DI, participants in that program are automatically eligible for benefits through Medicare.) The lower projected spending for the Part D program reflects the expectation that growth in spending for prescription drugs—which has been lower in recent years than CBO had expected—will continue to be lower than CBO had previously projected.

Deposit Insurance. Estimated outlays for 2009 are \$5 billion lower than in CBO's January baseline, primarily because of the Federal Deposit Insurance Corporation's (FDIC's) recent actions to increase insurance premiums (which are recorded as offsets to spending). CBO expects that net outlays for deposit insurance will be about \$29 billion higher through 2014 than projected in January; by 2019, most of that increase would be offset by income from higher premiums and proceeds from selling the assets of failed institutions. On balance, net outlays over the 2010–2019 period are projected to be about \$9 billion higher than was estimated in January.

The annual budgetary impact of deposit insurance activity depends on several factors, including the expenses stemming from failed institutions, the methods used to resolve those failures, and the timing of industry payments to recoup any losses. CBO estimates that losses from FDIC-insured institutions could total about \$100 billion through 2014, roughly double the amount projected in January. CBO's projections assume that the FDIC will continue to raise premiums as needed to maintain sufficient balances in the insurance funds and will manage costs in ways that reduce the volatility of annual outlays—for example, by resolving failures of large institutions through cost-sharing arrangements, which tend to spread costs over a longer period.

Net Interest. Technical changes to net interest mostly stem from an adjustment to the treatment of interest transactions with credit financing accounts (nonbudgetary accounts that record cash flows for federal credit programs), the borrowing activities of the Federal Financing Bank, and a shift in the maturity structure of federal borrowing. Such changes reduce interest costs by

8. CBO's baseline includes an estimate of the net cost of transactions for the TARP. Broadly speaking, that cost is the purchase price minus the present value (adjusted for market risk) of any estimated future earnings from holding purchased assets and the proceeds from their eventual sale.

9. Conservatorship is the legal process in which an entity is appointed to establish control and oversight of a company to put it in a sound and solvent condition.

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

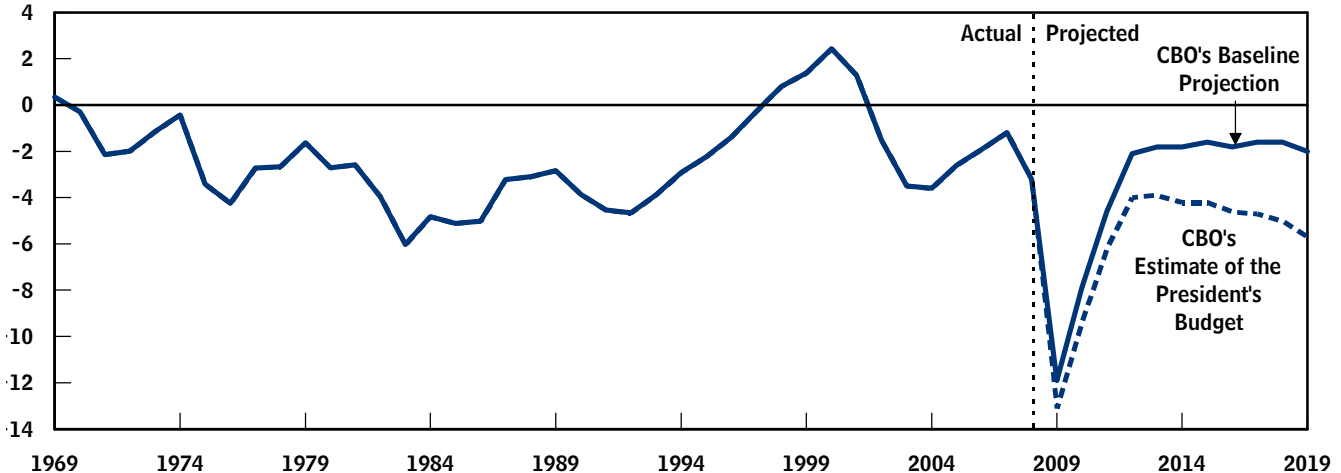
	Actual												Total,	Total,
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010- 2014	2010- 2019
In Billions of Dollars														
Revenues														
On-budget	1,866	1,506	1,621	1,891	2,192	2,329	2,429	2,554	2,658	2,772	2,875	2,982	10,461	24,302
Off-budget	658	653	668	695	726	766	802	833	864	897	932	968	3,656	8,151
Total	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														
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	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
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	17.7	15.4	15.9	17.2	18.5	18.8	18.7	18.9	18.8	18.9	18.9	18.8	17.9	18.4
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	21.0	28.5	25.5	23.6	22.7	22.8	23.1	23.2	23.6	23.8	23.9	24.5	23.5	23.7
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.

Figure 1-1.**Total Deficits or Surpluses, 1969 to 2019**

(Percentage of gross domestic product)



Source: Congressional Budget Office.

\$424 billion between 2010 and 2019; added debt-service costs stemming from other technical changes increase interest payments by \$278 billion over the 10-year period.

CBO's Estimate of the President's Budget

The President's budget provides a broad outline of his policy proposals that will be followed by a more detailed budget presentation in April. Nevertheless, most of the proposals were specific enough that CBO and JCT could estimate the budgetary impact using their own technical assumptions and CBO's economic forecast. For discretionary funding, the budget outline provided only aggregate amounts of budget authority, which CBO used as a basis for estimating such spending.

Overview of the President's Budget

If the President's proposals were enacted, the government would record a deficit of \$1.8 trillion in 2009, CBO estimates (see Table 1-4). The deficit for 2009 would equal 13.1 percent of GDP, with revenues totaling 15.4 percent and outlays equal to 28.5 percent of GDP.¹⁰ Relative to CBO's baseline budget projections for 2009, the propos-

als in the President's budget request would reduce revenues by \$26 billion and boost outlays by \$151 billion (mostly for additional efforts aimed at stabilizing the financial system). As a result, the deficit for this year would be \$177 billion larger than the deficit that CBO anticipates under current law.

In 2010, the deficit under the President's budget would fall to 9.6 percent of GDP, or nearly \$1.4 trillion, CBO estimates—\$241 billion more than the deficit of \$1.1 trillion that CBO projects under current laws and policies (see Figure 1-1). That difference is largely attributable to additional spending for the government's actions to stabilize financial markets (\$125 billion); defense spending, primarily for ongoing military operations in Iraq and Afghanistan and other activities related to the war on terrorism (\$50 billion); and various revenue reductions (\$45 billion). In total, outlays next year would measure 25.5 percent of GDP under the President's policies, and revenues would amount to 15.9 percent.

From 2010 to 2019, the cumulative deficit under the President's proposals would total \$9.3 trillion, more than double the cumulative deficit projected under the current-law assumptions embodied in CBO's baseline (see Table 1-5). Over the 10-year period, proposed tax policies—such as extending some of the expiring provisions enacted in EGTRRA and JGTRRA—would reduce revenues relative to the baseline by an estimated

10. The estimates presented in this chapter do not take into consideration any impact that the President's budgetary proposals might have on GDP or other the broad measures of economic activity.

Table 1-5.**CBO's Estimate of the Effect of the President's Budget on Baseline Deficits**

(Billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total, 2010- 2014	Total, 2010- 2019
Total Deficit as Projected in CBO's March 2009 Baseline	-1,667	-1,139	-693	-331	-300	-310	-282	-327	-312	-325	-423	-2,772	-4,441
Effect of the President's Proposals													
Revenues													
Provisions related to EGTRRA and JGTRRA													
Modify individual income tax rates ^a	0	0	-68	-99	-104	-109	-114	-119	-124	-129	-134	-379	-999
Modify capital gains and dividend tax rates ^b	0	*	-5	-20	-25	-27	-28	-29	-30	-31	-32	-77	-226
Modify estate and gift tax rates	0	*	-2	-20	-23	-27	-31	-34	-37	-40	-43	-72	-256
Other provisions	0	0	-28	-46	-47	-48	-49	-50	-51	-52	-54	-170	-427
Subtotal, proposed extensions	0	*	-103	-185	-199	-211	-222	-231	-242	-252	-263	-698	-1,907
Permanently extend Making Work Pay credit	0	0	-29	-42	-43	-43	-44	-44	-44	-45	-45	-156	-378
Index the AMT starting from 2009 levels	0	-7	-69	-31	-34	-37	-41	-46	-52	-60	-70	-177	-447
Revenues from climate policy	0	0	0	77	77	78	78	79	79	80	80	232	629
Other proposals	-26	-39	3	12	12	8	5	3	2	1	*	-5	7
Total Effect on Revenues	-26	-45	-198	-169	-187	-205	-223	-240	-257	-276	-297	-804	-2,097
Outlays													
Mandatory													
Expand earned income and child tax credits	0	*	*	36	36	36	36	36	37	37	37	108	292
Provide Making Work Pay and other tax credits	0	0	*	23	24	24	24	24	24	24	24	72	193
Freeze Medicare physician payment rates	0	7	17	22	18	23	28	35	42	45	47	87	285
Support financial stabilization	125	125	0	0	0	0	0	0	0	0	0	125	125
Modify the Family Federal Education Loan Program	0	-5	-10	-12	-11	-10	-9	-9	-9	-9	-10	-47	-94
Modify Pell grants ^c	0	5	20	28	30	33	32	33	35	37	39	116	293
Other proposals	*	-1	9	2	1	*	1	1	2	3	3	11	22
Subtotal, mandatory	125	131	37	99	98	107	112	121	131	136	142	472	1,115
Discretionary													
Defense	25	50	24	14	7	6	7	9	10	12	13	100	151
Nondefense	*	9	6	19	33	45	56	62	67	70	74	113	442
Subtotal, discretionary	25	59	30	33	40	51	63	71	77	82	87	213	593
Net interest	1	6	13	26	48	75	105	137	172	204	239	167	1,023
Total Effect on Outlays	151	196	80	158	186	233	280	329	380	422	468	853	2,732

Continued

\$2.1 trillion, an average of 1.2 percent of GDP. In addition, under the President's proposals, spending other than interest outlays would be \$1.7 trillion higher (about 1.0 percent of GDP). Discretionary spending would be \$0.6 trillion above CBO's baseline projection; nondefense programs would receive more than 70 percent of that increase. Mandatory spending would be \$1.1 trillion above the baseline total. The resulting higher deficits would require additional federal borrowing; net interest paid on that borrowing would add \$1.0 trillion over the

10-year period relative to the baseline. Debt held by the public would rise, from 41 percent of GDP in 2008 to 57 percent in 2009 and to 82 percent of GDP by 2019.

Under the President's proposals, revenues would climb from 17.2 percent of GDP in 2011 to 18.8 percent in 2013 and remain near 19.0 percent thereafter (see Figure 1-2 and Table 1-4). That level is slightly above the average of 18.3 percent over the past 40 years and below the baseline projection of 20.3 percent for 2019. The

Table 1-5.

Continued

CBO's Estimate of the Effect of the President's Budget on Baseline Deficits

(Billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total, 2010- 2014	Total, 2010- 2019
Total Effect on the Deficit^d	-177	-241	-278	-327	-373	-438	-503	-568	-637	-698	-765	-1,657	-4,829
Total Deficit Under the President's Proposals as Estimated by CBO	-1,845	-1,379	-970	-658	-672	-749	-785	-895	-949	-1,023	-1,189	-4,429	-9,270
Memorandum:													
Health Reform Reserve Fund ^d													
Increased revenues from limiting the rate at which itemized deductions reduce tax liability	0	0	11	30	32	34	37	39	41	43	45	107	311
Reduced spending from specified health proposals	0	2	5	14	20	39	36	36	42	48	55	79	295
New, unspecified benefits from health reforms ^e	0	-2	-16	-44	-51	-73	-72	-75	-83	-91	-100	-185	-606
Net effect on the deficit of the health reform proposal	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Deficit Under the President's Proposals as Estimated by OMB	-1,752	-1,171	-912	-581	-533	-570	-583	-637	-636	-634	-712	-3,767	-6,969

Source: Congressional Budget Office; Joint Committee on Taxation.

Note: * = between -\$500 million and \$500 million; EGTRRA = Economic Growth and Tax Relief Reconciliation Act of 2001; JGTRRA = Jobs and Growth Tax Relief Reconciliation Act of 2003; AMT = alternative minimum tax; OMB = Office of Management and Budget.

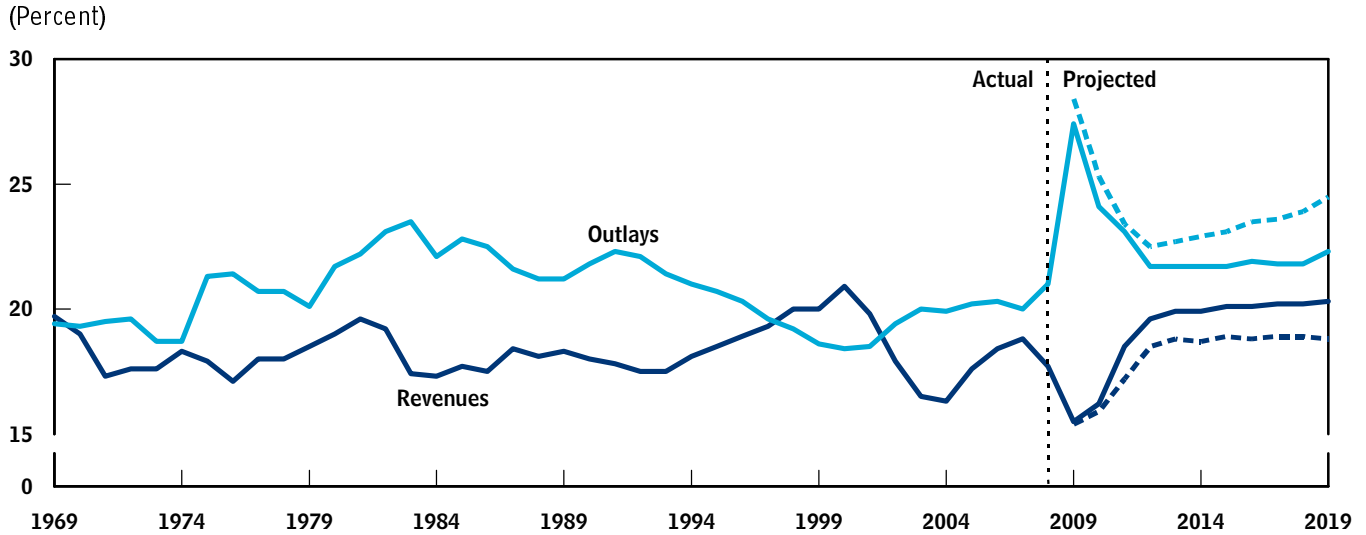
- The estimates include the effects of maintaining, for taxpayers with income above certain levels, the income tax rates of 36 percent and 39.6 percent scheduled to go into effect in 2011 under current law. For the remaining taxpayers, tax rates would be at the 2010 levels specified in EGTRRA.
- The estimates include the effects of imposing a 20 percent tax rate on capital gains and dividends for taxpayers with income above certain levels, starting in 2011. Tax rates for the remaining taxpayers would be at the 2010 levels specified in JGTRRA.
- The current Pell grant program has discretionary and mandatory components. CBO's estimate of the costs of modifying Pell grants includes the costs of setting the maximum award at \$5,550 in 2010, indexing that award level for future years, and reclassifying the entire program as mandatory spending. That reclassification would result in eliminating spending for Pell grants in CBO's discretionary baseline, which currently includes \$195 billion in outlays for new grants over the 2010–2019 period.
- Negative numbers indicate an increase in the deficit.
- Health reform benefits may be a combination of revenue reductions and spending increases and are assumed to exactly offset the savings dedicated to the proposed fund on both the revenue and outlay sides of the budget.

same factors that push up the share of receipts in the baseline—including the anticipated recovery from the recession, which results in taxable income rising as a share of GDP, and the expiration of certain provisions of ARRA, EGTRRA, and JGTRRA—also cause revenues to rise as a share of GDP in the President's budget.

Outlays under the President's policies would increase from 23.6 percent of GDP in 2011 to 24.5 percent in 2019. Both of those figures are above the average of 20.7 percent over the past 40 years; higher mandatory spending as a percentage of GDP (especially for Medicare

and refundable tax credits) would be only partly offset by lower discretionary spending. Spending for mandatory programs would fall in 2010 and 2011 (largely because of reduced spending to stabilize the financial markets and gradually declining spending from ARRA and for unemployment insurance) and then rise by an average of 4.7 percent annually (about three-fourths of a percentage point above the growth rate of nominal GDP) through 2019.

Discretionary outlays would decline by \$88 billion from 2010 to 2012—largely because of lower outlays related to

Figure 1-2.**Total Revenues and Outlays as a Percentage of Gross Domestic Product in CBO's Baseline and the President's Budget**

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.

ARRA and reduced war-related spending—and then grow slightly thereafter. Measured as a percentage of GDP, they would fall from 9.5 percent in 2010 to 6.9 percent in 2018 and 2019. CBO's estimates for discretionary spending reflect the President's proposal for \$75.5 billion in additional funding for military operations in Iraq and Afghanistan in 2009 (bringing the total for that year to \$141.4 billion), \$130 billion for such purposes in 2010, and \$50 billion a year thereafter.¹¹

CBO's estimate of the deficits under the President's budget are higher each year than those estimated by the Administration—by \$93 billion for 2009 and by about \$2.3 trillion for the 2010–2019 period. Most of those differences stem from underlying baseline differences rather than from varying assessments of the effect of the President's policy proposals. Economic and technical factors affecting revenue projections account for the largest part of those baseline differences.

In its presentation of the budget, the Administration has compared its policy proposals with a “current-policy” baseline that assumes the continuation of certain policies

11. In its initial budget outline, the Administration does not present detailed information on its request for future appropriations, so CBO conducted its analysis on an aggregated basis.

that are currently in place but that would require further legislation in order to continue in future years. Those policies include extensions of most of the provisions of EGTRRA and JGTRRA and certain payments to physicians participating in the Medicare program. Because CBO's baseline for mandatory spending and revenues is predicated on current law, this estimate of the President's budget treats such continuations as policy proposals. The extended policies generally involve increased spending and reduced revenues; as a result, CBO's analysis generally shows larger spending increases and larger tax reductions—and thus larger increases in the deficit—than are shown in the Administration's presentation of its proposals (regardless of differences in economic and technical assumptions).¹²

12. For discretionary programs, the Administration has compared its policy proposals with a baseline that assumes that funding for military operations in Iraq and Afghanistan continues into future years at the 2008 level of \$180 billion, adjusted for inflation. CBO's baseline, however, extrapolates a lower level of war-related funding (the \$66 billion currently appropriated for 2009) into future years. Thus, CBO's analysis of the President's request for defense appropriations—funding related to operations in Iraq and Afghanistan and funding not directly tied to those operations—indicates that defense spending under the President's policies would be above baseline levels.

Policy Proposals Affecting Revenues

The President's budget proposes a number of changes to tax law that would reduce revenues over the next decade relative to CBO's baseline. Compared with projected receipts under current law, total revenues would be \$2.1 trillion lower over the 2010–2019 period, according to JCT and CBO.¹³ The proposal to modify and extend provisions of EGTRRA and JGTRRA would have the largest effect, reducing revenues by \$1.9 trillion, according to JCT. On net, the other proposals would lower revenues by about \$190 billion, some reducing revenues by roughly \$1.1 trillion and others raising revenues by roughly \$900 billion. Those estimates do not reflect the effect on revenues of several of the President's proposals for which sufficient detail was not available. Those proposals include implementing international tax reform, for which the Administration estimates a revenue increase of \$210 billion over 10 years. Until additional details are available, JCT and CBO treat those proposals as having no effect on revenues.

Provisions Related to EGTRRA and JGTRRA. Proposals related to modifying and permanently extending provisions of EGTRRA and JGTRRA that are set to expire in 2010 would reduce revenues by \$1.9 trillion (or 1.1 percent of GDP) over the next 10 years relative to current law.¹⁴ The provisions scheduled to expire include reductions in some individual income tax rates; reductions in tax rates on capital gains and dividends; changes to estate and gift taxation; limits on phaseouts for personal exemptions and itemized deductions for certain taxpayers; an increase in the child tax credit; relief from the so-called marriage penalty; and changes in the tax treatment of certain investments in equipment by small businesses.

The President proposes to permanently extend, at 2010 levels, tax rates on income, capital gains, and dividends for married taxpayers earning under \$250,000 and single taxpayers earning under \$200,000. For taxpayers with income above those levels, the President proposes to maintain the income tax rates, the phaseout of the personal exemption, and the limits on itemized deductions scheduled to go into effect in 2011 under current law;

13. For proposals that would amend the Internal Revenue Code, CBO generally uses estimates provided by JCT.

14. OMB included an extension of the tax provisions related to EGTRRA and JGTRRA (without modifications) in its current policy baseline.

those higher-income taxpayers would also be subject to a tax rate of 20 percent on capital gains and dividends. In addition, the President proposes to modify estate, gift, and generation-skipping transfer taxes by extending 2009 law and indexing the estate tax exemption for inflation while maintaining the \$1 million lifetime exclusion for gifts.

“Making Work Pay” Tax Credit. The President also proposes to permanently extend the Making Work Pay credit, which expires at the end of 2010 under current law. The credit equals 6.2 percent of earned income, up to a maximum credit amount of \$800 for married taxpayers (\$400 for single filers) and phasing out for married taxpayers with income above \$150,000 (\$75,000 for single filers). Extending the credit would reduce revenues by \$378 billion over the 2010–2019 period, according to JCT. (This proposal would also affect outlays because the credit is refundable. See *Tax Credits*, below.)

Alternative Minimum Tax. The President proposes to provide relief from the AMT by permanently setting the AMT exemption amount at 2009 levels, indexed for inflation, and permanently extending the unrestricted use of certain personal tax credits under the AMT.¹⁵ The proposal would reduce revenues by \$447 billion between 2010 and 2019, JCT estimates. That estimate does not include the interaction between the AMT provisions and the proposal to extend and modify the tax provisions related to EGTRRA and JGTRRA. That interaction is included in the estimate for the latter proposal.

Revenues from Climate Policy. The President's proposals include a plan to reduce greenhouse-gas emissions through the sale of emission allowances in a cap-and-trade program. The proceeds would raise enough revenue to cover the post-2011 cost of extending the Making Work Pay credit plus \$120 billion intended for investment in clean energy technologies. CBO and JCT estimate that those proposed uses of the funds could cost \$629 billion: \$349 billion for the post-2011 reduction in revenues for the Making Work Pay credit, \$159 billion in outlays for the refundable portion of that credit, and \$120 billion for spending on clean energy technologies. CBO assumes that the proposed cap-and-trade program would generate \$629 billion between 2012 and 2019 to cover the costs of extending that credit and to fund the

15. OMB included this proposal in its baseline projection of current policy.

clean energy investments. In fact, the revenues raised from a cap-and-trade program could be significantly higher or lower depending on how the program is structured.

Other Proposals Affecting Revenues. Other tax proposals in the President's budget include making the research and experimentation tax credit permanent; repealing the last-in/first-out inventory accounting method; taxing carried interest as income; and expanding the saver's credit and automatic enrollment in individual retirement accounts and 401(k) retirement plans.¹⁶ The President's proposal to extend the period to which firms can carry back net operating losses to more than the current two years would reduce revenues in 2009 and 2010 and increase them thereafter.¹⁷ Altogether, the President's other tax proposals for which CBO and JCT were able to provide estimates would increase revenues by an estimated \$7 billion between 2010 and 2019.

Policy Proposals Affecting Mandatory Spending

If the proposals in the President's budget were enacted, they would, on balance, increase mandatory spending relative to the amounts in the baseline by \$1.1 trillion (or 0.6 percent of GDP) over the next 10 years, CBO estimates. Costs and savings from those proposals are shown in Table 1-5 on page 12, and the most significant proposals are highlighted below.

Tax Credits. About \$484 billion in increased outlays over the 10-year period would stem from tax proposals that would expand various refundable tax credits.¹⁸ According to JCT's estimates, the permanent extension and modification of certain expiring tax provisions originally enacted in 2001 and 2003 would increase outlays by \$197 billion over the 2010–2019 period, mostly for the refundable portions of the earned income and child tax credits. The proposal to extend the Making Work Pay tax credit would increase outlays by an estimated \$159 bil-

lion between 2010 and 2019. The proposal to expand the refundability of the child tax credit would increase outlays by \$74 billion over the 2010–2019 period, JCT estimates. Other tax proposals would increase outlays by \$54 billion over the 2010–2019 period, JCT and CBO estimate.

Physicians' Payment Rates. A proposed change in the calculation of the rates paid to physicians under Medicare would result in additional outlays totaling an estimated \$285 billion over the next 10 years.¹⁹ Under current law, Medicare's payment rates for physicians' services will be reduced by about 21 percent in 2010 and by about 6 percent a year for most of the rest of the decade. The President's policy would freeze those payment rates at the 2009 level through at least 2019.

Reserve for Financial Stabilization Efforts. The Administration has included a placeholder of \$250 billion in fiscal year 2009 to cover future efforts to stabilize the financial system. As with the current budgetary treatment of the TARP, those outlays reflect the estimated subsidy provided by the unspecified policies; the Administration calculates that the \$250 billion would represent the net cost of purchases of \$750 billion in assets. For the purposes of projecting federal debt, CBO assumes that the total proposed by the Administration would support asset purchases, loan guarantees, or other transactions totaling \$500 billion, reflecting a subsidy cost similar to what CBO now estimates for the \$700 billion already authorized for the TARP. CBO also assumes that such additional support, if enacted, would be disbursed over the next two years—\$125 billion in estimated outlays in 2009 and the same amount in 2010.

Student Loans. The President's proposal would essentially eliminate the federal guaranteed student loan program, replacing such loans with direct loans made by the Department of Education. Under the Federal Credit Reform Act, the budgetary cost of direct loans and guaranteed loans reflects the total cash flows over the life of each loan. Under current law, the direct loan program is estimated to have a lower cost for each dollar loaned than does the guaranteed loan program. Thus, assuming that loan volume does not change, replacing the guaranteed loan program with additional direct loans would yield

16. Carried interest is a component of the typical compensation received by a general partner of a private equity or hedge fund. It is generally a share of the profits on the assets under management.

17. Current law allows firms to use losses from an unprofitable year to offset taxable income from an earlier year and receive a refund of past taxes paid. Generally, under current law, a net operating loss can be carried back to the prior two tax years.

18. An income tax credit is refundable if the taxpayer receives a refund when the allowable credit exceeds the amount of income tax owed. Such refunds are recorded in the budget as outlays.

19. OMB included this proposal in its baseline projection of current policy.

budgetary savings. CBO estimates that savings would total \$94 billion over the 2010–2019 period.

Pell Grants. The President proposes to reclassify Pell grants as mandatory spending, set the maximum award level at \$5,550 for 2010, and index that amount for future years. (The maximum amount available in 2009 is \$5,350.) Under current law, the program is funded with annual discretionary appropriations and mandatory funds. In 2009, outlays from discretionary funds will total about \$18 billion and outlays from mandatory funds will total about \$2 billion, CBO estimates. The proposed changes would boost mandatory spending by \$293 billion over the 2010–2019 period. (About \$195 billion of that new mandatory spending is already reflected in CBO's discretionary baseline.)

Other Proposals Affecting Mandatory Spending. The President's budget includes funding over the 2010–2019 period to expand various programs that assist with income security, including \$21 billion to modify existing trigger mechanisms for providing additional unemployment compensation during periods of high unemployment; nearly \$10 billion for expanding child nutrition programs; \$9 billion for a program that would provide in-home counseling for low-income first-time mothers; about \$5 billion to extend changes in the Trade Adjustment Assistance program that were enacted in ARRA; and more than \$4 billion for the Low Income Home Energy Assistance Program.

Proposals that would reduce mandatory spending include lowering the amount that the United States Postal Service (USPS) currently pays for health and life insurance premiums for its employees and reducing payments to USPS retirees who receive workers' compensation. CBO estimates that those reductions would save about \$16 billion over the 2010–2019 period. In addition, the President's budget includes savings from several changes to agriculture programs, including reducing payments to some agricultural producers, decreasing subsidies for crop insurance, and imposing new fees for government inspection activities. CBO estimates that if those proposals were enacted, they would reduce spending for agricultural programs by about \$13 billion over the 10-year period, relative to CBO's baseline projections.

Policy Proposals Affecting Discretionary Spending

As of early March, legislators had appropriated nearly \$1.4 trillion for discretionary programs for 2009, includ-

ing \$283 billion for ARRA. The President's budget includes an additional \$76 billion in 2009 funding for operations in Iraq and Afghanistan as well as \$7 billion in unspecified funding for international activities; such funding would add about \$25 billion to outlays this year.

The Administration did not provide detailed information about its request for discretionary funding for 2010 to 2019, so CBO estimated the President's proposals by using the aggregate totals provided in the budget. Over that period, projected outlays from the Administration's request for discretionary appropriations would exceed CBO's baseline estimate of such outlays by \$593 billion (or 0.3 percent of GDP).

Defense outlays would be \$151 billion higher over the 10-year period. Funding for the wars would exceed the baseline level of \$67 billion by \$63 billion in 2010—the Administration includes \$130 billion for that year and \$50 billion a year through the remainder of the 10-year period.²⁰ Other spending for defense programs would exceed baseline levels in all years through 2019.

The President's proposals would increase nondefense discretionary outlays above baseline levels by \$442 billion from 2010 to 2019, CBO estimates, assuming that the President's proposal to reclassify Pell grants as mandatory spending is implemented. The estimated increase in discretionary outlays excluding the changes in the classification of Pell grants would be more than \$630 billion. The majority of the increase stems from additional funding for the Department of State and other international programs and \$15 billion per year in budget authority beginning in 2012 that is designated for clean energy technologies.

The President's budget includes a separate line item for disaster-related costs, which is intended to account for potential federal assistance for relief and reconstruction in response to a major disaster. Such funding is normally provided as needed through discretionary appropriations for the Federal Emergency Management Agency. Although the Administration incorporated \$226 billion over the 2010–2019 period for disaster costs in its outlay

20. Following the rules governing baseline projections, CBO assumed that funding for the wars in 2010 and subsequent years would equal the amount provided to date for 2009—\$66 billion—adjusted for inflation.

totals, it presented no specific legislative proposal. CBO has therefore not included such costs in its estimates.

Health Reform Reserve Fund

The President's budget proposal would establish a fund to finance some of the costs of health care reform, although the document does not specify the policies that would constitute such reform. The fund would be credited with revenues from limiting the rate at which itemized deductions reduce tax liability; the estimated savings from a number of proposals to modify payment rates and other provisions of the Medicare and Medicaid programs; and the savings from a proposal to establish a regulatory pathway for the Food and Drug Administration to approve the marketing of generic versions of biological pharmaceuticals. The President's budget allocates the full amount of those additional revenues and outlay savings for spending or tax reductions related to health care reform. The combination of all those policies is intended to have no net effect on the budget. Therefore, the President's budget—and CBO in its analysis of the budget—shows no net effect on either revenues or outlays from this set of proposals (that is, revenue reductions related to health care reform are assumed to offset the revenue gains from changing the rate applied to itemized deductions, and outlays for health care reform are assumed to equal the outlay savings from the proposed policy changes).

Limits on the Rate at Which Itemized Deductions Reduce Tax Liability. The President proposes to limit to 28 percent the rate at which itemized deductions reduce tax liability. That proposal would increase revenues by \$311 billion over the 2010–2019 period, according to JCT.

Savings in Outlays Dedicated to Health Reform. CBO estimates that enacting the provisions aimed at producing savings to be dedicated to the reserve fund would reduce federal spending by \$295 billion over the 2010–2019 period. The provisions with the largest estimated gross savings over that period include establishing competitive bidding in the Medicare Advantage program (\$176 billion); reducing payment rates for home health services in Medicare (\$51 billion); eliminating the Medicare and Medicaid Improvement Funds (\$23 billion); combining Medicare's payments for hospital inpatient care and post-acute services into a bundled payment rate (\$18 billion); increasing rebates paid by pharmaceutical manufacturers to Medicaid (\$16 billion); and establishing a regulatory pathway for generic versions of biological pharmaceuticals (\$13 billion). About 25 percent of the cost of services under Part B of Medicare—the Supplementary Medical Insurance program—is recovered by premiums charged to beneficiaries. As a result, about 25 percent of the savings in Part B would be offset by lower premium receipts (which are recorded in the budget as negative outlays). CBO estimates that enacting those provisions would reduce premium receipts by \$33 billion over the 2011–2019 period.

Net Cash Flows of the Reserve Fund. In total, CBO and JCT estimate, the net savings of \$295 billion plus the \$311 billion increase in revenues from limiting the rate at which itemized deductions reduce tax liability would generate \$606 billion over the 2010–2019 period for the health reform reserve fund. Under the President's proposal, that amount would be used for reform of the health care system, and the combination of those policies would have no net effect on the deficit.

The Economic Outlook

The current recession, which began in December 2007, took a sudden and severe turn for the worse late last year. Of the 4.4 million jobs lost since the recession began, more than half have been lost in just the past four months. According to the Congressional Budget Office's economic projections, the economy will continue to deteriorate for some time, although the adoption of the American Recovery and Reinvestment Act and very aggressive actions by the Federal Reserve and the Treasury will help end the recession this fall.

In CBO's forecast, on a fourth-quarter-to-fourth-quarter basis, real (inflation-adjusted) gross domestic product falls by 1.5 percent in 2009 before growing by 4.1 percent in both 2010 and in 2011 (see Table 2-1). During the next two years, economic output averages about 7 percent below its potential—the output that would be produced if the economy's resources were fully employed (see Figure 2-1). The shortfall in the nation's output relative to its potential is comparable with what 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 the forecast, the unemployment rate rises further, peaking at 9.4 percent in late 2009 and early 2010, and remains above 7 percent through the end of 2011 (see Figure 2-2). The deterioration in 2009 and the protracted nature of the recovery reflect a number of factors: tight credit, a large number of vacant houses continuing to suppress housing construction, large losses in wealth restraining households' spending, and weak economic growth overseas.

Inflation in consumer prices has been extremely low recently and, given the projection of persistently weak demand and excess productive capacity, it is expected to be low over the next few years as well. Overall price indexes have fallen since September 2008, primarily

because of the sharp drop in energy and commodity prices, but also because “core” inflation (for items besides food and energy) slowed. CBO anticipates that core consumer price inflation, which averaged 2.3 percent during 2007 and 2008, will fall to 1.5 percent this year and 1.1 percent in 2010 and remain low through 2012.

Because of the likely persistence of the various factors holding down economic activity, CBO does not expect the output gap—the difference between actual and potential output of goods and services—to close fully until about 2014. In the latter part of the decade, CBO projects, GDP will grow at its potential (an average rate of 2.3 percent); the unemployment rate will average 4.8 percent; and core inflation for consumer prices, 1.9 percent.

CBO's current forecast, particularly for the near term, is subject to a greater than normal degree of uncertainty. Figure 2-3, based on CBO's past forecasting errors, illustrates the usual uncertainty regarding forecasts of real GDP. However, the figure probably understates uncertainty today. Both the magnitude of the contractionary forces operating in the economy and the magnitude of the government's actions to stabilize the financial system and stimulate economic growth are outside the range of recent experience. The forecast assumes that financial markets will begin to function more normally and that the housing market will stabilize by early next year. The possibility that financial markets might not stabilize represents a major source of downside risk to the forecast. Households' and businesses' confidence is also difficult to predict. For example, if consumers begin to anticipate a period of deflation, they may choose to further postpone major discretionary purchases, thereby delaying the recovery; but evidence that economic conditions are stabilizing could encourage households and businesses to

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.

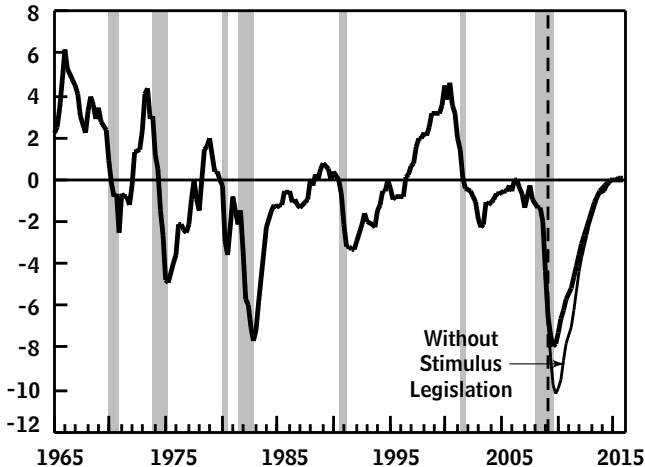
Notes: GDP = gross domestic product; PCE = personal consumption expenditure.

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 2-1.**The GDP Gap, 1965 to 2015**

(Percent)



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

Notes: The GDP 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).

Data are quarterly and are plotted through 2015.

resume spending more rapidly than is envisioned in the forecast. Finally, although CBO's forecast incorporates the middle of the range of the agency's estimates of ARRA's impact on GDP and employment, that range is quite large. For instance, CBO's analysis suggests that by the fourth quarter of 2010, the stimulus legislation will raise real GDP by between 1.1 percent and 3.4 percent and increase employment by between 1.2 million and 3.6 million jobs.¹

Recent Economic Developments

Economic conditions have deteriorated in the months since CBO prepared its last forecast, which was published in early January.² Job losses have mounted, with the unemployment rate jumping to a 25-year high of 8.1 per-

1. See Congressional Budget Office, "Estimated Macroeconomic Impacts of the American Recovery and Reinvestment Act of 2009," letter to the Honorable Charles E. Grassley (March 2, 2009).
2. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2009 to 2019* (January 2009).

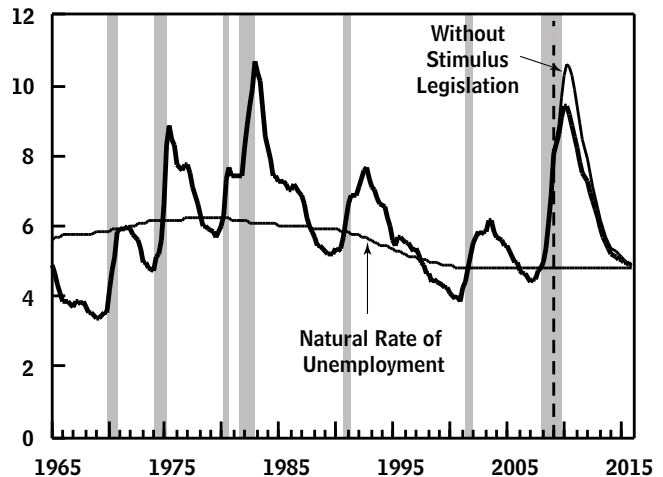
cent. Real GDP fell at a 6.2 percent annual rate in the fourth quarter and appears likely to have declined substantially further in the first quarter. Housing starts, industrial production, and orders and shipments of durable goods all declined sharply in late 2008 and early 2009, although consumer spending rebounded somewhat early this year from a very weak holiday season. Inflation is low, but the extremely low rates reported at the end of last year appear to have been largely transitory.

The Housing Market

Even though house prices and housing starts continue to fall substantially, the inventory of unsold homes is still very high. Consequently, the prices of houses and the number of new homes being constructed are likely to be low for some time.

Figure 2-2.**The Unemployment Rate**

(Percent)



Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

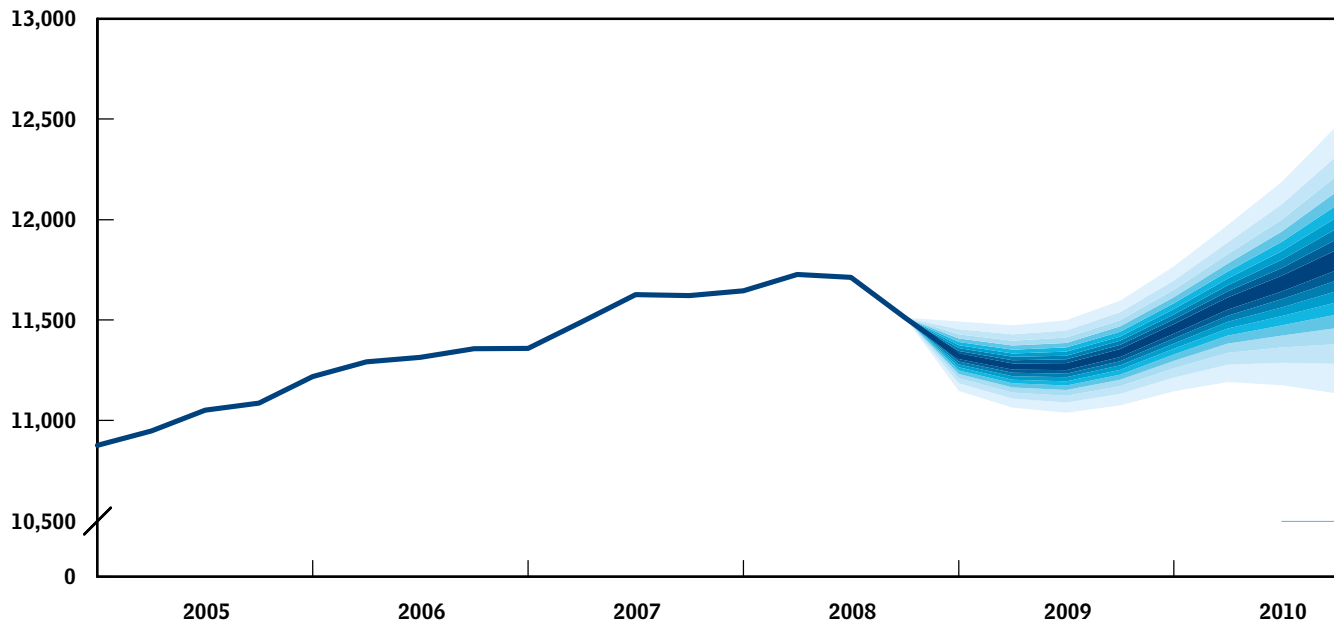
Notes: CBO's estimate of the natural rate of unemployment is the rate of unemployment that is not due to the business cycle but to underlying characteristics of the labor market, such as normal rates of job turnover and the degree to which the job seekers' skills and locations match available openings.

Although the rate of unemployment is projected to peak at a lower level than in 1982, the peak unemployment gap (the difference between the unemployment rate and the estimate of the natural rate of unemployment) is projected to be about the same as in 1982.

Data are quarterly and are plotted through 2015.

Figure 2-3.**Uncertainty in Projections of Real GDP**

(Billions of 2000 dollars)



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

Note: This figure, based on CBO's past errors in forecasting real (inflation-adjusted) growth, shows a range of possible outcomes for real GDP. The projection described in this chapter falls in the middle of the darkest area of the figure. If the potential errors in the current forecast are similar to the errors in CBO's forecasts published between 1976 and 2006, the probability is 90 percent that real GDP will fall in the shaded area of the graph. In the current circumstances, larger errors are more likely to occur than usual.

The Federal Housing Finance Authority's national purchase-only house price index, which covers prices of houses purchased with conventional conforming mortgage loans (those eligible for purchase by Fannie Mae and Freddie Mac), declined by 3.4 percent in the fourth quarter, the largest one-quarter decline in that index's history—leaving it about 10 percent off its early 2007 peak level. Also in the fourth quarter, the Standard & Poor's (S&P) Case-Shiller national home price index, which covers all types of mortgage loans but is more geographically limited, was down by a larger amount, 18 percent from a year earlier and 27 percent from its early 2006 peak. Most analysts believe that the correction in house prices is far from complete; for example, according to the February *Blue Chip* consensus (which is the average of about 50 forecasts by private-sector economists), the 20-city version of the S&P Case-Shiller index will fall a further 14 percent in 2009.

Housing starts in January plunged to 477,000 (at a seasonally adjusted annual rate), an all-time low since the

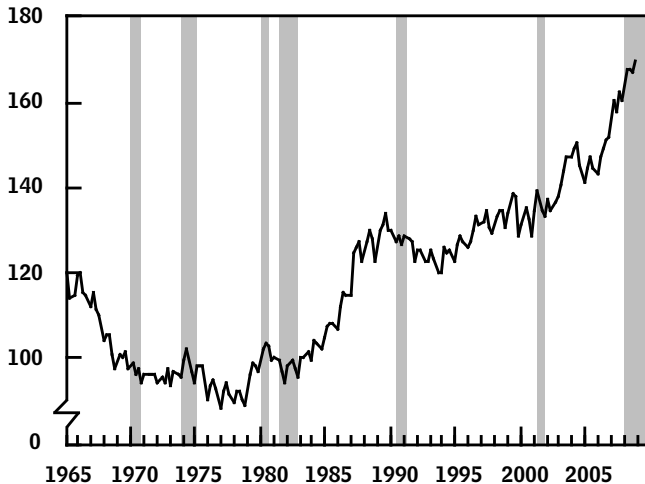
U.S. Census Bureau started tabulating them in 1959. Although they rebounded somewhat, to 583,000 in February, that number contrasts with the more than 2 million starts at the height of the boom in 2005. Even though the construction of new homes has been at an extremely low rate for more than a year, no progress has been made toward reducing the excess supply of vacant units. The number of vacant units per thousand households jumped from 143 at the end of 2005 to 170 at the end of 2008 (see Figure 2-4).

After rising for much of last year, mortgage rates—both for conforming loans and for larger, or jumbo, loans—fell late last year, and they have remained low thus far in 2009. Lower mortgage rates have spurred applications for refinancing; nevertheless, the number of applications for loans to finance purchases of homes has fallen this year.

Foreclosure rates continue to rise for all types of mortgages, especially for subprime adjustable-rate mortgages.

Figure 2-4.**Vacant Homes, 1965 to 2008**

(Vacant homes per thousand households)



Sources: Congressional Budget Office; Department of Commerce, Bureau of the Census; Haver Analytics.

Notes: Total number of vacant housing units.

Data are quarterly and are plotted through 2008.

Those rates are likely to remain high as long as house prices continue to fall and the unemployment rate climbs. A rising number of homeowners—13.6 million in the fourth quarter, according to an estimate by Moody's Economy.com, compared with only 3.2 million at the end of 2006—have negative equity in their house (meaning that they currently owe more on their mortgage than the market value of their house).

Financial Markets

Although conditions in the financial markets have improved from the acute turmoil in September and October of last year, they remain strained. Large-scale efforts by the Federal Reserve and the Treasury following the collapse of the investment bank Lehman Brothers and the rescue of insurance conglomerate American Insurance Group (AIG) have brought down risk spreads (or differences in interest rates between risky and risk-free assets) from severely elevated levels. Those efforts also helped restore a considerable degree of activity to credit markets. However, many credit markets are not yet able to function normally without government assistance, and lending conditions remain tight, especially for financial firms.

Banks have tightened standards and terms for lending, although the pace of credit tightening may have eased a bit late last year. In the Federal Reserve's most recent survey of senior loan officers, in January 2009, 90 percent of the domestic banks reported that they had increased spreads on commercial and industrial loans in the fourth quarter, and about 70 percent reported tighter lending standards.³ The percentage of banks reporting tighter standards on residential mortgages dropped sharply, perhaps reflecting efforts by the Federal Reserve and the Treasury to increase mortgage lending or less need to tighten standards further given previous tightening. For consumer loans, 60 percent of banks reported tighter lending standards, about the same as in the October survey.

In the fourth quarter of 2008, the commercial banking industry experienced its first aggregate loss since 1990, when many savings and loan institutions failed.⁴ For 2008 as a whole, earnings fell to \$16 billion, compared with \$100 billion in 2007. The proportion of real estate loans that were 30 days or more past due, at 6.2 percent in the fourth quarter of last year, had risen steadily from a year earlier, when it was 3.2 percent. The performance of other types of consumer loans and commercial and industrial loans also deteriorated. Overall, of the \$7.9 trillion in loans and leases outstanding at the end of 2008, 5 percent were 30 days or more past due—including 3 percent that were 90 days or more past due, about double the amount in the fourth quarter of 2007.

Risk spreads remain elevated. They reflect a higher risk of default amid both the continuing difficulties of the financial system and a recession that is already deeper and longer than the past several downturns. One important risk spread is the difference between the interest rates banks pay to borrow from each other (which can be measured by the three-month Libor, or London interbank offered rate) and market expectations of the federal funds rate (which can be measured from an overnight index swap

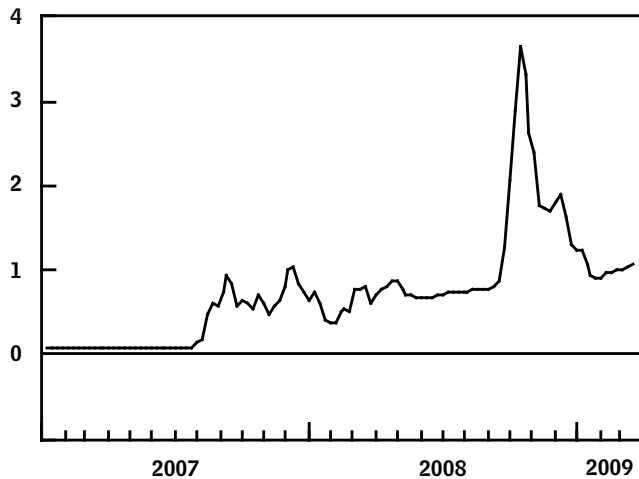
3. Board of Governors of the Federal Reserve System, *The January 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices* (February 2009).

4. Federal Deposit Insurance Corporation, *Quarterly Banking Profile* (Fourth Quarter 2008).

Figure 2-5.

Spread Between the Three-Month Libor and the Expected Federal Funds Rate, January 2007 to March 2009

(Percentage points)



Sources: Congressional Budget Office; Bloomberg.

Notes: A spread is the difference between two interest rates. One, the three-month Libor (London interbank offered rate), is the interest rate major banks offer to other banks for loans of that duration. The other is the average federal funds rate expected over a three-month period as measured by the overnight index swap contract.

Data are weekly and are plotted through March 13, 2009.

contract).⁵ That indicator of the risk that banks will default on their loans was just over 1 percentage point in mid-March, well below its October 2008 peak of 3.6 percentage points but well above its normal level of 0.25 to 0.3 points and about where it was before the failure of Lehman Brothers in September 2008 (see Figure 2-5).

Conditions have improved in the market for commercial paper (that is, short-term borrowing by firms), as indicated by a narrower spread relative to Treasury bills. Like the three-month Libor spread, commercial paper spreads have narrowed substantially from October 2008, but that narrowing has stalled since early January. The amount of outstanding commercial paper issued by nonfinancial

firms has increased since the start of 2008, but the amount issued by financial firms has fallen by 20 percent over that period, implying that problems with access to credit in the corporate sector are for the most part confined to the financial sector. Although the Federal Reserve continues to provide extensive support to the market for commercial paper, the funding required for the central bank's Commercial Paper Funding Facility has decreased steadily this year—a positive sign.⁶

The difference between interest rates on corporate bonds and Treasury securities remains wide, consistent with heightened concerns about credit markets and about the future course of the economy. Despite those concerns, the amount of corporate debt issued this year is well above that in the same period in 2008 for both investment-grade securities and high-yield debt.

An important credit channel, securitization, in which loans are pooled and converted into packages of securities, has yet to recover from its prolonged slump. The volume of new securities backed by auto loans, unpaid credit card balances, home equity loans, and student loans has plummeted from nearly \$900 billion in 2007 to just \$6 billion so far in 2009.

Diminished expectations of future profit growth because of the recession in the United States, the marked slowdown in economic activity in the rest of the world, and investors' reduced appetite for risk have hurt prices of corporate stocks. Through March 18, the Wilshire 5000 index, the broadest U.S. equity measure, has declined by about 12 percent since the beginning of 2009 and is down 46 percent since the beginning of 2008. Financial companies and automakers have been the worst performers, with share prices down about 70 percent since the beginning of 2008. The decline in stock prices makes it more expensive for companies to raise equity capital for the purpose of investing in new plant and equipment (that is, structures, equipment, and software). And the reduction in households' wealth attributable to falling equity and house prices has contributed to a decline in consumer spending.

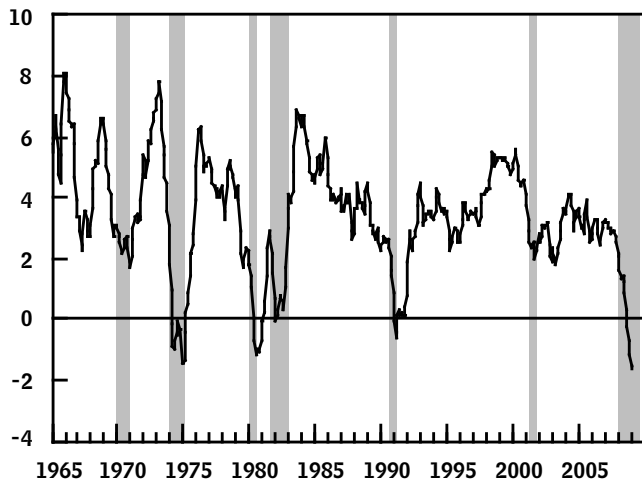
5. In an overnight index swap, one party pays the other the daily effective federal funds rate for the life of the contract in exchange for receiving a fixed rate. Therefore, the fixed rate paid for a three-month overnight index swap contract provides a market estimate of the expected federal funds rate.

6. Board of Governors of the Federal Reserve System, *Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks* (statistical release H.4.1, various issues), available at www.federalreserve.gov/releases/h41/current/h41.htm.

Figure 2-6.

Real Personal Consumption Expenditures, January 1965 to January 2009

(Percentage change from previous year)



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

Note: Data are three-month moving averages of monthly data and are plotted through January 2009.

Personal Consumption Spending

Personal consumption spending slumped sharply during the second half of last year; in the fourth quarter, spending was slightly more than 1-1/2 percent below its level of a year earlier (see Figure 2-6). However, the latest data suggest a slight uptick in early 2009. Some of last year's decline was in sales of light motor vehicles (automobiles and light trucks), which plunged from an average of about 17 million per year between 2000 and 2007 to an annual rate of just over 10 million in the fourth quarter of last year. But the decline in spending was broader, as spending on goods and services besides motor vehicles and parts fell by 1.4 percent in the second half of last year.

So far in 2009, sales of motor vehicles have fallen even further, to a 9.1 million annual rate in February. However, real personal consumption spending rose by 0.4 percent in January, and data on retail sales in February suggest another modest gain (and the likelihood that the January increase will be revised upward).

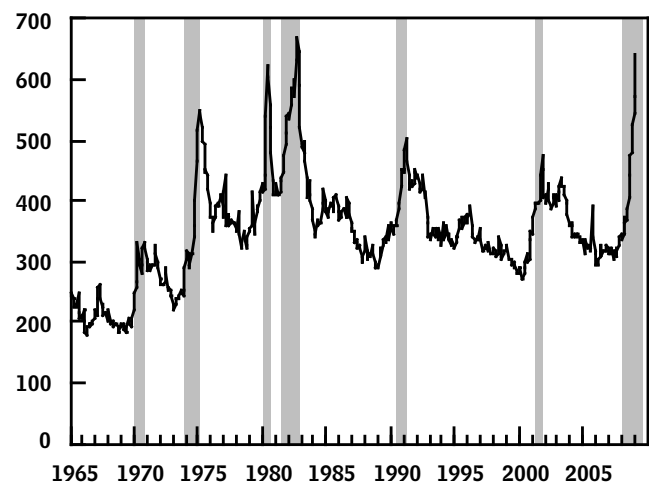
The weakness in consumer spending since mid-2008 (notwithstanding the slight rebound so far this year) reflects difficult conditions for consumers. Employment has fallen, households' wealth has dropped markedly, credit conditions are quite tight, the income tax rebate under last year's Emergency Economic Stabilization Act has run out, and consumer confidence has fallen to extremely low levels. But the sharp decline in the price of gasoline and other energy commodities since mid-2008 has boosted real disposable income, providing some support for consumer spending.

Over the past four months, the number of jobs has fallen by about 2.6 million (or nearly 2 percent), and aggregate income from wages and salaries fell 0.8 percent between October and January (or at an annual rate of 3.3 percent). The labor market shows no sign of stabilizing; in February and early March, initial claims for unemployment insurance averaged well over 600,000 per week—roughly twice their average from 2005 to 2007 (see Figure 2-7).

Figure 2-7.

Initial Claims for Unemployment Insurance, January 1965 to February 2009

(Thousands)

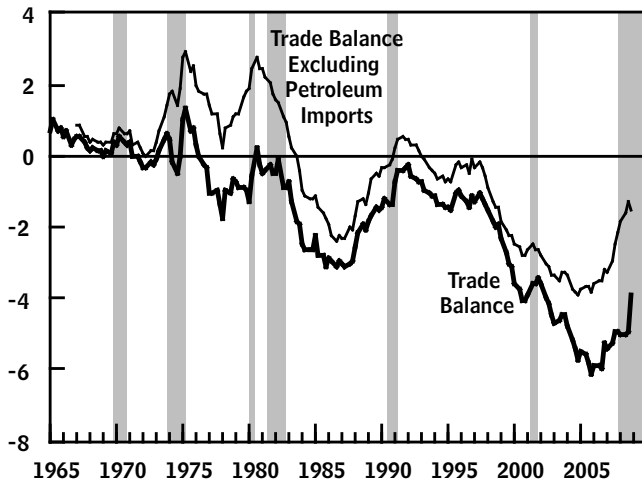


Sources: Congressional Budget Office; Department of Labor, Employment and Training Administration, Unemployment Insurance Division.

Note: Data are monthly averages of weekly data and are plotted through February 2009.

Figure 2-8.
The Trade Balance, 1965 to 2008

(Percentage of gross domestic product)



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

Note: Data are quarterly and are plotted through 2008.

The ongoing decline in house prices and the drop in stock prices reduced the net worth of households by 20 percent between the middle of 2007 and the fourth quarter of 2008. By CBO's estimates, that decrease in wealth reduced the growth of spending by about 1 percentage point in 2008 and will have a similar effect in 2009. Weakness in the stock market and in house prices may further dampen consumer spending in 2009, with part of the effect extending into 2010.

The financial turmoil has also played a role in weakening households' spending by reducing the credit available to consumers, especially for those with limited opportunity to borrow or little collateral. According to the Federal Reserve's January 2009 survey of senior loan officers, banks had further tightened lending standards on credit cards and other consumer loans. A significant number of banks had also reduced the size of existing home equity lines of credit.

Investment and Net Exports

Business fixed investment (or spending by businesses on structures, equipment, and software), which had plateaued during the first three quarters of 2008, plunged at a 21 percent annual rate in the fourth quarter—a rate comparable to the worst declines observed in past post-

war recessions. Shipments of nondefense capital goods and businesses' purchases of light vehicles both fell sharply in January, pointing to another large drop in investment in producers' durable equipment in the first quarter. Private nonresidential construction dropped significantly in January, and the American Institute of Architects' billings index, a leading indicator of such construction, suggests more of the same through midyear.

After hitting an all-time low in June 2008, the ratio of inventories to sales in the manufacturing and the wholesale and retail trade sectors had, by the end of the year, jumped to its highest level since the last recession. The ratio of inventories to sales in manufacturing and in wholesale trade continued to rise in January. The need to realign inventories with sales is currently dampening production.

A rise in net exports contributed positively to real growth of GDP from the end of 2005 through most of 2008 (see Figure 2-8). However, the global recession and the sharp rise in the value of the dollar since last summer are together undercutting that source of strength. In the fourth quarter of last year, exports fell even more (in real terms, 24 percent at an annual rate) than did imports (16 percent).

The outlook for growth in the rest of the world has continued to deteriorate, suggesting that trade is not likely to contribute to growth in the United States in the near term (see Table 2-2). Economies that have relied heavily on exports for economic growth—including many emerging Asian economies, as well as Germany's and Japan's—have been particularly hard hit as the global downturn and credit squeeze have crushed demand for their exports. The situation is especially dire in Japan, Taiwan, South Korea, and Singapore, evidenced by the double-digit rate (annualized) at which real GDP contracted in those countries in the last quarter of 2008.

Spending by State and Local Governments

State and local governments have reduced spending in response to shortfalls in their revenues, and CBO expects further cuts to slow economic activity over the next two years. Recent spending cuts have taken a variety of forms, including hiring and pay freezes, furloughs, layoffs, reductions in benefit programs, and decreases in purchases. States and localities have also tapped reserves and, in a few cases, increased taxes. Some states have increased

Table 2-2.

Consensus Forecasts of Foreign Economies' Inflation-Adjusted Growth of GDP, 2009

(Percentage change from previous year)

Region/Country	Survey of		
	June 2008	Sept. 2008	Mar. 2009
Eurozone	1.4	0.9	-2.6
Germany	1.3	0.8	-3.2
United Kingdom	1.3	0.6	-3.0
Canada	2.1	1.8	-1.8
Asia Pacific	4.8	4.6	-0.2
Japan	1.5	0.9	-5.8
China	9.4	9.1	7.0
India	8.1	7.6	5.2
Latin America	3.9	3.7	-0.7
Brazil	4.1	3.8	-0.1
Mexico	3.0	2.6	-2.8

Source: Congressional Budget Office based on data from Consensus Economics, Inc.

Note: GDP = gross domestic product.

borrowing, but in the aggregate, borrowing has been down, as unfavorable credit market conditions have made it more difficult to finance capital projects and to borrow for the sake of cash management in the short term.

Falling incomes, declining consumer spending, and continued decreases in house prices reduced all major sources of state and local revenue collections in 2008. In the fourth quarter, collections from personal income taxes fell by 0.4 percent (measured relative to those in the fourth quarter of 2007)—the first decline in more than five years. Corporate tax payments decreased by double digits over the year. Sales tax collections were also lower in the fourth quarter than a year earlier—the only such decline on record during the past half century. Although revenues from property taxes continued to grow, the rate of growth declined to 2.2 percent, contrasting with 5.4 percent a year earlier.

Inflation

Although recent movements in consumer prices have been dominated by the fall in commodity prices—for

both energy and food—consumer price inflation slowed in a number of other spending categories as well. The precipitous drop in petroleum prices from an average of \$133 per barrel in July 2008 to \$39 per barrel in February 2009 had a particularly large effect on overall inflation, as motor fuel prices fell sharply. A decline in prices for agricultural commodities also reduced consumer prices. The food-at-home index of the consumer price index for all urban consumers (CPI-U) eased down slightly from its November 2008 peak.

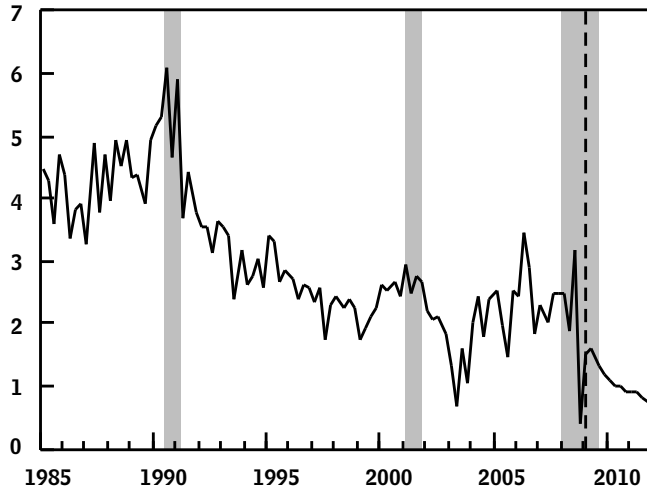
Inflation rates for consumer goods and services other than energy and food (core inflation) also slowed during the past few months (see Figure 2-9). Although the core CPI-U grew at an average 2.4 percent rate through the first three quarters of 2008, it rose at just a 0.6 percent rate in the fourth quarter. Some of the reduction is likely to be temporary, because declines in energy prices affected prices in some categories (especially the index for public transportation) and because vehicle prices fell sharply—factors that are not likely to be repeated on such a scale in 2009. Some of the disinflation is likely to be persistent, however, as a general easing in core inflation is typical during recessions. In addition, the large number of vacant housing units dampened the growth of rents in recent months, and that condition is likely to persist for some time.

CBO's Short-Term Forecast

In CBO's forecast, the decline in output continues until the fall. But the rate of decline slows after the first quarter, in part because the effects of ARRA begin to take hold. Reduced tax-withholding rates and increased aid to low-income households in the form of expanded unemployment insurance and payments from the Supplemental Nutrition Assistance Program will support consumer spending in 2009, as will lower prices for energy. And the stimulus legislation will also contribute to growth via purchases of goods and services by the federal government and averted reductions in spending or increases in taxes that would have otherwise occurred at the state and local levels. However, CBO expects that high unemployment, tight credit conditions, and the declines in wealth will restrain the growth of consumption.

Figure 2-9.**Core Consumer Price Index,
1985 to 2011**

(Percentage change at annual rates)



Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

Notes: The core consumer price index excludes energy and food. Data are quarterly and are plotted through 2011.

The forecast anticipates that business fixed investment will continue to decline in 2009, reflecting those tight lending conditions, much higher costs of funds (especially for equity), and weak demand for output that would be produced with new capital. Housing investment is also expected to continue declining this year. In addition, a continued drawdown of inventories and weakening foreign economies will restrain growth this year. By the end of 2009, the unemployment rate is projected to reach 9.4 percent, as employment declines by an additional 1-1/2 million jobs—for a total loss of nearly 6 million jobs since the recession started.

In the forecast, a recovery begins to take hold late in 2009 and quickens in 2010, as the drawdown of inventories ends, housing investment begins to recover, and business investment responds to the improvement in overall economic activity. And with labor markets no longer deteriorating, and the negative effects of the drop in wealth fading, consumer spending is expected to grow modestly. The unemployment rate declines to 8.5 percent by the end of 2010. In 2011, the projected output gap closes further, though GDP is still 4.3 percent below its potential by the end of that year, with the unemployment

rate at 7.2 percent. (That recovery path assumes that policies aimed at stabilizing financial markets prove to be successful.)

With a large and sustained output gap, inflation is expected to be very low during the next several years. On a fourth-quarter-to-fourth quarter basis, the core consumer price index is forecast to increase just 1.4 percent in 2009, 1.0 percent in 2010, and 0.8 percent in 2011 (see Figure 2-9). Because energy prices are lower in 2009 than they were last year, the overall consumer price index is expected to rise just 0.6 percent in 2009. Even as energy prices are forecast to stabilize, growth in the consumer price index is expected to remain low, at 1.3 percent in 2010 and 1.1 percent in 2011. In fact, some private-sector analysts are now concerned about deflation—prices falling for a broad range of goods and services for a protracted period. Although CBO's forecast indicates a drop in the CPI-U between 2008 and 2009, that decline results from the fall in commodity prices—not in prices for a broad range of goods and services—and it is not persistent.

The rate for 3-month Treasury bills is expected to average only 0.3 percent in 2009; and for 10-year Treasury notes, 2.9 percent. Both of those rates are anticipated to rise in 2010 and 2011 but to remain well below their long-term averages. Although large federal budget deficits in CBO's baseline projections would tend to boost interest rates, the weakness in economic activity and the very low inflation rate should hold down nominal interest rates for the next few years.

**The American Recovery and Reinvestment Act's
Impact on the Near-Term Outlook**

CBO's forecast incorporates the estimated impact of the spending increases and tax reductions provided by ARRA. The major provisions of that law provide for direct purchases of goods and services by the federal government, transfers to state and local governments (both for infrastructure and for other purposes), payments to individuals, and temporary tax reductions for individuals and businesses. CBO believes that, without such stimulus, the economy probably would have continued to contract sharply throughout 2009. The unemployment rate probably would have exceeded 10.0 percent by the end of the year and peaked at around 10.5 percent in the first half of next year.

In projecting the impact of ARRA, CBO assessed the likely magnitude and timing of federal outlays and revenue reductions, developing a range of estimates of the effects on real GDP. The agency grouped the various provisions into a number of general categories, each of which was assumed to have a range of effects on the economy that could be summarized by “multipliers,” or the cumulative impact that a dollar in stimulus would have on output.⁷ For example, CBO determined that, with a multiplier of 1.0 to 2.5, a one-time increase in federal purchases of goods and services of \$1.00 in the second quarter of this year would raise GDP by \$1.00 to \$2.50 in total over several quarters. The range of estimates for each category of stimulus is quite wide, reflecting a diversity of views among economists as to their effectiveness. CBO's forecast is based on roughly the midpoint between the low and high estimated multipliers within each category.

Even after the fact, it will be quite difficult to assess the impact of ARRA on the economy. Uncertainty is great about both how the economy would perform in the absence of fiscal stimulus and the impact of stimulus. The best estimates of the impact of stimulus will come later, from studies carefully designed to isolate the effects of particular categories of stimulus from other influences on the economy.⁸

In CBO's forecast, the enactment of ARRA boosts real GDP relative to that in a forecast of what would have happened in the absence of stimulus by about 2-1/2 percent in the fourth quarter of 2009 and by about 2-1/4 percent in the fourth quarter of 2010 (see Table 2-3). The unemployment rate is lower than it would otherwise be by about 0.9 percentage points in the fourth quarter of 2009 and 1.3 points in the fourth quarter of 2010. The boost to total employment peaks at about 2-1/2 million jobs in the second half of 2010.

7. For details, see Congressional Budget Office, “Estimated Macroeconomic Impacts of the American Recovery and Reinvestment Act of 2009.”

8. Examples of such studies include David Johnson, Jonathan Parker, and Nicholas S. Souleles, “Household Expenditure and the Income Tax Rebates of 2001,” *American Economic Review*, vol. 96, no. 5 (December 2006), pp. 1589–1610; and Christian Broda and Jonathan Parker, “The Impact of the 2008 Tax Rebates on Consumer Spending: A First Look at the Evidence,” *Kellogg Insight* (August 2008).

Steps to Stabilize Financial Markets

CBO's forecast assumes that the Federal Reserve and the Treasury, along with the Federal Deposit Insurance Corporation, will continue to act vigorously to address the problems in financial markets. Programs created by those entities have provided funds or issued guarantees in large amounts to financial institutions. Those programs have improved conditions in some financial markets and have reduced the risk of a collapse of the financial system. The forecast also assumes that the Federal Reserve will keep the federal funds rate close to zero and will continue to supply very large amounts of credit to financial markets until financial conditions and the availability of credit begin to return to normal. In addition, the forecast assumes that the central bank will act quickly to address any adverse developments that threaten liquidity or the stability of the financial system.

The Federal Reserve has announced that it will provide large amounts of additional funding to financial markets this year. After its March policy meeting, the Federal Reserve stated that it will purchase up to an additional \$400 billion of securities for its portfolio—\$300 billion in longer-term Treasury securities and \$100 billion in debt issued by the government-owned corporations Fannie Mae and Freddie Mac. In addition to its more traditional way of purchasing government-related securities to expand its balance sheet, the Federal Reserve has created two new programs for that purpose. In the first program, designed in part to lower mortgage rates, the central bank will purchase up to \$1.25 trillion of mortgage-backed securities (MBSs) issued by Fannie Mae, Freddie Mac, and Ginnie Mae. Through March 11, the Federal Reserve had purchased a net \$217 billion of MBSs. The second program, called the Term Asset-Backed Security Loan Facility (TALF), is designed to increase the securitization of certain types of loans, including commercial mortgages, auto loans, and student loans. Under the TALF, the Federal Reserve will lend funds to private purchasers of top-rated securities backed by such loans for up to a three-year period using those securities as collateral; the total amount provided by the facility may be as much as \$1 trillion.

The Treasury had bought about \$107 billion of MBSs as of February 28, 2009, and it continues to purchase them. To support the TALF, the Treasury will allocate funds from the Troubled Asset Relief Program to offset the

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.

Federal Reserve's potential losses in the event of default. In addition to the funds allocated so far for the TALE, roughly \$250 billion remained uncommitted under the TARP as of mid-March and could be used to inject additional capital into banks or to support new programs.

The FDIC has also provided substantial assistance to financial institutions, which continue to issue new debt guaranteed by the FDIC under the Temporary Liquidity Guarantee Program. That program, which guarantees debt newly issued by banks and other financial institutions, was covering more than \$250 billion of debt as of the end of January.

The Outlook Through 2019

CBO expects that potential output will grow at an annual rate of 2.3 percent on average during the 2009–2019 period, or at roughly the same pace as the agency assumed in its January projections (see Table 2-4). The projections for labor input and productivity are essen-

tially unchanged since January: The growth of potential hours worked averages 0.6 percent annually from 2009 to 2019, and the growth of total factor productivity averages 1.3 percent during the same period.⁹ The projected pace of capital accumulation, as measured by growth in the capital services index, is slightly slower, averaging 2.9 percent during the period, down from 3.0 percent in January. Once the economy returns to its potential level in 2014, CBO assumes that it will continue to produce goods and services at or near its potential rate of growth.

The primary difference between the current projections and the ones published in January is the effect of the American Recovery and Reinvestment Act of 2009. Although ARRA will boost output significantly in

9. Total factor productivity is average real output per unit of combined labor and capital services. Its growth is defined as the growth of real output that is not explained by the growth of labor and capital.

Table 2-4.**Key Assumptions in CBO's Projection of Potential Output**

(Percent)

	Average Annual Growth					Projections			
	1950- 1973	1974- 1981	1982- 1990	1991- 2001	2002- 2008	1950- 2008	2009- 2014	2015- 2019	2009- 2019
Overall Economy									
Potential Output	3.9	3.2	3.2	2.9	2.8	3.4	2.2	2.4	2.3
Potential Labor Force	1.6	2.5	1.7	1.1	1.1	1.6	0.8	0.4	0.6
Potential Labor Force Productivity ^a	2.3	0.7	1.5	1.7	1.7	1.8	1.4	1.9	1.6
Nonfarm Business Sector									
Potential Output	4.0	3.5	3.4	3.3	3.1	3.6	2.5	2.8	2.6
Potential Hours Worked	1.4	2.2	1.7	1.1	0.9	1.4	0.7	0.5	0.6
Capital Services	3.8	4.3	4.2	4.7	2.6	3.9	2.1	3.8	2.9
Potential TFP	1.9	0.7	0.9	1.1	1.6	1.4	1.3	1.3	1.3
Trend TFP	1.9	0.7	1.0	1.0	1.2	1.3	1.2	1.2	1.2
TFP adjustments	0	0	0	0.1	0.5	0.1	0.2	0.2	0.2
Price measurement ^b	0	0	0	0.1	0.2	0	0.2	0.2	0.2
Temporary adjustment ^c	0	0	0	0.1	0.3	0.1	0	0	0
Contributions to the Growth of Potential Output (Percentage points)									
Potential labor input	1.0	1.6	1.2	0.8	0.7	1.0	0.5	0.3	0.4
Capital services	1.1	1.3	1.3	1.4	0.8	1.2	0.6	1.1	0.9
Potential TFP	1.9	0.7	0.9	1.1	1.6	1.4	1.3	1.3	1.3
Total Contributions	4.0	3.5	3.4	3.3	3.1	3.6	2.5	2.8	2.6
Memorandum:									
Potential Labor Productivity ^d	2.6	1.3	1.7	2.2	2.2	2.2	1.8	2.3	2.0

Source: Congressional Budget Office.

Note: Total factor productivity (TFP) is average real output per unit of combined labor and capital services. The growth of TFP is defined as the growth of real output that is not explained by the growth of labor and capital.

- The ratio of potential output to the potential labor force.
- An adjustment for a conceptual change in the official measure of the gross domestic product chained price index.
- An adjustment for the unusually rapid growth of TFP between 2001 and 2003.
- The estimated trend in the ratio of output to hours worked in the nonfarm business sector.

the next several years, any short-run effects of the stimulus legislation on the business cycle will have dissipated by the end of the projection period. In the latter part of the period, the legislation reduces projected output by roughly 0.1 percent, principally through its influence on capital accumulation.

Capital accumulation is affected because the increase in government debt is expected to displace, or "crowd out,"

a smaller amount of private capital. That result occurs because the reduction in overall national saving dampens spending on business fixed investment and the construction of housing. Although the size of such displacement is very uncertain, CBO assumes that, in the long run, each dollar of additional federal debt crowds out about a third of a dollar's worth of private domestic capital (with the remainder of the rise in debt offset by increases in private saving and inflows of foreign capital).

Table 2-5.**CBO's Current and Previous Economic Projections for Calendar Years 2009 to 2019**

	Estimated 2008 ^a	Forecast			Projected Annual Average	
		2009	2010	2011	2012-2015	2016-2019
Nominal GDP (Billions of dollars)						
March 2009	14,257	14,047	14,576	15,233	18,138 ^b	21,164 ^c
January 2009	14,304	14,241	14,591	15,347	19,077 ^b	22,500 ^c
Nominal GDP (Percentage change)						
March 2009	3.3	-1.5	3.8	4.5	4.5	3.9
January 2009	3.6	-0.4	2.5	5.2	5.6	4.2
Real GDP (Percentage change)						
March 2009	1.1	-3.0	2.9	4.0	3.6	2.3
January 2009	1.2	-2.2	1.5	4.2	3.7	2.3
GDP Price Index (Percentage change)						
March 2009	2.2	1.5	0.8	0.5	0.9	1.6
January 2009	2.4	1.8	0.9	1.0	1.8	1.9
Consumer Price Index ^d (Percentage change)						
March 2009	3.8	-0.7	1.4	1.2	1.2	1.9
January 2009	4.1	0.1	1.7	1.8	2.2	2.2
Unemployment Rate (Percent)						
March 2009	5.8	8.8	9.0	7.7	5.6	4.8
January 2009	5.7	8.3	9.0	8.0	5.7	4.8
Three-Month Treasury Bill Rate (Percent)						
March 2009	1.4	0.3	0.9	1.8	4.0	4.7
January 2009	1.4	0.2	0.6	2.1	4.5	4.7
Ten-Year Treasury Note Rate (Percent)						
March 2009	3.7	2.9	3.4	4.0	5.1	5.6
January 2009	3.7	3.0	3.2	3.6	5.2	5.4
Tax Bases (Billions of dollars)						
Economic profits						
March 2009	1,496	1,269	1,386	1,547	1,822 ^b	1,940 ^c
January 2009	1,533	1,384	1,413	1,559	2,001 ^b	2,187 ^c
Wages and salaries						
March 2009	6,543	6,496	6,743	6,953	8,315 ^b	9,709 ^c
January 2009	6,548	6,551	6,740	7,011	8,742 ^b	10,324 ^c
Tax Bases (Percentage of GDP)						
Economic profits						
March 2009	10.5	9.0	9.5	10.2	10.4	9.5
January 2009	10.7	9.7	9.7	10.2	10.6	10.0
Wages and salaries						
March 2009	45.9	46.2	46.3	45.6	45.9	45.9
January 2009	45.8	46.0	46.2	45.7	45.8	45.9
Memorandum:						
Real Potential GDP (Percentage change)						
March 2009	2.6	2.3	1.8	1.7	2.4	2.3
January 2009	2.6	2.4	2.0	1.9	2.4	2.3

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

Note: GDP = gross domestic product; percentage changes are measured from one year to the next.

- 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 consumer price index for all urban consumers.

Other factors, however, are expected to partially offset the negative effect of the crowding out. Many of the legislation's provisions, such as funding for improvements to roads and highways, might add to the economy's potential output in much the same way that private capital investment does. Other provisions, such as funding for grants to increase access to college education or for research and development, could raise long-term productivity by enhancing people's skills or speeding the pace of technical innovation. And still other provisions could create incentives for increased private investment. According to CBO's estimates, provisions that could add to long-term output account for between a quarter and one-third of the legislation's overall budgetary cost.

Comparison with CBO's January Forecast

In addition to the effects of the American Recovery and Reinvestment Act, the other major change since CBO presented its forecast in January is in the underlying outlook for the economy in 2009: It has worsened considerably. The labor market has deteriorated far more than had been anticipated, and the decline in business fixed investment in the fourth quarter was more rapid than had been expected. CBO also now projects a much sharper draw-down of inventories over the next several quarters, as declining production suggests that firms desire leaner inventories than had been previously thought. News of further weakness in foreign economies has also dampened the outlook, as has the sharp decline in the stock market this year.

Since January, CBO has lowered its estimates of inflation for all of the projection period. The expectation of a deeper recession and slow recovery implies high unemployment rates and a great deal of excess capacity for many years. Those factors make it likely that the United States will experience very low inflation for a long time.

For 2010 through 2015, the current projections for the growth of the CPI-U and the price index for GDP are significantly lower than the ones in January (see Table 2-5). Inflation is also lower in the latter years of the projection period because CBO assumes the long spell of excess capacity will permit the Federal Reserve to achieve a slightly lower rate of inflation on average even when the economy returns to its potential.

Comparison with Other Forecasts

Comparing CBO's forecast with others is complicated by the differences in the timing of forecasts given the rapid deterioration in economic conditions. CBO's forecast reflects information available through early March, including data on employment and unemployment in February. In contrast, the Federal Reserve's estimates were compiled in late January; the Administration's forecast was completed in early February; and the *Blue Chip* consensus was compiled in early March, but prior to the release of the February data on labor markets.

CBO's forecast has a deeper downturn in economic activity for this year than is indicated by most other forecasts, but it also has a somewhat faster rebound in 2010 and 2011. CBO's projection for the change in real GDP in 2009 (-3.0 percent) is much weaker than the Administration's (-1.2 percent) and slightly weaker than the *Blue Chip* consensus forecast (-2.6 percent) (see Table 2-6). On a fourth-quarter-to-fourth-quarter basis, CBO's projection (-1.5 percent) is below the Federal Reserve's central tendency (see Table 2-7). However, for 2010 and 2011, on average, CBO's forecast for real growth of GDP is similar to the Administration's and is stronger than the *Blue Chip* consensus forecast. CBO's forecast is at the high end of the range of estimates by the Federal Reserve for 2010 but is within the central tendency for 2011.

CBO's forecast for inflation in the near term is on the low end in comparison with the other forecasts. It is slightly lower than those of both the Administration and the *Blue Chip* consensus in 2009 and 2010 but substantially lower in 2011. CBO's inflation forecast is within the Federal Reserve's central tendency throughout the 2009–2011 period but at the low edge of that interval.

Reflecting the projections of low inflation and persistently high unemployment rates, interest rates for 2010 and 2011 in CBO's forecast are also generally on the low side of the range of estimates by others. Compared with the *Blue Chip* consensus estimates, CBO's forecasts of interest rates are identical in 2009, slightly lower on average in 2010, and significantly lower for 2011. (The Federal Reserve does not publish a forecast of interest rates.)

For the entire projection horizon, 2009 to 2019, CBO is estimating higher average growth than that implied by the *Blue Chip* consensus but lower growth than the

Table 2-6.**Comparison of CBO, Administration, and *Blue Chip* Economic Projections for Calendar Years 2009 to 2019**

	Estimated 2008 ^a	Forecast			Projected Annual Average	
		2009	2010	2011	2012-2015	2016-2019
Nominal GDP (Billions of dollars)						
CBO	14,257	14,047	14,576	15,233	18,138 ^b	21,164 ^c
Administration	14,281	14,291	14,902	15,728	19,415 ^b	23,108 ^c
<i>Blue Chip</i>	14,265	14,065	14,515	15,255	18,667 ^b	22,603 ^c
Nominal GDP (Percentage change)						
CBO	3.3	-1.5	3.8	4.5	4.5	3.9
Administration	3.4	0.1	4.3	5.5	5.4	4.4
<i>Blue Chip</i>	3.3	-1.4	3.2	5.1	5.2	4.9
Real GDP (Percentage change)						
CBO	1.1	-3.0	2.9	4.0	3.6	2.3
Administration	1.3	-1.2	3.2	4.0	3.6	2.6
<i>Blue Chip</i>	1.1	-2.6	1.9	3.4	3.0	2.6
GDP Price Index (Percentage change)						
CBO	2.2	1.5	0.8	0.5	0.9	1.6
Administration	2.2	1.2	1.1	1.5	1.8	1.8
<i>Blue Chip</i>	2.2	1.2	1.2	1.7	2.2	2.3
Consumer Price Index ^d (Percentage change)						
CBO	3.8	-0.7	1.4	1.2	1.2	1.9
Administration	3.8	-0.6	1.6	1.8	2.1	2.1
<i>Blue Chip</i>	3.8	-0.8	1.6	2.1	2.4	2.5
Unemployment Rate (Percent)						
CBO	5.8	8.8	9.0	7.7	5.6	4.8
Administration	5.8	8.1	7.9	7.1	5.3	5.0
<i>Blue Chip</i>	5.8	8.6	9.1	8.1	6.3	5.5
Three-Month Treasury Bill Rate (Percent)						
CBO	1.4	0.3	0.9	1.8	4.0	4.7
Administration	1.4	0.3	1.6	3.4	4.0	4.0
<i>Blue Chip</i>	1.4	0.3	1.0	2.8	4.0	4.2
Ten-Year Treasury Note Rate (Percent)						
CBO	3.7	2.9	3.4	4.0	5.1	5.6
Administration	3.7	2.8	4.0	4.8	5.2	5.2
<i>Blue Chip</i>	3.7	2.9	3.7	4.5	5.2	5.4

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

Note: GDP = gross domestic product; percentage changes are measured from one year to the next.

- 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 consumer price index for all urban consumers.

estimate by the Administration. CBO projects that real GDP will be \$15.3 trillion in 2019, for an average growth rate of 2.5 percent per year.¹⁰ The *Blue Chip's* figure is \$14.9 trillion, for an average annual growth rate of 2.3 percent; and the Administration's, \$15.8 trillion, for a rate of 2.8 percent.

There are smaller but still significant differences among forecasters for the average rates of unemployment, inflation, and interest rates for the latter years of the projection horizon. For 2016 to 2019, CBO expects about the same average unemployment rate as the Administration does but a lower rate than does the *Blue Chip* consensus. Similarly, CBO's projection for inflation in those years is about the same as the Administration's but lower than that of the *Blue Chip* consensus. Last, CBO's projections of interest rates are somewhat higher.

10. Measured in 2000 chain-weighted dollars.

For the years after 2011, the Federal Reserve provides some longer-run projections, including estimates levels of real GDP growth and the unemployment rate that are sustainable in the long run and of the inflation rate that is consistent with the dual objectives of maximum employment and price stability given "appropriate monetary policy." CBO's projection of potential economic growth, at 2.6 percent five to six years from now, is within the Federal Reserve's central tendency of 2.5 percent to 2.7 percent for that time frame. CBO's projection of the unemployment rate from 2016 to 2019, at 4.8 percent, is also within the Federal Reserve's central tendency of 4.8 percent to 5.0 percent. However, CBO's projection of 1.6 percent inflation based on the price index for personal consumption expenditures is slightly below the Federal Reserve's central tendency of 1.7 percent to 2.0 percent.

Table 2-7.**Comparison of Economic Forecasts by the Federal Reserve and CBO for Calendar Years 2009, 2010, and 2011**

	Federal Reserve		CBO
	Range	Central Tendency	
2009			
<i>Fourth Quarter to Fourth Quarter (Percentage change)</i>			
Real GDP	-2.5 to 0.2	-1.3 to -0.5	-1.5
PCE Price Index ^a	-0.5 to 1.5	0.3 to 1.0	0.5
Core PCE Price Index ^b	0.6 to 1.5	0.9 to 1.1	0.7
<i>Average Level, Fourth Quarter (Percent)</i>			
Civilian Unemployment Rate	8.0 to 9.2	8.5 to 8.8	8.8
2010			
<i>Fourth Quarter to Fourth Quarter (Percentage change)</i>			
Real GDP	1.5 to 4.5	2.5 to 3.3	4.1
PCE Price Index ^a	0.7 to 1.8	1.0 to 1.5	1.0
Core PCE Price Index ^b	0.4 to 1.7	0.8 to 1.5	0.8
<i>Average Level, Fourth Quarter (Percent)</i>			
Civilian Unemployment Rate	7.0 to 9.2	8.0 to 8.3	9.0
2011			
<i>Fourth Quarter to Fourth Quarter (Percentage change)</i>			
Real GDP	2.3 to 5.5	3.8 to 5.0	4.1
PCE Price Index ^a	0.2 to 2.1	0.9 to 1.7	0.9
Core PCE Price Index ^b	0 to 1.8	0.7 to 1.5	0.7
<i>Average Level, Fourth Quarter (Percent)</i>			
Civilian Unemployment Rate	5.5 to 8.0	6.7 to 7.5	7.7

Sources: Congressional Budget Office; Federal Reserve Board, "Summary of Economic Projections for the Meeting of January 27–28, 2009" (February 18, 2009).

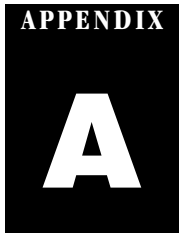
Notes: GDP = gross domestic product; PCE = personal consumption expenditure.

The range of estimates from the Federal Reserve reflects all views of the members of the Federal Open Market Committee.

The central tendency reflects the most common views of the committee's members.

a. The PCE chained price index.

b. The PCE chained price index excluding prices for food and energy.



CBO's Economic Projections for 2009 to 2019

The tables in this appendix expand on the information in the body of the report by showing the Congressional Budget Office's (CBO's) year-by-year economic projections for 2009 to 2019 (by calendar year in Table A-1 and by fiscal year in Table A-2). CBO does not forecast cyclical fluctuations in its projections for years after 2011.

Instead, the projected values shown in the tables for 2012 to 2019 reflect CBO's assessment of average values for that period. That assessment takes into account economic and demographic trends but does not attempt to forecast the frequency and size of ups and downs in the business cycle.

Table A-1.**CBO's Year-by-Year Forecast and Projections for Calendar Years 2009 to 2019**

	Estimated	Forecast			Projected							
	2008 ^a	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Nominal GDP (Billions of dollars)	14,257	14,047	14,576	15,233	15,950	16,684	17,421	18,138	18,873	19,624	20,381	21,164
Nominal GDP (Percentage change)	3.3	-1.5	3.8	4.5	4.7	4.6	4.4	4.1	4.1	4.0	3.9	3.8
Real GDP (Percentage change)	1.1	-3.0	2.9	4.0	4.1	4.0	3.5	2.7	2.5	2.4	2.3	2.2
GDP Price Index (Percentage change)	2.2	1.5	0.8	0.5	0.6	0.6	0.9	1.4	1.5	1.6	1.6	1.6
PCE Price Index ^b (Percentage change)	3.3	-0.1	1.1	1.0	0.8	0.8	1.1	1.4	1.6	1.6	1.6	1.6
Core PCE Price Index ^c (Percentage change)	2.2	1.0	0.8	0.7	0.5	0.6	1.0	1.4	1.6	1.6	1.6	1.6
Consumer Price Index ^d (Percentage change)	3.8	-0.7	1.4	1.2	1.0	1.0	1.2	1.6	1.9	1.9	1.9	1.9
Core Consumer Price Index ^e (Percentage change)	2.3	1.5	1.1	0.9	0.7	0.8	1.2	1.6	1.9	1.9	1.9	1.9
Unemployment Rate (Percent)	5.8	8.8	9.0	7.7	6.6	5.7	5.1	4.9	4.8	4.8	4.8	4.8
Three-Month Treasury Bill Rate (Percent)	1.4	0.3	0.9	1.8	3.0	3.9	4.4	4.7	4.7	4.8	4.8	4.8
Ten-Year Treasury Note Rate (Percent)	3.7	2.9	3.4	4.0	4.6	5.0	5.3	5.4	5.5	5.6	5.6	5.6
Tax Bases (Billions of dollars)												
Economic profits	1,496	1,269	1,386	1,547	1,656	1,764	1,812	1,822	1,859	1,884	1,915	1,940
Wages and salaries	6,543	6,496	6,743	6,953	7,338	7,662	7,990	8,315	8,651	8,997	9,347	9,709
Tax Bases (Percentage of GDP)												
Economic profits	10.5	9.0	9.5	10.2	10.4	10.6	10.4	10.0	9.9	9.6	9.4	9.2
Wages and salaries	45.9	46.2	46.3	45.6	46.0	45.9	45.9	45.8	45.8	45.8	45.9	45.9

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

Note: GDP = gross domestic product; PCE = personal consumption expenditure. Percentage changes are measured from one year to the next.

- Figures for the consumer price index, the unemployment rate, and the interest rates are actual values; other 2008 figures are estimates.
- The PCE chained price index.
- The PCE chained price index excluding prices for food and energy.
- The consumer price index for all urban consumers.
- The consumer price index for all urban consumers excluding prices for food and energy.

Table A-2.**CBO's Year-by-Year Forecast and Projections for Fiscal Years 2009 to 2019**

	Actual 2008	Forecast			Projected							
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Nominal GDP (Billions of dollars)	14,222	14,057	14,405	15,061	15,774	16,496	17,241	17,957	18,688	19,436	20,191	20,966
Nominal GDP (Percentage change)	4.3	-1.2	2.5	4.6	4.7	4.6	4.5	4.2	4.1	4.0	3.9	3.8
Real GDP (Percentage change)	1.9	-2.9	1.5	4.0	4.1	4.0	3.7	2.9	2.5	2.4	2.3	2.2
GDP Price Index (Percentage change)	2.4	1.7	0.9	0.6	0.6	0.6	0.8	1.3	1.5	1.6	1.6	1.6
PCE Price Index ^a (Percentage change)	3.7	0.2	1.0	1.0	0.8	0.8	1.0	1.3	1.6	1.6	1.6	1.6
Core PCE Price Index ^b (Percentage change)	2.2	1.3	0.8	0.7	0.6	0.6	0.9	1.3	1.6	1.6	1.6	1.6
Consumer Price Index ^c (Percentage change)	4.4	-0.5	1.2	1.3	1.0	0.9	1.1	1.5	1.9	1.9	1.9	1.9
Core Consumer Price Index ^d (Percentage change)	2.4	1.6	1.2	0.9	0.8	0.7	1.1	1.5	1.9	1.9	1.9	1.9
Unemployment Rate (Percent)	5.3	8.2	9.2	8.0	6.8	5.9	5.2	4.9	4.8	4.8	4.8	4.8
Three-Month Treasury Bill Rate (Percent)	2.1	0.3	0.8	1.6	2.7	3.7	4.4	4.6	4.7	4.7	4.8	4.8
Ten-Year Treasury Note Rate (Percent)	3.9	2.9	3.3	3.9	4.5	4.9	5.2	5.4	5.5	5.6	5.6	5.6
Tax Bases (Billions of dollars)												
Economic profits	1,563	1,285	1,340	1,512	1,630	1,740	1,807	1,816	1,852	1,877	1,909	1,933
Wages and salaries	6,521	6,500	6,647	6,901	7,258	7,579	7,909	8,232	8,566	8,910	9,258	9,617
Tax Bases (Percentage of GDP)												
Economic profits	11.0	9.1	9.3	10.0	10.3	10.5	10.5	10.1	9.9	9.7	9.5	9.2
Wages and salaries	45.9	46.2	46.1	45.8	46.0	45.9	45.9	45.8	45.8	45.8	45.9	45.9

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

Note: GDP = gross domestic product; PCE = personal consumption expenditure. Percentage changes are measured from one year to the next.

- a. The PCE chained price index.
- b. The PCE chained price index excluding prices for food and energy.
- c. The consumer price index for all urban consumers.
- d. The consumer price index for all urban consumers excluding prices for food and energy.



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