An Overview of the Budget and Economic Outlook From 2019 to 2029

Presentation to the American Association for Budget and Program Analysis

Christina Hawley Anthony
Chief, Projections Unit, Budget Analysis Division

Robert Arnold
Chief, Projections Unit, Macroeconomic Analysis Division
CBO’s Role in the Budget Process

To provide the Congress with objective, nonpartisan, and timely analyses of legislative proposals and of budgetary and economic issues to support the Congressional budget process
CBO’s Process for Developing the Budget Baseline
The Baseline

The baseline is a benchmark for measuring the budgetary effects of proposed changes in federal revenues or spending.

- It is not a prediction of future outcomes.
- It is based on the assumption that current laws and policies generally remain the same.
- It incorporates CBO’s economic projections, which are also based on current laws and policies.
How the Baseline Is Constructed


A key law is the Balanced Budget and Emergency Deficit Control Act, section 257.

- It defines the baseline: “The baseline refers to a projection of current-year levels of new budget authority, outlays, revenues, and the surplus or deficit into the budget year and the outyears based on laws enacted through the applicable date.”

- It sets out rules for projecting spending and receipts.

- It requires an assumption of full funding for entitlements.

- It specifies the treatment of expiring programs and certain excise taxes.
How CBO and the Congress Use the Baseline

The baseline is a neutral benchmark for measuring the budgetary effects of proposed changes in federal revenues and mandatory spending.

It serves as the basis for:

- Cost estimates for proposed legislation
- CBO’s analyses of the President’s annual budget
- CBO’s volume of policy options that would reduce the deficit
- Other reports (including those describing CBO’s long-term budget projections)
- Assessments of historical and projected trends in the budget

It is often a starting point for budget resolutions.
CBO’s Current Economic Projections
Growth of GDP and Potential Real GDP

GDP = gross domestic product.
The Output Gap

Percentage of Potential Gross Domestic Product

Actual

Projected

Output Gap

The Unemployment Rate and the Natural Rate of Unemployment

[Graph showing the unemployment rate and the natural rate of unemployment from 1999 to 2029.]
The Labor Force Participation Rate

Percent

Potential Participation Rate

Participation Rate

Actual

Projected

In CBO’s projections, a number of factors, including strong labor market conditions, cause growth in the core PCE price index to rise from 1.9 percent in 2019 to 2.2 percent in 2020.
CBO expects both short-term and long-term interest rates to remain near their current levels through most of 2020 and then to rise gradually as inflation stabilizes at 2 percent—the Federal Reserve’s long-run objective.
Factors Underlying the Growth of Potential GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1950–1973</td>
<td>1.6</td>
<td>2.4</td>
</tr>
<tr>
<td>1974–1981</td>
<td>2.5</td>
<td>0.6</td>
</tr>
<tr>
<td>1982–1990</td>
<td>1.6</td>
<td>1.7</td>
</tr>
<tr>
<td>1991–2001</td>
<td>1.2</td>
<td>2.0</td>
</tr>
<tr>
<td>2002–2007</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>2008–2018</td>
<td>1.0</td>
<td>0.6</td>
</tr>
<tr>
<td>2019–2023</td>
<td>0.5</td>
<td>1.6</td>
</tr>
<tr>
<td>2024–2029</td>
<td>0.4</td>
<td>1.4</td>
</tr>
</tbody>
</table>
CBO’s Current Budget Projections
Total Deficits and Surpluses

Percentage of Gross Domestic Product

Deficits
Surpluses
Average Deficit, 1969 to 2018
(-2.9%)
Average Deficit, 2020 to 2029
(-4.7%)
Actual
Projected
Total Revenues and Outlays

Percentage of Gross Domestic Product

- Average Outlays, 1969 to 2018 (20.3%)
- Average Revenues, 1969 to 2018 (17.4%)

Actual: 2019
Projected: 2029

Outlays: 2029 (23.0%)
Revenues: 2029 (18.2%)
## Changes in Projected Revenues From 2019 to 2029

<table>
<thead>
<tr>
<th>Percentage of Gross Domestic Product</th>
<th>Revenues 2019</th>
<th>Revenues 2029</th>
<th>Change (Percentage points)</th>
<th>Major Reasons for Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Taxes</td>
<td>8.0</td>
<td>9.6</td>
<td><strong>1.6</strong></td>
<td>Expiration of temporary tax provisions after 2025; real bracket creep</td>
</tr>
<tr>
<td>Payroll Taxes</td>
<td>5.9</td>
<td>5.9</td>
<td>*</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>1.1</td>
<td>1.3</td>
<td><strong>0.3</strong></td>
<td>Scheduled changes in tax rules enacted in the 2017 tax act; dissipation of temporary weakness in recent tax collections</td>
</tr>
<tr>
<td>Other Sources of Revenue</td>
<td>1.3</td>
<td>1.3</td>
<td>*</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

* = between zero and 0.05 percent of gross domestic product.
# Changes in Projected Outlays From 2019 to 2029

<table>
<thead>
<tr>
<th>Percentage of Gross Domestic Product</th>
<th>Outlays 2019</th>
<th>Outlays 2029</th>
<th>Change (Percentage points)</th>
<th>Major Reasons for Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>4.9</td>
<td>5.9</td>
<td>1.0</td>
<td>Aging of the population</td>
</tr>
<tr>
<td>Major Health Care Programs</td>
<td>5.3</td>
<td>6.6</td>
<td>1.3</td>
<td>Aging of the population; rising costs of health care</td>
</tr>
<tr>
<td>Other Mandatory Spending</td>
<td>2.6</td>
<td>2.3</td>
<td>-0.4</td>
<td>Inflation rate is less than nominal GDP growth</td>
</tr>
<tr>
<td>Discretionary Spending</td>
<td>6.3</td>
<td>5.6</td>
<td>-0.7</td>
<td>Caps on funding; inflation rate is less than nominal GDP growth</td>
</tr>
<tr>
<td>Net Interest</td>
<td>1.8</td>
<td>2.6</td>
<td>0.9</td>
<td>Accumulating debt; rising interest rates</td>
</tr>
</tbody>
</table>
Total Deficit, Primary Deficit, and Net Interest

Percentage of Gross Domestic Product

- Total Deficit or Surplus
- Primary Deficit or Surplus
- Net Interest
Federal Debt Held by the Public

Percentage of Gross Domestic Product

Actual  Projected