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

Presentation to the American Association for Budget and Program Analysis

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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

The principles and rules mainly come from law, budget resolutions, House and Senate rules, and the 1967 *Report of the President's Commission on Budget Concepts*.

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.

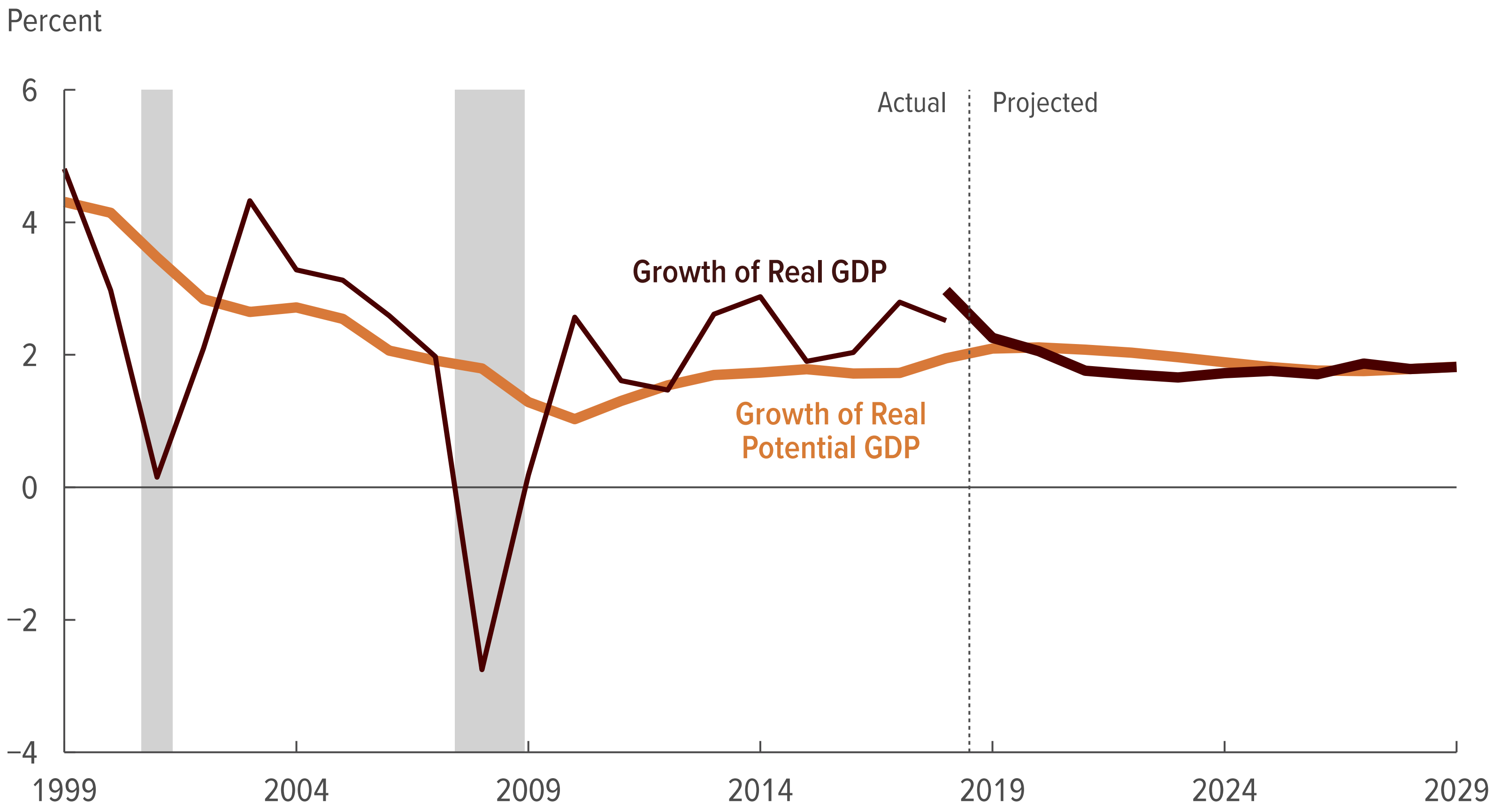
It serves as the basis for:

- 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.

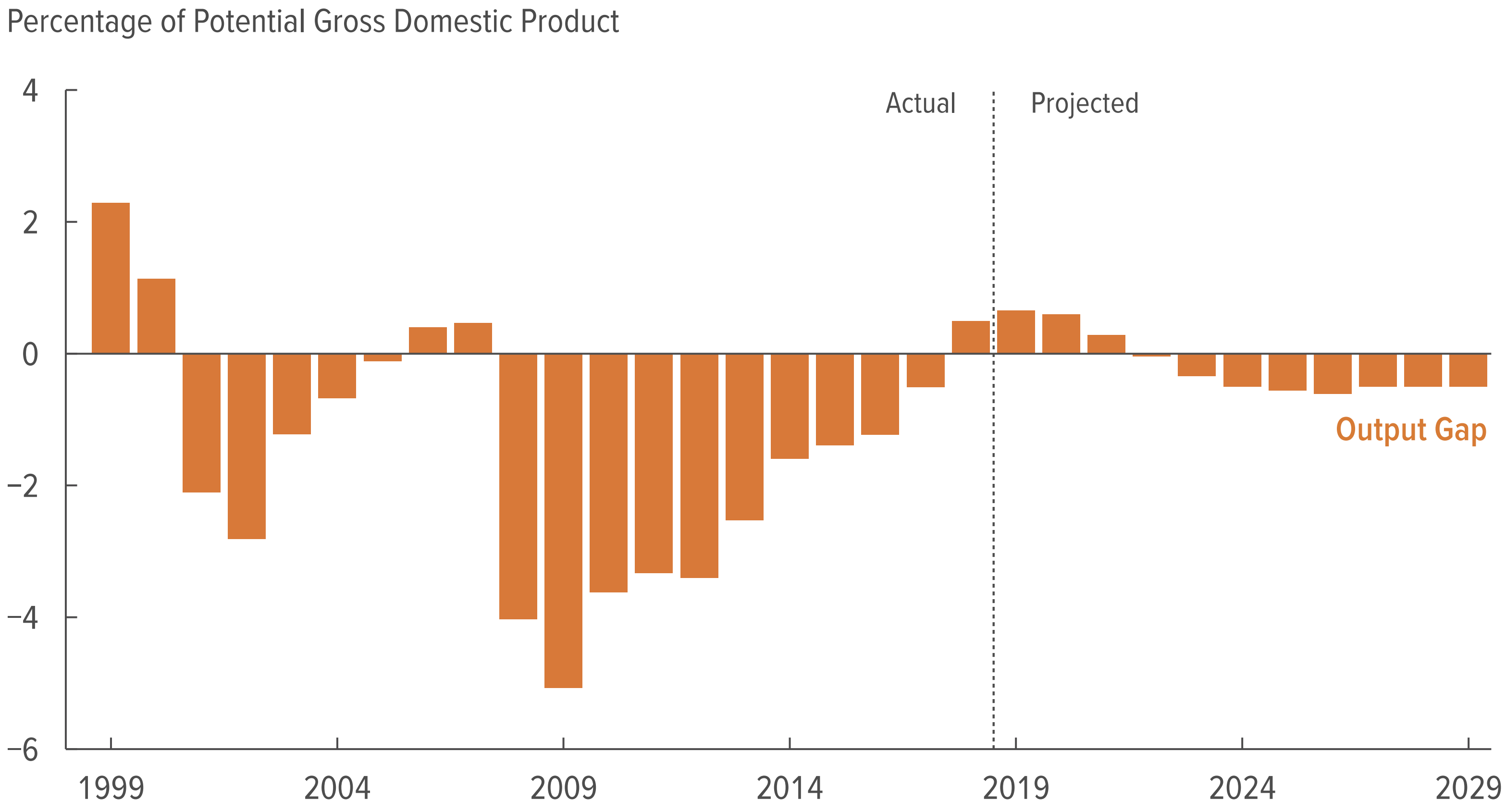
CBO’s Current Economic Projections

Growth of GDP and Potential Real GDP

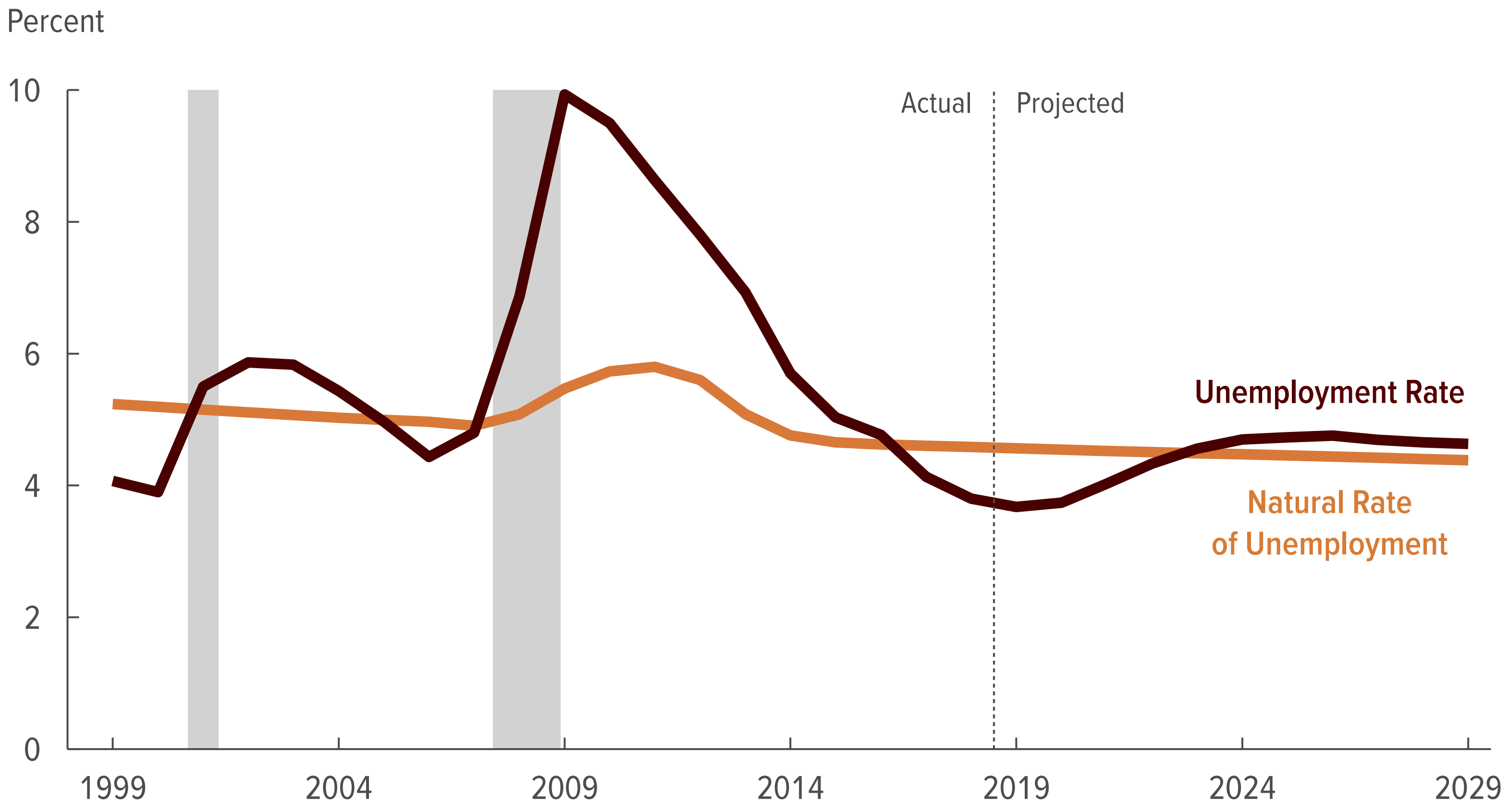


GDP = gross domestic product.

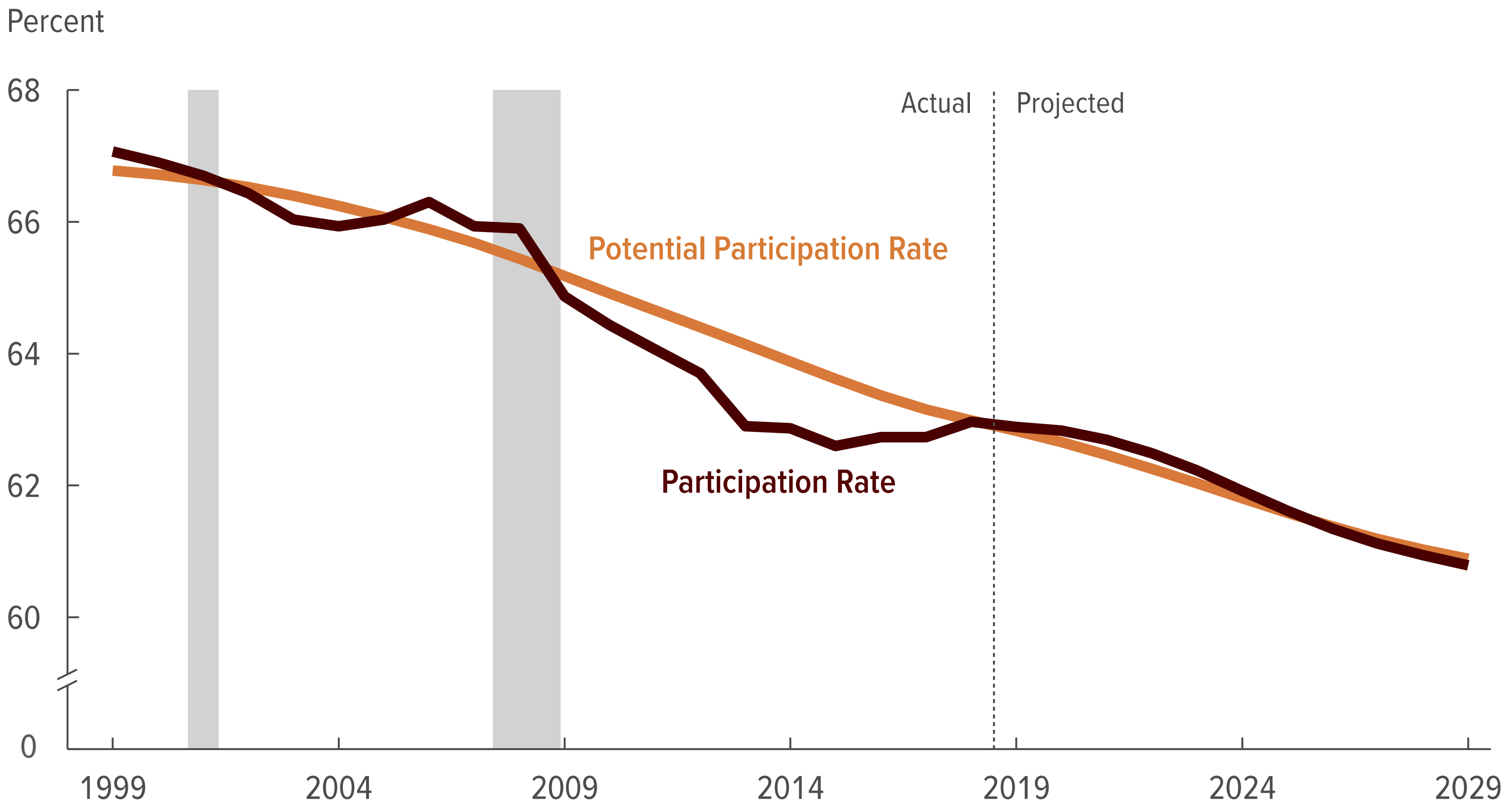
The Output Gap



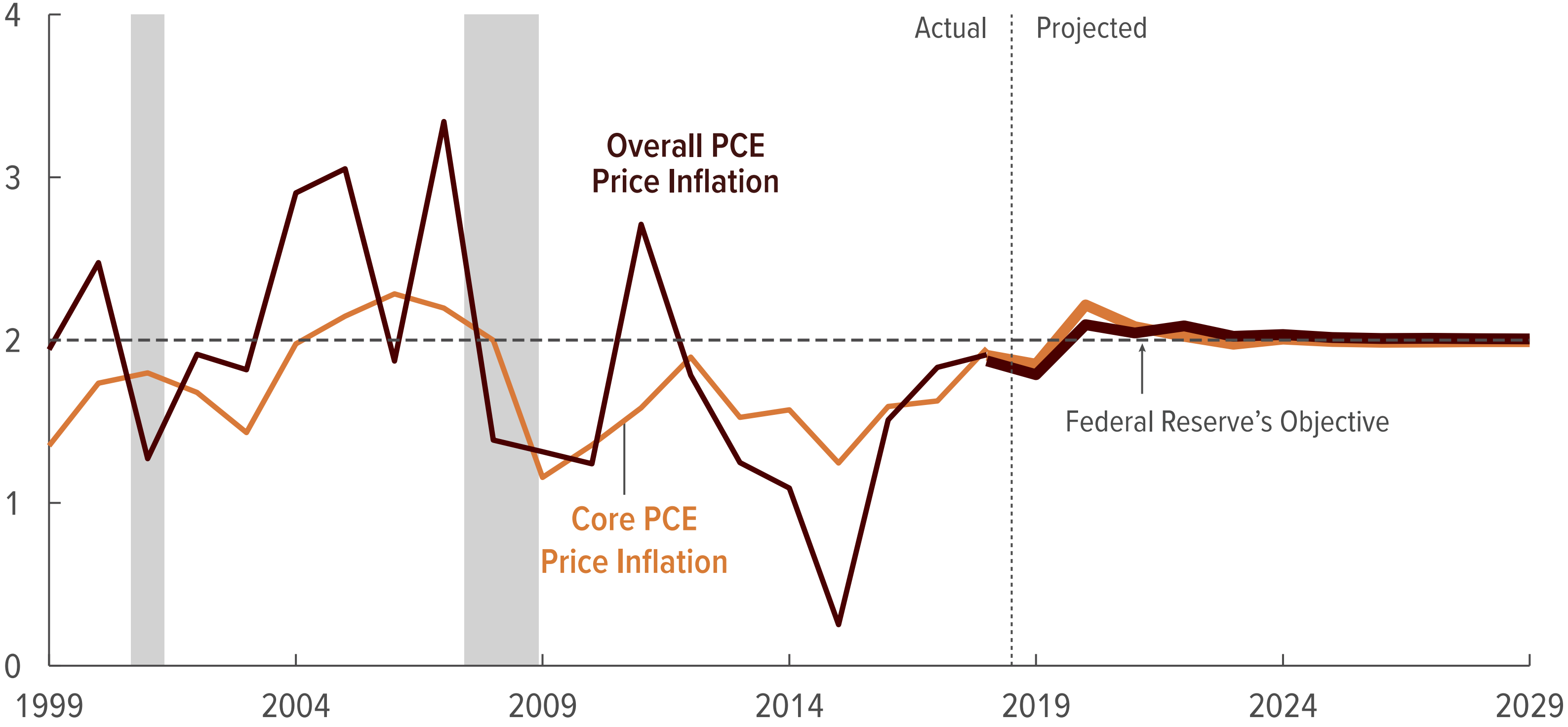
The Unemployment Rate and the Natural Rate of Unemployment



The Labor Force Participation Rate



Inflation



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.

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PCE = personal consumption expenditures.

CBO expects both

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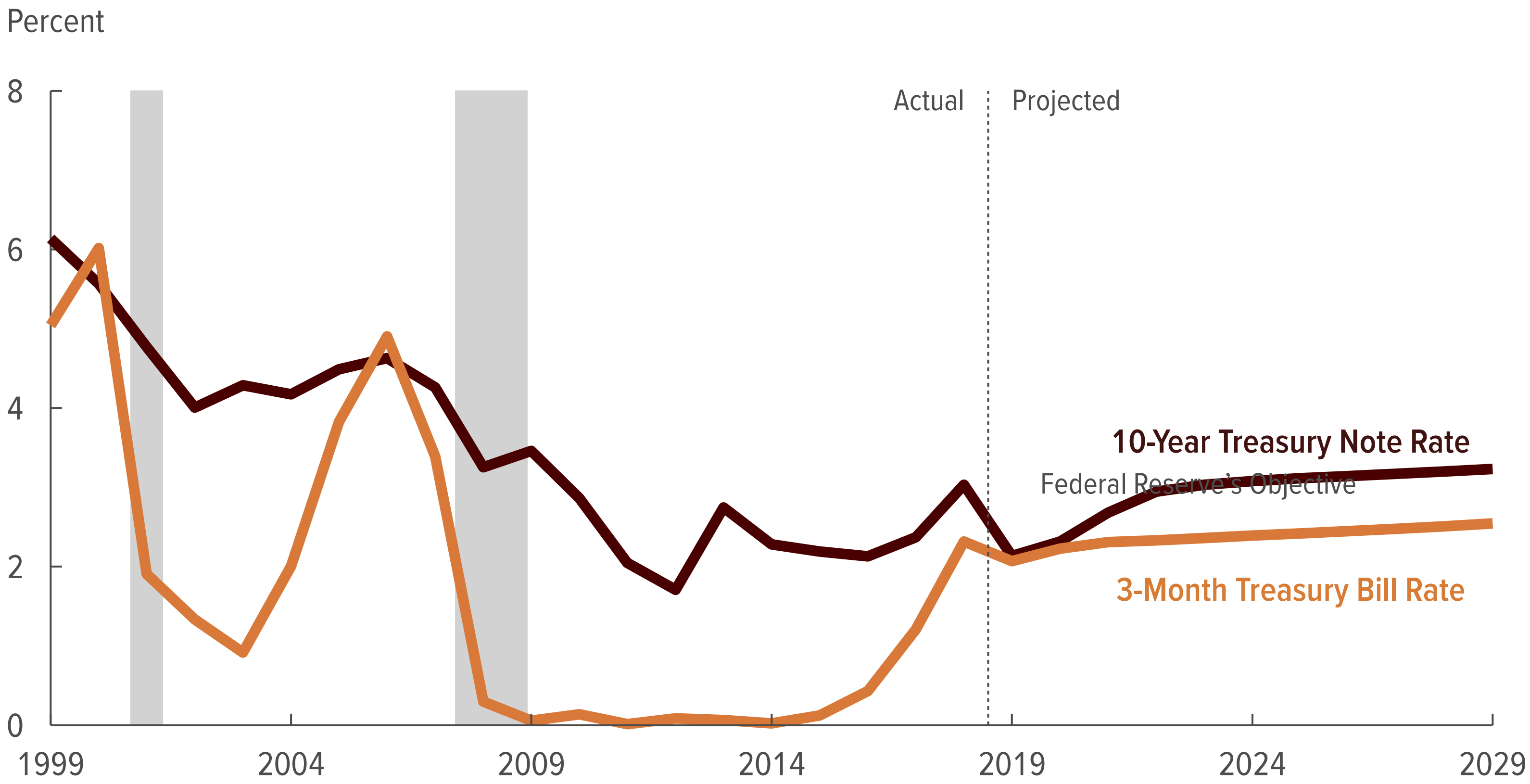
Core PCE
Price Inflation

Interest Rates

0

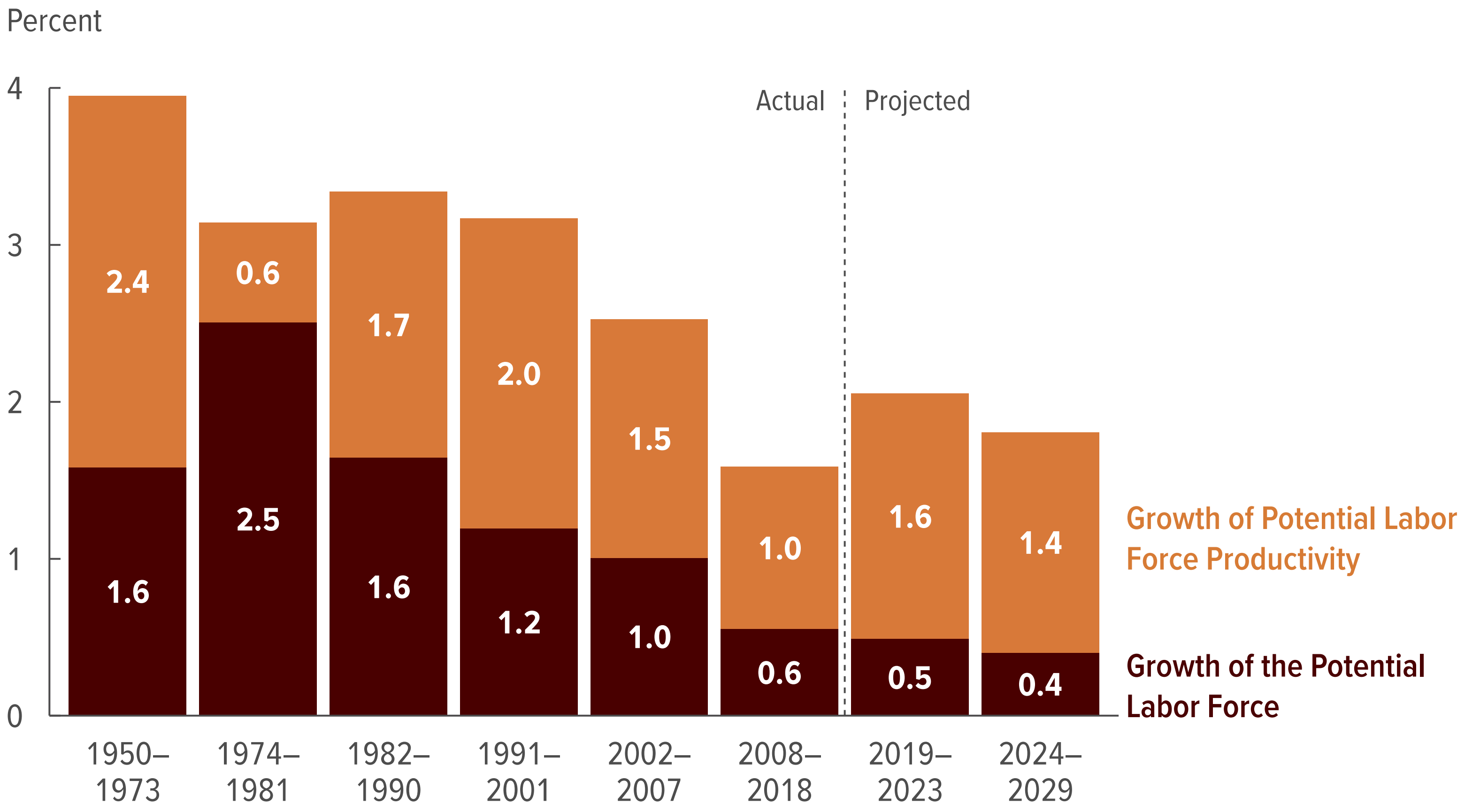
1999 2004 2009 2014 2019 2024 2029

to 2.2 percent in 2020.



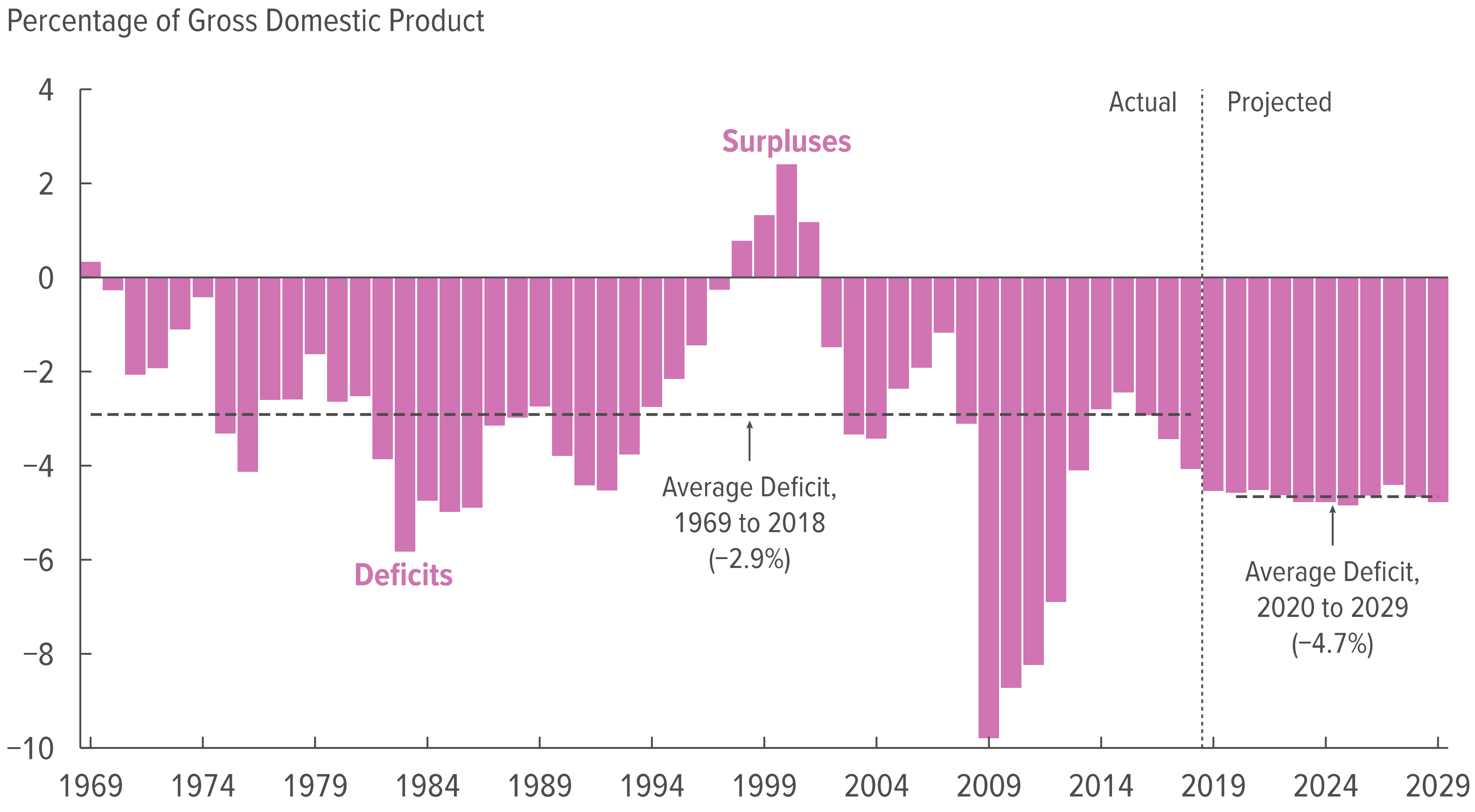
CBO expects both short-term and long-term interest rates to remain near their current levels through most of 2020 and then to rise gradually as inflation stabilizes at 2 percent—the Federal Reserve's long-run objective.

Factors Underlying the Growth of Potential GDP

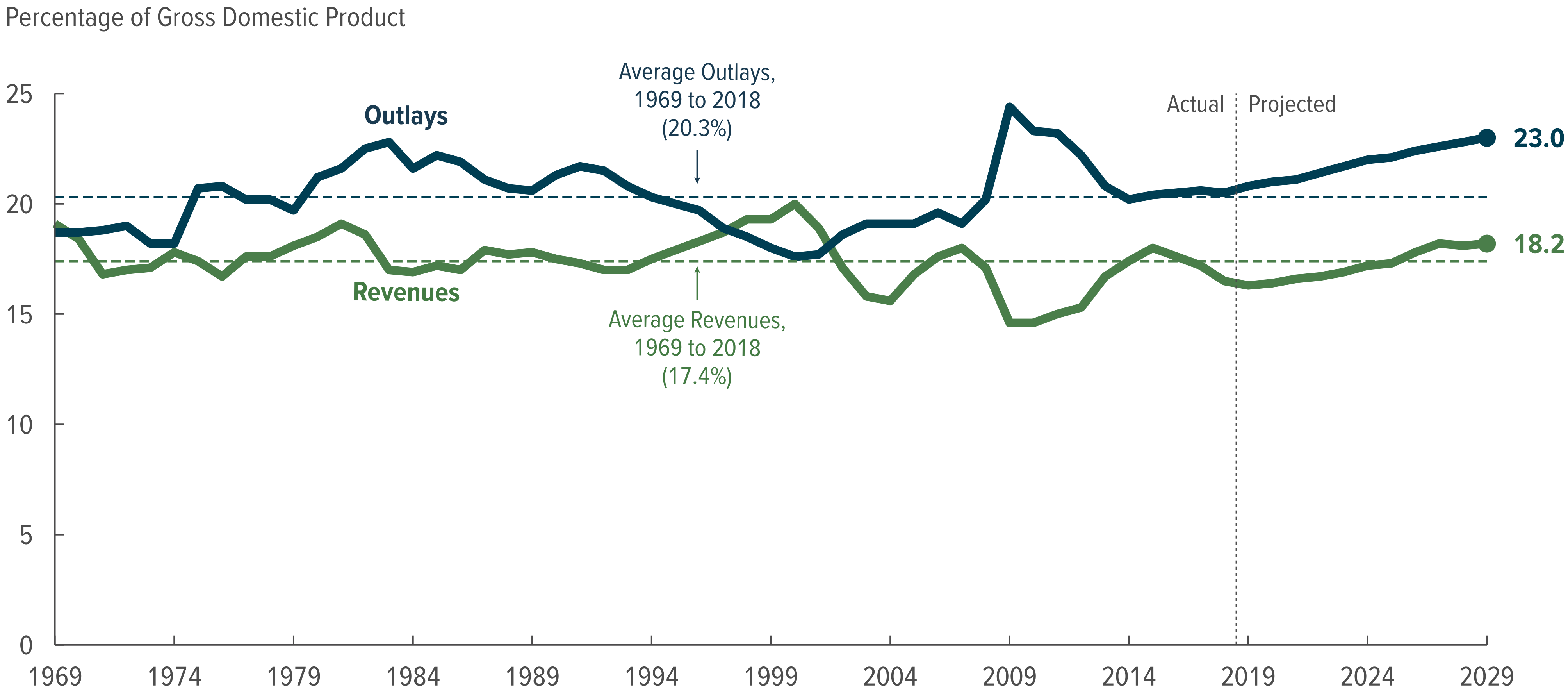


CBO’s Current Budget Projections

Total Deficits and Surpluses



Total Revenues and Outlays



Changes in Projected Revenues From 2019 to 2029

Percentage of Gross Domestic Product

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

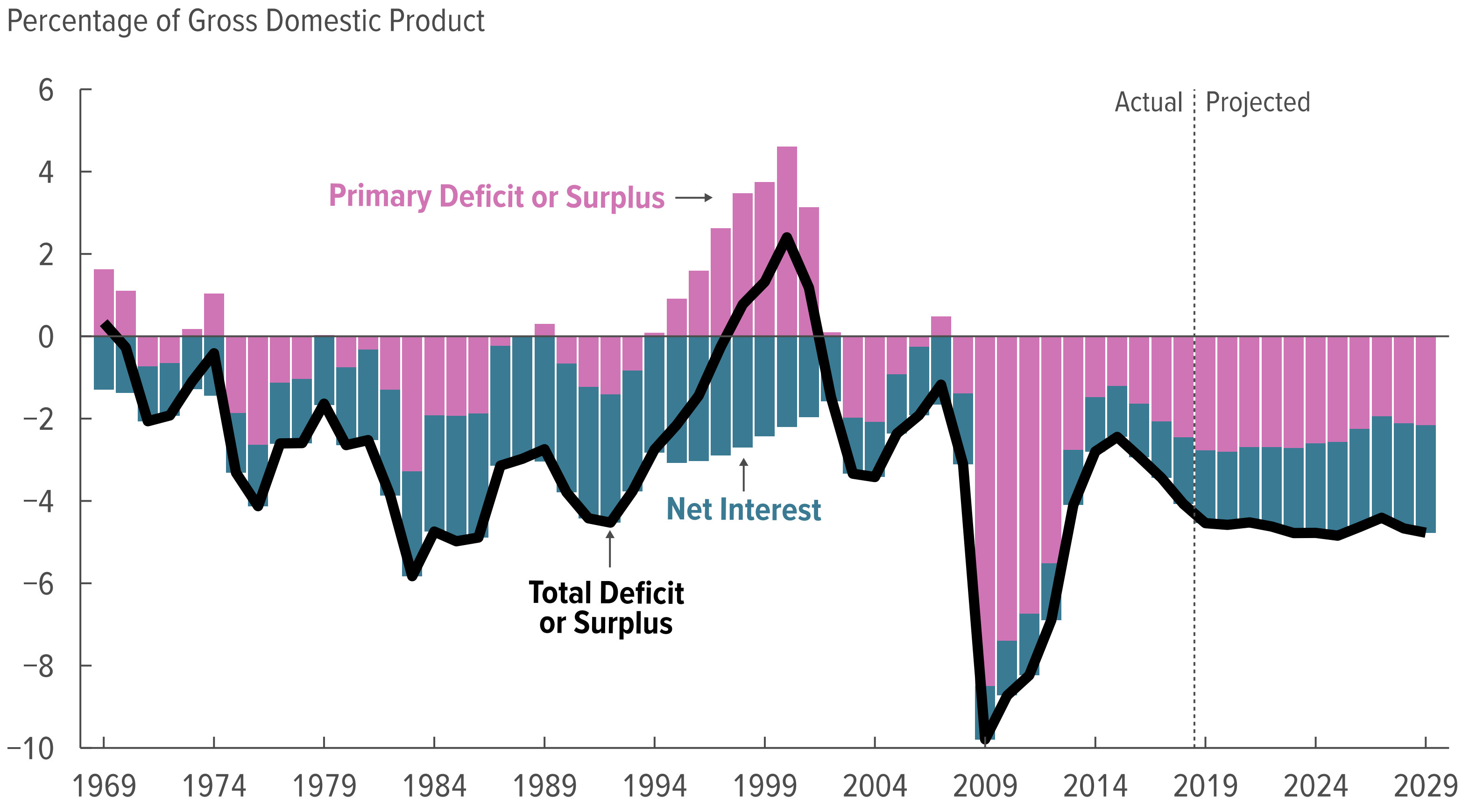
* = between zero and 0.05 percent of gross domestic product.

Changes in Projected Outlays From 2019 to 2029

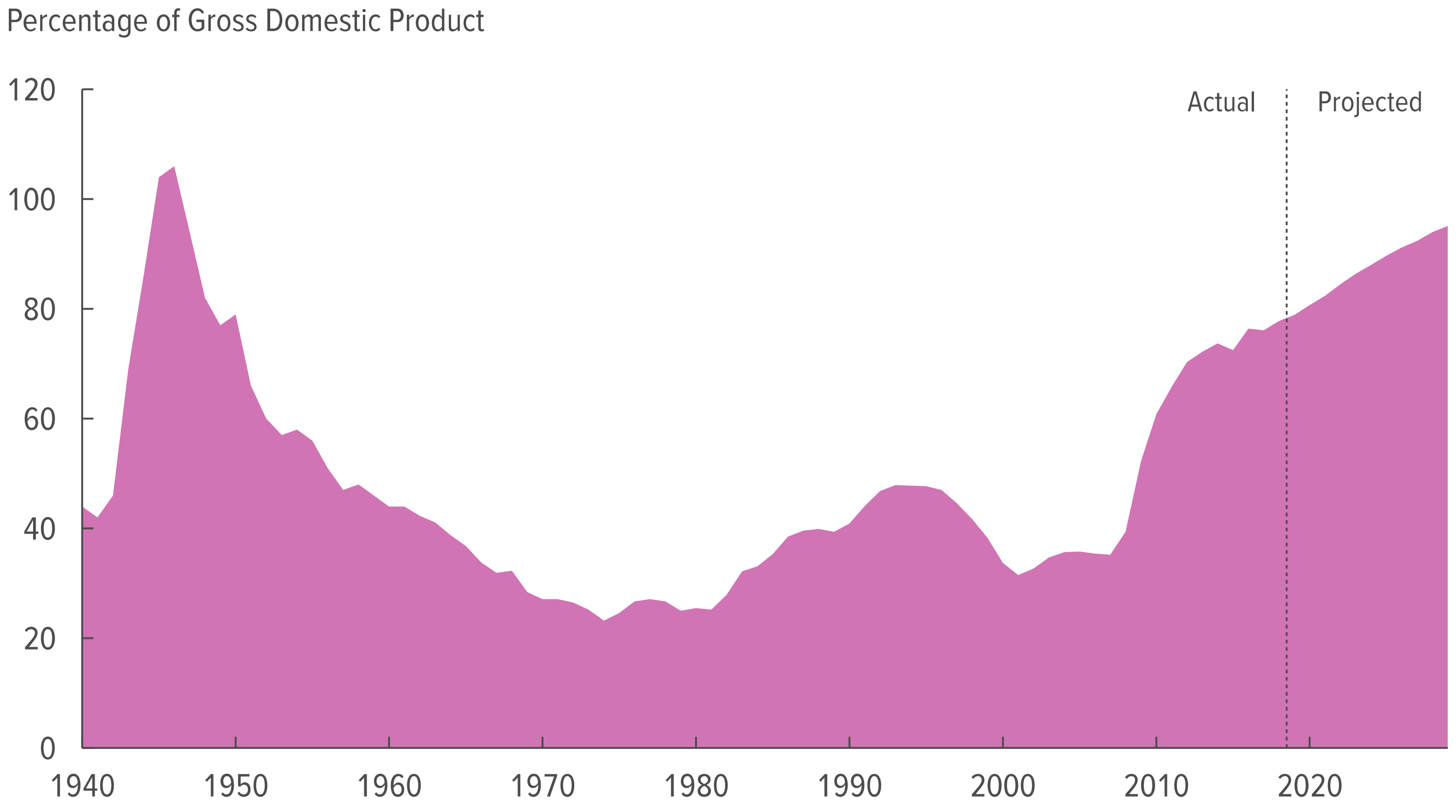
Percentage of Gross Domestic Product

	Outlays 2019	Outlays 2029	Change (Percentage points)	Major Reasons for Change
Social Security	4.9	5.9	1.0	Aging of the population
Major Health Care Programs	5.3	6.6	1.3	Aging of the population; rising costs of health care
Other Mandatory Spending	2.6	2.3	−0.4	Inflation rate is less than nominal GDP growth
Discretionary Spending	6.3	5.6	−0.7	Caps on funding; inflation rate is less than nominal GDP growth
Net Interest	1.8	2.6	0.9	Accumulating debt; rising interest rates

Total Deficit, Primary Deficit, and Net Interest



Federal Debt Held by the Public



For More Information

The projections presented here were first published in Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2019 to 2029* (August 2019), www.cbo.gov/publication/55551.