



**Congressional Budget Office**

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**Presentation to the National Economists Club**

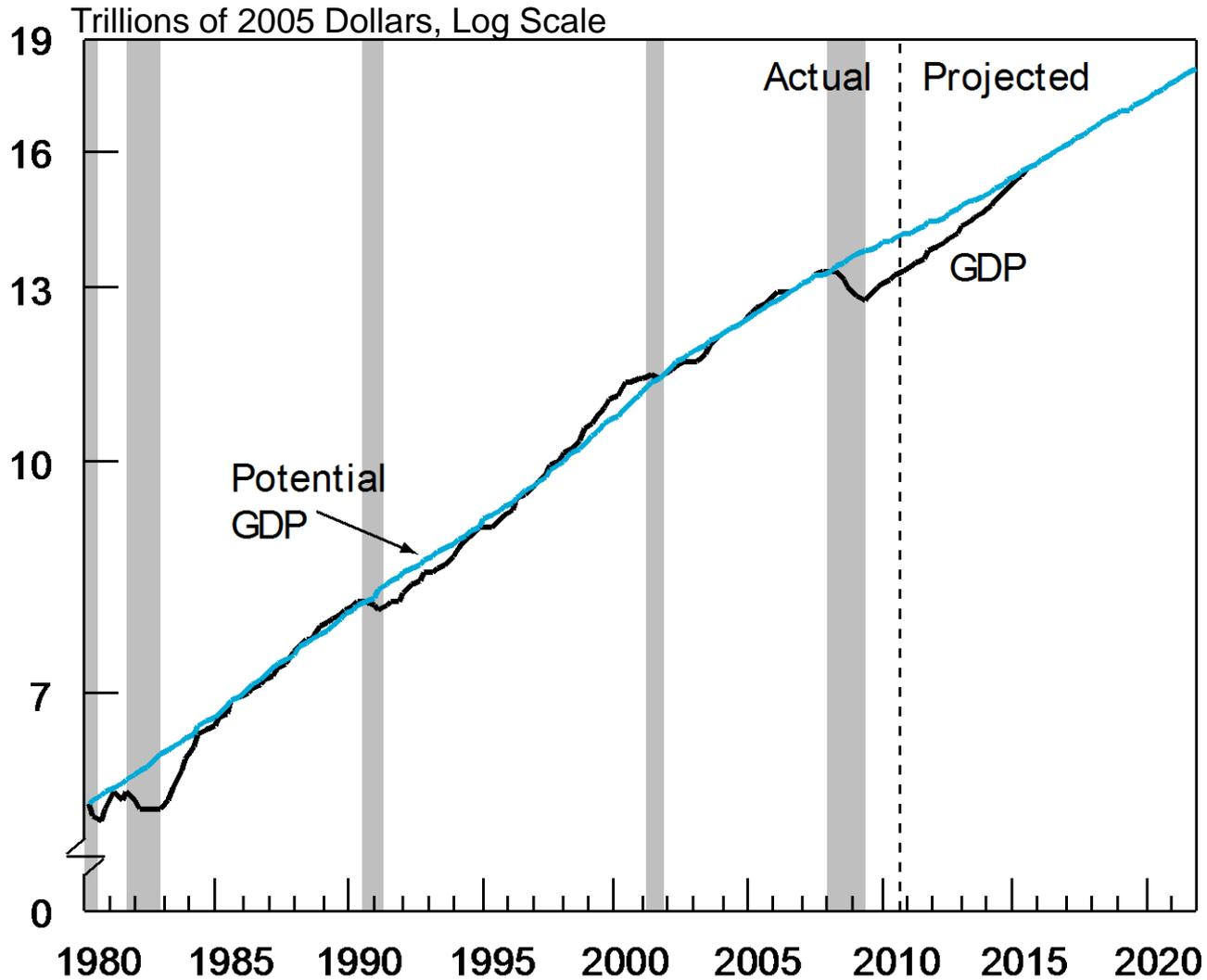
**Outlook for the Economy  
and the Budget**

**February 24, 2011**

**Douglas W. Elmendorf  
Director**

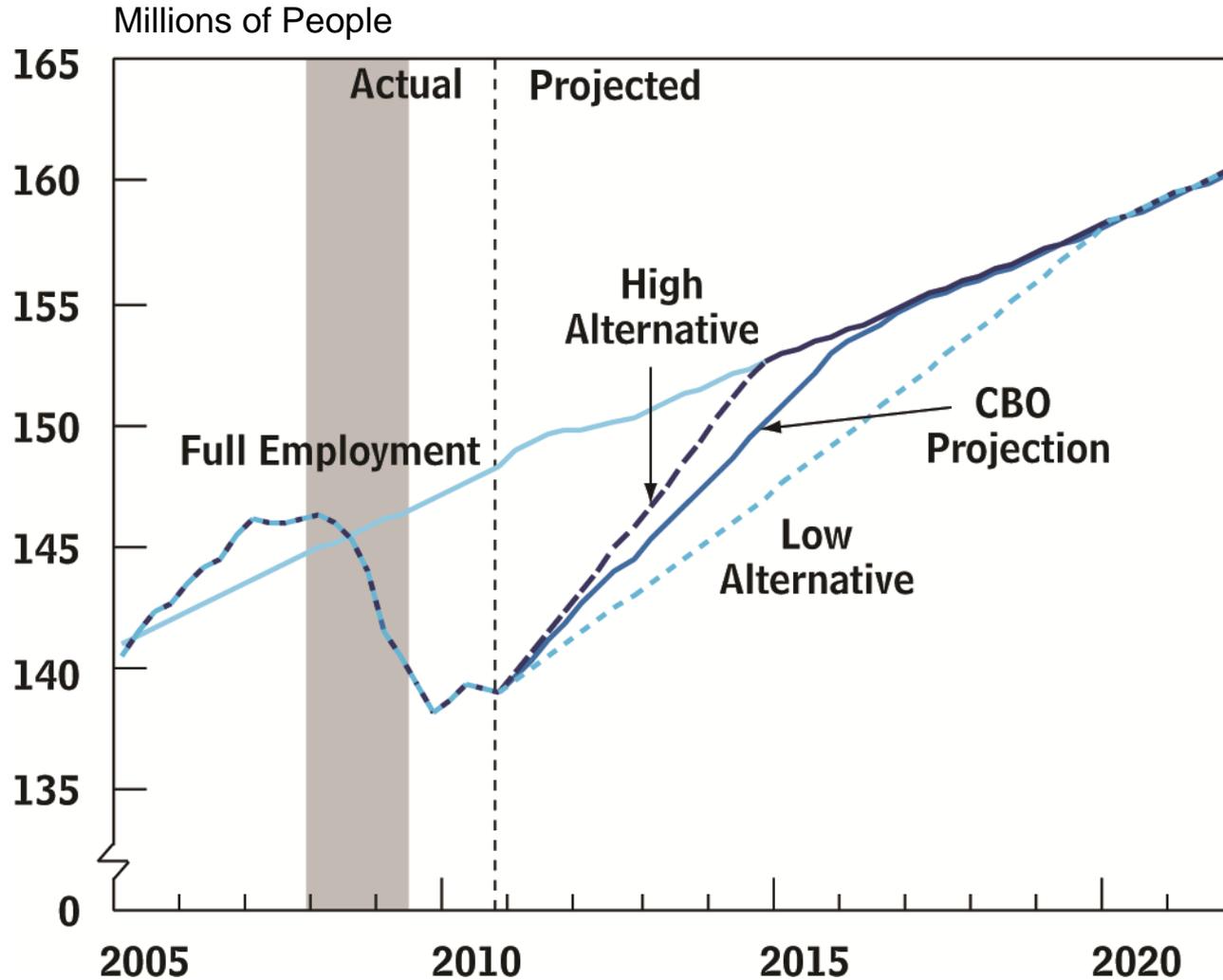


# Actual and Potential Output



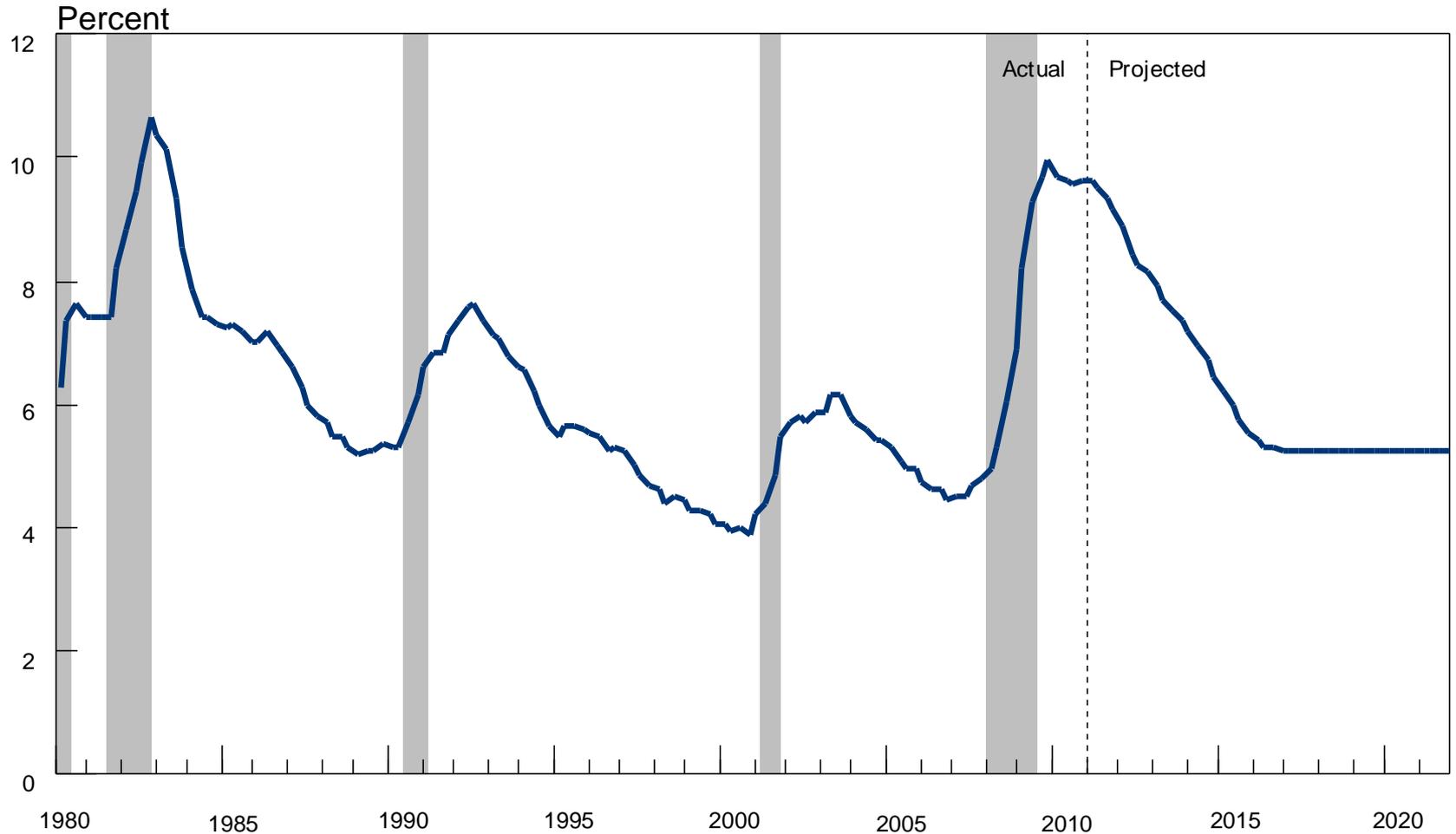


# Possible Paths to Full Employment



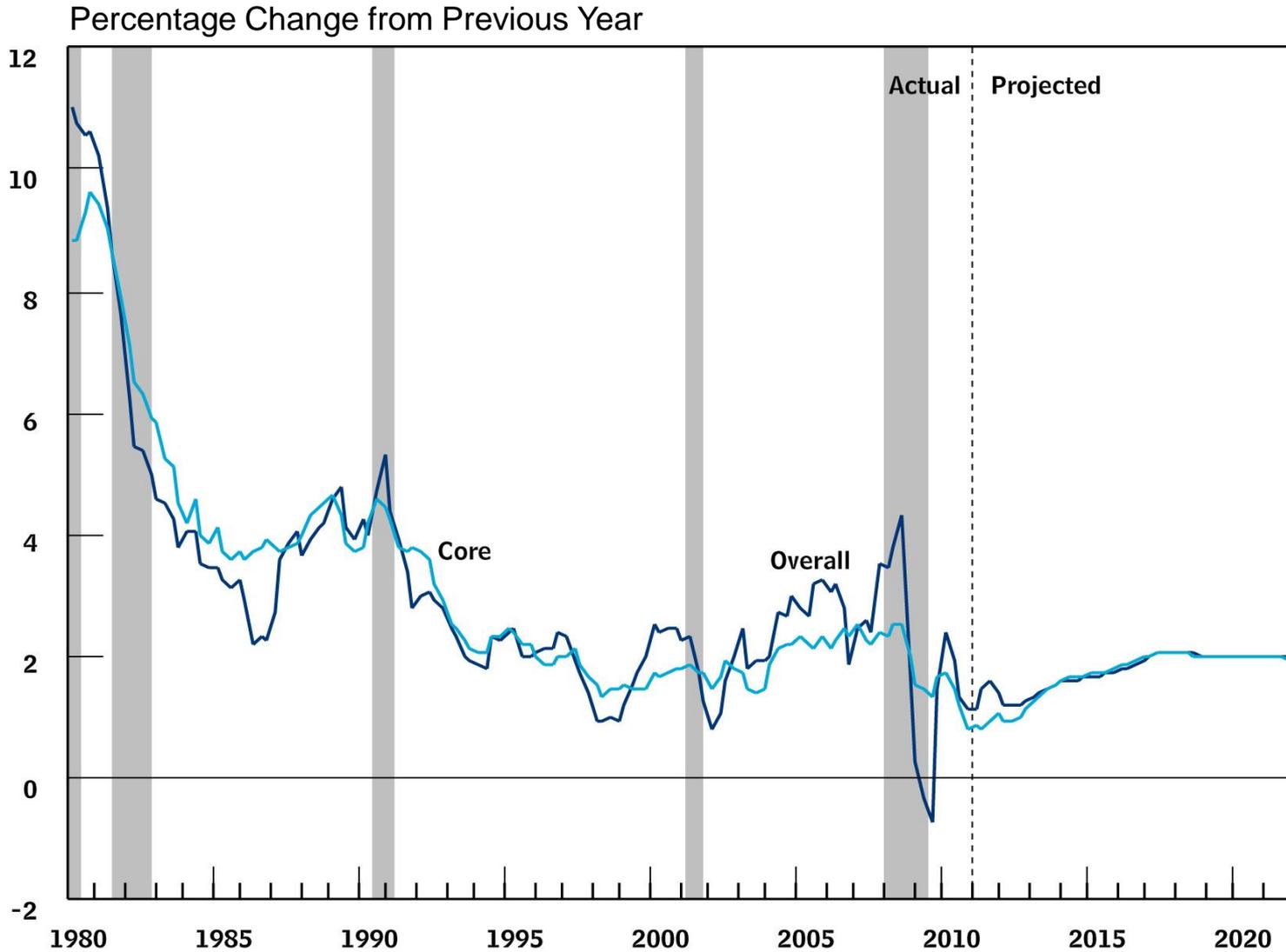


# Unemployment Rate





# Inflation (PCE Price Index)



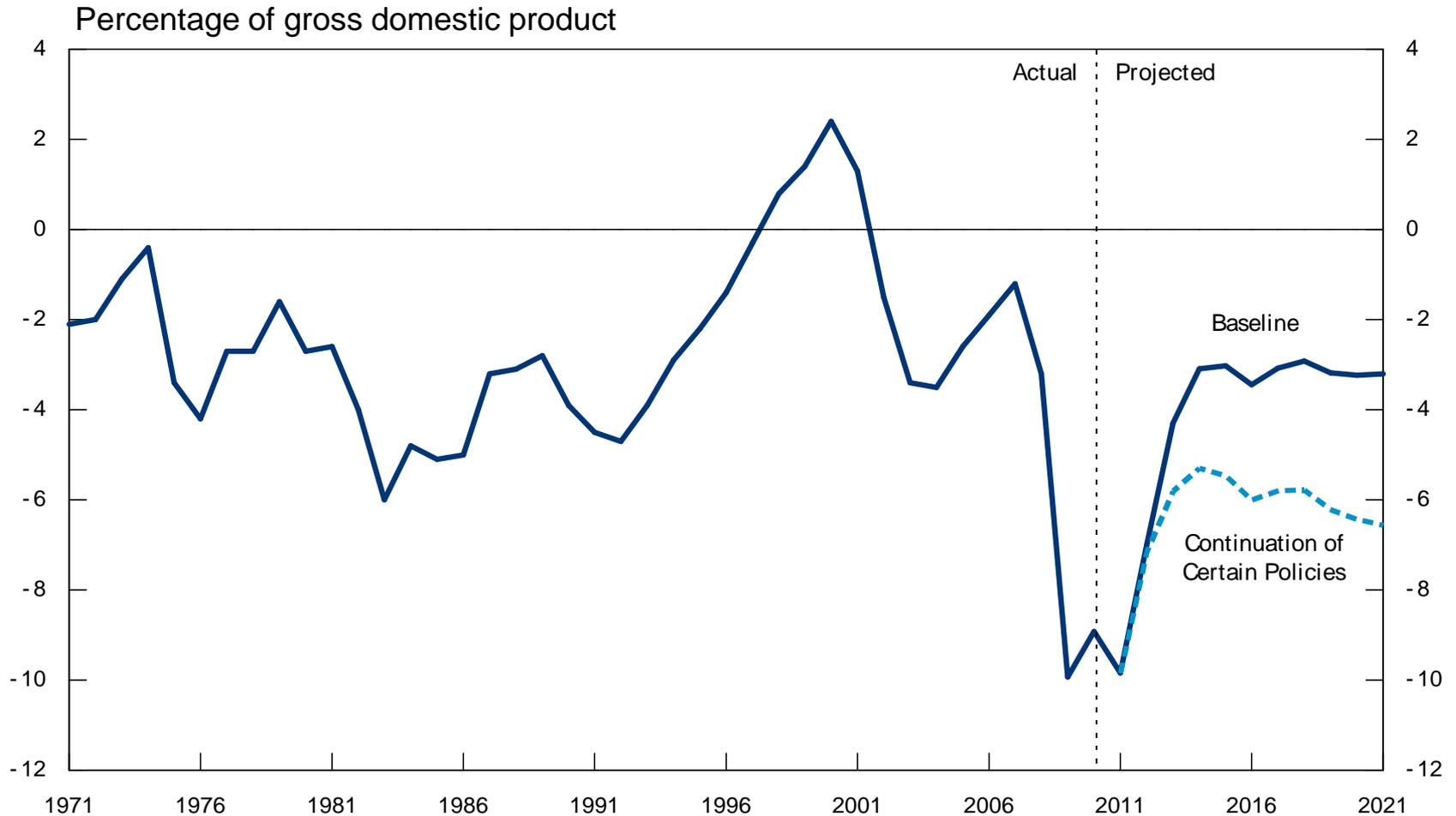


# CBO's Baseline Budget Projections

	Actual, 2009	Actual, 2010	2011	2012	2013	2014	2021	Total, 2012–2021
<b>In Billions of Dollars</b>								
<b>Total Deficit</b>	-1,413	-1,294	-1,480	-1,100	-704	-533	-763	-6,971
<b>Debt Held by the Public</b>	7,545	9,018	10,430	11,598	12,386	12,996	18,253	
<b>As a Percentage of GDP</b>								
<b>Total Deficit</b>	-10.0	-8.9	-9.8	-7.0	-4.3	-3.1	-3.2	-3.6
<b>Debt Held by the Public</b>	53.5	62.1	69.4	73.9	75.5	75.3	76.7	

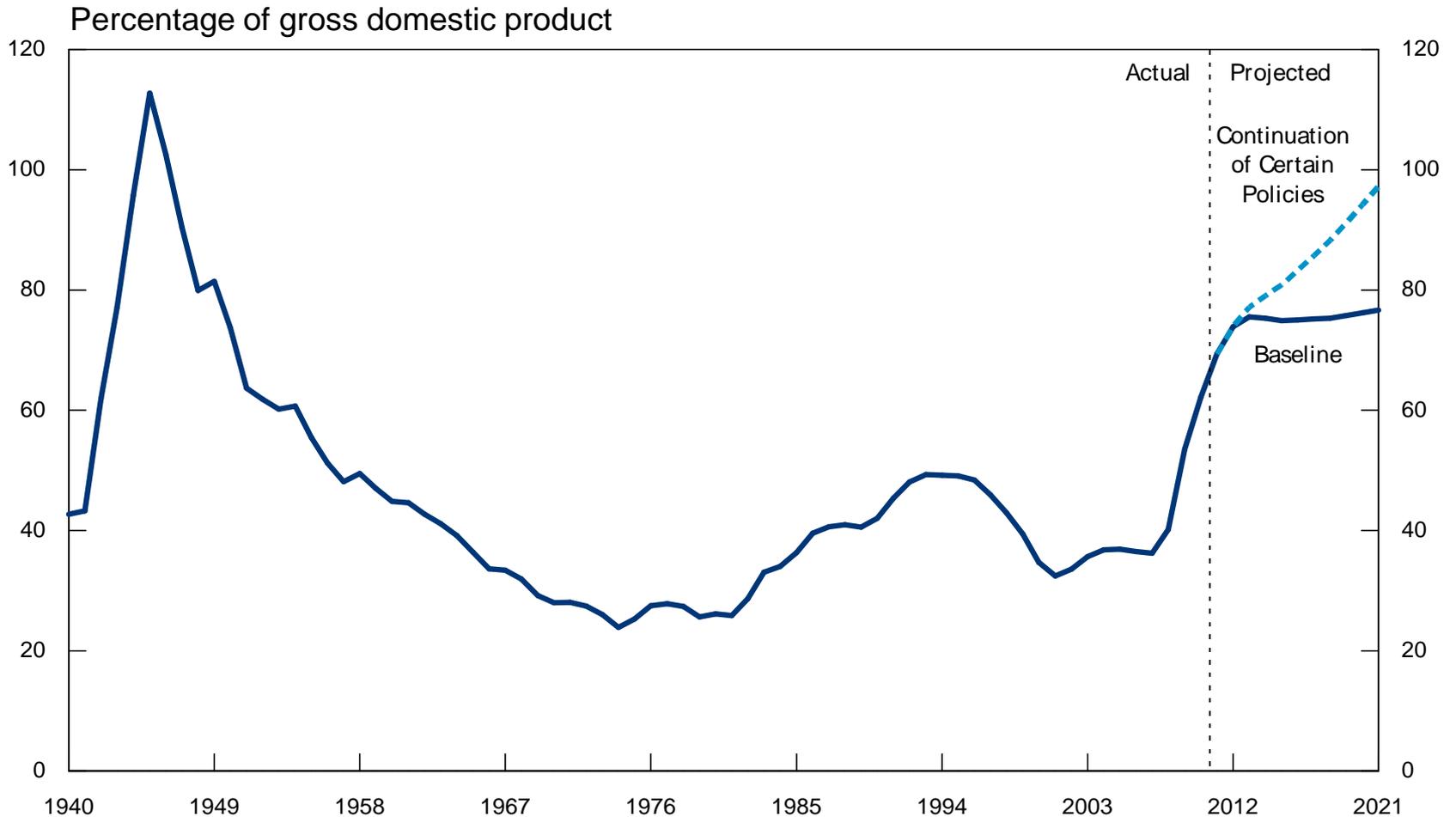


# Total Deficits and Surpluses—Historically, in CBO’s Baseline, and with a Continuation of Certain Policies



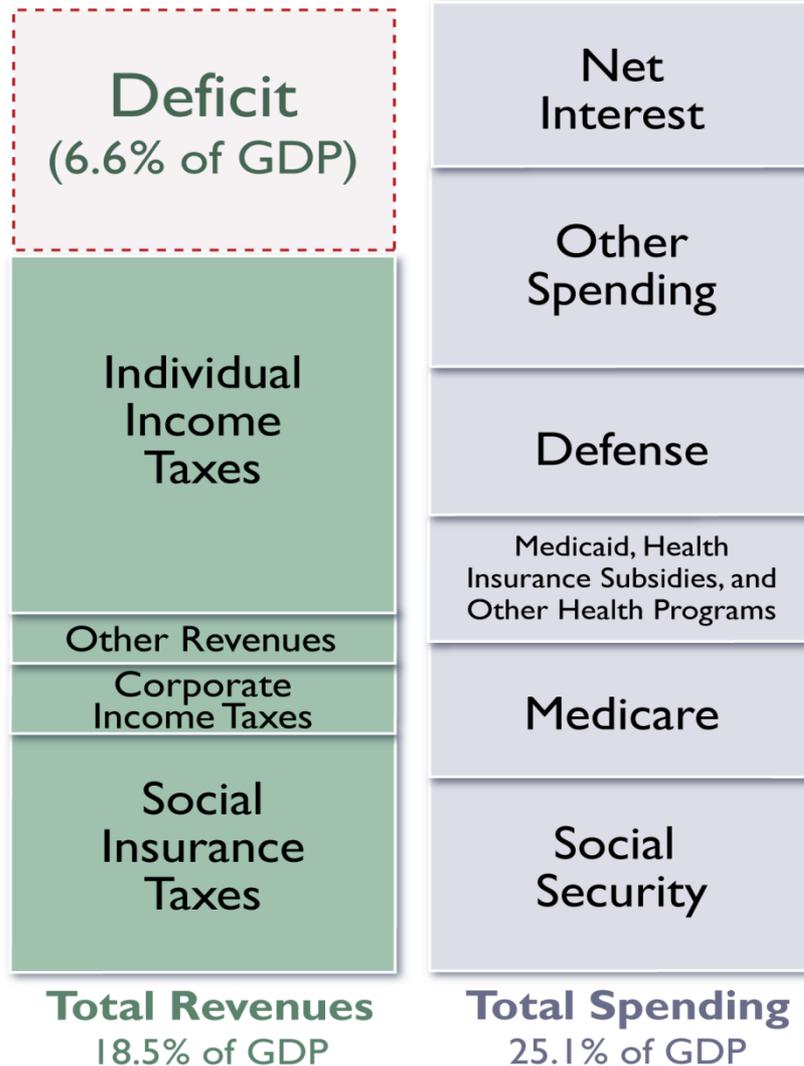


# Federal Debt Held by the Public—Historically, in CBO’s Baseline, and with a Continuation of Certain Policies





# Projected Federal Revenue and Spending in 2021 with the Continuation of Certain Policies





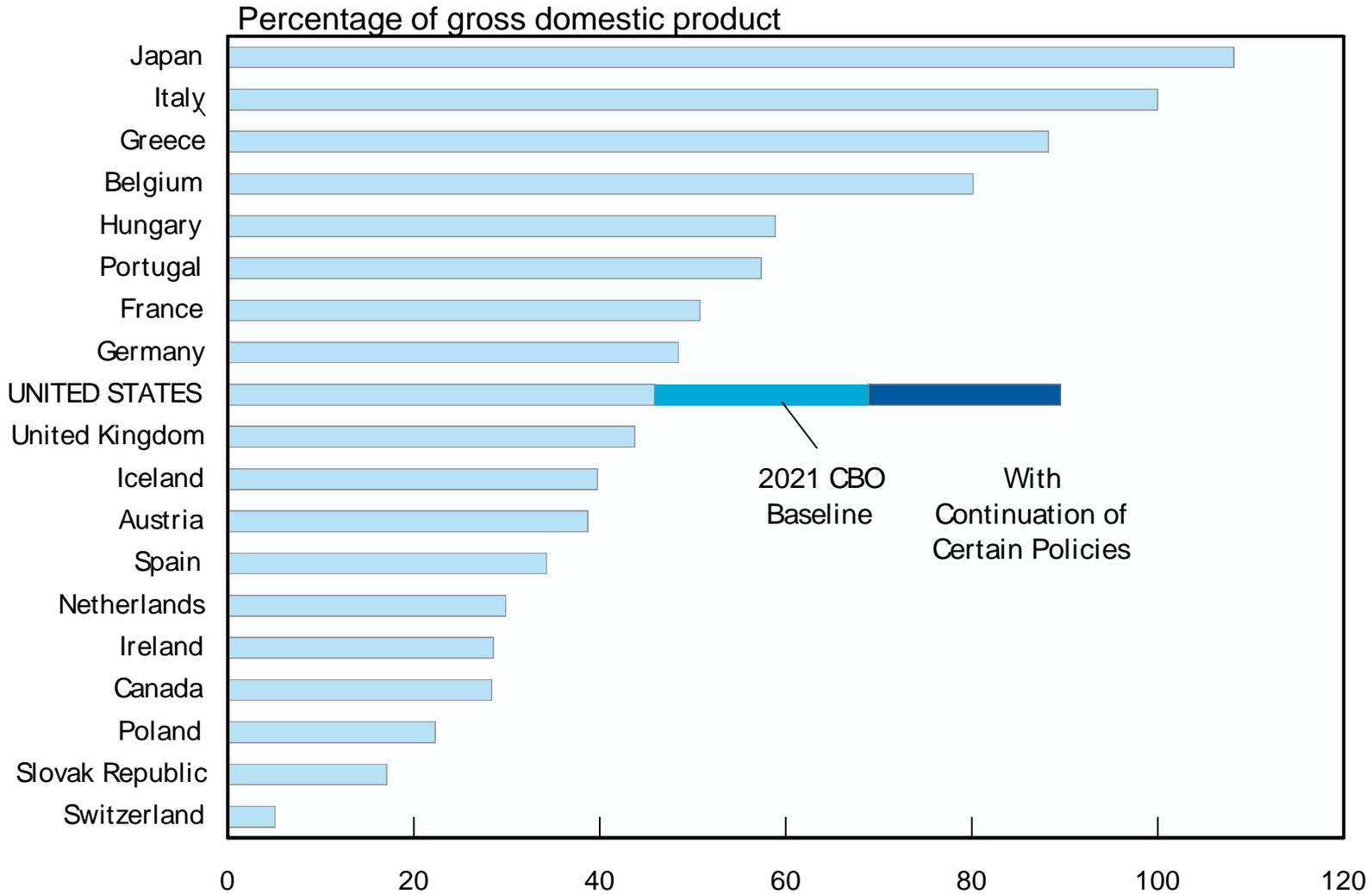
# Components of the Federal Budget

	1970	2007	2021 January Baseline
	Percentage of GDP		
<b>Revenues</b>	<b>19.0</b>	<b>18.5</b>	<b>20.8</b>
<b>Outlays</b>	<b>19.3</b>	<b>19.6</b>	<b>24.0</b>
<i>Social Security, Medicare, Medicaid, health insurance subsidies, and other health programs</i>	3.8	8.2	12.0
<i>Defense</i>	8.1	3.9	3.6
<i>Other mandatory spending and nondefense discretionary spending</i>	6.0	5.8	5.0
<i>Net interest</i>	1.4	1.7	3.3
<b>Deficit</b>	<b>0.3</b>	<b>1.2</b>	<b>3.2</b>

Note: Figures are shown net of offsetting receipts where relevant.



# Debt Burden Across Countries in 2009



Source: For the United States, debt held by the public net of financial assets. For other countries, general government debt net of financial liabilities as reported by the Organisation for Economic Co-operation and Development.



## Timing of Deficit Reduction

- The longer the necessary adjustments are delayed:
  - The greater the negative consequences of mounting debt;
  - The more uncertainty about future government policies; and
  - The more drastic the ultimate policy changes.
- However, changes of the magnitude that will ultimately be required could be disruptive. Congress may wish to implement them gradually so as to:
  - Avoid a sudden negative impact on the economy;
  - Give families, businesses, and governments time to plan and adjust.
- Gradual implementation would mean that remedying the fiscal imbalance would take longer, so major policy changes would need to be enacted soon to limit the further increase in debt. <sup>12</sup>