



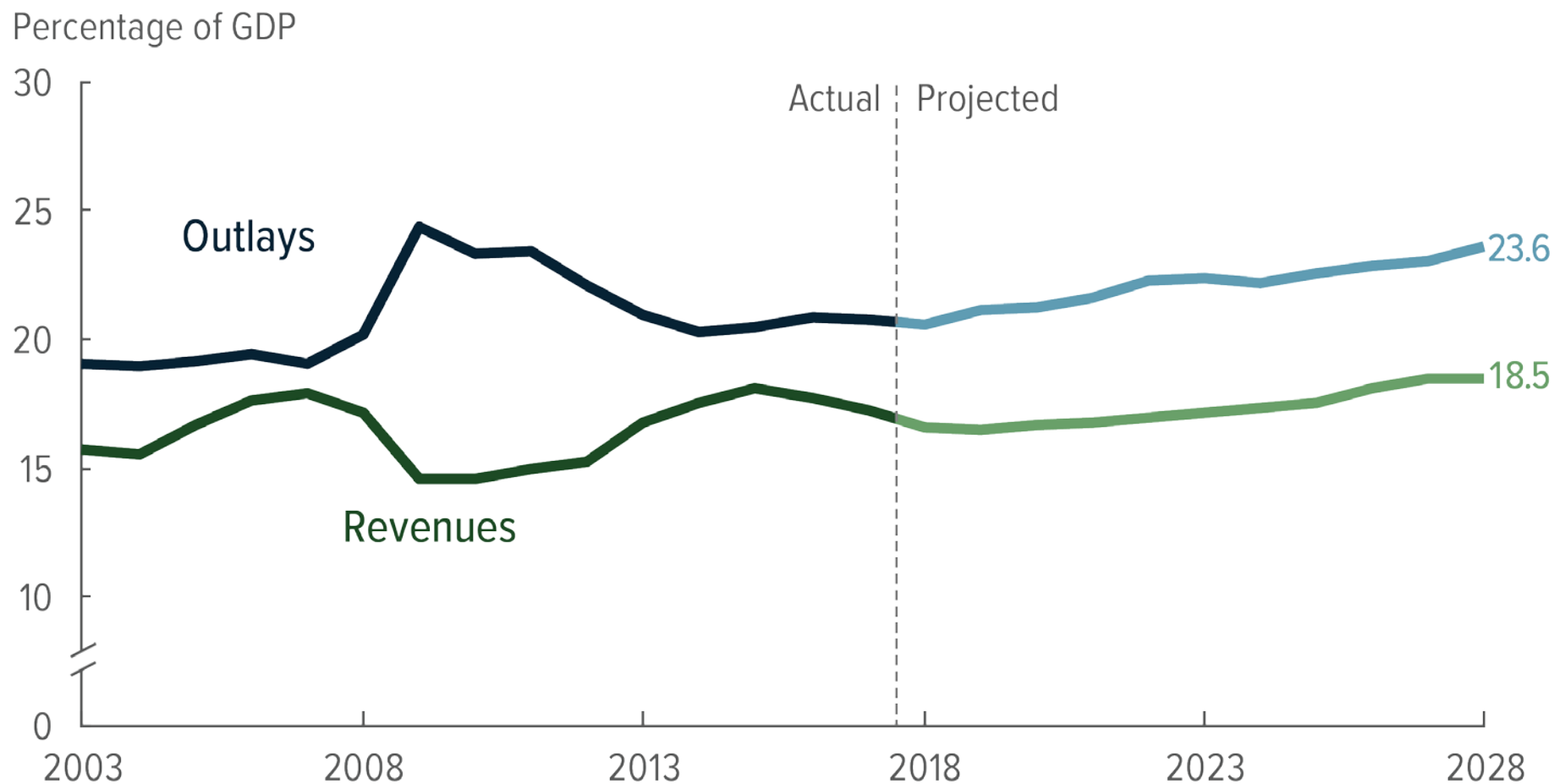
May 16, 2018

An Overview of *The Budget and Economic Outlook: 2018 to 2028*

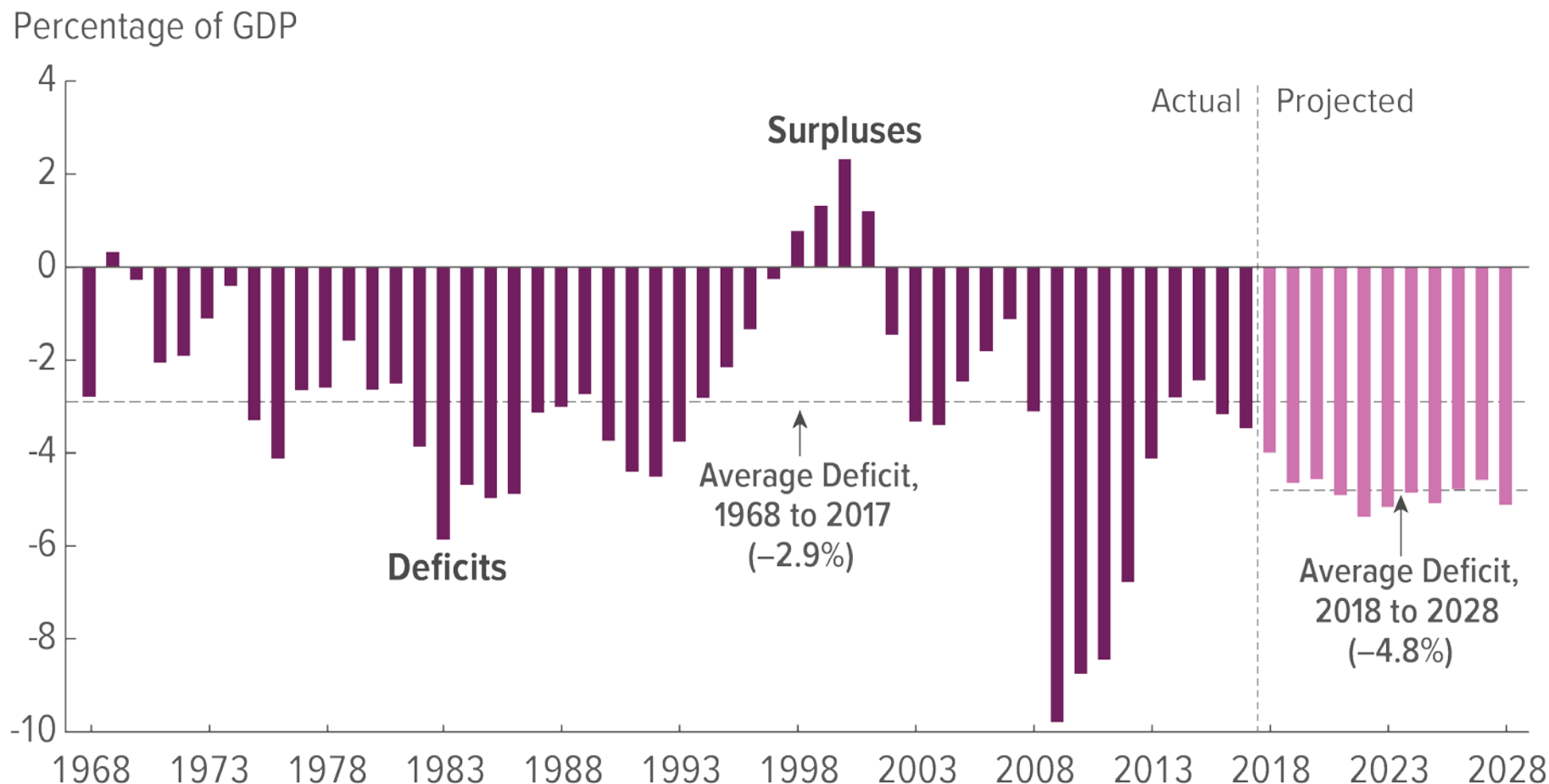
Presentation to the Trustees of the
Committee for Economic Development of The Conference Board
Washington, D.C.

Keith Hall
Director

Outlays, Revenues, and Deficits

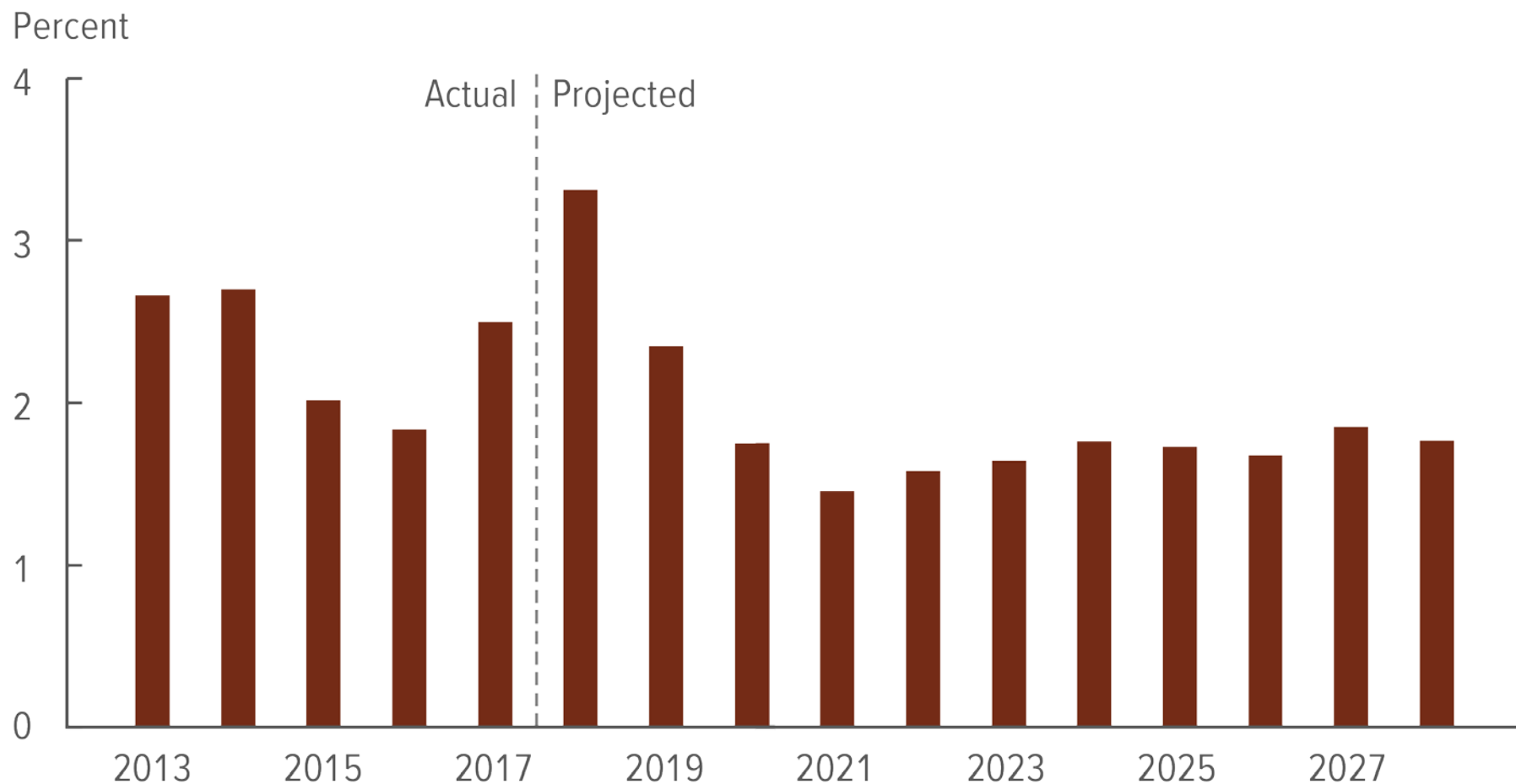


Under current law, **revenues** and **outlays** would increase in most years through 2028, and the gap between them would remain large.



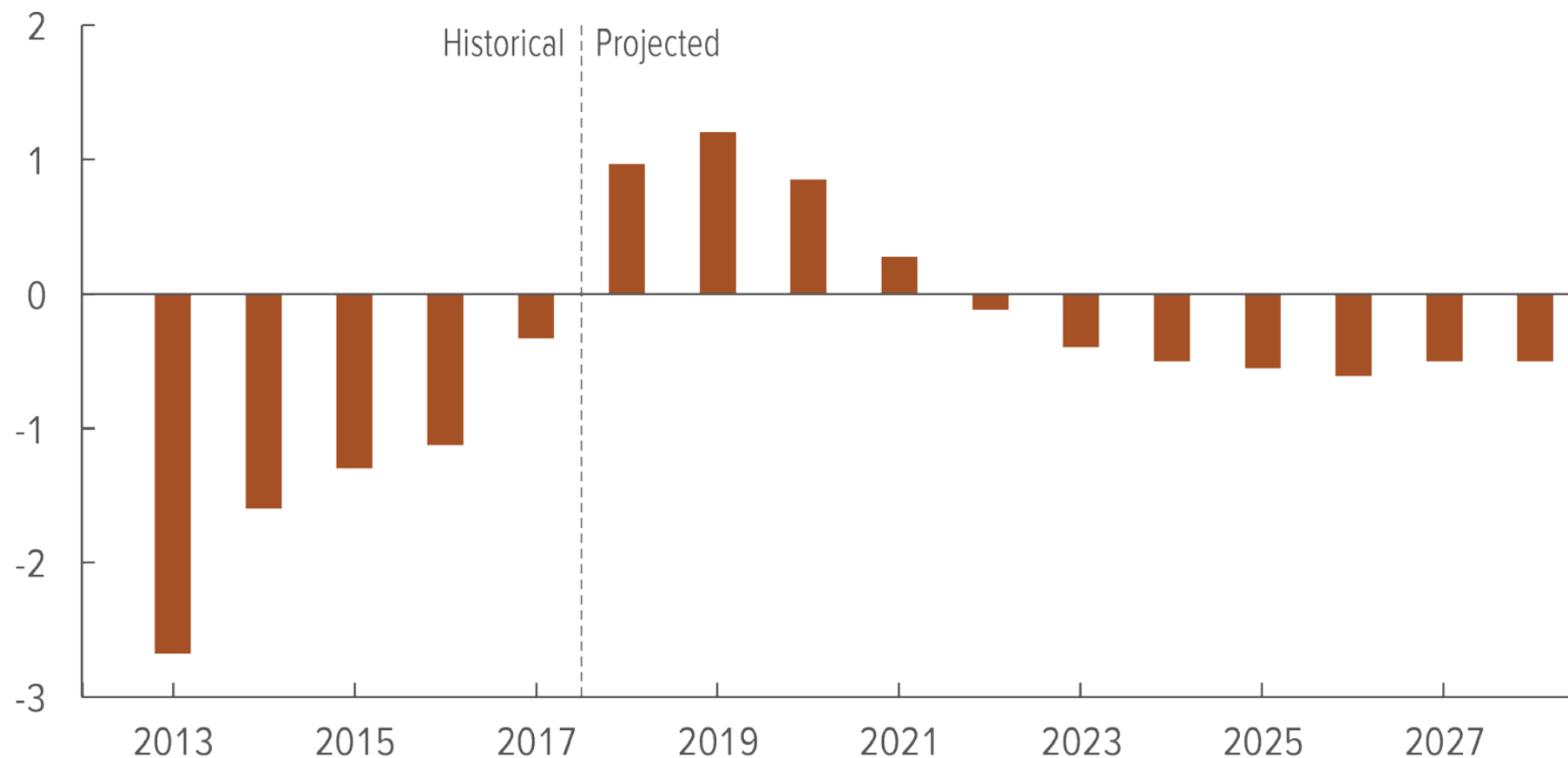
Deficits as a percentage of gross domestic product are projected to increase over the next few years and then largely stabilize. They exceed their 50-year average throughout the 2018–2028 period.

Growth of GDP



Growth of real gross domestic product (or GDP, the total output of goods and services adjusted to remove the effects of inflation) is projected to be faster this year than it was last year, as the 2017 tax act and recent changes in federal spending policies add to existing momentum in spending on goods and services.

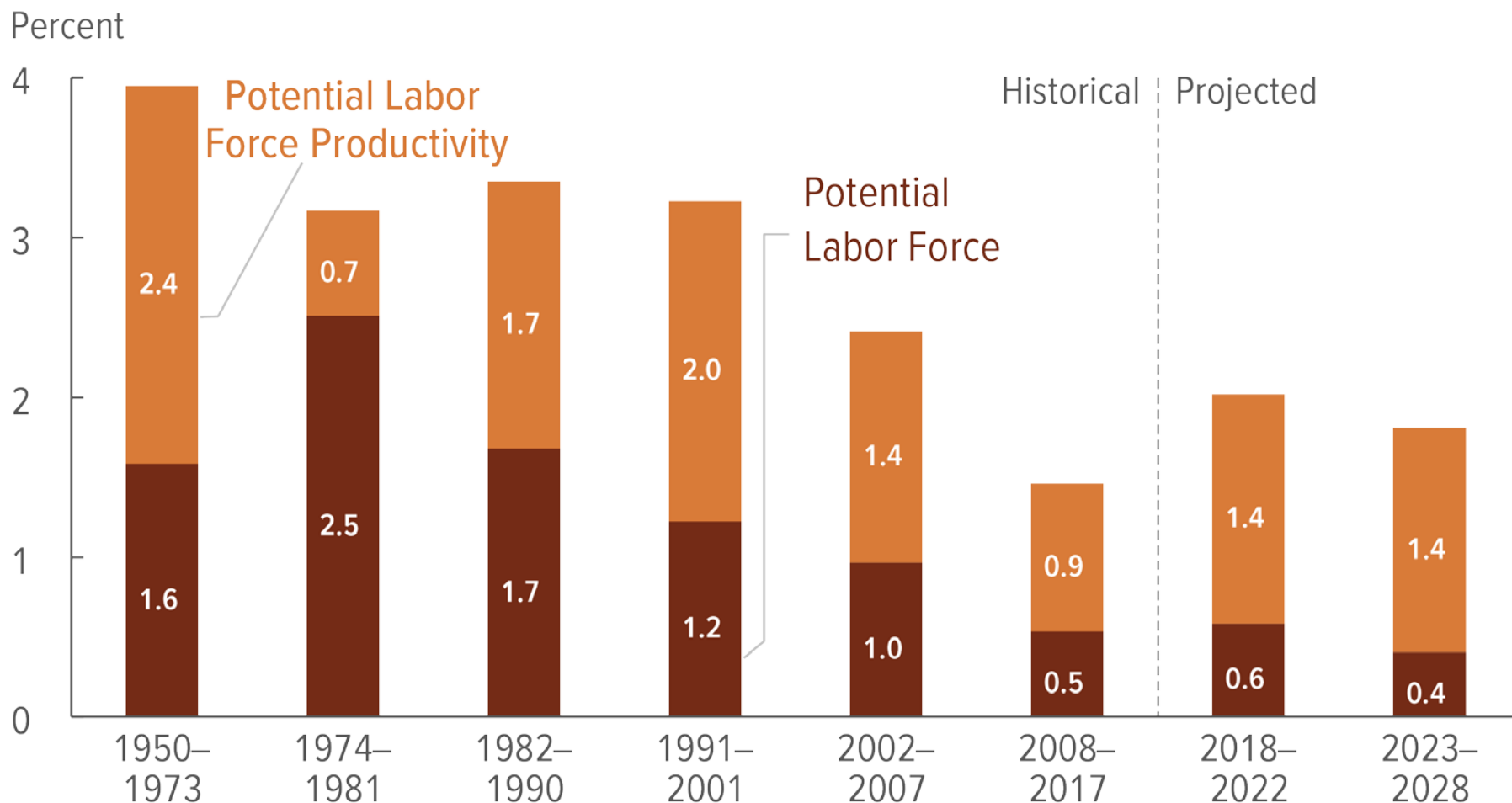
Percentage of Potential GDP



Growth of actual GDP outpaces growth of potential (that is, maximum sustainable) GDP both this year and next—raising the **output gap** between GDP and potential GDP to 1.2 percent in 2019.



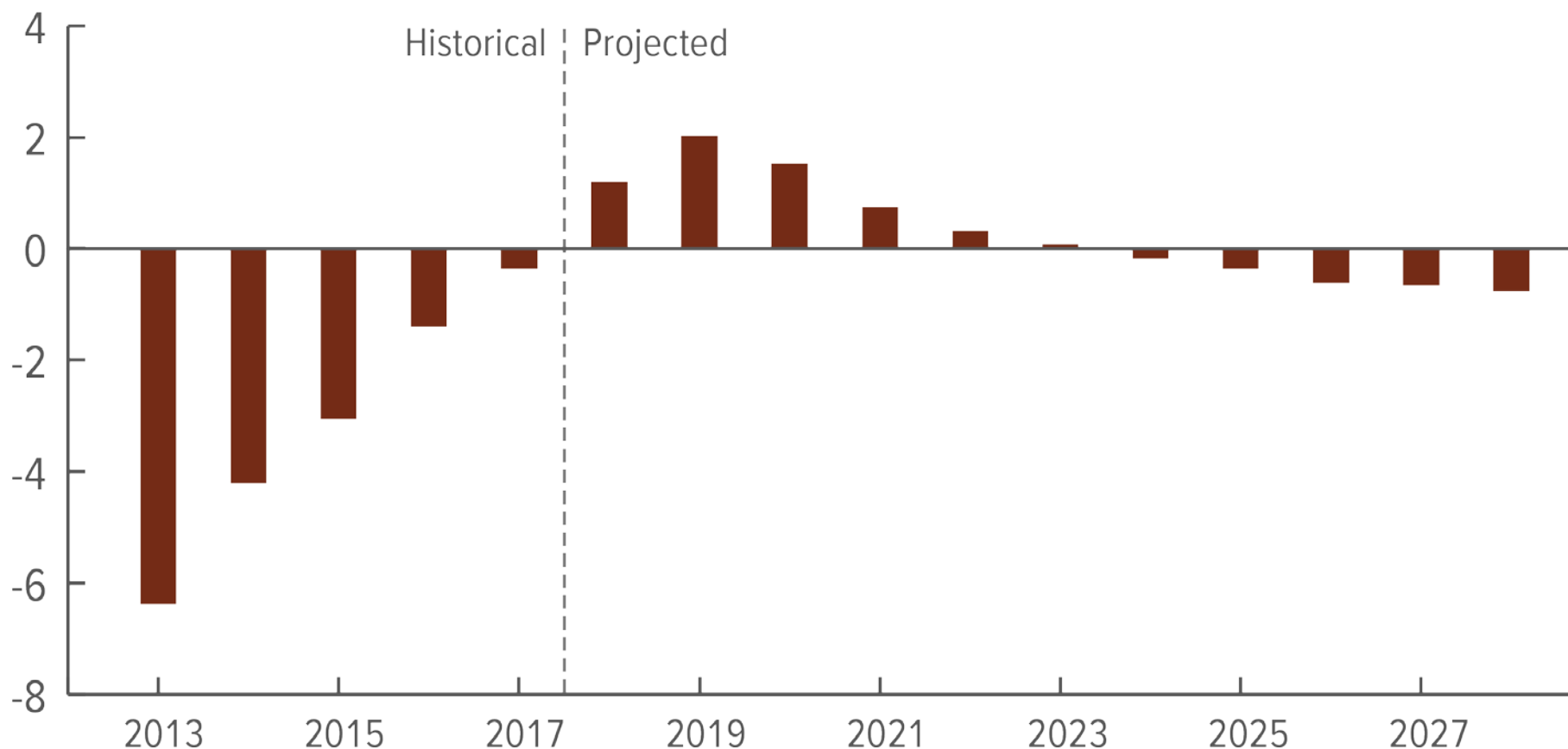
After 2018, **economic growth** is projected to slow, with the growth of real GDP eventually matching the growth of potential GDP.



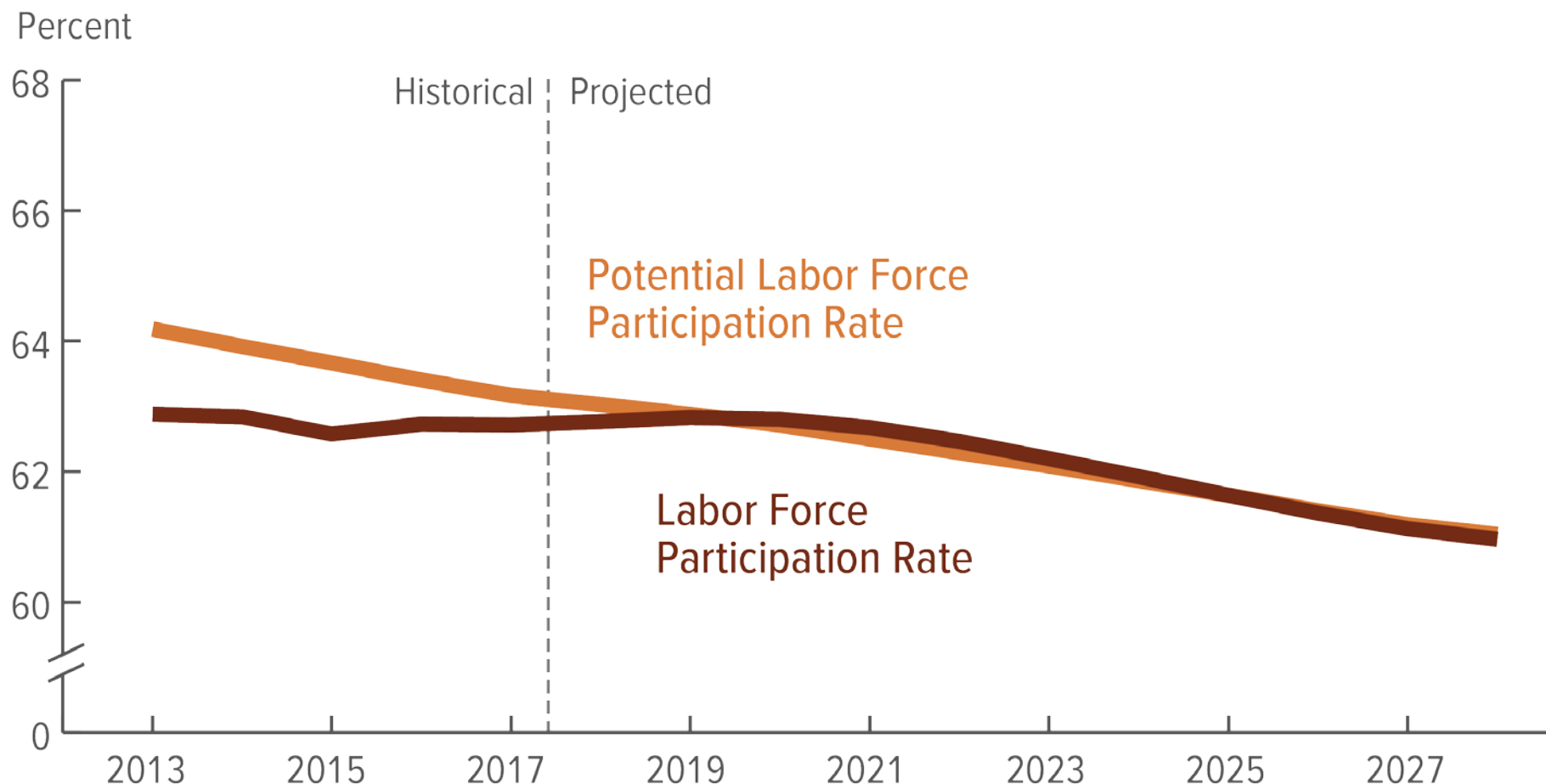
Growth of potential GDP, driven in large part by faster productivity growth, is projected to be stronger over the next 10 years than it has been since the recession that began in December 2007.

The Labor Market

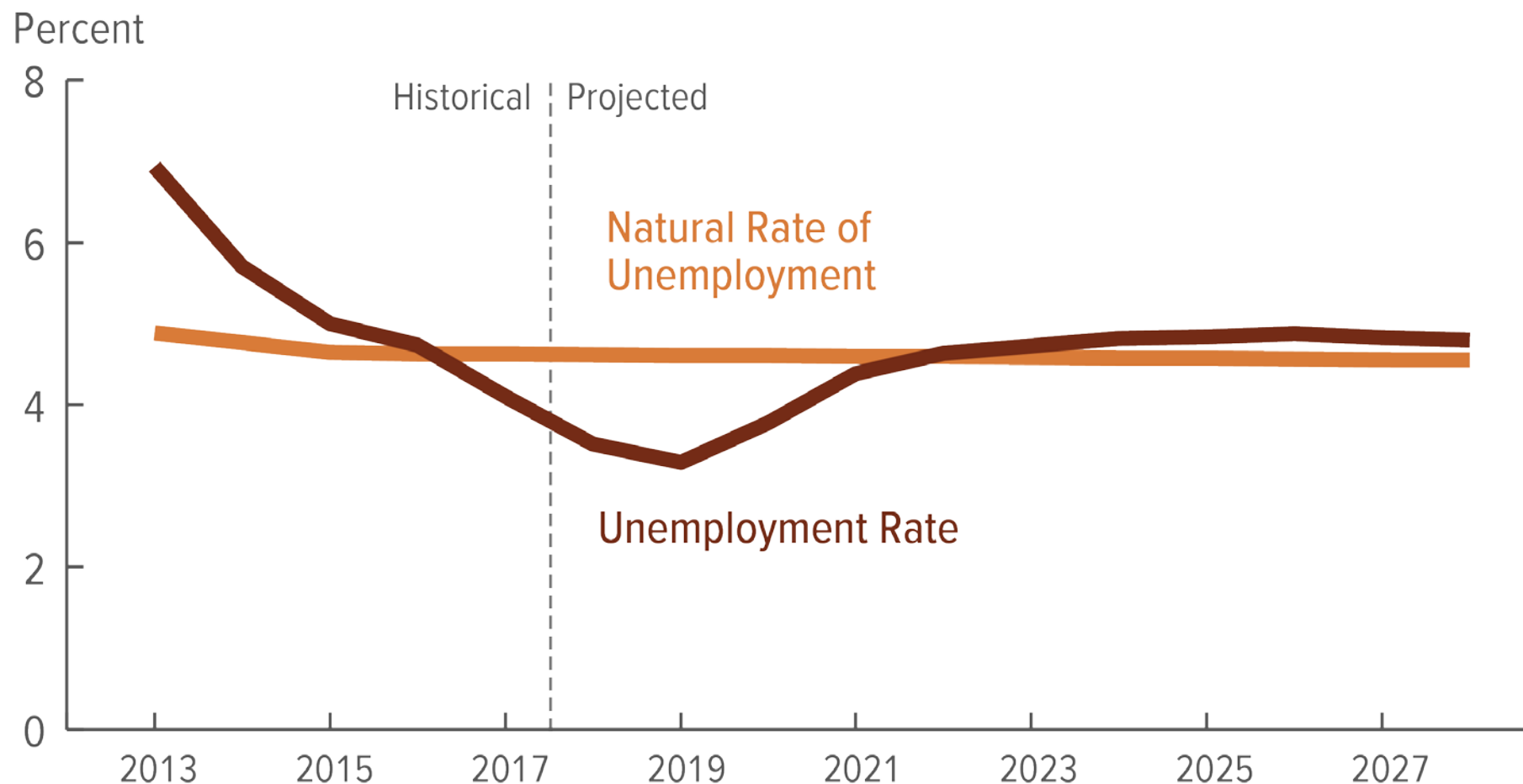
Millions of People



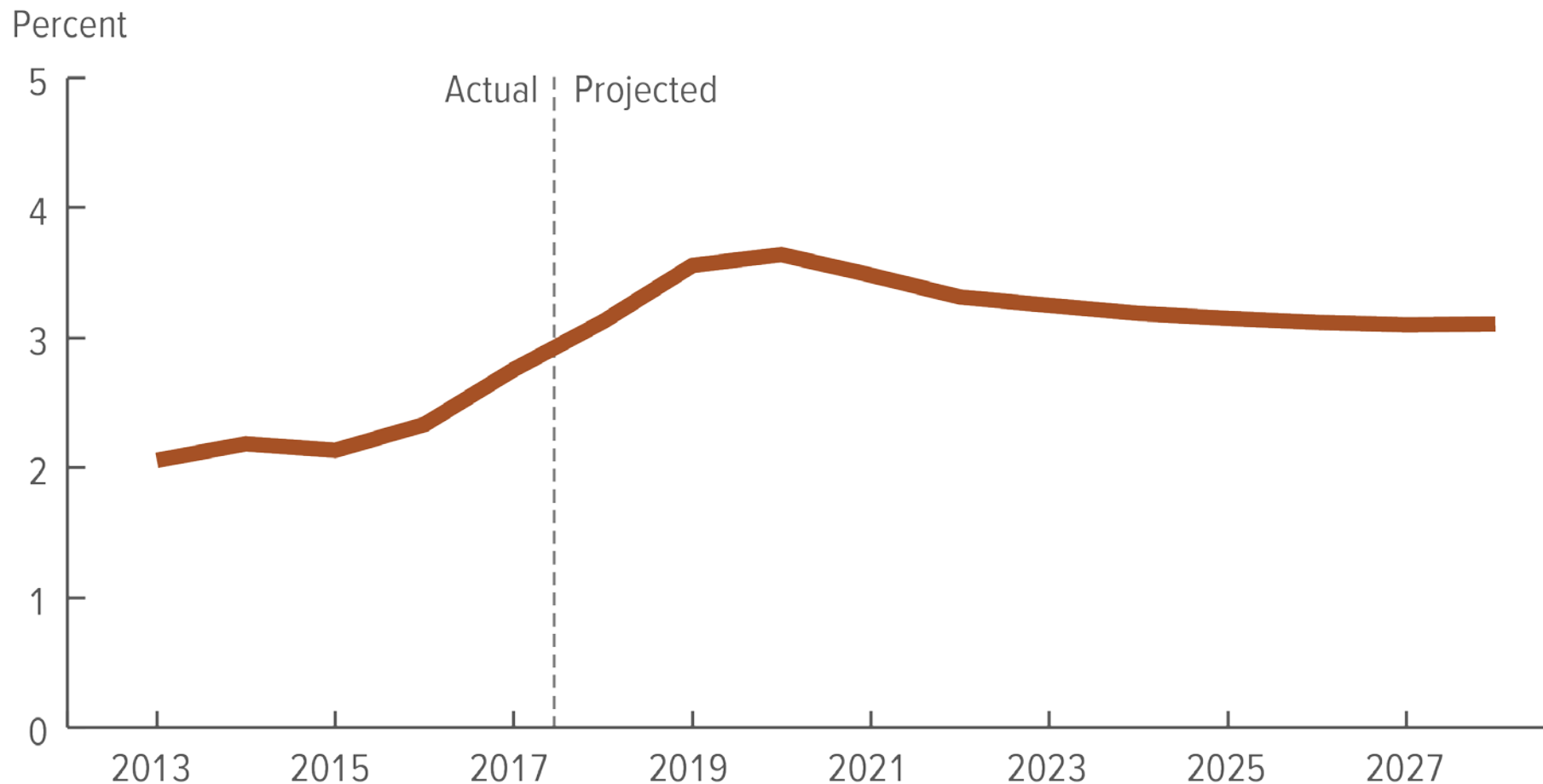
In CBO's projections for the near term, output growth boosts the estimated **employment gap**—the difference between the number of employed people and the number who would be employed in the absence of fluctuations in the overall demand for goods and services.



Output growth pushes the **labor force participation rate** (the percentage of people in the civilian noninstitutionalized population who are at least 16 years old and either working or seeking work) above CBO's estimate of the potential rate arising from all sources except fluctuations in the overall demand for goods and services.

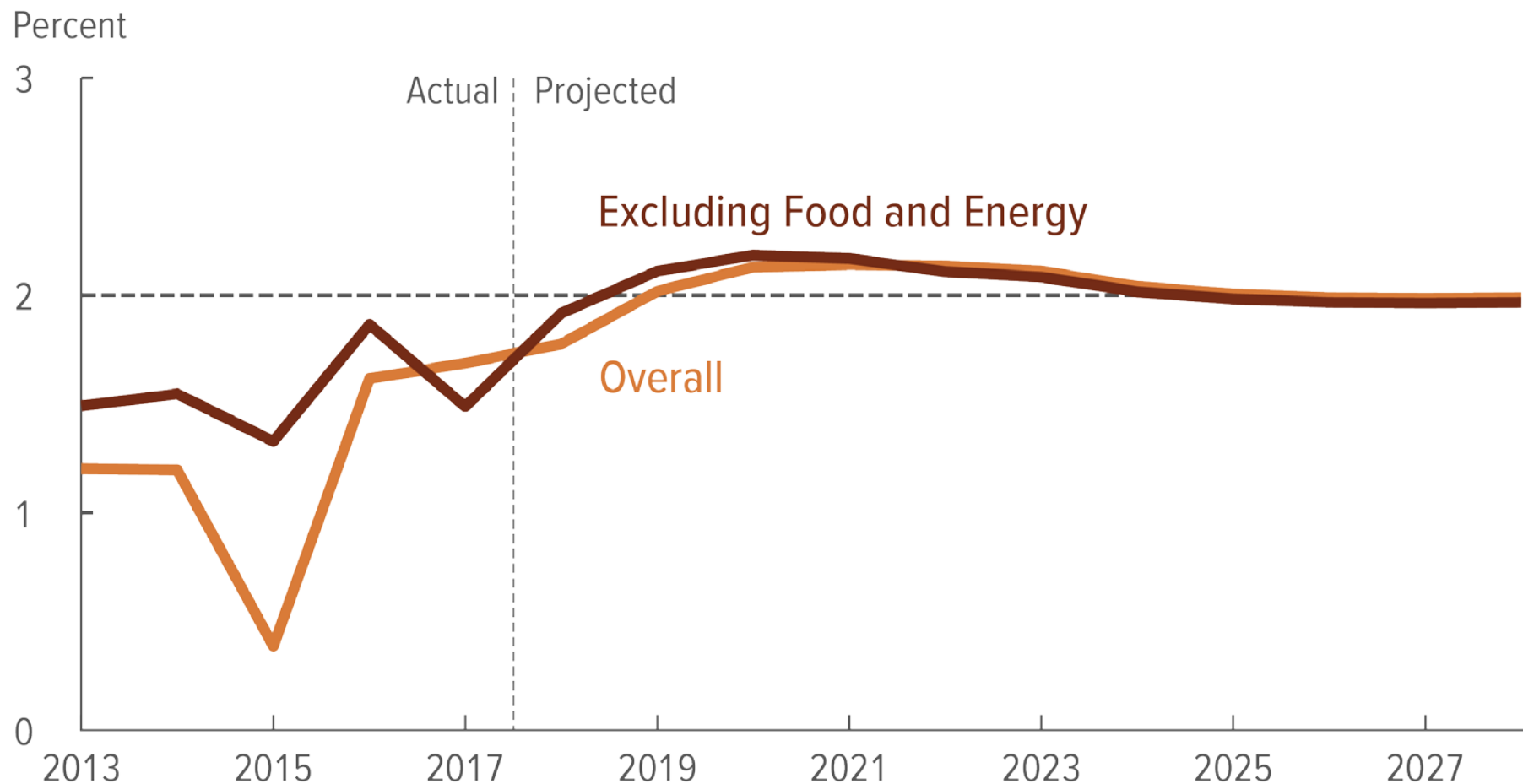


And output growth drives the **unemployment rate** (the number of jobless people who are available for and seeking work, expressed as a percentage of the labor force) below CBO's estimate of the natural rate arising from all sources except fluctuations in the overall demand for goods and services.

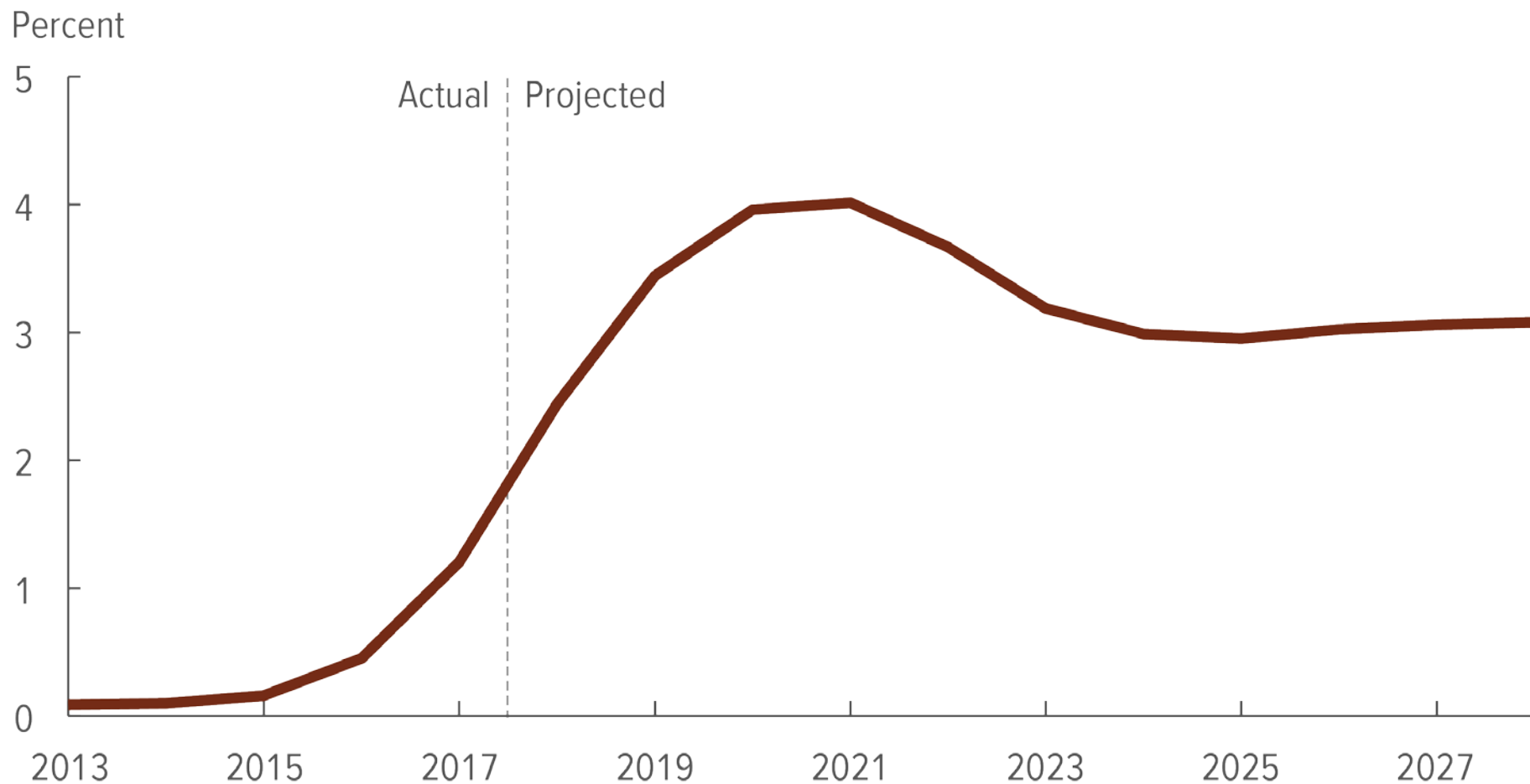


The demand for labor puts upward pressure on the **growth of wages**, measured by the employment cost index for wages and salaries of workers in private industry.

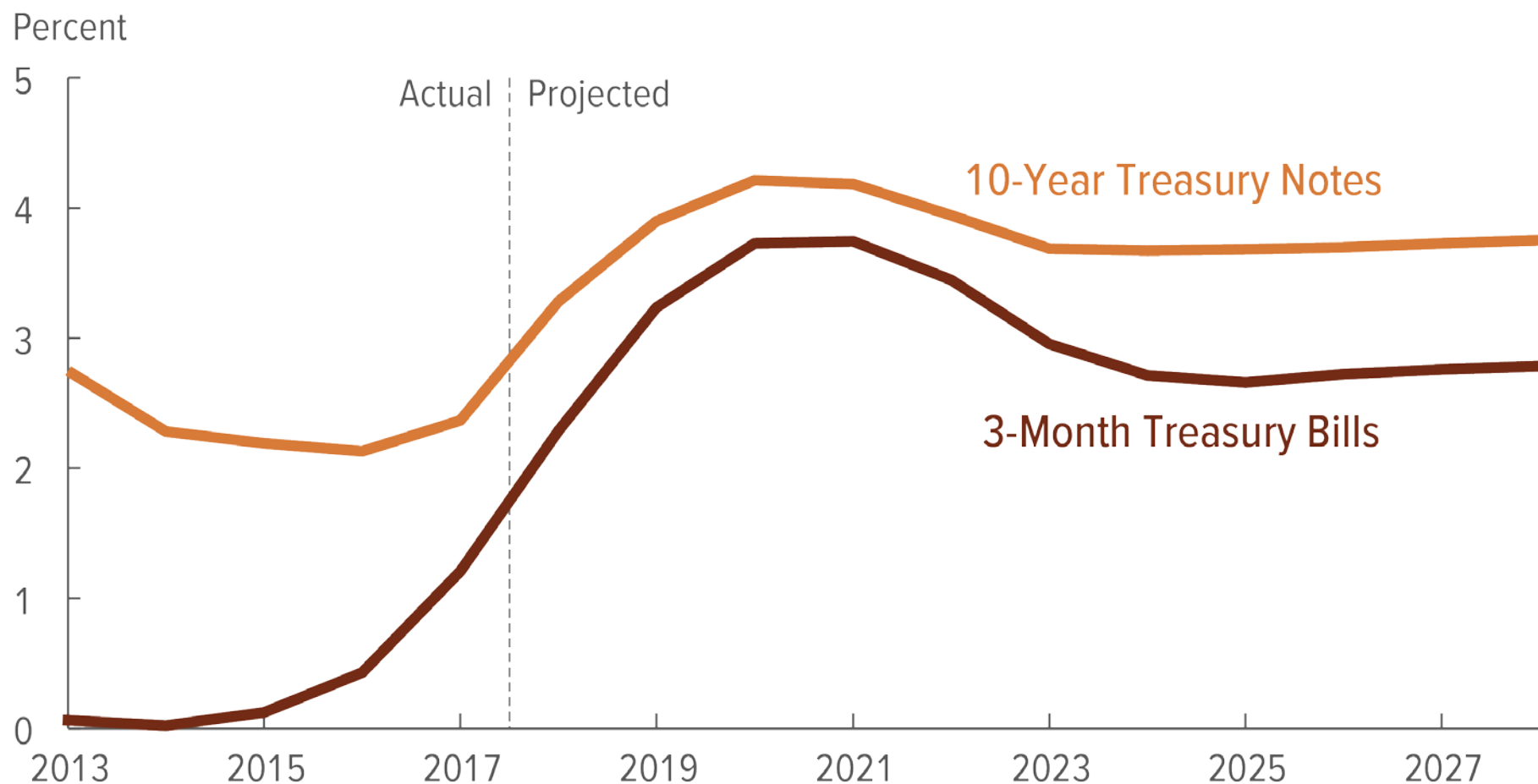
Inflation and Interest Rates



For several years, in CBO's projections, demand for goods and services exceeds the amount that the economy can sustainably supply and drives **growth in the price index for personal consumption expenditures** above the Federal Reserve's target rate of 2 percent.

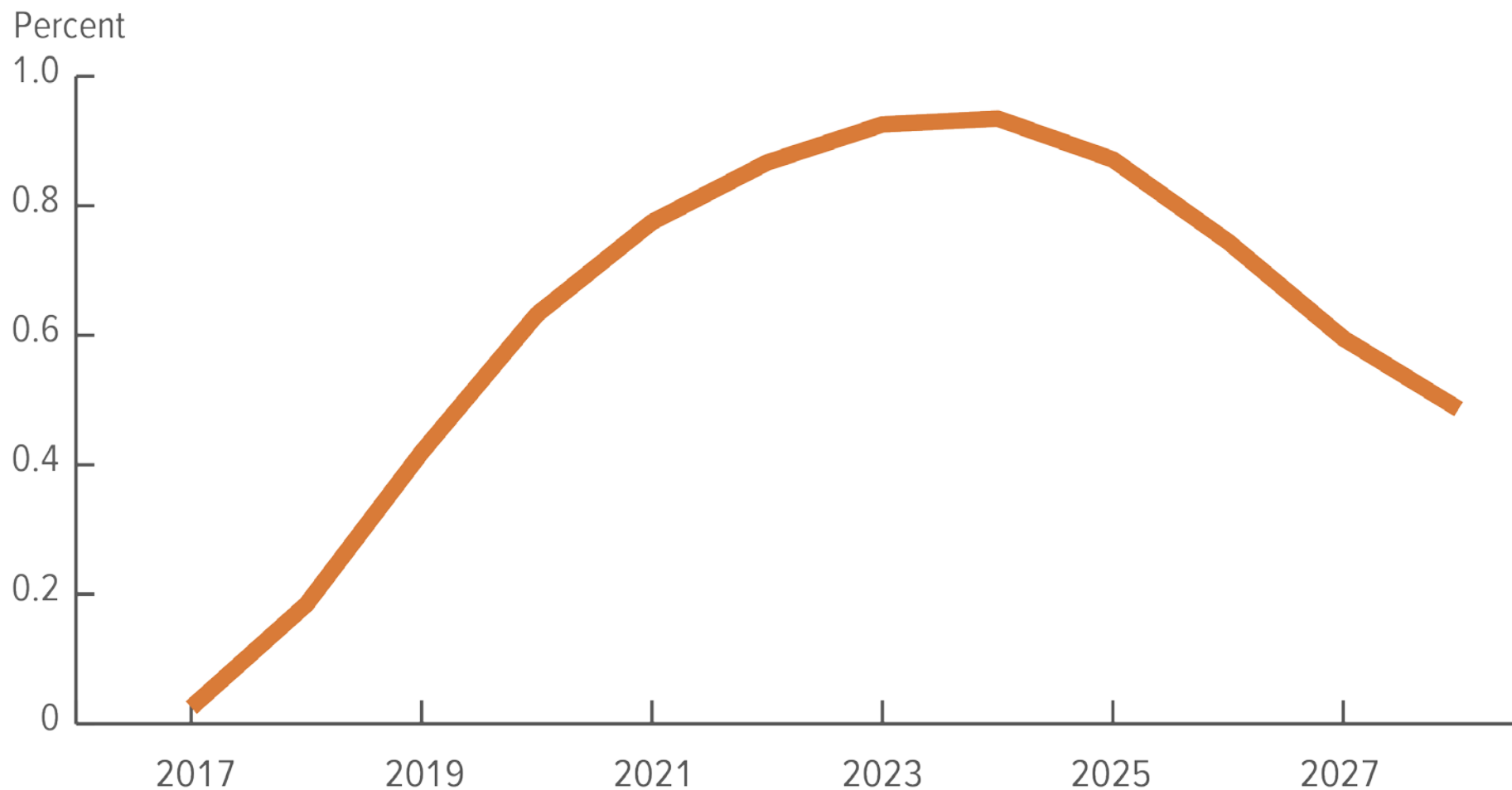


CBO expects the Federal Reserve to continue increasing the **federal funds rate** (the interest rate that financial institutions charge each other for overnight loans of their monetary reserves) through 2021 to eliminate excess demand in the economy.

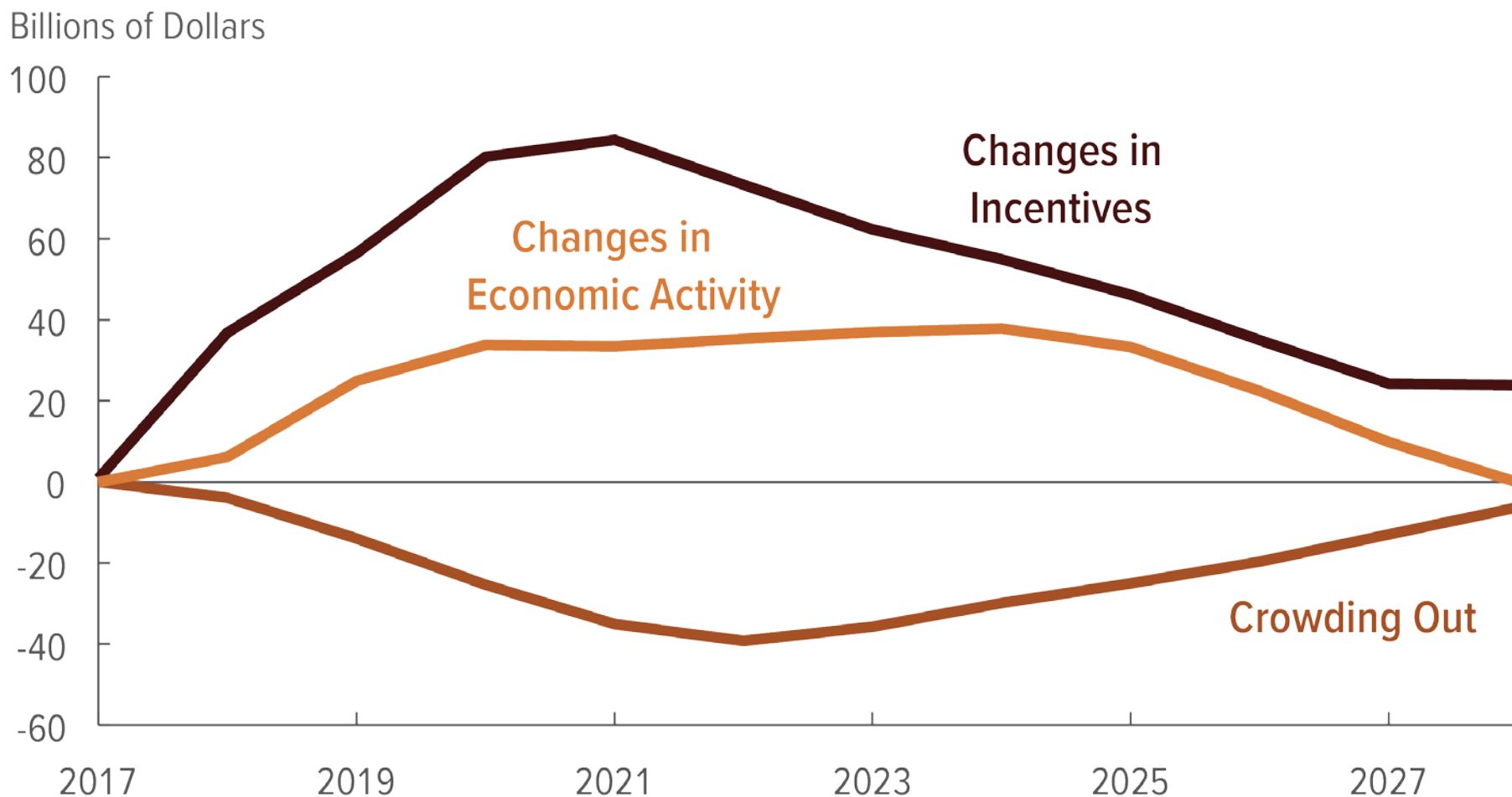


In CBO's projections, **interest rates** on Treasury securities also rise, influenced by increases in the federal funds rate and in federal borrowing.

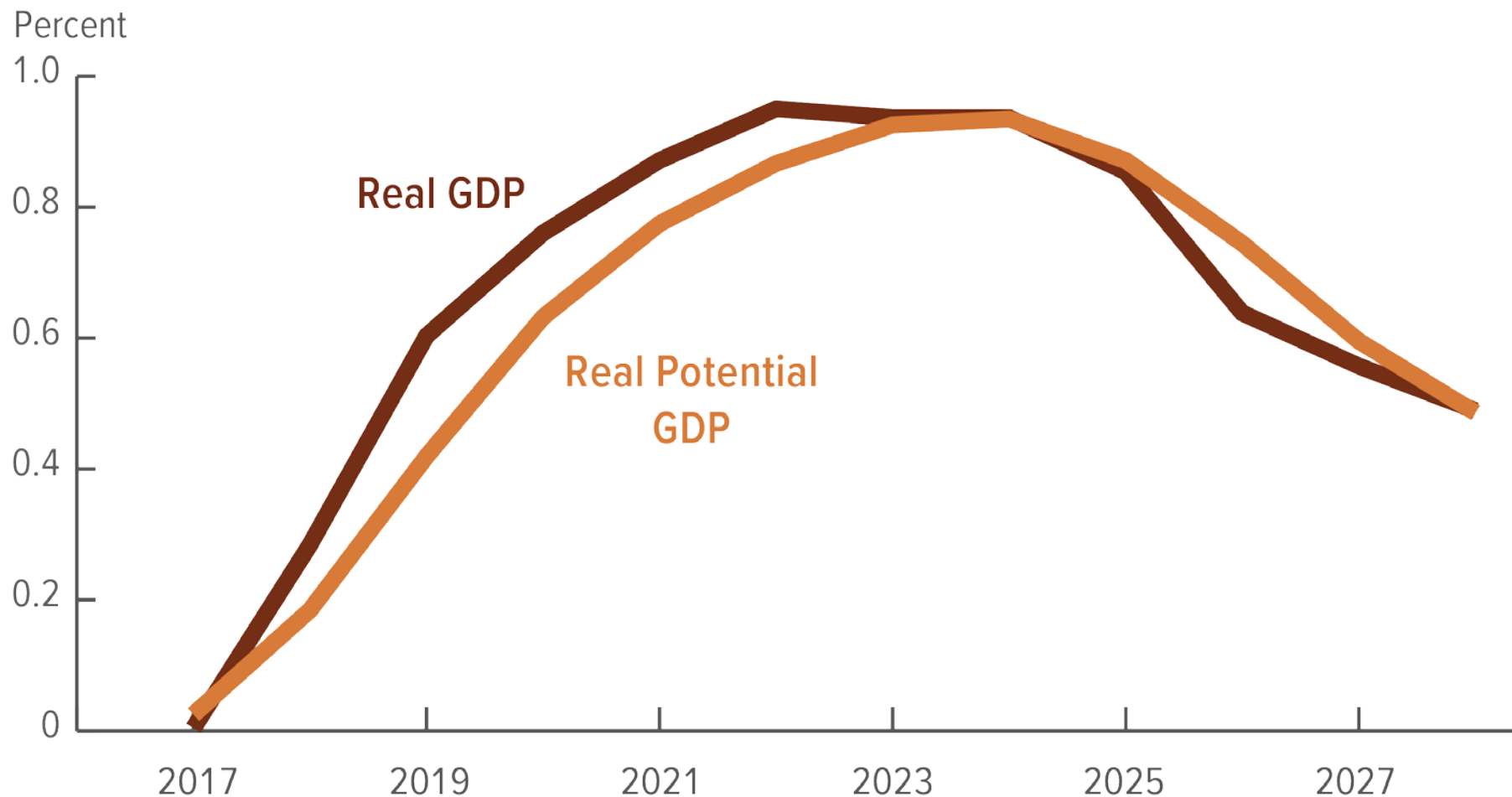
Effects of 2017 Tax Act



The tax act is projected to increase the level of **potential (maximum sustainable) GDP** by 0.7 percent, on average, over the 2018–2028 period. It does so mainly by promoting greater investment and potential labor supply.

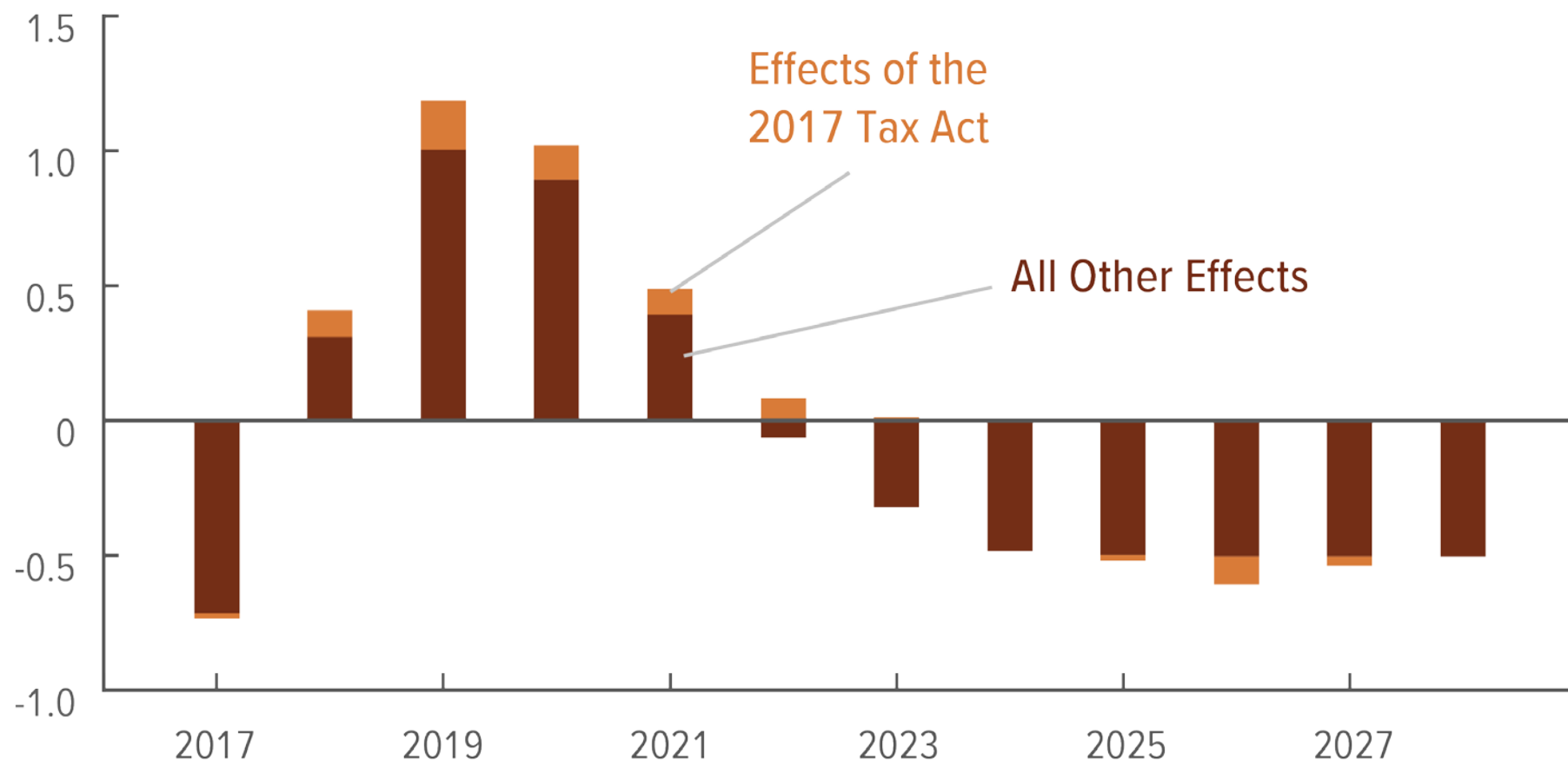


The **effects of the tax act on business fixed investment**—purchases of equipment, nonresidential structures, and intellectual property products—are positive through 2028, on net.



The 2017 tax act is projected to boost the demand for goods and services, accelerating the **growth of actual output** in relation to the **growth of potential output** over the first half of the 2018–2028 period.

Percentage of Potential GDP



Heightened overall demand is projected to increase spending by consumers and businesses—increasing GDP above CBO’s estimate of its potential level and thus making the **output gap** (the difference between GDP and potential GDP) more positive.

Contributions of the 2017 Tax Act to CBO's Baseline Budget Projections

Billions of Dollars

2018–2028

Effects Without Macroeconomic Feedback

Effects on the Deficit Excluding Debt-Service Costs	1,843
Effects on Debt-Service Costs	<u>471</u>
Effects on the Deficit	2,314

Effects of Macroeconomic Feedback

Effects on the Deficit Excluding Debt-Service Costs	-571
Effects on Debt-Service Costs	<u>110</u>
Effects on the Deficit	-461

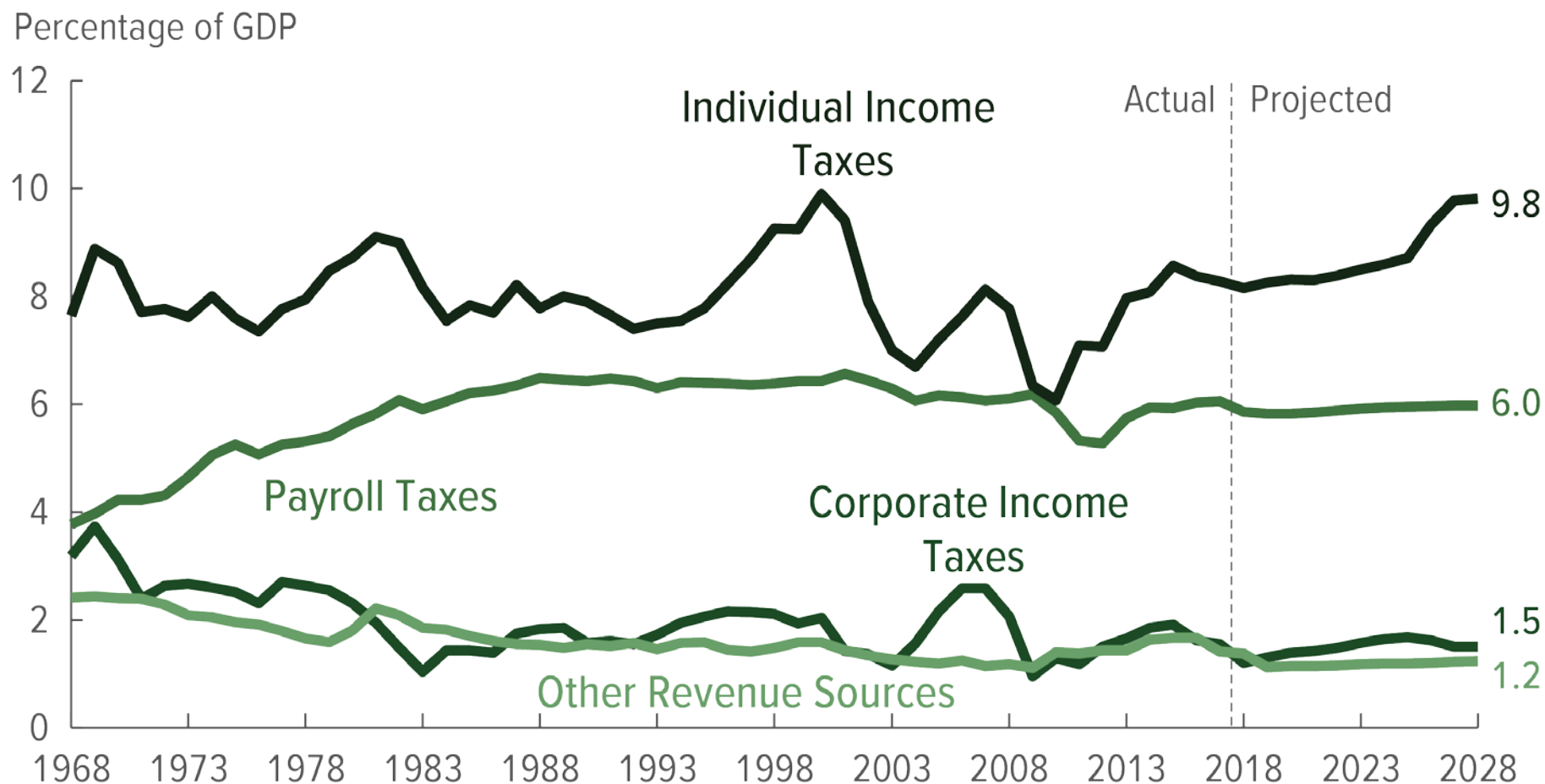
Total Contributions to Baseline Projections

Effects on the Deficit Excluding Debt-Service Costs	1,272
Effects on Debt-Service Costs	<u>582</u>
Effects on the Deficit	1,854

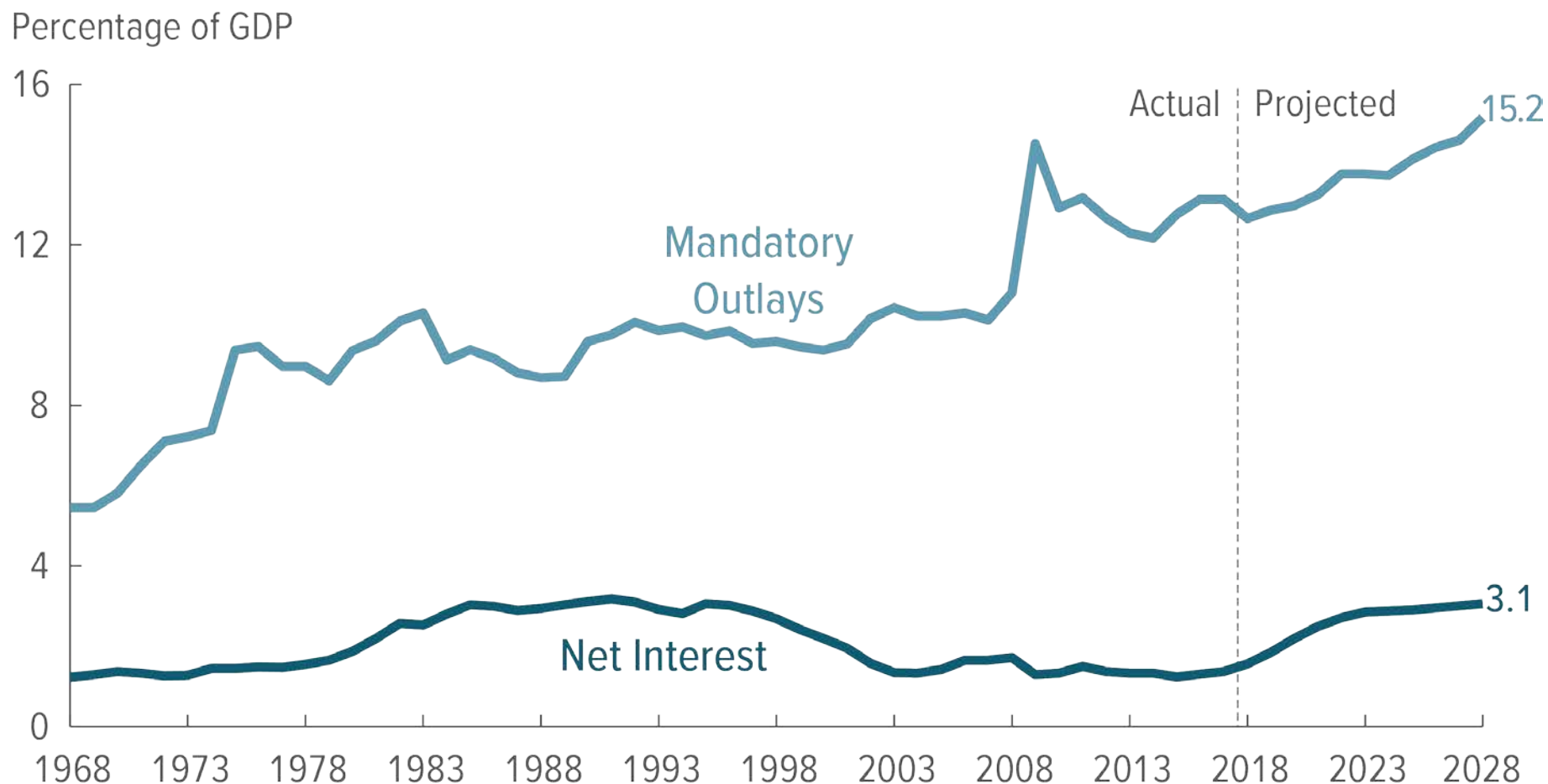
The Budget Outlook



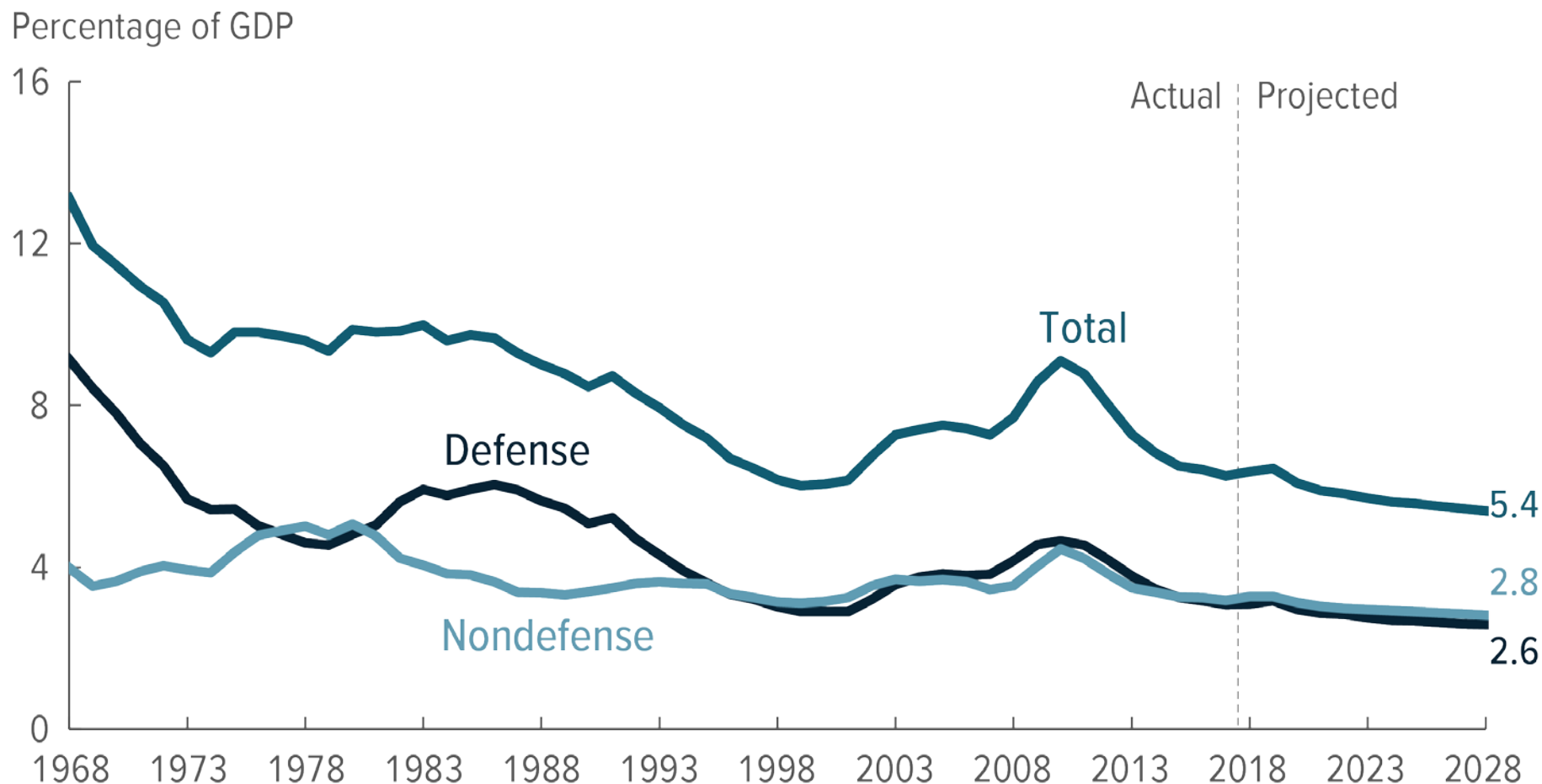
Under current law, **total revenues** are projected to rise as a share of GDP largely because of scheduled changes in tax provisions, wage growth, the taxation of individual income at higher rates when incomes rise faster than inflation, and growing distributions from tax-deferred retirement accounts.



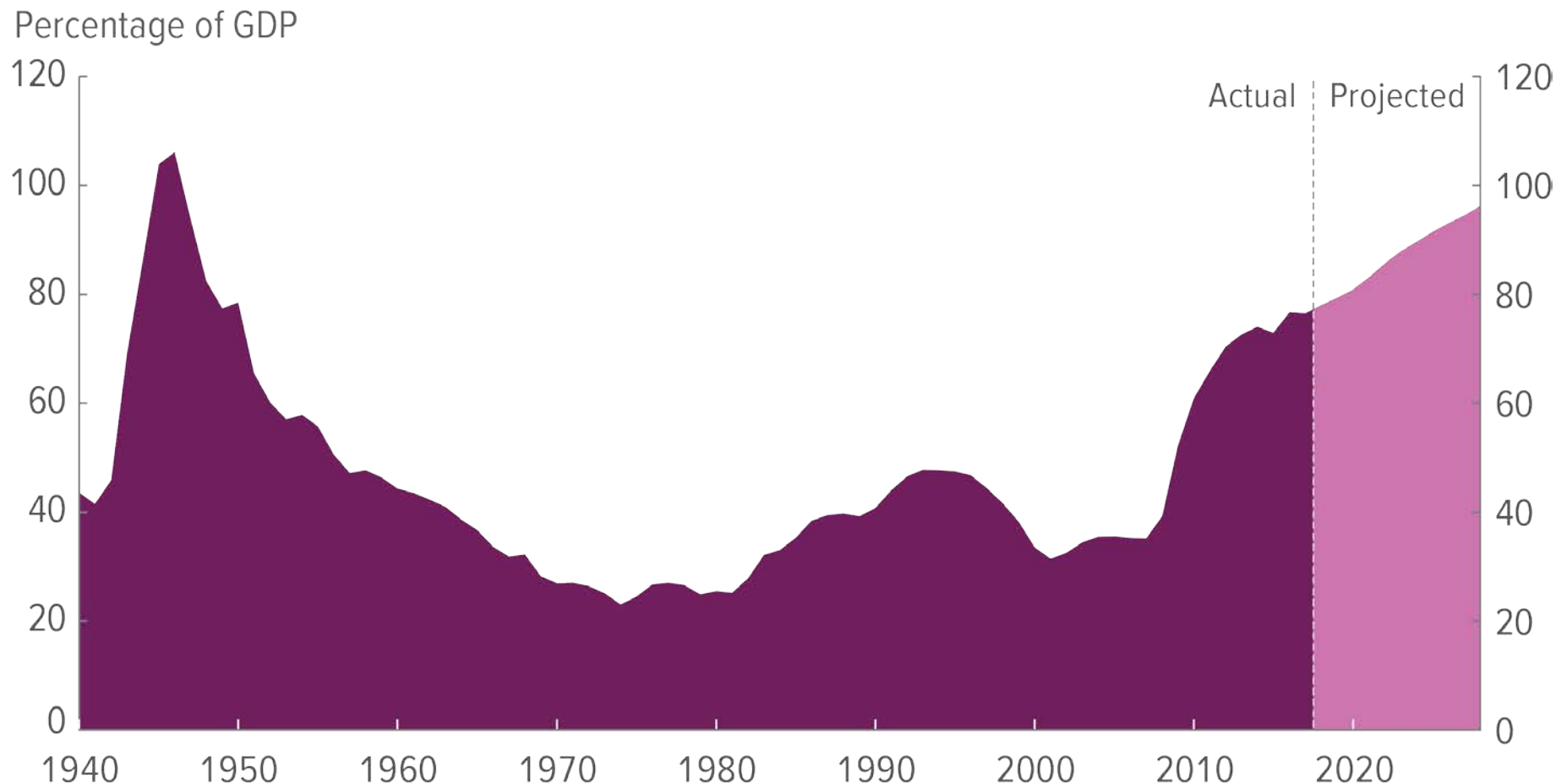
Individual income tax **revenues** rise sharply following the expiration of temporary provisions of the 2017 tax act at the end of 2025.



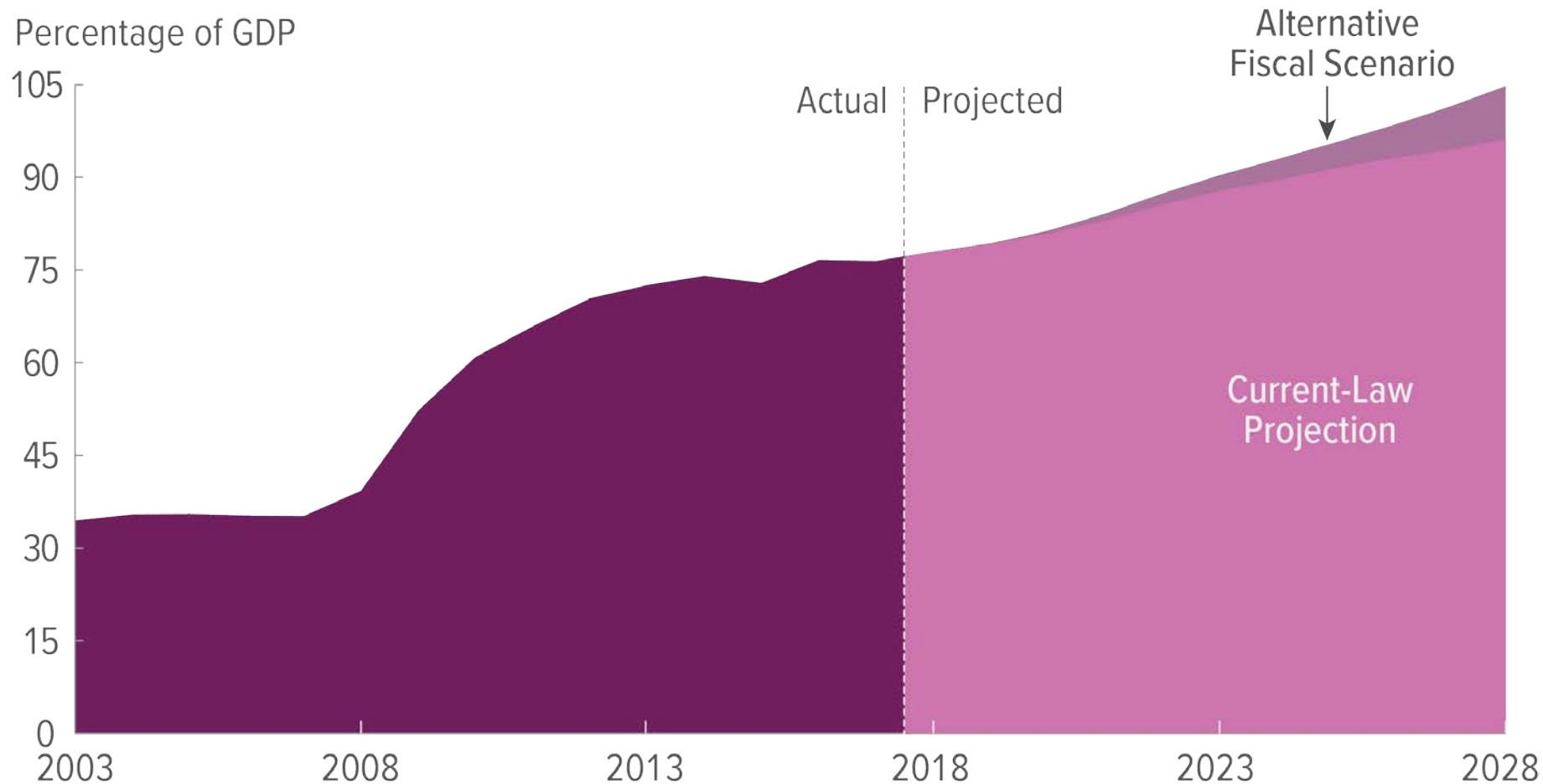
Under current law, rising spending for Social Security and Medicare would boost **mandatory outlays**. At the same time, growing debt and higher interest rates are projected to push up **net interest** costs.



CBO's projections of **discretionary spending** incorporate budgetary caps through 2021 and the assumption that discretionary budget authority grows with inflation thereafter. In those projections, discretionary budget authority is boosted in the near term by recent legislation but then declines by 8 percent in 2020 because of scheduled reductions to the caps.



Federal debt held by the public rises from 78 percent of GDP (or \$16 trillion) at the end of 2018 to 96 percent of GDP (or \$29 trillion) by 2028 in CBO's projections. That percentage would be the largest since 1946 and well more than twice the average over the past five decades.



CBO also analyzed an alternative fiscal scenario in which current law was altered to maintain major policies—so that substantial tax increases and spending cuts would not take place as scheduled under current law—and to provide more typical amounts of emergency funding than the sums provided for 2018. In that scenario, **debt held by the public** would reach about 105 percent of GDP by the end of 2028.