



January 31, 2019

## **An Overview of *The Budget and Economic Outlook: 2019 to 2029***

A Joint Seminar by the Congressional Budget Office  
and the Congressional Research Service

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# **The Congressional Budget Office**

## **CBO's Role**

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**

# What Is CBO's Baseline?

- A detailed projection for the current year and the ensuing 10 years of federal spending, revenues, net spending for interest, and the resulting deficits and surpluses
- Based on CBO's economic forecast
- Incorporates the assumption that current laws governing taxes and spending generally remain in place
- Not a forecast of future budgetary outcomes; those depend on future Congressional action and other factors
- Generally provided two or three times a year
- Reported in the annual *Budget and Economic Outlook* and subsequent reports

# How Is the Baseline Constructed?

- 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.
  - Defines the baseline
  - Sets out rules for projecting spending and receipts
  - Requires an assumption of full funding for entitlements
  - Directs the treatment of expiring programs and certain excise taxes

# How Do CBO and the Congress Use the Baseline?

- A neutral benchmark for measuring the budgetary effects of proposed changes in federal revenues and mandatory spending
  
- Basis for:
  - Cost estimates for proposed legislation
  - CBO's analyses of the President's annual budget
  - CBO's budget options volume
  - Other reports (including those describing CBO's long-term budget projections)
  - Assessments of multiyear budget trends
  
- Often a starting point for budget resolutions

**CBO's Current**  
***Budget and Economic Outlook***

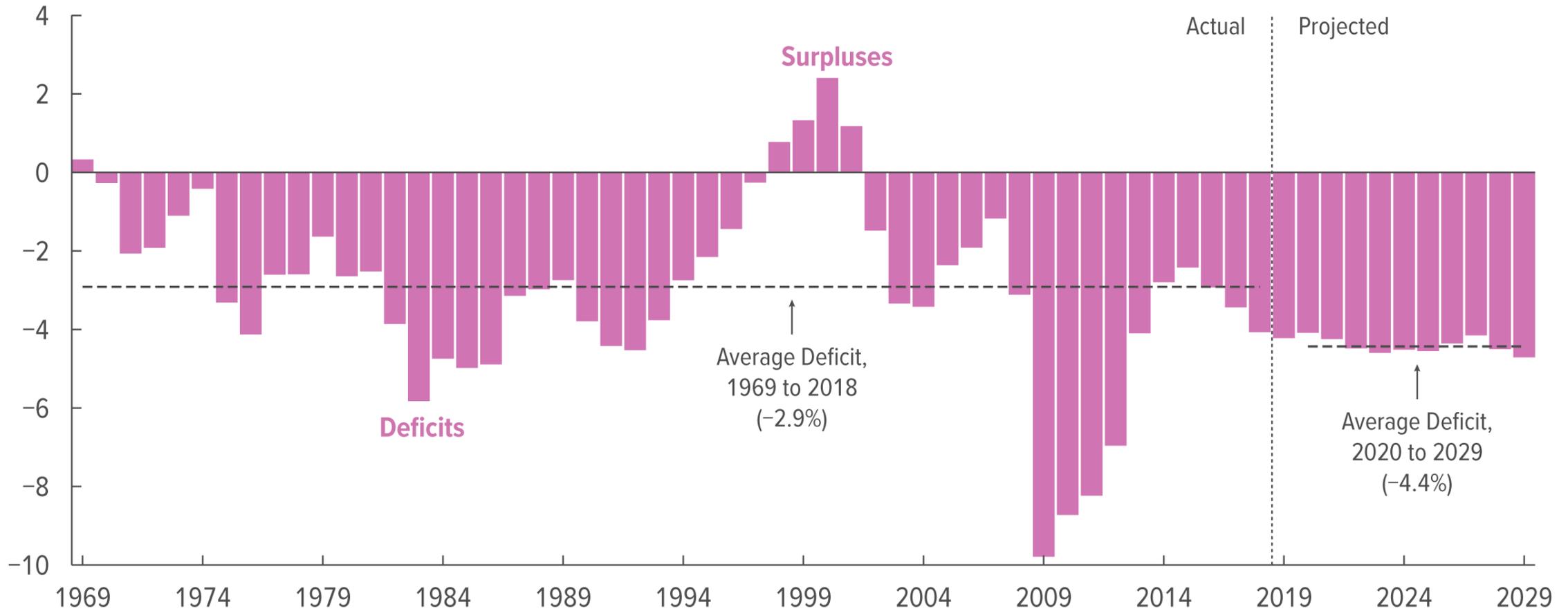
# Baseline Projections

- Deficits and debt
- Economic projections
- Revenues
- Spending
- Policy alternatives

# Deficits and Debt

# Deficits

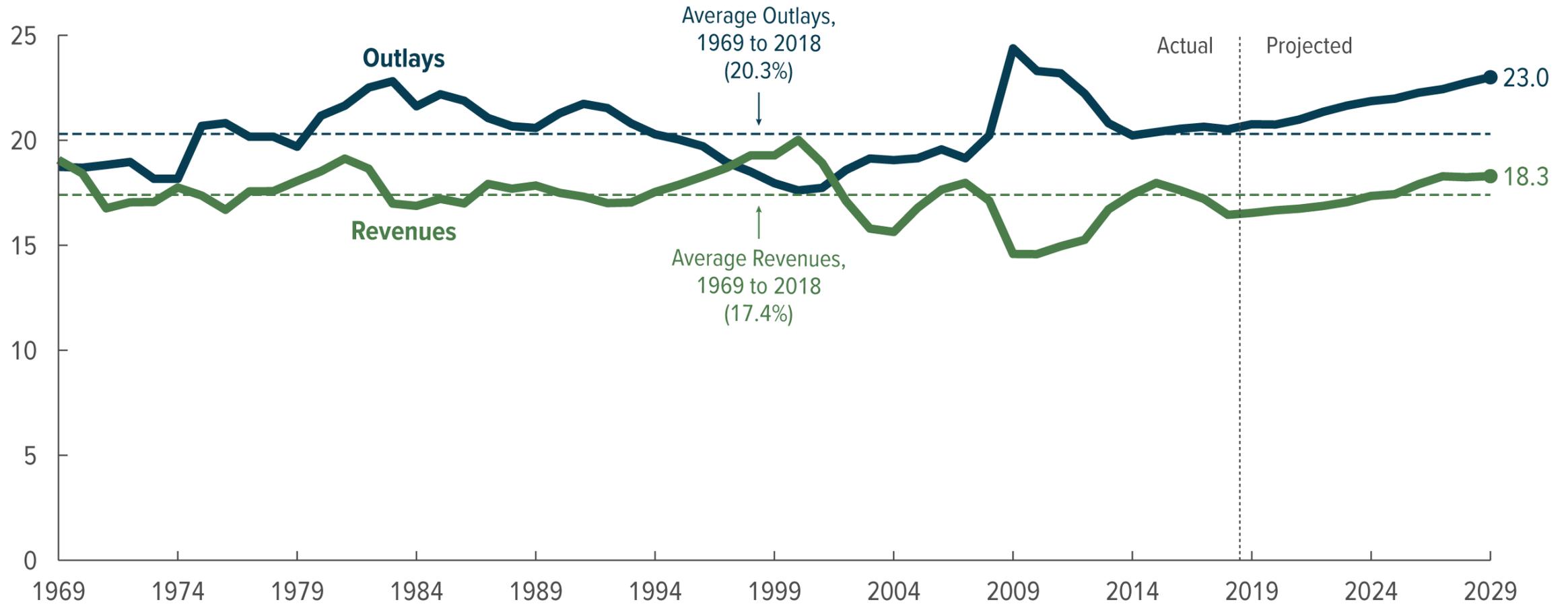
Percentage of Gross Domestic Product



Values are adjusted to exclude the effects of shifts in the timing of payments that occur when October 1 (the first day of the fiscal year) falls on a weekend.

# Revenues and Outlays

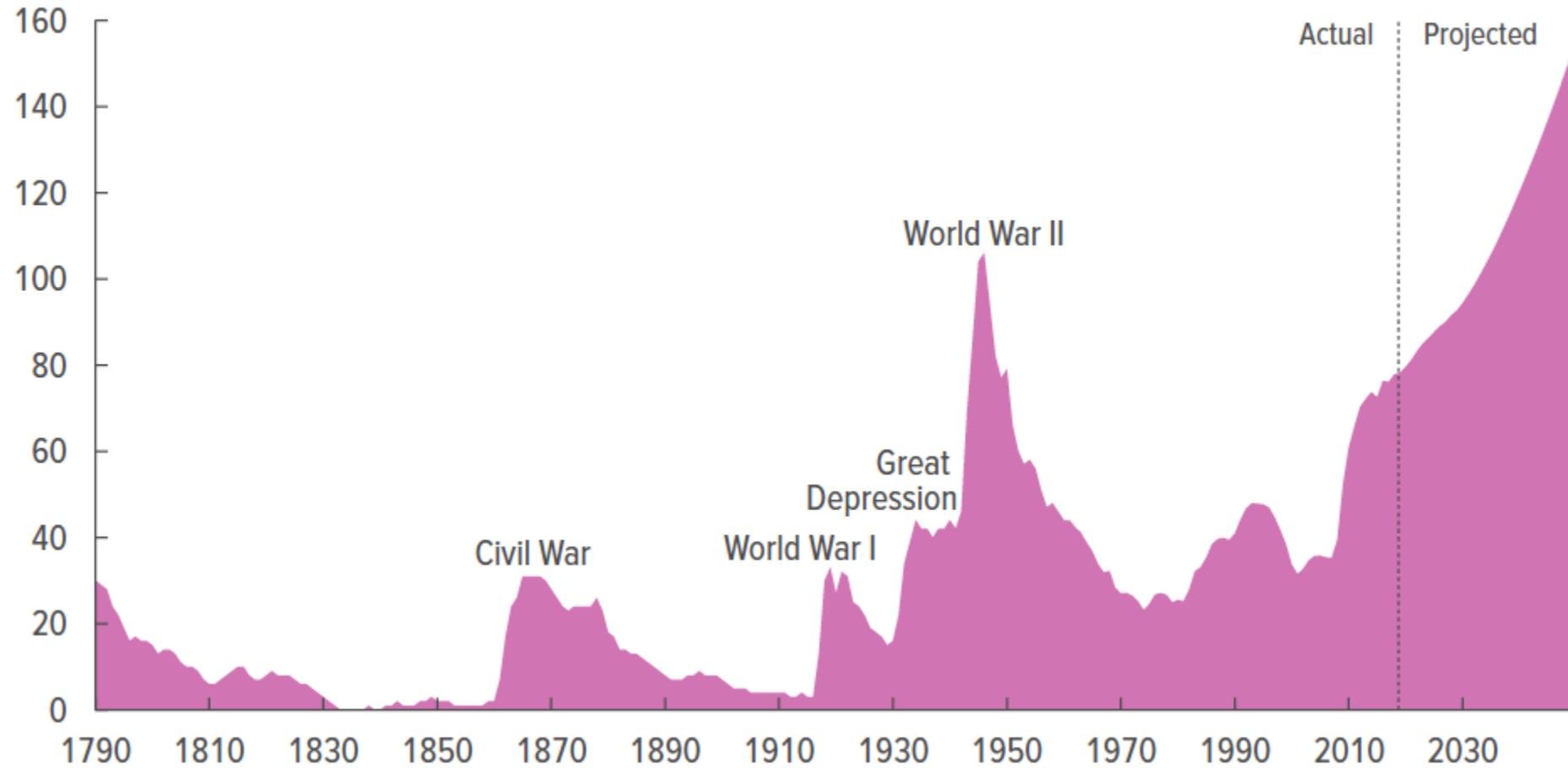
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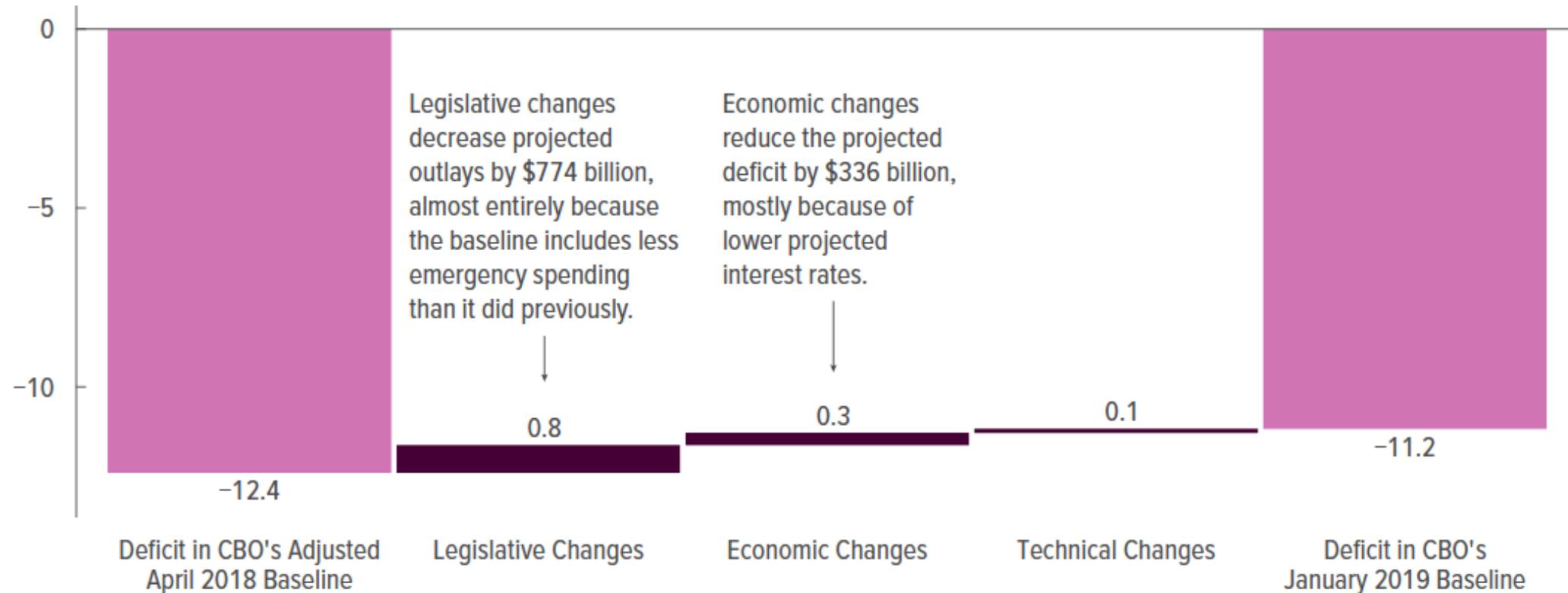
# Debt Held by the Public

Percentage of Gross Domestic Product



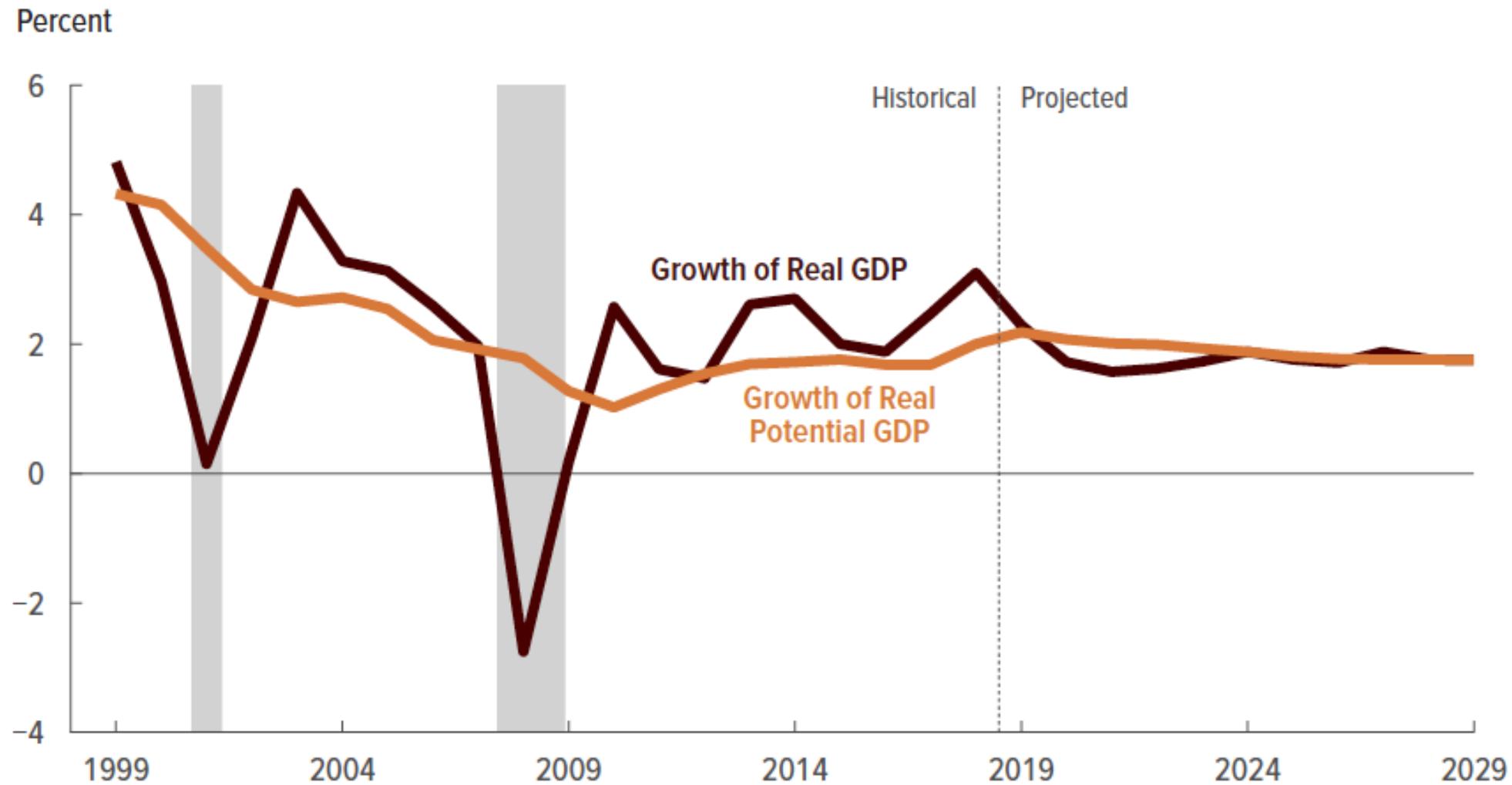
# Changes in CBO's Baseline Projection of the 10-Year Deficit Since Spring 2018

Trillions of Dollars



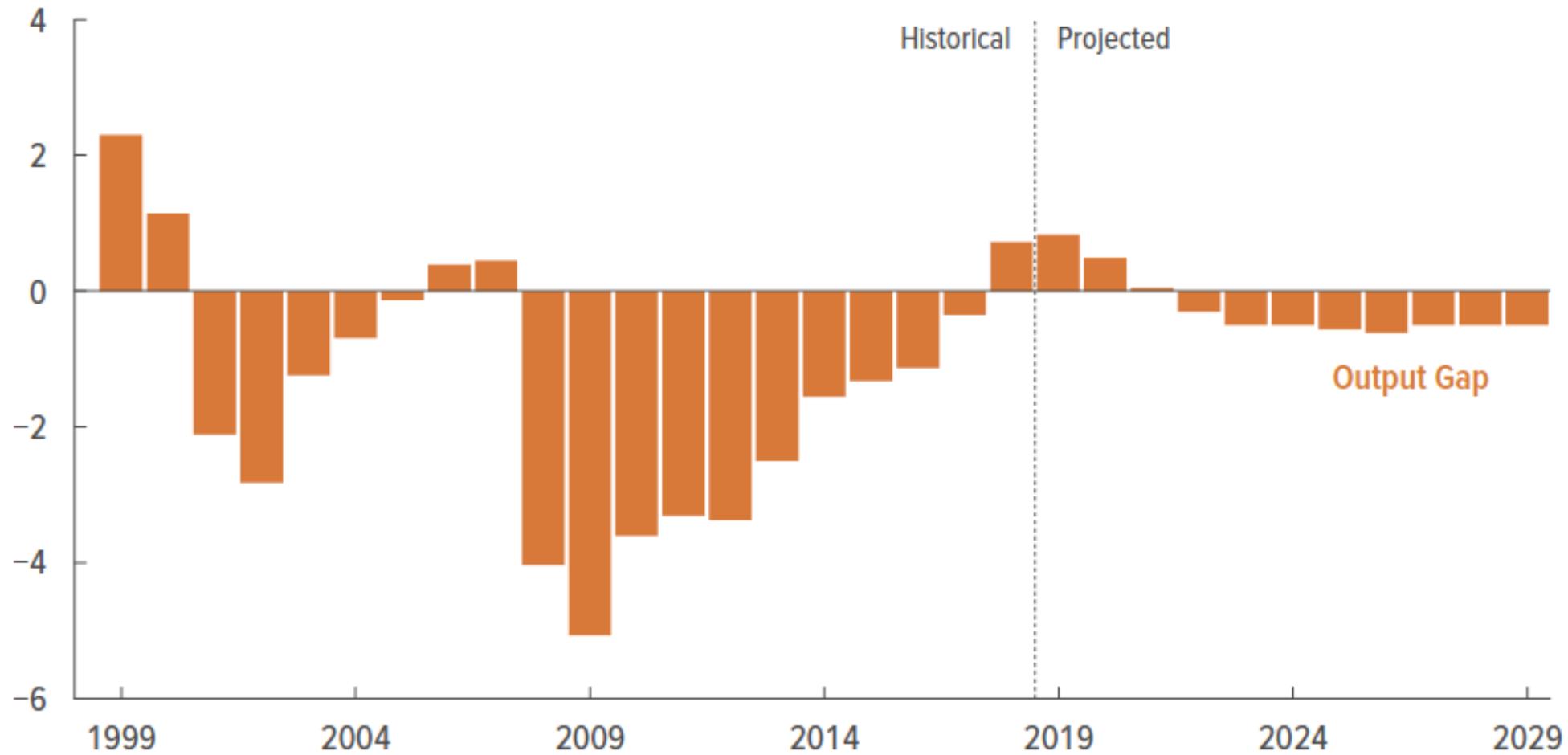
# **Economic Projections**

# Real GDP and Potential Real GDP



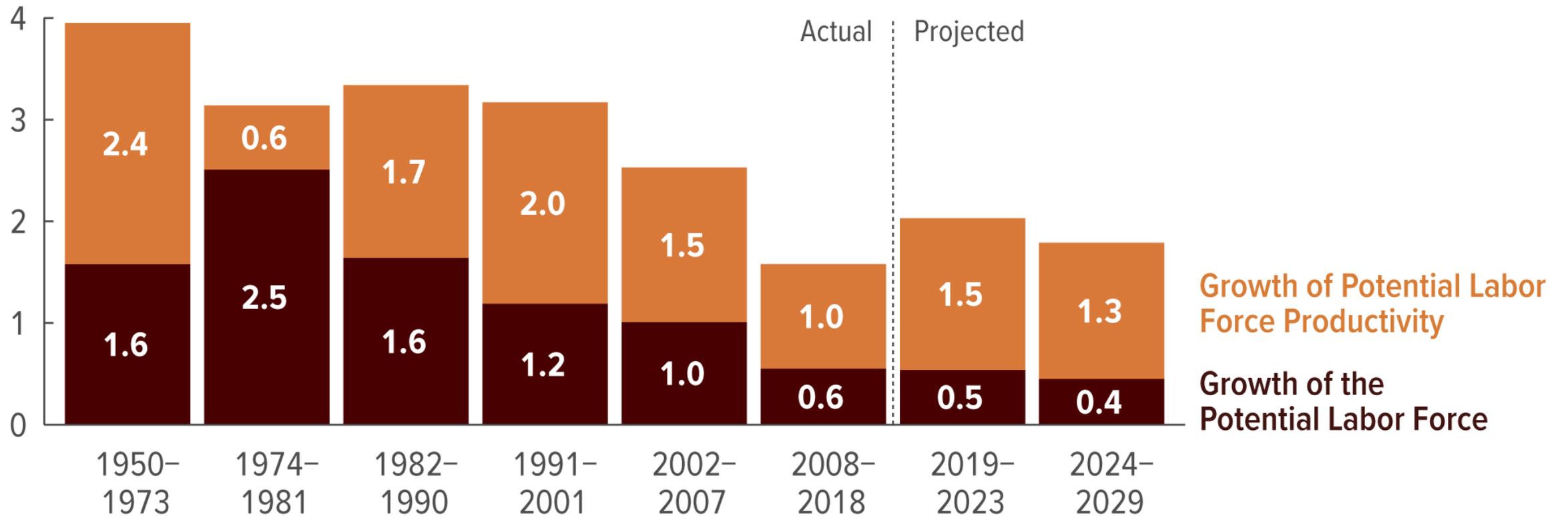
# The Output Gap

Percentage of Potential GDP



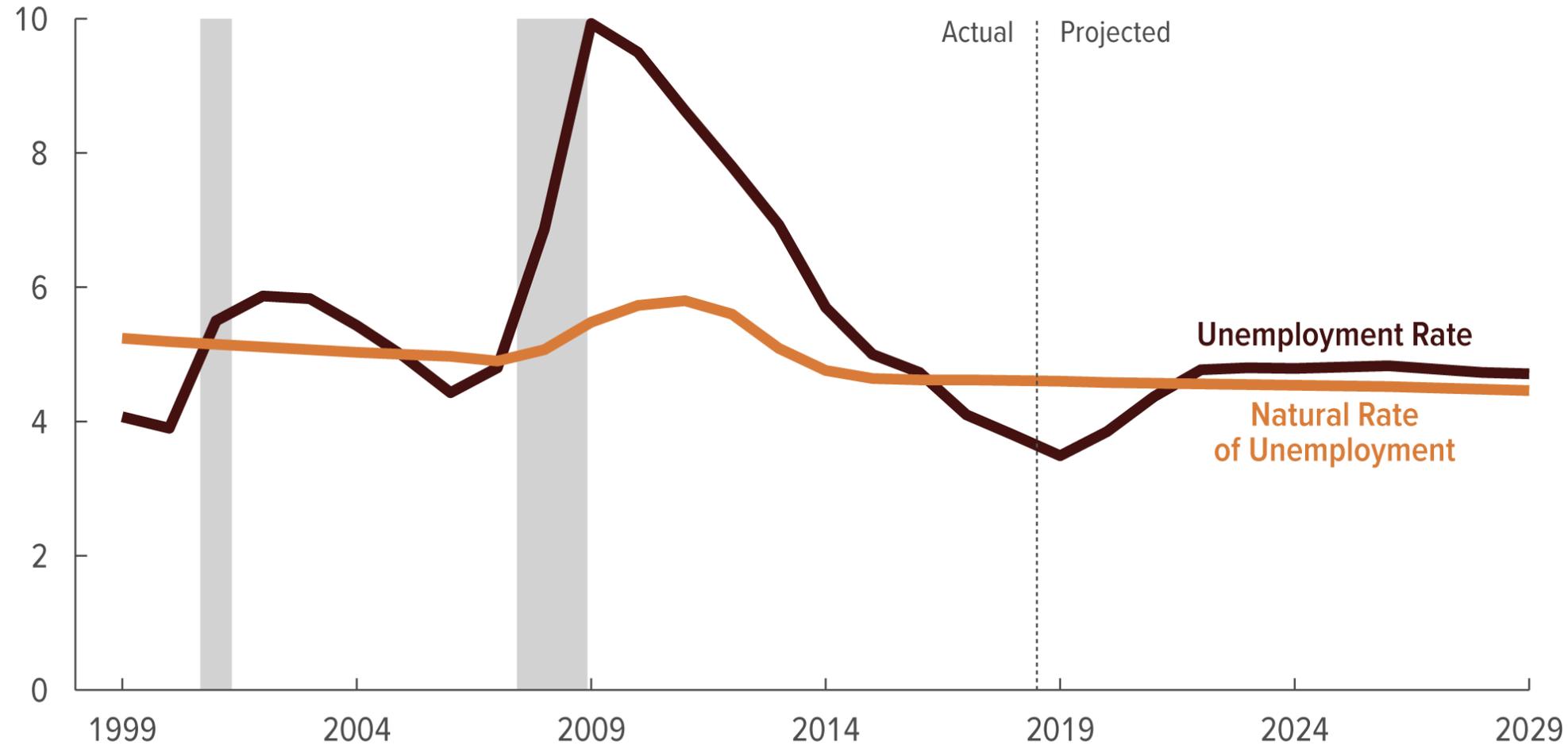
# Factors Underlying the Growth of Potential GDP

Percent

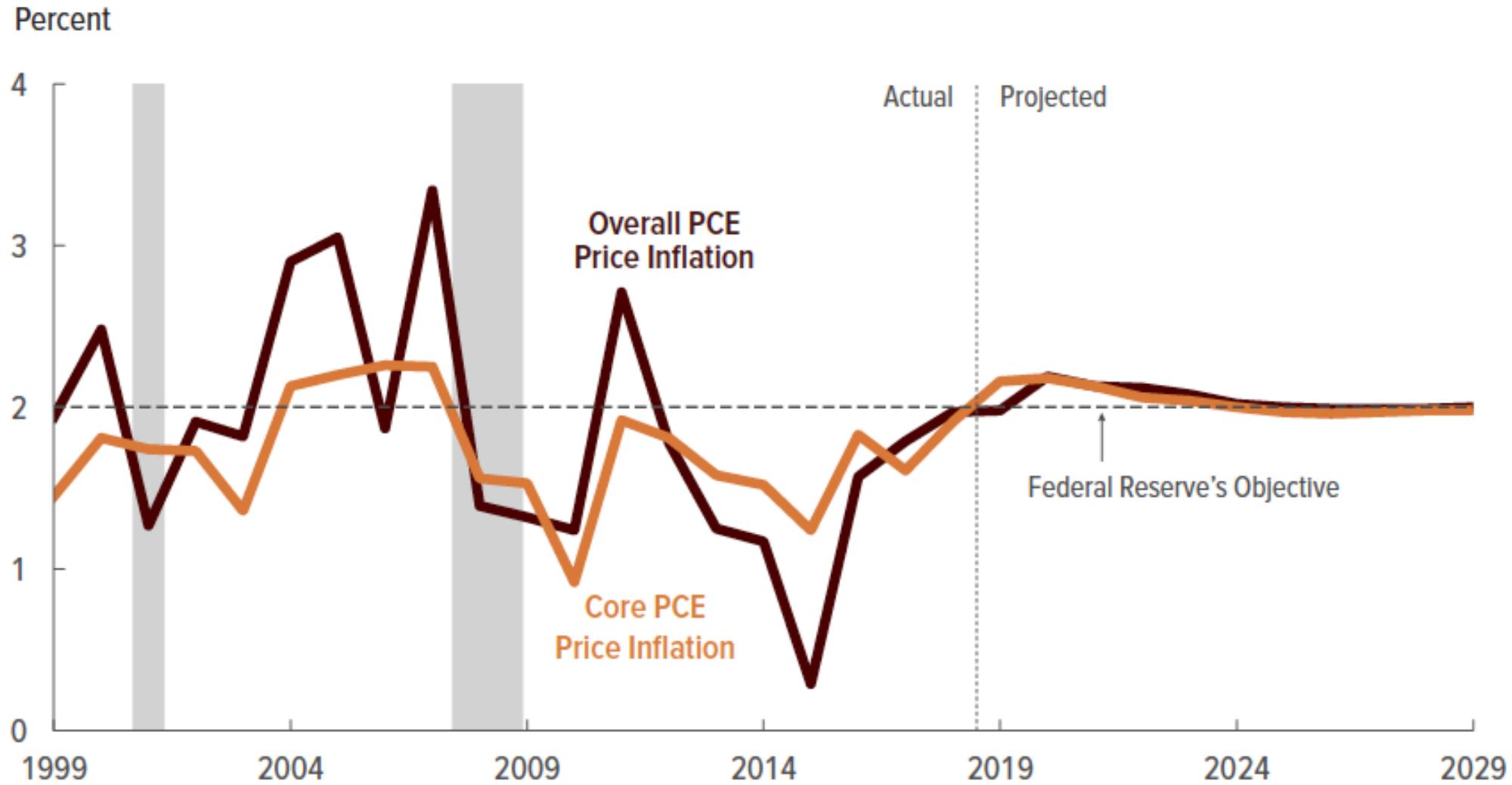


# The Unemployment Rate and the Natural Rate of Unemployment

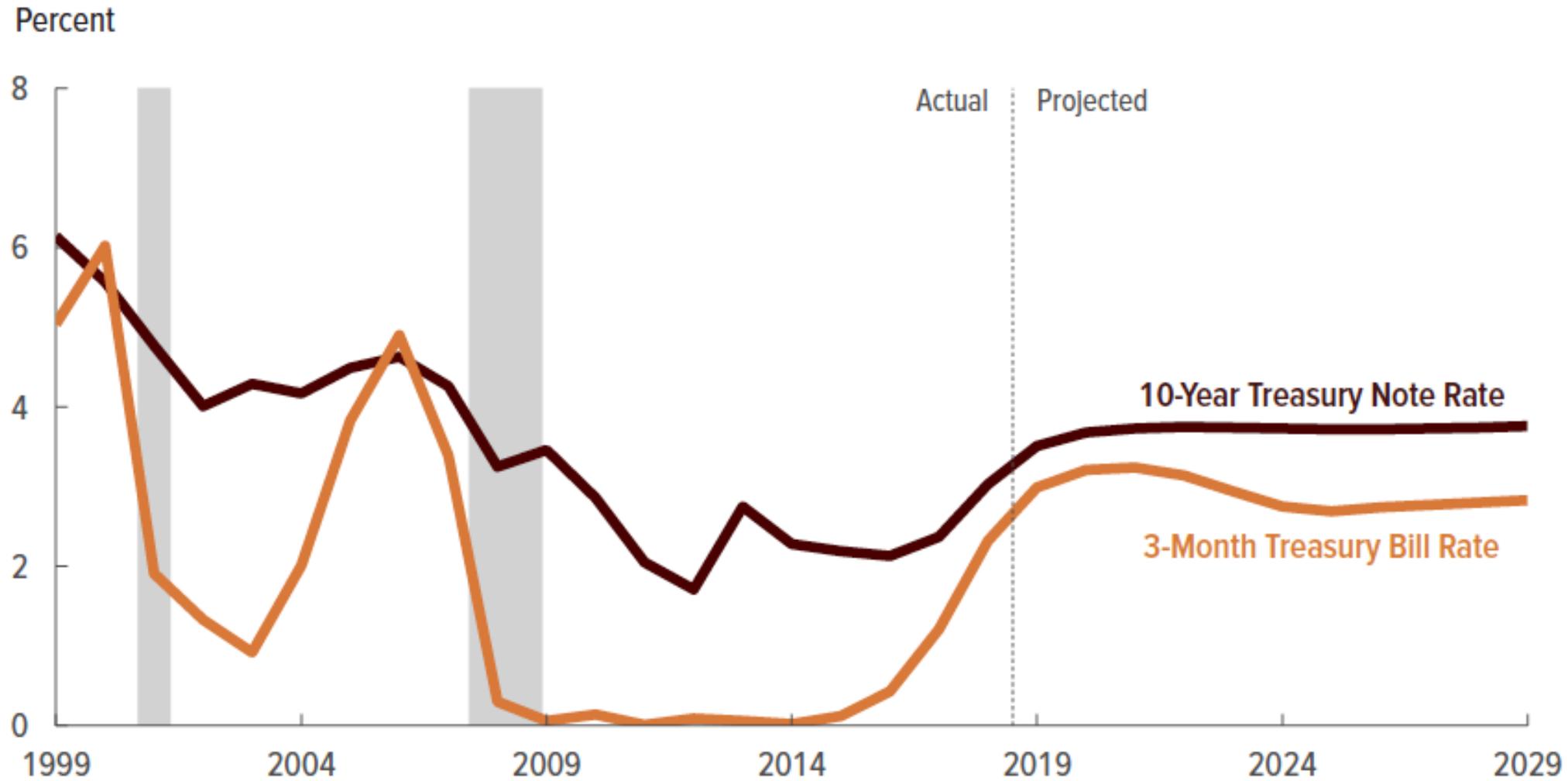
Percent



# Inflation



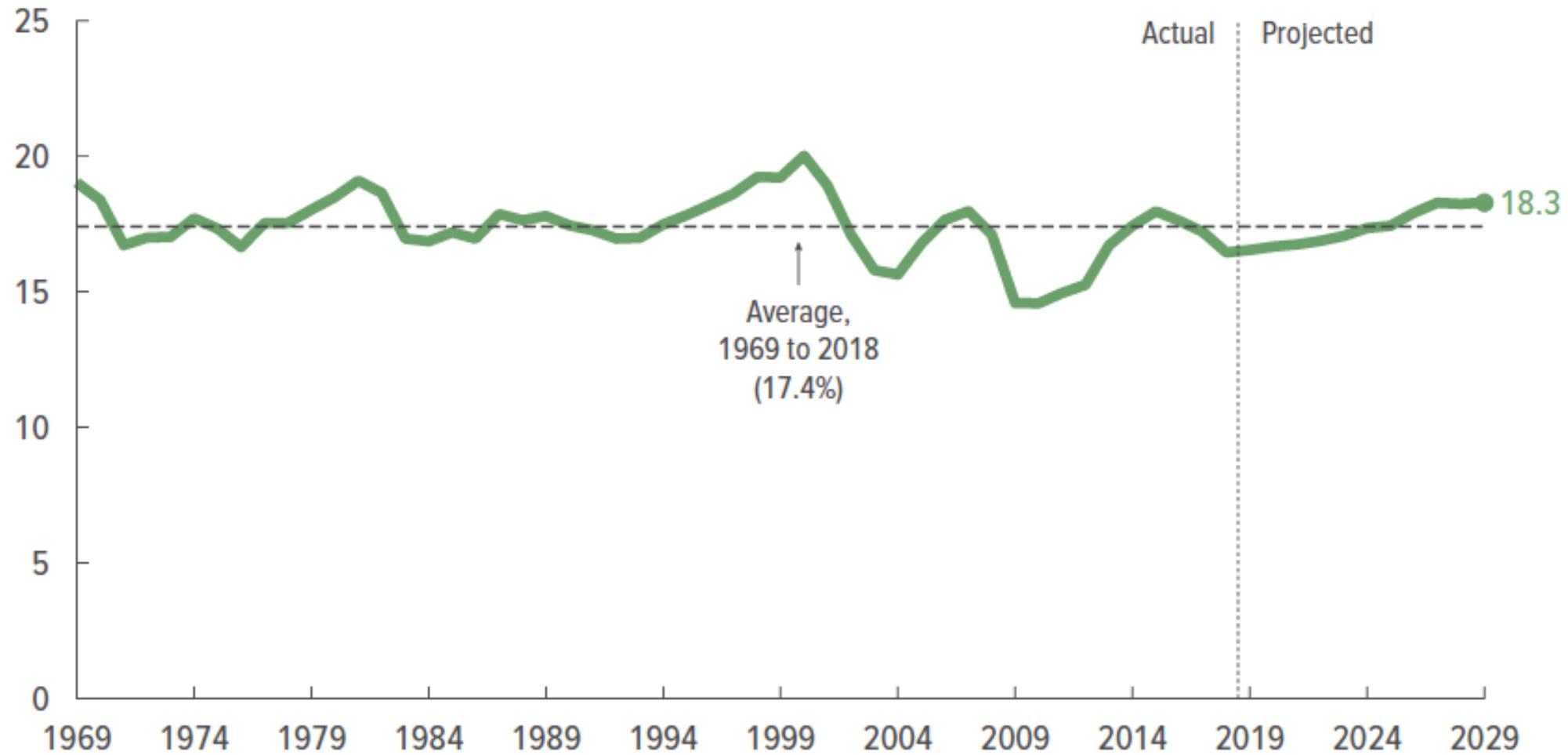
# Interest Rates



# Revenues

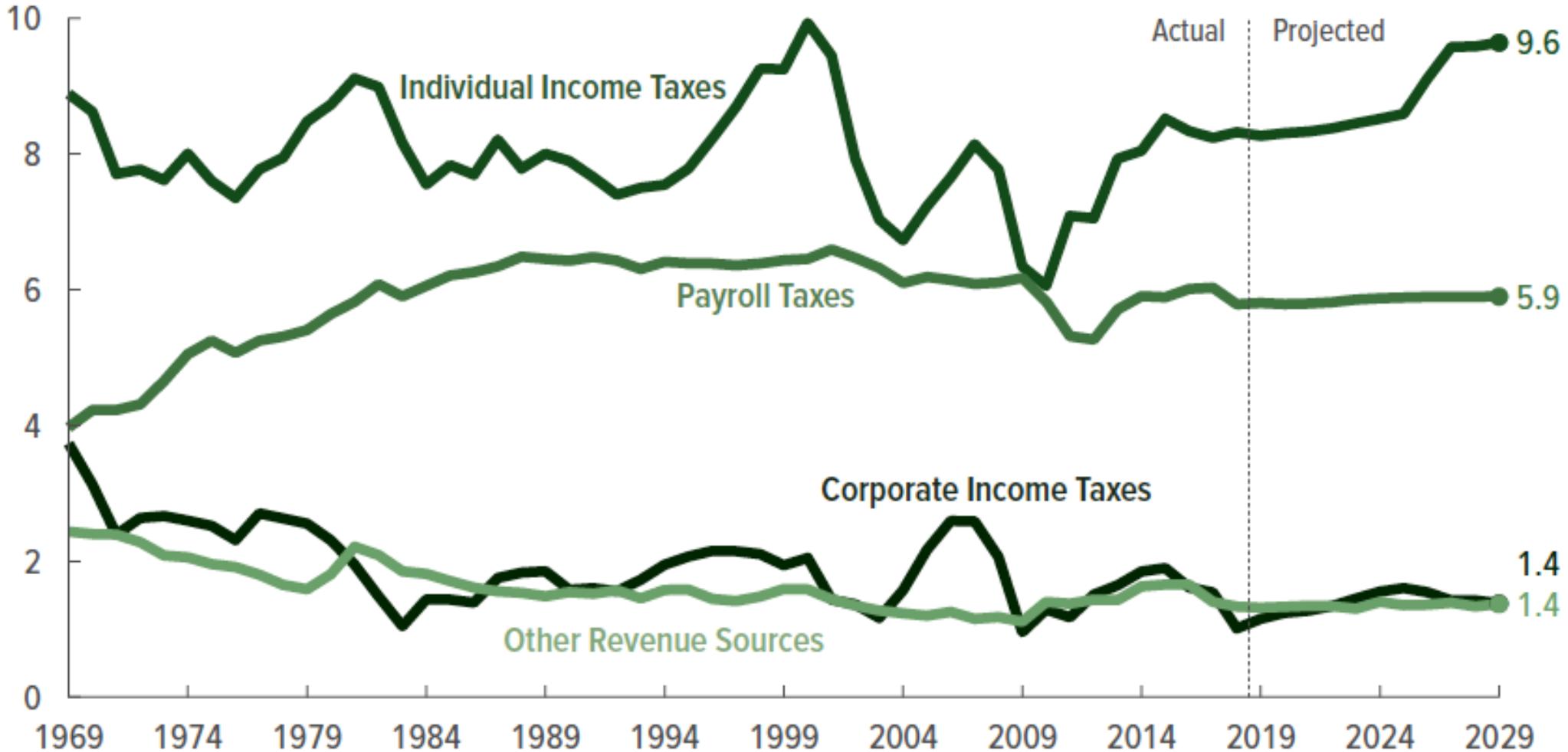
# Total Revenues

Percentage of Gross Domestic Product



# Revenues, by Major Source

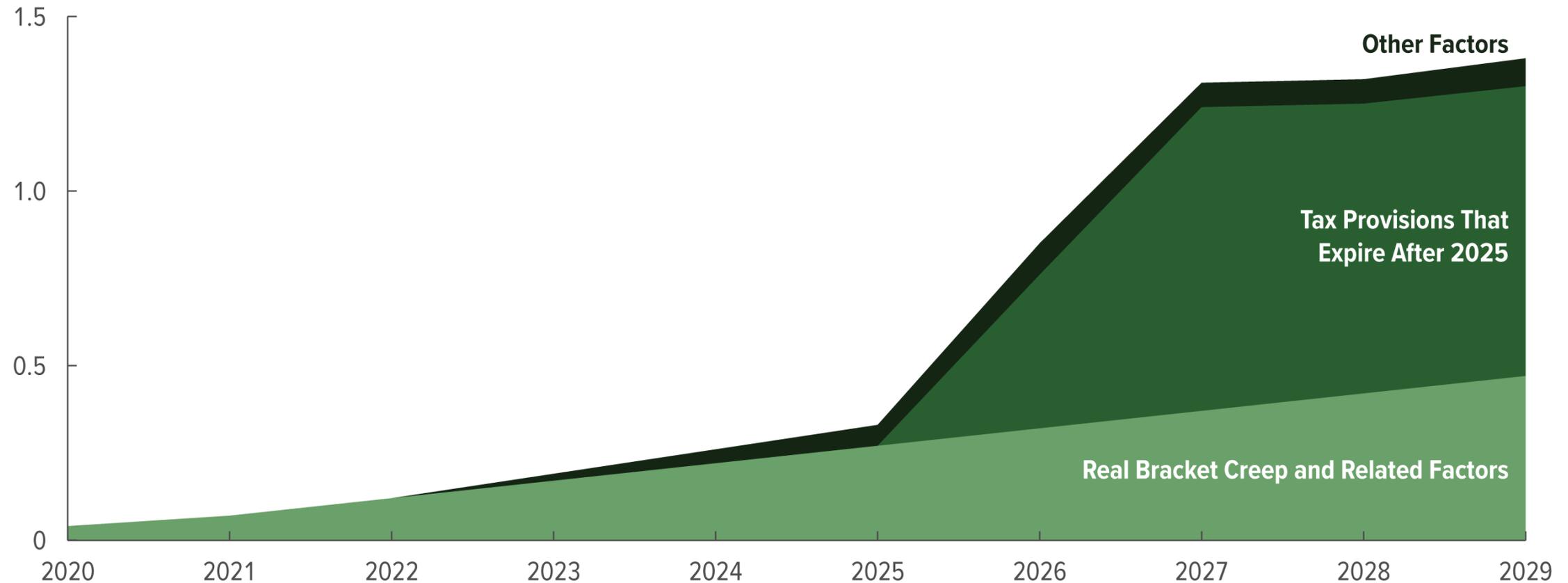
Percentage of Gross Domestic Product



Other revenue sources consist of excise taxes, remittances from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines.

# Growth in Individual Income Tax Receipts in CBO's Baseline Projections

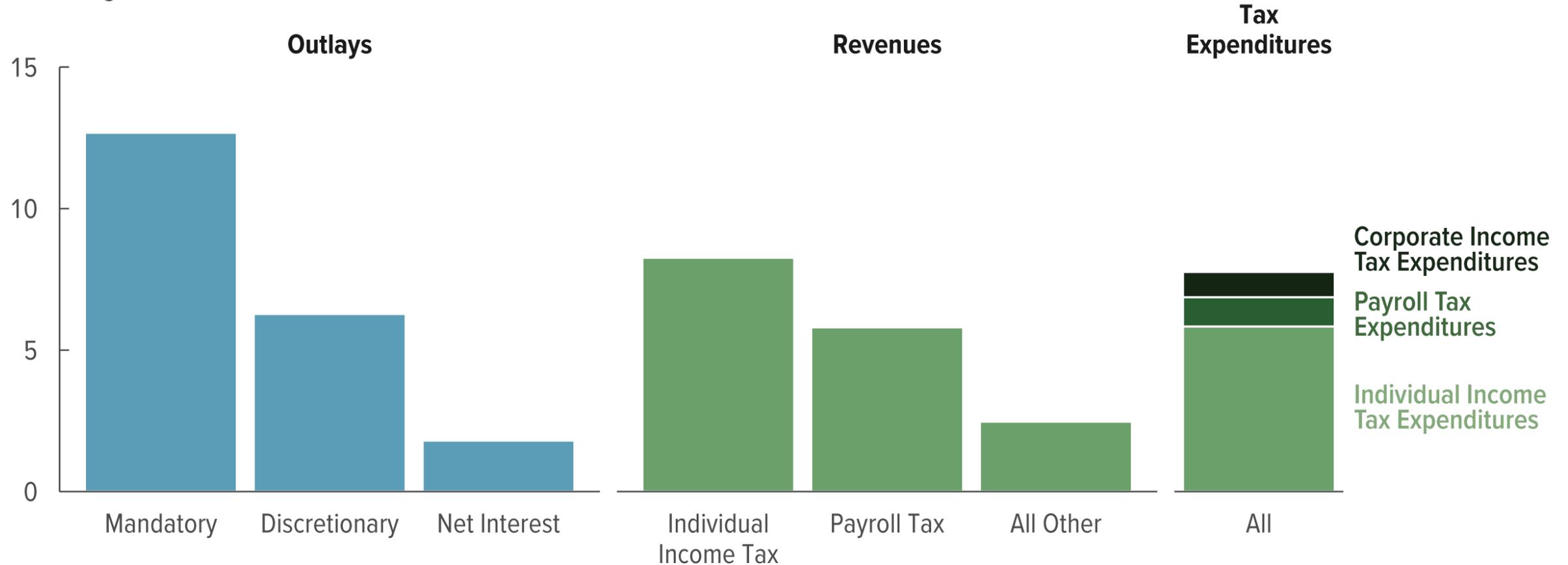
Percentage of Gross Domestic Product



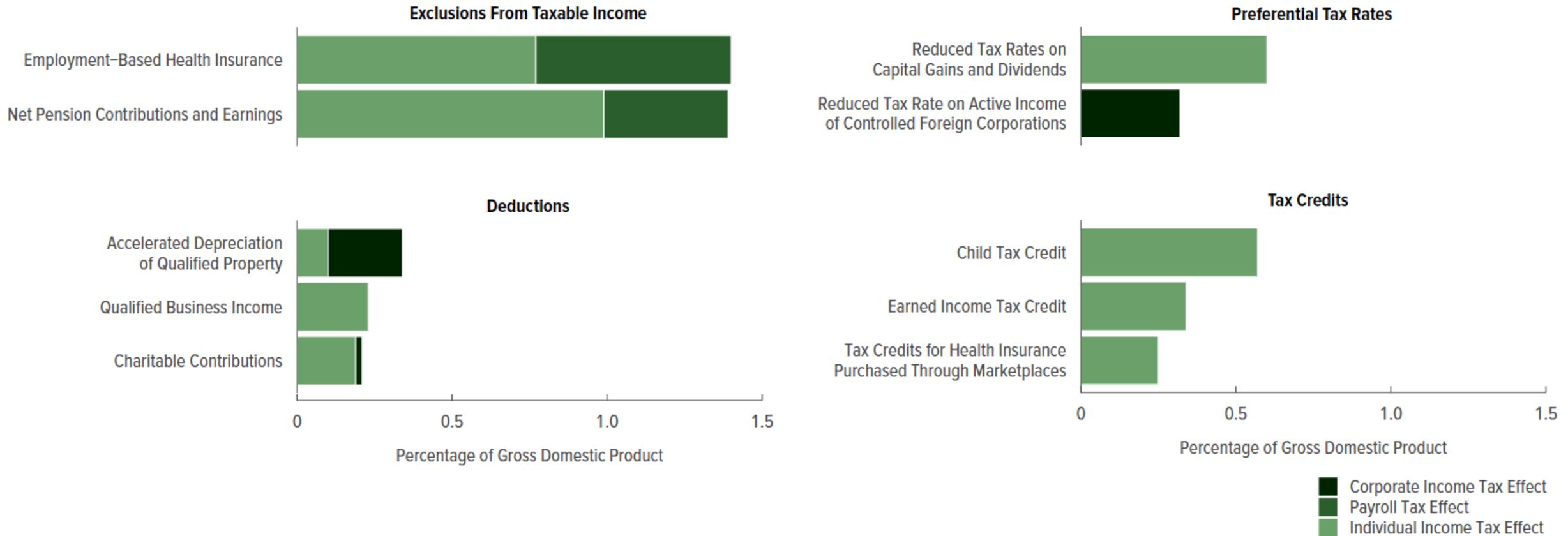
Real bracket creep is the process in which, as income rises faster than inflation, an ever-larger proportion of income becomes subject to higher tax rates.

# Outlays, Revenues, and Tax Expenditures in 2019

Percentage of Gross Domestic Product



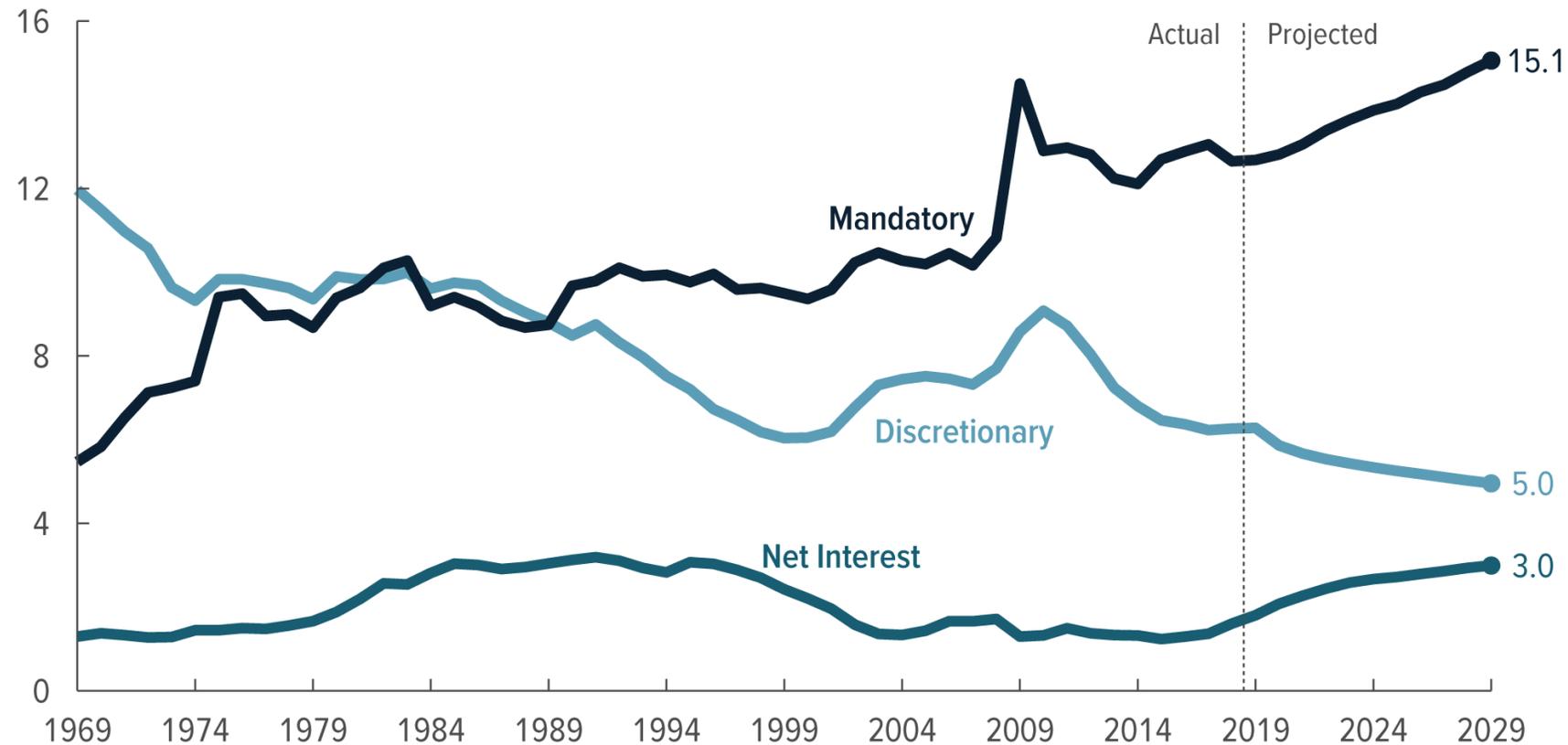
# Budgetary Effects of the Largest Tax Expenditures in 2019



# Spending

# Federal Outlays, by Category

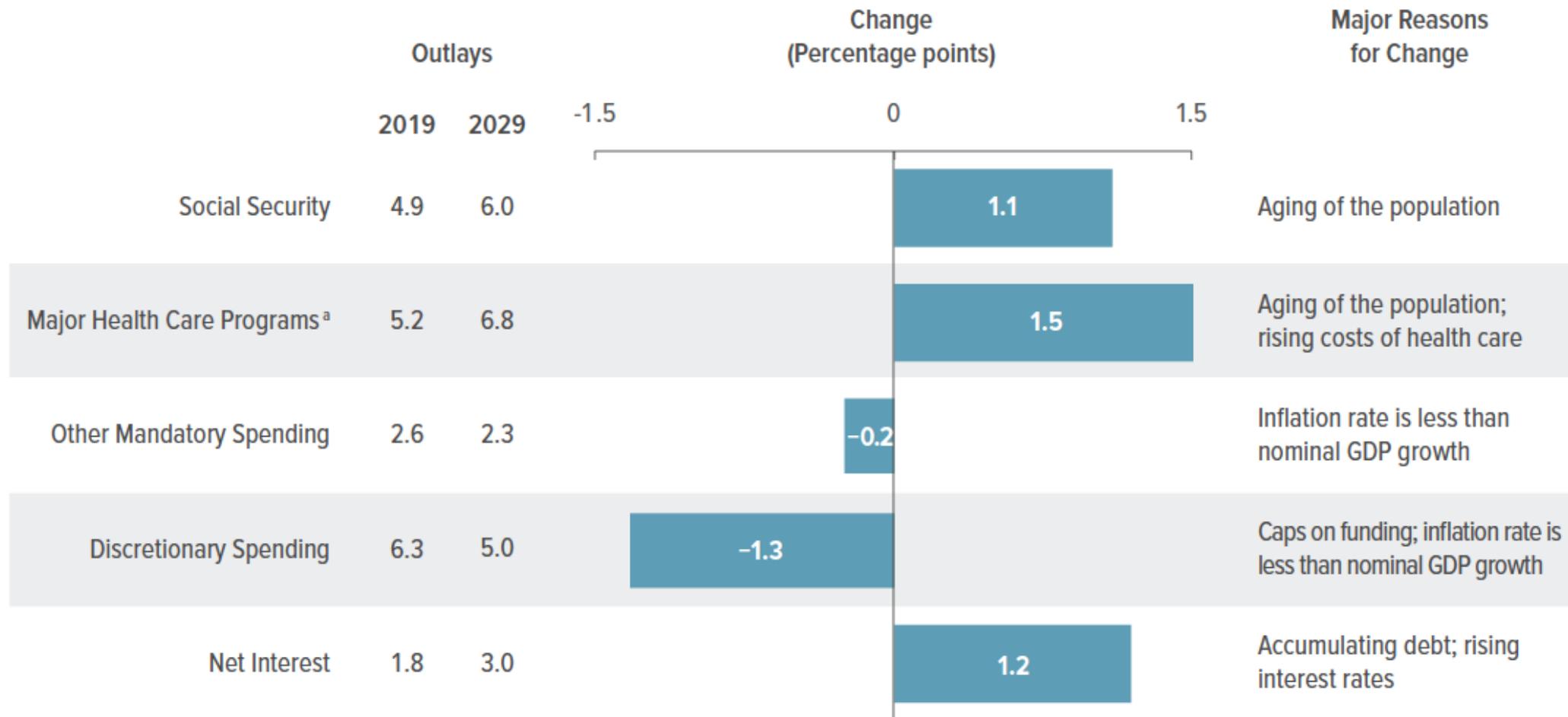
Percentage of Gross Domestic Product



Values are adjusted to exclude the effects of shifts in the timing of payments that occur when October 1 (the first day of the fiscal year) falls on a weekend.

# Major Changes in Projected Outlays From 2019 to 2029

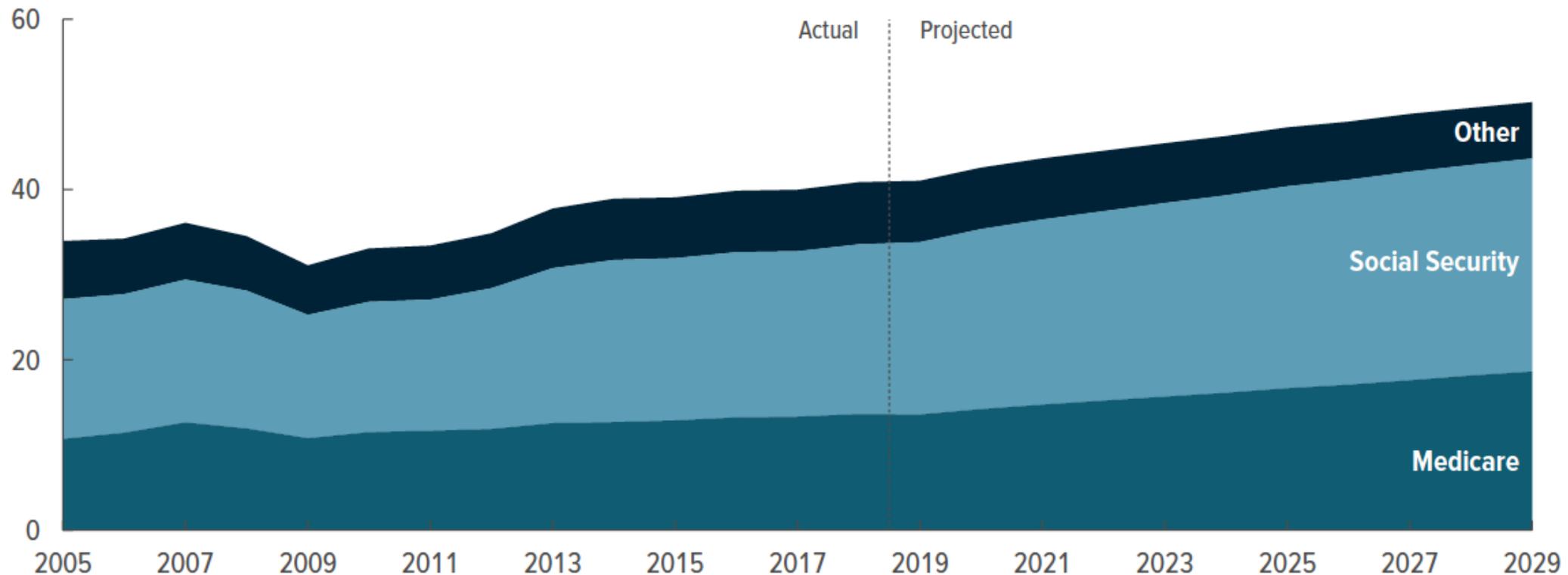
Percentage of Gross Domestic Product



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# Outlays for People Age 65 or Older as a Share of Total Noninterest Outlays

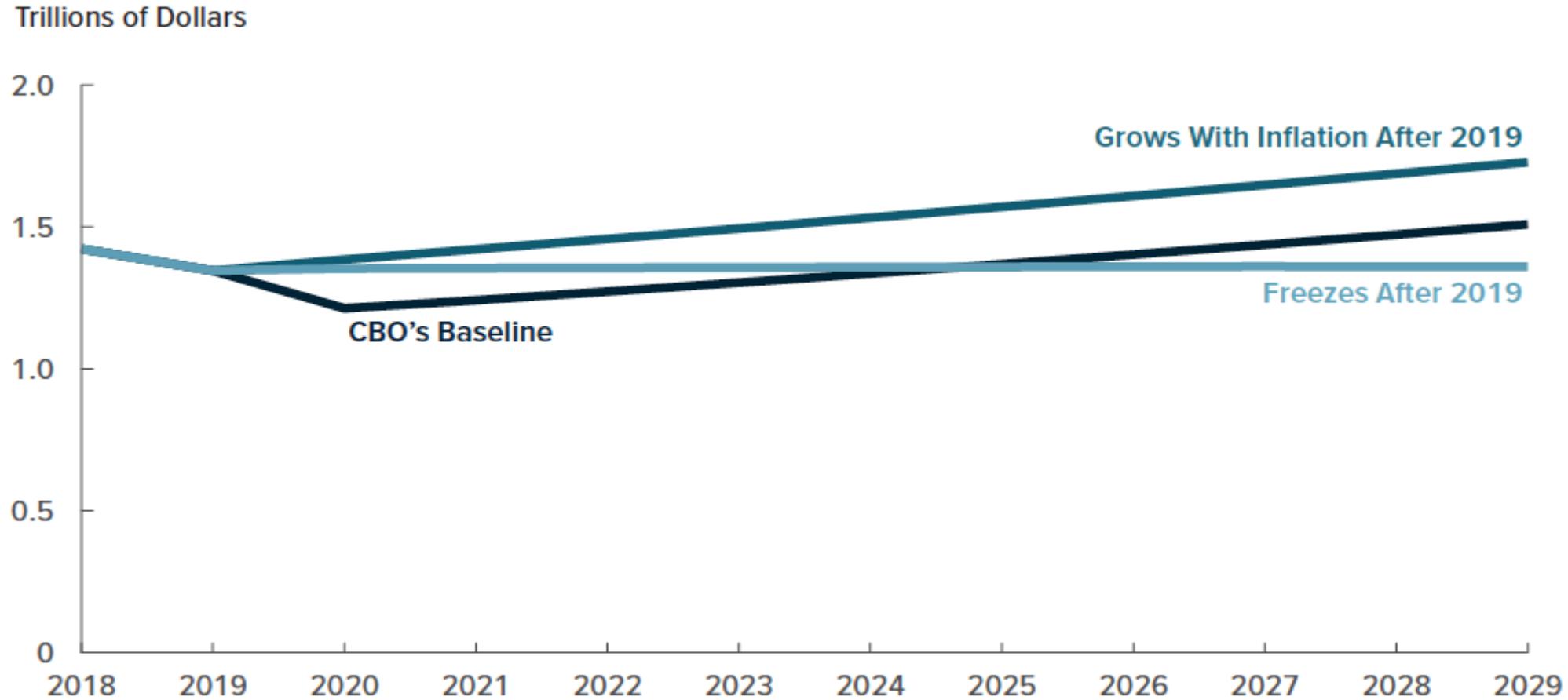
Percentage of Federal Noninterest Outlays



Values are adjusted to exclude the effects of shifts in the timing of payments that occur when October 1 (the first day of the fiscal year) falls on a weekend.

# **Policy Alternatives**

# Alternative Paths for Discretionary Budget Authority



# Alternatives That Affect Revenues

## Budgetary Effects of Selected Policy Alternatives Not Included in CBO's Baseline

Billions of Dollars

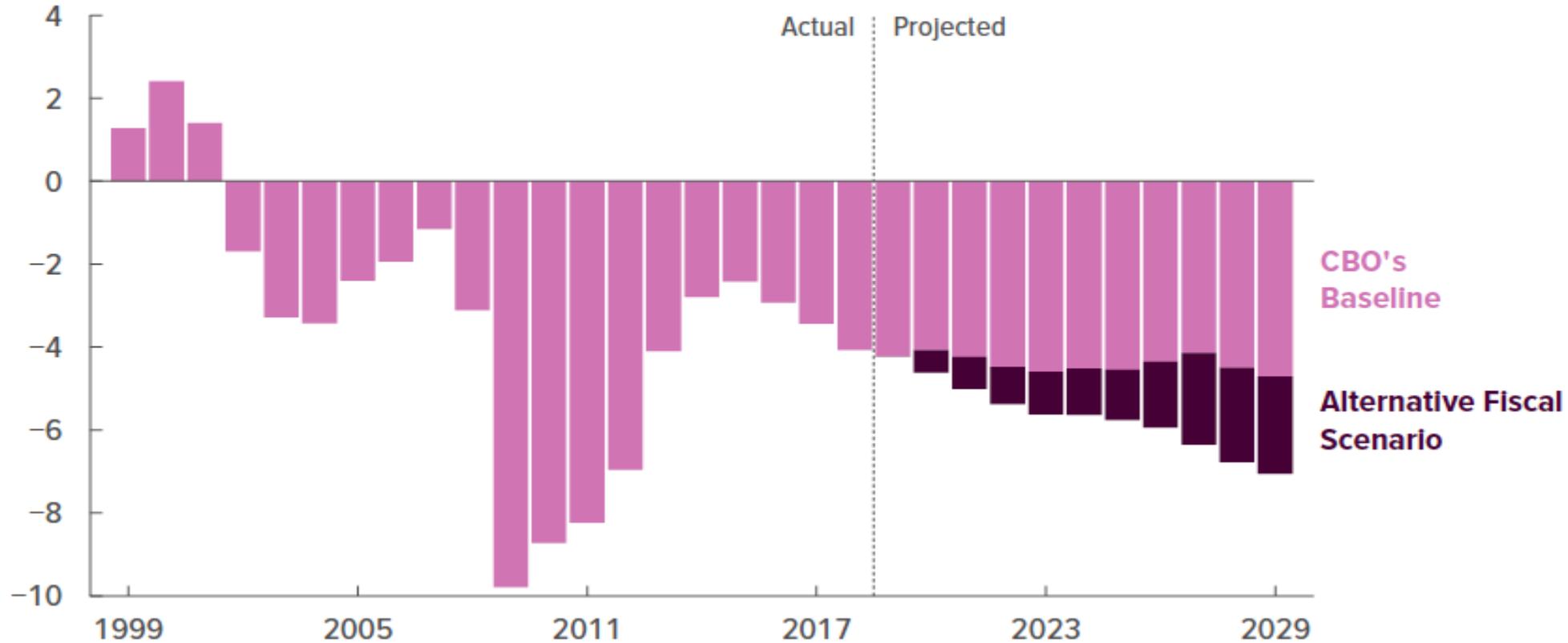
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total	
												2020– 2024	2020– 2029
<b>Policy Alternatives That Affect the Tax Code<sup>d</sup></b>													
Continue Certain Revenue Policies													
Extend certain provisions of the 2017 tax act <sup>e</sup>	*	-3	-4	-4	-5	-5	-12	-98	-257	-275	-295	-21	-957
Extend the expansion of bonus depreciation at 100 percent rate <sup>f</sup>	0	0	0	0	-9	-19	-27	-32	-36	-29	-23	-28	-174
Extend other expiring revenue provisions <sup>g</sup>	*	-1	-4	-5	-8	-9	-11	-13	-15	-17	-20	-27	-103
Repeal certain postponed health taxes <sup>h</sup>	0	-15	-16	-25	-33	-37	-42	-46	-54	-59	-66	-125	-392
Increase (-) in the deficit <sup>b</sup>	*	-18	-24	-34	-54	-70	-91	-189	-362	-381	-403	-201	-1,626
Added debt-service costs	*	*	-1	-2	-4	-6	-9	-13	-23	-36	-50	-13	-143
<b>Policy Alternatives That Affect Trade Policies</b>													
Allow Scheduled Changes to Tariffs to Take Effect <sup>i</sup>													
Decrease in the deficit <sup>b</sup>	1	11	11	11	11	11	11	11	11	11	11	54	110
Reduced debt-service costs	*	*	1	1	1	2	2	3	3	3	4	5	20
Revert Tariffs to 2017 Levels <sup>j</sup>													
Increase (-) in the deficit <sup>b</sup>	-15	-35	-36	-37	-38	-38	-39	-39	-39	-40	-40	-184	-381
Added debt-service costs	*	-1	-2	-4	-5	-6	-8	-9	-11	-12	-14	-19	-73

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

This table shows detail from Table 5-1.

# Projected Deficits Under CBO's Baseline and an Alternative Fiscal Scenario

Percentage of Gross Domestic Product



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