The Budget and Economic Outlook: 2022 to 2032

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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, and the resulting deficits and surpluses

- Based on CBO’s economic forecast

- Based on 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?


- A key law is the Balanced Budget and Emergency Deficit Control Act, section 257.
  - Defines the baseline
  - Sets out rules for projecting spending and revenues
  - 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 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
- The economy
- Revenues
- Spending
- Policy alternatives
Deficits and Debt
In CBO’s projections, primary and total deficits initially shrink as a percentage of GDP and then generally increase, particularly in the second half of the projection period. The aging of the population and the rising costs of health care boost primary deficits; net interest outlays, which double as a percentage of GDP over the projection period, further increase total deficits.
A Comparison of Deficits in CBO’s Baseline Projections With Deficits and Surpluses at Other Times in the Past 50 Years When Unemployment Was Low

Although the unemployment rate remains below 5 percent from 2023 to 2032 in CBO’s projections, deficits in those years are large by historical standards. Total deficits average 5.1 percent of GDP, and primary deficits, 2.5 percent. The average unemployment rate was less than 5 percent in 11 of the past 50 fiscal years. In those 11 years, total deficits averaged 1.2 percent of GDP, and the budget recorded an average primary surplus equal to 0.7 percent of GDP.
Federal debt held by the public is projected to increase in most years in the projection period, reaching 110 percent of GDP in 2032—higher than it has ever been. In the two decades that follow, growing deficits are projected to push federal debt higher still, to 185 percent in 2052.
Total Outlays and Revenues

Outlays are projected to drop from recent highs, as pandemic-related spending wanes, and then trend upward, as they did before the pandemic. Revenues are projected to increase sharply this year and then hover around their historical average as a share of the economy.
CBO’s Baseline Projections of Outlays and Revenues, Compared With Actual Values 25 and 50 Years Ago

Percentage of Gross Domestic Product

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Outlays</th>
<th>Total Revenues</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>19.0</td>
<td>17.0</td>
<td>-1.9</td>
</tr>
<tr>
<td>1997</td>
<td>18.9</td>
<td>18.7</td>
<td>-0.3</td>
</tr>
<tr>
<td>2022</td>
<td>23.5</td>
<td>19.6</td>
<td>-3.9</td>
</tr>
<tr>
<td>2032</td>
<td>24.3</td>
<td>18.2</td>
<td>-6.1</td>
</tr>
</tbody>
</table>
CBO estimates that there is a roughly two-thirds chance that by 2027, the deficit as a share of gross domestic product would be 2.4 percentage points smaller or larger than the agency projects.
Changes in CBO’s Baseline Projections of the 10-Year Deficit Since July 2021

The cumulative deficit for 2022 to 2031 is $2.4 trillion larger in CBO’s current baseline projections than it was in the agency’s July 2021 projections. Legislative changes account for most of that increase. Revenue increases, which reduce deficits, were mostly offset by economic changes that increased outlays, particularly those for interest and Social Security.
The Economy
Growth of Real GDP and Real Potential GDP
Unemployment
Labor Force Participation

Percent

- Potential Labor Force Participation Rate
- Labor Force Participation Rate

Years: 2002 to 2032
The Employment Gap

Percent

2002  2007  2012  2017  2022  2027  2032
Inflation

Change in Price Index for Personal Consumption Expenditures

Change in Core PCE Price Index

Projected
Contributions to Overall Inflation

Percent


Price Index for Personal Consumption Expenditures

- Food and Energy
- Vehicles and Parts
- Other Goods
- Housing Services
- Medical Services
- Other Services
Interest Rates

Percent

2002 2007 2012 2017 2022 2027 2032

10-Year Treasury Note Rate
Federal Funds Rate
3-Month Treasury Bill Rate
Composition of the Growth of Real Potential Gross Domestic Product

Average Annual Growth in:
- Real Potential GDP
- Potential Labor Force Productivity
- Potential Labor Force
Revenues
Total Revenues

Total revenues as a share of GDP are expected to reach 19.6 percent this year—their highest level in two decades. Revenues are projected to remain above their 50-year average of 17.3 percent of GDP throughout the next decade.
Receipts from individual income taxes—the largest source of federal revenues—rose sharply in 2021 and are projected to do so again in 2022 as the economy recovers from recession and temporary provisions enacted in response to the pandemic expire. Those receipts are projected to rise again after 2025 because of the scheduled expiration of some provisions of the 2017 tax act.
Estimated Outlays, Revenues, and Tax Expenditures in 2022

Tax expenditures are provisions of the tax system (such as tax credits and deductions) that cause revenues to be lower than they would be otherwise. Like federal spending programs, tax expenditures contribute to the budget deficit. In 2022, the total revenues forgone because of tax expenditures are projected to equal 8.3 percent of GDP.
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Changes Since July 2021 in CBO’s Forecast of the Growth of Nominal Gross Domestic Product

As a result of upward revisions to the forecast of nominal GDP, revenues from income, payroll, and corporate taxes are now projected to be higher than CBO projected in July 2021.
Changes Since July 2021 in CBO’s Forecast of the Wages and Salaries

Stronger growth in wages and salaries led to increases in projected revenues from income and payroll taxes.
Spending
Under current law, mandatory outlays fall for the next few years before higher spending for Social Security and the major health care programs cause those outlays to rise. Discretionary outlays fall in relation to GDP as funding grows modestly in nominal terms. Net interest outlays increase substantially as interest rates rise and debt mounts.
### CBO’s Baseline Projections of Outlays, Compared With Actual Values 25 and 50 Years Ago

**Percentage of Gross Domestic Product**

<table>
<thead>
<tr>
<th>Year</th>
<th>Social Security</th>
<th>Major Health Care Programs</th>
<th>Other</th>
<th>Defense</th>
<th>Nondefense</th>
<th>Net Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>3.2</td>
<td>1.0</td>
<td>2.9</td>
<td>6.5</td>
<td>4.0</td>
<td>1.3</td>
</tr>
<tr>
<td>1997</td>
<td>4.3</td>
<td>3.3</td>
<td>2.0</td>
<td>3.2</td>
<td>3.3</td>
<td>2.9</td>
</tr>
<tr>
<td>2022</td>
<td>4.9</td>
<td>5.8</td>
<td>4.3</td>
<td>3.1</td>
<td>3.9</td>
<td>1.6</td>
</tr>
<tr>
<td>2032</td>
<td>5.9</td>
<td>6.8</td>
<td>2.2</td>
<td>2.7</td>
<td>3.4</td>
<td>3.3</td>
</tr>
</tbody>
</table>
## Major Changes in Projected Outlays From 2022 to 2032

<table>
<thead>
<tr>
<th>Outlays</th>
<th>Change</th>
<th>Major Reasons for Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2022</td>
<td>2032</td>
</tr>
<tr>
<td>Social Security</td>
<td>4.9</td>
<td>5.9</td>
</tr>
<tr>
<td>Major Health Care Programs</td>
<td>5.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Other Mandatory Spending</td>
<td>4.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Discretionary Spending</td>
<td>7.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Net Interest</td>
<td>1.6</td>
<td>3.3</td>
</tr>
</tbody>
</table>

- **Social Security**: Cost-of-living adjustments; aging of the population
- **Major Health Care Programs**: Rising costs of health care; aging of the population
- **Other Mandatory Spending**: Waning pandemic-related spending; inflation rate is less than nominal GDP growth
- **Discretionary Spending**: Inflation rate is less than nominal GDP growth; waning pandemic-related spending
- **Net Interest**: Rising interest rates; accumulating debt
Changes in CBO’s Baseline Projections of the 10-Year Deficit Since July 2021

The cumulative deficit for 2022 to 2031 is $2.4 trillion larger in CBO’s current baseline projections than it was in the agency’s July 2021 projections. Legislative changes account for most of that increase. Revenue increases, which reduce deficits, were mostly offset by economic changes that increased outlays, particularly those for interest and Social Security.
Policy Alternatives
Under a scenario in which appropriations grew with nominal GDP, discretionary outlays as a share of the economy would remain relatively steady. Under the other three scenarios, including the scenario underlying CBO’s baseline budget projections, outlays would fall to or below recent historical lows as a percentage of GDP.
### Budgetary Effects of Selected Alternative Assumptions About Future Revenue Policies

Billions of Dollars

<table>
<thead>
<tr>
<th>Policy Description</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
<th>2031</th>
<th>2032</th>
<th>Total, 2023–2032</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extend the 2017 Tax Act’s Changes to Individual Income Tax Provisions</td>
<td>0</td>
<td>*</td>
<td>*</td>
<td>-6</td>
<td>-167</td>
<td>-301</td>
<td>-295</td>
<td>-307</td>
<td>-317</td>
<td>-328</td>
<td>-342</td>
<td>-2,064</td>
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<tr>
<td>Extend Higher Estate and Gift Tax Exemptions</td>
<td>0</td>
<td>0</td>
<td>*</td>
<td>-1</td>
<td>-2</td>
<td>-13</td>
<td>-15</td>
<td>-16</td>
<td>-17</td>
<td>-18</td>
<td>-20</td>
<td>-102</td>
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<tr>
<td>Extend Expiring Tax Provisions Other Than Those From the 2017 Tax Act</td>
<td>0</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-11</td>
<td>-14</td>
<td>-16</td>
<td>-16</td>
<td>-17</td>
<td>-18</td>
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<td>-123</td>
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<td>Retroactively Extend Certain Expired Tax Provisions</td>
<td>0</td>
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<td>-2</td>
<td>-2</td>
<td>-2</td>
<td>-3</td>
<td>-4</td>
<td>-5</td>
<td>-5</td>
<td>-6</td>
<td>-7</td>
<td>-37</td>
</tr>
<tr>
<td>Extend Trade Promotion Programs</td>
<td>0</td>
<td>-2</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-11</td>
</tr>
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</table>

Data sources: Congressional Budget Office; staff of the Joint Committee on Taxation. See [www.cbo.gov/publication/57950#data](http://www.cbo.gov/publication/57950#data).