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# The 2020 Budget and Economic Outlook

A Presentation to the Tax Council Policy Institute

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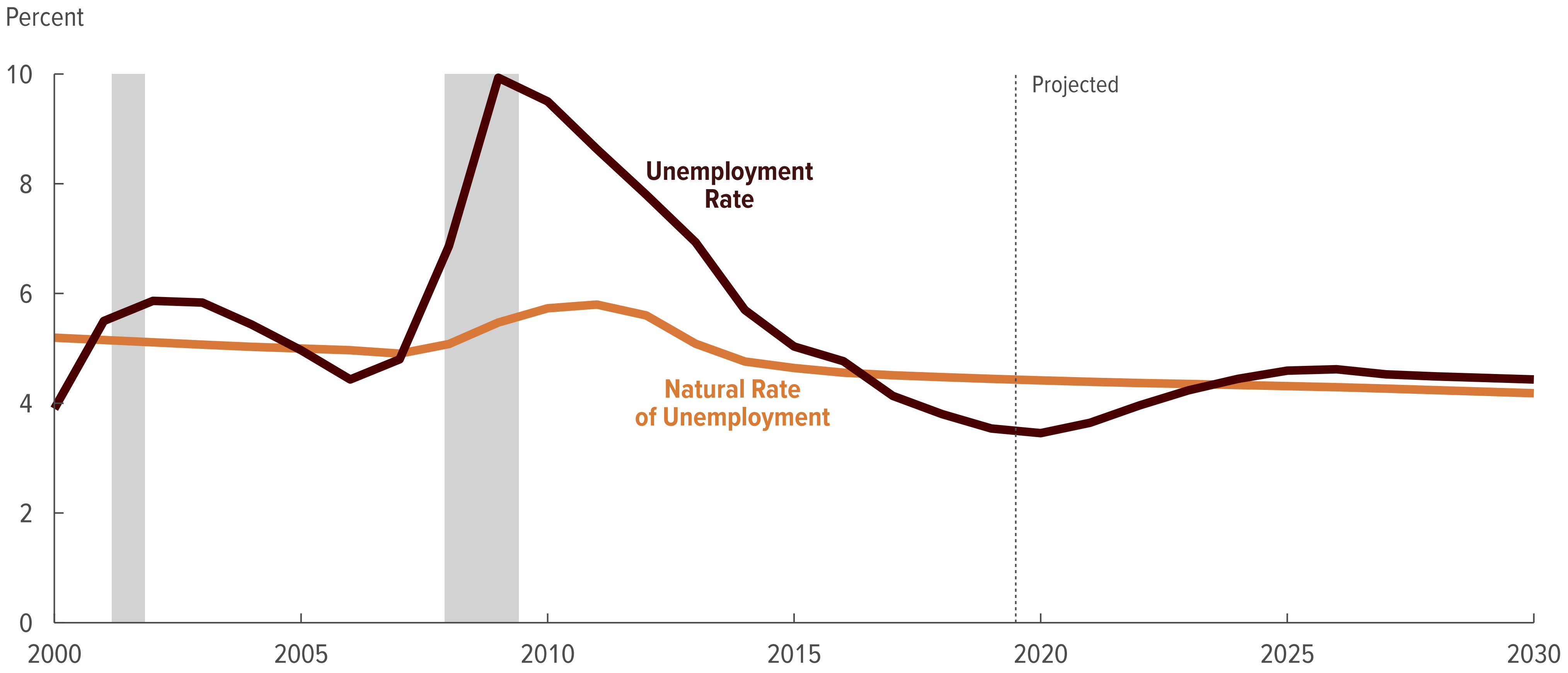
For more details, see www.cbo.gov/publication/56020.

# The Economy

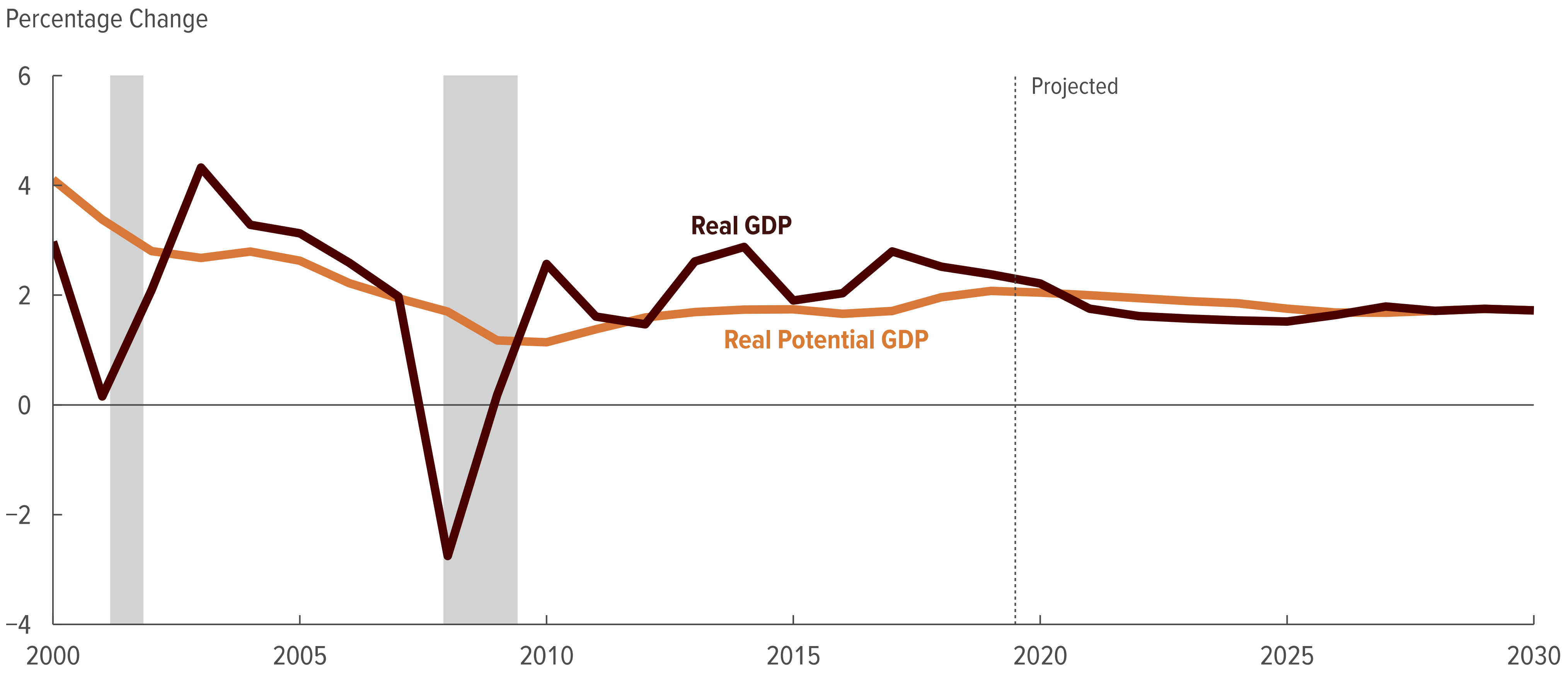
# We expect the unemployment rate to remain near historic lows throughout 2020



# Gains in hourly wages have been especially strong for low-wage earners since late 2016

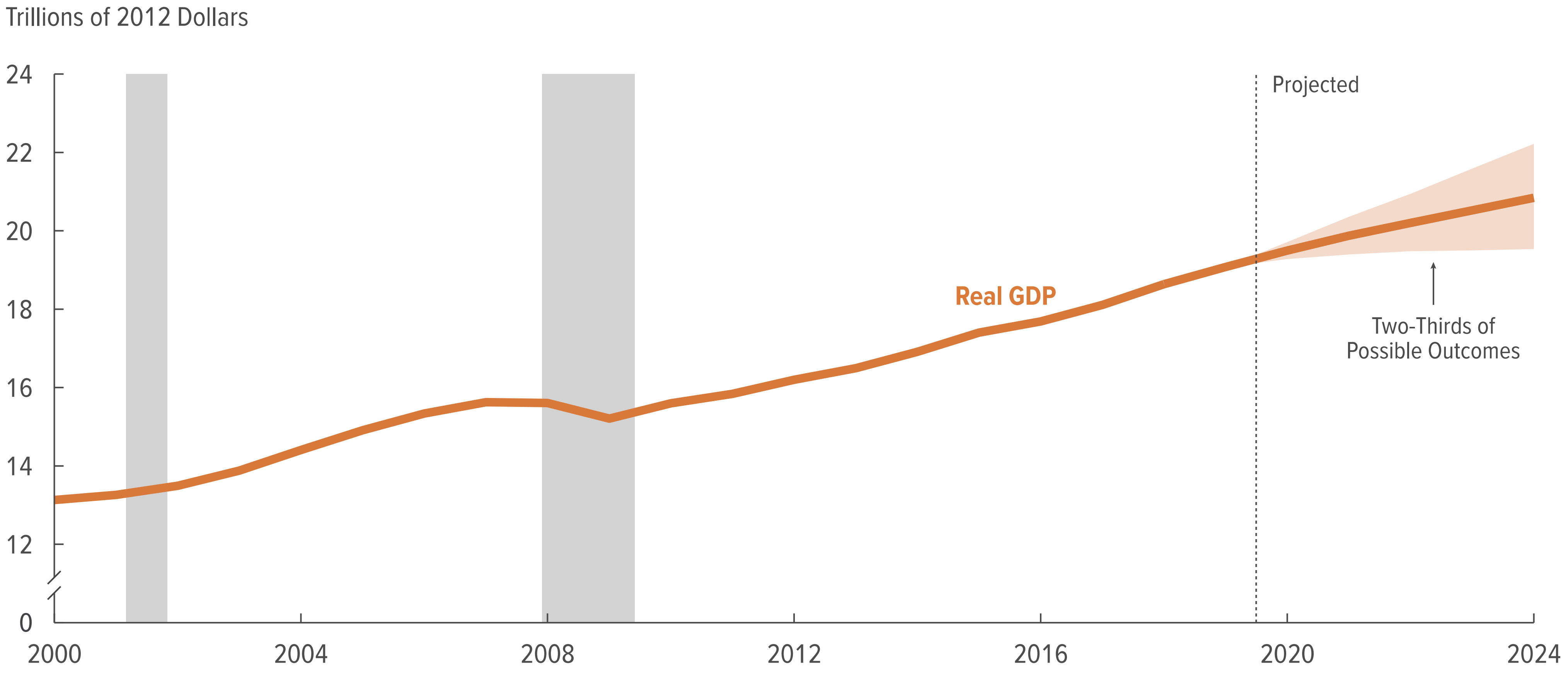

Source: Federal Reserve Bank of Atlanta, "Wage Growth Tracker" (accessed February 11, 2020), www.frbatlanta.org/chcs/wage-growth-tracker.

# GDP is projected to grow by 2.2 percent in 2020

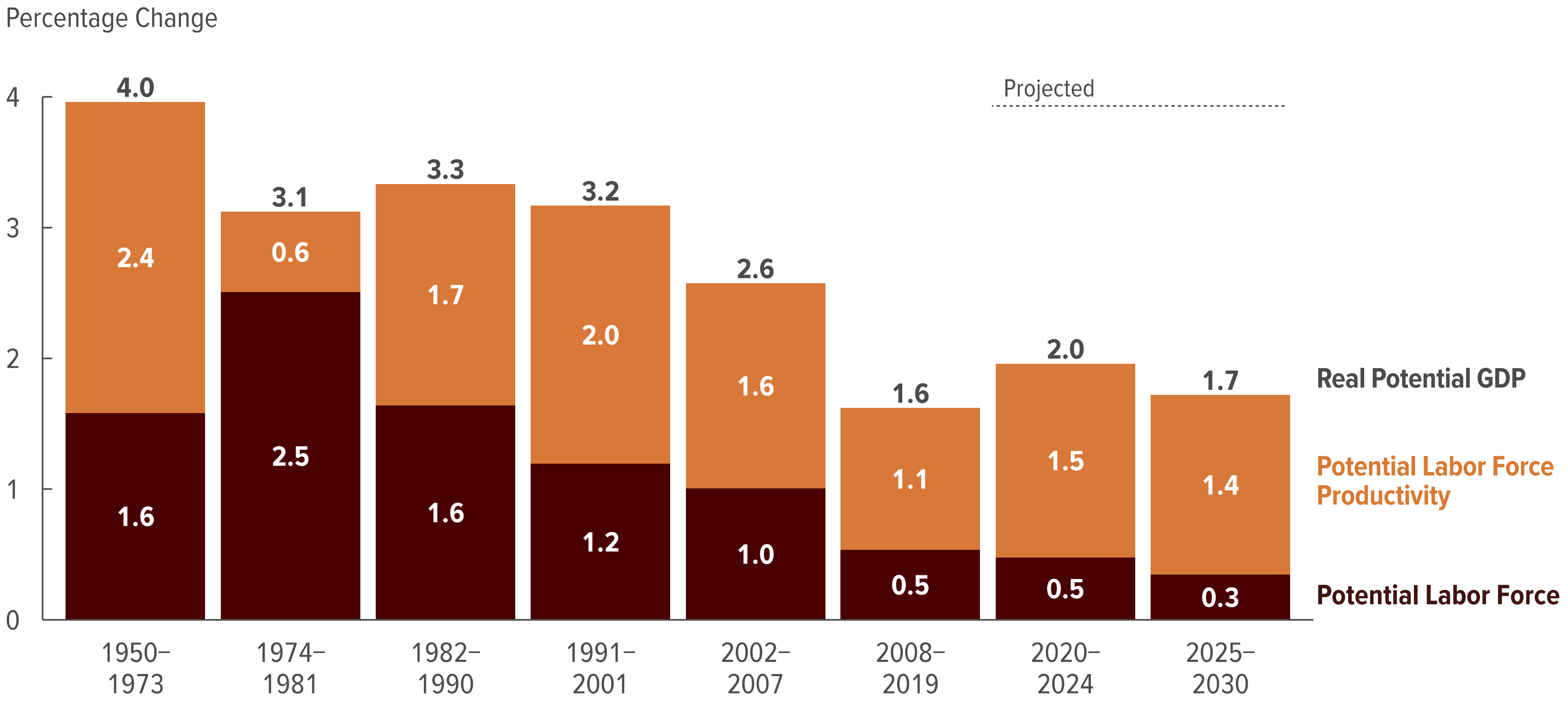



GDP = gross domestic product.

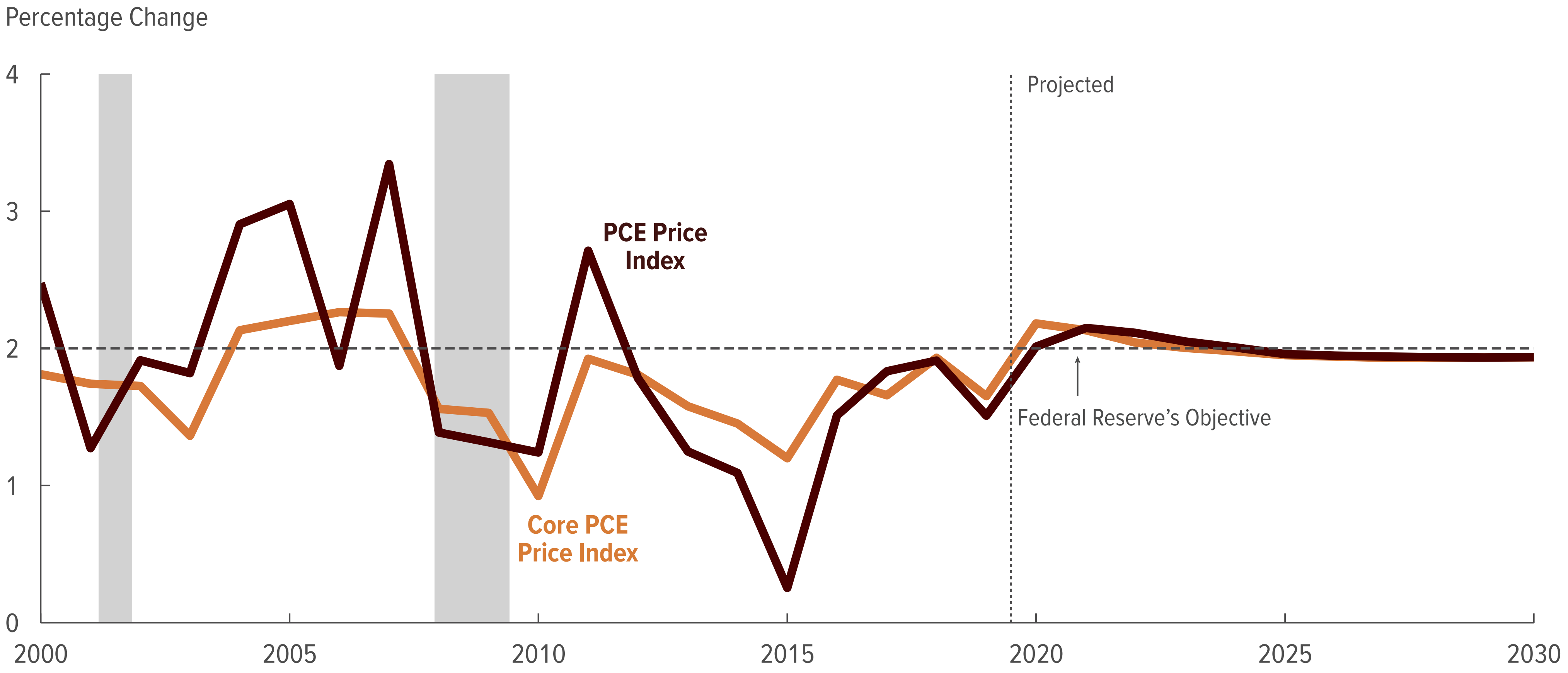
# We estimate a two-thirds chance that real GDP growth over the next five years averages between 0.5 percent and 3.1 percent annually



# Maximum sustainable output growth is projected to be faster than it was from 2008 to 2019 and slower than it was in earlier years

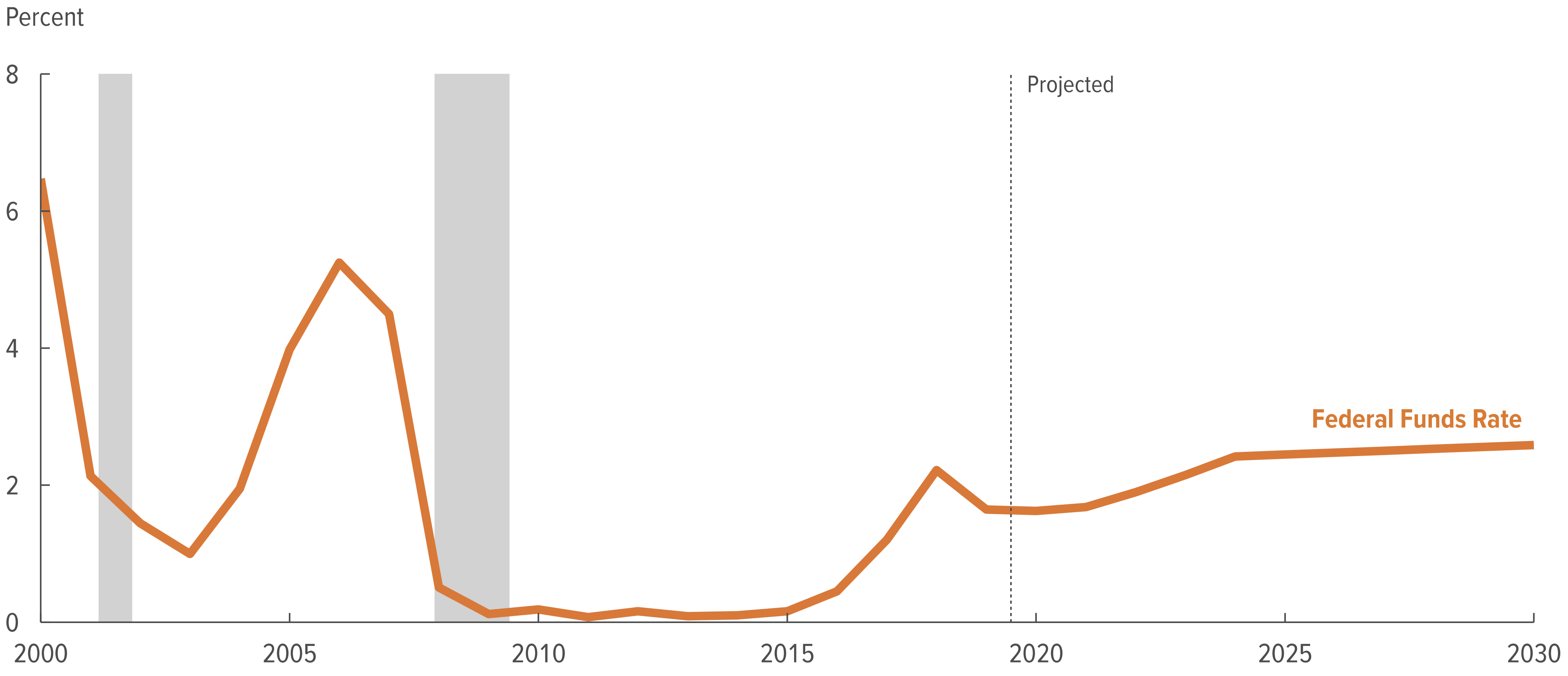


# We expect strong labor and product markets to contribute to faster inflation in 2020

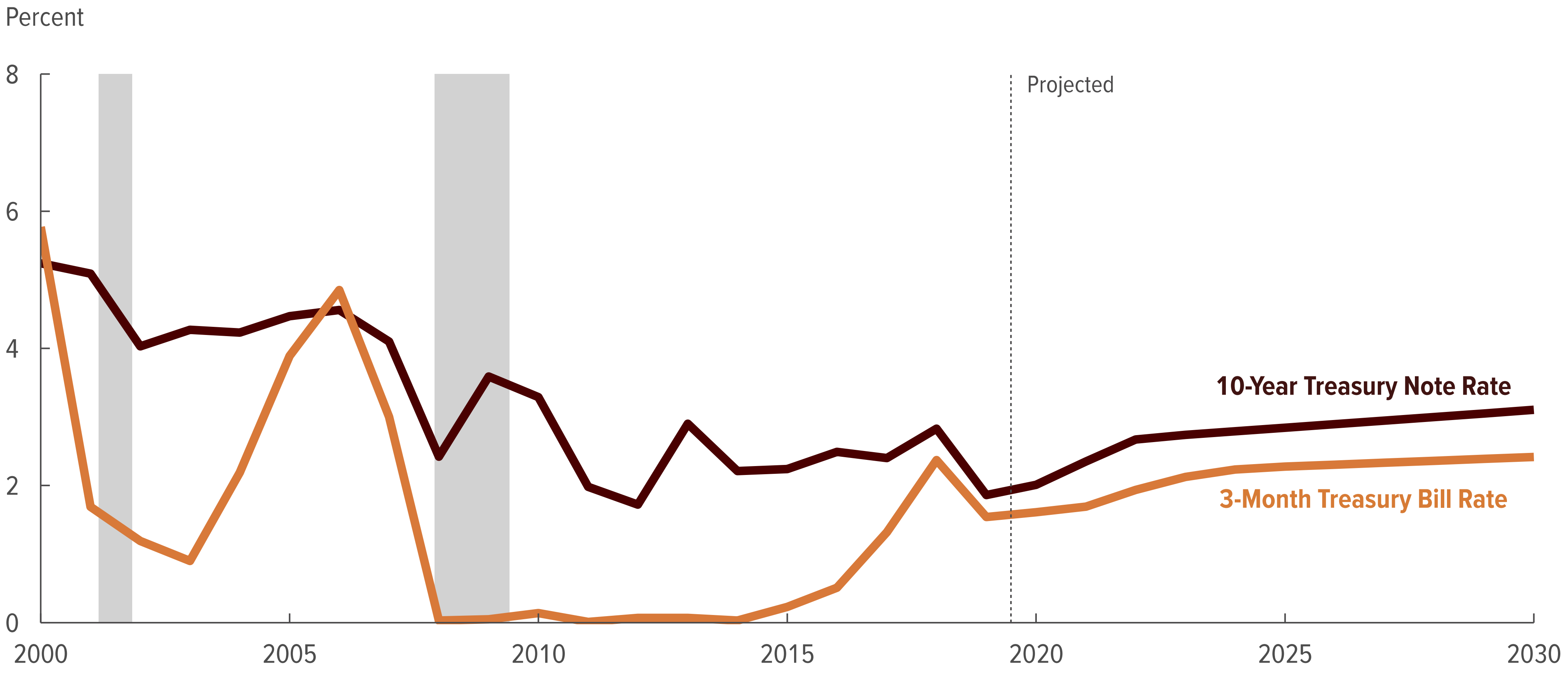



PCE = personal consumption expenditures.

# In our projections, the Federal Reserve begins raising the target range for the federal funds rate to ease inflationary pressures

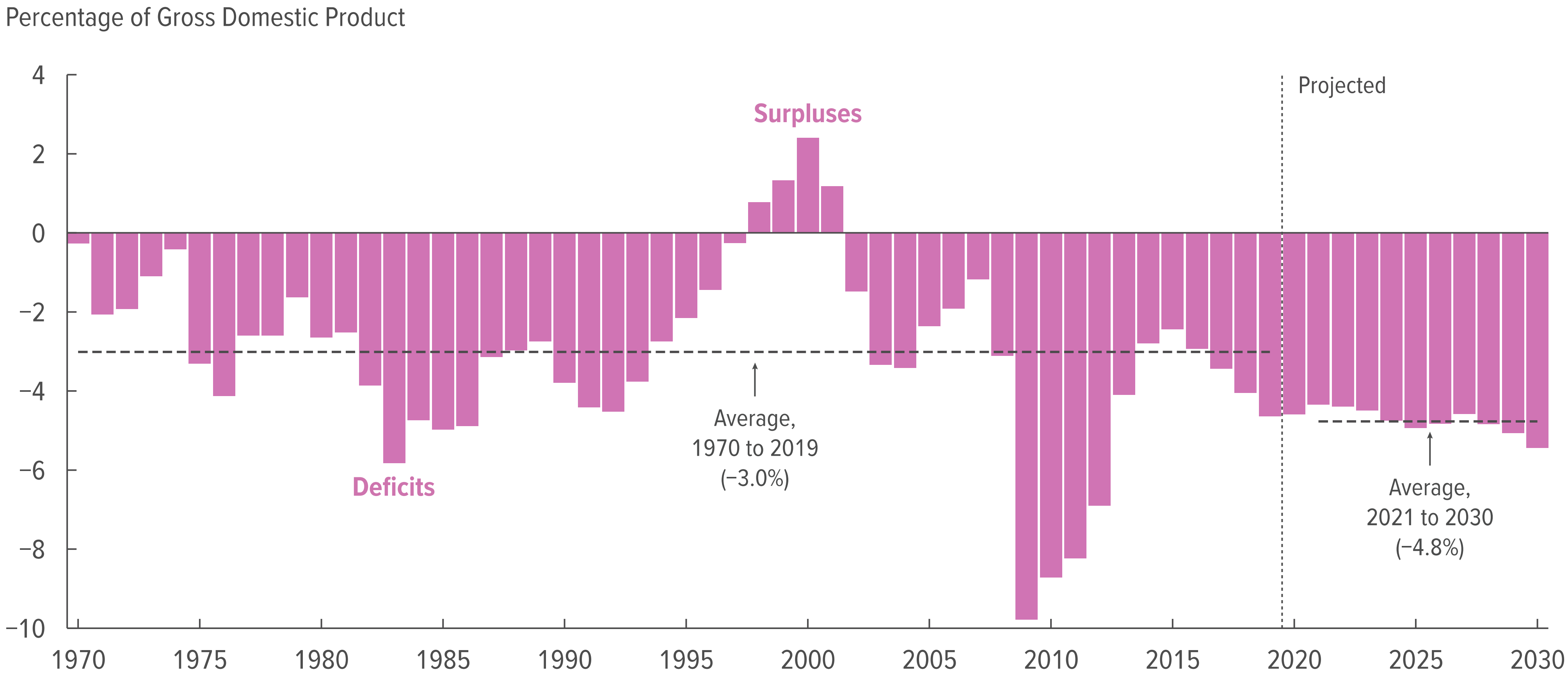


# We expect other interest rates to rise, following a path similar to that of the federal funds rate



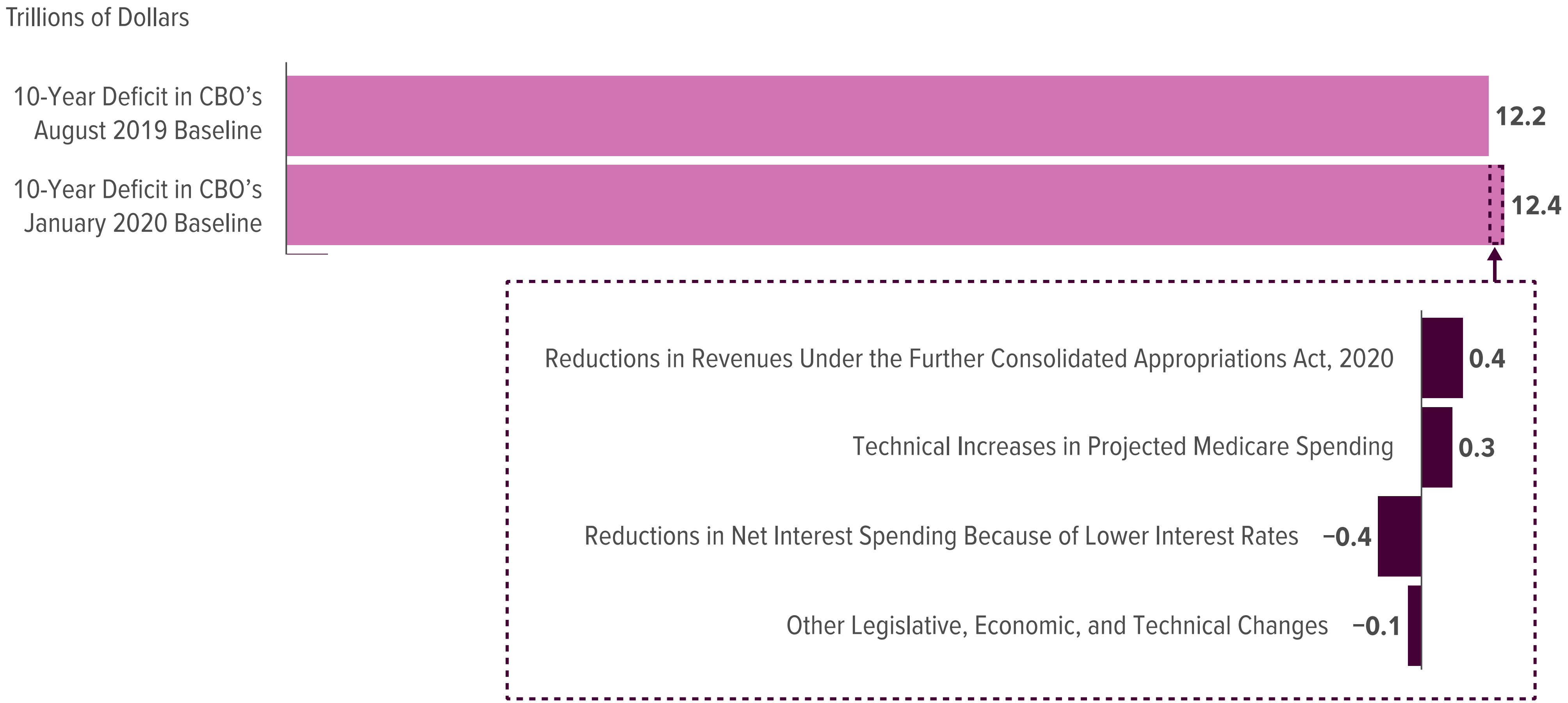
# The Budget

# We project a cumulative federal budget deficit of $12.4 trillion from 2020 to 2029




When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts.

# That estimate is $160 billion higher than we projected last August



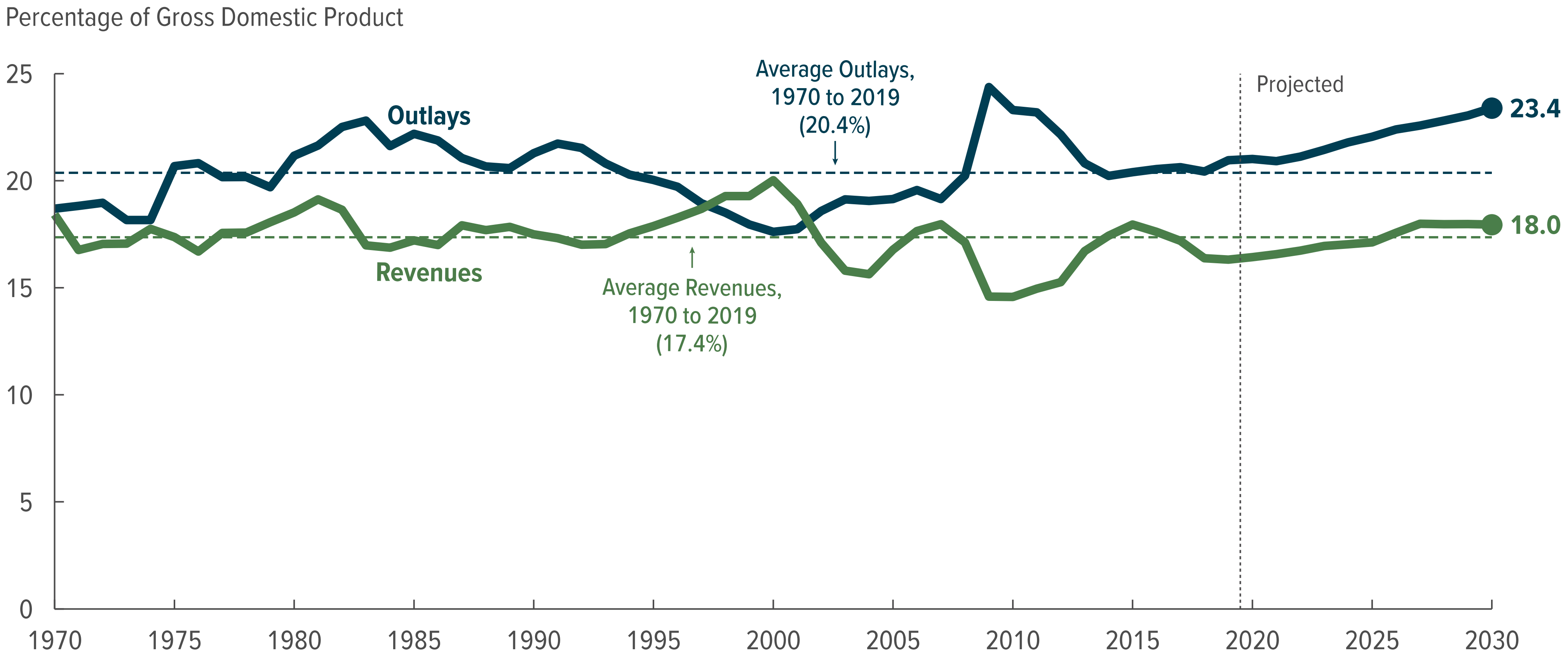
# We reduced our projections of corporate income tax receipts during the 2020–2029 period by $127 billion

The largest of those revisions are related to:

- Certain provisions of the 2017 tax act related to international business activities
- A onetime tax that the act imposed on the existing foreign earnings of U.S. corporations
- A rule in the act about research and experimentation expenditures
- New information about corporate profits during the 2016–2018 period

See Congressional Budget Office, "Recent Changes in CBO's Projections of Corporate Income Tax Revenues," *CBO Blog* (February 7, 2020), www.cbo.gov/publication/56121.

# The gap between spending and revenues grows in our projections




When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts.

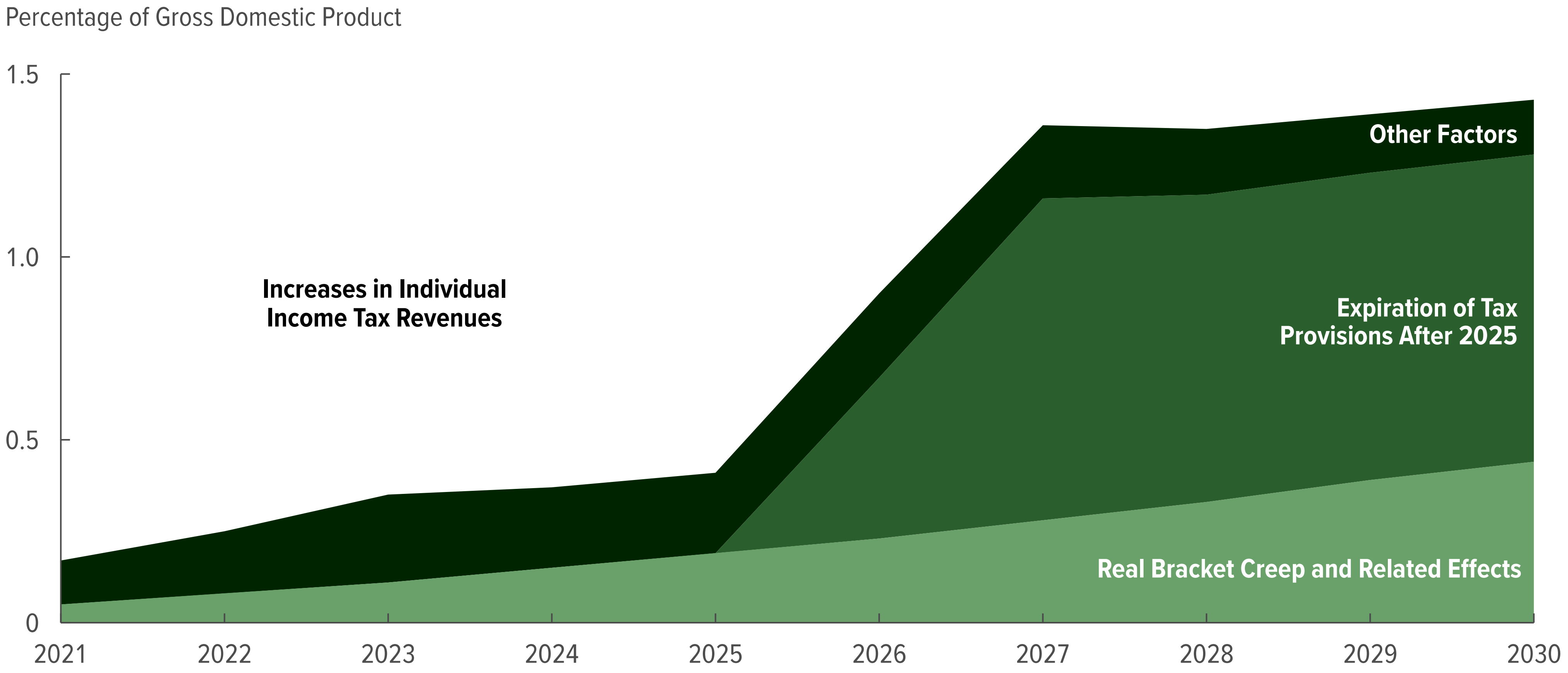
# Total revenues as a share of GDP are projected to rise, largely because of increasing receipts from individual income taxes

Percentage of Gross Domestic Product

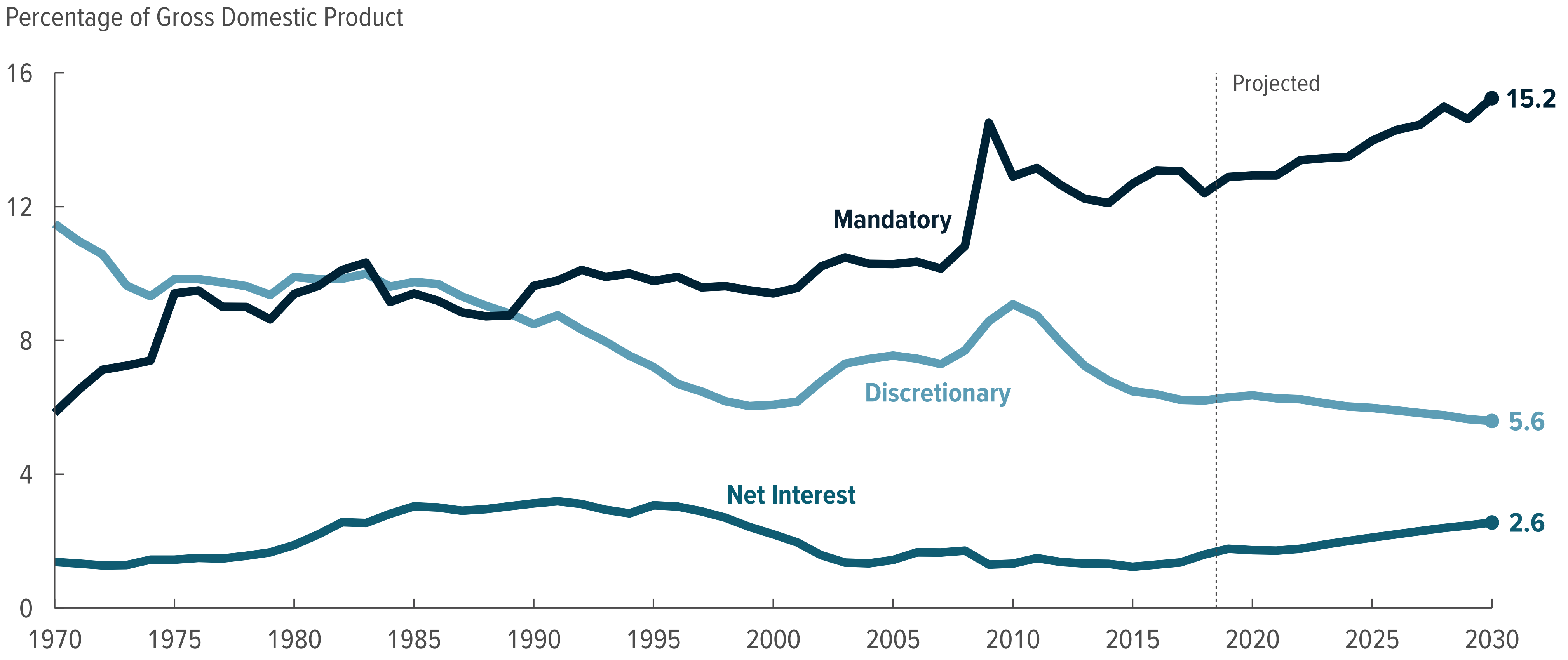
| | Revenues 2020 | Revenues 2030 | Change (Percentage points) | Major Reasons for Change |
|---|---|---|---|---|
| Individual Income Taxes | 8.1 | 9.5 | 1.4 | Expiration of certain provisions of the 2017 tax act after 2025; real bracket creep |
| Payroll Taxes | 5.9 | 5.9 | * | Not applicable |
| Corporate Income Taxes | 1.1 | 1.3 | 0.2 | Scheduled changes in tax rules enacted in the 2017 tax act |
| Other Taxes | 1.4 | 1.2 | −0.1 | Repeal of a tax on health insurance providers |

* = between zero and 0.05 percentage points.

# Much of the growth of revenues in our projections stems from the expiration of tax provisions



# Increases in projected outlays stem from growth in mandatory spending and in net interest costs



# Social Security and Medicare are projected to contribute the most to growth in mandatory spending

Percentage of Gross Domestic Product

| | Outlays 2020 | Outlays 2030 | Change (Percentage points) | Major Reasons for Change |
|---|---|---|---|---|
| Social Security | 4.9 | 6.0 | 1.1 | Aging of the population |
| Major Health Care Programs[a] | 5.4 | 7.0 | 1.6 | Aging of the population; rising costs of health care |
| Other Mandatory Spending | 2.6 | 2.2 | −0.4 | Inflation rate is less than nominal GDP growth |
| Discretionary Spending | 6.4 | 5.6 | −0.8 | Caps on funding; inflation rate is less than nominal GDP growth |
| Net Interest | 1.7 | 2.6 | 0.8 | Accumulating debt; rising interest rates |

a. Consists of outlays for Medicare (net of premiums and other offsetting receipts), Medicaid, the Children's Health Insurance Program, premium tax credits, and related spending.

# Spending and taxes in 2030 are projected to be very different from what they were 50 years ago

Percentage of Gross Domestic Product

| | Mandatory Outlays | | | Discretionary Outlays | | | |
|---|---|---|---|---|---|---|---|
| | Social Security | Major Health Care Programs | Other | Defense | Nondefense | Net Interest | Total Outlays |
| 1970 | 2.8 | 0.8 | 2.2 | 7.8 | 3.7 | 1.4 | 18.7 |
| 1995 | 4.4 | 3.2 | 2.1 | 3.6 | 3.6 | 3.1 | 20.0 |
| 2020 | 4.9 | 5.4 | 2.6 | 3.2 | 3.2 | 1.7 | 21.0 |
| 2030 | 6.0 | 7.0 | 2.2 | 2.8 | 2.8 | 2.6 | 23.4 |

| | Revenues | | | | |
|---|---|---|---|---|---|
| | Individual Income Taxes | Payroll Taxes | Corporate Income Taxes | Other Revenues | Total Revenues |
| 1970 | 8.6 | 4.2 | 3.1 | 2.4 | 18.4 |
| 1995 | 7.8 | 6.4 | 2.1 | 1.6 | 17.9 |
| 2020 | 8.1 | 5.9 | 1.1 | 1.4 | 16.4 |
| 2030 | 9.5 | 5.9 | 1.3 | 1.2 | 18.0 |

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. That happened in 1994 and 1995, so values for 1995 have been adjusted to exclude the effects of those timing shifts.

# By 2050, debt is projected to equal 180 percent of GDP—far higher than it has ever been