



**Congressional Budget Office**

# **Federal Budget Challenges**

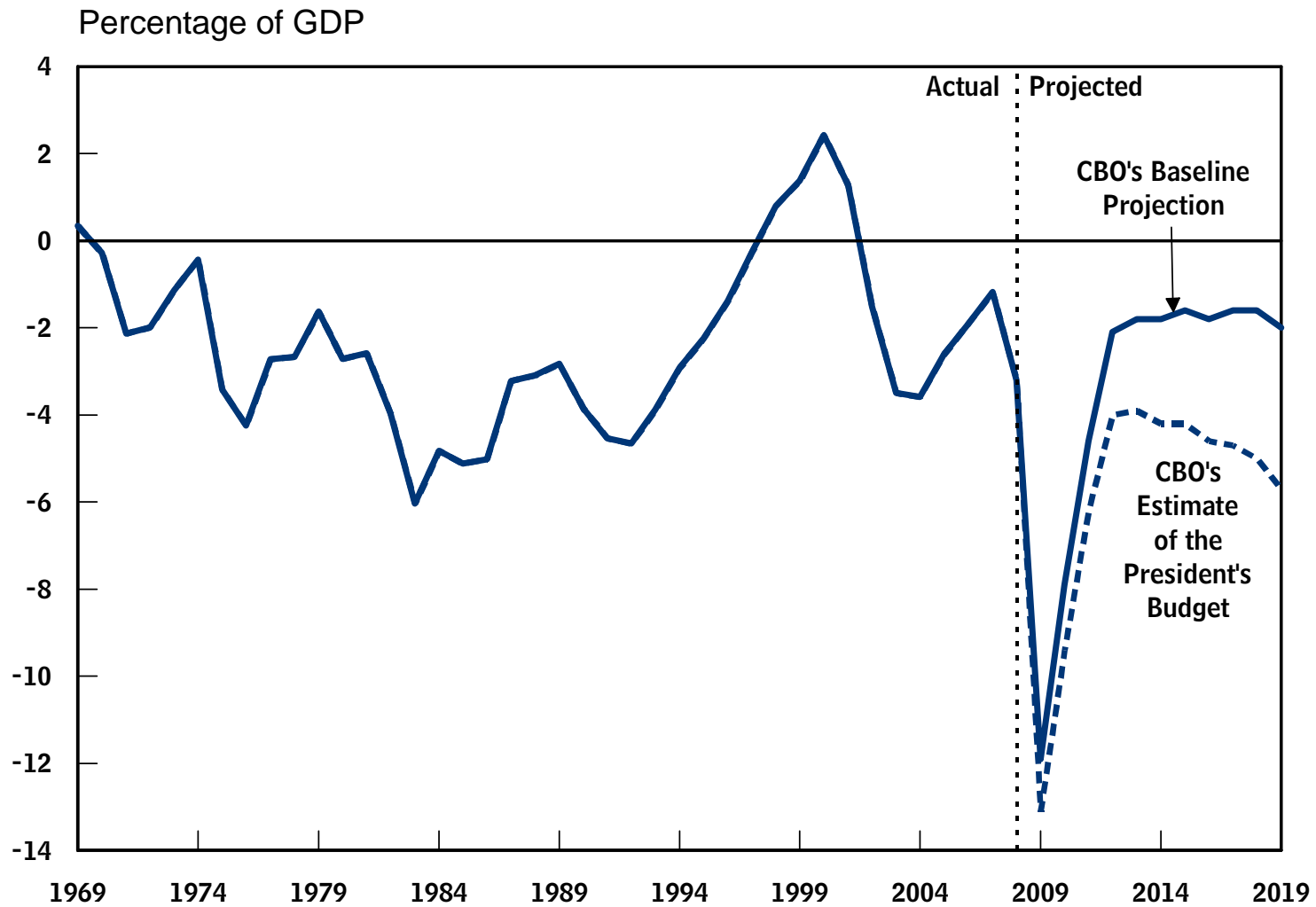
**Doug Elmendorf**

**Director**

**April 20, 2009**

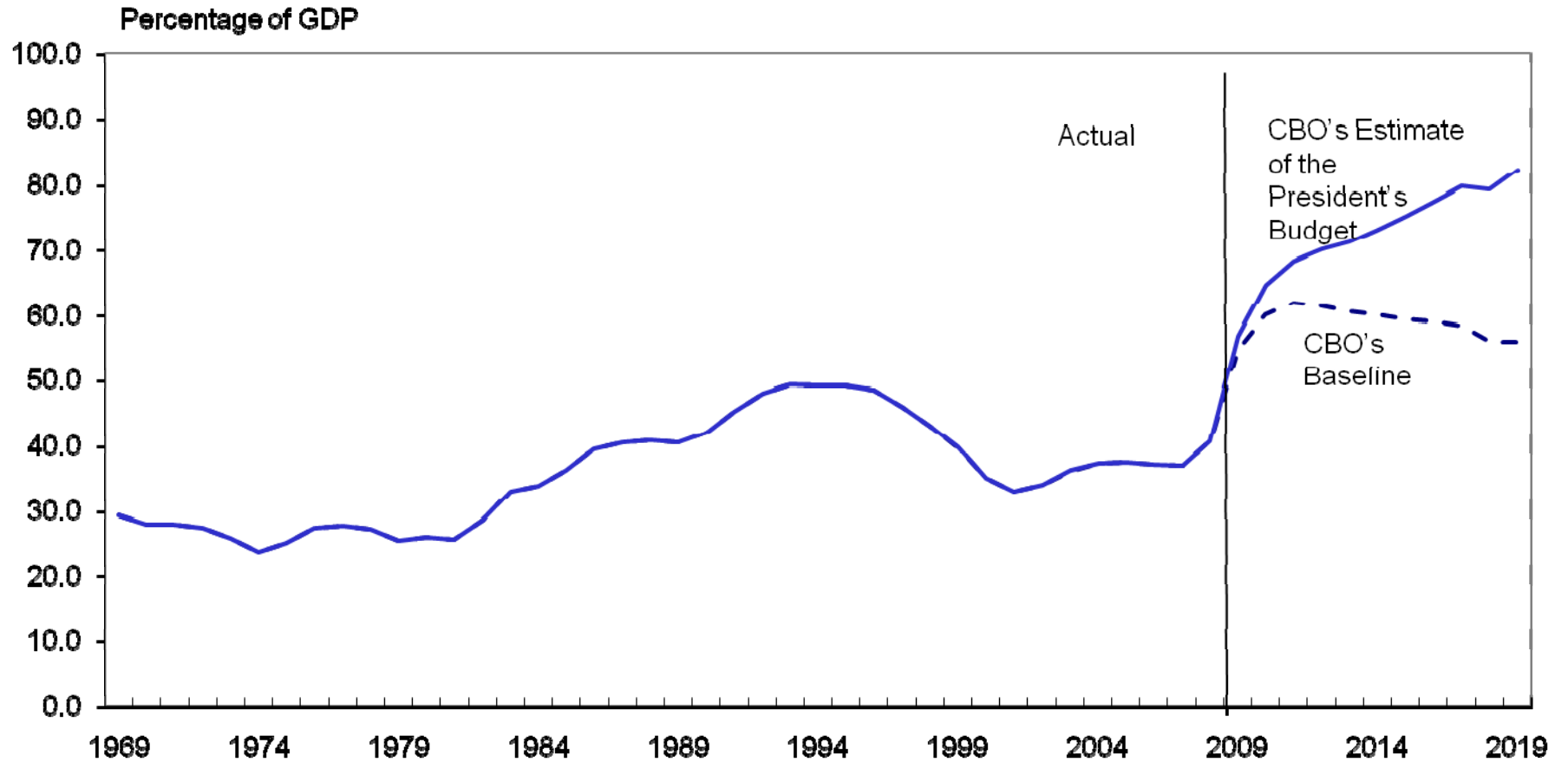


# Total Deficits or Surpluses



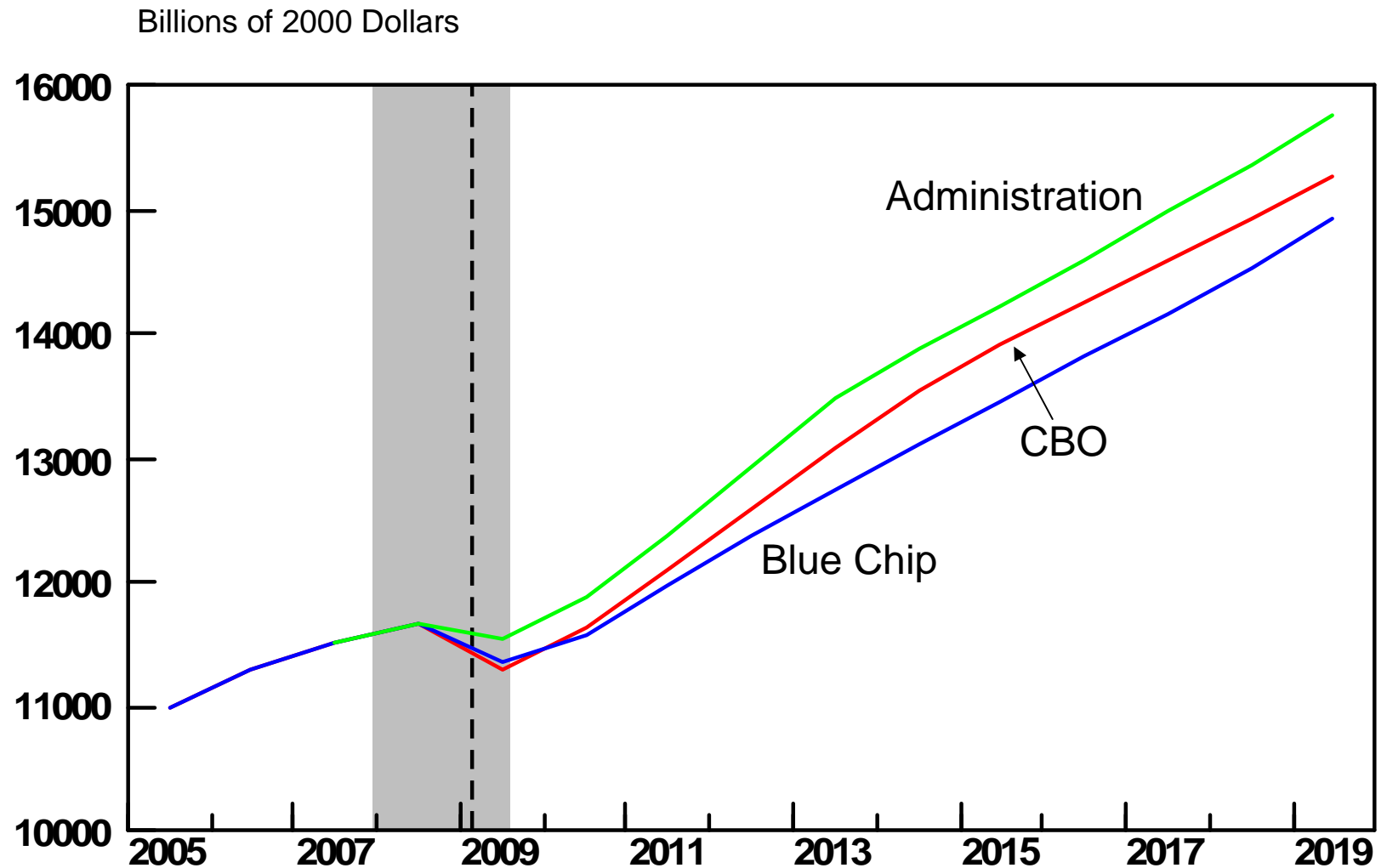


# Federal Debt Held by the Public



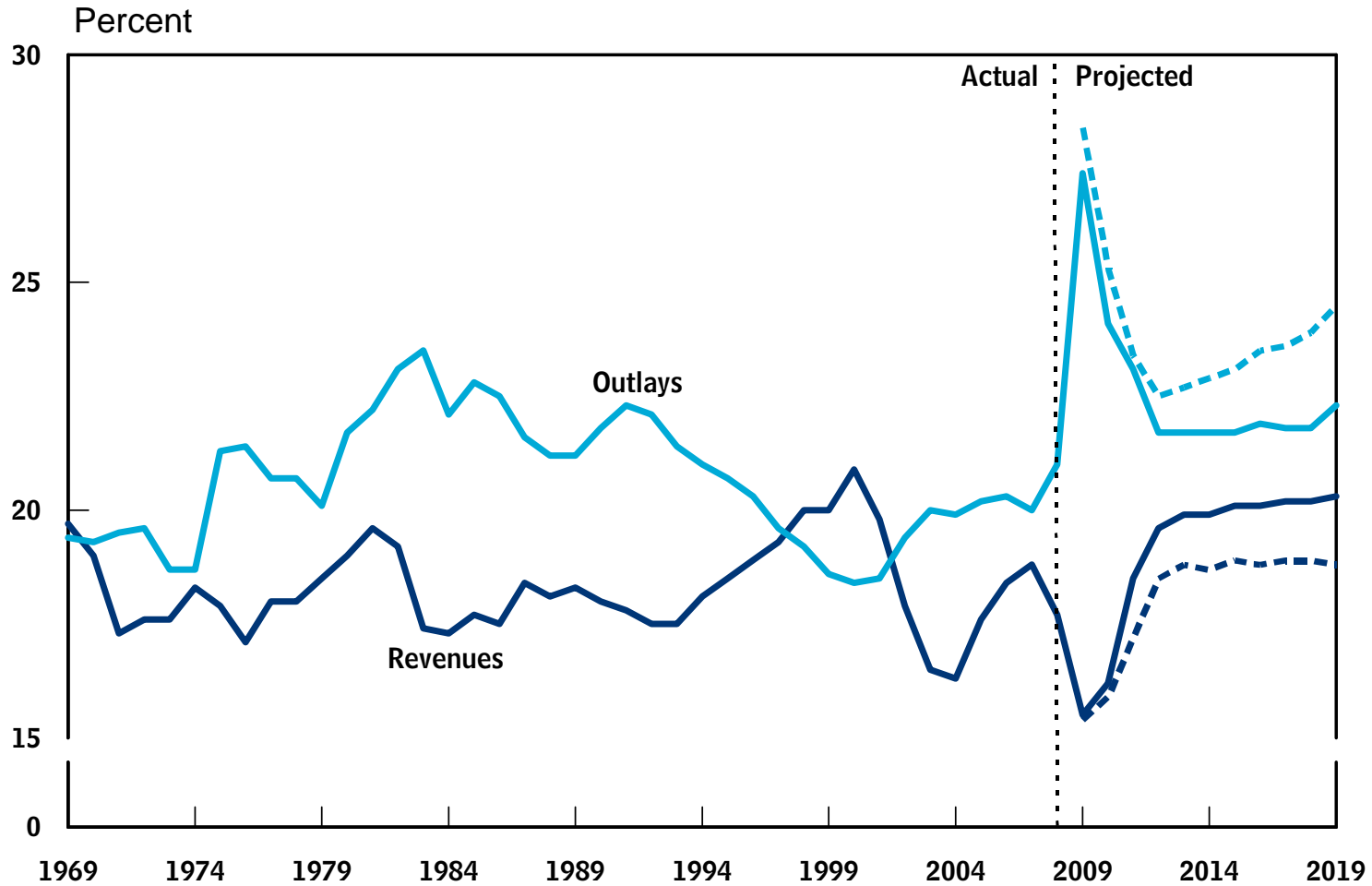


## Medium-Term Projections: Levels of Real GDP





# Revenues and Outlays in CBO's Baseline and CBO's Estimate of the President's Budget



Note: Solid lines represent history and CBO's baseline projection of revenues and outlays as a share of gross domestic product; dashed lines represent CBO's projection of the President's budget.

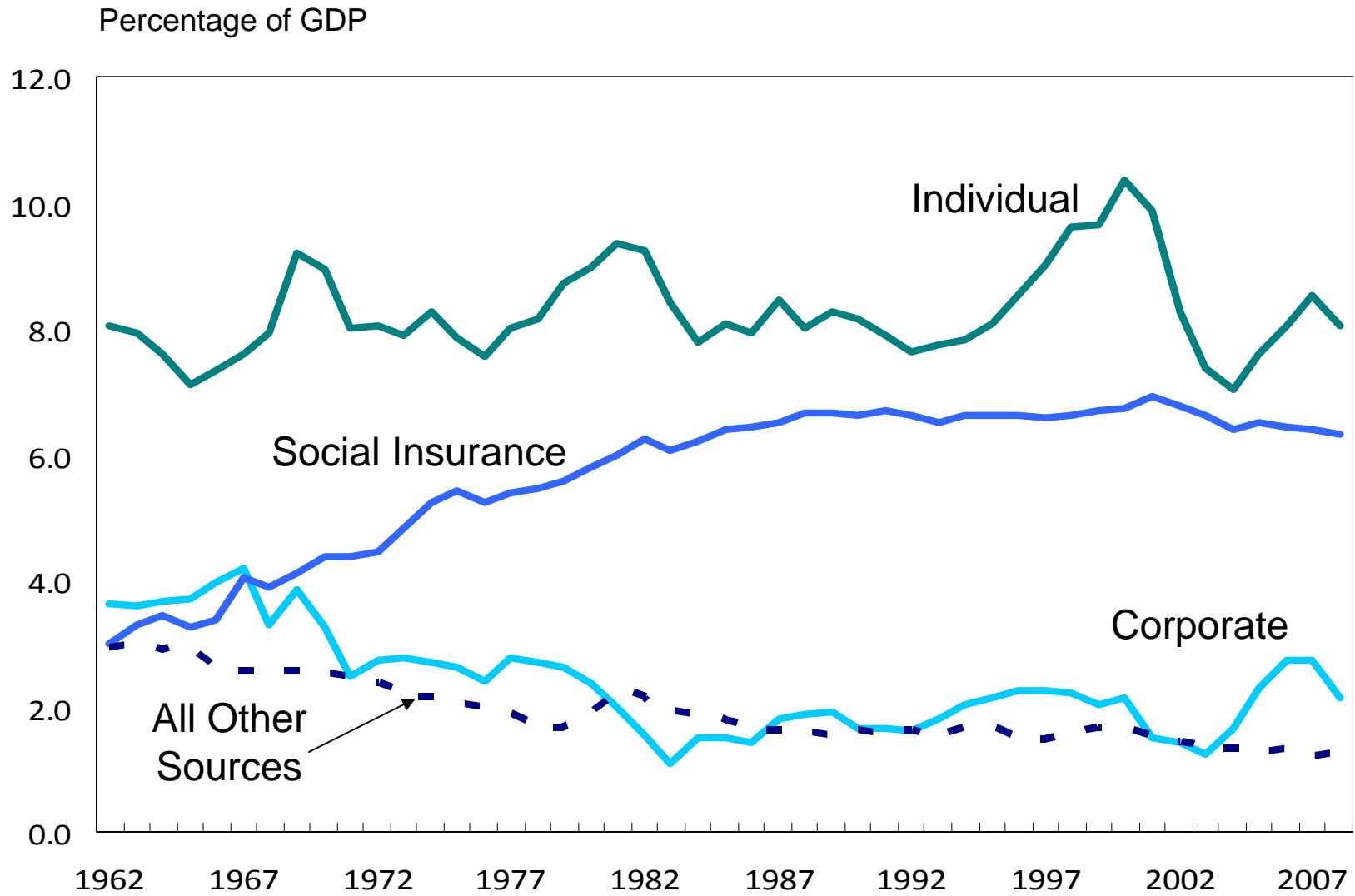


## Key Elements of the President's Budget as Estimated by CBO (2010 to 2019 totals)

- Revenue reduction: \$2.1 trillion.
  - Extend elements of 2001/2003 tax cuts: \$1.9 trillion.
  - Index AMT: \$450 billion.
  - Other proposals: \$250 billion *increase*.
  
- Programmatic outlay increase: \$1.7 trillion.
  - Refundable tax credits: \$500 billion.
  - Adjust Medicare physician payments: \$300 billion.
  - Defense discretionary: \$150 billion.
  - Other (about half nondefense discretionary): \$800 billion.
  
- Resulting net interest increase: \$1.0 trillion.



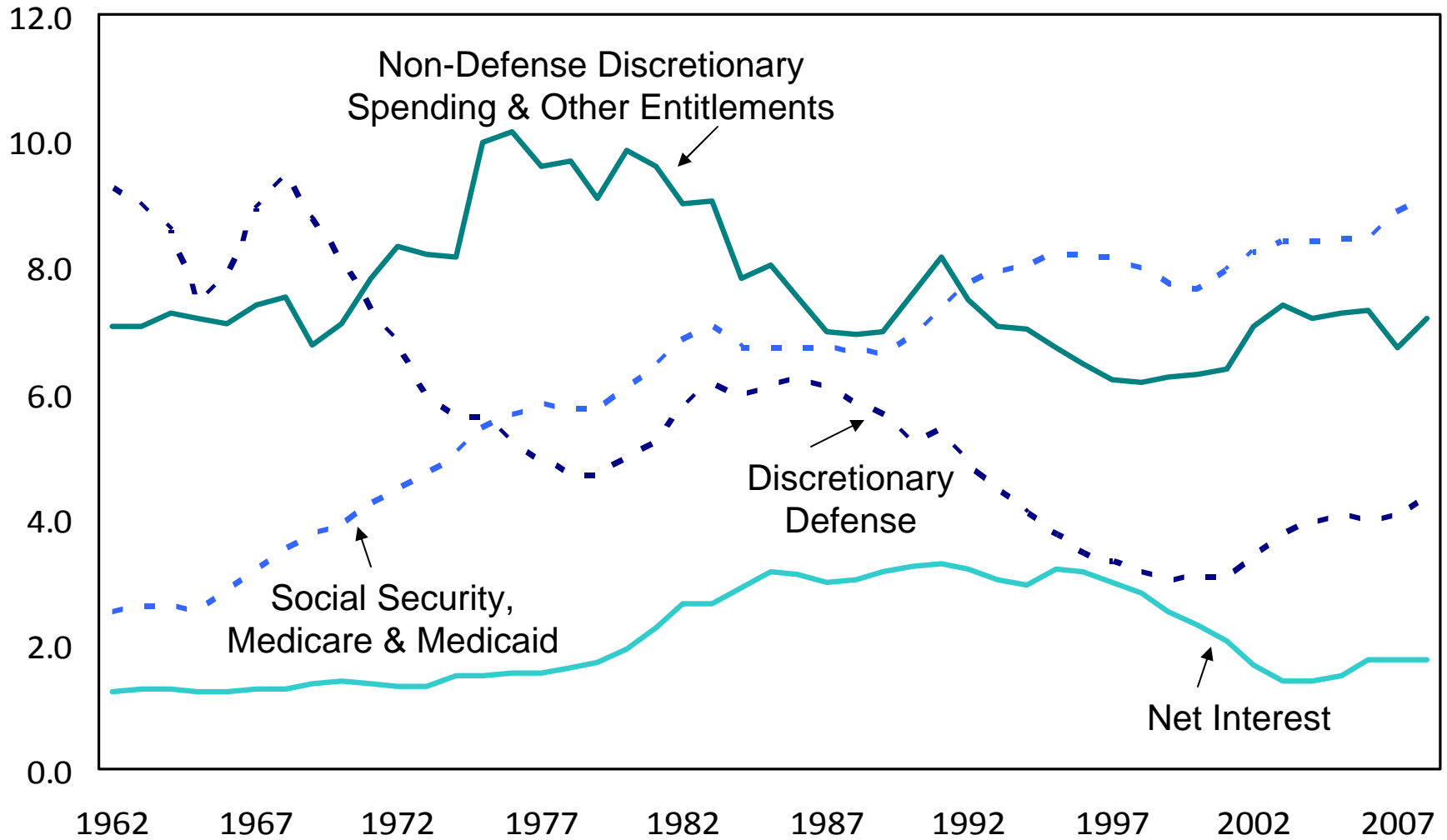
# Federal Revenue by Category





# Federal Outlays by Category

Percentage of GDP





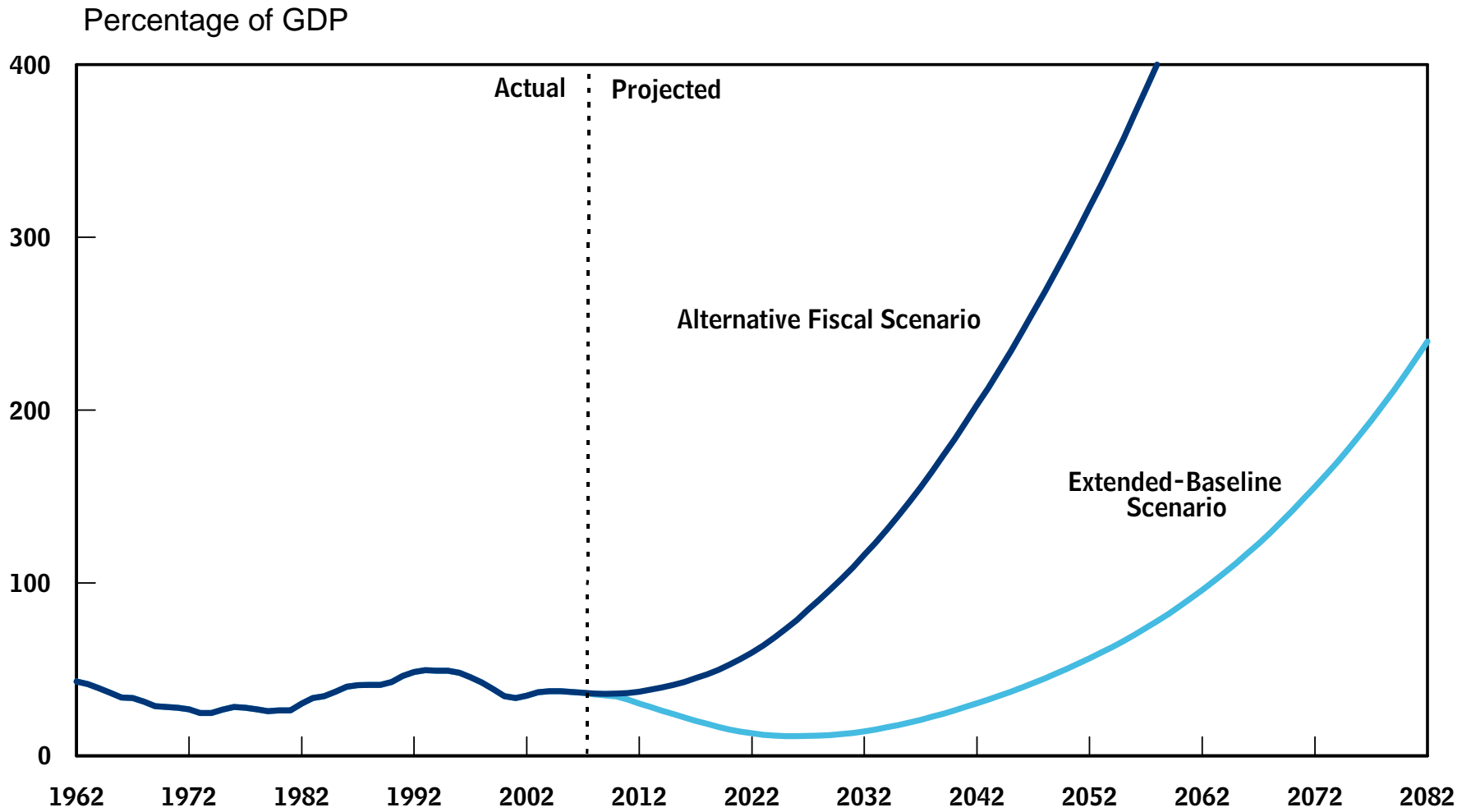


## President's Budget (as Estimated by CBO) in Historical Context

- In 2019, revenues close to pre-recession share of GDP and historical average share of GDP.
- In 2019, spending on all programs except Soc. Sec., Medicare, and Medicaid below pre-recession share of GDP and historical average share of GDP.
- But spending on Social Security, Medicare, and Medicaid continues to rise rapidly as share of GDP.
- Result: Budget deficits large and rising (and self-reinforcing through rising interest burden).



# Long-Term Projections from 2007: Federal Debt Held by the Public





## Projected Spending and Revenue Under CBO's Long-Term Budget Scenarios

(percentage of GDP)	<u>2007</u>	<u>2030</u>	<u>2082</u>
■ Extended-baseline scenario			
– Revenue	19	21	26
– Primary spending	18	22	33
– Total spending	20	22	44
■ Alternative fiscal scenario			
– Revenue	19	19	21
– Primary spending	18	24	35
– Total spending	20	29	75



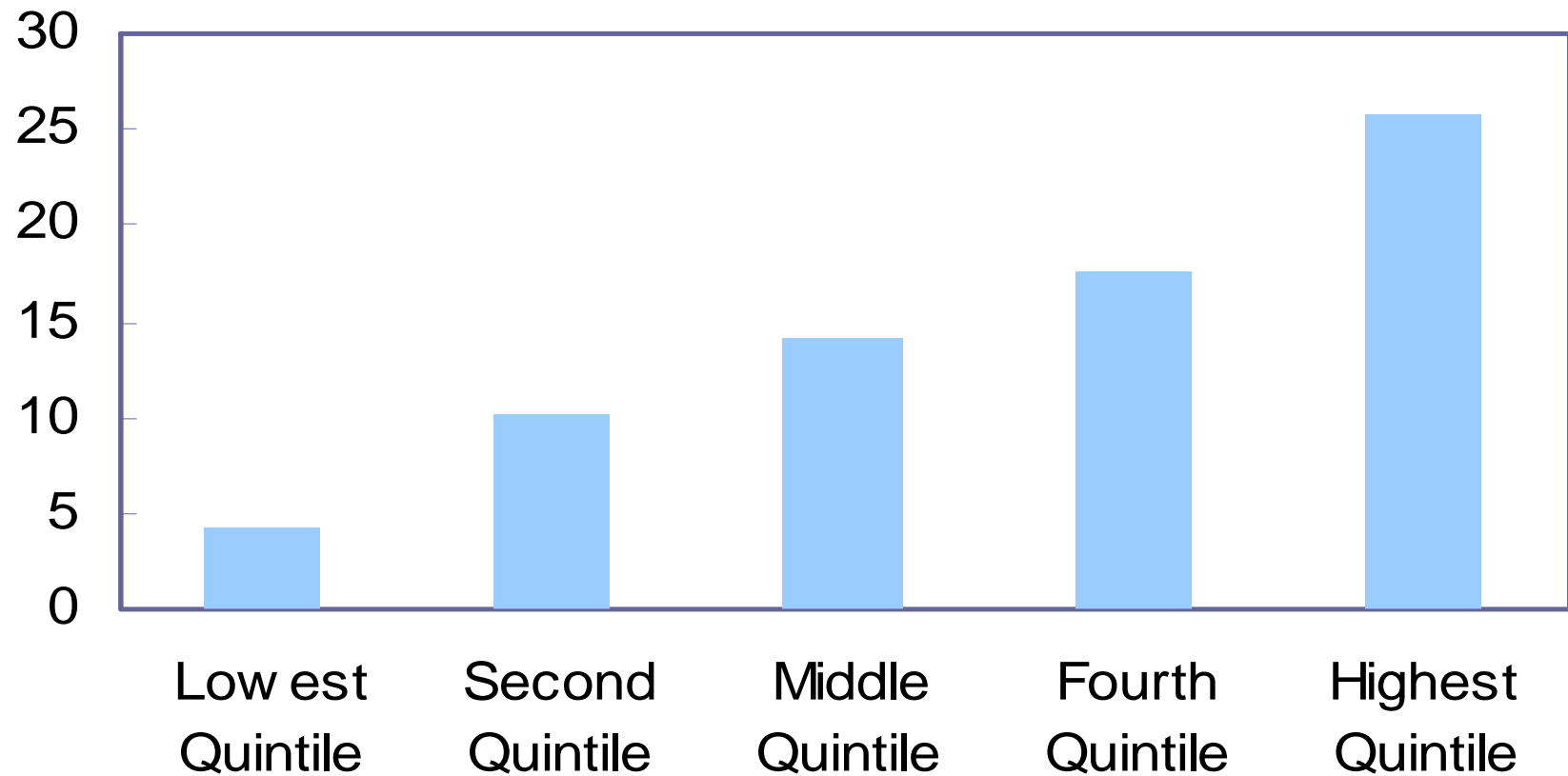
## Effective Marginal Federal Tax Rates Under CBO's Long-Term Budget Scenarios

(percent)	<u>2007</u>	<u>2082</u>
■ Extended-baseline scenario		
– Labor income	28	30
– Capital income	14	19
■ Alternative fiscal scenario		
– Labor income	28	29
– Capital income	14	16



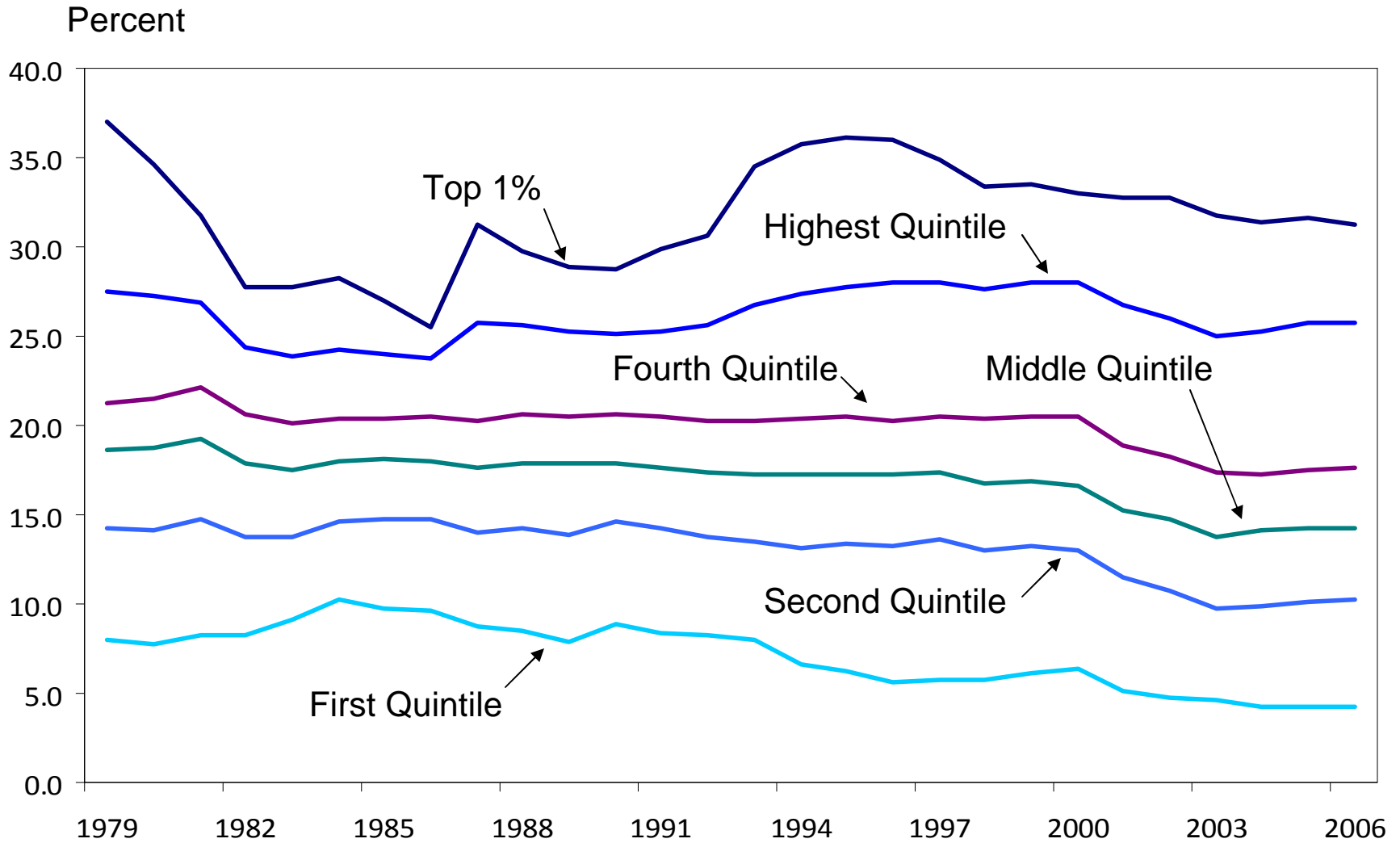
## Federal Tax Burden

Effective Federal Tax Rates (2006)



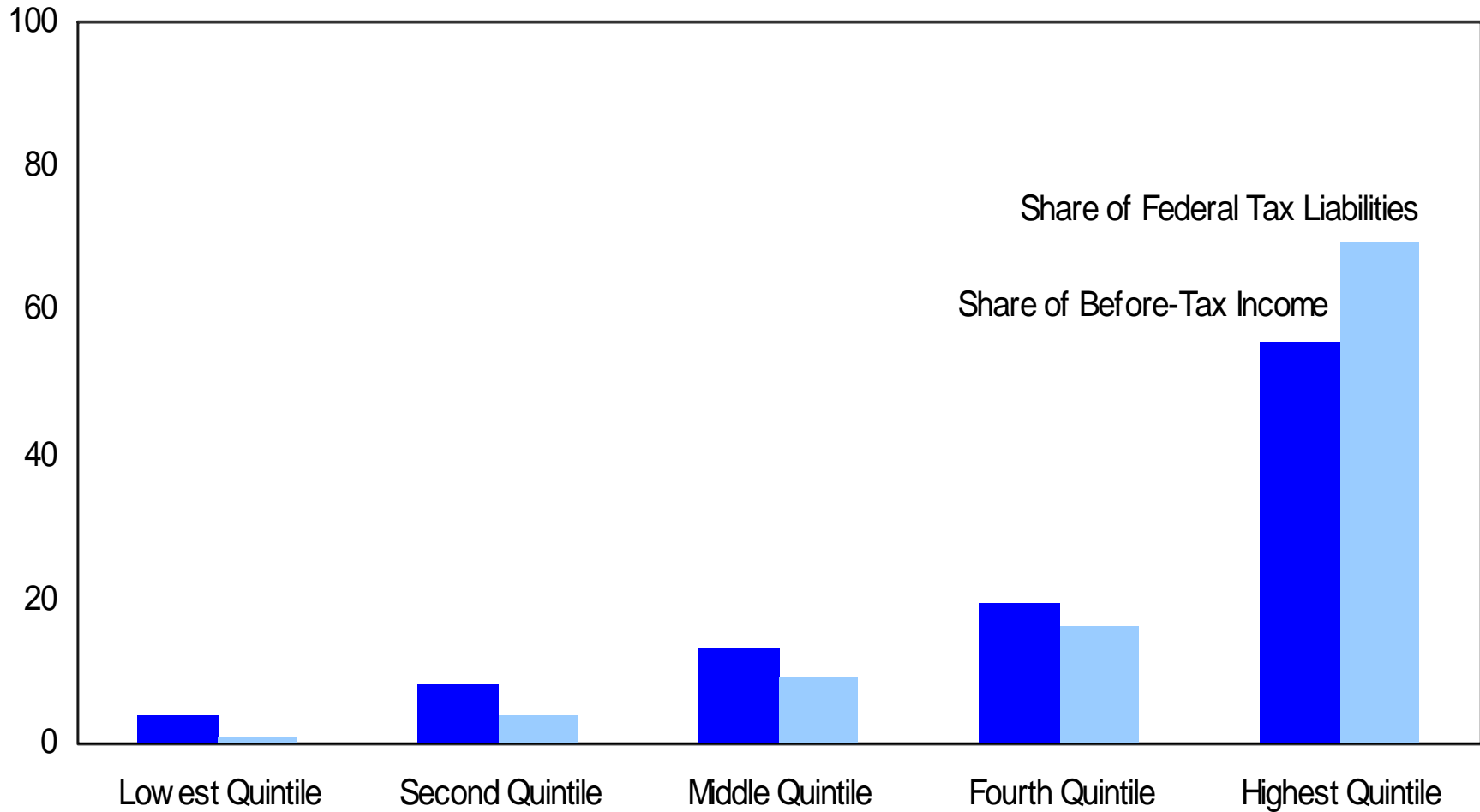


# Effective Federal Tax Rates Over Time



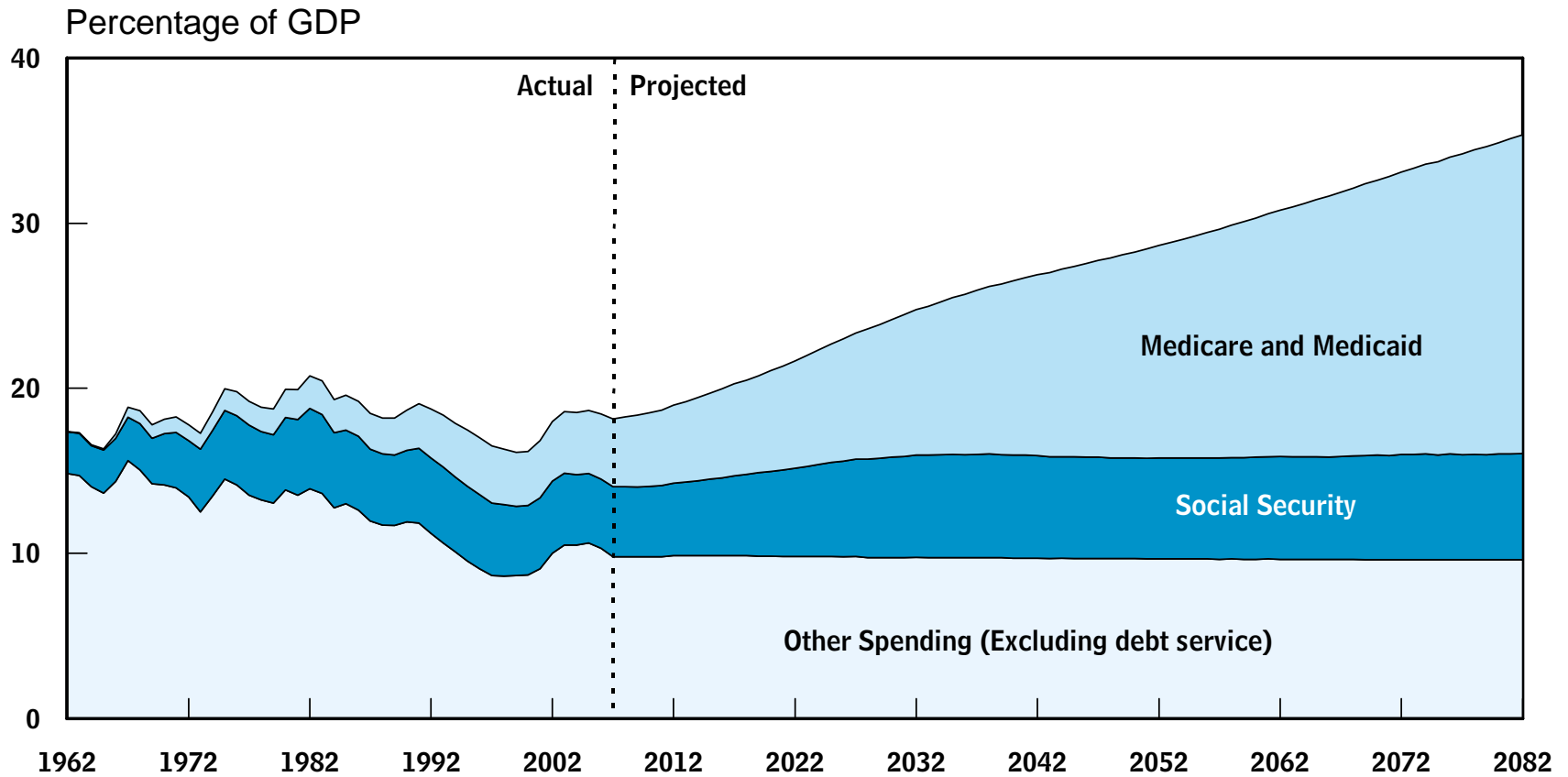


## Shares of Before-Tax Income and Federal Tax Liabilities, by Household Income Quintile





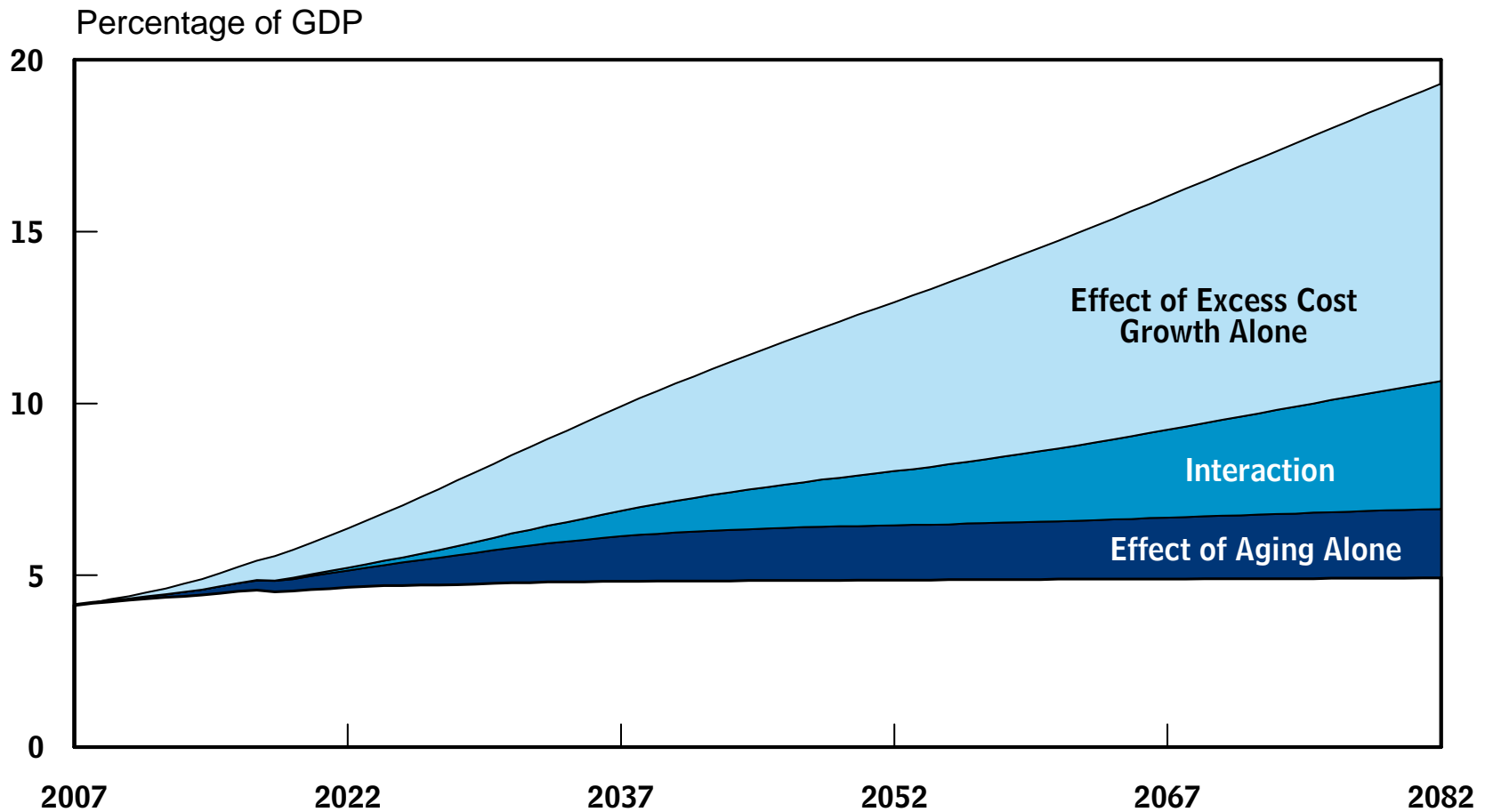
# Federal Spending Under CBO's Alternative Fiscal Scenario







## Sources of Growth in Projected Federal Spending on Medicare and Medicaid





## Medicare Spending per Beneficiary (By Hospital Referral Region, 2005)

