Table 2-4.

Key Assumptions in CBO's Projection of Potential Output

(Percent)

	Average Annual Growth						Projections		
	1950-1973	1974-1981	1982-1990	1991-2001	2002-2008	1950-2008	2009-2014	2015-2019	2009-2019
Overall Economy									
Potential Output	3.9	3.2	3.2	2.9	2.8	3.4	2.2	2.4	2.3
Potential Labor Force	1.6	2.5	1.7	1.1	1.1	1.6	0.8	0.4	0.6
Potential Labor Force Productivity[a]	2.3	0.7	1.5	1.7	1.7	1.8	1.4	1.9	1.6
Nonfarm Business Sector									
Potential Output	4.0	3.5	3.4	3.3	3.1	3.6	2.5	2.8	2.6
Potential Hours Worked	1.4	2.2	1.7	1.1	0.9	1.4	0.7	0.5	0.6
Capital Services	3.8	4.3	4.2	4.7	2.6	3.9	2.1	3.8	2.9
Potential TFP	1.9	0.7	0.9	1.1	1.6	1.4	1.3	1.3	1.3
Trend TFP	1.9	0.7	1.0	1.0	1.2	1.3	1.2	1.2	1.2
TFP adjustments	0	0	0	0.1	0.5	0.1	0.2	0.2	0.2
Price measurement[b]	0	0	0	0.1	0.2	0	0.2	0.2	0.2
Temporary adjustment[c]	0	0	0	0.1	0.3	0.1	0	0	0
Contributions to the Growth of Potential Output (Percentage points)									
Potential labor input	1.0	1.6	1.2	0.8	0.7	1.0	0.5	0.3	0.4
Capital services	1.1	1.3	1.3	1.4	0.8	1.2	0.6	1.1	0.9
Potential TFP	1.9	0.7	0.9	1.1	1.6	1.4	1.3	1.3	1.3
Total Contributions	**4.0**	**3.5**	**3.4**	**3.3**	**3.1**	**3.6**	**2.5**	**2.8**	**2.6**
Memorandum:									
Potential Labor Productivity[d]	2.6	1.3	1.7	2.2	2.2	2.2	1.8	2.3	2.0

Source: Congressional Budget Office.

Note: Total factor productivity (TFP) is average real output per unit of combined labor and capital services. The growth of TFP is defined as the growth of real output that is not explained by the growth of labor and capital.

a. The ratio of potential output to the potential labor force.

b. An adjustment for a conceptual change in the official measure of the gross domestic product chained price index.

c. An adjustment for the unusually rapid growth of TFP between 2001 and 2003.

d. The estimated trend in the ratio of output to hours worked in the nonfarm business sector.

the next several years, any short-run effects of the stimulus legislation on the business cycle will have dissipated by the end of the projection period. In the latter part of the period, the legislation reduces projected output by roughly 0.1 percent, principally through its influence on capital accumulation.

Capital accumulation is affected because the increase in government debt is expected to displace, or "crowd out," a smaller amount of private capital. That result occurs because the reduction in overall national saving dampens spending on business fixed investment and the construction of housing. Although the size of such displacement is very uncertain, CBO assumes that, in the long run, each dollar of additional federal debt crowds out about a third of a dollar's worth of private domestic capital (with the remainder of the rise in debt offset by increases in private saving and inflows of foreign capital).