



Congressional Budget Office

Presentation to the National Economists Club

The Budget and Economic Outlook

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Director



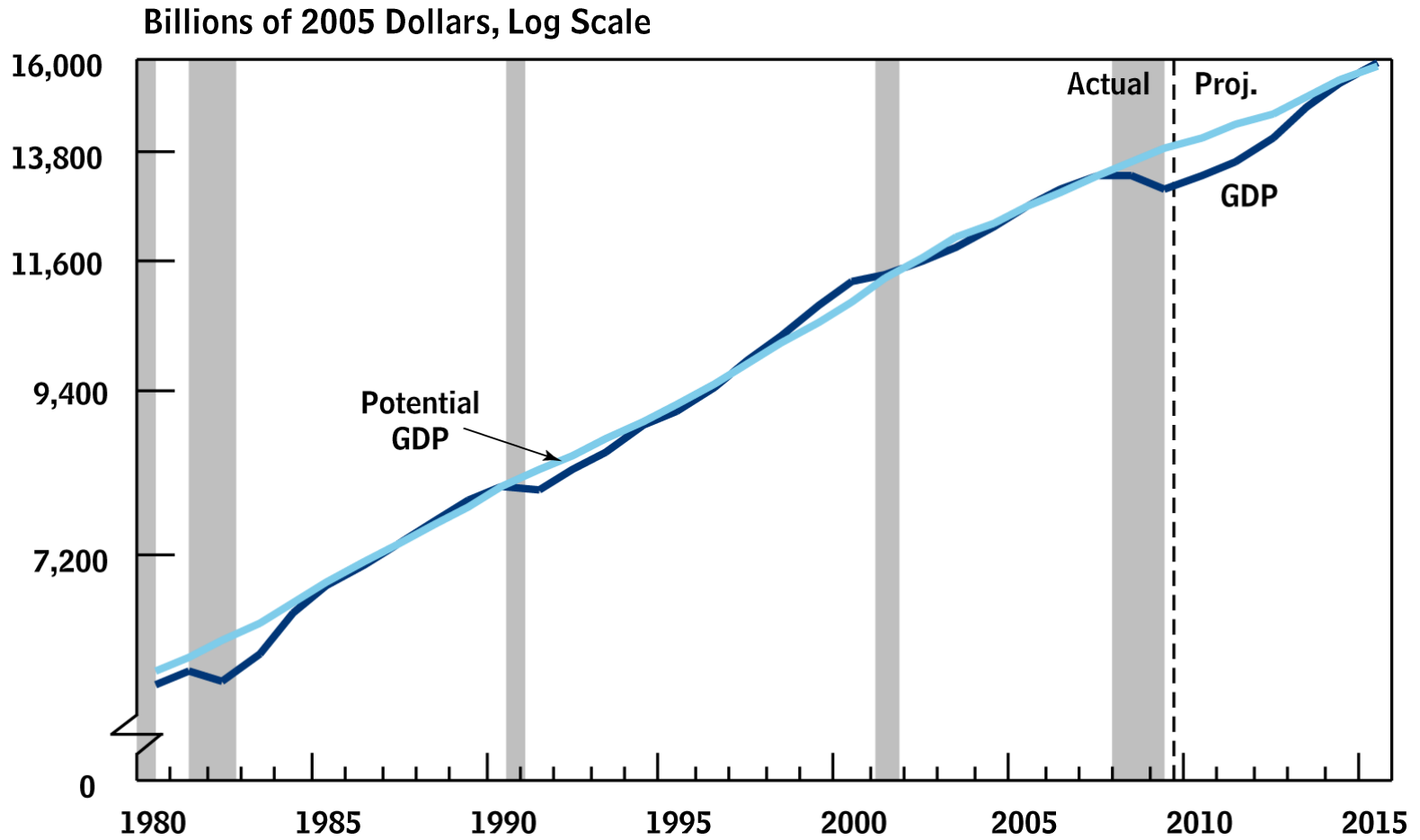
Forecast for a Slow Recovery

- Severe economic downturns often sow the seeds of robust recoveries:
 - During a slump in economic activity, consumers defer purchases, and businesses postpone capital spending.
 - Once demand picks up, spending and employment can accelerate rapidly.

- Some significant factors will dampen current recovery:
 - Continuing fragility of some financial markets and institutions.
 - Declining support from fiscal and monetary policy.
 - Restrained increase in household spending.



The GDP “Gap”



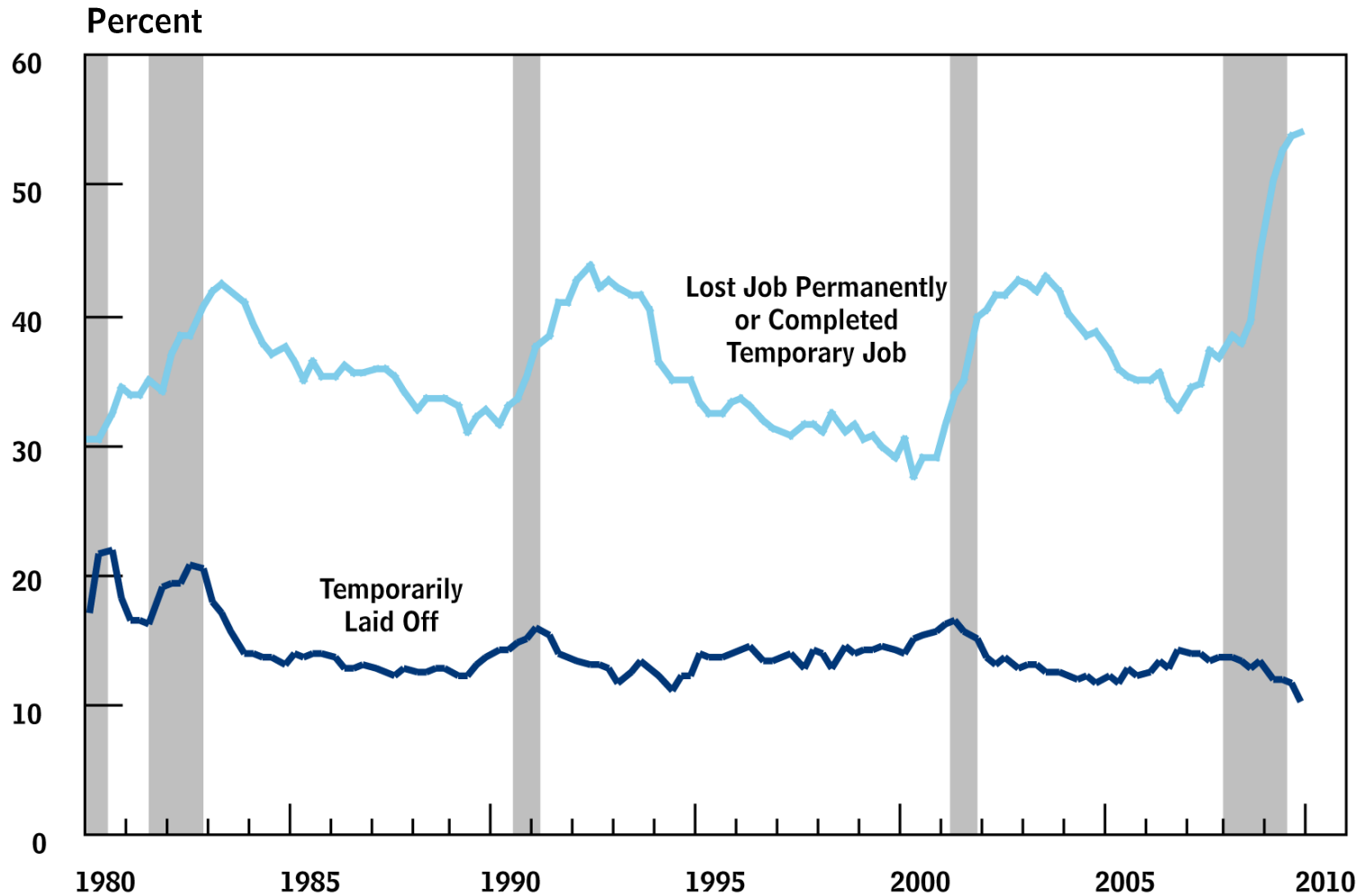


Gradual Recovery in Employment and Unemployment Rate

- Payrolls will begin expanding soon, but...
- Output will grow slowly.
- Average hours of work are well below trend.
- Movement into new jobs will be difficult.
- Labor force participation is well below trend.

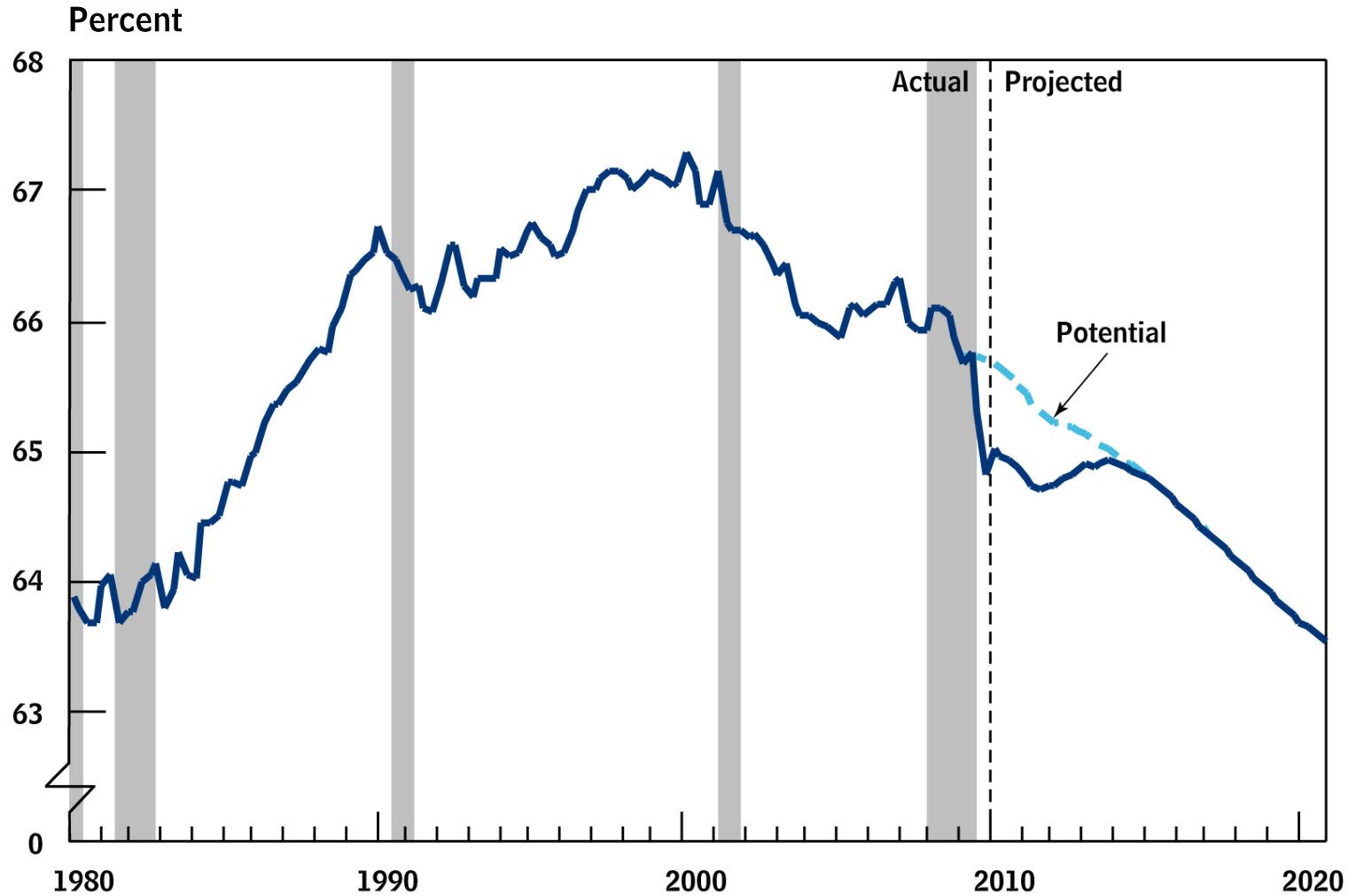


People Who Have Lost Jobs as a Percentage of All Unemployed Persons



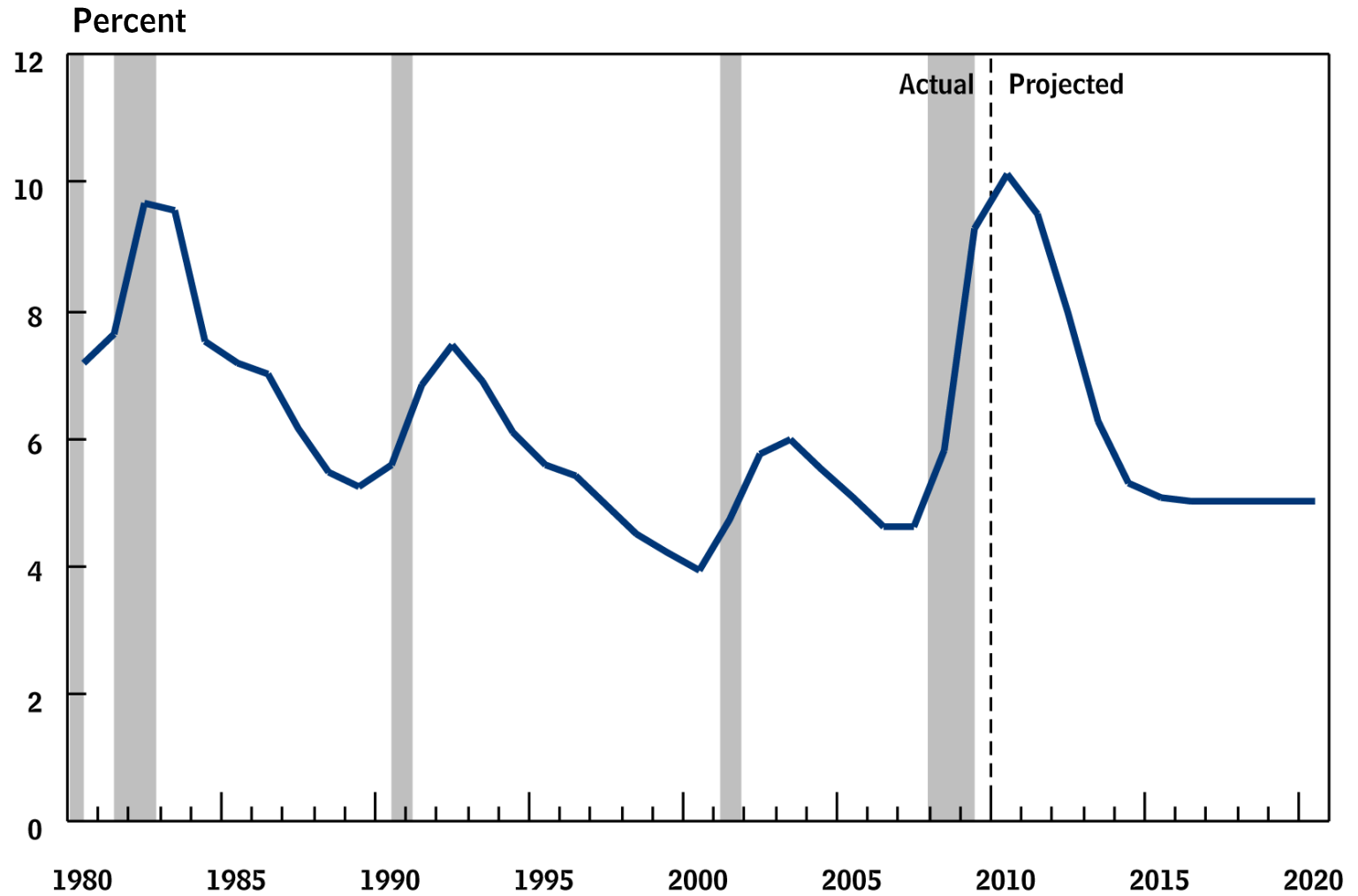


Labor Force Participation Rate



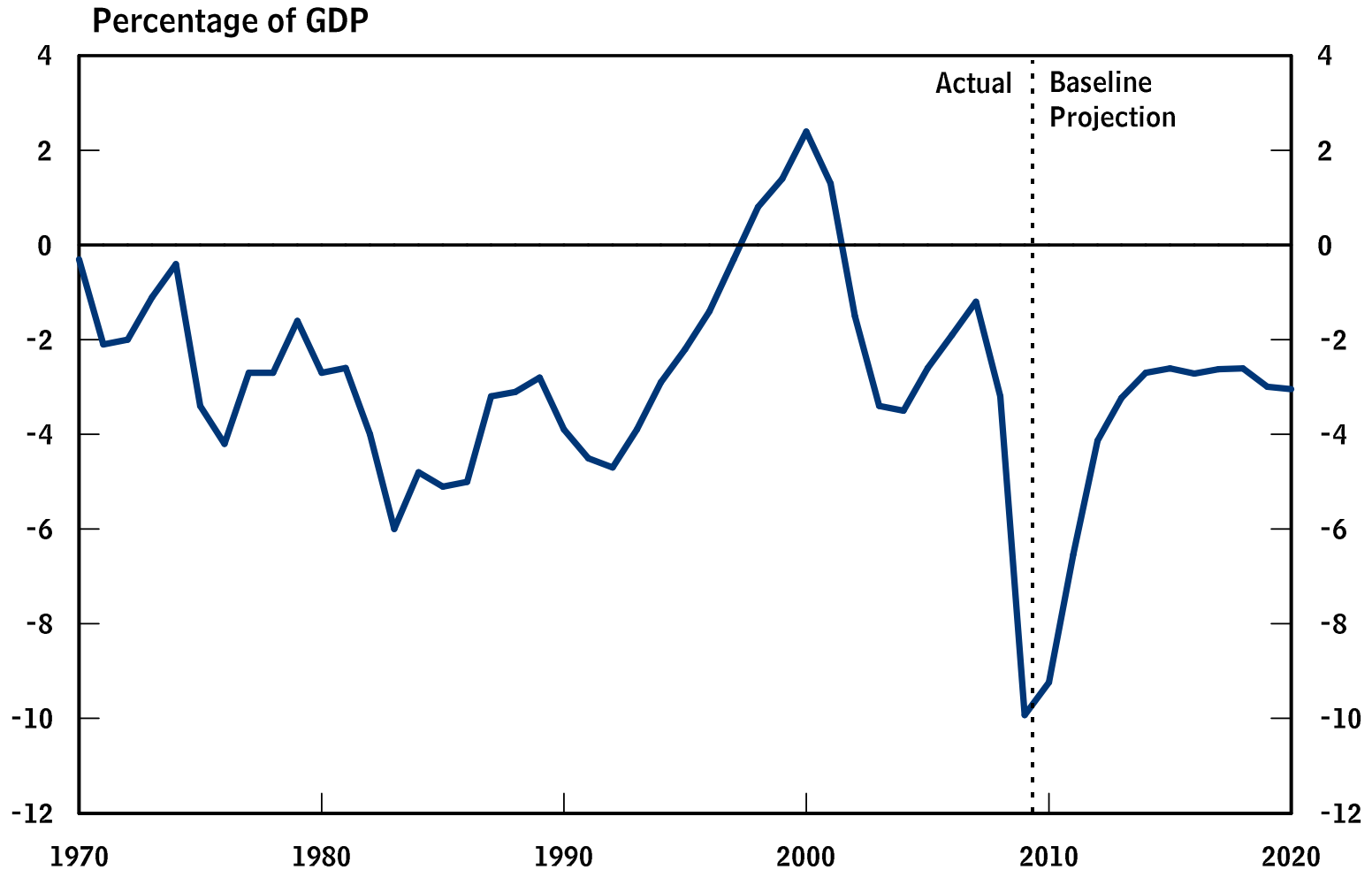


Unemployment Rate



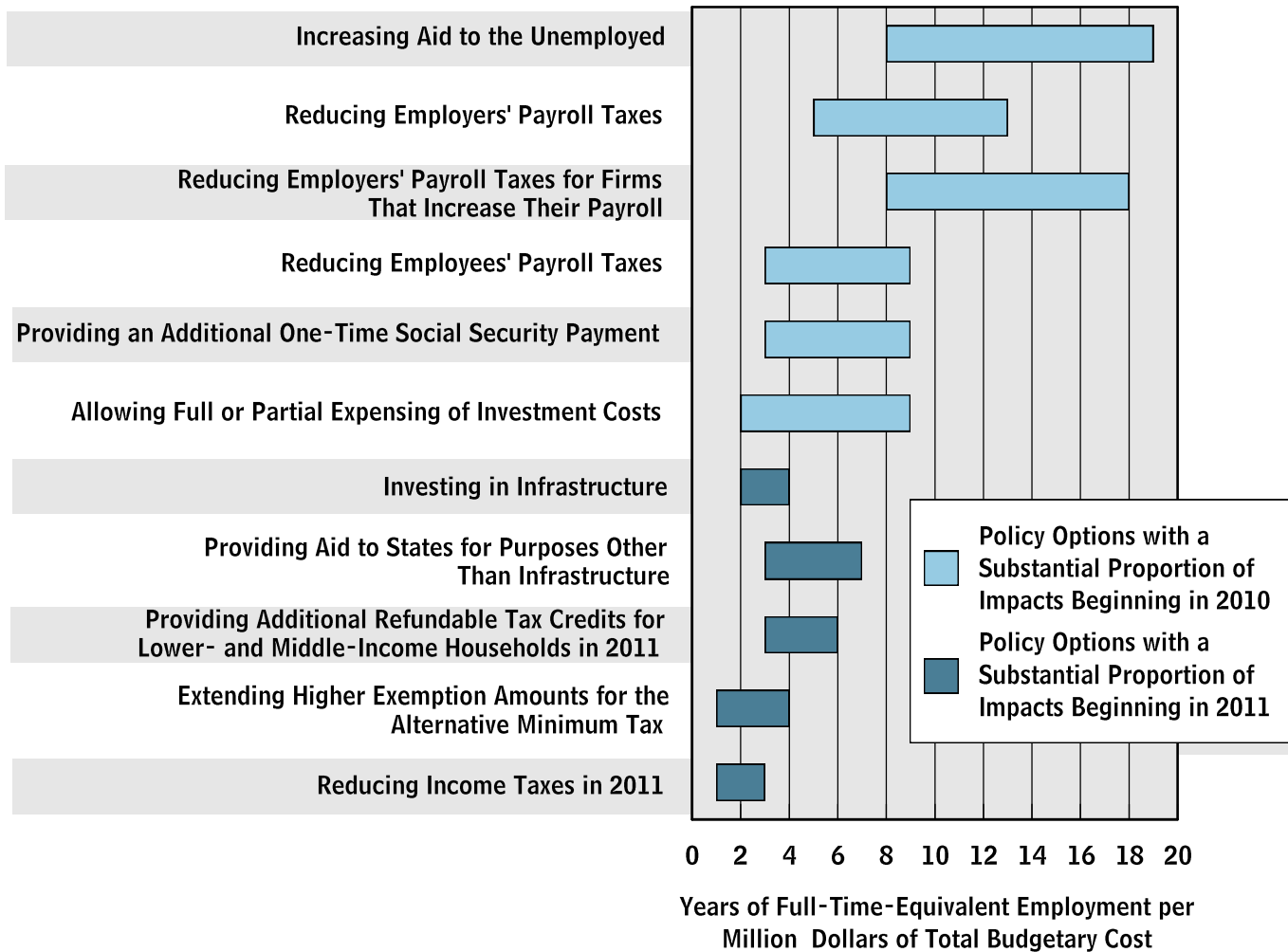


The Budget Deficit or Surplus





Cumulative Effects of Policy Options on Employment in 2010 and 2011, Range of Low to High Estimates





Fiscal Policy in the Near Term

- The key issue from a macroeconomic perspective is whether the deficit falls too fast in 2011 and 2012.
- Additional fiscal actions, if properly designed, would promote economic growth and increase employment in the next few years.



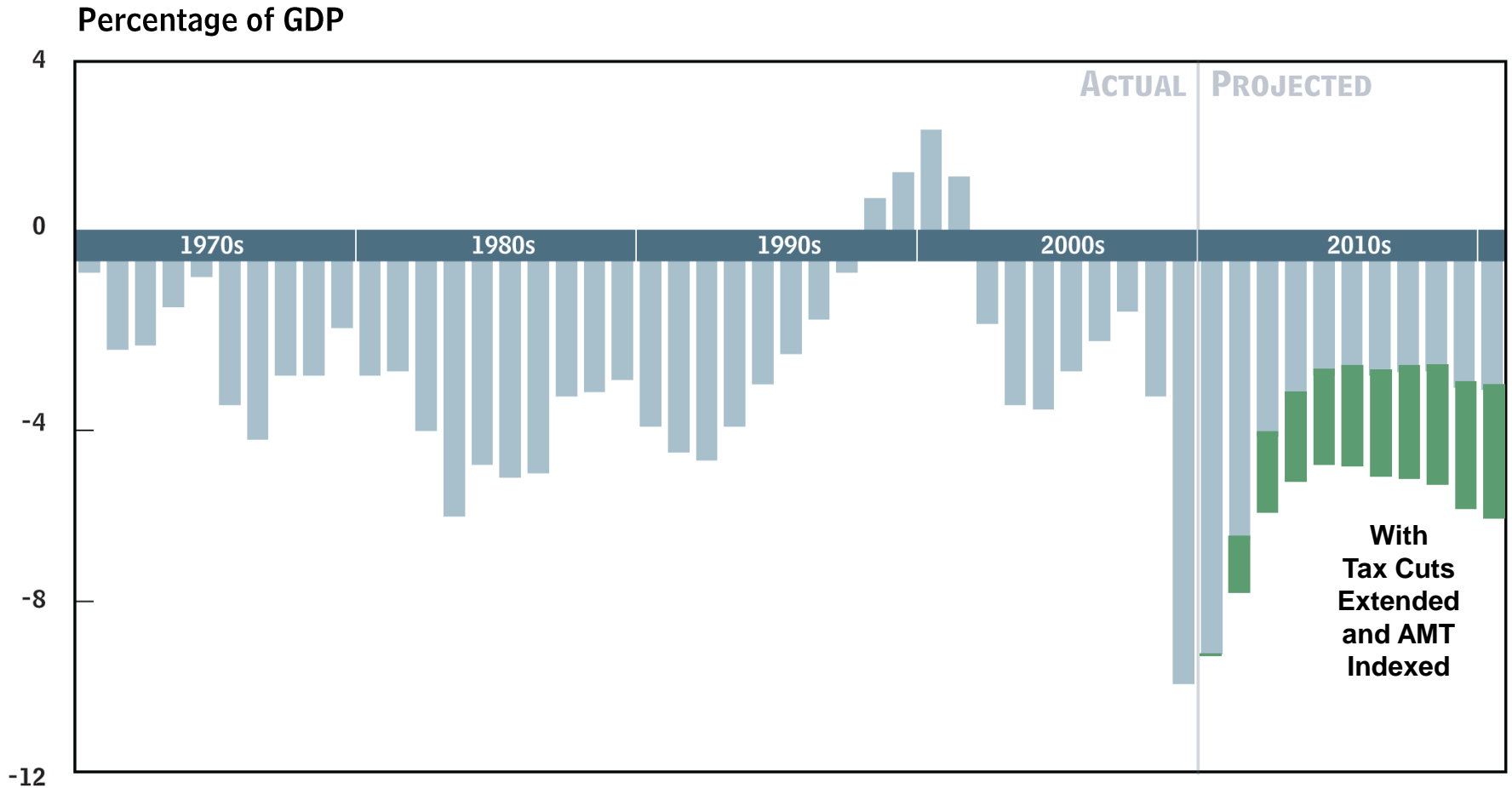
Medium-Term Growth Will Be Solid but Unspectacular

In CBO's Projection:

- Growth in hours worked is slower than historical average.
- Growth in capital services is slower than historical average.
- Growth in total factor productivity is close to historical average.

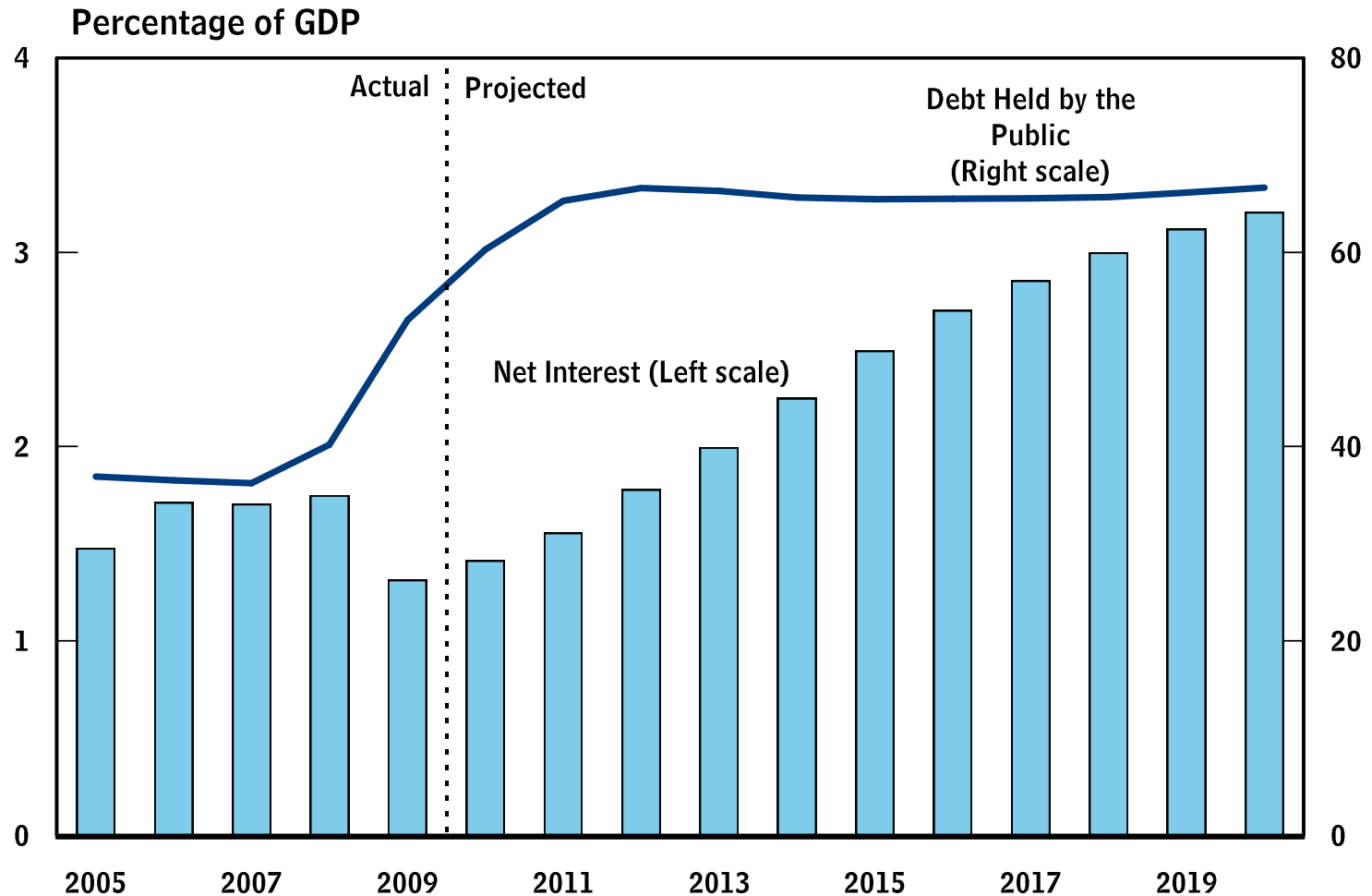


Budget Deficit or Surplus Under Policy Alternative to Extend Tax Cuts and Index Alternative Minimum Tax (AMT)



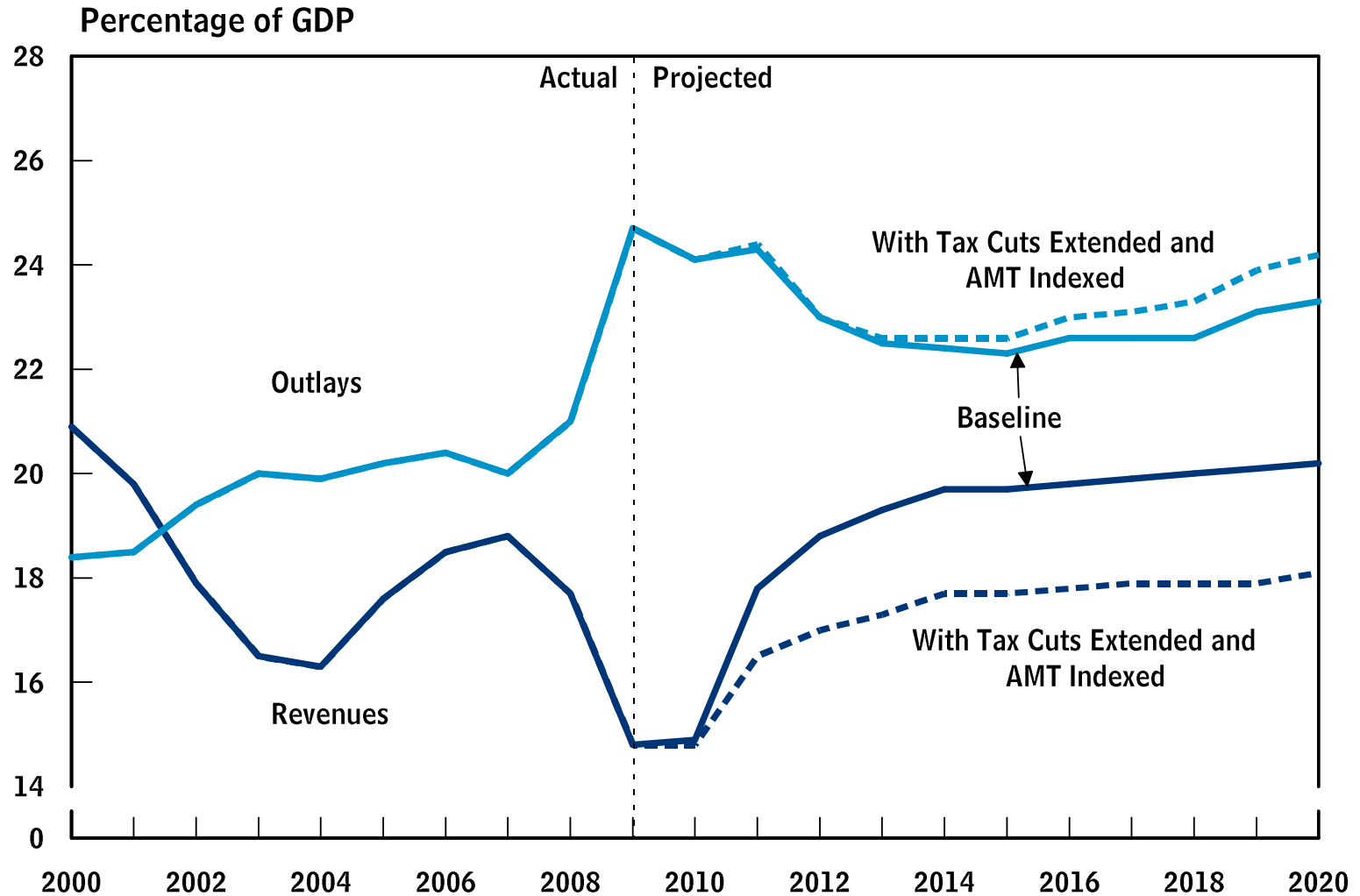


Debt Held by the Public and Net Interest



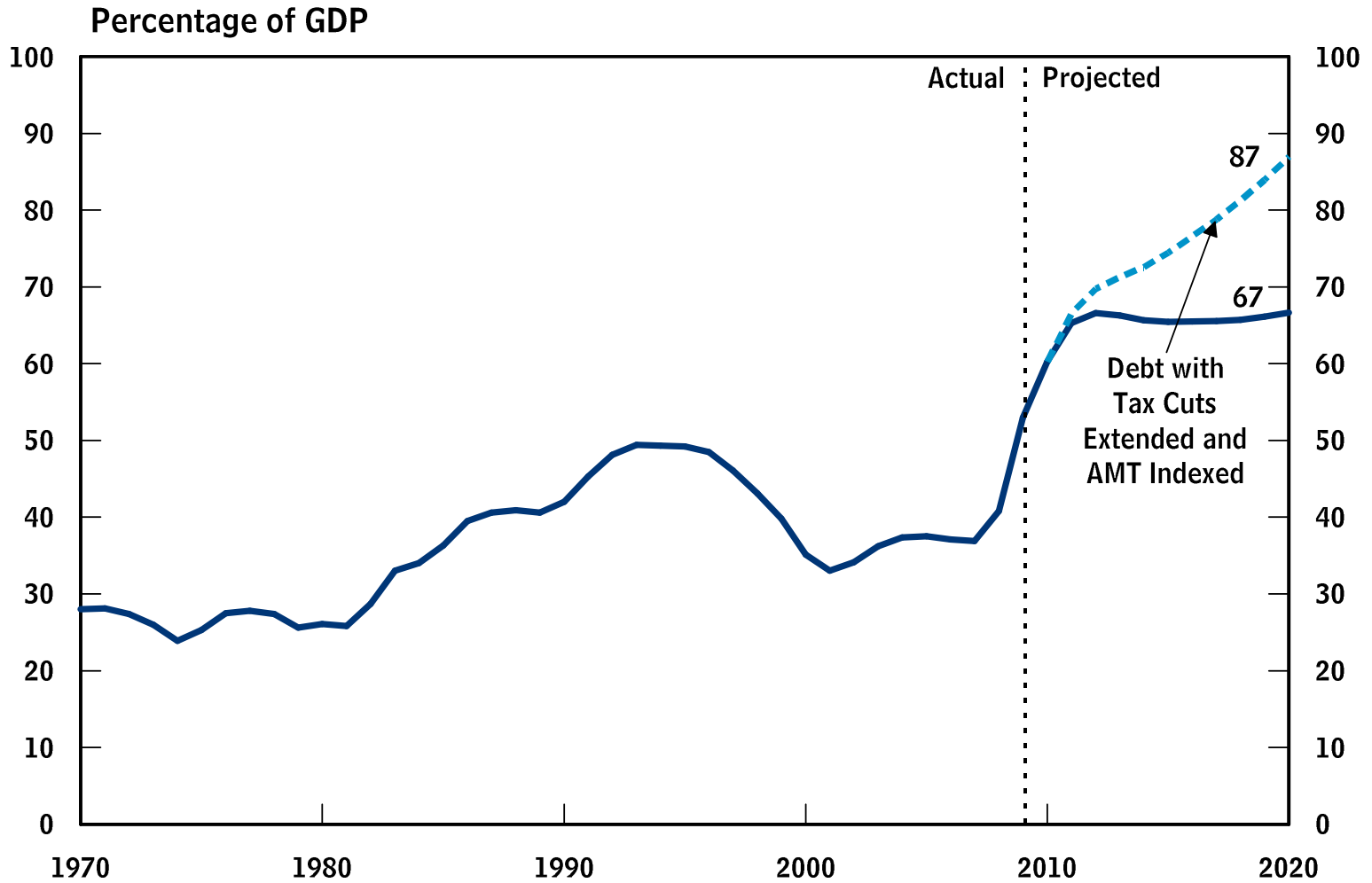


Revenue and Outlays with Tax Cuts Extended and AMT Indexed



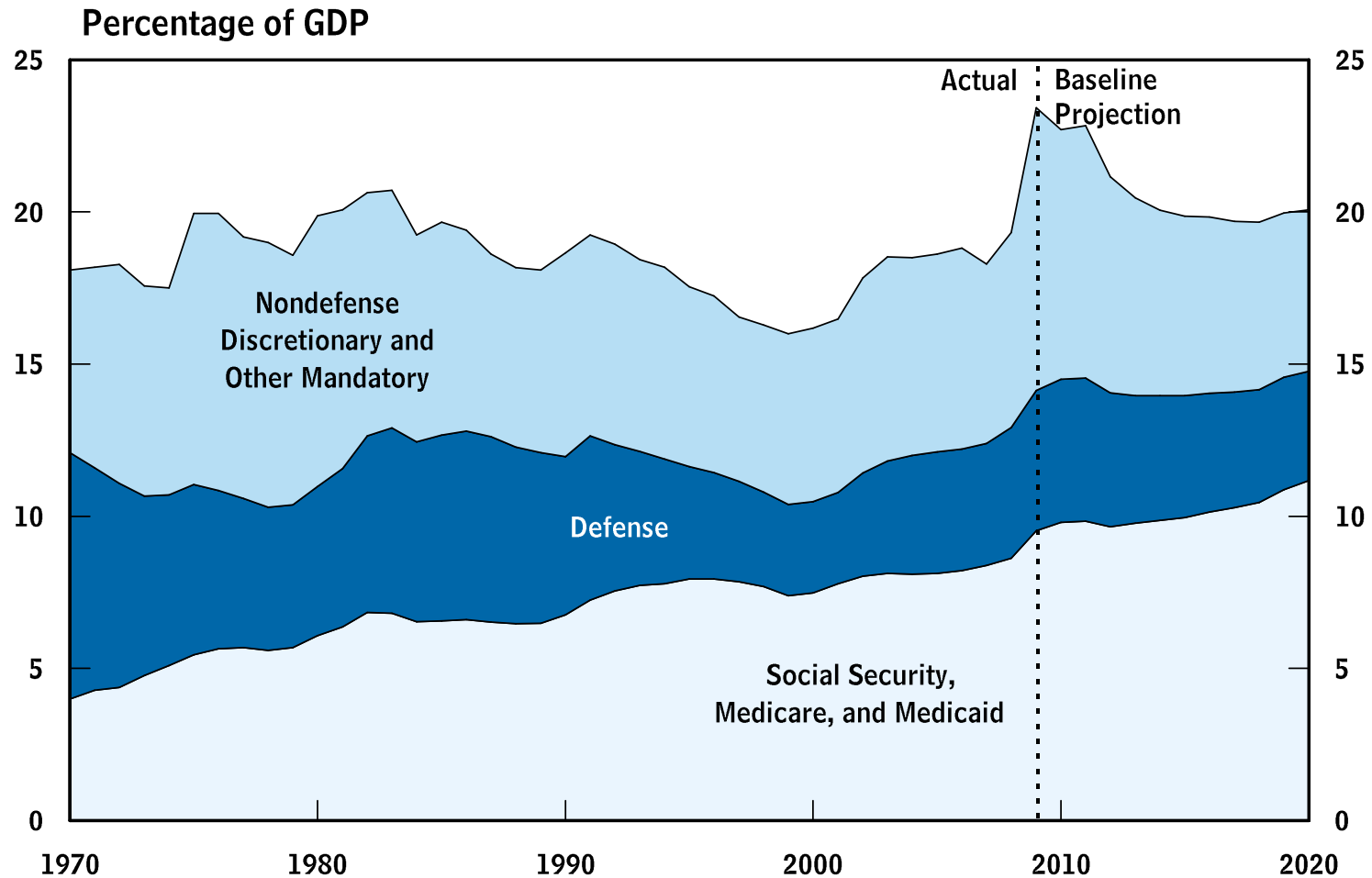


Rising Debt Burden



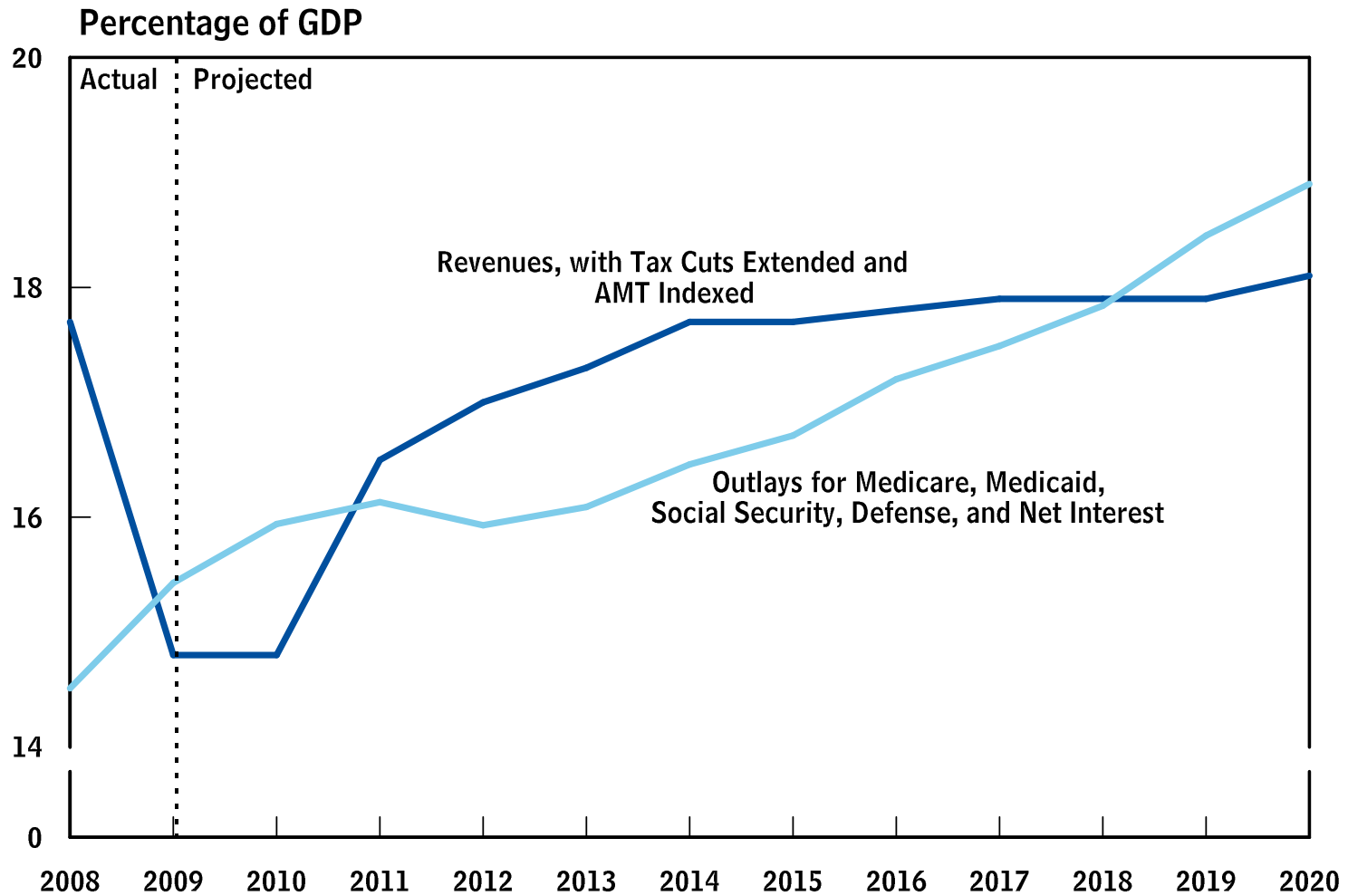


Federal Outlays by Category, Excluding Interest





Outlays for Some Key Federal Programs Will Exceed Total Federal Revenues Under “Current Policy”





Fiscal Policy in the Medium-Term

- Under “current policy,” the federal deficit and debt rise relative to GDP, which would:
 - Crowd out capital investment,
 - Reduce budget flexibility, and
 - Heighten the risk of a sharper increase in interest rates.
- The path is unsustainable due to a disconnect between government services expected and revenues provided.