



Congressional Budget Office

Presentation to The Group of Thirty

“Exit Strategy” for Fiscal Policy

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Director

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Congressional Budget Office

- Consists of 250 people working for the U.S. Congress.
- Provides objective, nonpartisan analysis of budget and economic issues.
- Makes no policy recommendations.



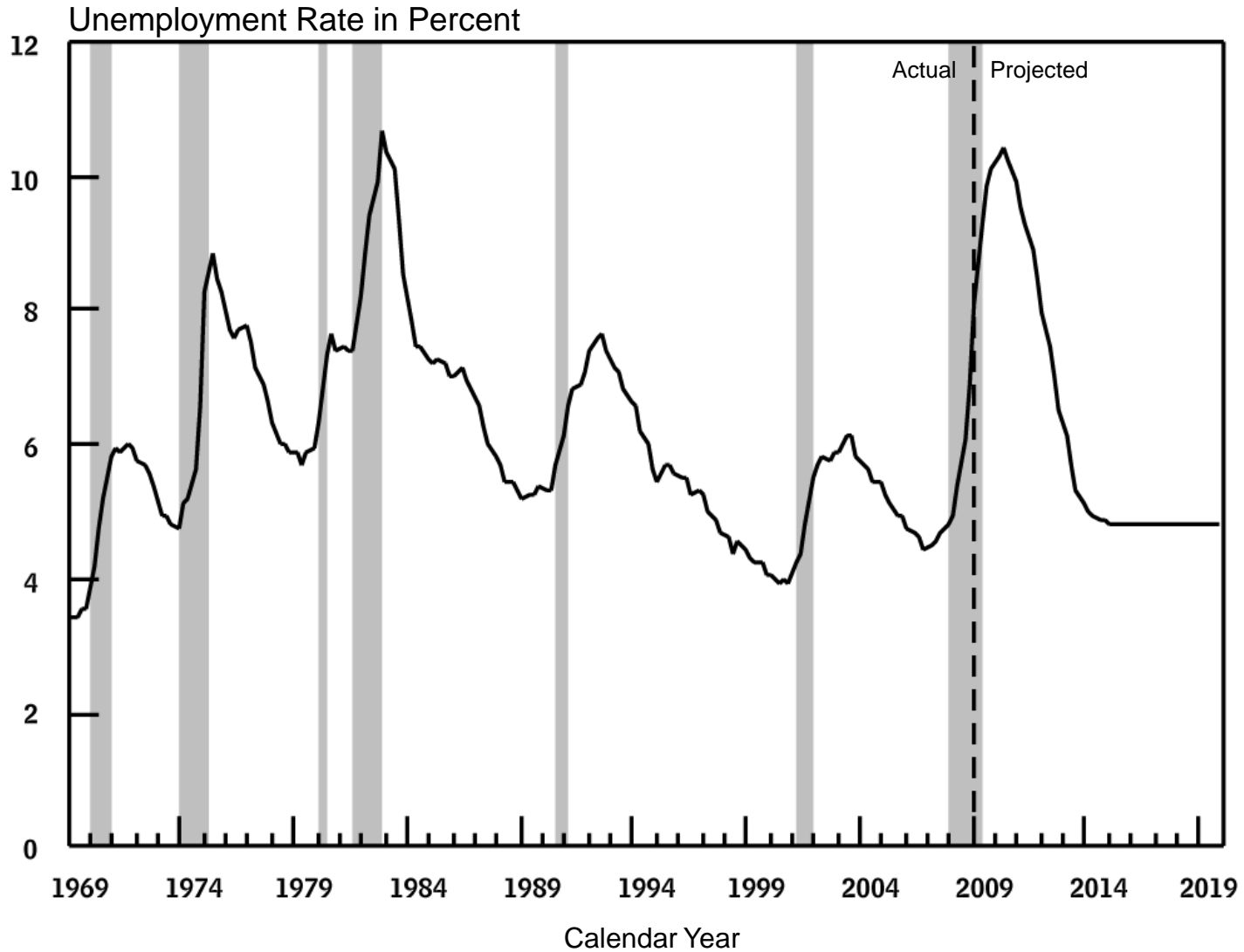
Fiscal Policy Challenges

Given the likely evolution of the economy, the current path of fiscal policy poses two central challenges to macroeconomic stability:

- Fiscal stimulus will be withdrawn very rapidly between 2010 and 2012.
- Fiscal stimulus will not be reduced any further after 2012.

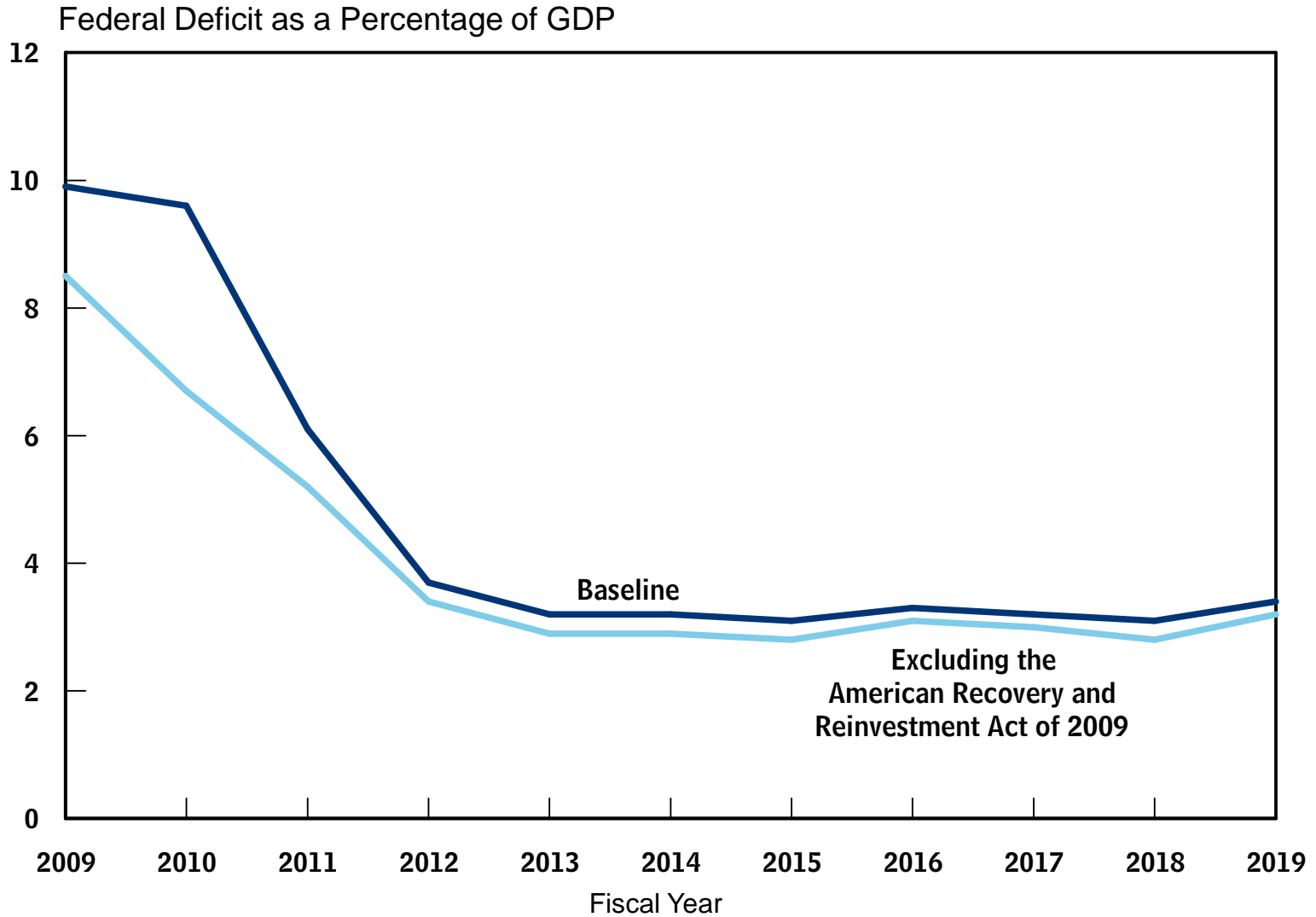


Slow Return to Normalcy (from August Forecast)



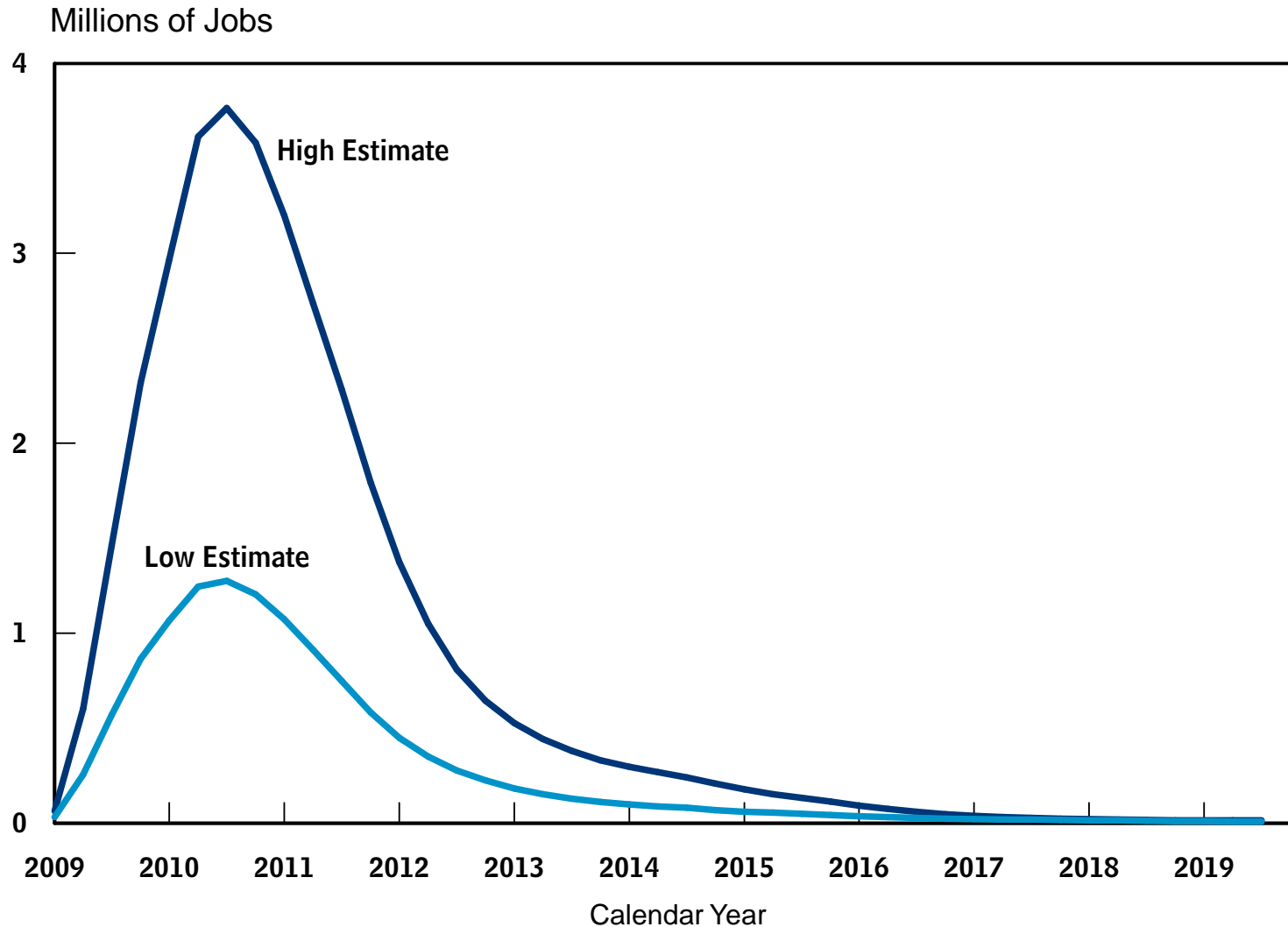


Withdrawal of Fiscal Stimulus





Estimated Effect of the American Recovery and Reinvestment Act of 2009 on Employment



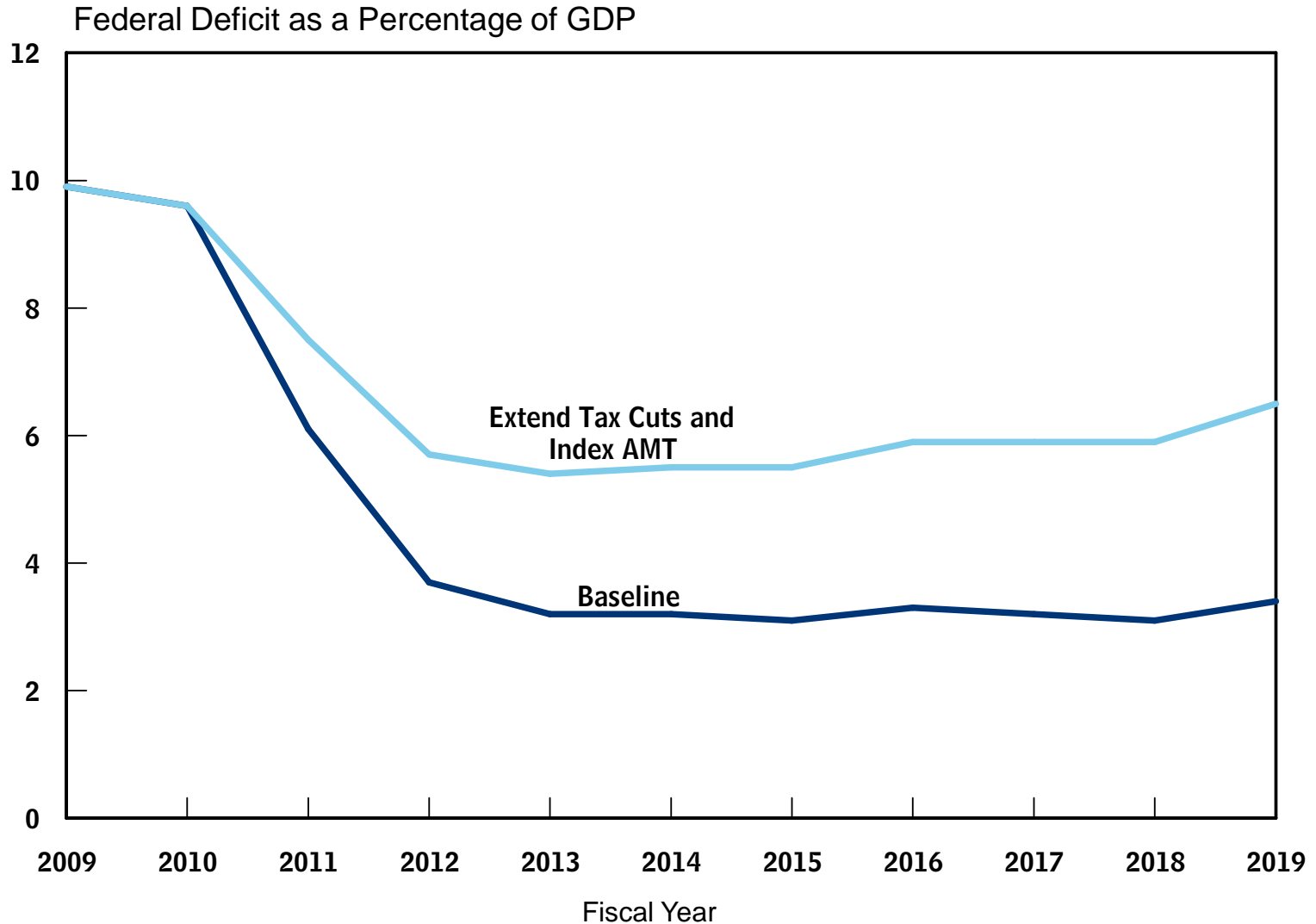


Fiscal Policy Options to Boost Output and Employment

- Encourage Job Creation Directly
 - Job tax credits
 - Payroll tax holiday
 - Government jobs
- Support Businesses
 - Investment incentives
 - Improved access to credit
- Stabilize Mortgage and Housing Markets
 - Expansion of loan guarantees or mortgage modification
- Boost Demand
 - Aid to states
 - Infrastructure projects
 - Extension of 2001 and 2003 tax cuts
 - Indexing of Alternative Minimum Tax (AMT)



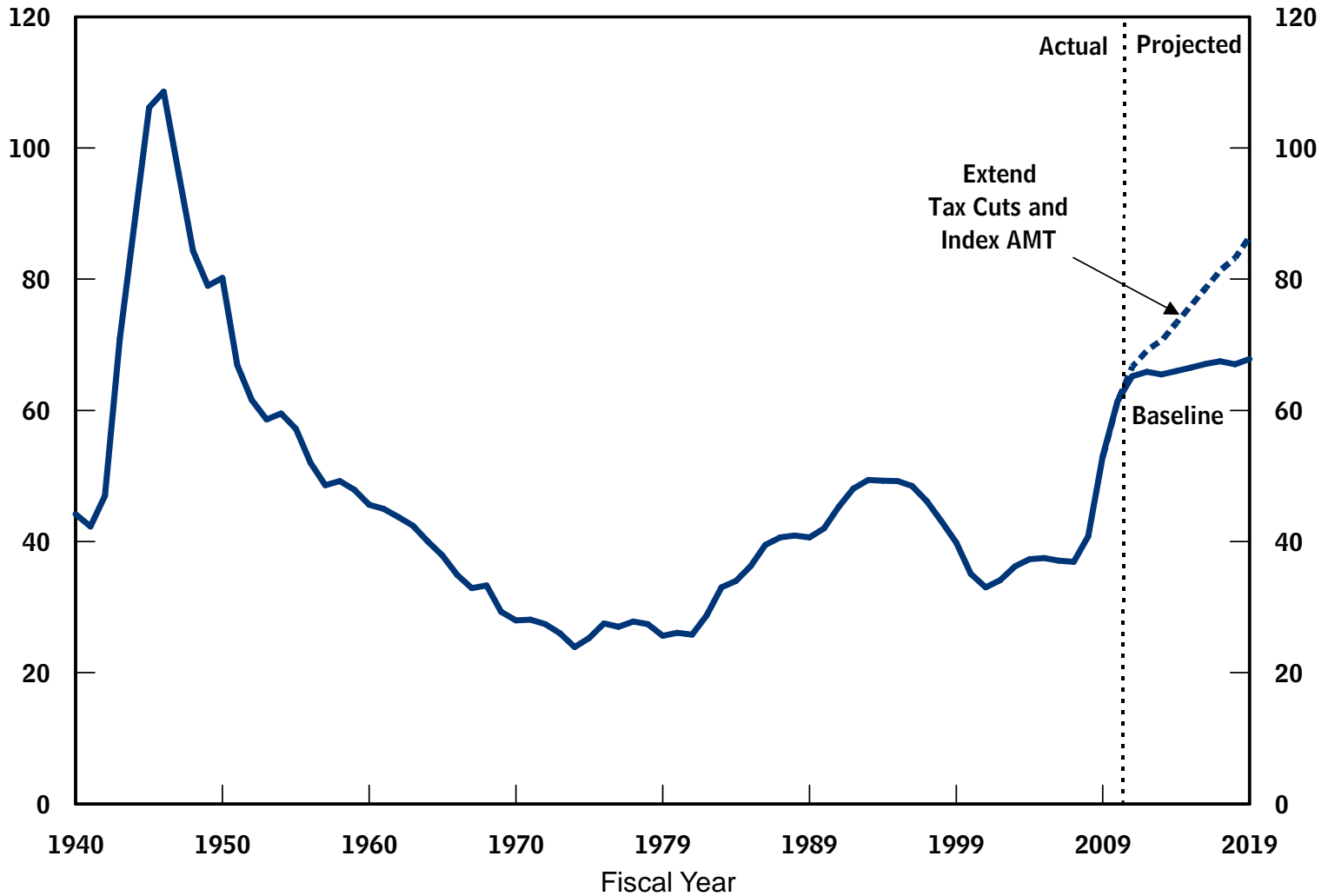
Effect of Extending the 2001 and 2003 Tax Cuts and Indexing the AMT





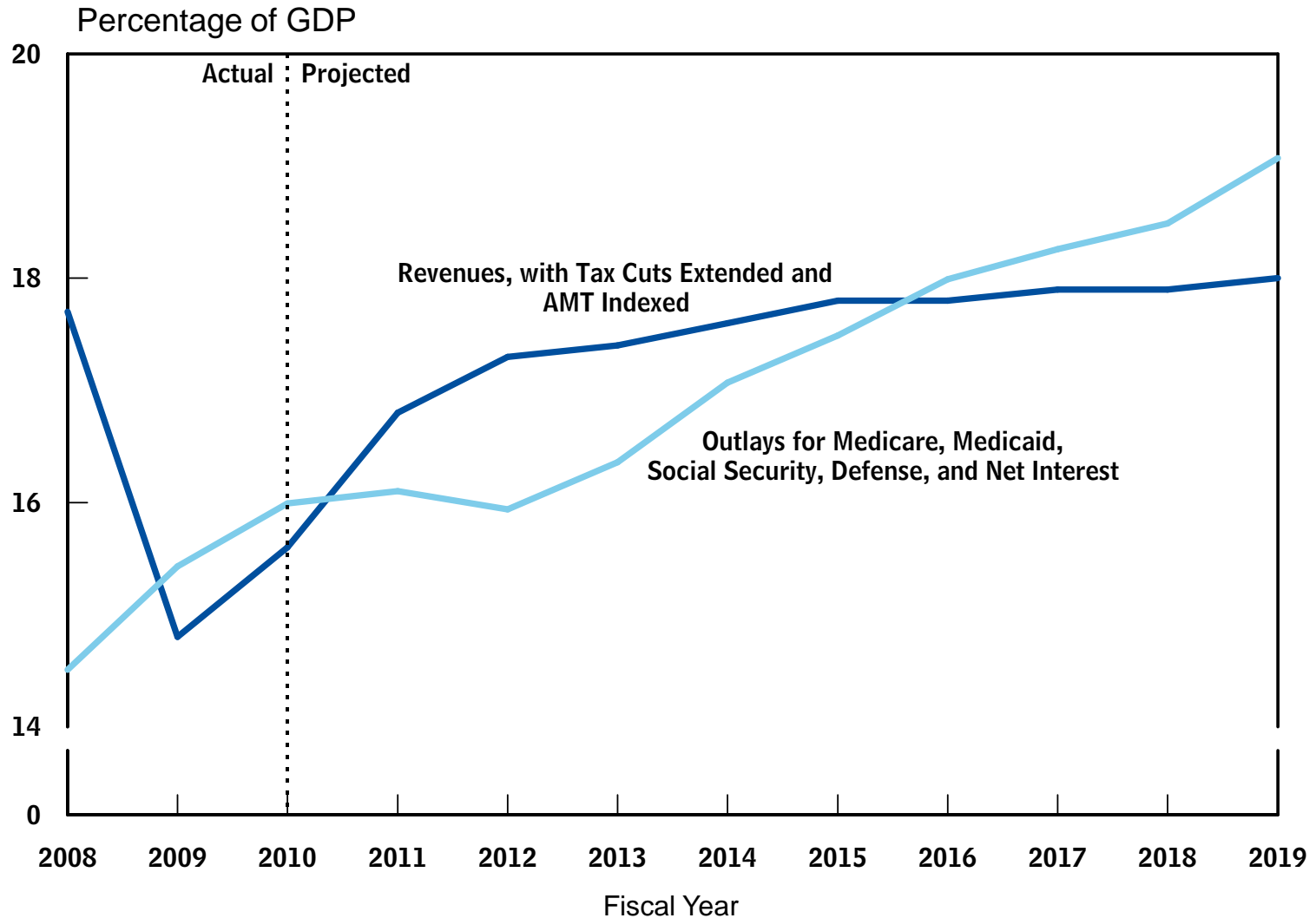
Rising Debt Burden

Federal Debt Held by the Public as a Percentage of GDP





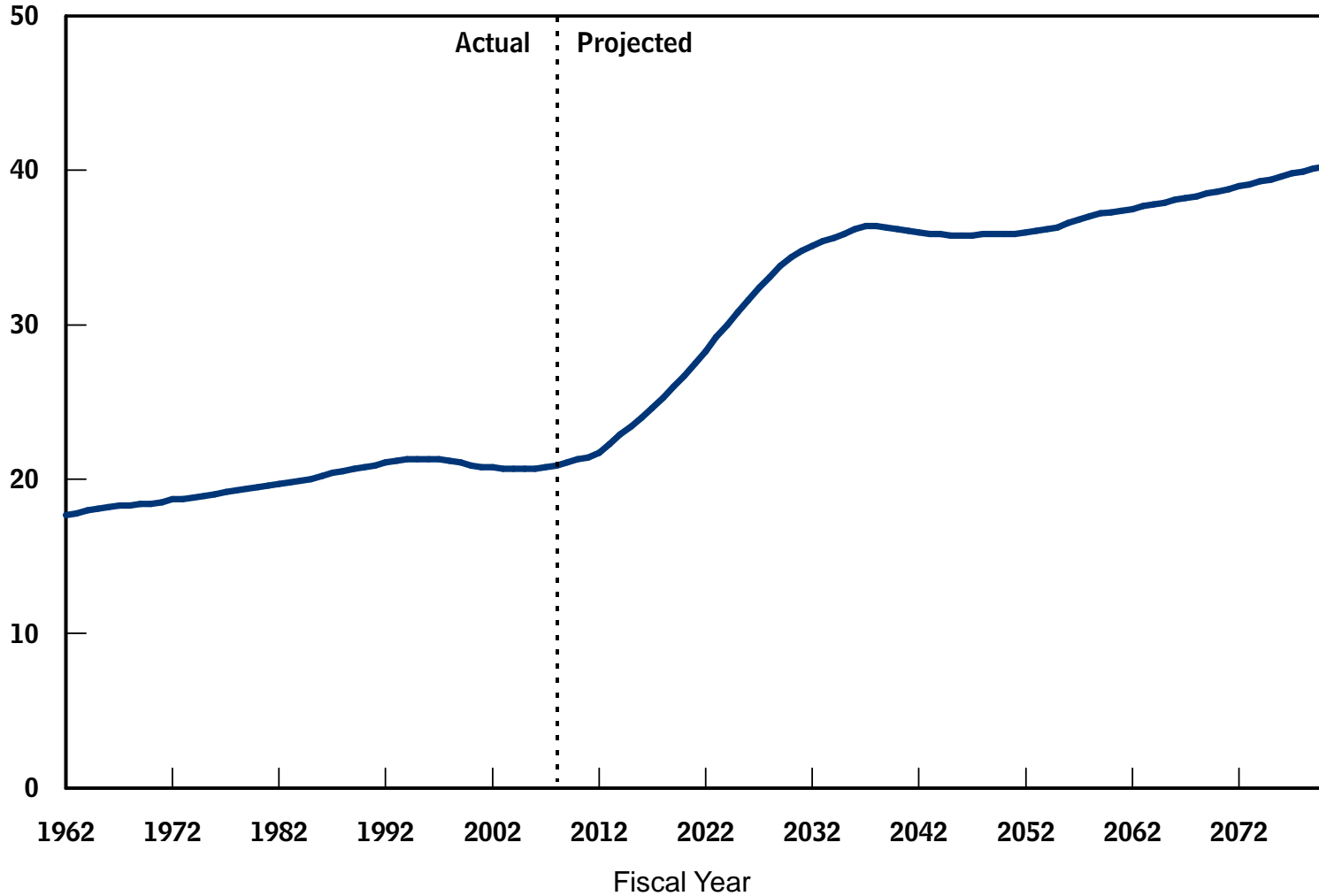
Outlays for Key Federal Programs Will Soon Exceed Total Federal Revenues





Population Aging

Population Age 65 or Older as a Percentage of the Population Ages 20 to 64





Health Care Reform and Budget Deficits

CBO estimates that the health care reform proposals that have passed the House and are being considered in the Senate would reduce budget deficits slightly.

Commonly expressed concerns:

- CBO is underestimating the ultimate costs of the new subsidies to buy health insurance.
- Congress will not allow the Medicare spending cuts in the proposals to take effect.
- Spending cuts and new revenues would pay for a new program rather than cover the costs of existing ones.
- The proposals are missing opportunities to reduce health care spending more significantly.



Long-Run Fiscal Policy

- The United States faces a fundamental disconnect between the services that people expect the government to provide, particularly in the form of benefits for older Americans, and the tax revenues that people are willing to send to the government to finance those services.
- Widespread concern about the unsustainable long-run path of fiscal policy matters in the short run as well, because it will (at some point) push up interest rates and will (quickly) reduce political support for fiscal actions to boost output and employment.