The 2017 Economic and Budget Outlook

Presentation for the REALTOR® University Speaker Series

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Assistant Director, Macroeconomic Analysis Division

CBO’s Mission

To provide the Congress with objective, nonpartisan, and timely analyses of legislative proposals and of budgetary and economic issues to support the Congressional budget process.
CBO’s Organization and Staffing

- CBO is organized into the Office of the Director and eight divisions.
- The agency has about 230 full-time employees.
- The director is appointed by the Speaker of the House and the President pro tempore of the Senate.
- The Director appoints all CBO staff solely on the basis of professional competence, not political affiliation.
- Over 70 percent of CBO’s professional staff have advanced degrees in economics, public policy, or a related field.
Helping the Congress Develop a Budget Plan

- CBO prepares a 10-year baseline to serve as a neutral benchmark.
  - Developed according to long-standing rules for projecting revenues and expenditures, under the assumption that current laws remain unchanged
  - Consistent with the macroeconomic forecast, which informs key economic assumptions

- CBO estimates the budgetary effects of legislative options, including the President’s budget proposal, relative to current law, using the parameters that underlie the baseline.

- The Budget Committees use the information to develop a budget resolution.
Helping the Congress Stay Within Its Budget

■ CBO prepares cost estimates for each bill approved by a committee.
  – Informs lawmakers whether enacting legislation would worsen or improve the projected budget deficit

■ CBO provides preliminary analysis of some legislative proposals on an informal basis.
  – Informs lawmakers about potential budgetary effects so that they can make any desired changes before taking more formal action

■ CBO’s scorekeeping unit tracks spending.
  – Informs committees whether they are within their allocations specified in the budget resolution
What CBO Does Not Do

- Make policy recommendations
  - Strictly nonpartisan; no judgments about a legislative proposal’s merits
- Write legislation
  - Instead, evaluates different proposals and options
- Implement programs and regulations and enforce budget rules
  - The executive branch does that
- Audit spending or receipts
  - GAO does that
The 10-Year Economic Outlook
Growth of Real GDP and Real Potential GDP, and the Output Gap

Growth of GDP

Output Gap
Average Growth in Real Potential GDP

<table>
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<tr>
<th>Period</th>
<th>Potential Labor Force Productivity</th>
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Actual and Natural Unemployment Rates

Unemployment Rate

Natural Unemployment Rate
The Employment Shortfall

Millions of People

Historical  Projected

Total

From Unemployment

From Labor Force Participation
Inflation

Percentage Change in PCE Price Indexes

Overall

Core

Actual  Projected

2002  2007  2012  2017  2022  2027
Interest Rates

Federal Funds Rate

Actual  Projected

10-Year Treasury Notes

3-Month Treasury Bills
The 10-Year Budget Outlook
Total Deficits or Surpluses

Percentage of Gross Domestic Product

- Deficits
- Surpluses

Average Deficit, 1967 to 2016 (-2.8%)
Revenues, by Major Source

Percentage of Gross Domestic Product

- **Individual Income Taxes**
  - Actual: 9.7
  - Projected: 5.9

- **Payroll Taxes**
  - Actual: 1.6
  - Projected: 1.2

- **Corporate Income Taxes**

- **Other Revenue Sources**

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual Income Taxes</th>
<th>Payroll Taxes</th>
<th>Corporate Income Taxes</th>
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Projected Outlays in Major Budget Categories

Percentage of Gross Domestic Product

- Major Health Care Programs: 6.9%
- Social Security: 6.0%
- Nondefense Discretionary
- Defense Discretionary
- Net Interest: 2.7%
- Other Mandatory: 2.6%

Years: 2016 to 2027
Revenues, Tax Expenditures, and Selected Components of Spending in 2017

Percentage of Gross Domestic Product

- Individual Income Tax Revenues
- Payroll Tax Revenues
- All Other Revenues
- All Tax Expenditures
- Defense Spending
- Medicare Spending Net of Offsetting Receipts
- Social Security Spending

Corporate Income Tax Expenditures
Payroll Tax Expenditures
Individual Income Tax Expenditures
## Spending and Revenues Projected in CBO’s Baseline, Compared With Actual Values in 1967 and 1992

### Percentage of Gross Domestic Product

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<thead>
<tr>
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### Total Outlays

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### Total Revenues

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### Deficit

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<td>2027</td>
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Components of the Total Increase in Outlays in CBO’s Baseline Between 2017 and 2027

- **Net Interest** (19%)
- **Medicare** (22%)
- **Social Security** (29%)
- **All Other Programs** (30%)

Total Increase in Outlays: $2.6 Trillion
The Long-Term Budget Outlook
Federal Debt Held by the Public

Percentage of Gross Domestic Product
Why Does Rising Federal Debt Matter?

- Boosts interest costs, putting more pressure on the rest of the budget and making it more difficult to constrain future deficits
- Restrains economic growth and people’s income in the long term
- Limits the ability of the government to respond to future challenges
- Increases the risk of a fiscal crisis
Spending for Social Security

Percentage of Gross Domestic Product

![Graph showing the spending for Social Security as a percentage of Gross Domestic Product from 2000 to 2045. The chart indicates an increase in spending over time, with actual values for 2003, 2009, 2017, and projected values for 2027 and 2047.](image-url)
Federal Spending on the Major Health Care Programs, by Category

Percentage of Gross Domestic Product

Actual
Extended Baseline Projection

Medicaid, CHIP, and Marketplace Subsidies

Medicare
Ways to Address the Budget Imbalance

Given the aging of the population and rising costs for health care, attaining a sustainable federal budget will require the United States to deviate from the policies of the past 50 years in at least one of the following ways:

- Letting revenues rise more than they would under current law
- Reducing spending for large benefit programs below the projected amounts

Reducing spending for other federal activities could reduce, but not eliminate, the changes needed in taxes or large benefit programs.