



**Congressional Budget Office**

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**Presentation to the National Economists Club**

**The Budget and Economic Outlook**

**February 25, 2010**

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**Director**



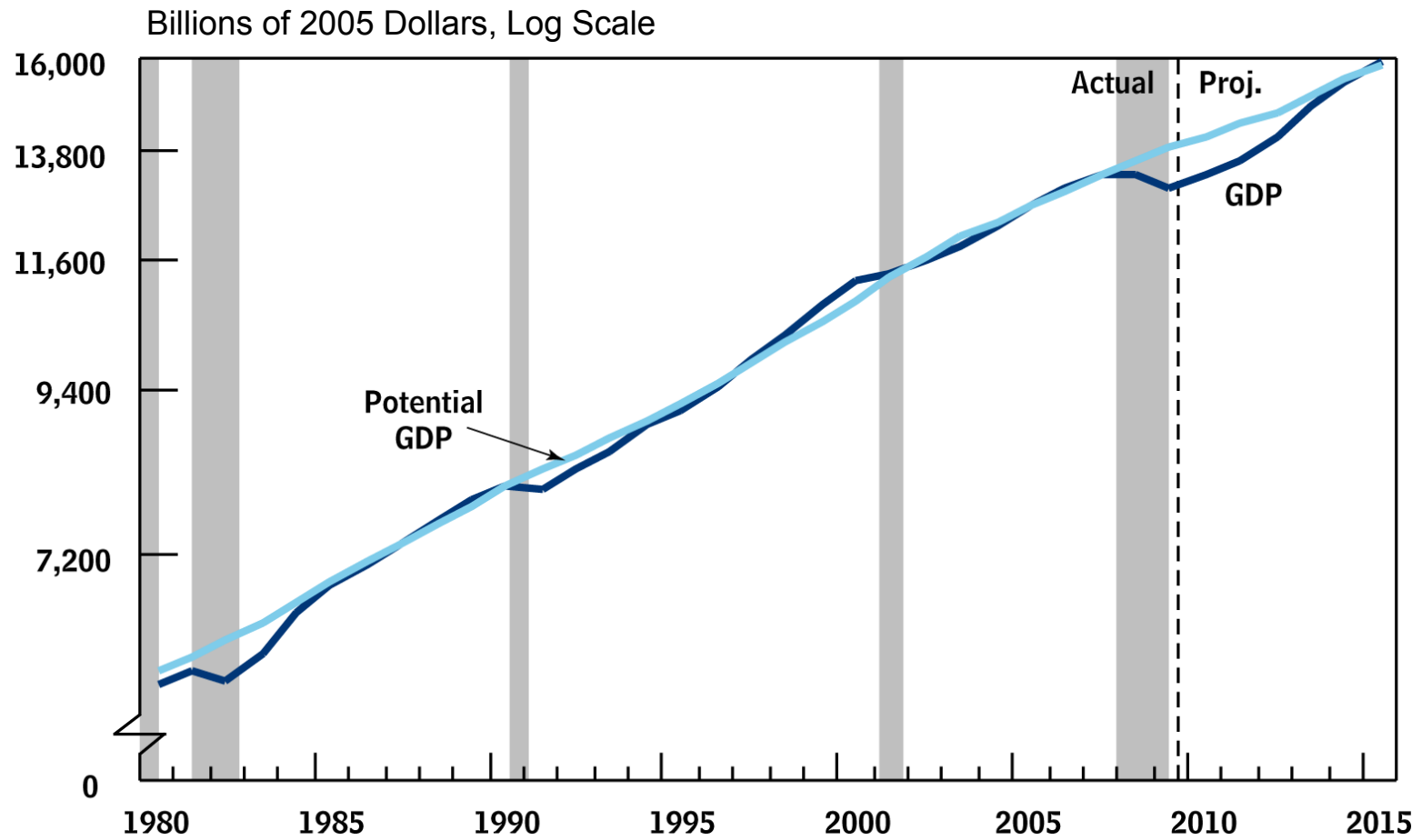
## Forecast for a Slow Recovery

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- 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”





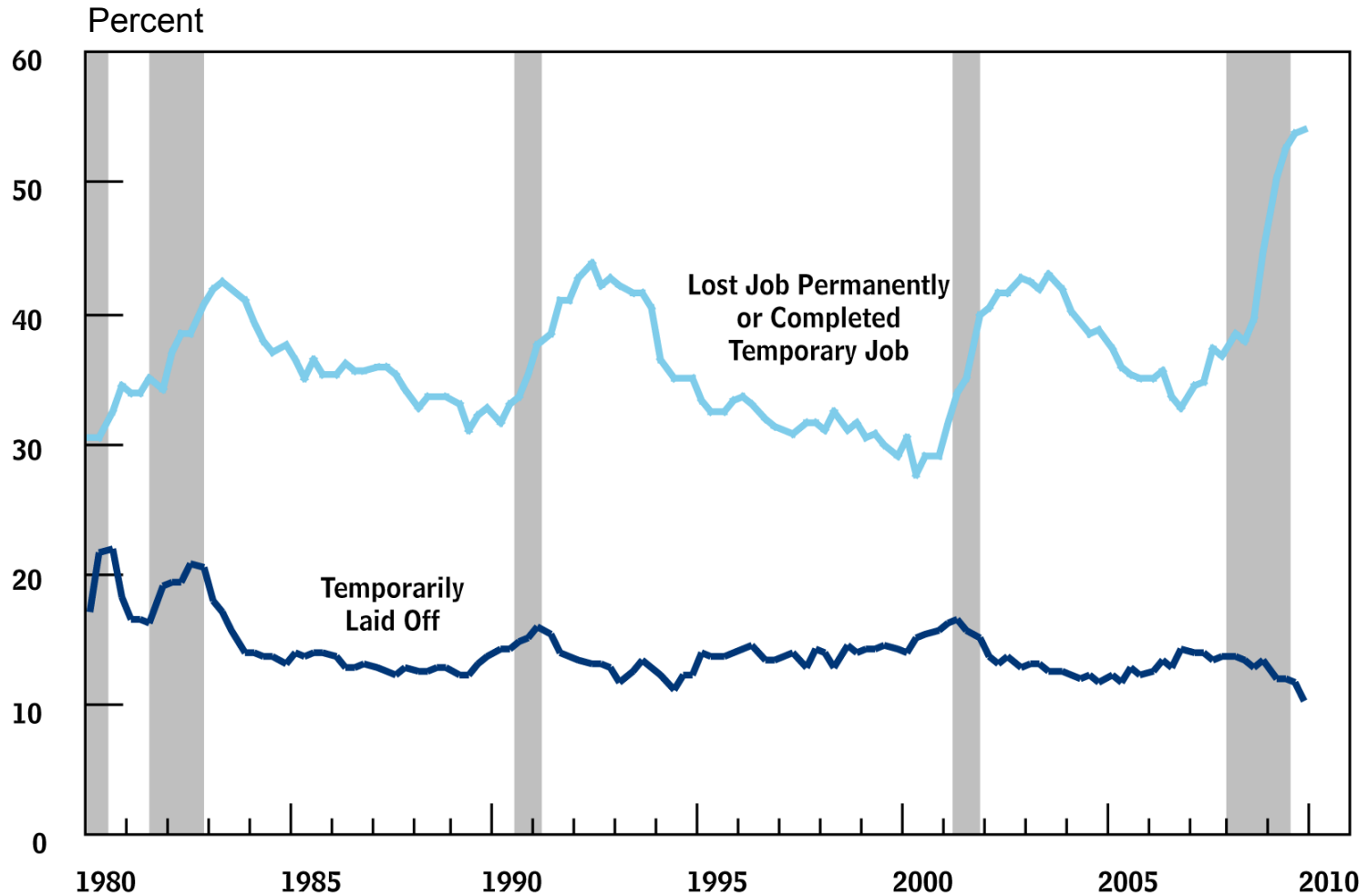
## Gradual Recovery in Employment and Unemployment Rate

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- 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.

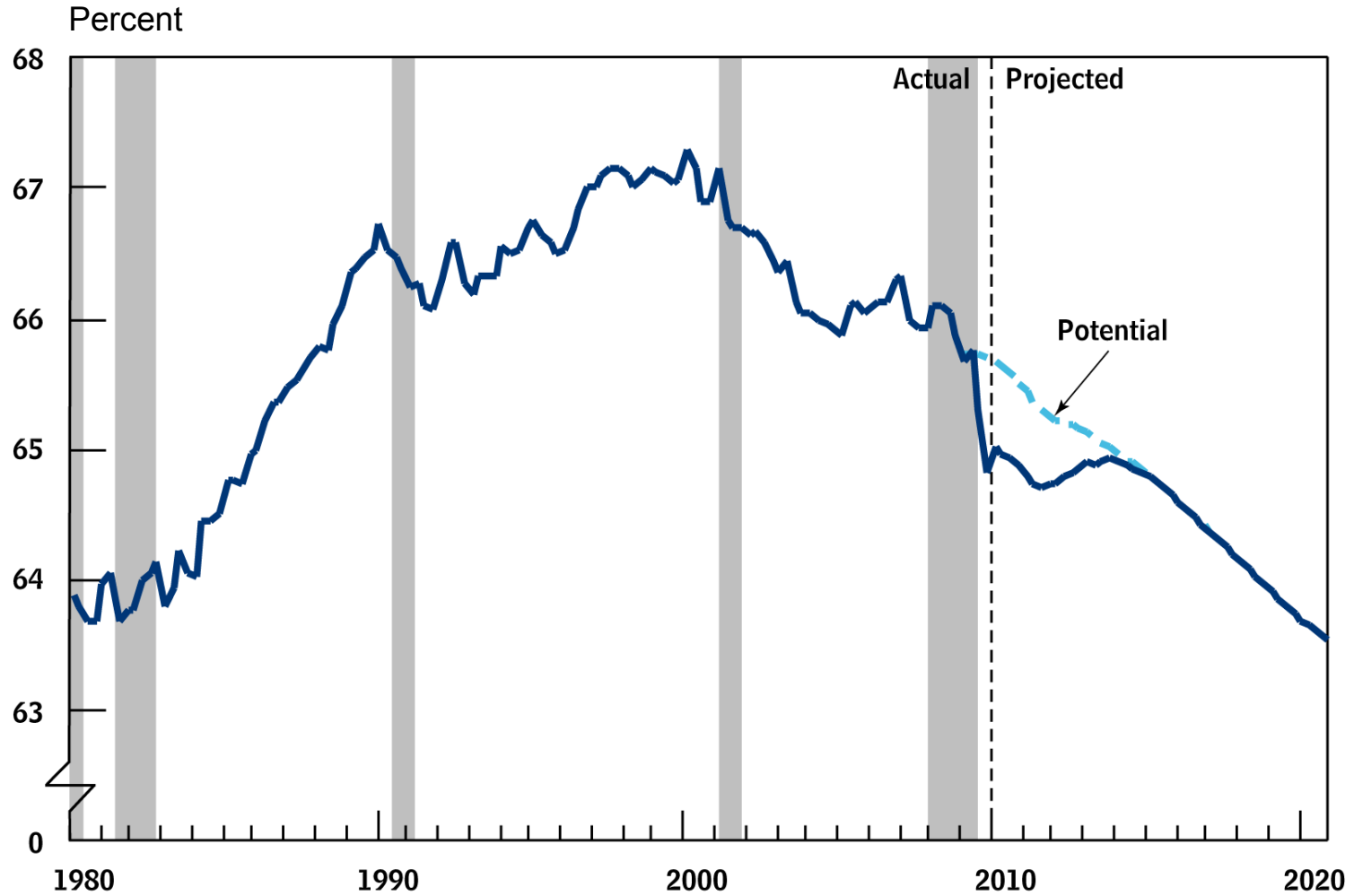


# People Who Have Lost Jobs as a Percentage of All Unemployed Persons



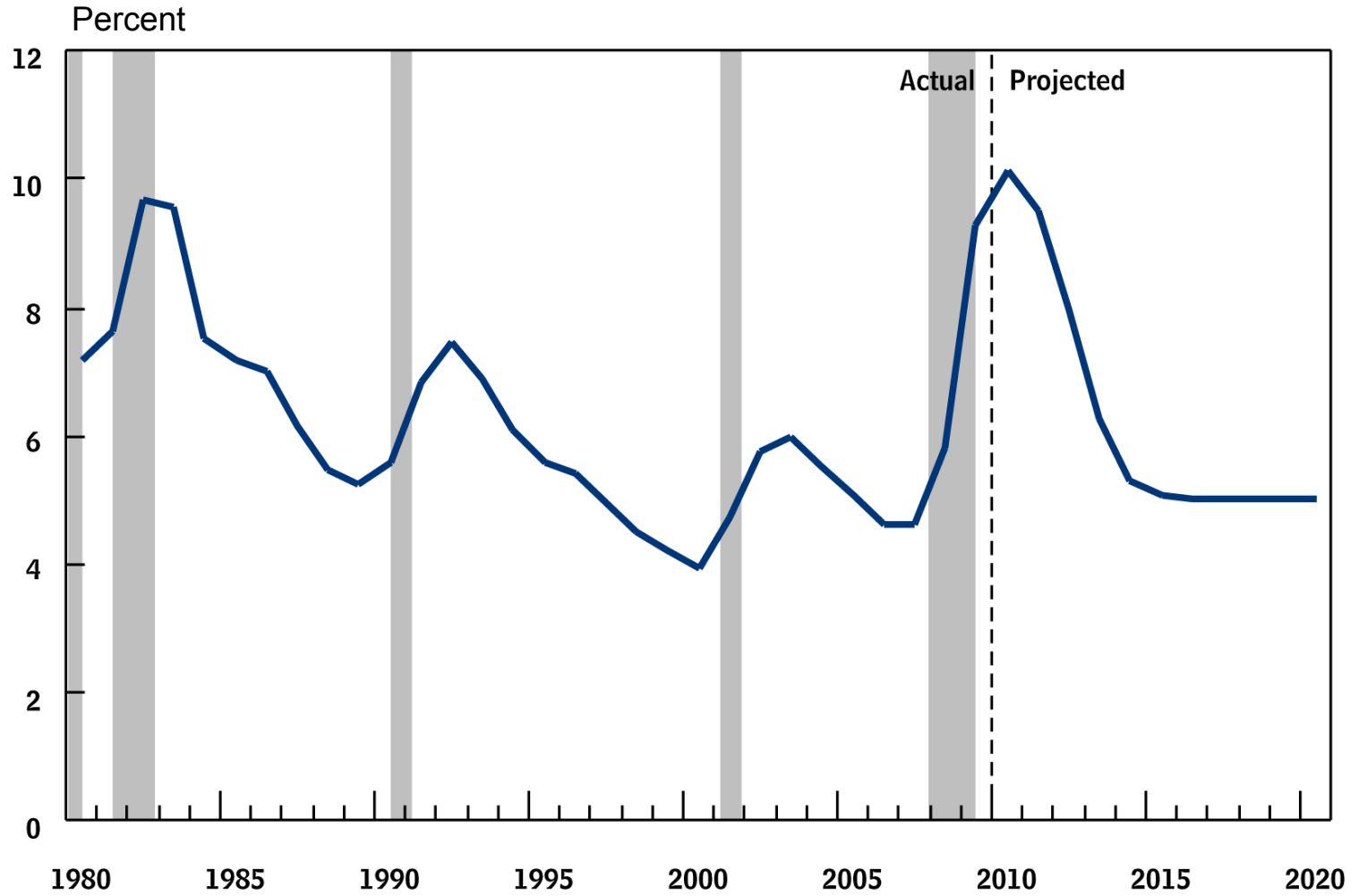


# Labor Force Participation Rate



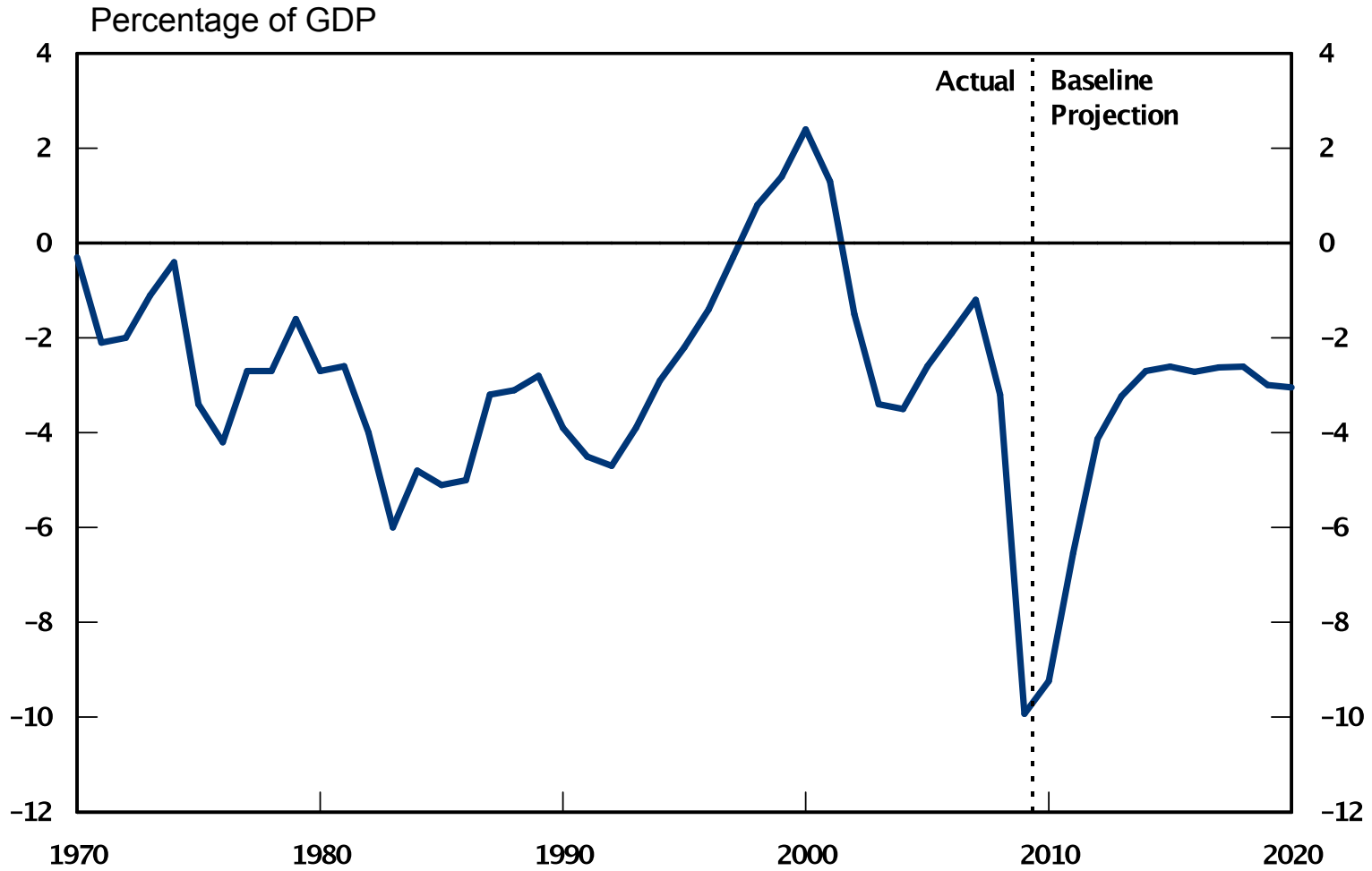


# Unemployment Rate



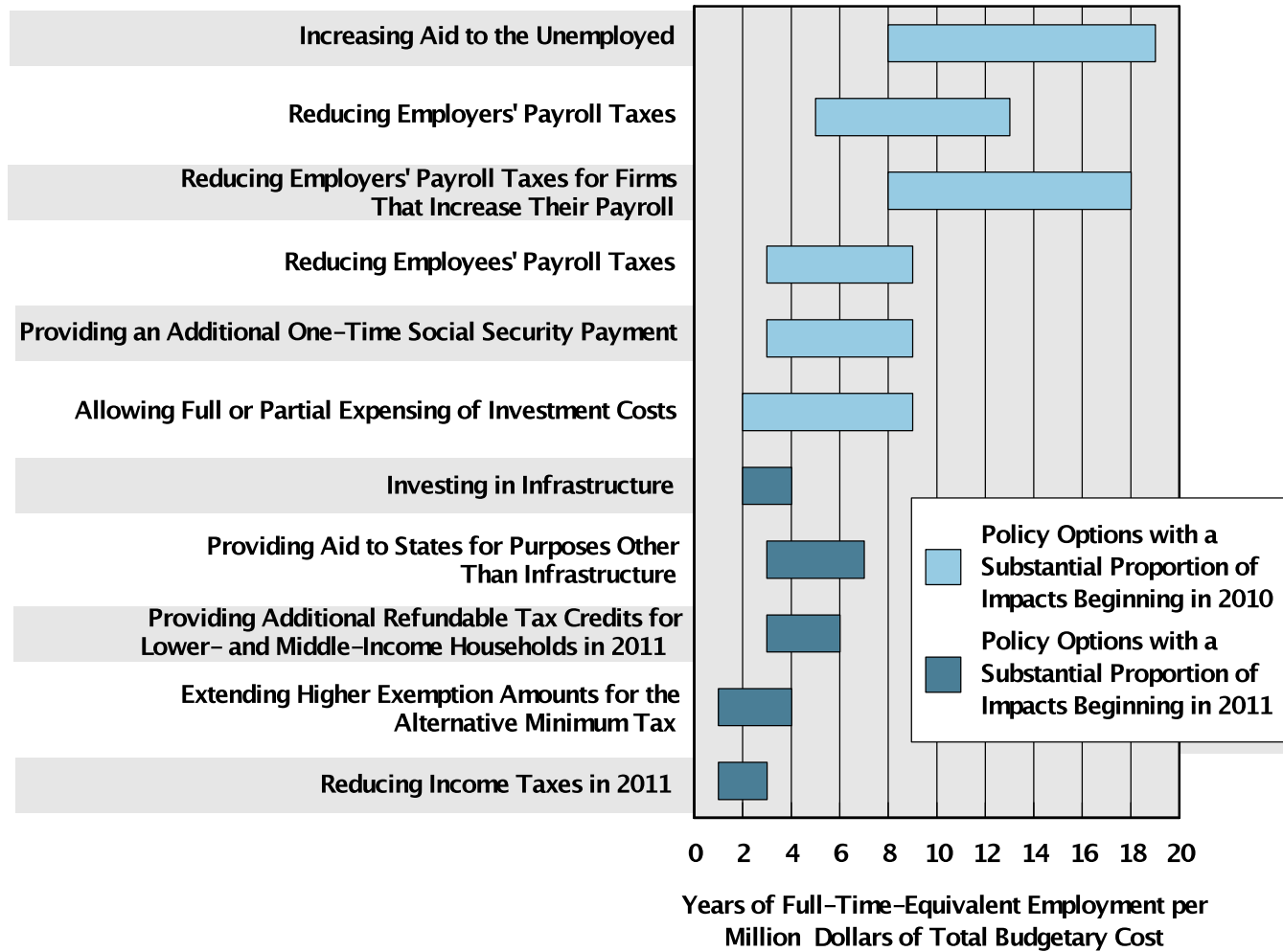


# The Budget Deficit or Surplus





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





## Fiscal Policy in the Near Term

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- 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

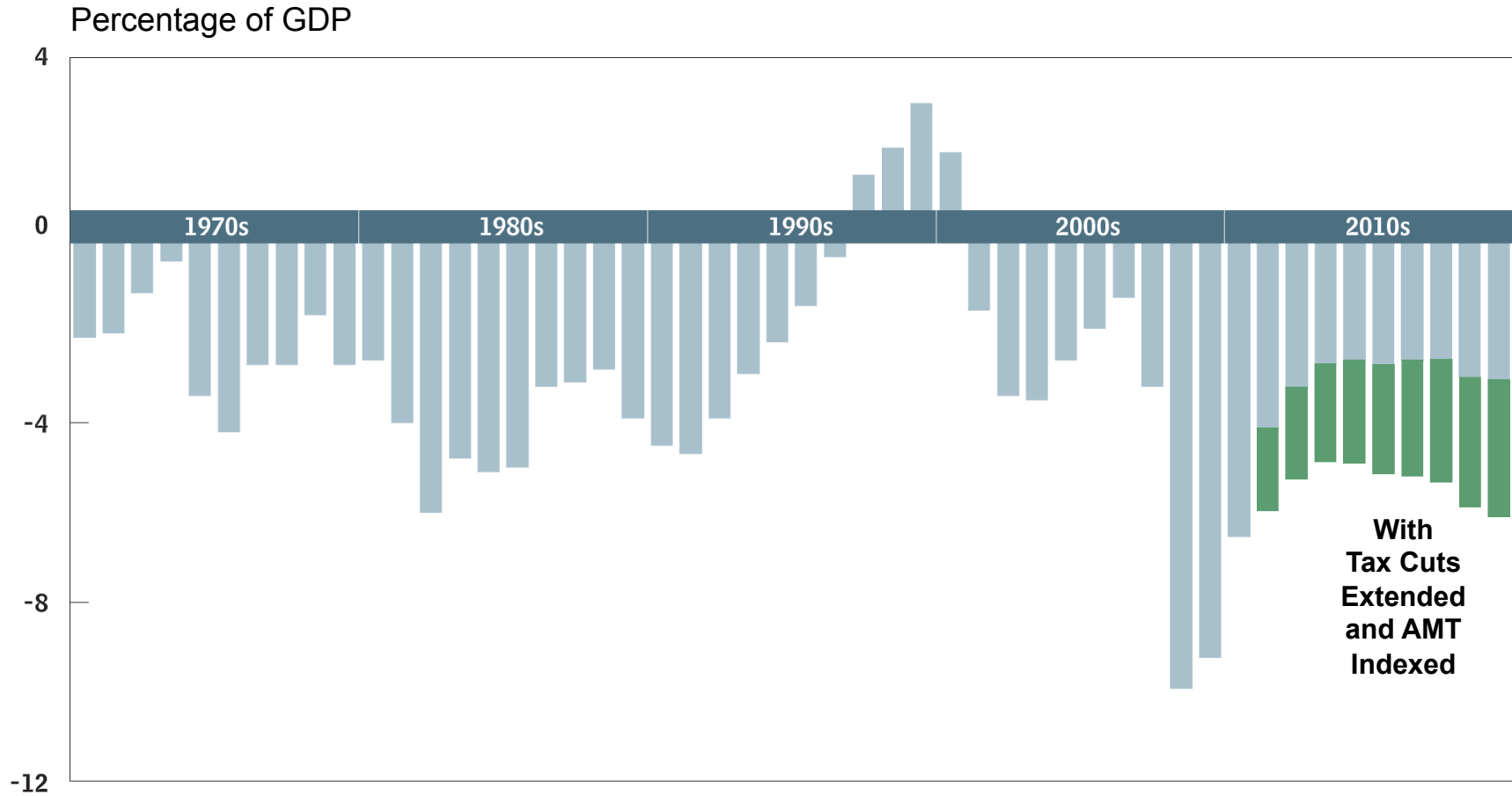
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In CBO's Projection:

- 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.

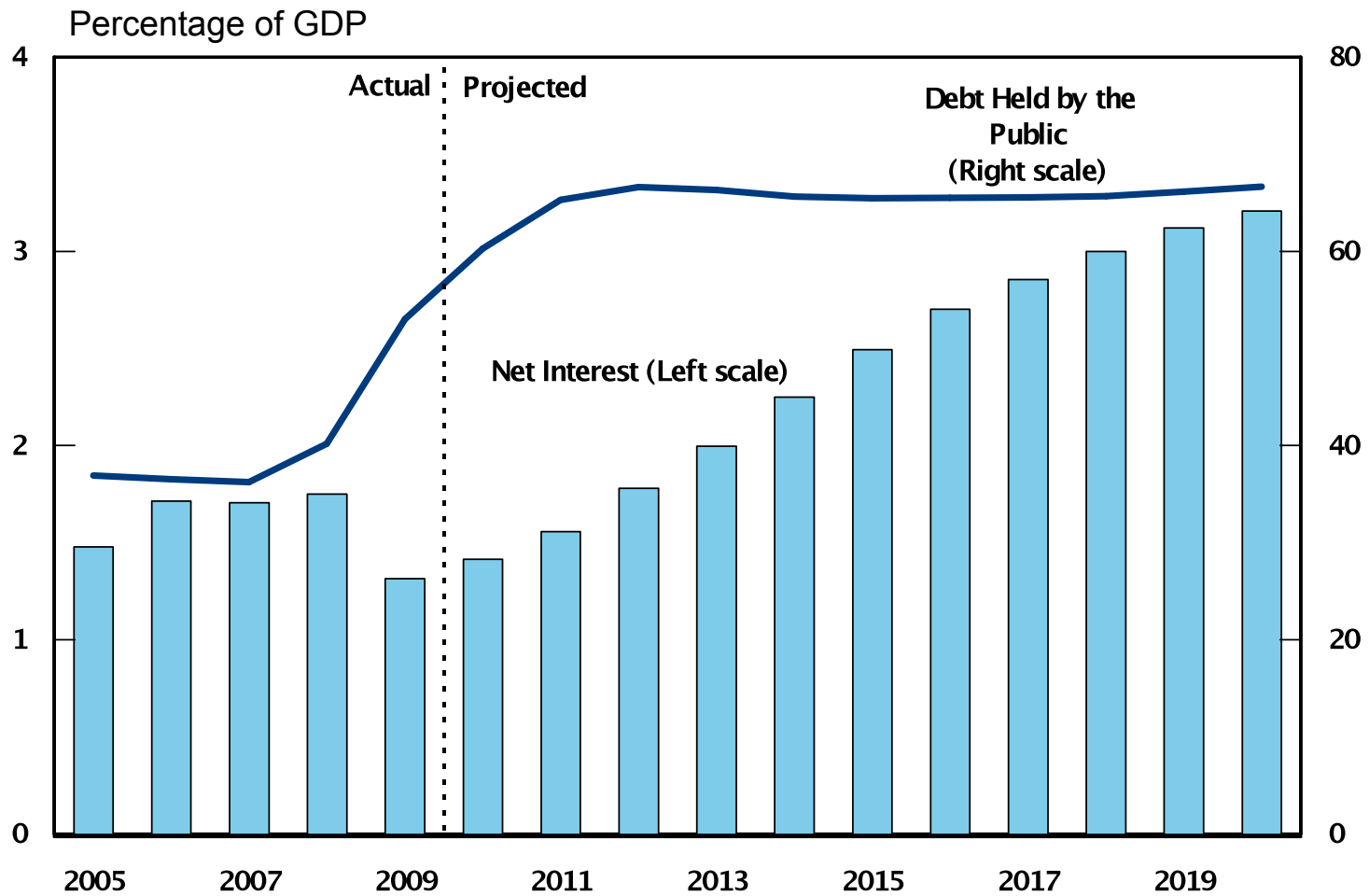


# Budget Deficit or Surplus



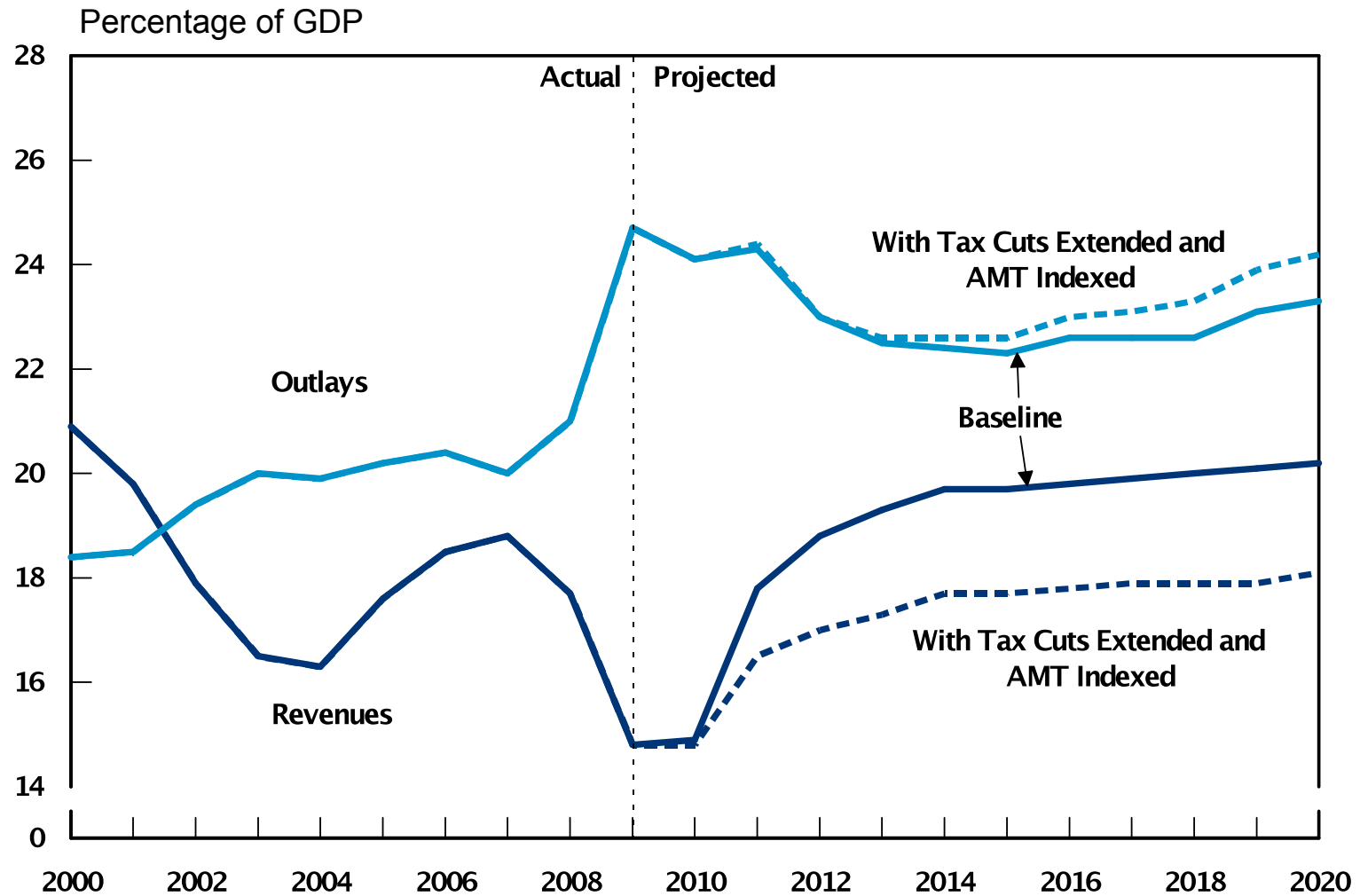


# Debt Held by the Public and Net Interest



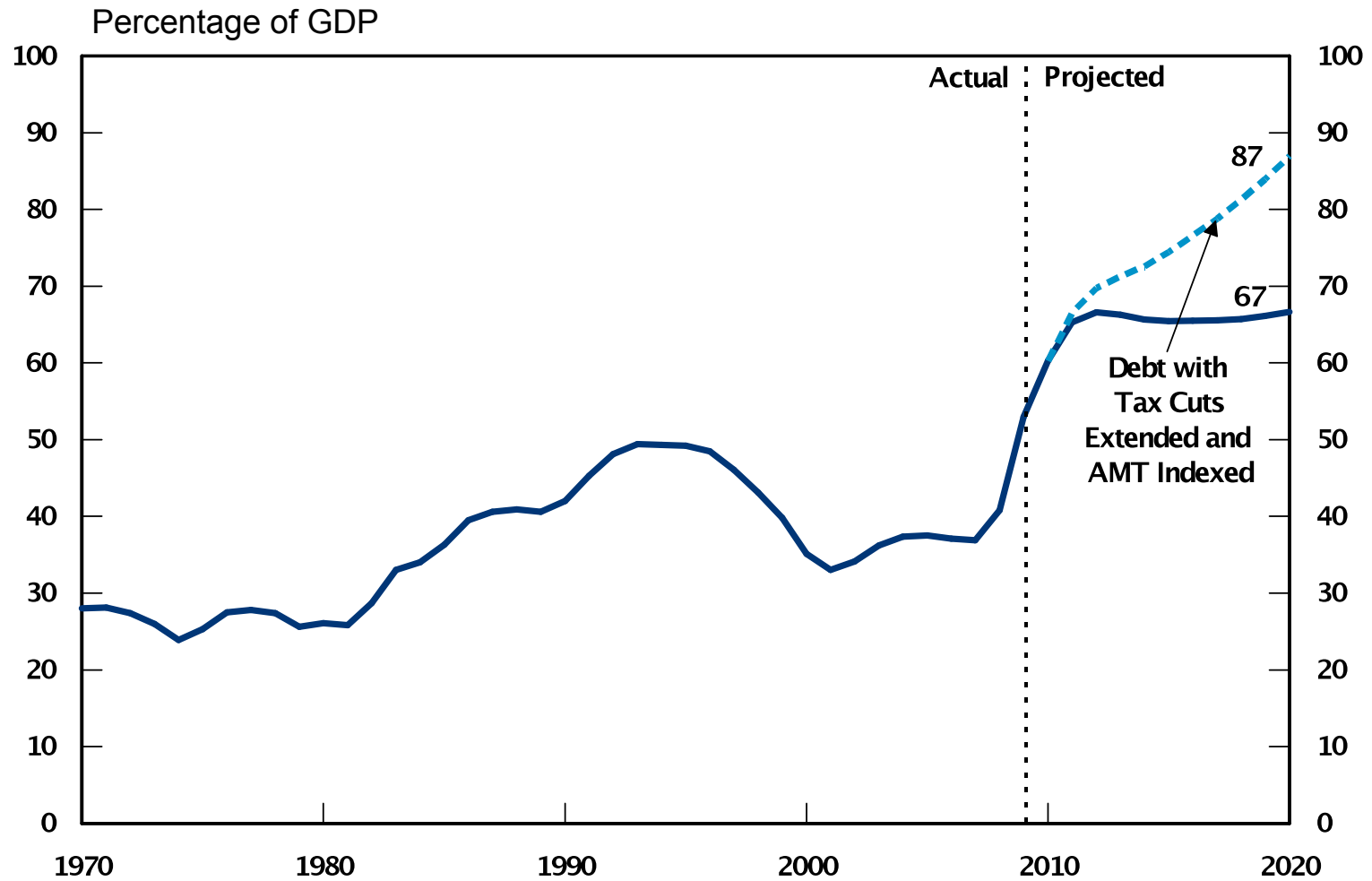


# Revenue and Outlays with Tax Cuts Extended and AMT Indexed



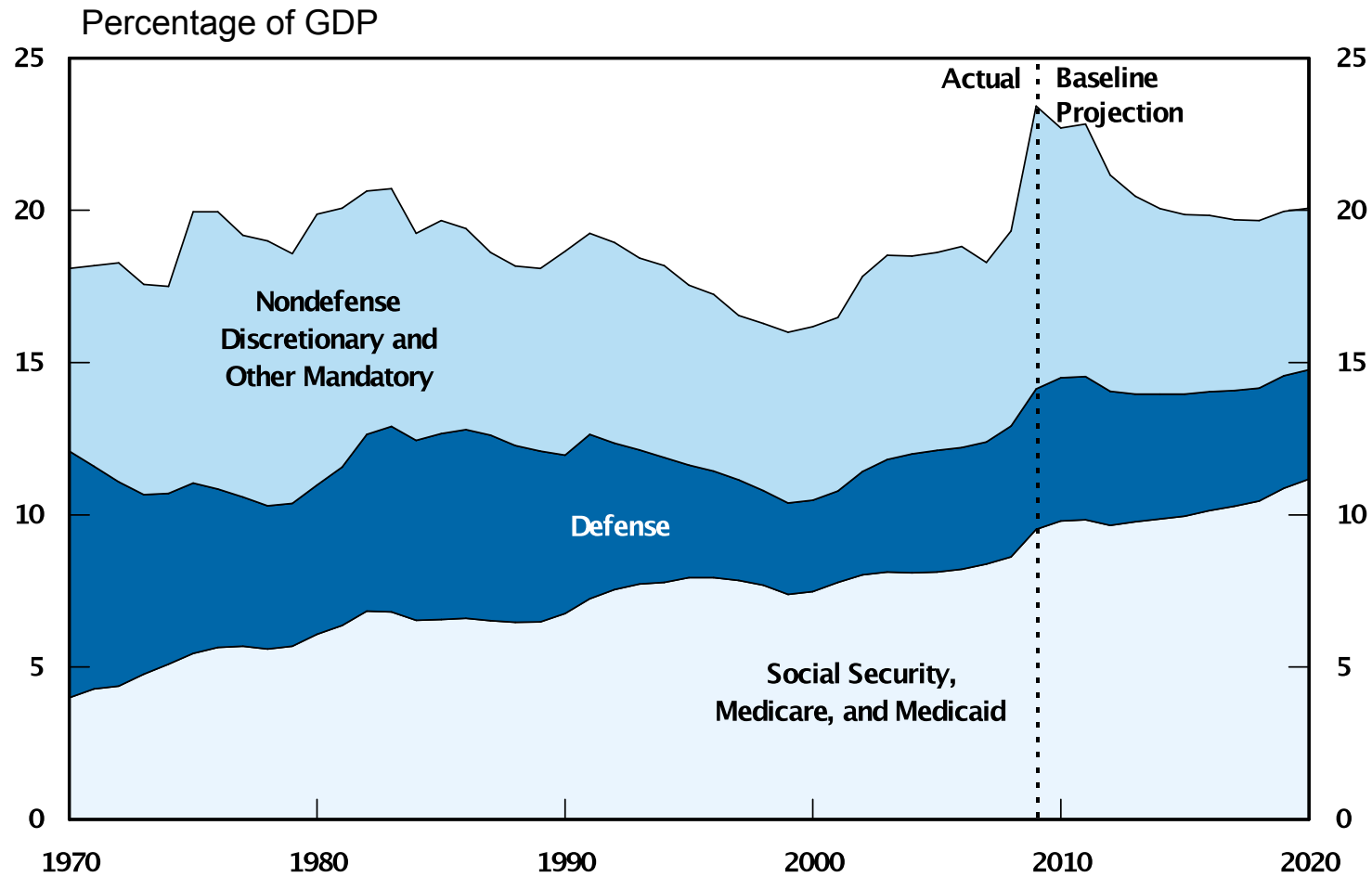


# Rising Debt Burden



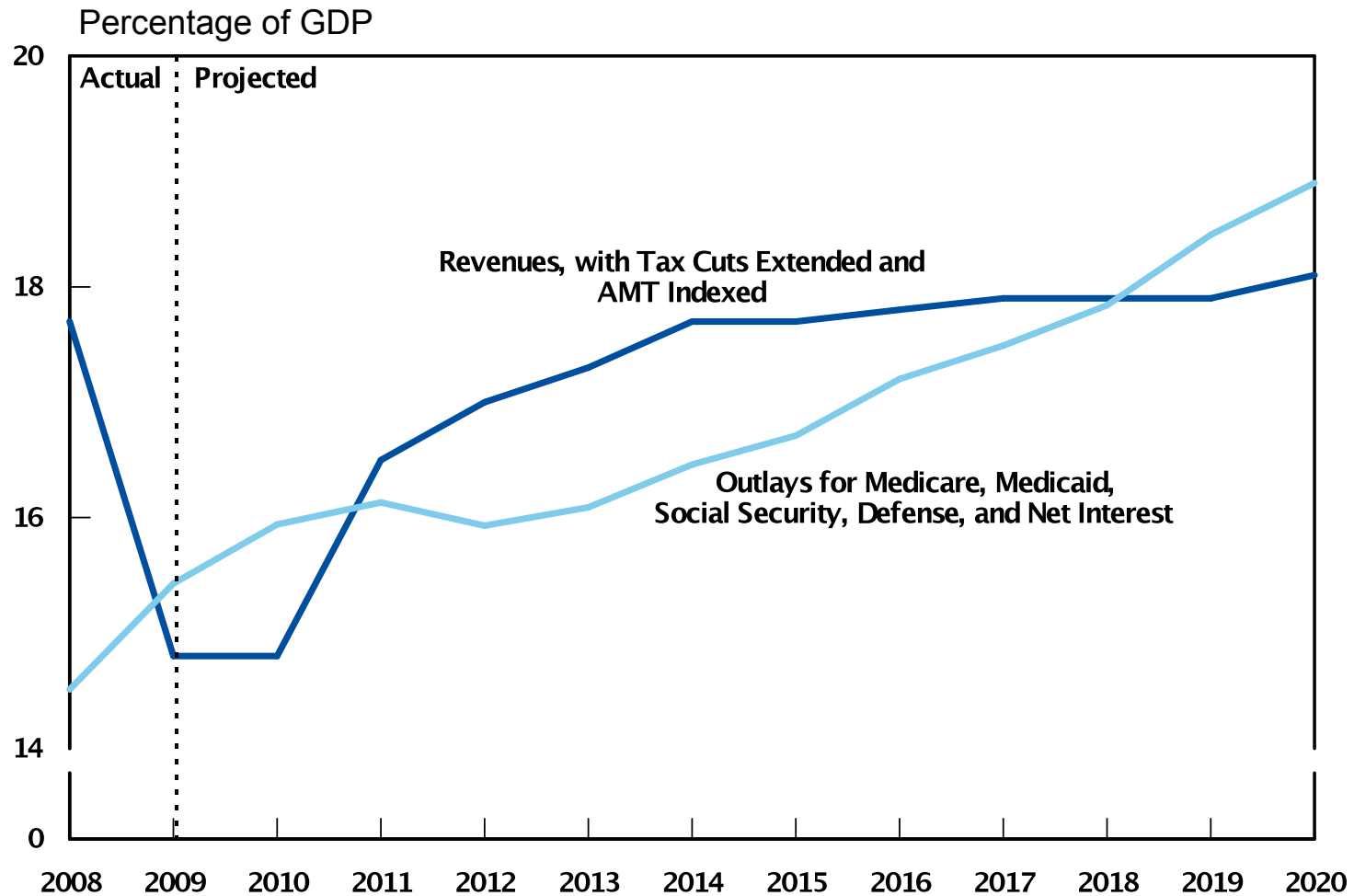


# Federal Outlays by Category, Excluding Interest





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





## Fiscal Policy in the Medium-Term

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- 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.