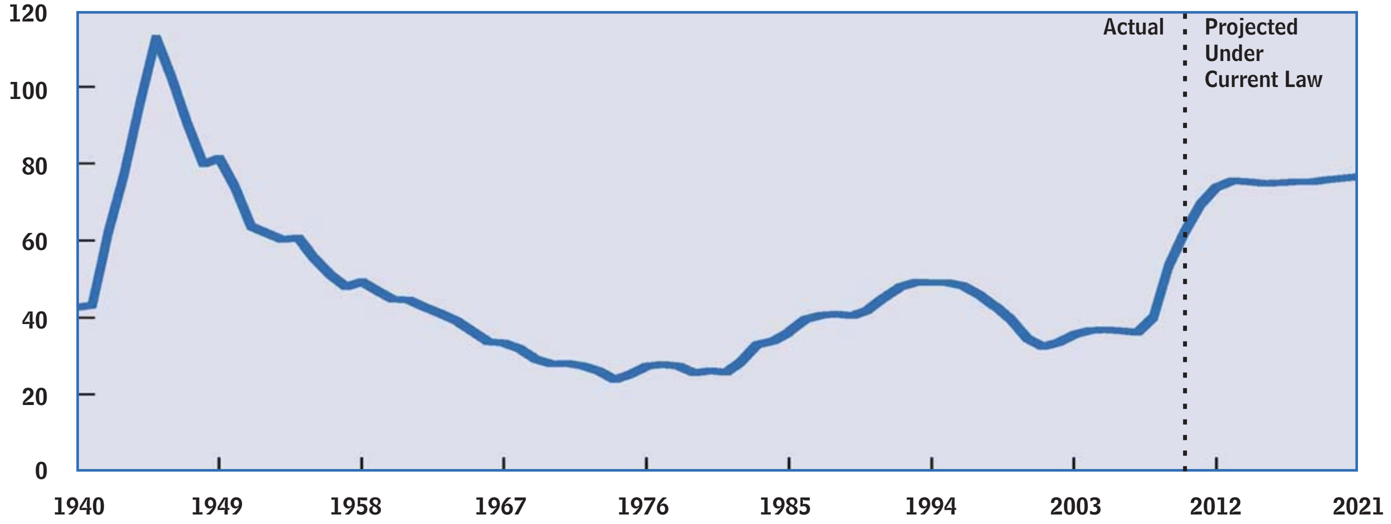
CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

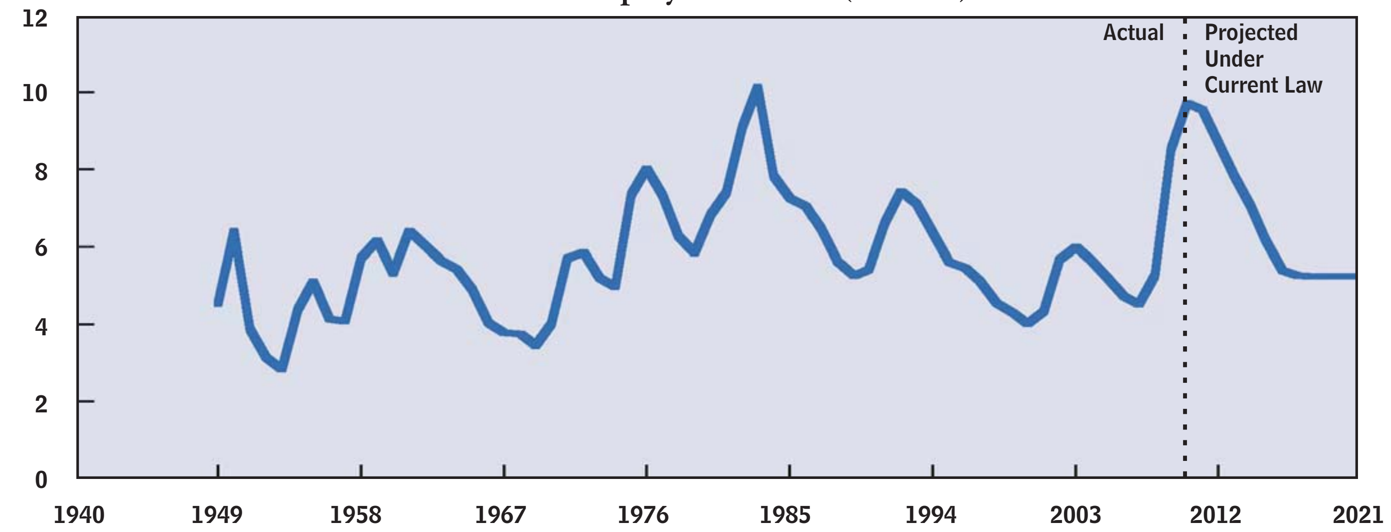
CBO

The Budget and Economic Outlook: Fiscal Years 2011 to 2021

Debt Held by the Public (Percentage of GDP)



The Unemployment Rate (Percent)



JANUARY 2011

Summary

The United States faces daunting economic and budgetary challenges. The economy has struggled to recover from the recent recession, which was triggered by a large decline in house prices and a financial crisis—events unlike anything this country has seen since the Great Depression. During the recovery, the pace of growth in the nation's output has been anemic compared with that during most other recoveries since World War II, and the unemployment rate has remained quite high.

For the federal government, the sharply lower revenues and elevated spending deriving from the financial turmoil and severe drop in economic activity—combined with the costs of various policies implemented in response to those conditions and an imbalance between revenues and spending that predated the recession—have caused budget deficits to surge in the past two years. The deficits of $1.4 trillion in 2009 and $1.3 trillion in 2010 are, when measured as a share of gross domestic product (GDP), the largest since 1945—representing 10.0 percent and 8.9 percent of the nation's output, respectively.

For 2011, the Congressional Budget Office (CBO) projects that if current laws remain unchanged, the federal budget will show a deficit of close to $1.5 trillion, or 9.8 percent of GDP (see Summary Table 1). The deficits in CBO's baseline projections drop markedly over the next few years as a share of output and average 3.1 percent of GDP from 2014 to 2021. Those projections, however, are based on the assumption that tax and spending policies unfold as specified in current law. Consequently, they understate the budget deficits that would occur if many policies currently in place were continued, rather than allowed to expire as scheduled under current law.

The Economic Outlook

Although recent actions by U.S. policymakers should help support further gains in real (inflation-adjusted) GDP in 2011, production and employment are likely to stay well below the economy's potential for a number of years. CBO expects that economic growth will remain moderate this year and next. As measured by the change from the fourth quarter of the previous year, real GDP is projected to increase by 3.1 percent this year and by 2.8 percent next year (see Summary Table 2). That forecast reflects CBO's expectation of continued strong growth in business investment, improvements in both residential investment and net exports, and modest increases in consumer spending. It also includes the impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (referred to in this report as the 2010 tax act), enacted in December, which provides a short-term boost to the economy by reducing some taxes, extending unemployment benefits, and delaying an increase in taxes that would otherwise have occurred in 2011. CBO projects that inflation will remain very low in 2011 and 2012, reflecting the large amount of unused resources in the economy, and will average no more than 2.0 percent a year between 2013 and 2016.

The recovery in employment has been slowed not only by the moderate growth in output in the past year and a half but also by structural changes in the labor market, such as a mismatch between the requirements of available jobs and the skills of job seekers, that have hindered the reemployment of workers who have lost their job. Payroll employment, which declined by 7.3 million during the recent recession, gained a mere 70,000 jobs (or 0.06 percent), on net, between June 2009 and December 2010. (By contrast, in the first 18 months of past recoveries,