



**Congressional Budget Office**

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**Presentation to the 35<sup>th</sup> Annual AAAS Forum on  
Science and Technology Policy**

**The Economic and Budget Outlook  
May 13, 2010**

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Director**



## Economic Recovery Will Be Slow

- Severe economic downturns often sow the seeds of robust recoveries, with output and employment rebounding quickly.
- However, the current recovery will be dampened by:
  - Continuing fragility of some financial markets and institutions.
  - Declining support from fiscal and monetary policy.
  - Restrained increase in household spending.



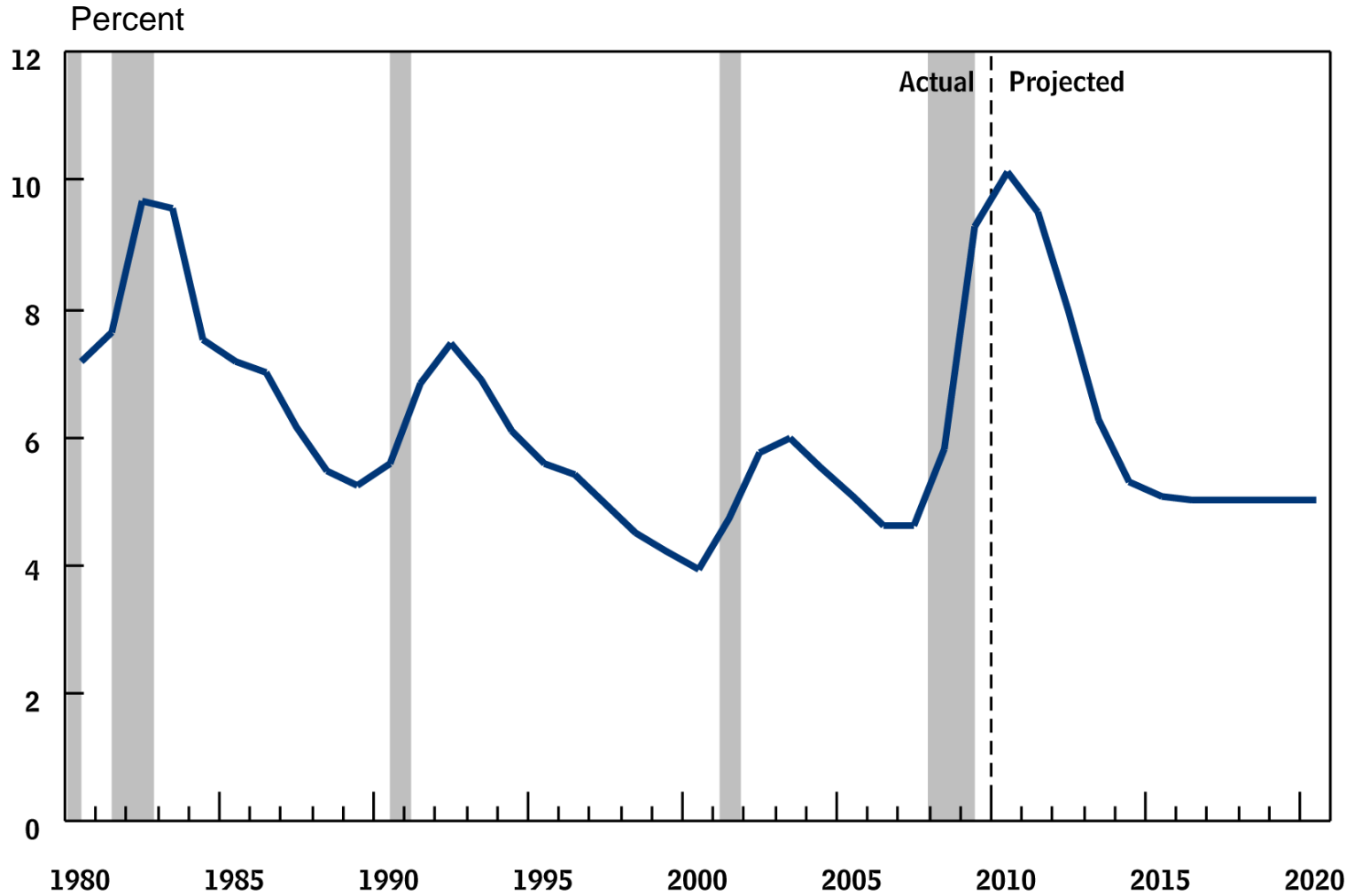
## Labor Market Will Remain Weak for a Few Years

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- Payrolls are starting to expand again, but...
- About 8 million jobs were lost in the recession.
- Slow predicted growth in output means that labor demand will increase slowly.
- Movement into new jobs will be difficult.
- People who have left the labor force will re-enter it, slowing the drop in unemployment.



# Unemployment Rate (CBO's March Baseline)



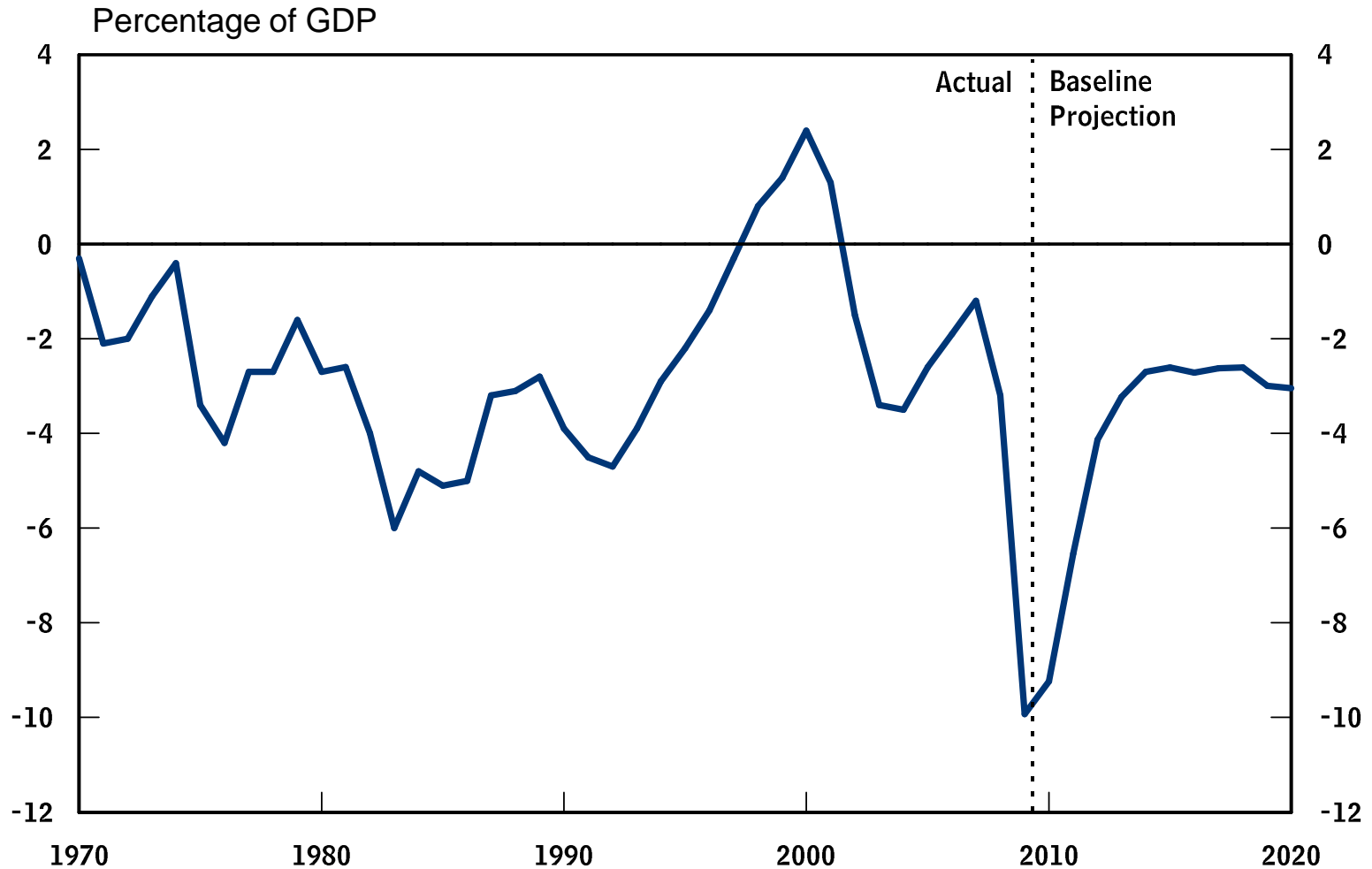


## Inflation Will Stay Low

- Continued slack in the economy—unemployed workers, vacant houses, and idle business structures and equipment—will push down inflation.
- Upward pressure on inflation from energy, commodity, and import prices will probably be small.
- The Federal Reserve will raise interest rates and tighten credit as economic activity strengthens.

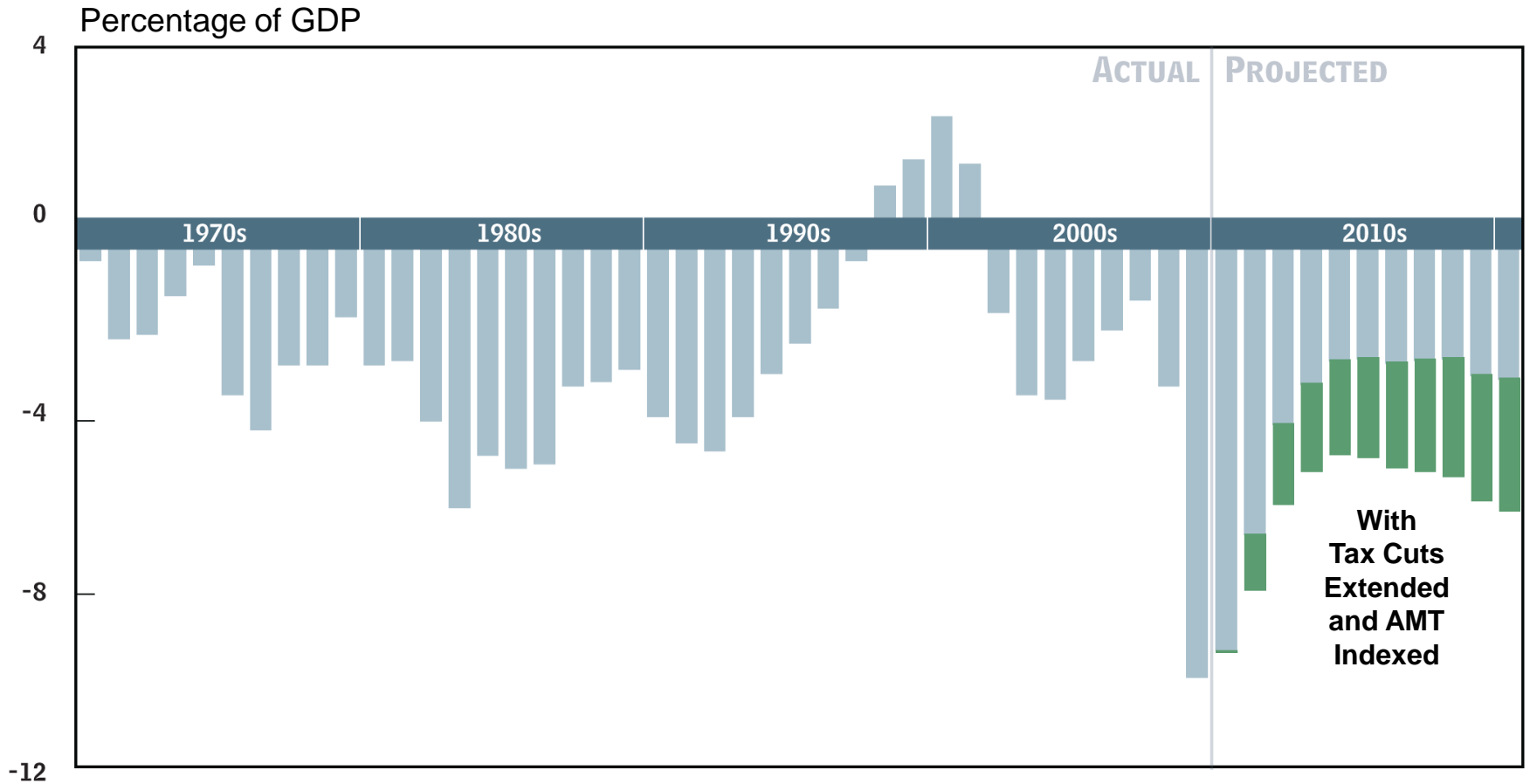


# Budget Deficit or Surplus (CBO's March Baseline)



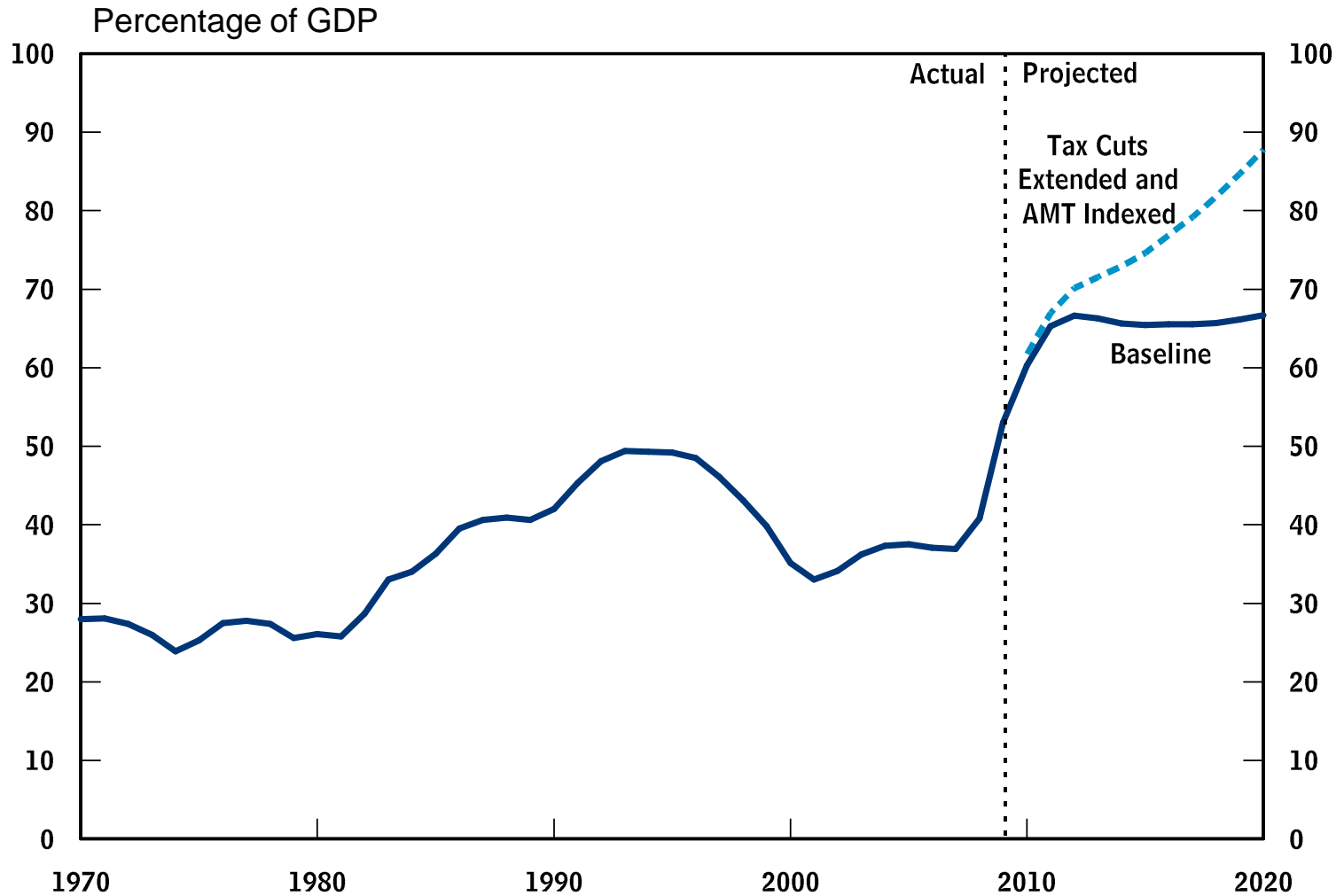


# Budget Deficit or Surplus (CBO's March Projection)





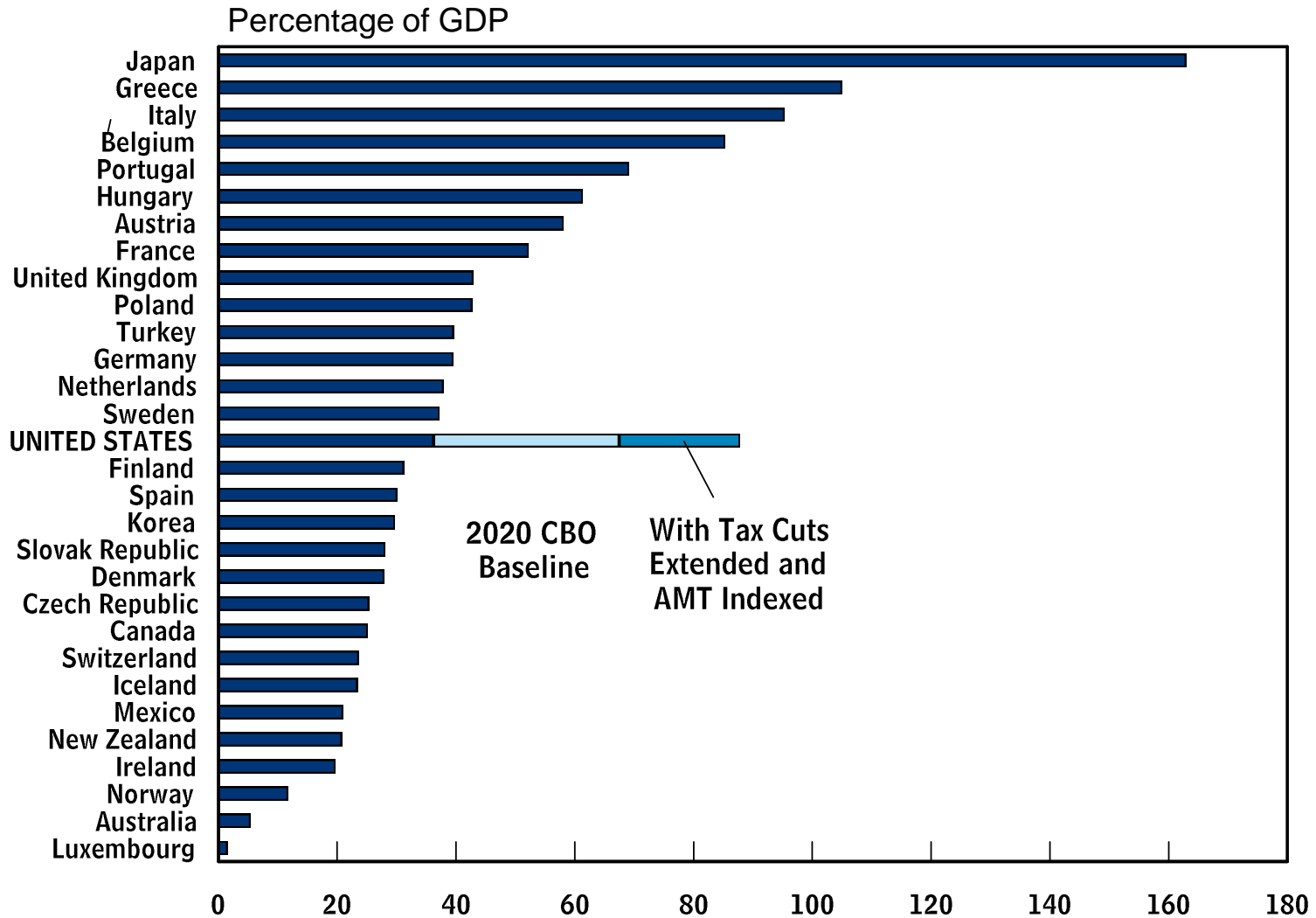
# Rising Debt Burden (CBO's March Projection)







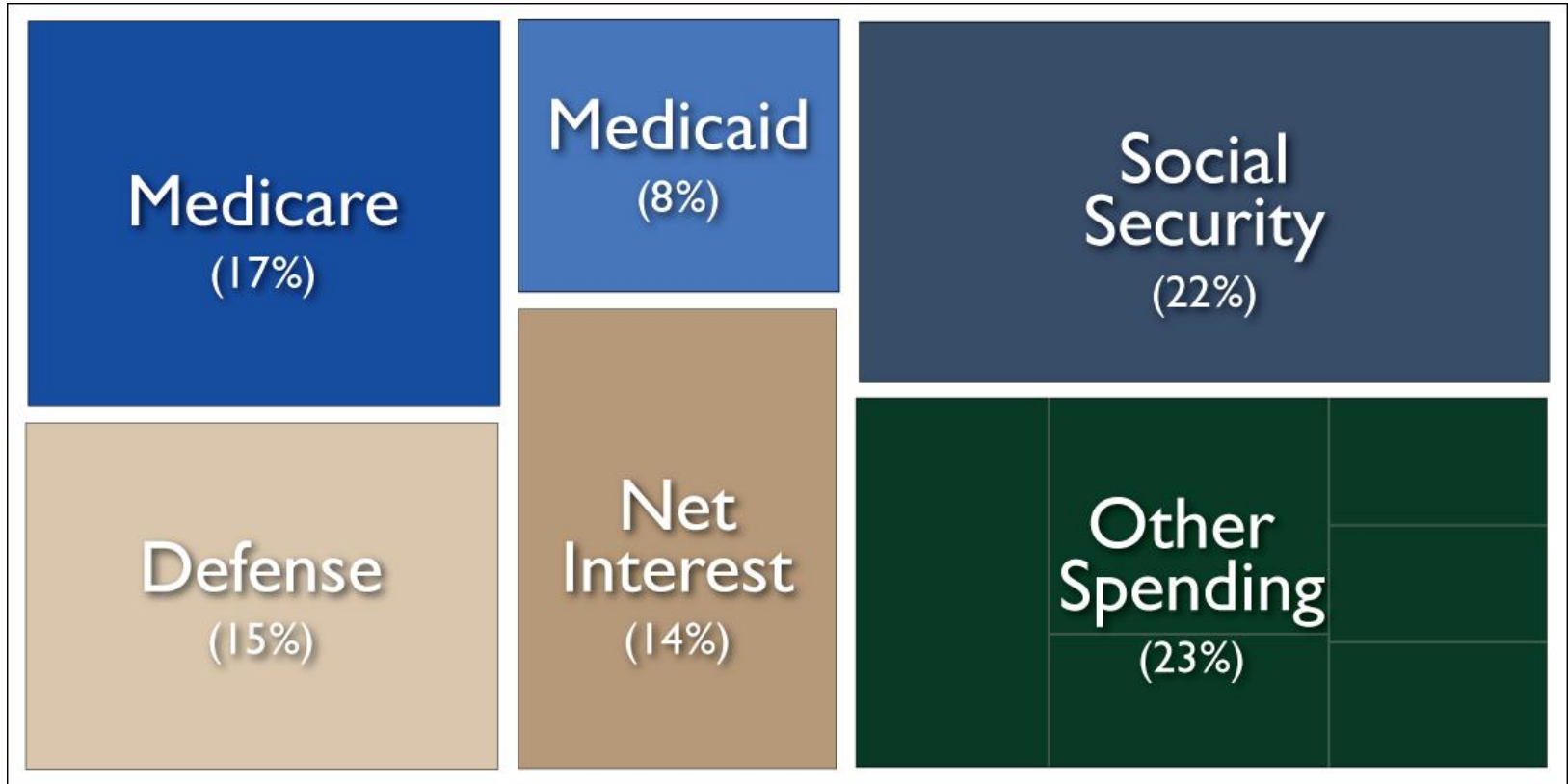
# Comparing Debt Burden Across Countries in 2007



Source: OECD.

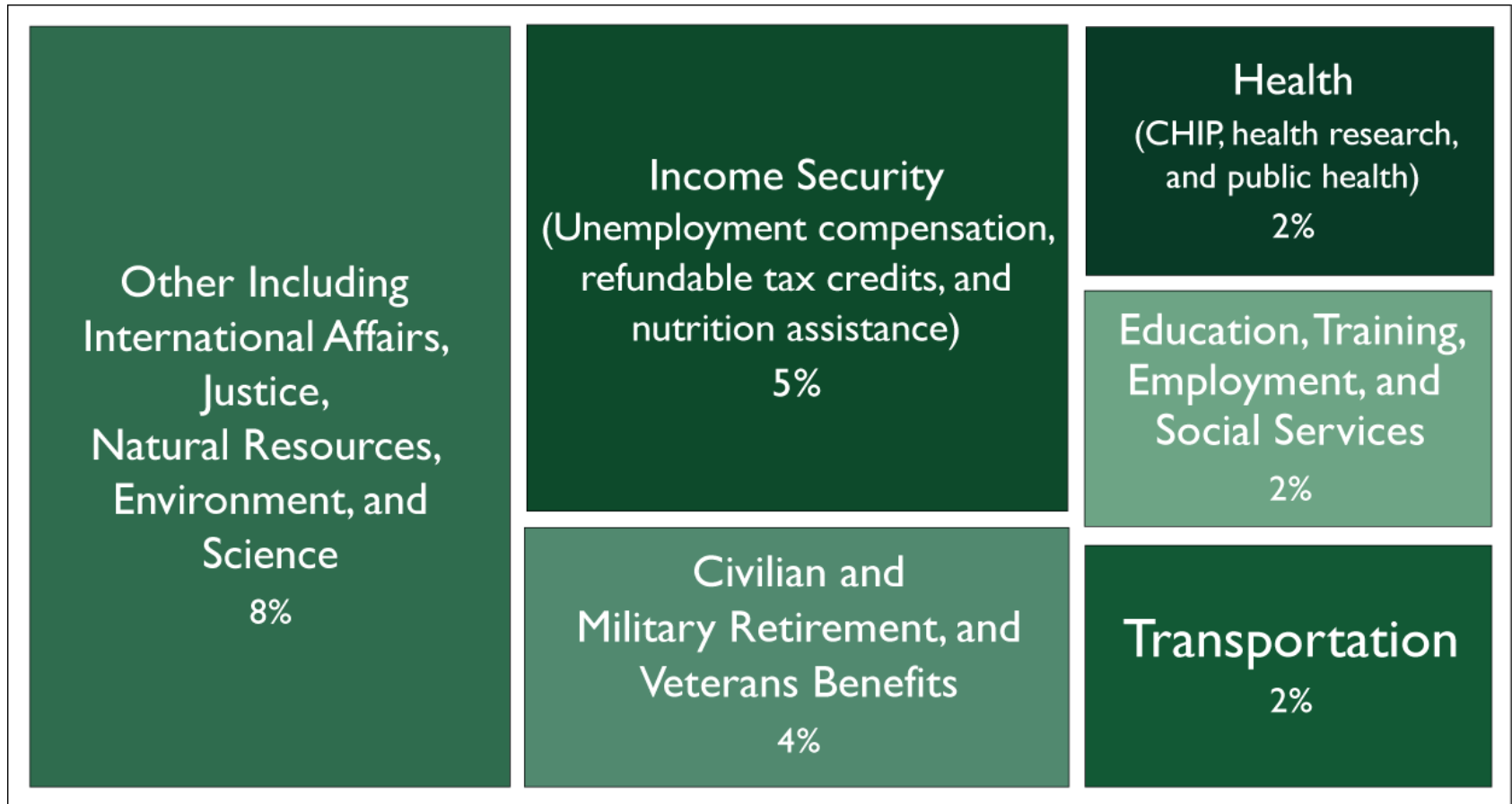


# Federal Spending in 2020 (CBO's March Baseline)



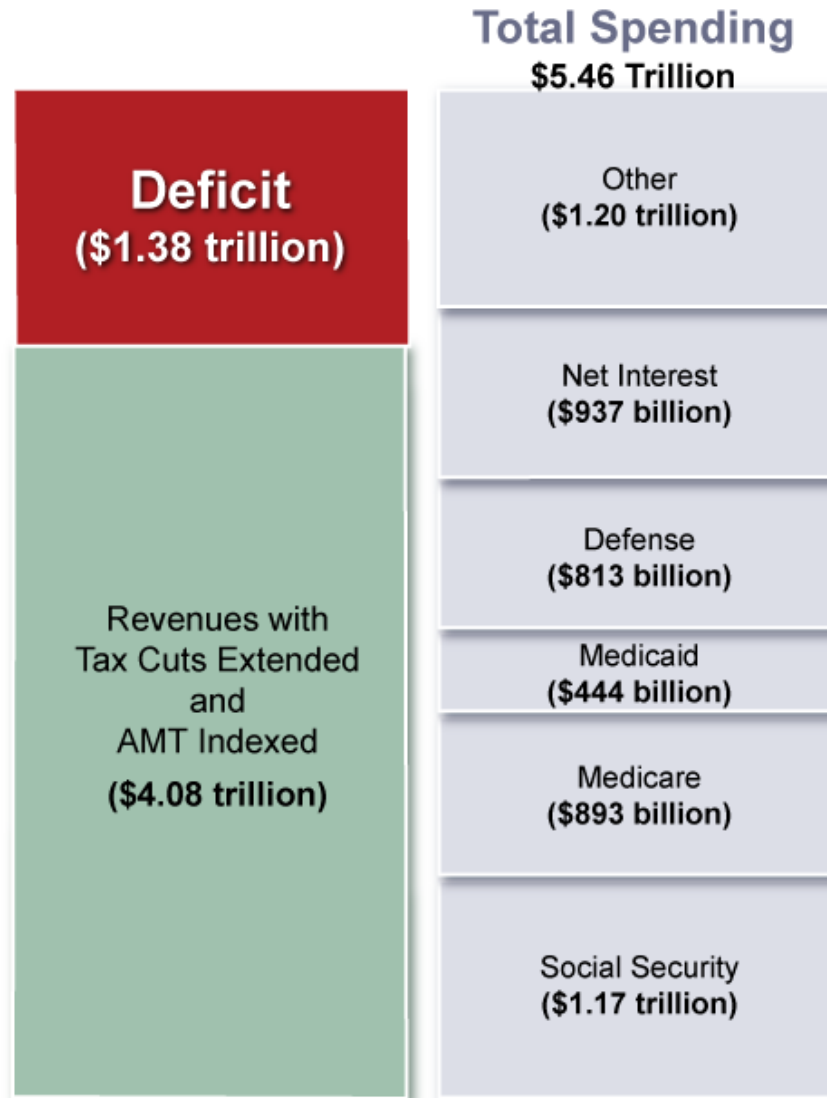


# “Other Spending” in 2020 (CBO’s March Baseline)





# The Federal Budget in 2020 (CBO's March Projection with Tax Cuts Extended and AMT Indexed)





## Changing Course in U.S. Fiscal Policy

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- 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.
- Therefore, putting U.S. fiscal policy on a safe path would require significant changes in spending, revenues, or both.



## Challenges and Opportunities in Changing Course

- Changes of the magnitude required could have important economic and social effects—but they also provide an opportunity to address existing concerns about tax and spending policies.
- Given the time required to implement significant policy changes, determining those changes is an urgent task for policymakers.