

## Overview

- Interim Analysis of President's Budget Proposals released on March 7
  - Cumulative deficit under President's proposals of \$1.8 trillion, 2004-2013
  - CBO baseline surplus of \$891 billion, 2004-2013
- Interim report did not contain analysis of budget proposals potential macroeconomic impacts
  - Final report containing evaluations to be published March 25

## Key Features of Analysis

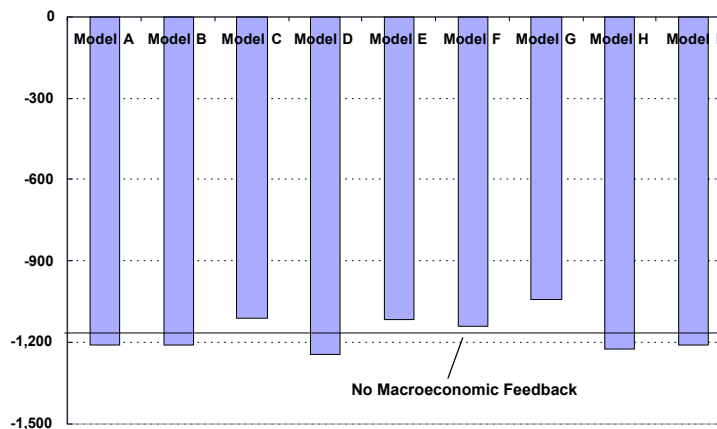
- Employs a wide variety of formal models embodying varying degrees of business-cycle dynamics, household optimization, and foresight
- Treats budgetary proposals as a fiscal policy whole
  - No particular proposal evaluated in isolation
  - As necessary, post-2013 policy assumptions introduced in a transparent manner
- Clear delineation of supply-side growth impacts and short-run, cyclical effects

## Key Results

- On balance, conventional estimate of policy deficit is a reliable indicator of budgetary outlook for these policies, even after examination of potential feedbacks
- Small dynamic impact reflects small scale of proposals in \$11 trillion economy
  - Revenue proposals are roughly 1 percent of GDP
  - Outlay proposals are roughly 0.5 percent of GDP
- Composition of proposals not uniformly growth-oriented
  - Some proposals may raise labor supply, capital formation, and long-run growth, but...
  - Many proposals foster government and private consumption, which is at odds with growth
- Dynamic feedbacks attributed to short-run cyclical recovery are different in character and should be viewed with caution
- Among the nine scenarios examined are positive and negative budgetary feedbacks. CBO presents the range.



### Estimated Deficit Under the President's Budgetary Proposals, by Model, 2004-2008 (in billions of dollars)\*



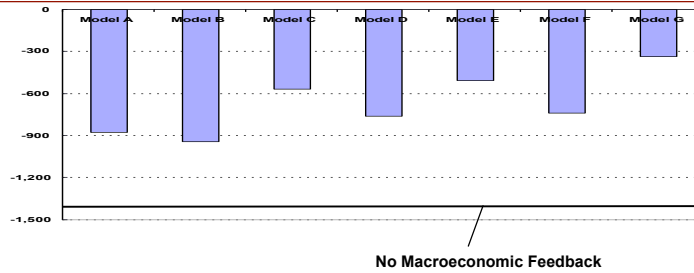
Models: (A) textbook growth model, (B) closed-economy life-cycle model with lower government consumption after 2013, (C) closed-economy life-cycle model with higher taxes after 2013, (D) open-economy life-cycle model with lower government consumption after 2013, (E) open-economy life-cycle model with higher taxes after 2013, (F) infinite-horizon model with lower government consumption after 2013, (G) infinite-horizon model with higher taxes after 2013, (H) Macroeconomic Advisers' model, and (I) Global Insight's model.

\* Supply-side effects only.

CBO Analysis of President's Budget (3-03)



## Estimated Deficit Under the President's Budgetary Proposals, by Model, 2009-2013 (In billions of dollars)\*



Models: (A) textbook growth model, (B) closed-economy life-cycle model with lower government consumption after 2013, (C) closed-economy life-cycle model with higher taxes after 2013, (D) open-economy life-cycle model with lower government consumption after 2013, (E) open-economy life-cycle model with higher taxes after 2013, (F) infinite-horizon model with lower government consumption after 2013, and (G) infinite-horizon model with higher taxes after 2013.

\* Supply-side effects only.

CBO Analysis of President's Budget (3-03)



## Estimates from Supply-Side Models of the Effects on Real GDP (Average percentage change from CBO's Baseline)

	2004-2008	2009-2013
<b>Without Forward-Looking Behavior</b>		
Textbook Growth Model	-0.2	-0.7
<b>With Forward-Looking Behavior</b>		
<b>Closed-Economy Life-Cycle Growth Model</b>		
Lower government consumption after 2013	-0.3	-1.5
Higher taxes after 2013	0.5	0.3
<b>Open-Economy Life-Cycle Growth Model</b>		
Lower government consumption after 2013	-0.6	-0.5
Higher taxes after 2013	0.3	0.6
<b>Infinite-Horizon Growth Model</b>		
Lower government consumption after 2013	0.2	-0.6
Higher taxes after 2013	0.9	1.4

CBO Analysis of President's Budget (3-03)



### Estimates from Supply-Side Models of the Cumulative Budgetary Impacts of the President's Proposals (In billions of dollars)

	<u>2004-2008</u>	<u>2009-2013</u>
Budgetary Cost of the President's Proposals Without Macroeconomic Feedbacks	-802	-1,908
<b>Budgetary Cost of the President's Proposals with Macroeconomic Feedbacks</b>		
Textbook Growth Model	-847	-2,126
Closed-Economy Life-Cycle Growth Model		
Lower government consumption after 2013	-846	-2,194
Higher taxes after 2013	-745	-1,817
Open-Economy Life-Cycle Growth Model		
Lower government consumption after 2013	-880	-2,013
Higher taxes after 2013	-753	-1,760
Infinite-Horizon Growth Model		
Lower government consumption after 2013	-775	-1,989
Higher taxes after 2013	-680	-1,587

CBO Analysis of President's Budget (3-03)



### Estimates of the Macroeconomic Effects from Business-Cycle Models, Average from 2004 to 2008 (Percentage change from CBO's baseline)

<u>Type of Effect/Model</u>	<u>Nominal Gross Domestic Product</u>	<u>Real Gross Domestic Product</u>	<u>Real Gross Private Domestic Investment</u>	<u>Employment</u>	<u>Real Consumption</u>
<b>Supply-Side Contribution</b>					
Macroeconomic Advisers	-0.1	-0.3	-4.1	0.1	0
Global Insight	0.2	-0.2	-4.2	0.1	0.7
<b>Cyclical Contribution</b>					
Macroeconomic Advisers	1.4	0.5	0.5	0.3	0.4
Global Insight	2.1	1.6	5.6	1.1	1.3
<b>Total Effect</b>					
Macroeconomic Advisers	1.2	0.2	-3.6	0.4	0.5
Global Insight	2.3	1.4	1.5	1.2	2.0

CBO Analysis of President's Budget (3-03)



**Estimates of the Budgetary Impacts of the President's Proposals from Business-Cycle Models, by Source, 2004-2008 (In billions of dollars)**

<b>Impact/Model</b>	<b>Cyclical Contribution</b>	<b>Supply-Side Contribution</b>	<b>Cyclical and Supply-Side Contributions</b>
Revenues			
Macroeconomic Advisers	175	-14	161
Global Insight	304	2	306
Outlays			
Macroeconomic Advisers	193	43	236
Global Insight	27	48	75
Deficit (-) or Surplus			
Macroeconomic Advisers	-18	-57	-75
Global Insight	277	-46	231