Joint Economic Committee
Chairman Erik Paulsen (R-MN)

April 17, 2018

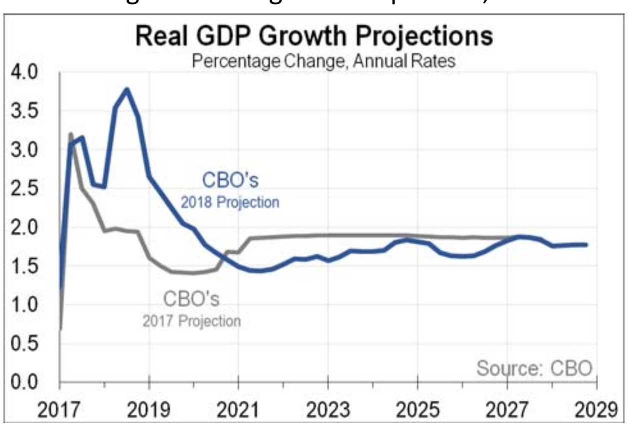
Takeaways from CBO's 2018 Budget and Economic Outlook

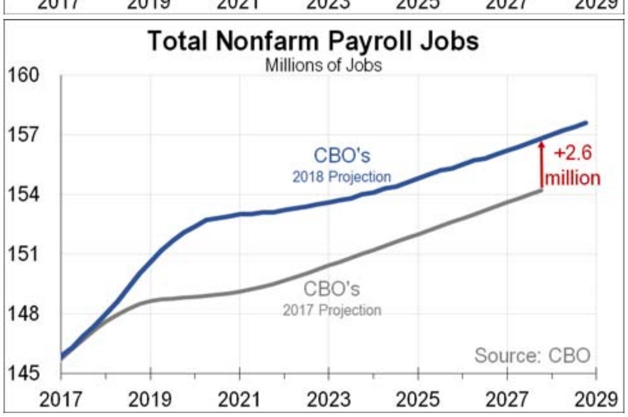
Snapshot: Compared with the Previous CBO Budget and Economic Outlook…
- Projected economic growth is substantially faster in the next three years.
- 2.6 million more jobs are projected by year-end 2017.
- Inflation and interest rates rise modestly.
- The change in the federal debt burden from the Tax Cuts and Jobs Act (TCJA) is relatively small.

Today, Larry Kudlow, director of the National Economic Council, criticized the Congressional Budget Office as "always wrong, especially with regard to tax cuts, which they never score properly because they don't understand the growth, the incentives and the encouragements to reward success." Nevertheless, the Joint Economic Committee's analysis finds CBO's 2018 Budget and Economic Outlook to contain some good news about the economy.

A deeper analysis of CBO's report finds that it offers a very favorable take on economic policies enacted by this Republican Congress and Administration over the last year. In addition, the U.S. economy's estimated economic potential was revised upward for the first time after being revised downward every year since 2008. CBO also noted that 3.5% growth over the next 5 years is possible. Concerns about an "explosion of debt" due to TCJA are substantially overblown. Unlike the previous Administration and Democratic Congress, whose policies reduced the economy's potential and increased the debt-to-GDP ratio by 31 percentage points relative to initial CBO projections, the pro-growth policies of this Congress and Administration (including TCJA), raised the projected debt-to-GDP ratio by a mere 3.3 percentage points. Solving America's debt issue requires mandatory spending reform; higher tax rates cannot solve America's debt issue.

Overall, CBO's report suggests that with both 2.6 million more jobs after 10 years (relative to its June 2017 projection) and economic growth rising above 3 percent, America is headed in the right direction.





Near-term growth projections revised up substantially.

CBO raised Q4-2017 to Q4-2018 real GDP growth from 2.0 percent to 3.3 percent, despite many pundits claiming 3 percent growth was no longer possible.

The growth projection does not account for ongoing policy reform efforts, such as in regulation and infrastructure.

CBO assumes growth rate effects will dissipate over the decade as temporary provisions of TCJA expire.

CBO projects there will be 2.6 million more jobs by 2027.

CBO now projects there will be a total of 156.8 million jobs by 2027-Q4, up from 154.2 million jobs in CBO's June 2017 projection.

CBO credits TCJA for 0.9 million additional jobs on average over the forecast period.

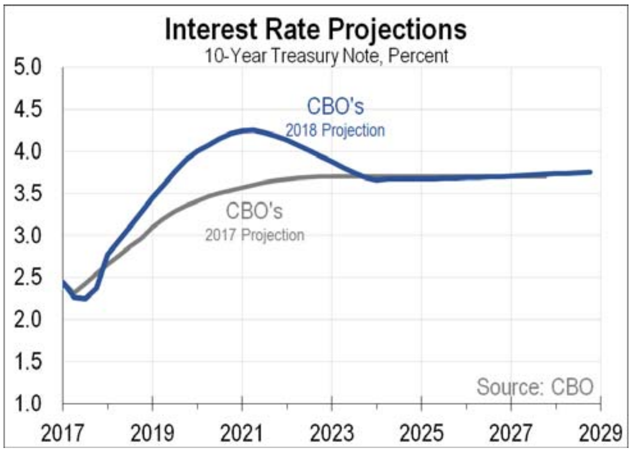
While CBO does not state this, the new jobs likely will accrue largely to those who have not gone to college, as unemployment rates are already quite low for those with higher educational attainment.

The inflation forecast is little changed over the decade.

The inflation rate* is projected to rise to 2.2 percent in the near term and then return to 2 percent.

The Federal Reserve thus achieves its "symmetric" 2 percent inflation target, which inflation has been undershooting for the last five years.

**Chart/description data refer to CBO's projection for BEA's personal consumption expenditures (PCE) core price index, which excludes volatile food and energy prices.*

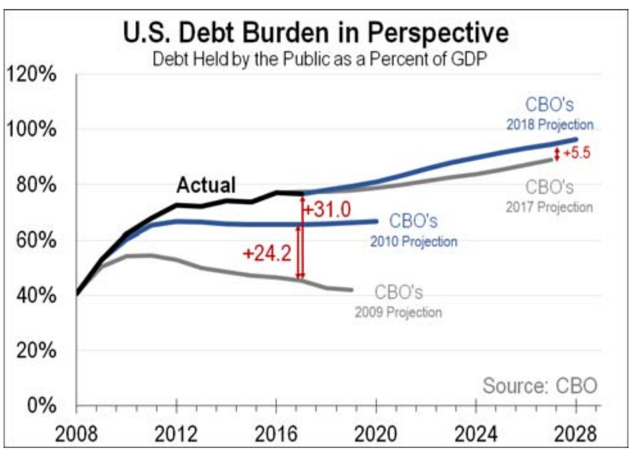


CBO projects higher interest rates near term and then returning to its earlier projection.

Interest rates, as measured by the yield on 10-year Treasury Notes, are anticipated to reach a high of 4.3 percent in 2021, rather than 3.6 percent from CBO's earlier projection. (The peak before the recession was 5.1 percent.)

In the longer run interest rates return to 3.7 percent, as was projected by CBO in June 2017.

While CBO does not state this, higher interest rates benefit Americans who rely on their savings for income, particularly those in retirement.



The overall debt burden is little changed.*

CBO projects a debt-to-GDP ratio for 2027 only 5.5 percentage points higher than its January 2017 estimate.

By contrast, CBO raised its projection for year-end 2017 by 24.2 percentage points over the Obama Administration's first year. The ratio actually ended up 31 percentage points higher than CBO's initial projection.

Since enactment of TCJA, CBO raised its debt-to-GDP projection by only 3.3 percentage points compared to its more recent June 2017 estimate.

**Chart data only compare the Budget and Economic Outlook CBO first publishes in a given year.*