Congressional Budget Office

Presentation to the 3rd Meeting of OECD Parliamentary Budget Officials

CBO's Analysis of Fiscal Policy Options

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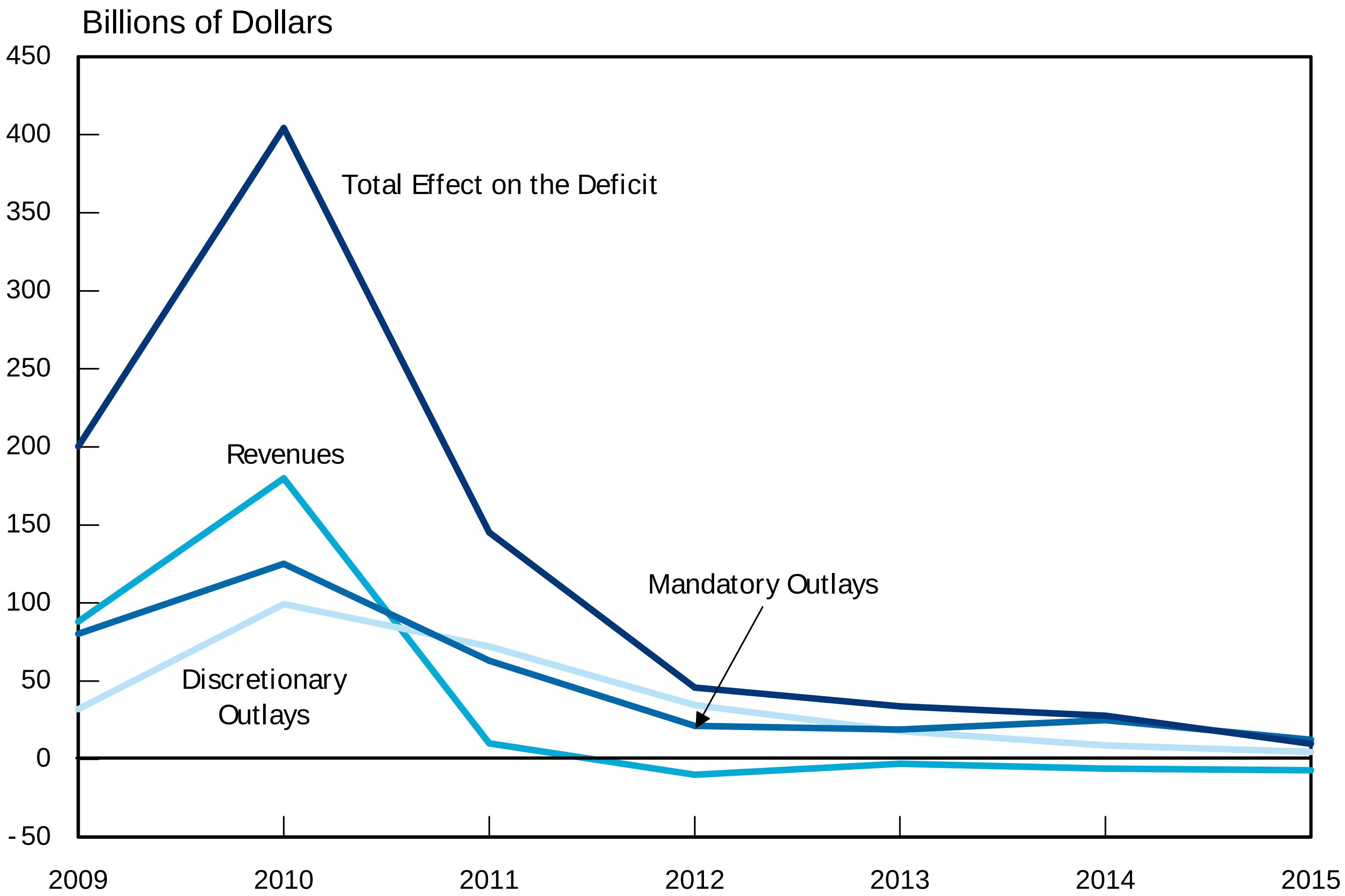
Key Criteria for Effective Fiscal Stimulus

- **Timing**: providing help when it is needed most.
- **Cost-effectiveness:** providing the most growth and employment per dollar cost to the federal budget.
- **Consistency with long-term fiscal objectives:** preventing the short-term deficit increase due to stimulative policy from adding excessively to federal debt in the long run.

Estimated Budgetary Effects of the American Recovery and Reinvestment Act (ARRA)

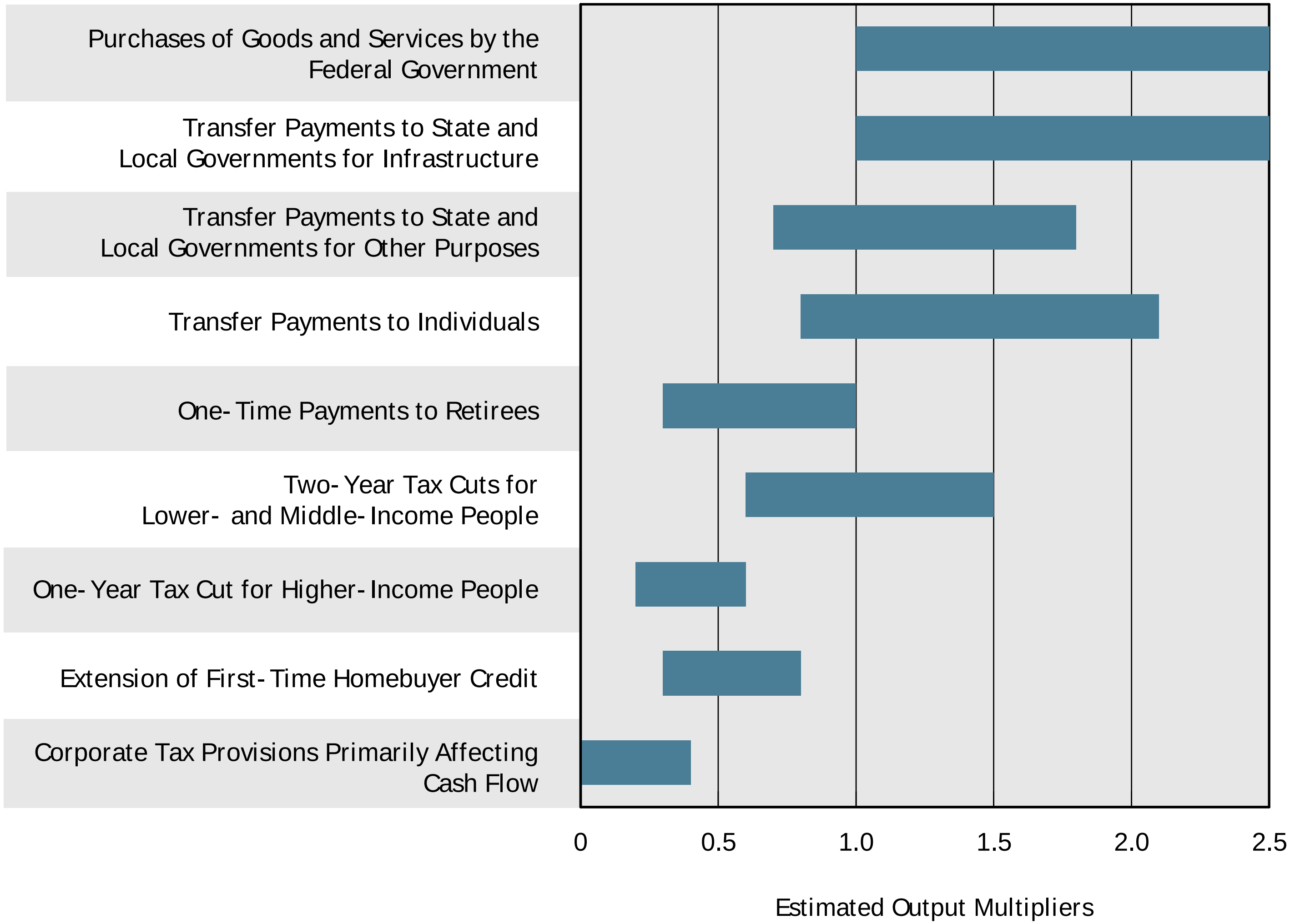


Quantifying Short-Term Effects

- **Multipliers:** quantifies the estimated direct and indirect effects on the nation's output of a dollar's worth of a given policy.

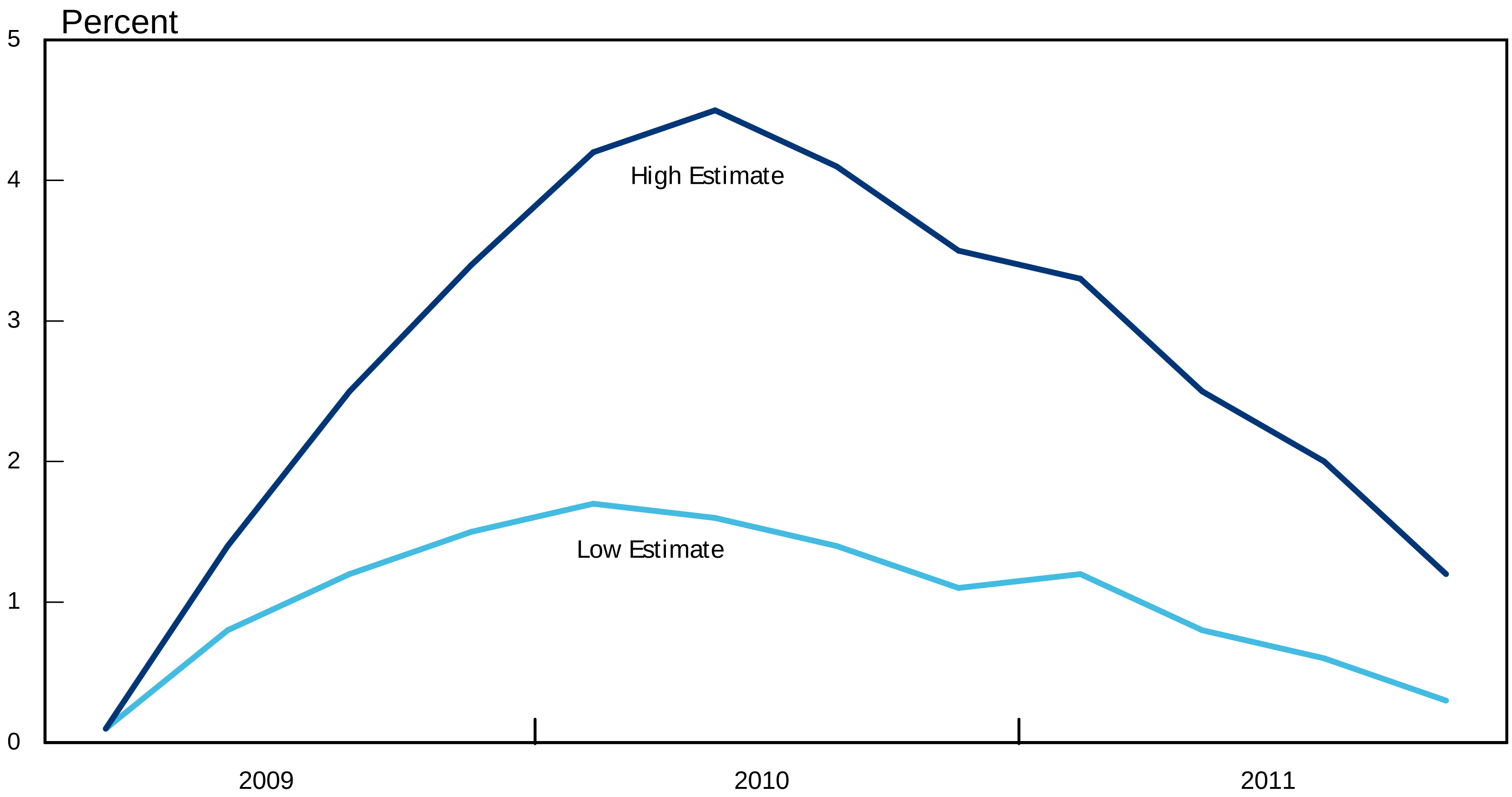
- **Labor market effects:** estimates of ARRA's effects on output were translated into estimates of the effects on the unemployment rate, total employment, and FTE employment.

Estimated Output Multipliers of Major Provisions of ARRA, Range of Low to High Estimates



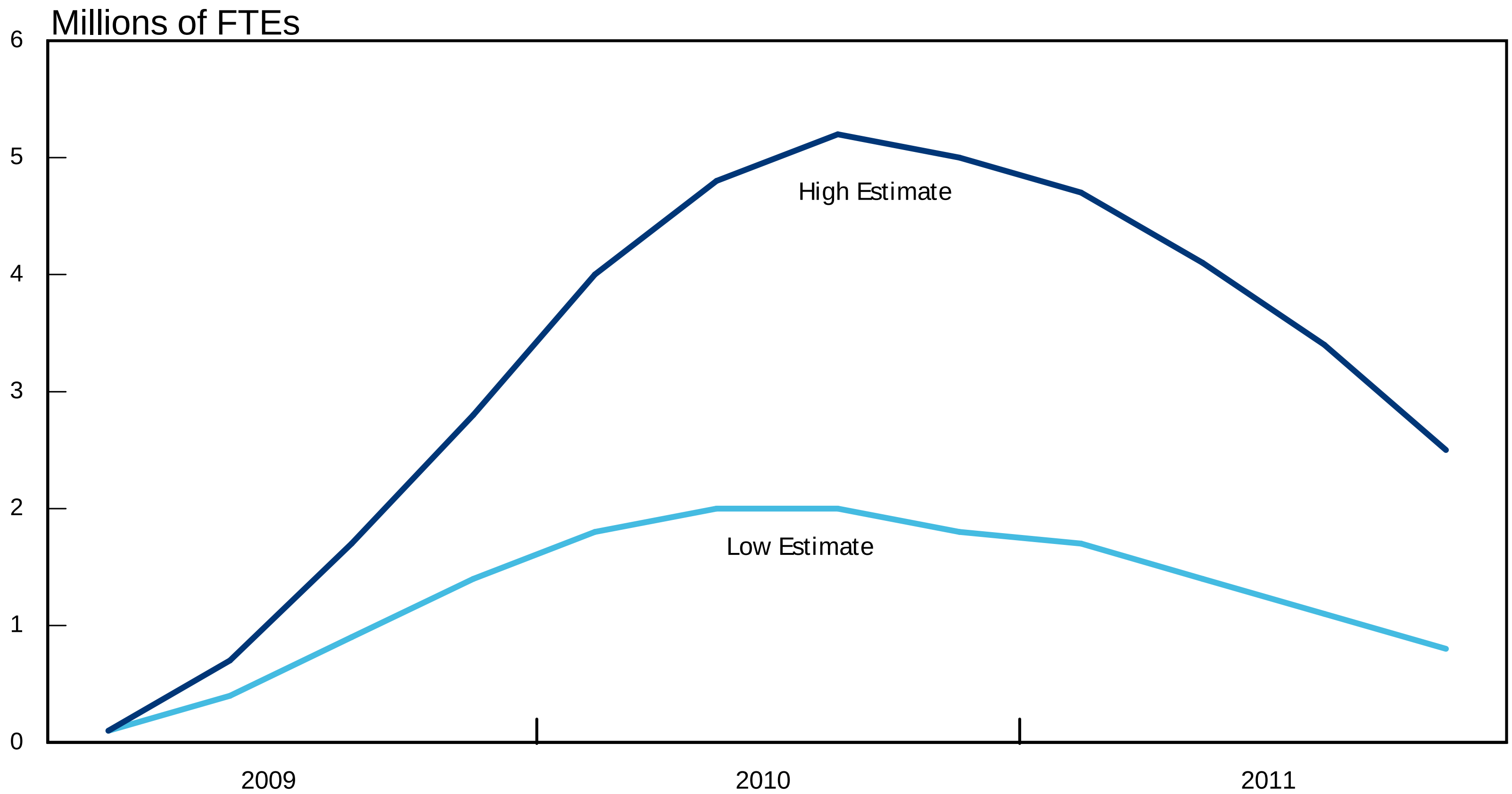
Source: CBO's November 2010 report, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From October 2010 Through December 2010.*

Change in GDP Attributable to ARRA



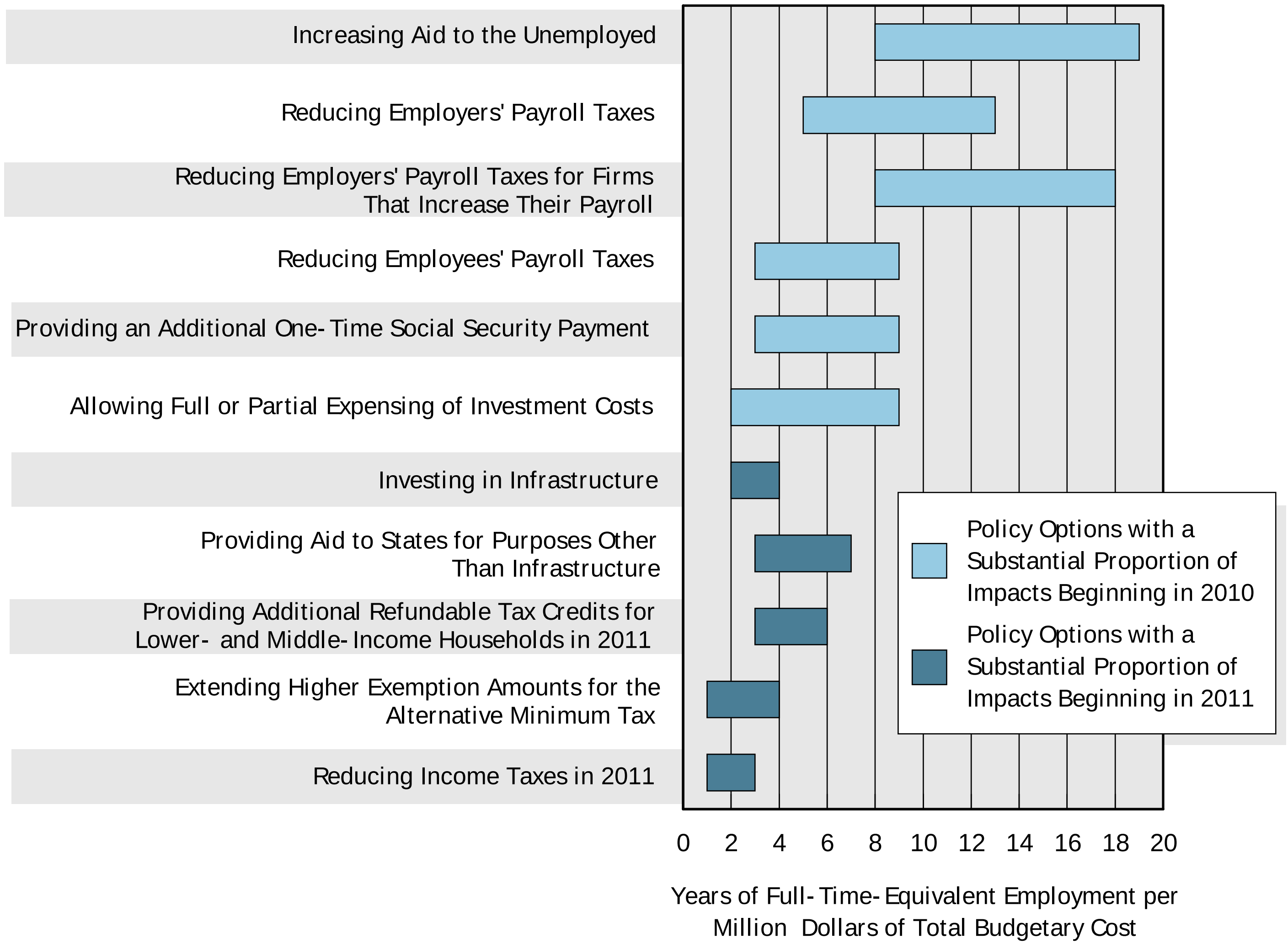
Source: CBO's November 2010 report, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From October 2010 Through December 2010.*

Change in Employment Attributable to ARRA



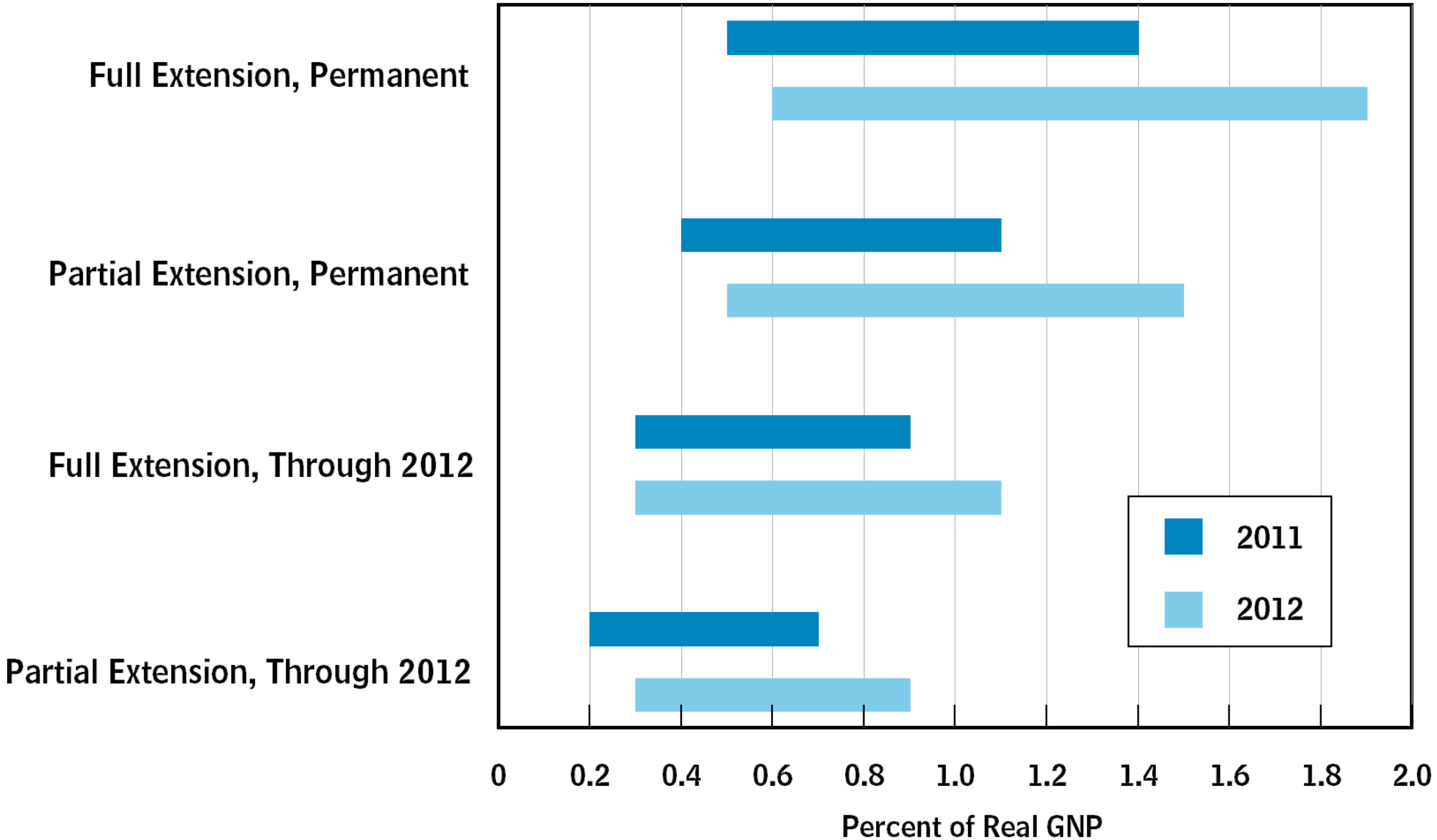
Source: CBO's November 2010 report, *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From October 2010 Through December 2010.*

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



Source: CBO's January 2010 study, *Policies for Increasing Economic Growth and Employment in 2010 and 2011*.
Note: Assumes enactment in early 2010.

Effects of Four Tax Policy Options on Real GNP in 2011 and 2012, Range of Low to High Estimates



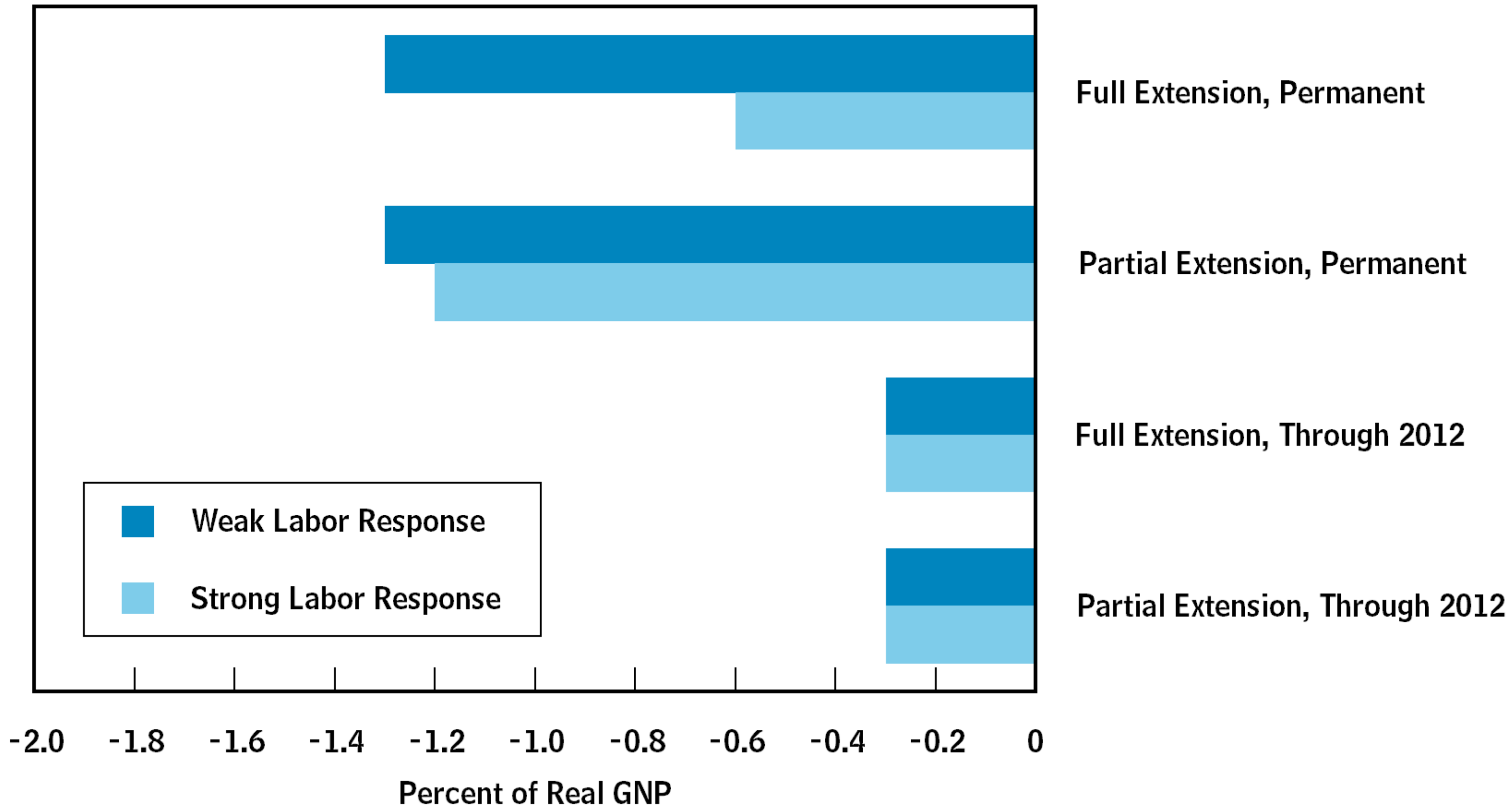
Source: CBO's September 2010 testimony, *The Economic Outlook and Fiscal Policy Choices*.

Quantifying Longer-Term Economic Effects

- **Textbook Growth Model**: Assumes that people do not consider expected future policies when they make economic decisions.

- **Life-Cycle Model:** Assumes that people adjust their decisions about work and saving in response to current changes in marginal tax rates, government transfer payments, and after-tax rates of return—and in anticipation of future changes in those factors.

Effects of Four Tax Policy Options on Real GNP in 2020



Source: CBO's September 2010 testimony, *The Economic Outlook and Fiscal Policy Choices.*

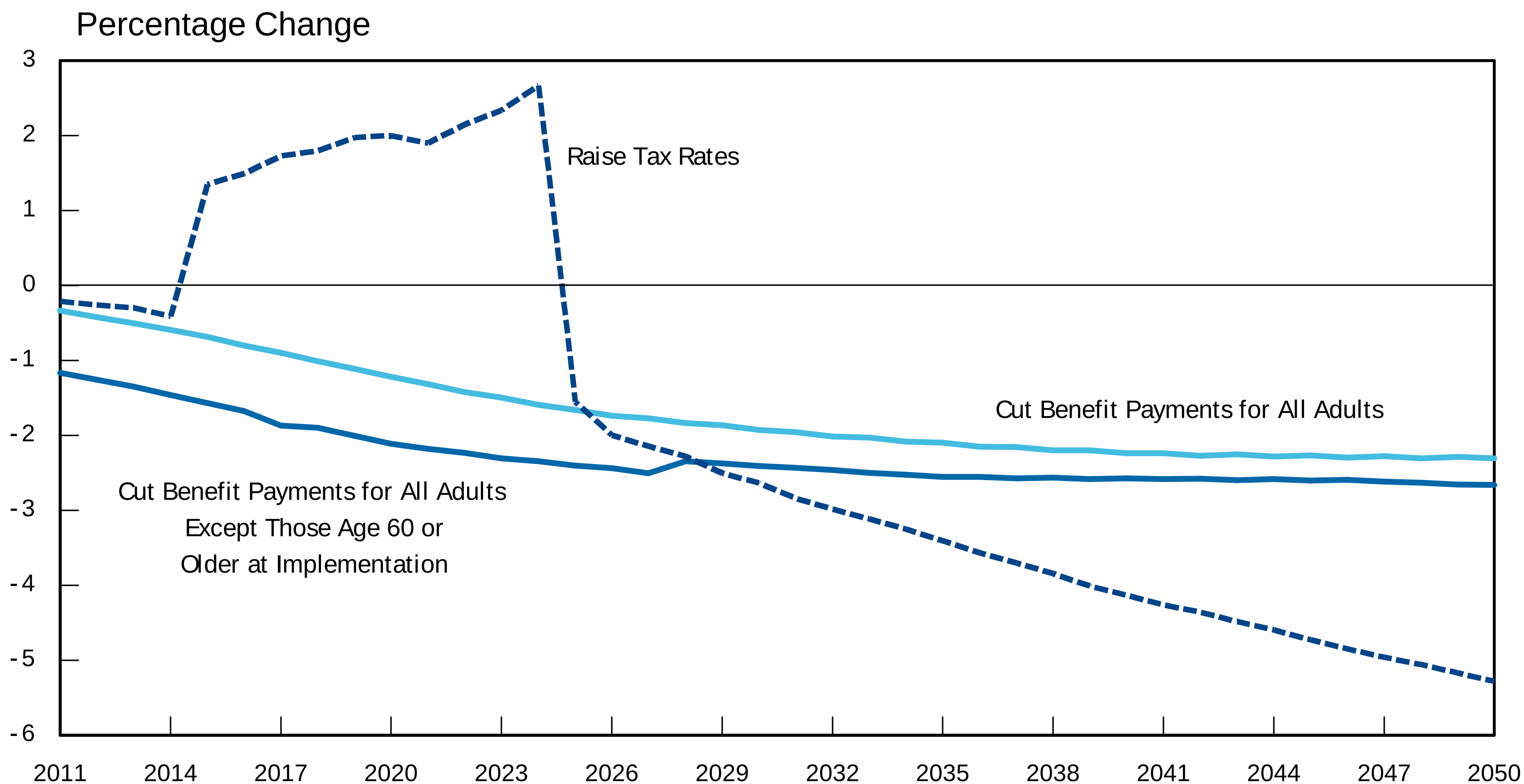
Economic Impacts of Waiting to Resolve the Long-Term Budget Imbalance (Issue Brief, December 2010)

- CBO compared the effects of implementing policies that would halt the growth in federal debt as a percentage of GDP starting in 2015 with the effects of policies that would delay stabilizing the ratio of debt to output until 2025.

- The analysis considers three illustrative policy changes: cutting federal benefit payments for all adults, cutting benefit payments for all adults except those who are age 60 or older at the time of the change, and raising tax rates on income from labor and capital.

- The budgetary and economic consequences of delay would affect people’s well-being, and those effects would differ for different generations.

Effect on Output If the Ratio of Debt to Output is Stabilized in 2025 Instead of 2015, Under Three Illustrative Policies



Source: CBO's December 2010 Issue Brief, *Economic Impacts of Waiting to Resolve the Long-Term Budget Imbalance.*