



The Daily Dish

The CBO Weighs In

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Eakinomics: The CBO Weighs In

Yesterday the Congressional Budget Office (CBO) released a [new economic projection](#) along with a succinct explanation as to why: “In most years, the Congressional Budget Office releases two economic projections, usually associated with updated baseline budget projections. Typically, those two economic projections are released in January and August. The agency’s most recent full economic forecast was released with the baseline budget projections on January 28, 2020. Because the 2020 coronavirus pandemic has substantially disrupted economic activity, CBO updated projections for the several variables that are most important for producing accurate cost estimates for recent legislation.”

Obviously, the new projections are full of bad news compared to pre-pandemic days. Gross domestic product (GDP) is expected to fall 11 percent in the 2nd quarter, or 38 percent at an annual rate. (For perspective, in the worst *year* of the Great Depression, GDP fell 12 percent in 1932.) The unemployment rate will top out at 15.8 percent in 3rd quarter of 2020 but remain an elevated 8.6 percent as far out as the 4th quarter of 2021. Both inflation and interest rates will remain quite subdued.

For the entire year 2020, GDP will be down 5.6 percent as every component of spending declined except federal government purchases. By contrast, in 2021 every component will rebound except for federal purchases. The CBO sees growth at a rate of 4.2 percent in 2021.

It is not a very pretty picture. Does that mean the recent efforts of Congress were a failure? “CBO’s current-law projections incorporate the economic effects of the laws enacted in March and April in response to the pandemic. In CBO’s assessment, that legislation will partially mitigate the deterioration in economic conditions. In particular, greater federal spending and lower revenues will cause real GDP and employment to be higher over the next few years than they would be otherwise. The effects of the legislation on economic activity will be largest in the second and third quarters of 2020 and smaller thereafter, CBO projects.” So, not a failure, but a carefully non-committal bottom line.

Of course, it is the CBO, so some emphasis will be on the budgetary bottom line. “In total, the four pandemic-related laws enacted since the beginning of March are projected to increase the federal deficit by \$2.2 trillion in fiscal year 2020 and by \$0.6 trillion in fiscal year 2021. Those amounts total about 11 percent of nominal GDP in fiscal year 2020 and 3 percent in fiscal year 2021.”

The CBO projections are broadly in line with those of other forecasters. But they are more important in that they will be the standard against which Congress will measure the impact of any future legislation on growth, unemployment and the budget deficit. Among the first such analyses will be the house-passed [HEROES Act](#), shedding light on whether \$3 trillion buys any real growth.