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CHAIRMAN TOM PRICE, M.D.

Budget Digest - Week of January 4, 2016

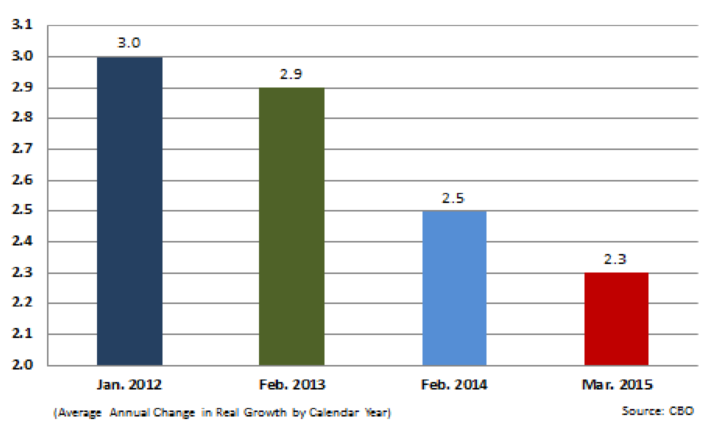
Economic Growth

Why is economic growth important? Although the US economy technically emerged from recession over five years ago, the subsequent recovery has been weaker than normal. Real gross domestic product (GDP) growth over the past five years has averaged just over 2 percent—well below the 3 percent historical trend rate of real GDP growth. That level of growth is insufficient to expand opportunities and grow income for working Americans. For example, the Census Bureau-estimated real median household income was $53,657 in 2014, 2.3 percent below 2009 when the recession ended.

How does economic growth affect the budget? Increased economic growth results in greater taxable income, higher tax revenues and contributes to lower deficits. Smaller deficits mean the government needs to borrow less and thus incurs lower interest costs. According to CBO, if annual real GDP growth is just 0.1 percentage point higher over the budget window, deficits would be reduced by $326 billion.

What is the forecast for economic growth? CBO expects the economy to grow by an average of just 2.3 percent over the next ten years, compared to a forecast of 3.0 percent in January 2012. If the US economy could return to its historic 3.0 percent annual growth rate, instead of 2.3 percent over the next 10-year budget window, deficits could be reduced by as much as $2.3 trillion over that period assuming other economic variables remain unchanged.

CBO'S PROJECTION OF REAL ECONOMIC GROWTH CONTINUES TO DECLINE



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