

# America's Deteriorating Budget Outlook

March 2018



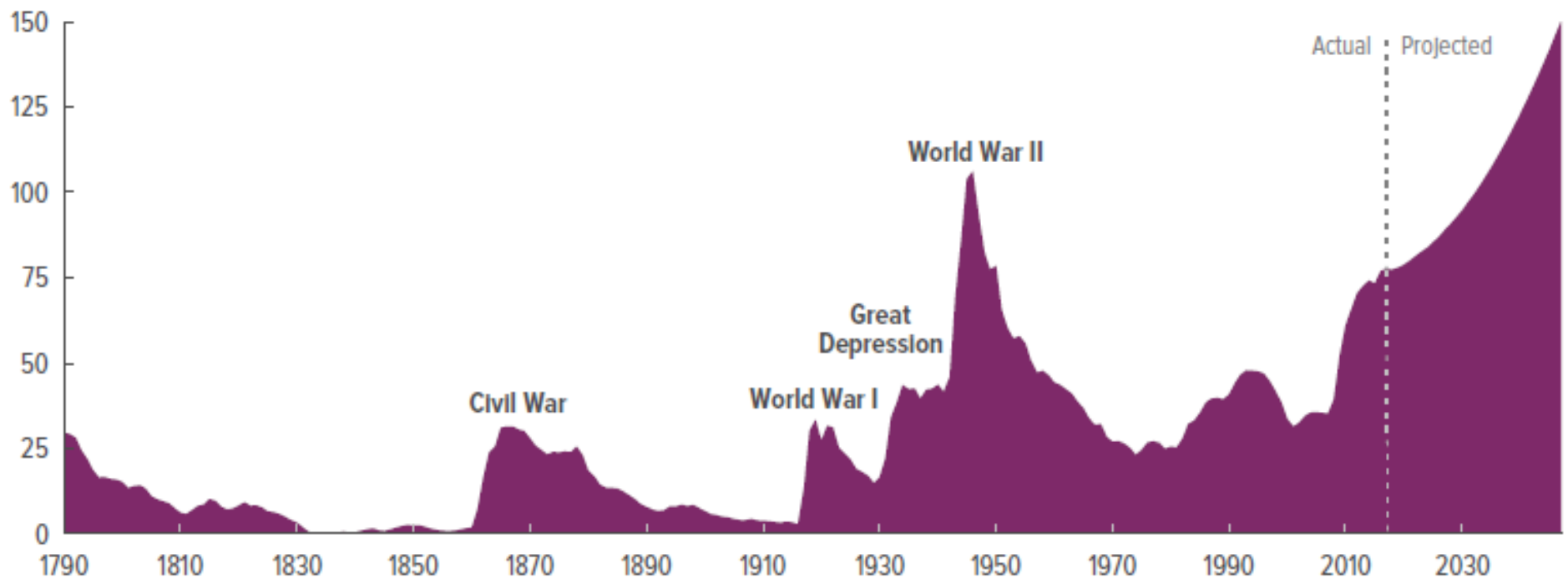
**COMMITTEE FOR A  
RESPONSIBLE FEDERAL BUDGET**

*CRFB.org*

# CBO's June 2017 Projections

# The National Debt Was High and Rising

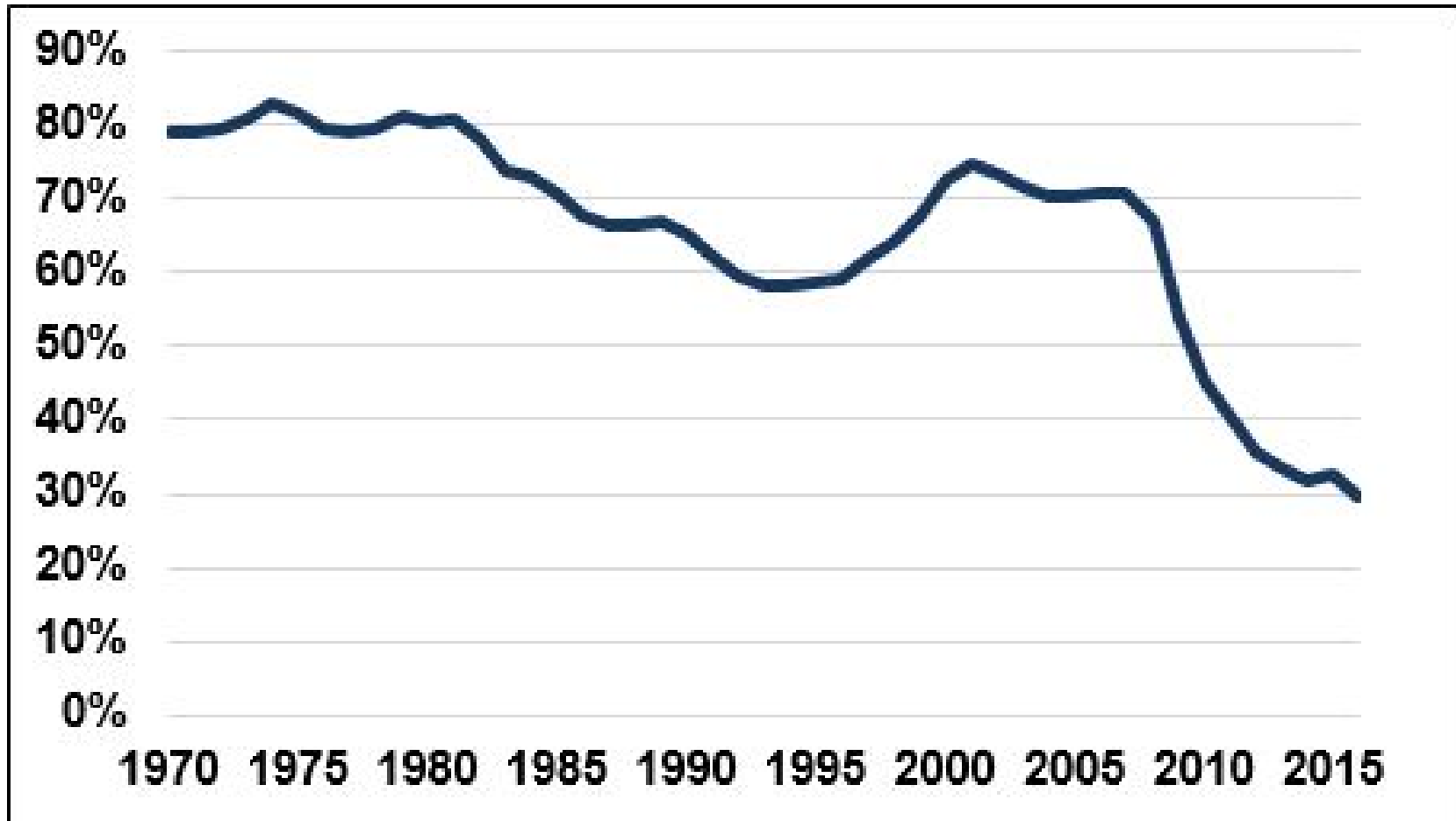
Percentage of Gross Domestic Product



Source: Congressional Budget Office

# Fiscal Space Was Declining

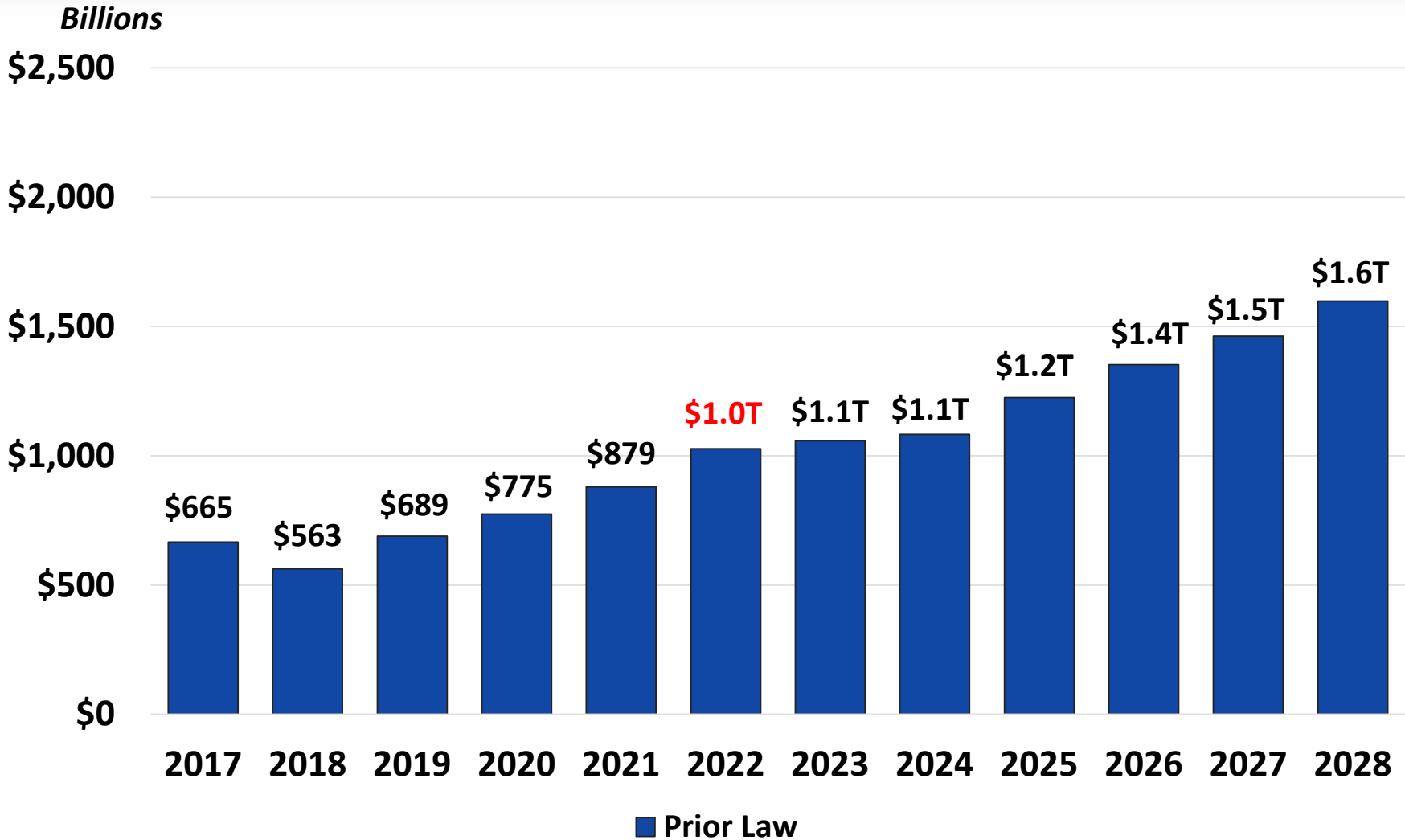
*“Fiscal Space” under Debt-to-GDP Reaching Record Levels*



Source: CRFB calculations based on Congressional Budget Office data.



# Trillion-Dollar Deficits Were Projected to Return by 2022



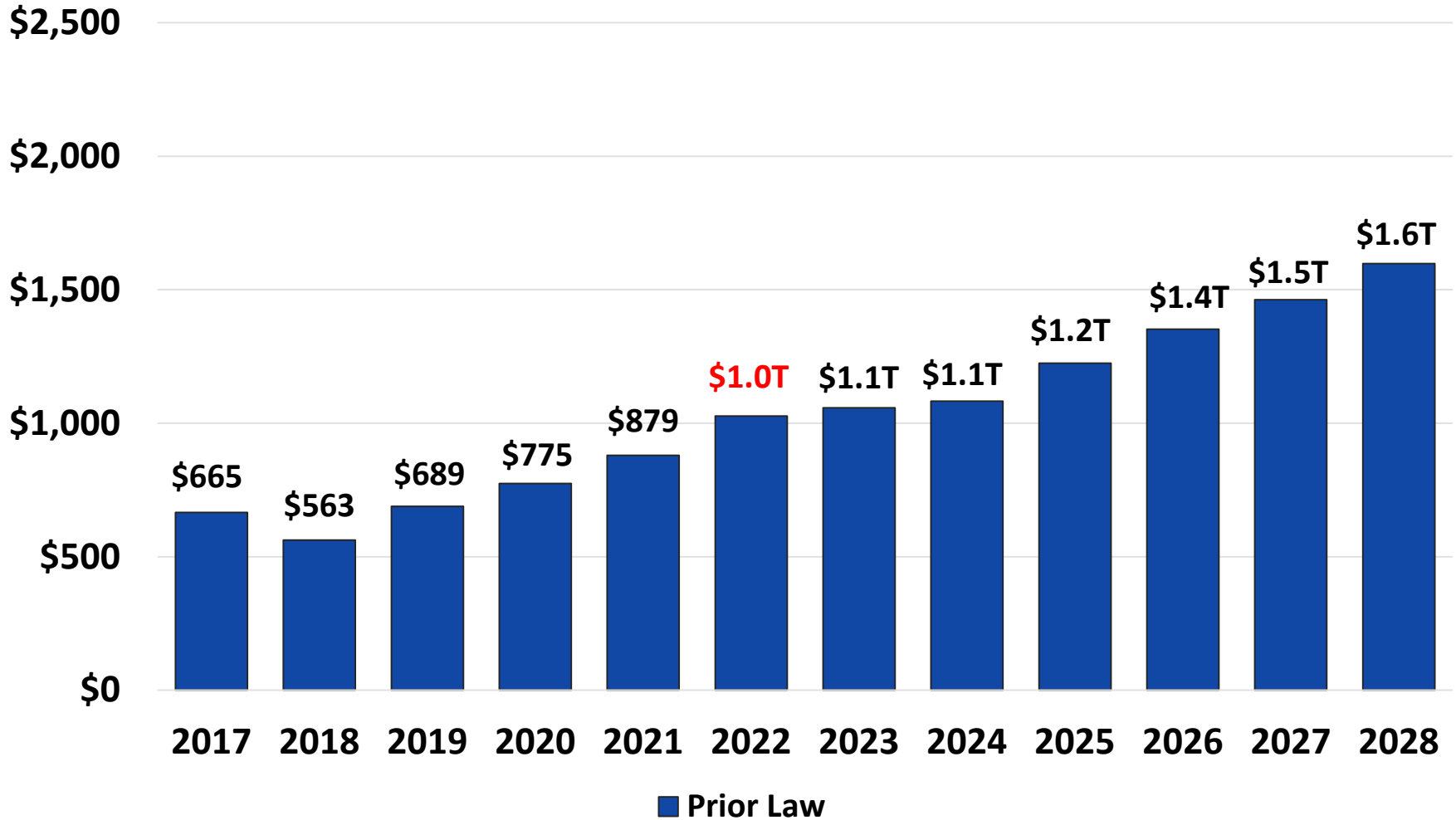
Source: CRFB calculations based on Congressional Budget Office data.

# An Updated Fiscal Outlook

*(CRFB's Effort to Approximate  
the Next CBO Baseline)*

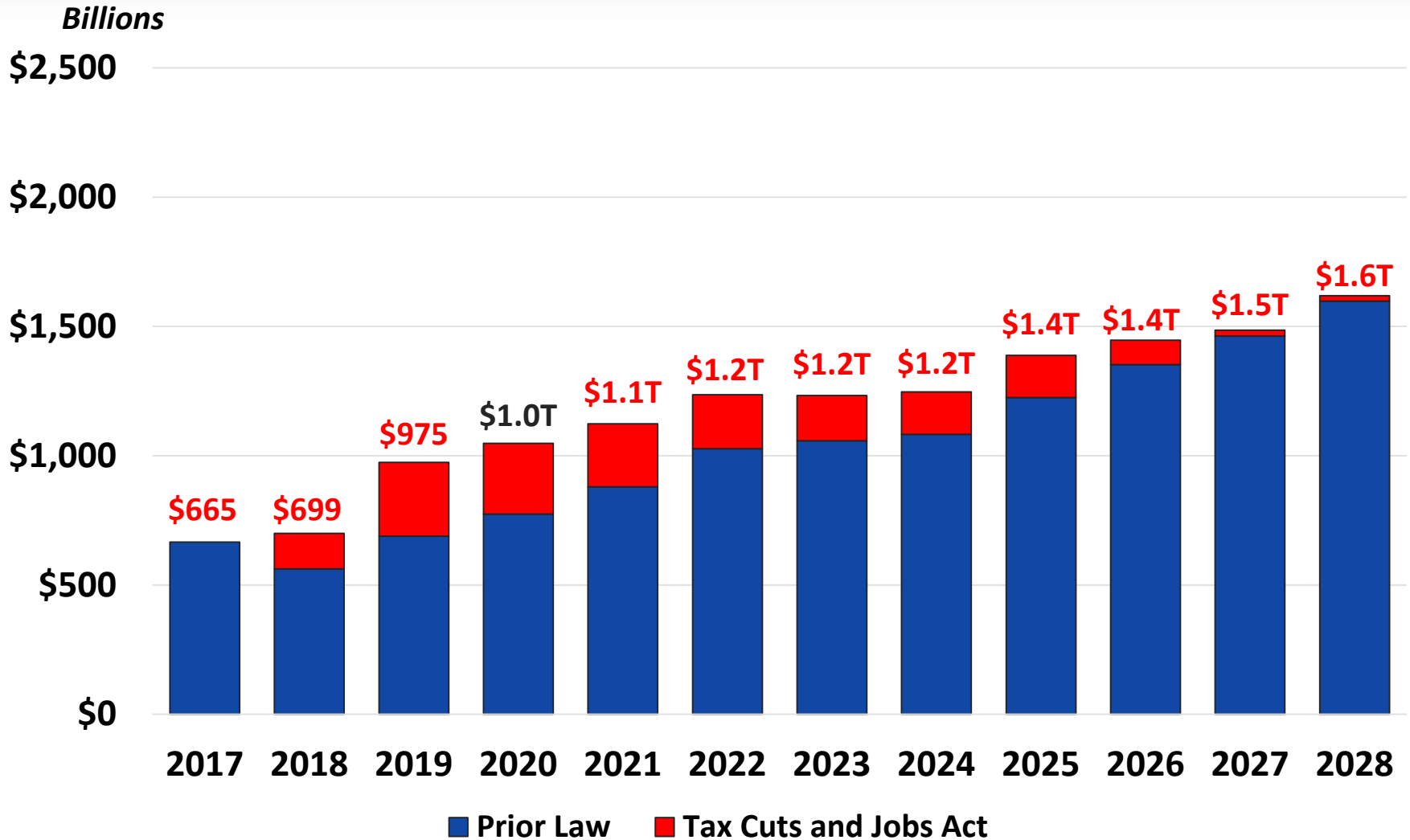
# Projected Deficits as of June, 2017

Billions of Dollars



Source: CRFB calculations based on Congressional Budget Office data.

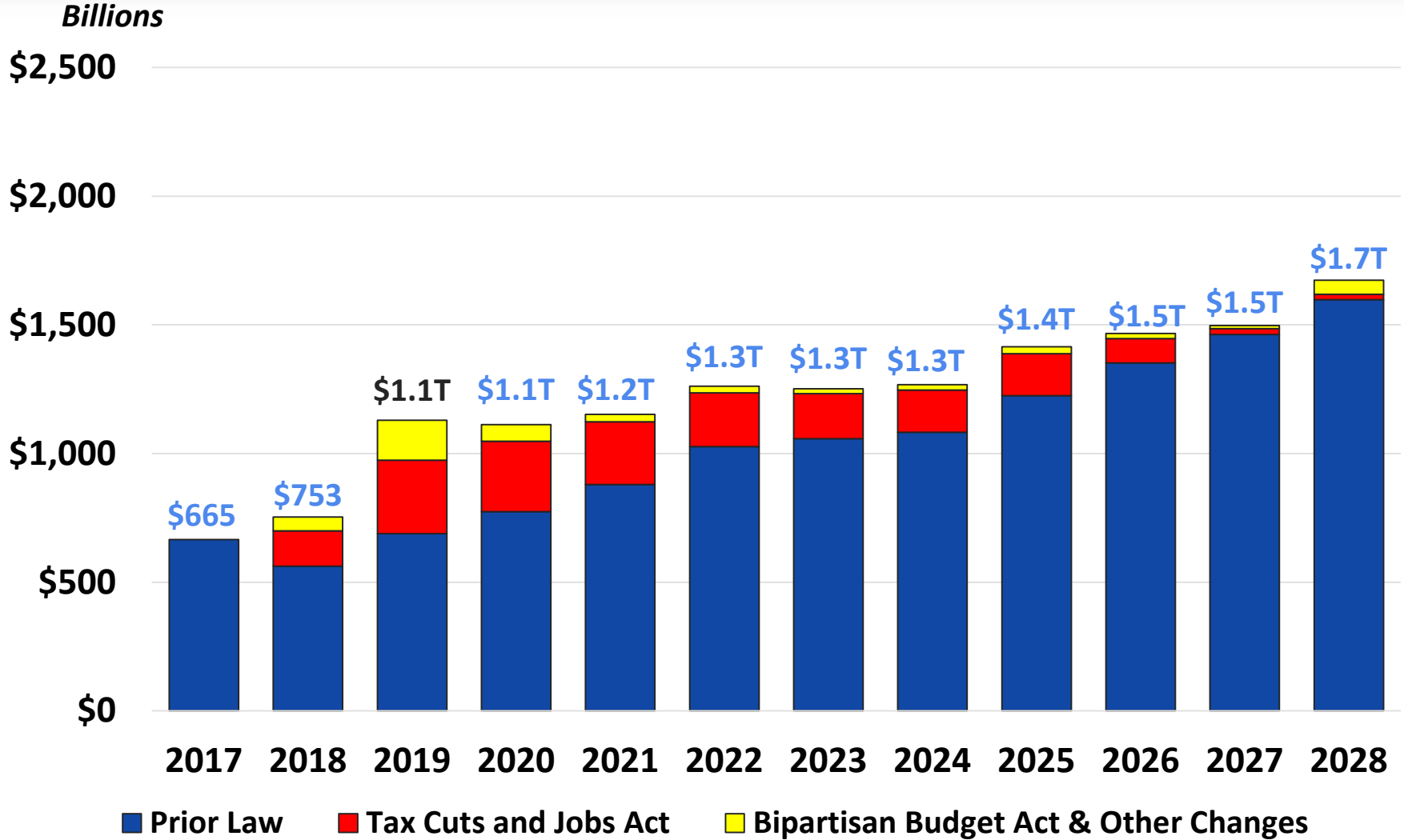
# Projected Deficits After the 2017 Tax Bill



Source: CRFB calculations based on Congressional Budget Office data.

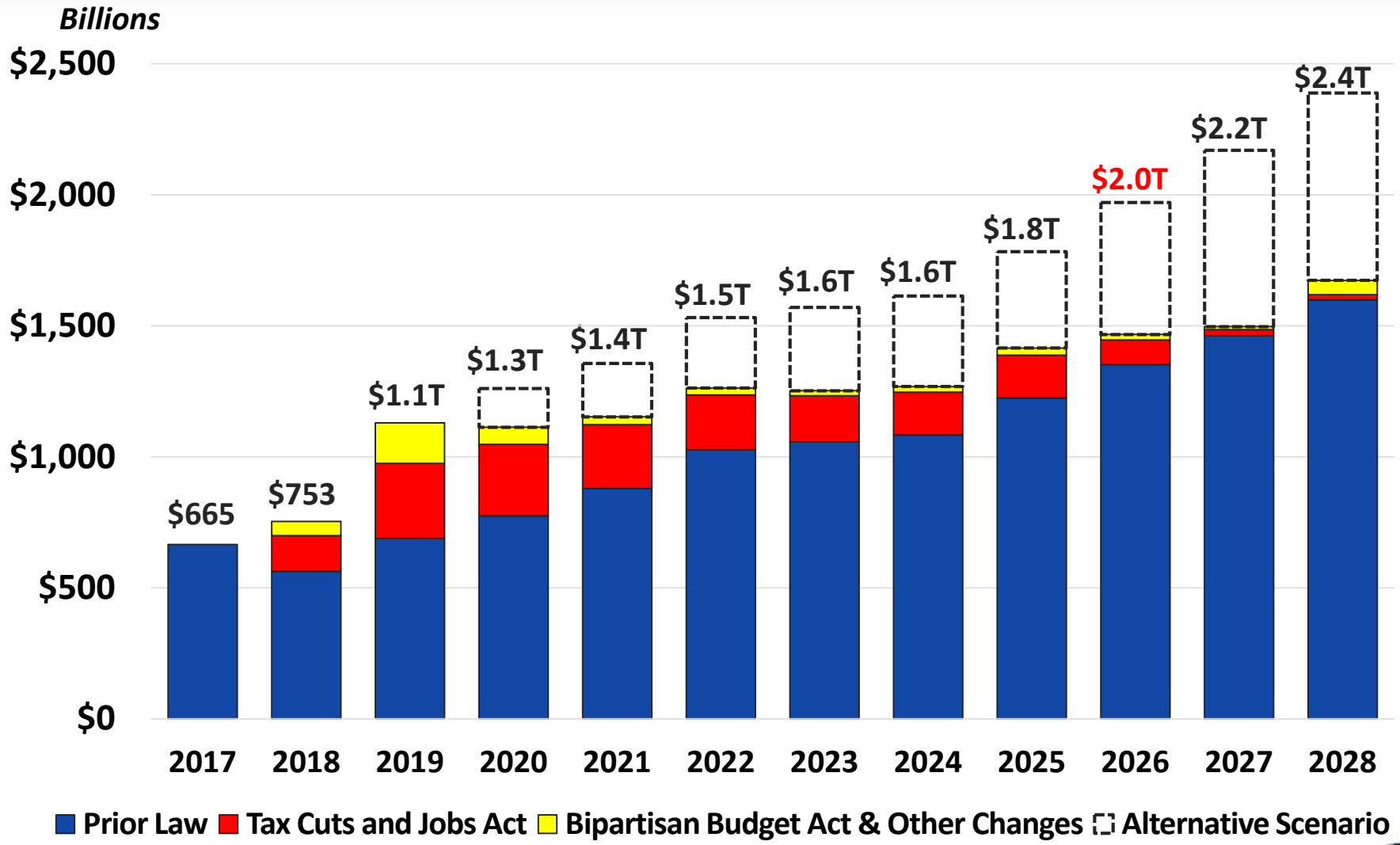


# Projected Deficits After The 2018 Spending Bill and Other Legislative Changes



Source: CRFB calculations based on Congressional Budget Office data.

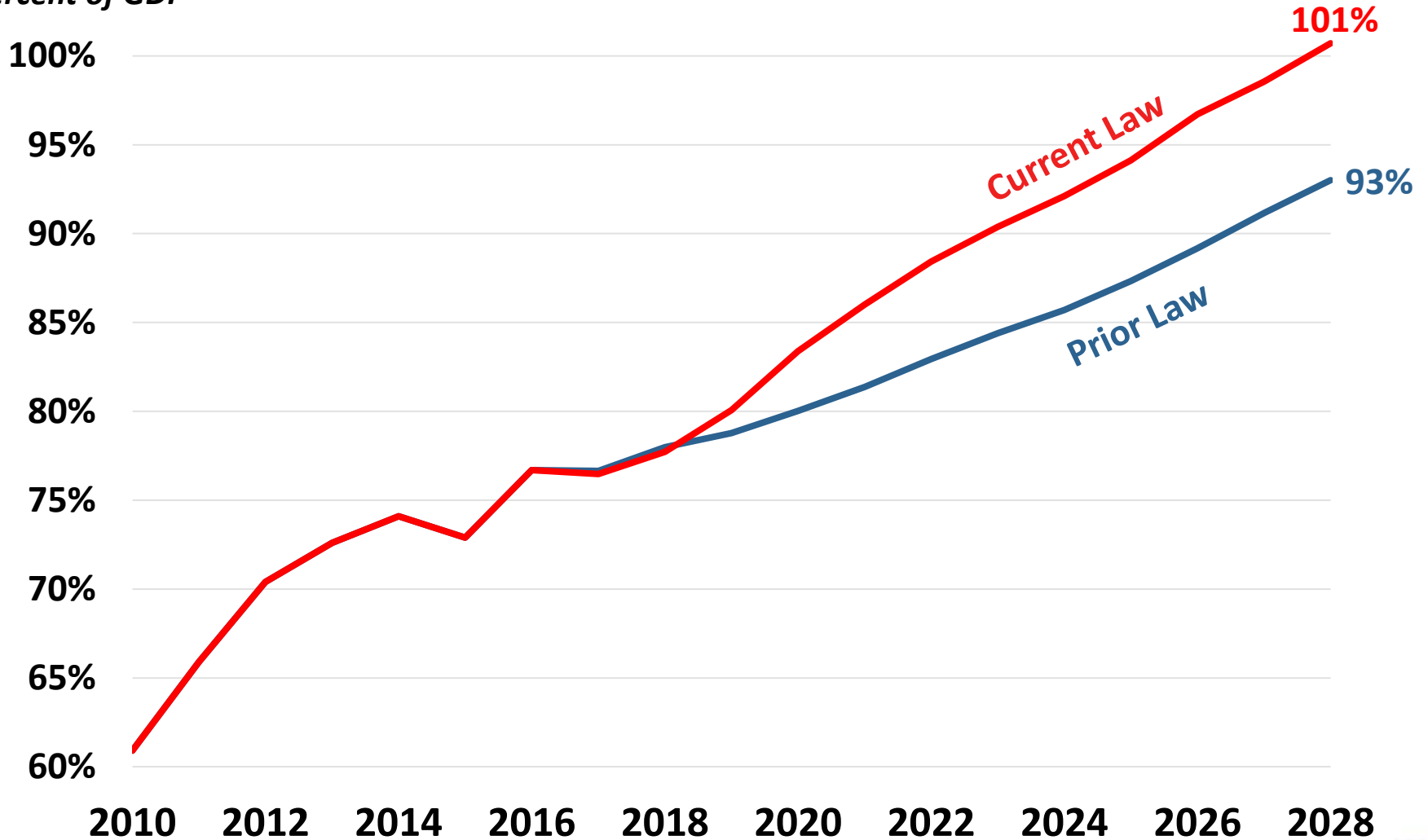
# Projected Deficits If Lawmakers Extend Debt-Busting Policies



Source: CRFB calculations based on Congressional Budget Office data.

# Debt Will Soon Exceed the Size of the Economy

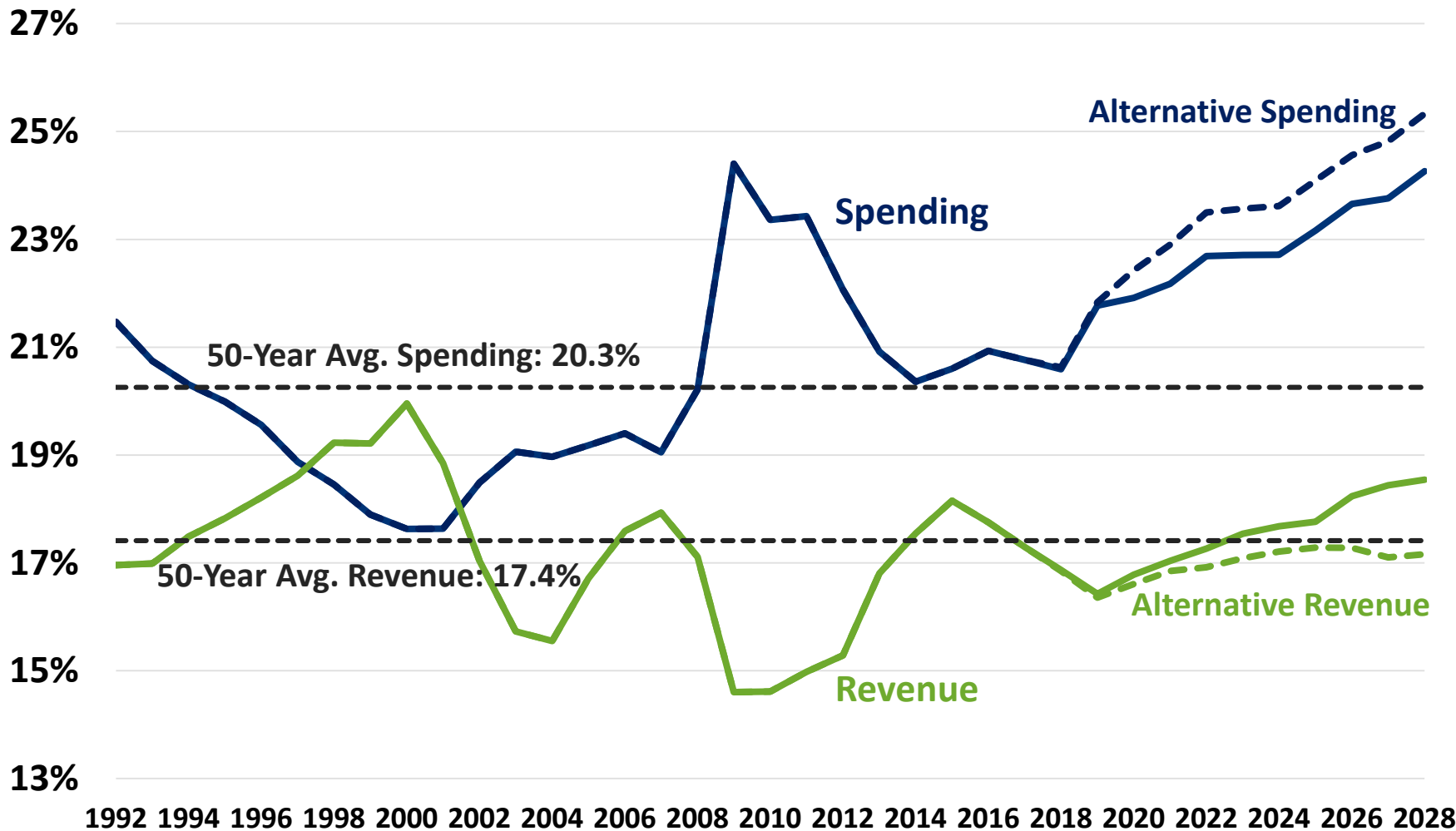
Percent of GDP



Source: CRFB calculations based on Congressional Budget Office data.

# The Gap Between Revenue and Spending Will Grow

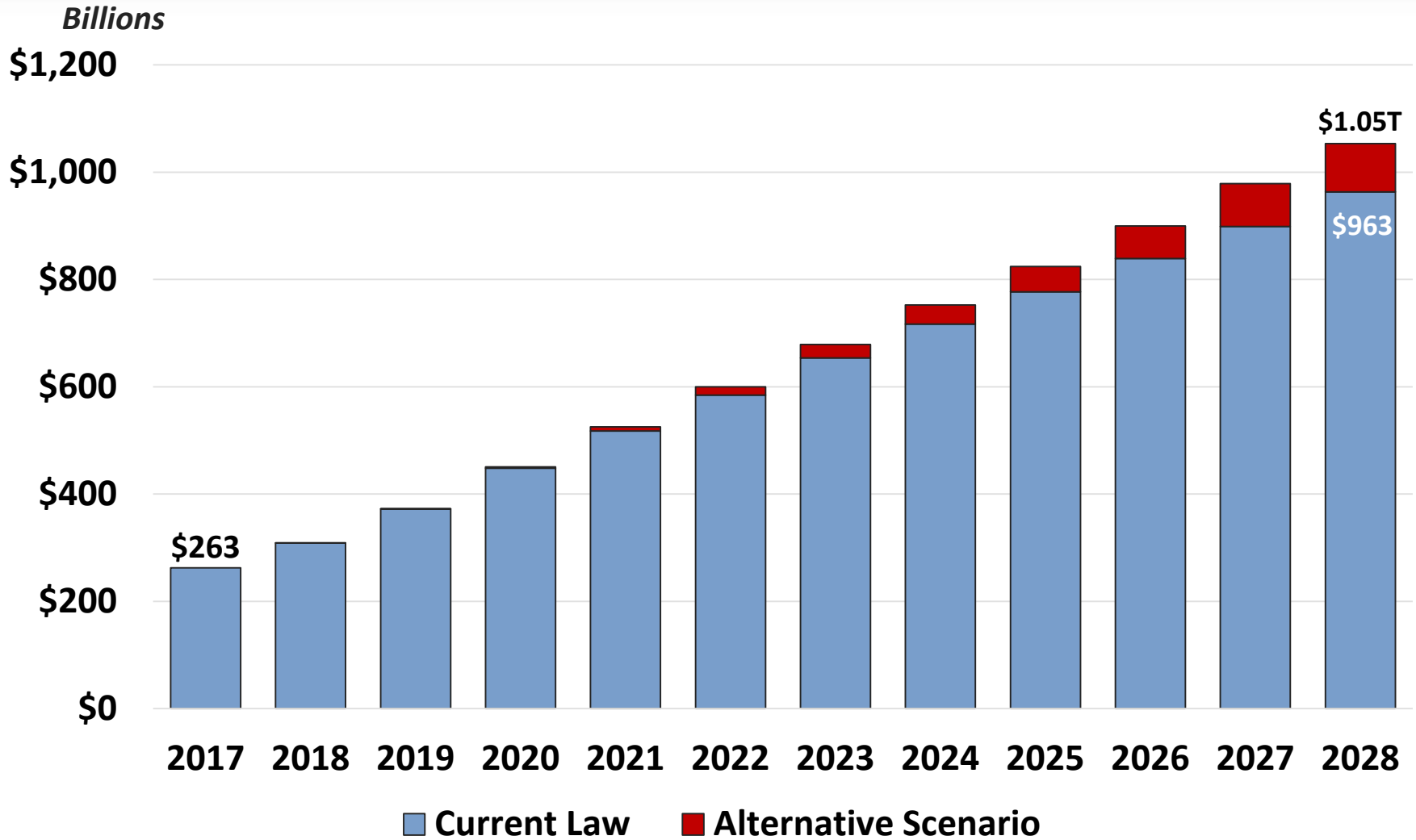
Percent of GDP



Source: CRFB calculations based on Congressional Budget Office data.



# Interest Spending Will Quadruple



Source: CRFB calculations based on Congressional Budget Office data.

# What's Driving Higher Deficits?

# Recent Legislation Caused Half the 2019 Deficits

## Contribution to 2019 Budget Deficit

MACRA SGR Fix (2015)	~\$ 10 billion
PATH Act (2015)	~\$ 75 billion
Tax Cuts & Jobs Act (2017)	~\$245 billion
Bipartisan Budget Act (2018)	~\$185 billion
<u>Other Legislation</u>	<u>~\$ 35 billion</u>
<b>TOTAL DEFICIT IMPACT</b>	<b>~\$550 billion</b>
<i>TOTAL 2019 DEFICIT</i>	<i>~\$1.1 Trillion</i>

Source: CRFB calculations based on Congressional Budget Office data.



# Congress Added \$2.4 Trillion in Debt Since June 2017

Fig. 1: Bridge from CBO June 2017 Projection to Updated Projection

	Debt in Dollars	Debt as Share of GDP
<b>CBO June 2017 Projections for 2027</b>	<b>\$25.5 trillion</b>	<b>91%</b>
Extension of budget window to 2028	+\$1.5 trillion	+2%*
<b>Prior Law Baseline Debt in 2028</b>	<b>\$27.0 trillion</b>	<b>93%</b>
Passage of Tax Cuts and Jobs Act	+\$1.4 trillion	+4.9%
Passage of Bipartisan Budget Act of 2018	+\$320 billion	+1.1%
Passage of disaster relief and other policies	+\$60 billion	+0.2%
Adjustment of future uncapped discretionary spending <sup>^</sup>	+\$475 billion	+1.6%
Economic feedback from TCJA and BBA18	-\$475 billion	-1.6%
Net interest effect of above policies	+\$600 billion	+2.1%
<b>Updated Baseline Debt Projections</b>	<b>\$29.4 trillion</b>	<b>101%</b>
<i>Memo: Increase in 2028 Debt since June 2017</i>	<i>+\$2.4 trillion</i>	<i>+8%</i>

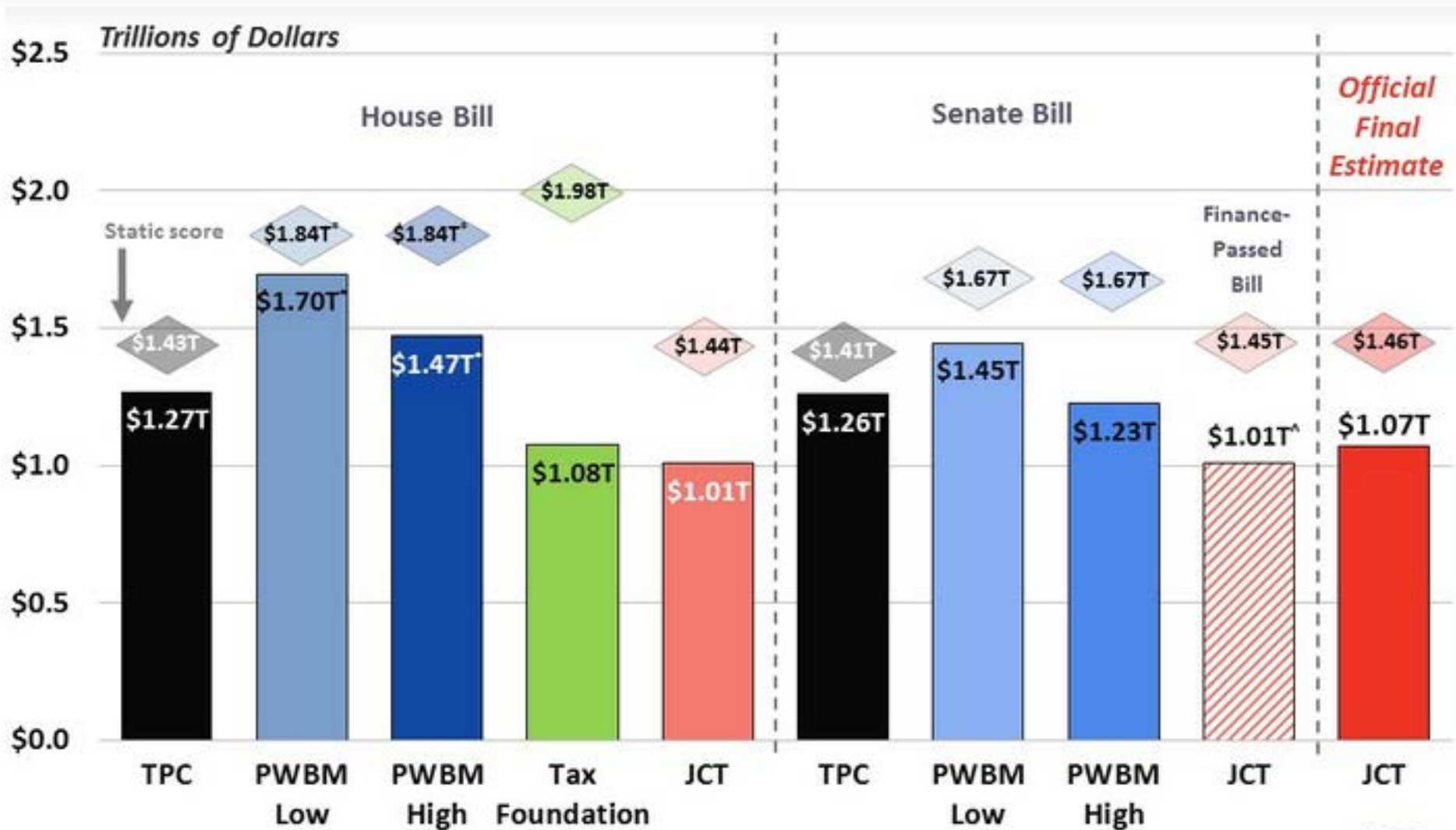
Source: CRFB calculations based on Congressional Budget Office data.

\*Represents change in debt between 2027 and 2028, so it is not comparable to other increases.

<sup>^</sup>Per CBO convention, we assume 2018 emergency and war spending is extrapolated into future years.



# The Tax Cuts & Jobs Act Was Expensive



Sources: Joint Committee on Taxation (JCT), Penn Wharton Budget Model (PWBM), Tax Foundation, and Tax Policy Center (TPC).

<sup>\*</sup>House PWBM numbers exclude the outlay effects of tax refunds; includes a range between low and high returns on capital.

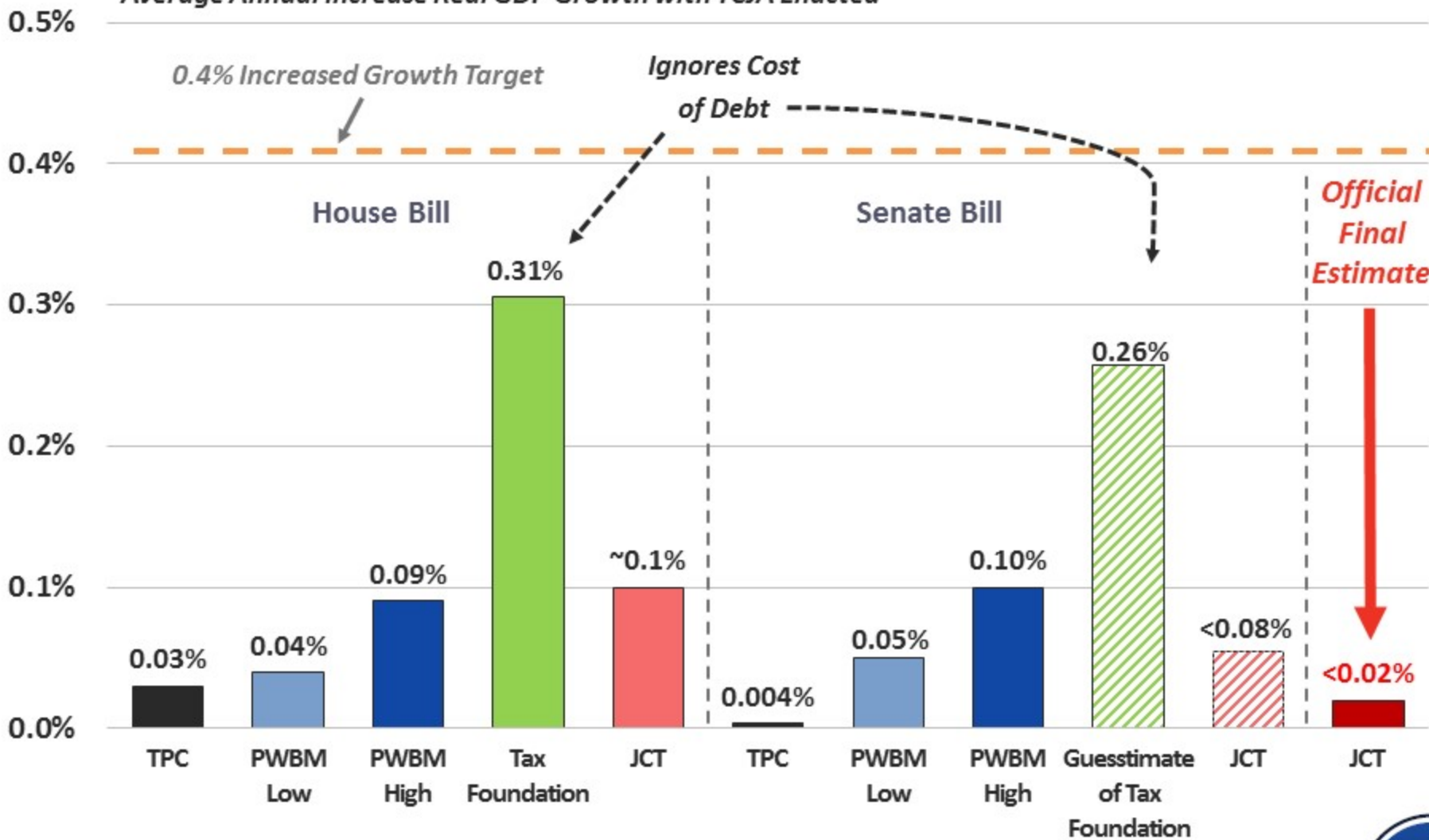
<sup>^</sup>JCT estimate of the Finance-passed Senate bill, which is likely similar to the final Senate-passed bill.

◊ indicates static score.



# Final Tax Bill Will Marginally Improve 10-Year Growth

Average Annual Increase Real GDP Growth with TCJA Enacted



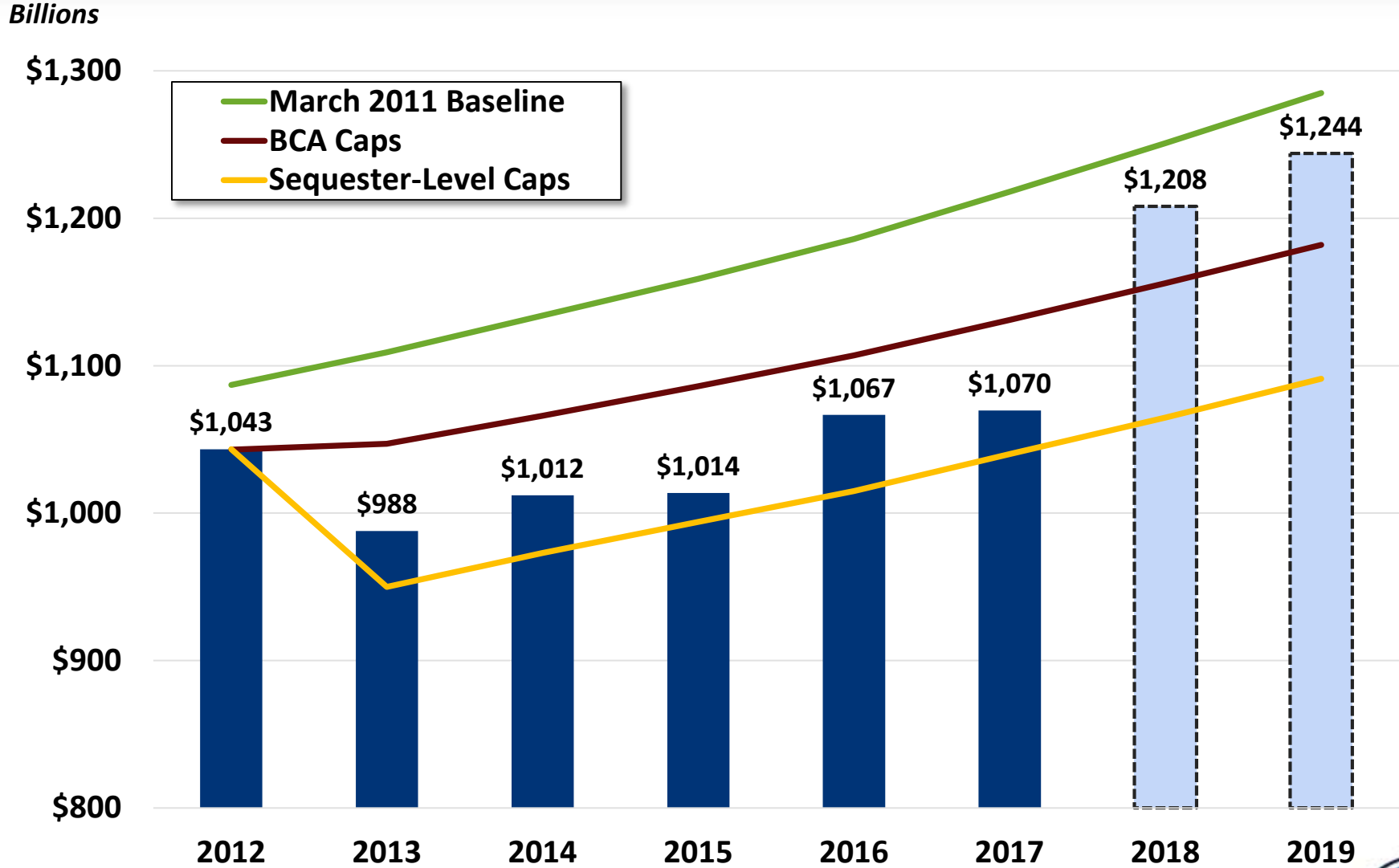
Sources: Joint Committee on Taxation (JCT), Tax Policy Center (TPC), Penn Wharton Budget Model (PWBM), Tax Foundation, CRFB Calculations  
 TCJA = Tax Cuts and Jobs Act of 2017.

# The Bipartisan Budget Act Was Also Expensive

Policy	Ten-Year Cost / Savings (-)
Increase discretionary caps in 2018 and 2019	\$290 billion
Enact disaster relief (discretionary and mandatory)	\$72 billion
Repeal IPAB	\$17 billion
Extend tax extenders and other revenue measures	\$17 billion
Enact health extenders and family policies	\$13 billion
Extend community health center and other public health funding	\$9 billion
Make various agriculture program changes	\$1 billion
<b>Subtotal, Costs</b>	<b>\$419 billion</b>
Extend mandatory sequester through 2027	-\$35 billion
Make various changes to Medicare, including further means testing premiums and updating payment schedules	-\$16 billion
Extend certain customs, visa, and immigration fees	-\$13 billion
Make changes to Medicaid, including limit lottery winners from receiving Medicaid	-\$11 billion
Accelerate Medicare Part D manufacturer discounts in donut hole	-\$10 billion
Drawdown from the Strategic Petroleum Reserve	-\$6 billion
Extend CHIP authorization for four more years, through 2027	-\$5 billion
Limit Federal Reserve remittances	-\$2 billion
Other health offsets	-\$1 billion
<b>Subtotal, Offsets</b>	<b>-\$100 billion</b>
<b>Total</b>	<b>\$320 billion</b>
Total with interest	\$418 billion
<b>Potential Cost with Permanent Extensions</b>	<b>\$1.7 trillion</b>
<b>Potential Cost with Permanent Extensions and Interest</b>	<b>\$2.1 trillion</b>



# The BBA Busted the Original BCA Caps, Gave Both Sides More than They Asked For



Source: CRFB calculations based on Congressional Budget Office data.

# The Omnibus Spread The Money Around

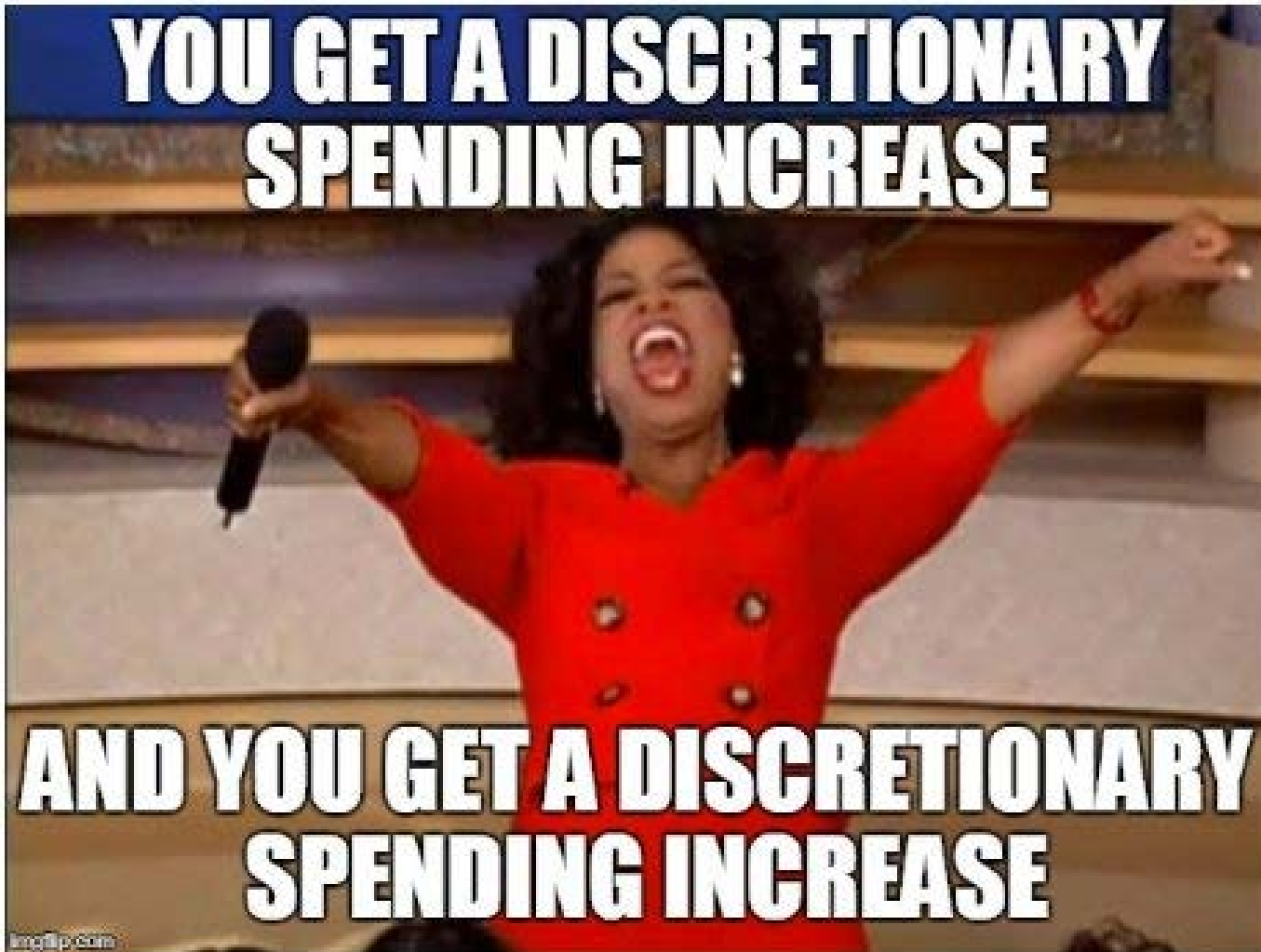
## Budget Authority Allocations to Appropriations Subcommittees (billions)

Subcommittee	FY 17 Enacted	Proposed FY 18 Level	Percent Change
Agriculture	\$20.9	\$23.3	+11.4%
Commerce, Justice, Science	\$56.6	\$59.6	+5.3%
Defense*	\$516.1	\$589.5	+14.2%
Energy and Water Development	\$37.8	\$43.2	+14.4%
Financial Services and General Government	\$21.5	\$23.4	+8.9%
Homeland Security*	\$42.4	\$47.7	+12.5%
Interior, Environment	\$32.3	\$35.3	+9.2%
Labor, HHS, Education	\$161.0	\$177.1	+10.0%
Legislative Branch	\$4.4	\$4.7	+5.9%
Military Construction, VA*	\$82.4	\$92.0	+11.7%
State, Foreign Operations*	\$36.6	\$42.0	+14.8%
Transportation, HUD	\$57.7	\$70.3	+21.9%
<b>Total*</b>	<b>\$1.070 trillion</b>	<b>\$1.208 trillion</b>	<b>+12.9%</b>

\*In addition to base discretionary appropriations, the measure also includes a total of \$78.1 billion in Overseas Contingency Operations spending, \$65.2 billion of which is designated for the Department of Defense. Including OCO funds, disaster relief, emergency requirements, and program integrity, the omnibus provides \$1.421 trillion in budget authority and \$1.309 trillion in outlays.

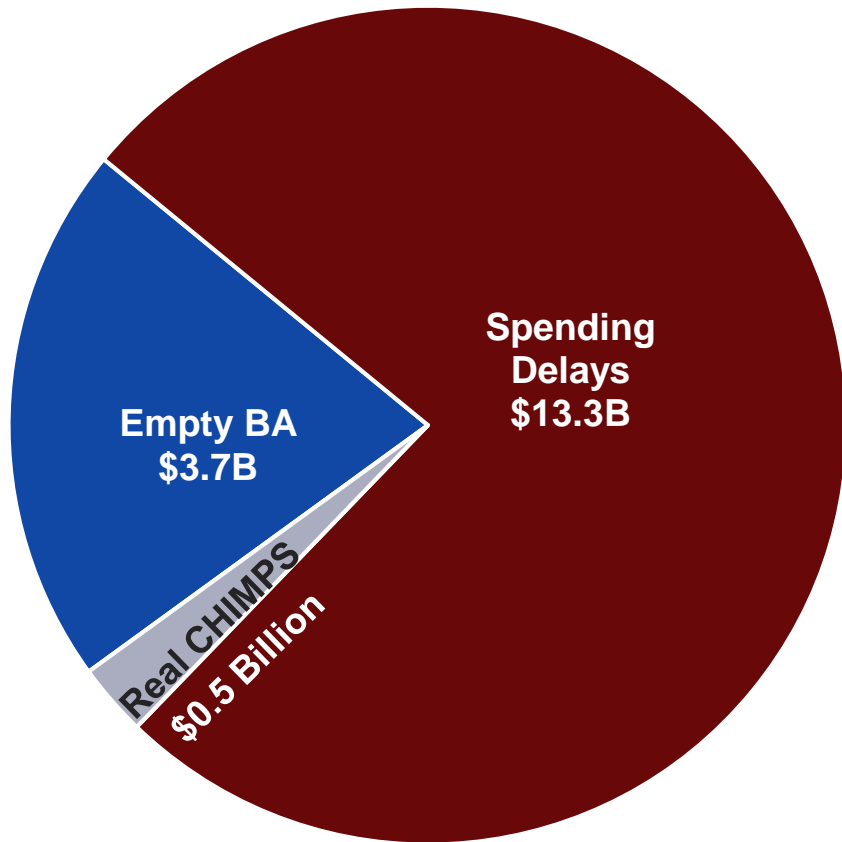
# The Omnibus Spreads The Money Around

**OprahBus?**

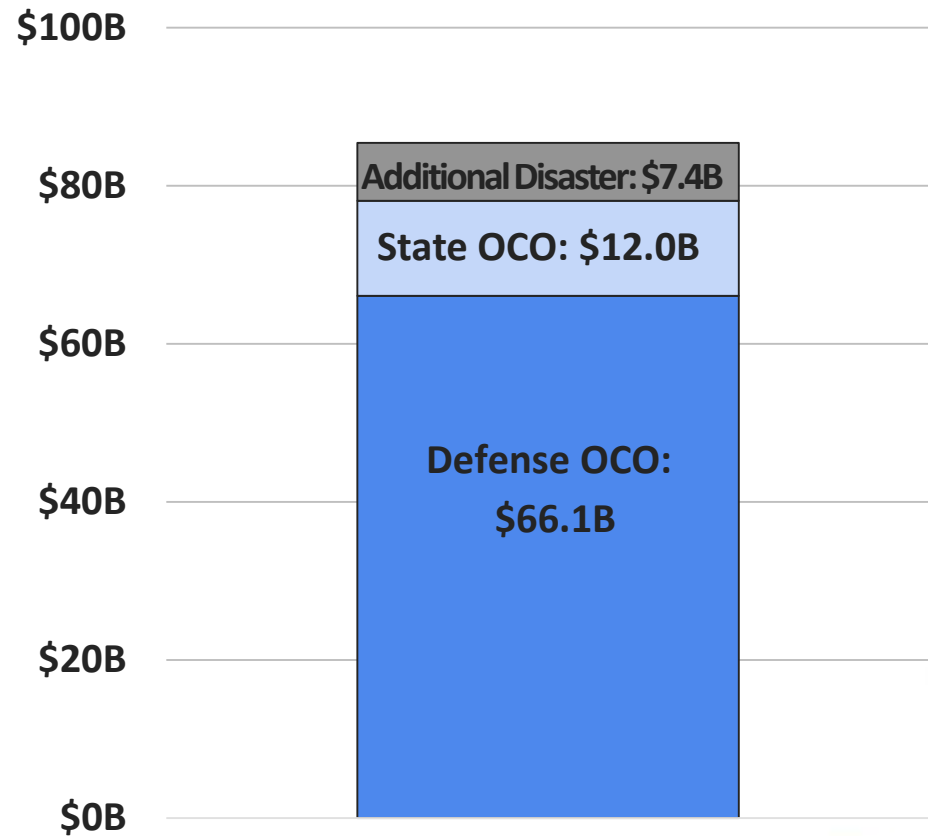


# And Included Some Gimmicks...

## \$17.0 Billion of Fake CHIMPS



## \$85.4 Billion in New Uncapped BA

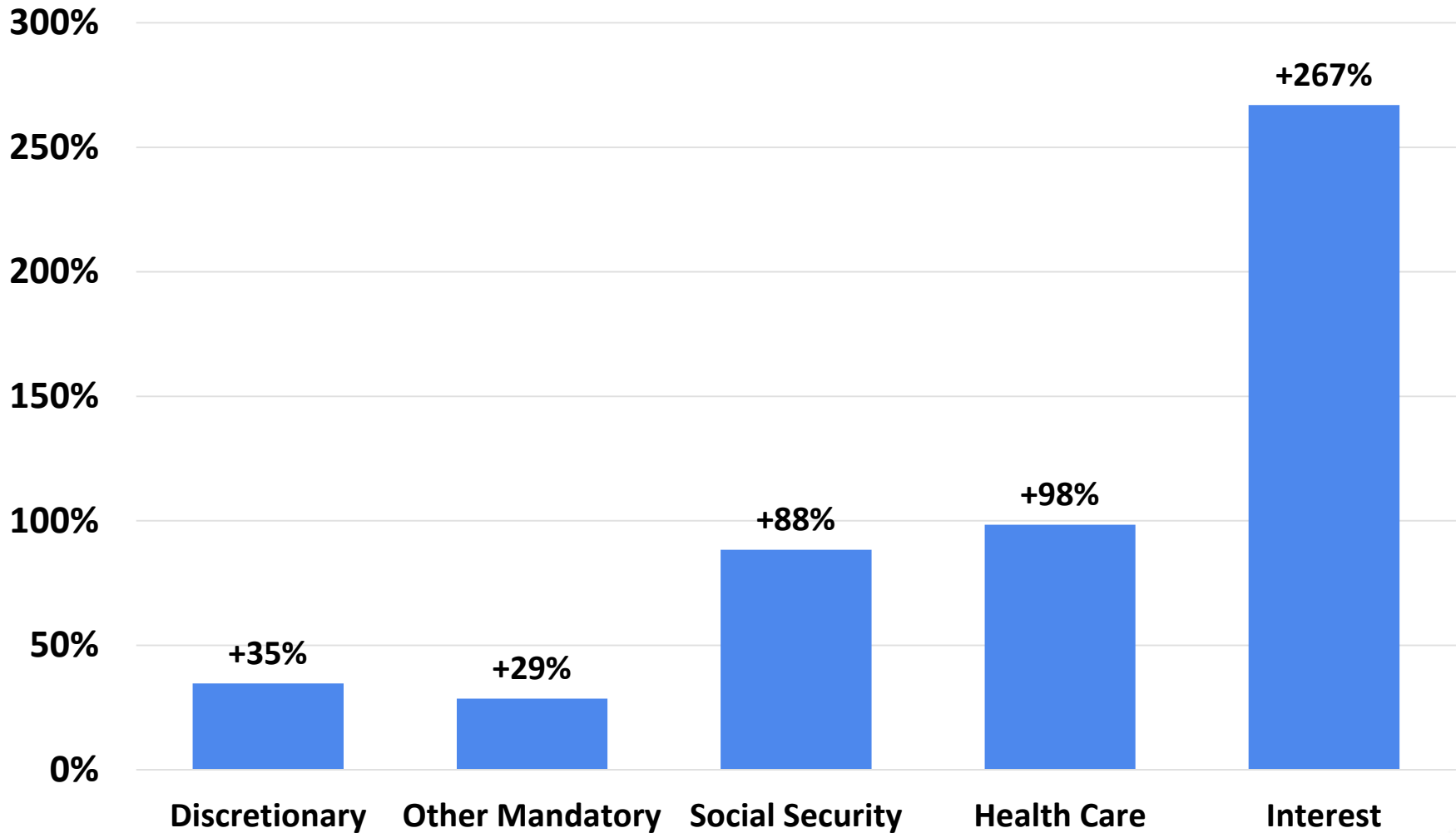


Source: CRFB calculations based on Congressional Budget Office data.



# Long-Term Deficits Are Still Rising Mainly Due to Health, Retirement, and Interest Spending

2017-2028 Nominal Dollar Spending Growth

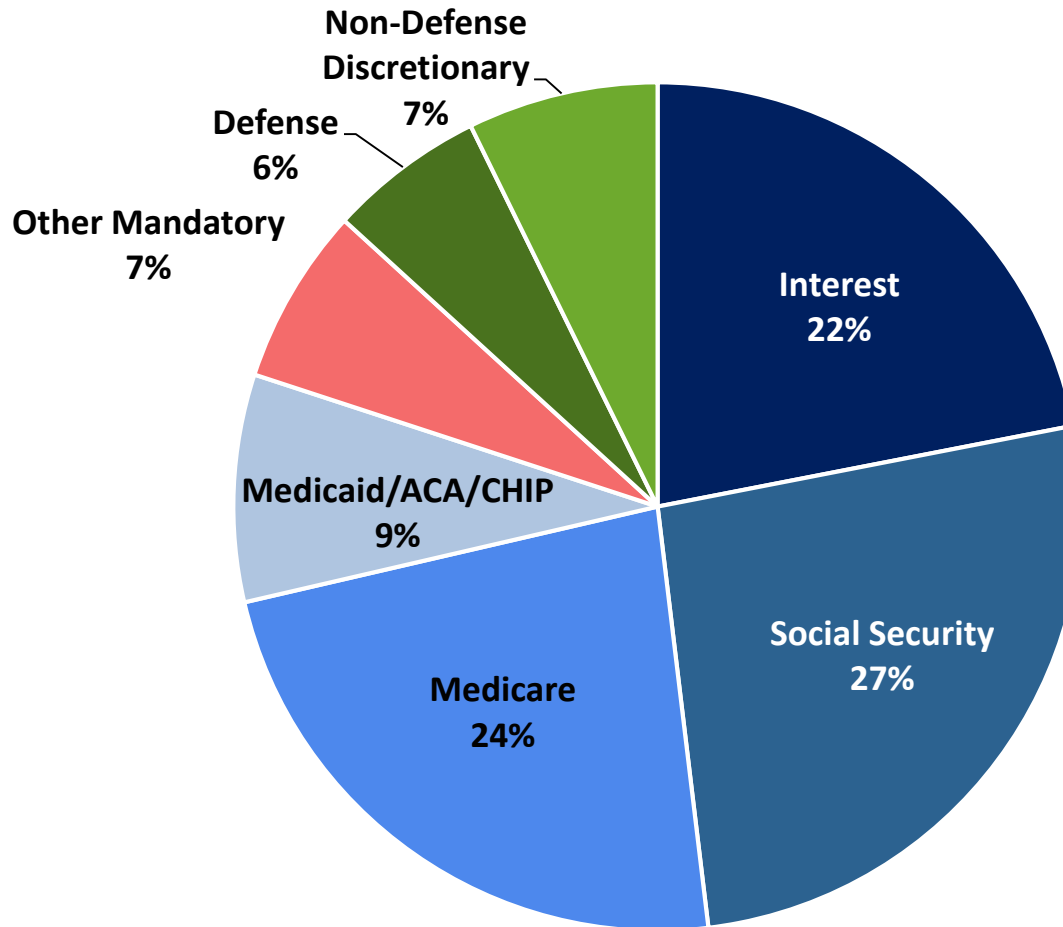


Source: CRFB calculations based on Congressional Budget Office data.



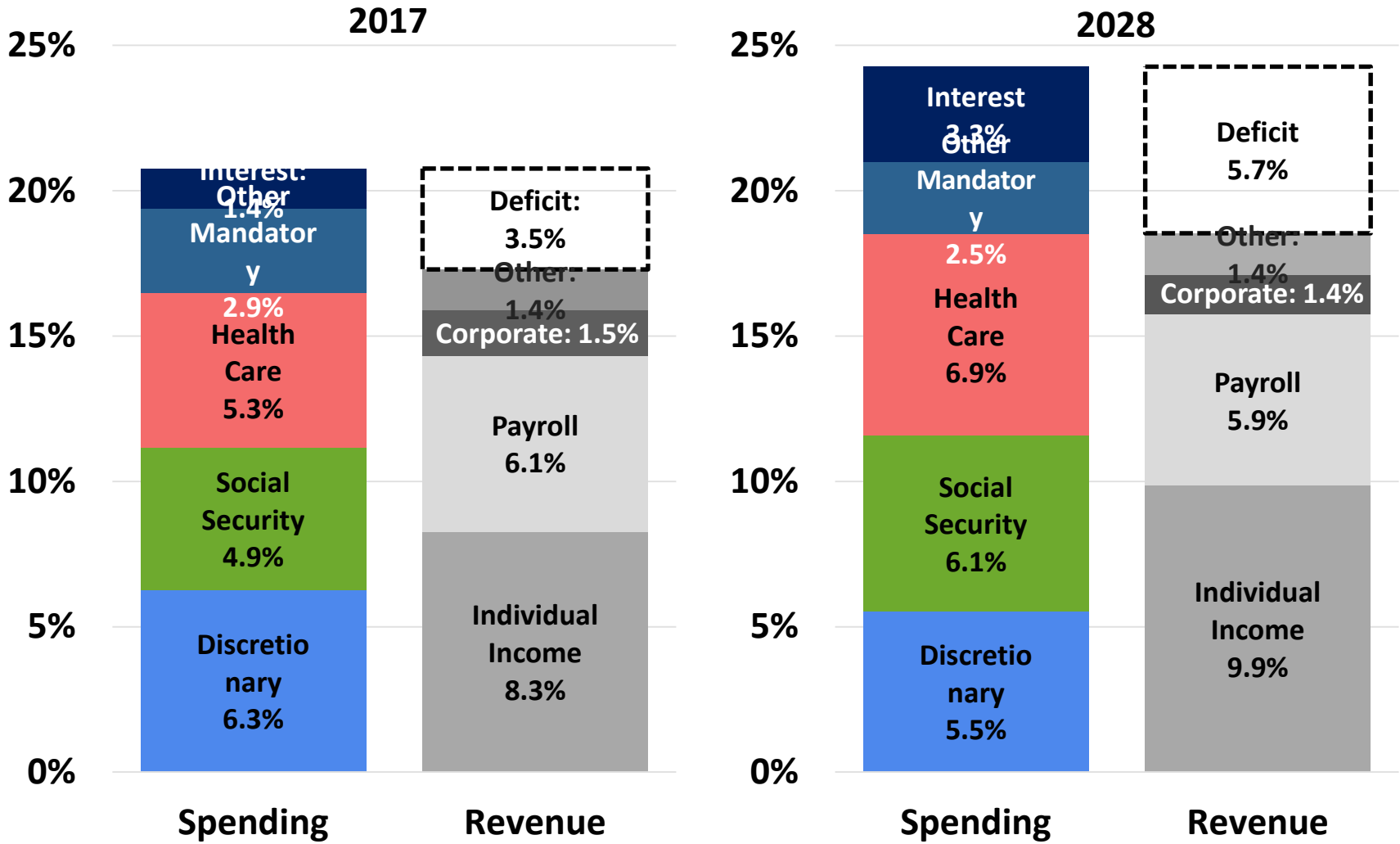
# Social Security, Health Care, And Interest Explain 82% of Spending Growth

## 2018-2028 Spending Growth



Source: CRFB calculations based on Congressional Budget Office data.

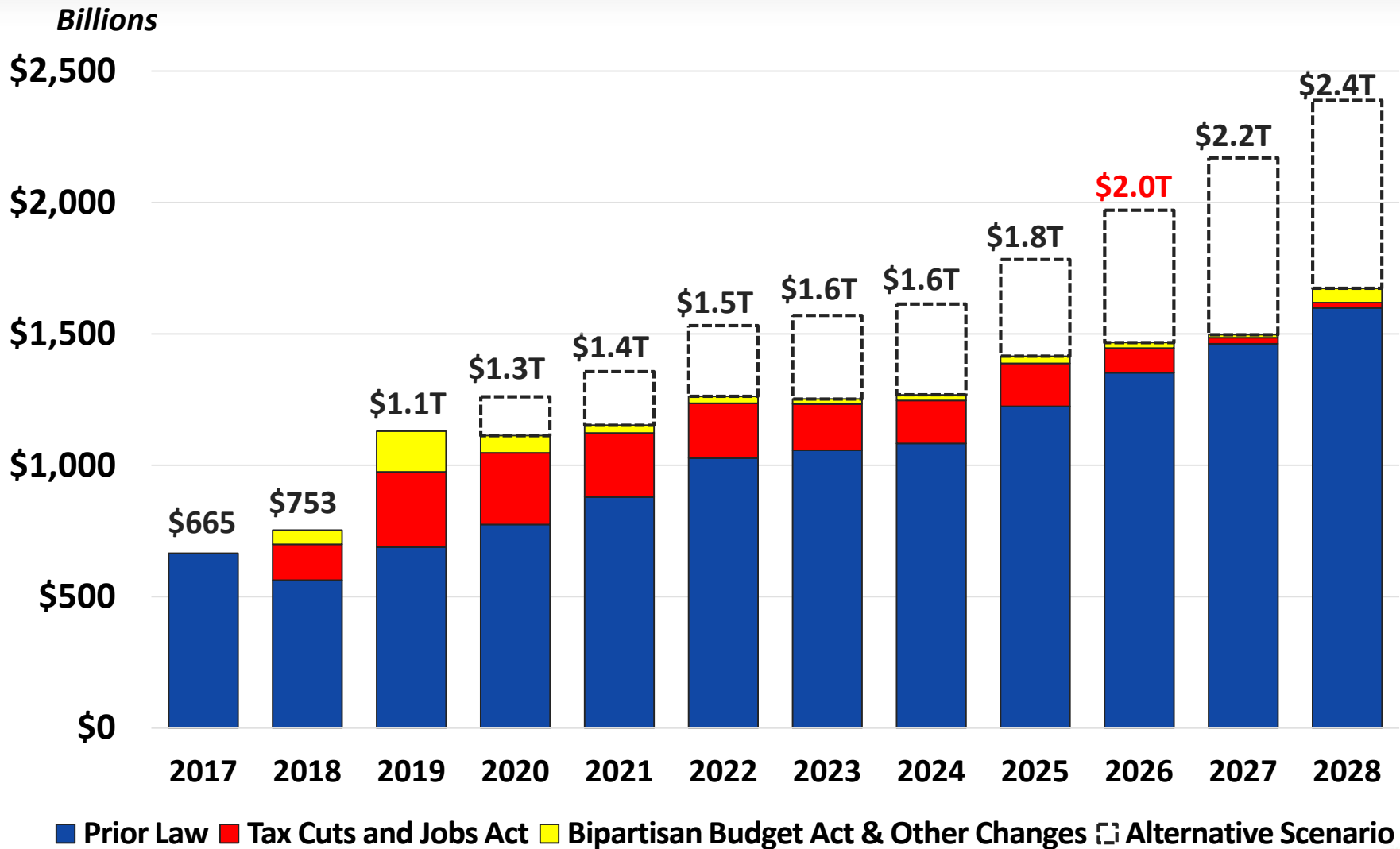
# Health and Social Security Will Consume More of the Budget



Source: CRFB calculations based on Congressional Budget Office data.

# The Fiscal Situation Could Get Much Worse

# Projected Deficits If Lawmakers Extend Debt-Busting Policies



Source: CRFB calculations based on Congressional Budget Office data.



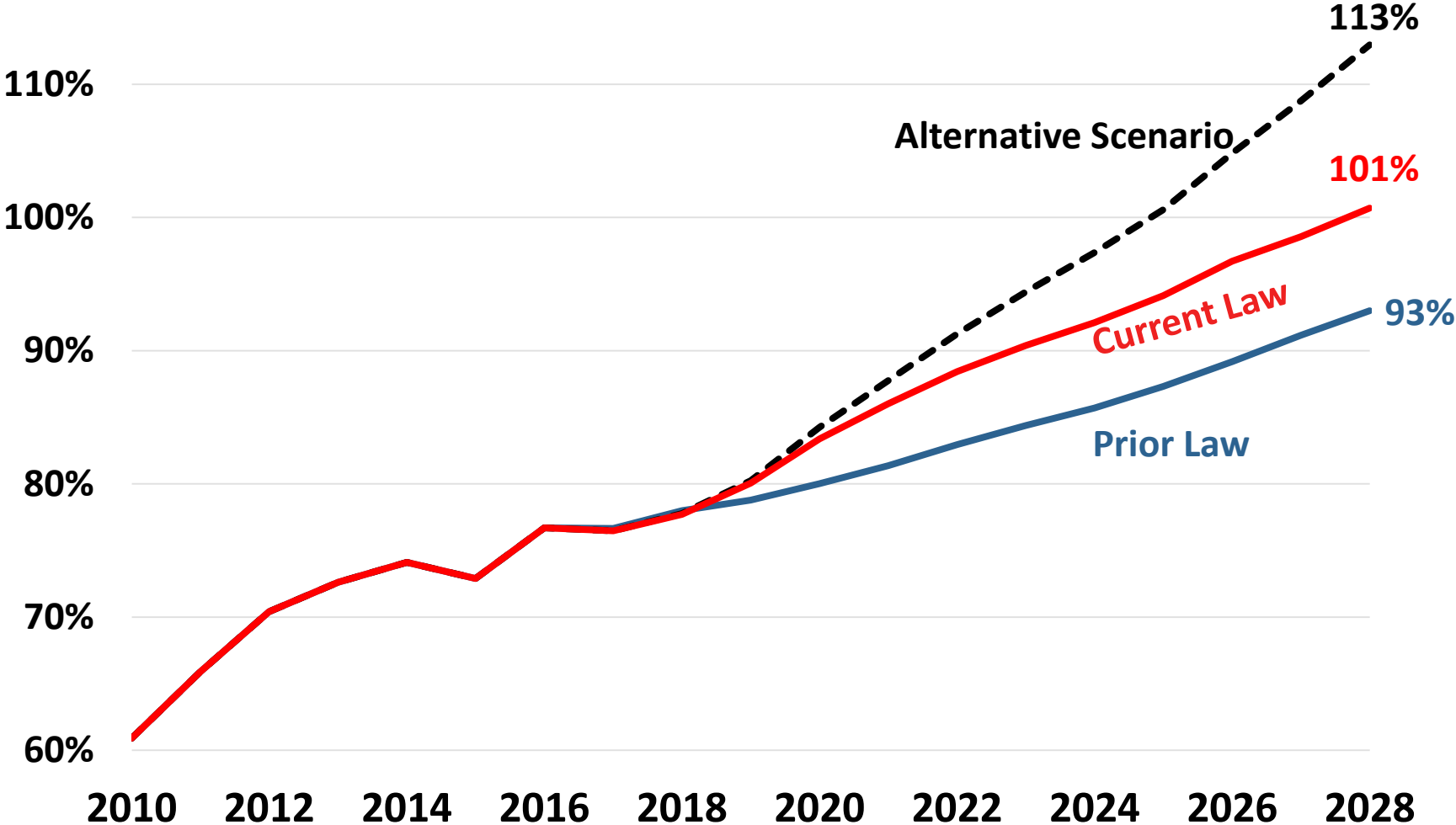
# Our Alternative Scenario Projects Far More Debt

	Debt in Dollars	Debt as Share of GDP
<b>Updated Baseline Debt Projections for 2028</b>	<b>\$29.4 trillion</b>	<b>101%</b>
<b>Continue Tax Cuts and Jobs Act as written in 2019</b>	+\$1.1 trillion	+3.6%
<b>Extend budget caps in Bipartisan Budget Act</b>	+\$1.4 trillion	+4.9%
<b>Extend other expiring legislation</b>	+\$525 billion	+1.8%
<b>Extend defunding of ACA cost sharing reductions</b>	+\$210 billion	+0.7%
<b>Net interest effect of above policies</b>	+\$365 billion	+1.2%
<b>Alternative Scenario Debt Projections</b>	<b>\$33.0 trillion</b>	<b>113%</b>
<b>Memo: Increase in 2028 Debt Due to Extensions</b>	\$3.6 trillion	+12%

Source: CRFB calculations based on Congressional Budget Office data.

# Projected Debt If Lawmakers Extend Debt-Busting Policies

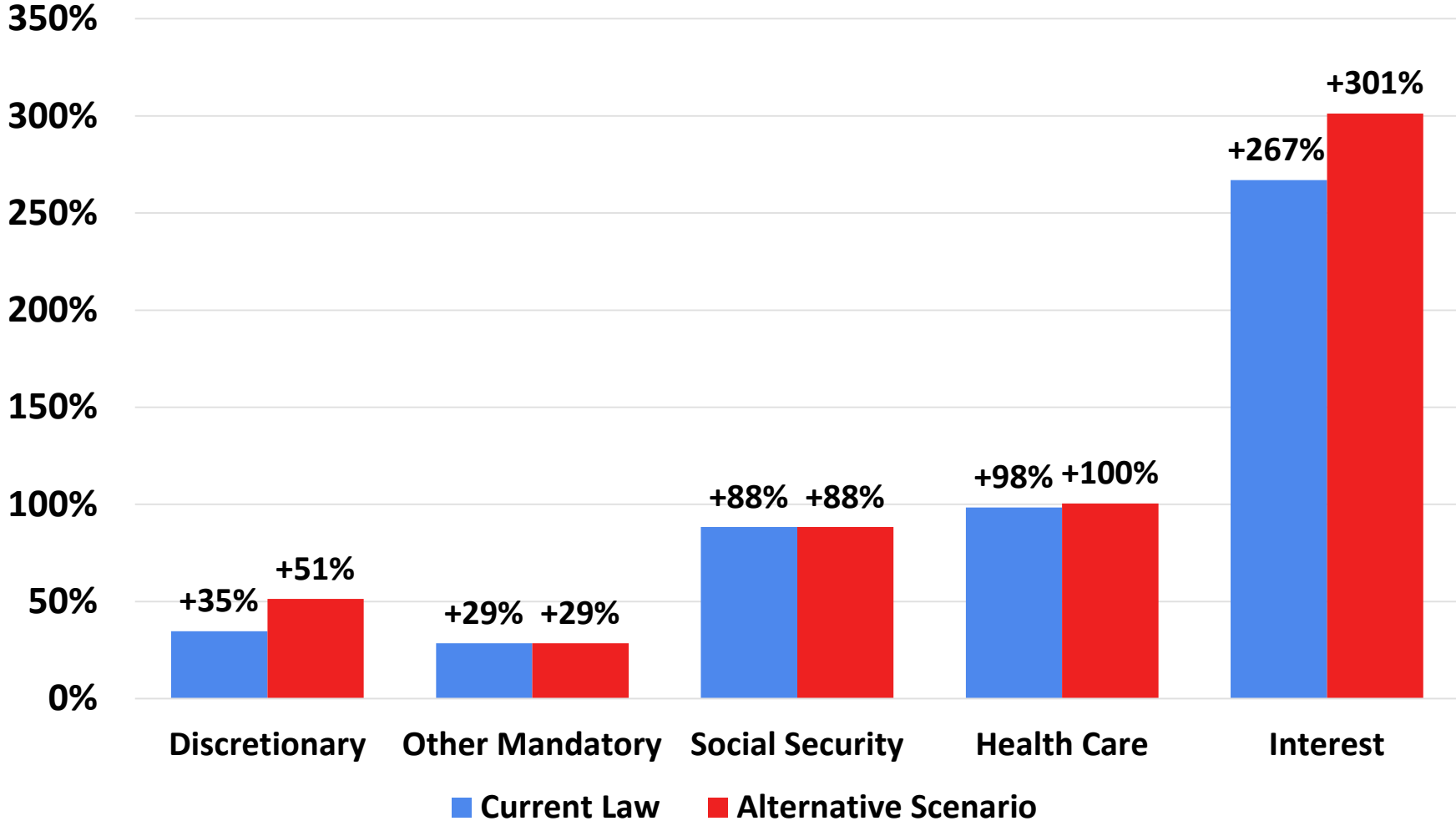
Percent of GDP



Source: CRFB calculations based on Congressional Budget Office data.

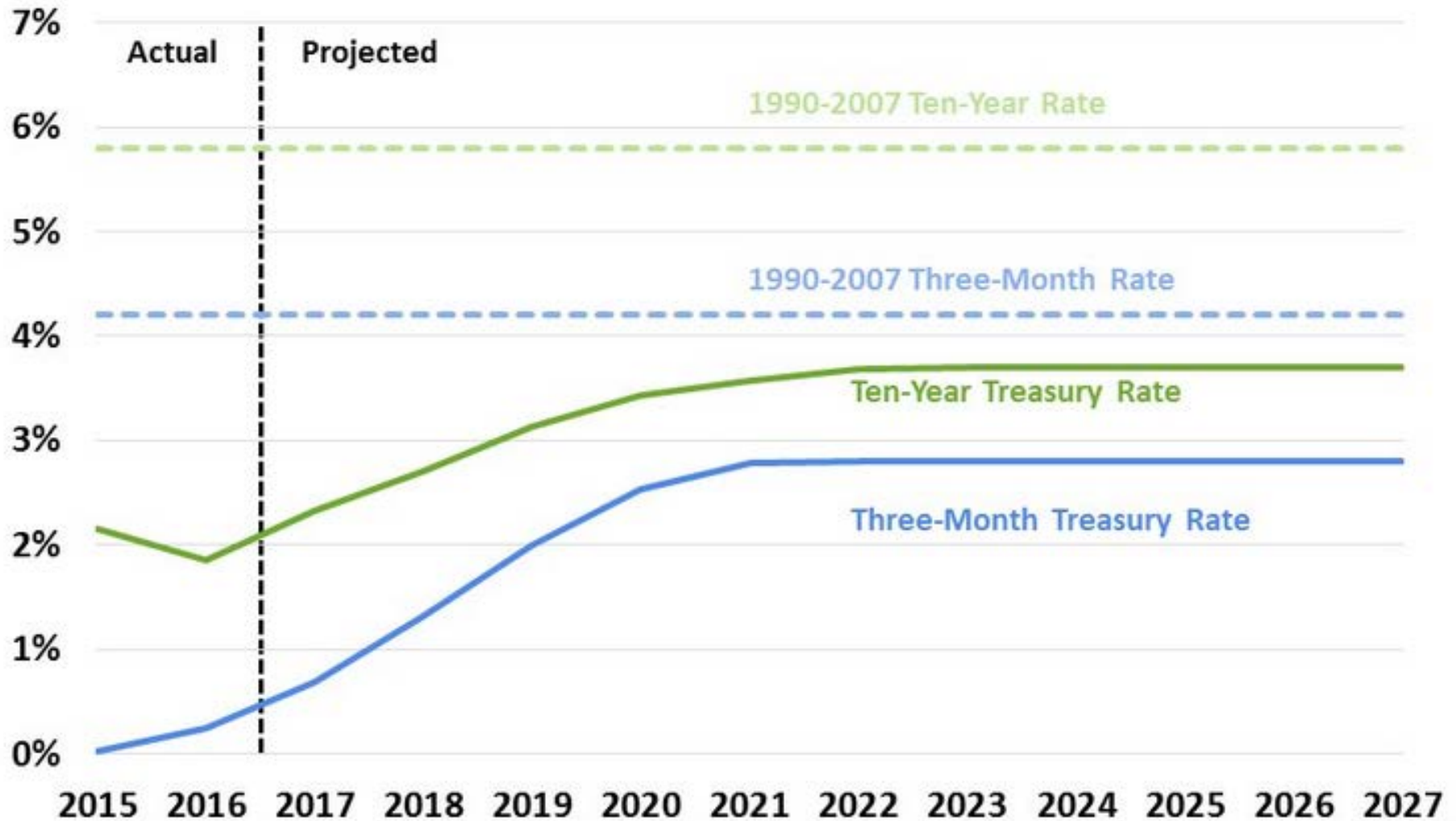
# Spending Growth If Lawmakers Extend Debt-Busting Policies

2017-2028 Nominal Dollar Spending Growth



Source: CRFB calculations based on Congressional Budget Office data.

# Higher Interest Rates Could Also Drive Up Debt

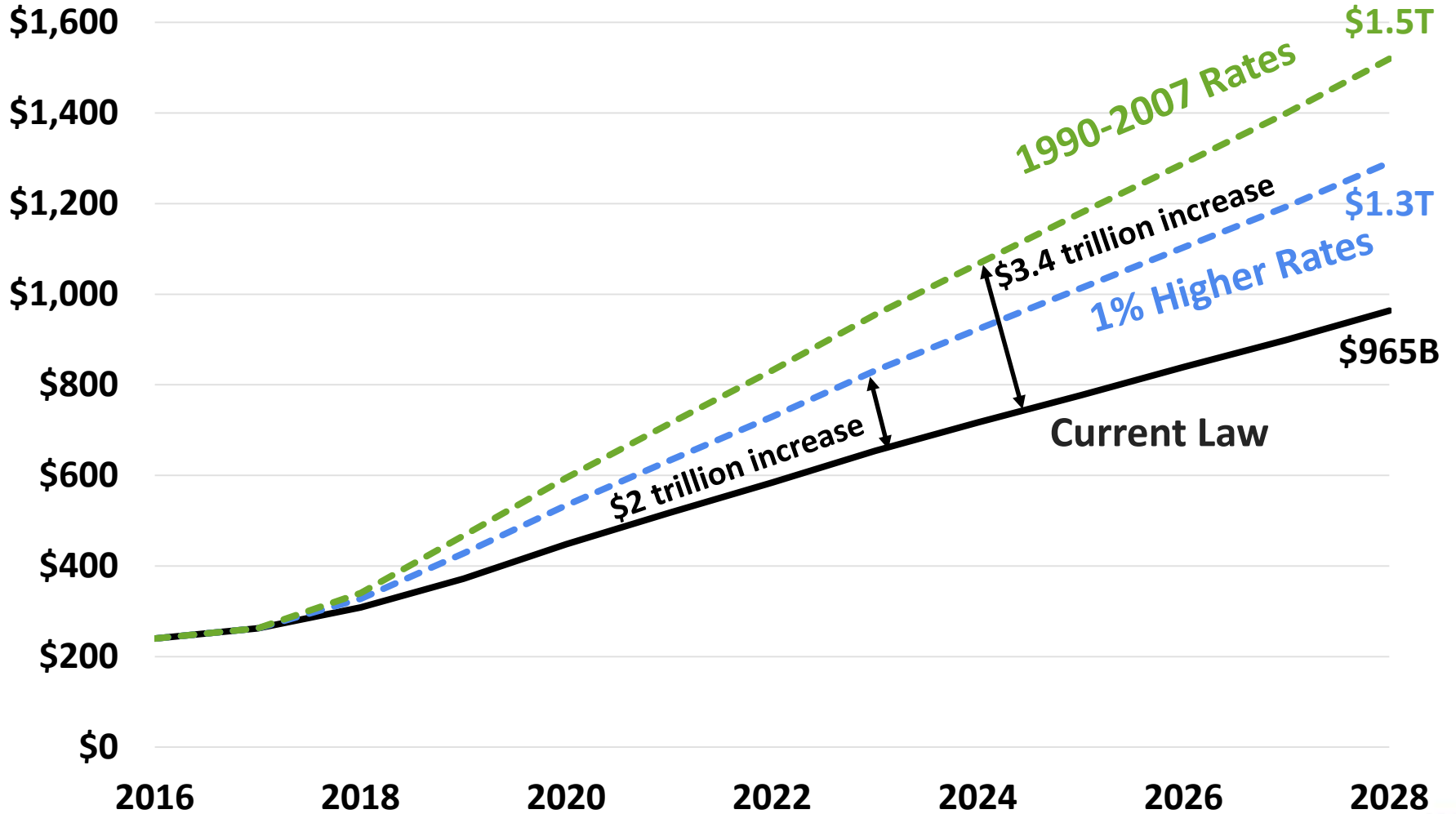


Source: Congressional Budget Office



# Higher Interest Rates Would Increase Interest Spending

Billions of Dollars

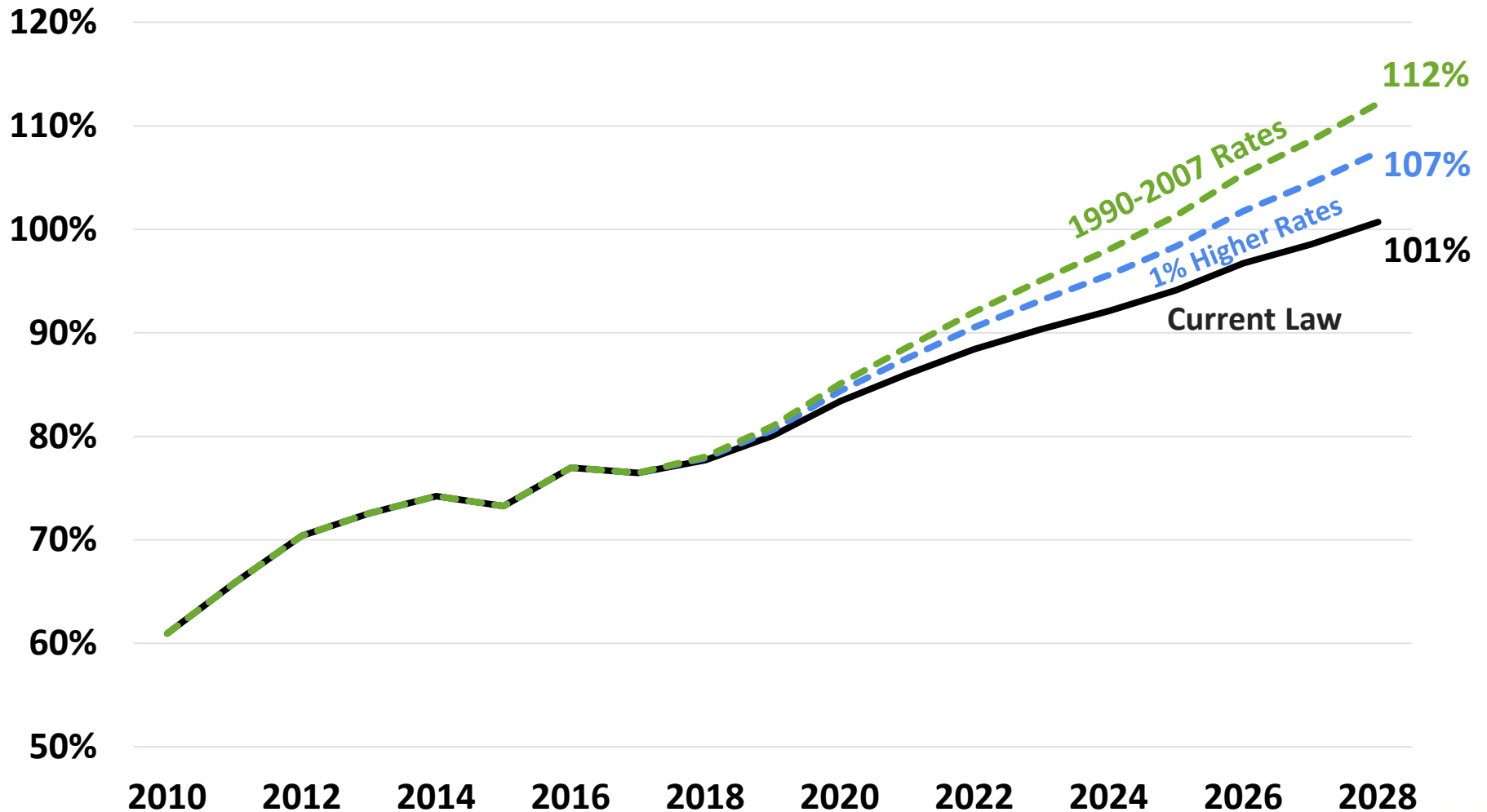


Source: CRFB calculations based on Congressional Budget Office data.



# Higher Interest Rates Would Drive Up Debt

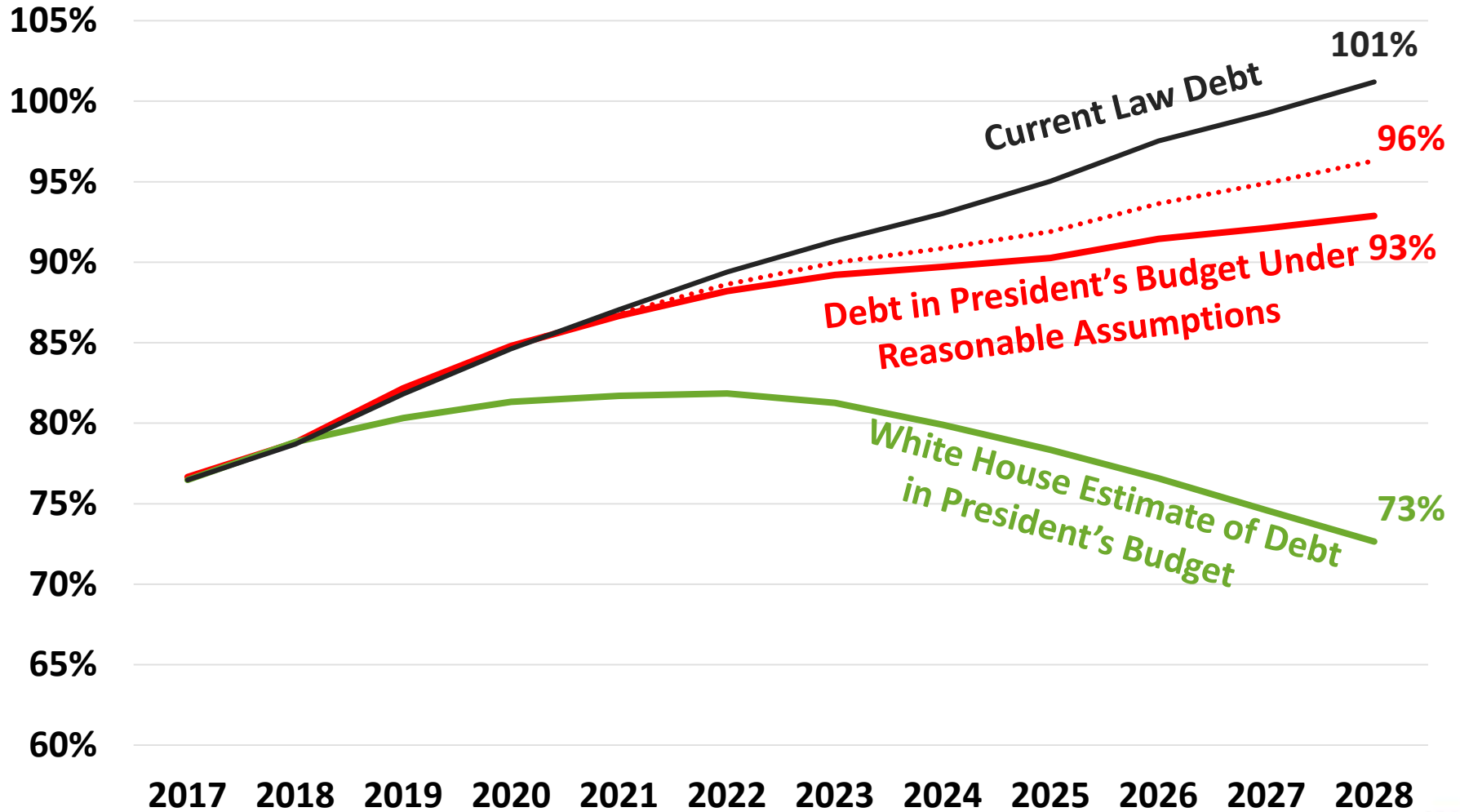
Percent of GDP



Source: CRFB calculations based on Congressional Budget Office data.

# The President's Budget Won't Fix the Debt

Percent of GDP



Source: CRFB calculations based on Congressional Budget Office data, Office of Management and Budget.

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