The Daily Dish

The Budget Outlook

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Tomorrow the Congressional Budget Office (CBO) will release its new baseline projections for the economy and the budget. These very special animals are "baseline" projections and not "forecasts" because they are constructed in a very particular way. The CBO assumes that current law will evolve over the next 10 years exactly as it is currently written down. So, for example, nearly all provisions of the 2017 Tax Cuts and Jobs Act will sunset at the end of 2025, raising taxes by about $3 trillion over the next 10 years. From a budget perspective, this produces a sharp reduction in the deficit and a more favorable overall debt picture. From an economic perspective, this sharp tax increase will be a strong headwind to growth. There is, however, no way that this will happen, so both the budget and economic outlooks will be misleading. Interpret the CBO projections accordingly.

There are three main things to look for in the report. First, what does the CBO now think about the outlook for economic growth (and, thus, revenues)? Like most, the CBO previously anticipated that the economy would slow in the second half of 2023. How much will it change its near-term growth forecast and why?

The second is interest rates. In the previous projections, the federal government was projected to spend $80 trillion over the next 10 years, of which $10 trillion was for interest costs. Does the CBO think this number has gone up? Down? The federal budget is a highly (over) leveraged animal; is it now supposed to exist in a higher interest rate environment?

The third is the pace of entitlement spending. Of the $80 trillion, $50 trillion is so-called mandatory spending – aka entitlements – and of that $32 trillion is Social Security and Medicare. In the previous projections, Medicare was estimated to grow at 7.2 percent annually and Social Security 6.0 percent annually. Both are growing much faster than any revenue source. Have these gone down or up? If Social Security and Medicare are the bulk of the problem and start growing even more rapidly, well….

(Depressing Political Sidenote: President Biden has pledged to not touch Social Security and Medicare. Donald Trump has pledged to not touch Social Security and Medicare. Ah, leadership!)

That’s it. Your user’s guide to the CBO rollout. Enjoy the show.