Insight

OMB Ducks

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Executive Summary

- The Trump Administration will not include an updated economic projection when it submits its mid-year budget revision to Congress.
- Federal law requires the executive branch to submit a reestimate of the President's Budget to Congress, but the law does not require the release of economic forecasts.
- It is impossible to construct a credible budget projection *without* an economic forecast; accordingly, the Trump Administration's refusal to include such a projection this year is simply needless withholding of information from the public and Congress.

Introduction

Part of the inspiration for creation of the modern budget process was a showdown between Congress and the Nixon Administration. Essentially, the modern budget process, established in the Congressional Budget and Impoundment Control Act of 1974, was born out of tension and distrust between the two branches of government. 46 years on, that tension and distrust persist. The statutes that govern the modern budget process set out minimal requirements for the timing and content of the President's Budget and the mid-year reestimate, known as the Mid-Session Review (MSR). The Trump Administration indicated that when it releases the MSR later this year, it will not include a revised economic forecast as is typically the case. The law does *not* require the inclusion of an economic forecast in the MSR – but the preparation of the MSR *does* require a forecast. Not including the forecast in the MSR is perfectly in keeping with the letter of the law but is entirely contrary to its spirit.

The Mid-Session Review

31 U.S. Code § 1106 of the U.S. code states that before July 16th, the president shall submit to Congress a supplemental summary of the budget, known as the MSR. The value of the

President's Budget as a roadmap for the future of fiscal policy in the United States is somewhat diminished but is nevertheless a key element of the modern budget process. The budget materials prepared by the Office of Management and Budget (OMB) are very much reflections of the executive branch's priorities and outlook. The administration has significant discretion in the assumptions built into the its budgets. The budgets are typically built on optimistic economic assumptions that incorporate the effects of the administration's policies – dynamic scoring – and build in room for upside deficit "surprises" with such uniform regularity, it's essentially company policy. The Trump Administration's decision not to include an economic forecast in its MSR is just another incremental erosion in the value of the administration budget documents and in the duty of the OMB to be responsive to the public.

Section 1106 specifically requires, among other provisions, that the administration include the following information in the MSR:

- substantial changes in or reappraisals of estimates of expenditures and receipts;
- substantial obligations imposed on the budget after its submission;
- additional information the President decides is advisable to provide Congress with complete and current information about the budget and current estimates of the functions, obligations, requirements, and financial condition of the United States Government;
- for the 4 fiscal years following the fiscal year for which the budget is submitted, information on estimated expenditures for programs authorized to continue in future years, or that are considered mandatory, under law; and
- for future fiscal years, information on estimated expenditures of balances carried over from the fiscal year for which the budget is submitted.

There is no mention of an economic forecast in the law. Rather, there are several obligations to provide budget projections. But credible modern budget projections are built on economic projections. It is impossible to estimate the federal government's finances without at least some operating assumption of the underlying economy. Tax receipts are a function of income. Expenditures are to a significant extent sensitive to the macroeconomy as well – unemployment insurance, Medicaid, and other elements of the safety net are conspicuous examples. When OMB submitted its budget in February, it was constructed on an economic forecast that assumed the economy would grow by 2.8 percent in real terms in 2020. There's every reason to believe the economy will contract over the course of the year. There is no way OMB can construct an MSR that adequately fulfills its statutory obligation without updating its forecast.

The Trump Administration almost certainly has updated its forecast and probably does so regularly. Administration officials frequently provide economic estimates and commentary to the public. Accordingly, the administration simply appears unwilling to be responsible to the public for its forecast.

Conclusion

The Trump Administration is under no legal obligation to provide updated economic forecasts in its MSR, which it is required to submit. To prepare the MSR, however, the administration will have had to make assumptions about the economy – in other words, an economic forecast. The administration should be willing to provide this forecast to the public to better inform the policy debate as legislators consider additional measures to address the COVID-19 pandemic.