



The Daily Dish

# A Budget Preview

DOUGLAS HOLTZ-EAKIN | MAY 24, 2021

## Eakinomics: A Budget Preview

This Friday, May 28, the Biden Administration will release its budget, the first comprehensive look at the budgetary and economic implications of the American Rescue Plan (ARP), American Jobs Plan (AJP), and American Families Plan (AFP). Releasing it on a Friday before a holiday weekend, however, leaves the impression that the administration is trying to avoid scrutiny and not proud of its policies.

Fortunately, the Congressional Budget Office (CBO) this past Friday [released](#) the pithily titled “Three Scenarios for the Budget as Specified by Senator Graham.” Senator Graham, the Ranking Member of the Senate Budget Committee, asked CBO to make three modifications to its baseline budget projections: (1) incorporate the budgetary implications of the ARP; (2) add \$59 billion to nondefense discretionary spending in 2022 and index it for inflation thereafter; and (3) add \$2.7 trillion in funding for new and existing programs starting in 2022, plus add \$180 billion each year in new mandatory spending.

These choices mimic the administration’s policy choices. The ARP speaks for itself. The nondefense discretionary spending increase mimics the administration’s discretionary request for fiscal 2022. And the modifications in (3) reflect the impacts of the AJP and AFP, respectively.

What are the implications? Over the 10-year budget window, deficits would rise by \$7.6 trillion to a total of \$22.1 trillion. At the end of the budget window, the debt is projected to be \$42.9 trillion or 130.2 percent of gross domestic product (GDP), compared to \$35.3 trillion and 107.2 percent of GDP in the CBO baseline. As a result of the increased borrowing, debt service is projected to increase by \$680 billion over the 10 years.

It is an enormous amount of red ink.

These scenarios differ from the budget the administration will release this week in two important ways. The first is that there are no tax increases in these scenarios. From this perspective, the scenarios are the upper bound for deficit projections. The second is that CBO did not take into account the impact of the proposals on the economy. This is where Friday’s release will get interesting, as most expect that the tax proposals will be a headwind to long-term growth. Doubtless, the administration will show a vibrantly growing economy in its projections, although AAF has [estimated](#) that the net impact of their proposals is negative for growth. It will be interesting to see just how big a difference in growth the administration will show in its budget.