



The Daily Dish

The Budget and Economic Outlook

DOUGLAS HOLTZ-EAKIN | APRIL 9, 2018

Eakinomics: The Budget and Economic Outlook

Today the Congressional Budget Office (CBO) releases the Budget and Economic Outlook (“Outlook”), its first projections of 2018. Ordinarily, CBO kicks off the budget process with the Outlook in January. This year, however, the combination of the passage of the Tax Cuts and Jobs Act (TCJA) late in 2017 and the need to settle the funding for fiscal year 2018 in the recent omnibus spending bill led the Budget committees in the House and Senate to direct CBO to defer its assessment until these issues were settled.

What can one expect when the Outlook is released at 2:00? There will be a lot of aspects that — however important — are just not news:

- The federal deficit will widen steadily, both in absolute terms and as a fraction of gross domestic product (GDP);
 - Revenues will grow steadily at roughly the rate of growth of the economy;
 - Spending will grow much faster, fueled by ever-rising spending on Medicare, Medicaid, Social Security, Affordable Care Act (ACA) subsidies, and other entitlements;
 - Borrowing costs will be an increasingly large fraction of those deficits; and
 - The federal budget will enter an inexorable upward debt spiral.
- These have been central features of the budget outlook for many years now.

However, there will be some important news that will be released. First, how much faster will the budget red ink arrive and worsen? This will depend on CBO’s assessment of legislation passed in 2017 and early 2018, notably the TCJA and omnibus, but others as well. It will also rely on CBO’s assessment of the ongoing performance of the existing entitlement programs. Will Medicare spending slow down? Will the ACA exchange spending expand, stabilize or implode? What does CBO expect in the way of additional Medicaid expansions?

Second, what does CBO expect in the way of the economic outlook, and how does this contribute to the pace of the worsening of the deficit? Will CBO mark up its near term growth projections? Its long-run productivity projections? To what extent will CBO credit regulatory reforms or TCJA? Will more robust investment spending be part of the growth equation? Better economic growth can defer — but not eliminate — the need to move quickly on entitlement reform.

How does CBO view the future path of interest rate, and what does that indicate about its view of the need for the Fed to accelerate the pace of normalization? Will long-run rates be expected to be higher than in the past? Interest costs are a central feature of the budget outlook, and the deficit is sensitive to variations in expected interest rates.

Does CBO expect the current account deficit to widen? Many observers expect that the investment incentives in the TCJA will tend to widen external deficits. The Administration has displayed an intellectually bankrupt attitude toward trade deficits; a large projected deficit may feed additional tariff initiatives.

The CBO report will tee up a vigorous debate over budget and economic issues. Get ready.