The Daily Dish

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DOUGLAS HOLTZ-EAKIN | MARCH 13, 2015

Congress appears to be making headway toward addressing Medicare provider cuts in this year's budget. According to The Hill, "Optimism has been growing this week that Congress could finally reach its long-sought goal of ending the automatic cuts to doctors under Medicare." With regard to the separate issue of Medicare Advantage, Douglas Holtz-Eakin discussed the troubling trend of attacking the program just yesterday.

Banks are still confused over what they need to do to pass the Fed's stress test. Though no bank failed the test this year, some were asked to rewrite plans and, according to the Wall Street Journal, many were "were shocked by the disparity between their expectations and the Fed's, such as projections for how banks' assets and net income would fare in a severe economic downturn…"

Eakinomics: Tax and Spend Again

Yesterday the Congressional Budget Office released its analysis of the President's Budget. Followers of the federal budget outlook have consistently emphasized:

- Mandatory spending is projected to rise sharply, crowding out discretionary spending on national security and domestic programs, especially relative to GDP;
- The federal debt will remain at historically high levels before climbing upwards again, both in absolute terms and relative to Gross Domestic Product (GDP);
- Federal interest costs are at historically high levels and are projected to rise even further, both in absolute terms and relative to GDP;
- Deficits will be stable for a few years and then widen, both in absolute terms and relative to GDP;
- Over the long-term, the federal budget is on the path to a debt spiral in which new borrowing is needed just to cover the interest on previous borrowing.

After examining CBO's analysis of the impacts of the president's proposals, one easily concludes:

- Mandatory spending is projected to rise sharply, crowding out discretionary spending on national security and domestic programs, especially relative to GDP;
- The federal debt will remain at historically high levels before climbing upwards again, both in absolute terms and relative to Gross Domestic Product (GDP);
- Federal interest costs are at historically high levels and are projected to rise even further, both in absolute terms and relative to GDP;
- Deficits will be stable for a few years and then widen, both in absolute terms and relative to GDP;
- Over the long-term, the federal budget is on the path to a debt spiral in which new borrowing is needed just to cover the interest on previous borrowing.

In short, the president's budget does nothing to address the core issues in the fiscal outlook.

Why, then, do some news stories feature the rosy headline that the president would reduce deficits by $1.2 trillion? As AAF's Gordon Gray explains, the budget is another tax-and-spend (and borrow) nothingburger. It makes a modest, temporary deferral of red ink by raising $1.8 trillion in new taxes and then spends a third of that total. Those tax increases will do nothing for the anemic outlook for U.S. economic growth, nothing to change the core dynamics at the heart of the budgetary threat, and, thus, nothing to change the ugly reality that the greatest threat to financial stability is not the banks, not dark pools, not rogue traders, and not any of a thousand other boogeymen. It is the federal government.

And President Obama is evidently ok with that.

From the Forum

The CBO's Re-Estimate of the President's Budget in 3 Easy Charts by Gordon Gray, AAF Director of Fiscal Policy

Defense Spending Facts: A Primer by Rachel Hoff, AAF Director of Defense Analysis

Silver Plan Enrollment Motivated by Cost Sharing Subsidies by Conor Ryan, AAF Senior Health Care Data Analyst