The Daily Dish

# The Budget Deteriorates

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Yesterday on Meet the Press, Senator John Cornyn (R-TX) said the debate on the Senate GOP's health care bill will be an "open process" where members on both sides of the aisle will be given the opportunity to offer amendments and their amendments will receive a vote. Senator Cornyn said that if the health care bill fails they will try again. He noted, however, that if the GOP Senate leadership finds that Democrats are unwilling to participate then they will have to come up with a "different plan" to repeal and replace Obamacare. The current vote, originally planned for this week, has been delayed until Sen. John McCain (R-AZ) is able to return to the Senate following his surgery to remove a blood clot.

On Friday the House voted 344-81 to pass the National Defense Authorization Act (NDAA). The bill authorizes a $696.5 billion budget for the Pentagon, which is far more than had been requested by President Trump in his recently released budget. While the White House stated on Wednesday that it is not fond of some of the provisions in the bill, the Trump Administration has not threatened a veto, which is a departure from the Obama Administration, which threatened to veto the NDAA every year.

***Eakinomics: The Budget Deteriorates***

The administration quietly issued its annual Mid-Session Review of the Budget (MSR) on Friday, an event largely overlooked as attention was focused on the outlook for Social Security and Medicare and the Better Care Reconciliation Act's (BCRA) Medicaid reforms. That focus was rightly placed, as the fundamental driver of U.S. fiscal deterioration is the growth in entitlement spending. Nevertheless, the MSR also contained news that warrants our attention.

As recently as May, when the administration released the President's Budget, the anticipated deficit for the current fiscal year (FY 2017) was $603 billion — the difference between revenues of $3,460 billion and $4,062 billion. Now, only two short months later, the MSR indicates that the deficit will be essentially $100 billion higher at $702 billion. What happened?

The Office of Management and Budget (OMB) now anticipates that spending will total $4,045 billion, a tiny decline of $17 billion (less than one-half a percent). But at the same time, revenues are now pegged at $3,344, down $116 billion or 3.4 percent. An inspection of the Congressional Budget Office's (CBO's) Monthly Budget Reviews suggest that this falloff has appeared relatively recently. What could be going on?

There are two leading, and not mutually exclusive, explanations. The first is that the economy is softer than anticipated and revenues are declining accordingly. There is certainly little evidence that the economy is growing like gangbusters — Congress has done nothing to fundamentally change the policy outlook thus far — but there is no real evidence of a noticeable downshift from the 1.5 to 2.0 percent growth of recent years. Still, it is worth paying attention to the possibility.

The second explanation is that taxpayers are anticipating tax reform, and lower tax rates. Thus, to the extent possible, they would be putting off the realization of capital gains, the billing of consulting services, and otherwise moving into the future taxable income. That looks like weak receipts in the present — that part looks true — but would be offset by stronger income growth in the future. The real question is whether tax reform will occur and that income will be taxed at lower rates; or whether it will not and it will simply be taxed at the same rates later this year or next.

The bottom line is that the budget and the economy are both in need of significant improvement, raising the stakes on Congress passing pro-growth entitlement and tax reform.