



The Daily Dish

# The Budget Outlook

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 9, 2020

## Eakinomics: The Budget Outlook

You may have missed it, but just prior to the Labor Day weekend the Congressional Budget Office (CBO) issued its annual Update to the Budget Outlook 2020-2030. The process was a bit unusual. Typically CBO has a January publication of the Budget and Economic Outlook and in August updates both the economic projections and the budget outlook. This year the arrival of the pandemic and COVID-19 recession quickly made the January economic projections obsolete; CBO updated those in July to give Congress guidance on economic policy. Hence, last week's update was confined to updating the budget outlook.

What did we learn? AAF's Gordon Gray covers the full range of [insights](#), but to my eye there are three. First, the headline: CBO projects that in 2025 the federal debt, relative to gross domestic product (GDP), will reach its highest level ever, 107.2 percent. Not the highest in the 21<sup>st</sup> century, or the highest in peacetime, or the highest since World War II. The highest. Hmmmm, let's come back to that.

Second, the obvious: The current and near-term budget outlook is deficit-riddled as a result of the response to the recession. The deficit will be \$3.3 trillion (16 percent of GDP) in 2020 and \$1.8 trillion (8.6 percent of GDP) in 2021 before returning to its pre-pandemic normal of trillion-dollar deficits as far as the eye can see. Over the 10-year budget window from 2021 to 2030, there will be \$13 trillion in deficits (\$16.3 if you include 2020) and the deficit will average 5.0 percent of GDP. A sea of red ink now seems a quaint and inappropriately meager metaphor.

Third, the surprise: CBO lowered its outlook for interest rates, and the budget savings from the interest rates (\$2.4 trillion) are bigger than the budget impact of the Coronavirus Aid, Relief, and Economic Security (CARES) Act (\$2.3 trillion). Indeed, the interest savings are so significant that once one gets past the impact of the pandemic response, the budget deficit is modestly smaller than CBO previously projected.

What is the bottom line? You will hear that the United States needs to spend trillions more to avert economic calamity and that because of the lower interest rates this will be no problem. I would say instead that the United States should spend what is needed to spur the recovery, and that, if not targeted on the actual impediments to growth, additional trillions will do no good. And it is true that lower interest rates make the carrying cost of the debt much smaller. But even with lower interest rates, the debt is on an unsustainable path and policies must be adopted to stabilize it (at a minimum).

Budgeting – that is, evaluating tradeoffs and making choices – is currently in disfavor. But the CBO report is a reminder that the need for budgeting has not gone away.