



The Daily Dish

The President's Budget

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Eakinomics: The President's Budget

The president released yesterday his budgetary proposals for fiscal year 2019 (October 2018 to September 2019). This is awkward, because the Tax Cuts and Jobs Act locked in the tax side of the budget, the Bipartisan Budget Agreement of 2018 (BBA18) locked in the amount of discretionary spending in 2018 and 2019, and the president has taken entitlement reform — the remainder of the spending — off the table. So, what was there to learn from the president's budget?

Three things. At the most macro level, the important development was that the budget did not come to balance in the 10-year budget window. In a break with recent precedent, the projected deficit drops to only \$363 billion (1.1 percent of gross domestic product) in 2028. At one level, this honesty is welcome, because one cannot get the budget under control without reforms of the large entitlement programs. At the same time, it is a reminder that the Administration has no plan to get the budget under control because it has no plan to reform the large entitlement programs. (There are proposals for Medicare and Medicaid changes, but they are by and large unrealistic.)

The second piece of information concerns the Administration's discretionary spending priorities. While the BBA18 was designed to accommodate the National Defense Strategy, there is not a comparable policy foundation for non-defense discretionary spending. The Administration may not get what it wants out of the legislative process, but it can weigh in on behalf of its priorities at the start.

Finally, the budget includes the "Legislative Outline for Rebuilding Infrastructure in America" — the Trump Administration's long-awaited infrastructure plan. As has been widely reported, the goal is to incentivize \$1.5 trillion in new infrastructure using \$200 billion of taxpayer dollars. The plan is silent on where, specifically, to get the \$200 billion, but it does specify that one-half should go to an incentives program that permits states, localities and the private sector to receive up to 20 percent of a project's cost as a grant. Taken at face value, that means this \$100 billion can finance \$500 billion in new infrastructure.

Another \$50 billion would be dedicated to rural infrastructure and \$20 billion to "transformative projects." The latter could be levered to produce anywhere from \$50 to \$70 billion, so the combined programs would generate roughly another \$100 billion in final projects. That leaves \$30 billion to generate the remaining \$900 billion — a tall order. Putting the arithmetic aside, the Outline proposes some valuable reforms to existing federal infrastructure programs and the permitting process for large projects.

The president's budget is the kickoff of the budgeting cycle this year. Unlike the usual process, there is no Congressional Budget Office (CBO) budget projection against which to compare these proposals. Instead, that comparison will be done by CBO itself in the month to come. The confluence of legislative events and the absence of the CBO analysis makes this an especially difficult budget to assess and evaluate.