The Daily Dish

What's at Stake for the Federal Budget Outlook

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Eakinomics: What's at Stake for the Federal Budget Outlook

The House of Representatives is expected to vote this week on the $1.9 trillion American Rescue Plan (ARP). (For a full description of the ARP, see the special section of the AAF webpage.) With all the trillion-dollar numbers that are tossed about these days, it is hard to keep track of where the federal budget stands. Fortunately, AAF's Gordon Gray has parsed the latest projections from the Congressional Budget Office (CBO) and has a convenient bottom line: "Since CBO's last baseline update in September, the economic, legislative, and technical effects of the COVID-19 pandemic have combined to *reduce* baseline deficits since CBO's last projection by $345 billion over the period 2021-2030."

That sounds like good news, and it is. "Stronger economic growth, all else equal, leads to higher tax collections, and lower expenditures on many transfer programs. According to CBO, relative to its prior estimates, an improved economic outlook reduced the baseline budget deficit by a combined $1.469 trillion over 2020-2030." Notice, however, that the budget outlook did not improve by the full $1.5 trillion; new legislation reduced those gains and it remains true that: "the debt will reach the highest levels in U.S. history in 2031."

Stepping back, it is obvious that the response to the COVID-19 pandemic and recession has had a massive impact on near-term deficits. But the good news is that these responses, to date, have been entirely targeted on the public health challenge and economic relief. And they have also been entirely temporary – after 2 or 3 years the budget has been reverting to its pre-pandemic baseline spending and revenues. Indeed, the only lasting impact on the annual deficits has been the expectation of lower interest rates in the future.

These two features are what is at stake this week. There is a huge fraction of the ARP that has nothing to do with the coronavirus or needed relief – bailouts of pension plans, untargeted checks, minimum wage increases, anti-poverty plans for children, and so forth. It is inappropriate to widen the near-term deficit for these purposes. Worse, there is no question that some are permanent – pension bailouts, minimum wages, and more – and that some of the supposedly temporary features – expansion of the child tax credit, earned income tax credit, paid family leave, and more – are intended to be made permanent. The result would be at least $1 trillion and possibly $2 trillion of additional structural deficits over the next 10 years.

For years, on a bipartisan basis, Congress has paid essentially no attention to making worse the dire budget outlook. Weirdly, like everything else in the pandemic, life turned upside down and Congress got it right. This week is a threatened return to a normalcy we should not embrace.