BUDGET BULLETIN

SENATE COMMITTEE ON THE BUDGET

CHAIRMAN MIKE ENZI | @BUDGETBULLETIN

115th Congress, 1st Session: No. 3 May 23, 2017

The President's Fiscal Year 2018 Budget Proposal

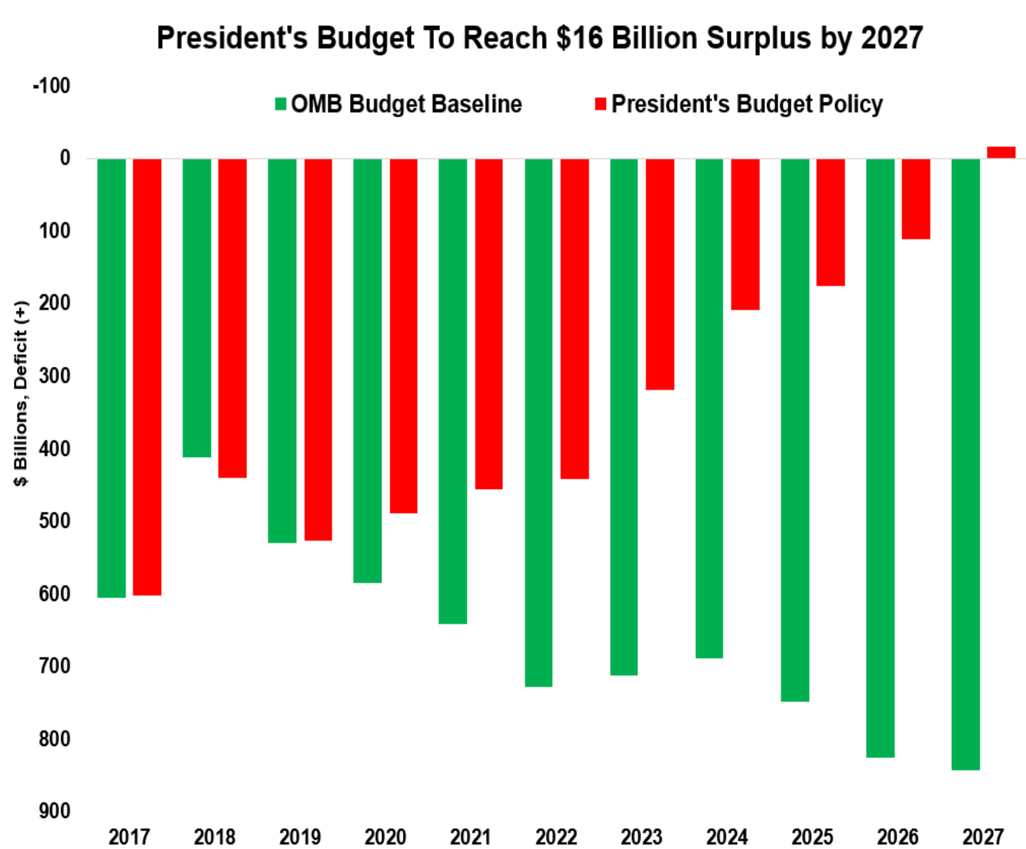
Overview, Baselines, Spending, Discretionary Caps,
Revenue, Debt, & Economic Assumptions

by Senate Budget Committee Republican Staff

<u>Editor's Notes</u>: All years are fiscal years unless otherwise stated. Data in tables and graphs may not sum due to rounding. This *Budget Bulletin* is written as a statement of fact based on summary tables provided by the Office of Management and Budget. These tables reflect the President's proposals.

Overview: A Path to Balance by 2027

President Donald Trump's first budget request puts deficits on a downward trajectory and would result in a $16 billion surplus by 2027, according to White House Office of Management and Budget (OMB) estimates. The budget proposes spending $48.9 trillion over the 2018-2027 period and collecting $45.8 trillion over the same period. While this still results in cumulative deficits of nearly $3.2 trillion over the budget



window, those deficits are $3.6 trillion less than the OMB Budget Baseline projects.

The components of this deficit reduction are shown by budgetary category in the table below. Outlay reductions of $4.6 trillion and nearly $1 trillion in revenue reductions combine for the total deficit reduction figure.

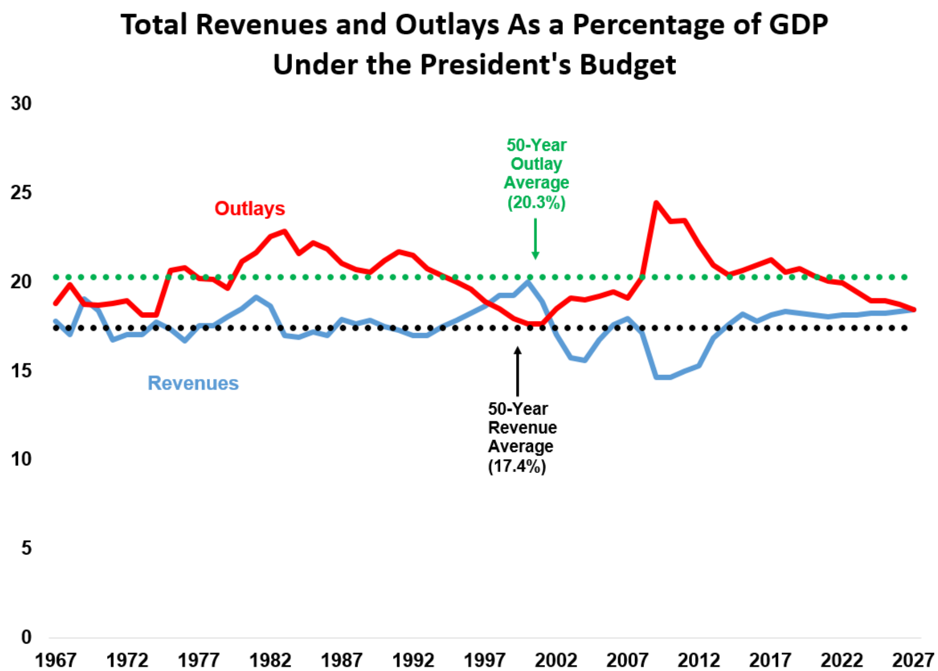
Components of $3.6 Trillion Deficit Reduction Policies

$ Trillions	
Discretionary	1.8
Mandatory	2.5
Net Interest	0.3
Receipts (Obamacare-Related Allowance)	-1.0
Total Deficit Reduction	3.6

Table S-2 of the OMB Summary Tables also provides a breakdown of the deficit reduction policies. The following table reproduces the 10-year savings (both from outlays and receipts) by initiative.

Savings Initiatives Highlighted by the Budget	10- Year Savings
$ Billions, Deficit Effects	
Repeal and replace Obamacare	-250
Support $1 trillion in private/public infrastructure investment	200
Reform financial regulation and prevent taxpayer-funded bailouts	-35
Establish a paid parental leave program	19
Reform Medicaid and the Children's Health Insurance Program (CHIP)	-616
Reform the welfare system	-272
Reform Federal student loans	-143
Reduce improper payments Government-wide	-142
Reform disability programs	-72
Reform retirement benefits for Federal employees	-63
Limit Farm Bill subsidies and make other agricultural reforms	-38
Extend the current Veterans Choice program	29
Other spending reductions and program reforms	-339
Eliminate the defense sequester and increase spending	469
Two Penny Plan on Non-Defense Discretionary	-1,404
Phasedown Overseas Contingency Operations Spending	-593
Interest Effects	-311
Total Policy Change	-3,563

Over the years covered by the President's budget, revenue averages 18.2 percent of gross domestic product (GDP), 0.8 percentage points higher than the 50-year average of 17.4 percent. Outlays average 19.6 percent of GDP, down from the 50-year average of 20.3 percent of GDP.



Understanding the Budget in the Context of Different Baselines

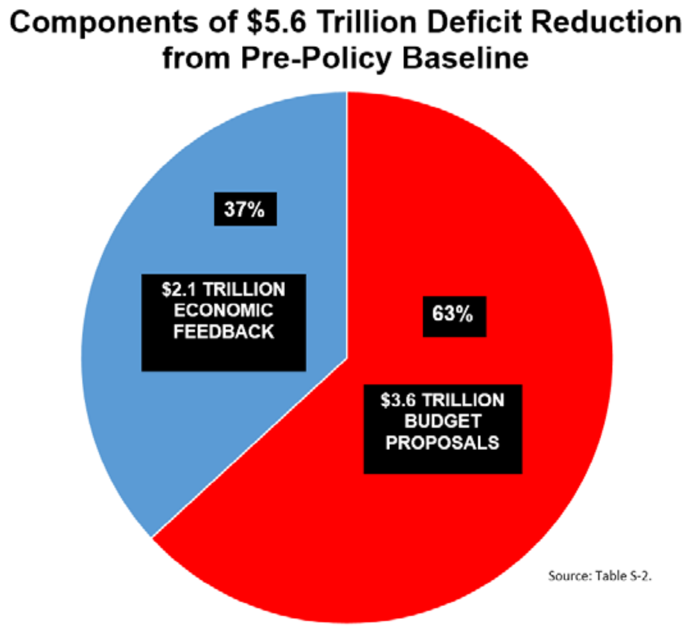
Earlier this year the Congressional Budget Office (CBO) released its projections of the nation's budget outlook. In its January report, CBO found based on current law and its own set of economic assumptions that deficits would total approximately $9.4 trillion over the 2018-2027 period. With the release of the President's budget, OMB shows its own projections, one based on current-law economic assumptions (OMB Pre-Policy Baseline) and one that takes into account the Administration's economic assumptions based on enactment of its proposals (OMB Budget Baseline).

Baseline Comparisons

$ Trillions	2018-2027		
	Receipts	Outlays	Deficits
OMB Budget Baseline	46.7	53.5	6.7
OMB Pre-Policy Baseline	44.6	53.4	8.8
Congressional Budget Office	43.1	52.5	9.4
Difference OMB Budget Less Pre-Policy	2.2	0.1	-2.1
Difference OMB Budget Less CBO	3.7	0.9	-2.7

The OMB Pre-Policy Baseline projects deficits of nearly $8.8 trillion over the budget window, $651 billion less than CBO assumes. The OMB Budget Baseline has lower deficits still at $6.7 trillion, $2.1 trillion less than the OMB Pre-Policy Baseline and $2.7 trillion less than CBO's projections. As discussed later in this *Bulletin*, the difference largely stems from increased receipts assumed due to faster economic growth.

As a result, the budget's topline projections can be evaluated both in terms of policy and economic feedback.



Relative to the Pre-Policy Baseline, the President's budget reduces deficits by $5.6 trillion over 10 years, composed of $3.6 trillion in policies and almost $2.1 trillion in economic feedback. Note that this $2.1 trillion economic feedback figure is the same as the difference between the OMB Budget and Pre-Policy baselines.

Spending

Under the President's budget, total federal outlays over the forecasted period would fall from $53.5 trillion to $48.9 trillion, a reduction of $4.6 trillion from OMB Budget Baseline levels. The President's budget would have total discretionary outlays of $11.7 trillion over the next 10 years, down $1.8 trillion from the projected $13.5 trillion. This $1.8 trillion figure captures both the reduction in nondefense discretionary spending and the $27 billion increase in defense discretionary outlays.

Non-interest mandatory spending in the President's budget totals $32 trillion over the 2018-2027 period, $2.5 trillion less than assumed in the baseline. Spending associated with interest costs would also decline under the President's budget, falling $323 billion over ten years from $5.5 trillion to $5.2 trillion.

A full discussion of spending proposals included in the President's budget will be available in a forthcoming bulletin.

Statutory Discretionary Limits

President Trump proposes a significant amount of savings from discretionary spending overall, while also increasing spending on defense. Enacting the proposed levels, however, would require changes to the 2011 Budget Control Act (BCA) spending caps, which are in effect through 2021.

For 2018, regular defense spending increases by $54 billion above the BCA limit (to $603 billion), which is offset by a $54 billion decrease for nondefense (to $462 billion) such that the total matches the overall BCA cap of $1.065 trillion.

Discretionary Spending: Current Law vs. President's Budget

$ Billions	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2027
Current Law											
Defense	549	562	576	590	605	620	636	652	668	685	6144
Nondefense	516	530	543	556	570	584	599	614	629	645	5784
Proposed Change											
Defense	54	54	53	52	50	49	47	45	44	42	489
Nondefense	-54	-83	-106	-139	-162	-186	-208	-231	-255	-278	-1,702
Proposed Spending											
Defense	603	616	629	642	655	669	683	697	712	727	6,633
Nondefense	462	446	437	417	407	398	390	383	375	367	4,082

Regular discretionary defense spending remains at levels above the caps (through 2021) and baseline (through 2027). In total, regular discretionary defense increases by $489 billion, $213 billion of which occurs while caps are still in effect (2018-2021). According to OMB, the amounts included for regular discretionary defense funding for 2019-2027 reflect inflated 2018 levels and not actual policy. The Administration claims it will not have a policy-based request until next year's budget and will look to the National Security Strategy, National Defense Strategy and Nuclear Posture Review for guidance.

Regular nondefense discretionary budget authority is reduced by $1.7 trillion over the 2018-2027 period. This reduction has its roots in three proposals. The first proposal is the imposition of what OMB calls the "two-penny plan," whereby each year beginning in 2019, budget authority drops 2 percent from the prior year. The other two proposals are reforms to the Federal Aviation Administration's air traffic control function (non-governmental control by 2021) and federal employee retirement benefits beginning in 2019 that lower spending beyond the 2 percent reductions.

In addition to regular discretionary spending, the President's budget also contains a $77 billion request for Overseas Contingency Operations (OCO) spending. Under the plan, OCO spending would gradually decrease from $77 billion in 2018 and ultimately phase down to $12 billion annually beginning in 2022. OMB does include a notation that these out-year OCO assumptions are simply a placeholder. For reference, OCO funding in 2017 totaled nearly $104 billion.

The budget claims $593 billion in savings from phasing down OCO spending over 10 years.

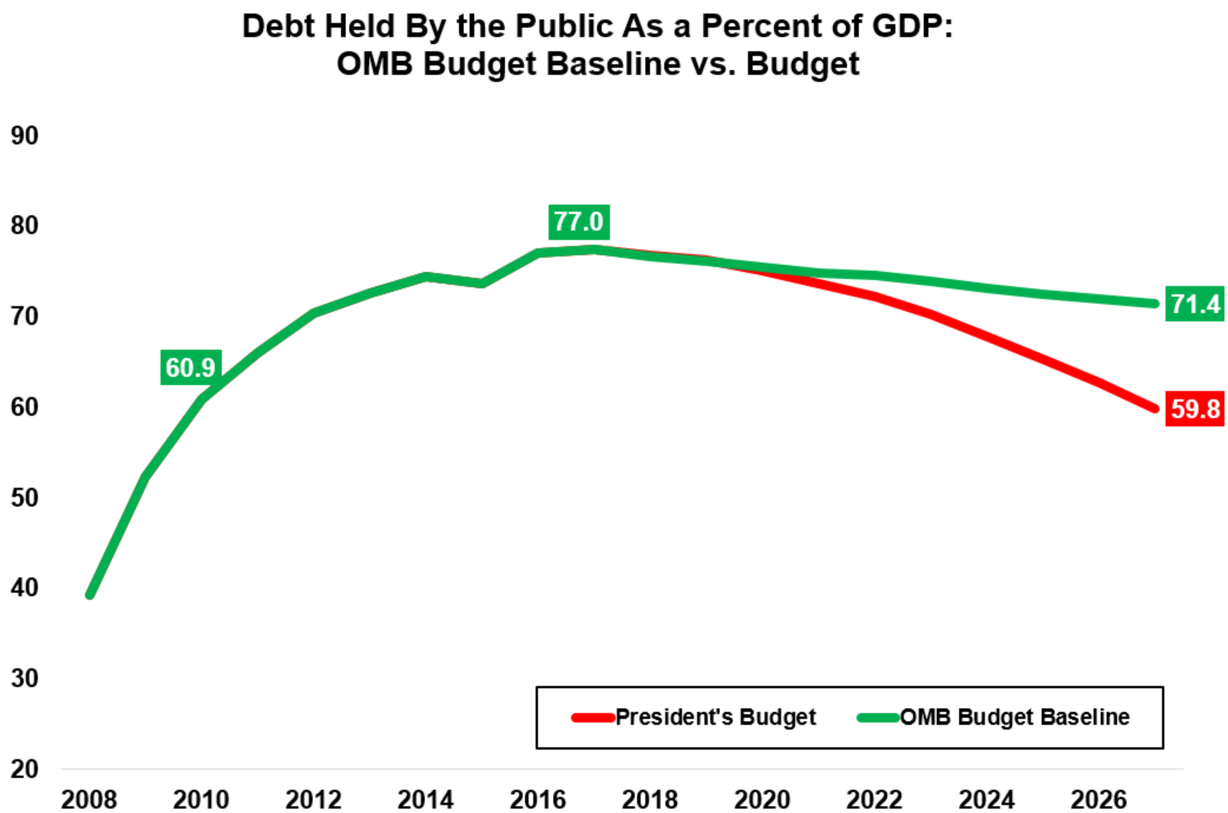
Revenue

Under the President's budget, total federal revenues over the entire forecasted period would fall from $46.7 trillion to $45.8 trillion, a reduction of $990 billion. As a percentage of GDP, revenues would rise from 18.1 percent in 2017 to 18.4 percent in 2027. Revenue growth inherent in the OMB Budget Baseline includes over $2.2 trillion due to economic feedback. Policy proposals include repealing and replacing Obamacare, a $1 trillion reduction in revenue; and the net effects on receipts from other proposals, a $10 billion increase in revenues.

The budget articulates core principles for deficit-neutral comprehensive tax reform both for individuals and businesses, which lowers tax bracket rates while broadening the base through the elimination of loopholes and deductions. OMB projections for economic growth are partially attributable to proposed tax reform.

Debt

According to OMB estimates, under the President's budget, debt held by the public as a percentage of GDP would fall from 77 percent in 2016 to 59.8 percent in 2027 – the lowest since 2010 (60.9 percent).



The OMB Budget Baseline projects that gross debt will increase by $8.6 trillion over the next 10 years, from $19.5 trillion in 2016 to $28.1 trillion in 2027. The President's budget proposal would curb this growth so that the gross debt would reach $24.7 billion by 2027 – an increase of $5.1 trillion from 2016 levels, but $3.4 trillion less than projected under current law.

Economic Assumptions

President Trump's plan projects policy proposals will raise economic growth from 2.3 percent for 2017 to a long-term trend of 3 percent by 2020. This increased economic growth decreases projected deficits by nearly $2.1 trillion over the 10-year window. The administration's post-policy growth projections average a percentage point higher than the CBO's current-law growth projections. The private sector consensus forecast, as calculated by *Blue Chip Economic Indicators*, averages in between these estimates.

Historical annual growth rates have averaged 2.9 percent over the past 50 years and 3.2 percent in the postwar era.

OMB projections assume interest rates rise on 91-day Treasury bills from 0.8 percent in calendar year 2017 to 3.1 percent in 2027, compared with CBO's 2.8 percent in 2027; and interest rates rise on 10-year Treasury notes from 2.7 percent in calendar year 2017 to 3.8 percent in 2027, compared with CBO's 3.6 percent in 2027.