Where Is the Budget Headed One Year into the Trump Administration?

C. Eugene Steuerle and Caleb Quakenbush

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After one year of the Trump administration, we assess the fiscal path implied by budget policies that the president and Congress have so far put in place. Using a new framework that holds lawmakers accountable for reforms taken and not taken, we project that over the coming decade, nearly all growth in spending will go toward higher health, Social Security, and interest costs—with little left for almost everything else: infrastructure, research, education, defense, housing, and most basic government functions. Revenues would rise by only two-thirds of those higher costs, making debt accumulate even higher, to unprecedented peacetime levels.

Even if the federal budget were on a path of stable debt growth, which it is not, fiscal policy has increasingly disfavored workers, young adults, children, education, and research for years—with broad negative implications for economic growth generally and upward mobility specifically (Steuerle 2016). Investments as a share of GDP would decline significantly. Households would generally pay more in taxes for fewer benefits in years when they work and raise children. Most discretionary programs would face steep spending cuts, while borrowing would rise dramatically. Direct spending on children would decline, though child tax credits (unindexed for inflation, unlike the dependent tax exemption that was eliminated in 2017) would increase temporarily. Despite large growth in federal health spending, the number of people without health insurance would rise because of the repeal of the Affordable Care Act's individual mandate and because of continued pressures from health cost increases.

Unlike other budget accounting methods that focus on deficits or on nominal spending and revenues, our unique approach allows us to home in on real (inflation-adjusted) changes over time in the revenues raised by government and the allocation of those revenues. This method demonstrates how

resources for different programs grow or decline because of new legislation and because of built-in changes legislated by earlier Congresses. Elected officials must be held responsible for the nation's entire budgetary path, not just the pieces on which they decide to legislate. Even before the start of this administration, automatic spending growth from earlier legislation has come to dominate any growth from new legislation, while revenues have been inadequate to cover those costs, making voters and legislators feel that policy is increasingly out of their control and that democracy, as least in a fiscal sense, has declined (Steuerle 2014).

Tracking Real Changes in Spending and Revenues

Only a moderate share of total spending each year must be legislated through an appropriations process. Legislation does at times extend to other spending or taxes, as in the 2010 health reform known as the Affordable Care Act and the 2017 tax cut known as the Tax Cuts and Jobs Act (TCJA). Yet despite these legislative examples, little focus is placed on how the newly legislated actions compare with the other real changes built into the law—the spending and revenues that rise or fall independently of new legislation. It's not that analyses by executive and legislative budget offices fail to project total spending levels, revenues, and deficits for future years, but that their presentation makes it difficult to discern how spending priorities as a whole are shifting or being financed.

In Steuerle and Quakenbush (2016), we developed a budget presentation and framework that addressed the shortcomings of traditional budget outlooks in three ways:

- **Emphasizing 10-year and other long-term *changes* in real spending and revenues.** Instead of showing only total outlay and revenue levels, we calculate the *change* from current levels to show clearly which budget categories are growing and which are stable or declining. This gives a clearer sense of lawmakers' implicit spending and taxing priorities.
- **Presenting information within a balance sheet where the total change in spending must match the total change in sources of financing.** This type of balance sheet is often prepared for total spending and taxes, but not for the changes in spending and taxes—those increments that define how priorities are changing. And instead of showing only the budget effects of new laws, we include all changes built into the budget, such as tax receipts that grow as incomes grow and health spending that rises automatically as new and expensive health services are covered automatically without any new vote by Congress.
- **Adjusting for inflation.** Many budget analyses present figures over time in nominal dollars or as a share of GDP. Using nominal dollars is misleading; for example, a 20 percent nominal increase in defense spending over a decade translates to no real increase if it is all because of inflation.[1] Measuring changes in the share of GDP does not have this defect and is a good way to focus on priorities, but this approach can be difficult to understand, and the budget process itself focuses on dollar amounts, not GDP.

The numbers presented by this framework are just that—numbers. They are neither liberal nor conservative in orientation. Instead, a complete balance sheet on the changes taking place helps one understand how changes in one place are "balanced" somewhere else. For instance, debt increases when there are too few taxes relative to spending and too much spending relative to taxes; these are two sides of the same coin. Similarly, spending more in one part of a balance sheet inevitably means spending less in some other area or taxing or borrowing more to cover the change. Thus, our method holds the president and Congress accountable for what they expand and what they contract by the priorities they set.

The Direction of the Federal Budget at the Start of 2018

During the 2016 presidential campaign, the Trump campaign promised major changes to federal policy, emphasizing large tax cuts, substantial infrastructure investments, repeal of health insurance expansions, and no major changes to Social Security or Medicare (Steuerle et al. 2016). Since the beginning of the Trump administration, Congress and the president have enacted two major budget policies. The first, the TCJA, was a tax cut that, though significant, was much smaller than the Trump campaign's proposal and, by one estimate, smaller than seven other tax cuts enacted since 1918.[2] However, the larger deficits created by the TCJA push the nation further down its already unsustainable budget path.

TABLE 1

Changes in Real Spending and Financing Scheduled at the End of 2017

Billions of 2017 dollars, except where noted

	2017 level	2028 level	Total change	Share of change	Growth rate
Spending					
Social Security	957	1,439	481	29.0%	3.8%
Major health programs	1,050	1,639	589	35.5%	4.1%
Medicare	603	1,022	419	25.3%	4.9%
Medicaid, CHIP, and ACA	447	618	170	10.3%	3.0%
Defense discretionary	602	623	22	1.3%	0.3%
All other noninterest spending	1,181	1,272	91	5.5%	0.7%
Net interest	*268*	*742*	*474*	*28.6%*	*9.7%*
Total spending	**4,058**	**5,716**	**1,658**	**100.0%**	**3.2%**
Financing					
Individual income taxes	1,618	2,372	754	45.5%	3.5%
Payroll taxes	1,184	1,444	260	15.7%	1.8%
Corporate income taxes	303	363	60	3.6%	1.7%
All other revenues	275	298	23	1.4%	0.7%
Total revenues	*3,380*	*4,478*	*1,098*	*66.2%*	*2.6%*
Borrowing (deficits)	*678*	*1,238*	*560*	*33.8%*	*5.6%*
Total financing	**4,058**	**5,716**	**1,658**	**100.0%**	**3.2%**

Source: Authors' calculations from Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: CBO, 2018).

Notes: ACA = Affordable Care Act; CHIP = Children's Health Insurance Program. Numbers may not sum to totals because of rounding.

The second major change was a series of budget agreements passed from January through March 2018, especially the Bipartisan Budget Act of 2018 and Continuing Appropriations Act of 2018. Together, these laws increased fiscal year 2018 and 2019 discretionary spending caps, reauthorized the Children's Health Insurance Program, retroactively renewed the so-called "tax extenders" (some expiring tax breaks) for 2017, delayed the implementation of scheduled health care-related tax increases, and appropriated funds for fiscal year 2018.

After this first wave of budget laws, where does current law at the start of 2018 put the nation's fiscal path? Growing health, interest, and Social Security costs alone absorb nearly all the projected increase (nearly $1.7 trillion) in federal spending from 2017 to 2028, as they have for decades. This translates to an increase of about $9,000 per US household. Meanwhile, health programs, Social Security, and interest on the debt rise from about 56 percent to 67 percent of total spending.

The table also reveals that total spending rises by about 150 percent of total revenue growth, or, correspondingly, that revenue growth covers only 66 percent of spending increases. Thus, 34 percent of the increase in spending must be financed by additional borrowing above already high levels. The TCJA deepened scheduled deficit increases between 2017 and 2028, and the numbers in the table very likely understate the law's ultimate deficit-increasing effect. Many of the law's individual income tax cuts are set to expire after 2025, but lawmakers have expressed interest in extending or making permanent those temporary tax cuts. Judging by the nation's experience with 2001 tax legislation, which similarly required the expiration of tax cuts within 10 years, Congress will be reluctant to impose on most taxpayers a sudden tax increase as their higher child credits, standard deduction, and other benefits suddenly expire.[3] Whether or not the tax cuts are extended at the end of this ten-year period, a significant portion of the tax cuts over the ten years will still compound into the higher interest cost number shown for 2028.

Health care has the largest share—more than one-third, or $589 billion—of the nearly $1.7 trillion projected spending increase by 2028. Medicare accounts for about 70 percent of this growth. Growth in Medicaid, the Children's Health Insurance Program (CHIP), and ACA subsidies is more modest. The TCJA repealed the Affordable Care Act's requirement for most individuals to buy health insurance. Perhaps counterintuitively, that decision modestly raised revenues by increasing the number of uninsured people and decreasing the tax subsidies that they otherwise would have obtained. Yet federal spending on health (including direct spending and tax subsidies) still dominates new federal spending because most of the growth in health costs comes from covering the Medicare and pre–ACA Medicaid populations, including rising long-term care costs in Medicaid.[4] At the same time, any federal revenue gains from this repeal are exchanged, at least in part, for implicit tax increases outside the federal government budget, as when insured taxpayers face higher health insurance payments to cover the expected growth in uncompensated care in emergency rooms, or as state governments accept more Medicaid patients.

Simply put, health cost growth remains a major driver of federal spending growth, and no reform to date has significantly changed that trajectory.

Social Security is the second major area of spending growth. Its fiscal impact stretches well beyond Social Security. Congress has never adjusted the system for the mid-1960s drop in the birth rate and the corresponding baby boom retirement now under way, with close to one-third of adults soon scheduled to be Social Security beneficiaries. Meanwhile, income, Social Security, and other taxes grow more slowly as fewer adults work. Adding to these fiscal pressures, each succeeding generation of workers has received and will continue to receive more years of support as they live longer, along with higher real annual benefits because those benefits are scheduled to rise as real wages increase. Though the normal retirement age will increase by one year for some new retirees between 2017 and 2028, that change only modestly and temporarily lowers the almost continuous growth in the program's share of domestic spending and GDP that has taken place since the first payment of Social Security benefits in 1940 and will continue indefinitely.

Interest on the debt is the third-largest spending increase. By some estimates, the federal government will soon spend more on interest than it does on children (Isaacs, Hahn, and Lou 2017). If the Federal Reserve pushes or allows interest rates to rise by more than the CBO-projected number used here, interest costs could rise dramatically. One full percentage-point increase in debt approaching $20 trillion, as it phases in, eventually implies an additional $200 billion in annual interest costs.

All other noninterest spending, a category that includes every aspect of direct spending from infrastructure to education, remains roughly flat in aggregate real dollars 10 years from now. Its share of total spending falls from 40 percent to 30 percent. As a share of GDP, the trend is similar; its already moderate slice of the GDP pie would effectively fall from 3.2 percent to 2.8 percent as that pie gets larger but it does not. In many of these programs, the spending largely pays for government workers' salaries. A constant budget for workers in the presence of modest wage increases threatens the country with the prospect of fewer educators, soldiers, scientists and administrators, as well as fewer workers to maintain infrastructure, government equipment, and its investments in everything from IT to research.

Conclusion

At the end of the first year of the Trump administration, lawmakers have left the nation on a path where all federal spending growth goes for health, retirement, and interest on the debt while the share of spending on workers, the young, children, and investment broadly defined to include education and research remains flat in real terms and declines significantly as a share of the economy. Discretionary spending of all types is especially hard hit, and while defense would receive a modest temporary boost, it remains on a path of significant decline.

Tax cuts have added to long-term deficits and to the rising share of future spending required to pay interest on the debt. Spending as a whole would rise by about $1.7 trillion by 2028, while those revenue increases that remain after the TCJA would cover only about two-thirds of that spending—and even less if the TCJA's tax cuts are made permanent.

Notes

[1] Even keeping spending constant in price-adjusted terms can mean a reduction in government output over time because wages tend to grow faster than prices. This requires the government to either hire fewer workers to administer programs or reduce other purchases to pay competitive wages.

[2] Eric Toder, "Comparing the House and Senate Tax Cut Bills to the GOP Presidential Campaign Promises," *TaxVox*, November 30, 2017, http://www.taxpolicycenter.org/taxvox/comparing-house-and-senate-tax-cut-bills-gop-presidential-campaign-promises; and Glen Kessler, "President Trump's Tax Cut: Not 'the Biggest' in US History," *Washington Post*, November 1, 2017, https://www.washingtonpost.com/news/fact-checker/wp/2017/11/01/president-trumps-tax-cut-not-the-biggest-in-u-s-history/.

[3] In January 2017, Senator Ted Cruz introduced S.2291, which would make permanent the individual tax cuts included in TCJA.

[4] C. Eugene Steuerle, "Health Costs, Not Obamacare, Dominate the Future of Federal Spending," *Health Affairs* blog, June 27, 2016, https://www.healthaffairs.org/do/10.1377/hblog20160627.055583/full/.

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About the Authors

C. Eugene Steuerle is an Institute fellow and the Richard B. Fisher chair at the Urban Institute. Among past positions, he was deputy assistant secretary of the US Department of the Treasury for Tax Analysis (1987–89), president of the National Tax Association (2001–02), codirector of the Urban-Brookings Tax Policy Center, and chair of the 1999 Technical Panel advising Social Security on its methods and assumptions. Between 1984 and 1986, he was the economic coordinator and original organizer of the Treasury's tax reform effort, which led to the Tax Reform Act of 1986. His recent book, *Dead Men Ruling*, won the 2014 TIAA-CREF Paul A. Samuelson Award.

Caleb Quakenbush is a research associate at the Urban Institute, where he works with the Opportunity and Ownership initiative, the Program on Retirement Policy, and the Urban-Brookings Tax Policy Center. His areas of research include the interaction of federal tax and transfer programs, Social Security, state and local pensions, low-income finance, mobility, and federal budget issues.

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Washington, DC 20037

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