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DEBT AND POLITICS: INTEGRATING AMERICA'S FISCAL OUTLOOK WITH NEW CAMPAIGN PROPOSALS

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January 27, 2020

Congress and the president have put the federal budget on track for unsustainable and rising deficits without end. Mandatory spending programs—those that continue automatically without new appropriations—are expanding at a faster rate than discretionary spending programs, while total spending rises at a faster rate than revenues and national income. Health care, Social Security, and interest costs dominate this growth in spending, with most other government programs in relative decline. At this point, neither political party proposes to alter this overall fiscal trajectory, and presidential candidates and the president have suggested new spending programs or tax cuts that would exacerbate these trends.

TOTAL BUDGETARY CHANGES FROM ALL SOURCES

Although the 2020 presidential campaign is in full swing, it is worthwhile to step back from the candidates' legislative proposals and lay out the changes Congress has already built into future budgets. Only by juxtaposing the two can one make sense of what proposed future budgets would look like as an integrated whole.

Here we perform only a preliminary analysis along these lines. Our data build mainly on the latest complete Congressional Budget Office (CBO) report, updated in August 2019, but we also incorporate estimates related to recent Congressional enactments and briefly compare Democratic candidates' health care proposals, as well as the president's suggestions for further tax cuts. Most of the suggested plans are incomplete and cannot be fully estimated, so for now we only indicate directions of change. We will add to these analyses over time as CBO provides new updates on current law and the president's budget proposals and as various research organizations, such as the Tax Policy Center and the Center for a Responsible Federal Budget, release new data and analyses on campaign proposals.

Under current law, future growth in spending is dominated almost entirely by increases in spending on health care, Social Security, and interest on the debt. Our interest costs grow because we do not collect enough taxes to pay our current bills, much less enough revenue to slow down the growth in federal debt relative to national income. Most other spending programs are scheduled to decline as a share of total spending and national income. Many proposals made so far would add to the dominance of those three main sources of spending growth. Thus, the Democratic candidates' proposals would add to health care's predominant role in spending growth, while the president's suggestion of further tax cuts would significantly increase interest costs over time.

CBO releases regular budget updates throughout the year, providing an evolving snapshot of both the US economy and the nation's fiscal trajectory. In this brief, we start with figures from the August 2019 comprehensive update. Our analysis focuses on changes in spending, taxes, and deficits, largely because changes in spending and taxes point to where the government is heading, not only to which past trends continue. In its budgetary process, Congress largely focuses on how new programs will add to the existing budgetary structures or on incremental allocations to existing programs, tweaking and modifying the budget as they deem necessary.

On the financing side, new revenues derive not only from new legislation but also from growth in revenues that accompanies economic growth. Additional borrowing also adds to financing sources. The sum of changes in financing sources is the sum of all additional spending. In its estimates based on "current law," CBO assumes that the share of tax cuts legislated temporarily in 2017 will expire, as required under that legislation, though most analysts believe many of those tax cuts will be extended.

Many changes in the budget, such as the automatic growth in annual Social Security benefits, were entrenched long before any negotiations among policymakers. Steuerle and Quakenbush (2016) used this basic idea to propose a new framework for analyzing budgets and fiscal initiatives. Their framework starts off with an initial baseline, which is equivalent to federal spending and financing as projected under current law. It then distinguishes between passive and active changes. Passive changes are those changes built into current law that lawmakers essentially accept by not actively proposing to reform them. By contrast, active changes are any new changes to the existing budgetary framework.

In the next section, we analyze the long-run fiscal landscape by looking at the passive changes built in for 2029 compared with 2018, or over eleven years of change. We analyze the budget over such a lengthy time horizon, as opposed to only the next fiscal year, because many federal programs take years to implement and produce a significant effect. By looking at changes from current levels, we can quickly measure which budget categories are growing, remaining stable, or getting smaller.

We also use an "income statement" approach for balancing the budget, because the total change in spending must equal the total change in financing sources—revenues raised by taxes and borrowing. Finally, we adjust our results for inflation. Unfortunately, almost all budget presentations, including those by the president and CBO, do not make such an adjustment. To understand the confusion this creates, consider a defense budget that grows nominally by 20 percent over an 11-year period when inflation averages 2 percent a year. Because inflation has increased by more than 20 percent over that period, this hypothetical defense budget would decline in real terms. Only by converting to real dollars can we get a sense of the budget's direction.

FEDERAL BUDGET UNDER CURRENT LAW

Under current law, as estimated by CBO before recent appropriations bills were enacted, real or inflation-adjusted total federal spending would increase by nearly $1.5 trillion in 2029 versus 2018 (CBO 2019a). In 2018, spending on mandatory programs and interest on the debt —programs built into the law and, for the most part, requiring no appropriation by Congress—comprised about 69 percent of total spending. By contrast, spending on mandatory programs and interest on the debt would reach 75 percent of total spending by 2029, leaving about 25 percent for discretionary programs. The interest payment component of that spending growth has become quite large, even with low interest rates, largely because the federal government continues to collect far fewer taxes than necessary to cover its spending, even in the best years.

Social Security would comprise about 31 percent of total growth in spending over the next decade. Medicare would represent about 26 percent of total growth, interest on the debt would be 22 percent, and Medicaid along with other health care subsidies would constitute about 12 percent. Other mandatory spending would rise by about $6 billion in real terms, while nondefense discretionary spending would increase by $63 billion. Defense spending also would get a modest boost in real spending during this period, rising by roughly $76 billion. Next, we juxtapose the baseline figures shown below against the potential effects on the federal budget from policy proposals issued by the Democratic candidates and from proposals suggested by the president.

TABLE 1

Changes in Real Spending and Financing under Current Law 2018–29

Billions of 2018 dollars

	2018	2029	Total change	Share of change (%)
Spending				
Social Security	982	1,464	482	31.4
Total health	1,060	1,631	571	37.2
Medicare	605	1000	395	25.7
Medicaid	389	556	167	10.9
Health insurance subsidies	49	60	11	0.7
Children's Health Insurance Program	17	15	(2)	(0.1)
Other mandatory	481	487	6	0.4
Defense discretionary	627	703	76	5.0
Nondefense discretionary	635	698	63	4.1
Net interest	325	662	337	22.0
Total spending	4,110	5,645	1,535	100.0
Financing				
Total revenues	3,330	4,519	1,189	77.5
Borrowing (deficits)	780	1,126	346	22.5
Total financing	4,110	5,645	1,535	100.0

Sources: Authors' estimates based on CBO, An Update to the Budget and Economic Outlook: 2019 to 2029 (Washington, DC: CBO, 2019).

Note: Health insurance subsidies include spending under the Affordable Care Act.

RECENT BUDGET CHANGES AND THE PRESIDENT'S PROPOSALS

On August 2, 2019, President Trump signed into law the Bipartisan Budget Act. This legislation raised the caps on both defense and nondefense discretionary spending for fiscal years 2020 and 2021. The Committee for a Responsible Federal Budget calculated that the legislation would "increase discretionary spending by $320 billion over the next two years and…add roughly $1.7 trillion to projected debt levels over the next decade."[1] In December 2019, Congress passed the National Defense Authorization Act, which set the Pentagon's budget at $738 billion and expanded funding

[1] "Proposed Budget Agreement Could Cost $1.7 Trillion," Committee for a Responsible Federal Budget (blog post), July 23, 2019, http://www.crfb.org/blogs/proposed-budget-agreement-could-cost-17-trillion.

for advanced weaponry procurement.[2] The legislative compromises leading up to the final bill also included a raft of nondefense measures. For example, civilian federal employees received a 3.1 percent salary raise for 2020, matching their military counterparts' pay raise. Congress also included a paid leave program covering most federal employees, giving them up to 12 weeks of paid time off for the birth or adoption of a new child. CBO estimated this provision would cost roughly $3.3 billion in the 2021–24 fiscal period.[3]

The fate of the 2017 tax cuts is also an important unknown. CBO and the Joint Committee on Taxation estimated that the 2017 tax cuts would increase the debt by about $1.5 trillion over the next 10 years (TPC 2018). If the tax cuts are extended, they would substantially increase the deficit and interest costs. In its August 2019 update, CBO released an alternative budget scenario that looked at the fiscal effects of extending certain provisions of the 2017 tax legislation. CBO concluded that the nominal deficit in 2029 would be $293 billion larger if the tax cuts were extended (CBO 2019b). That comes out to an inflation-adjusted figure of $236 billion in 2018 dollars to make the result of extending these tax cuts comparable to those shown in the table above. Nevertheless, it's important to remember that these numbers are estimates that come with huge uncertainties. CBO itself has stated that "assessing the act's effect on receipts may not be possible, because it will be difficult to disentangle changes in revenues caused by the tax act from changes driven by other factors" (CBO 2019c).

PROPOSALS SUGGESTED BY DEMOCRATIC CANDIDATES AND THE PRESIDENT

The 2020 Democratic presidential candidates have proposed reforms to various domestic spending programs. Some of these proposals would cost trillions of dollars over a decade. Addressing most of these proposals is beyond the scope of this brief, especially because many of them lack details and have not been scored or assessed in any rigorous way.

Medicare for All has received by far the greatest attention in the press and represents the biggest spending increase suggested by the candidates. Senator Bernie Sanders (I-VT) has released a single-payer plan that various sources estimate would cost anywhere from $25 to $36 trillion over 10 years. [4] Senator Elizabeth Warren has also released a revised Medicare for All proposal, with cost estimates ranging from $20 trillion to over $30 trillion over 10 years.[5]

To compare with the changes already built into current law, suppose by 2029 the increase in Medicare spending under the Medicare for All plan would end up costing about $3 trillion more than in 2018. Adding that figure to the $571 billion increase already scheduled in health spending would clearly make health care an even more dominant item in the budget, regardless of other changes suggested. Adding those new costs directly, however, would probably be incorrect, as the candidates clearly have in mind exercising significant regulatory controls that would reduce the $571 billion in cost increases built into the current law.

Warren and Sanders claim that overall national health care spending, both public and private, would remain roughly the same after Medicare for All is implemented, so the net cost of providing health care to people by shifting to a single-payer system would be marginal, perhaps even negative. Because Medicare for All would increase the number of

[2] Connor O'Brien, "Senate Approves Bill to Establish Space Force, Federal Paid Parental Leave," Politico, December 17, 2019, https://www.politico.com/news/2019/12/17/senate-approves-space-force-defense-bill-086506.

[3] Phillip L. Swagel, CBO director, "Re: Statutory Pay-As-You-Go Effects of S. 1790, the National Defense Authorization Act for Fiscal Year 2020 and the Budgetary Effects of the Federal Employee Paid Leave Act," memorandum for John Yarmuth, chairman of the Committee on the Budget for the US House of Representatives, December 11, 2019, https://www.cbo.gov/system/files/2019-12/s1790paygohouse.pdf.

[4] "How Much Will Medicare for All Cost?" Committee for a Responsible Federal Budget (blog post), February 27, 2019, http://www.crfb.org/blogs/proposed-budget-agreement-could-cost-17-trillion.

[5] Tami Luhby, Gregory Krieg, M.J. Lee, and Leyla Santiago, "Elizabeth Warren Releases Plan to Fund Medicare for All, Pledges No Middle Class Tax Hike," CNN Politics, November 7, 2019, https://www.cnn.com/2019/11/01/politics/elizabeth-warren-medicare-for-all-financing-plan/index.html.

insured people and might raise Medicaid-like benefits to Medicare levels, it would be difficult to enact controls over the next decade that would avoid an increase in total health care costs. Thus, many scholars and economists claim that these public-plus-private savings are still insufficient to cover the additional costs, at least in certain scenarios and in the near term. For example, estimates from the Urban Institute put the potential gap for an ambitious single-payer plan at around $7 trillion over a decade. [6] Under this plan, the federal government would spend an additional $34 trillion over the next 10 years, offset by $27 trillion less that would have been paid by people and their employers, as well as the government, for existing program obligations in the same period.

Other candidates have suggested less dramatic increases in health spending, but without significant effort to control health spending they also end up increasing the dominance of health care in the budget—adding further pressure on other federal programs.

Even if additional health spending is covered by higher taxes and avoids further raising interest costs, it does not prevent that higher spending level from squeezing out support for other programs. Higher tax rates to finance additional health spending make it harder to impose higher tax rates for non-health programs, even if only because of political rather than economic constraints. Members of both political parties are reluctant to suggest higher taxes on the middle class, offering one more piece of evidence of the difficulty in raising tax rates even from existing levels.

The president himself at times has suggested that he would propose further tax cuts. Our analysis of extending the 2017 tax cuts gives one example of their potential costs.

CONCLUSION

Spending on Social Security, Medicare, and interest on the debt, which already constitutes the majority of existing federal spending, is on track to dominate almost totally the future growth in federal spending levels. Mandatory programs in total approach three-quarters of federal spending by 2029, leaving less fiscal flexibility for other programs and projects. Following past practices, Congress would likely increase discretionary spending by more than inflation, as projected under current law. Even then, the discretionary share of total spending and national income would still likely decline, as it has over recent years and decades—absent major reforms that slow down the growth rate of government spending on health programs or Social Security, raise taxes, or both. Meanwhile, net interest costs would grow and could increasingly threaten not only the budget but also the economy itself.

The presidential campaign has delivered few details on how to address these current law issues, and many proposals offered only exacerbate these trends. Proposed increases in spending or tax cuts should be juxtaposed with what is already built into current law, including interest costs associated with deficits. Any discussion of how to pay for new proposals cannot be excluded from discussions of how to pay for government itself.

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[6] Linda J. Blumberg, John Holahan, and Michael Simpson, "Don't Confuse Changes in Federal Health Spending with National Health Spending," Urban Wire (blog), Urban Institute, October 16, 2019, https://www.urban.org/urban-wire/dont-confuse-changes-federal-health-spending-national-health-spending.

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ACKNOWLEDGMENTS

This brief was funded by the Peter G. Peterson Foundation. We are grateful to the foundation and to all our funders, who make it possible for the Urban-Brookings Tax Policy Center to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban-Brookings Tax Policy Center, the Urban Institute, the Brookings Institution, their trustees, or their funders.

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