



THE PRESIDENT'S BUDGET PRIORITIES AND THE COVID-19 PANDEMIC

Erald Kolasi and C. Eugene Steuerle

May 7, 2020

On March 30, the Congressional Budget Office (CBO) released its analysis of President Trump's proposed budget for fiscal year 2021. The president submitted this budget on February 10, 2020, when the pandemic was in its early stages in the US and before the enactment of major relief bills in response to the public health crisis and ongoing recession. CBO estimated that from 2021 to 2030, the federal deficit would be \$2.1 trillion less under the president's budget than under the CBO baseline. These numbers will obviously be revised dramatically and continually as the recession and the corresponding federal response continue to materialize over the next year. Still, the president's budget needs to be analyzed for what it contains and omits and how it relates to ongoing efforts to deal with the pandemic and recession.

The president's budget does not propose altering the nation's preexisting fiscal path whereby health care, Social Security, and interest costs totally dominate the growth in federal spending, though it does propose significantly cutting the share of health-insurance supports for poorer populations through Medicaid and Affordable Care Act-related exchange subsidies. Meanwhile, the budget would dramatically decrease domestic discretionary spending in real terms and as a share of gross domestic product (GDP). It would also moderately decrease defense spending in real terms and cut tax revenues further. Though the economic shock caused by the pandemic entails trillions of dollars of additional spending and revenue losses, those changes, if temporary, still pale in comparison to the long-term permanent growth built into the budget in health, retirement, and interest costs.

BACKGROUND

President Trump's fiscal year 2021 budget represents his view, stated in early 2020, on how he would have liked the country's spending and taxes to change. It also likely represents the general direction he favors, outside of responding to the COVID-19 pandemic, if he were to remain president for another term. This brief proceeds from CBO's March 30 analysis of the budget submitted by the White House Office of Management and Budget to Congress on February 10, 2020 (OMB 2020). Unlike the OMB report, CBO provides the only comprehensive nonpartisan analysis of the president's proposals and, in line with consensus estimates in the private sector, uses more conservative estimates than OMB's on the future rate of economic growth. CBO's report does not assess the value of proposed changes, only their magnitude.

Unlike both CBO and OMB, our annual analysis of a president's budget focuses on the total changes in real spending, taxes, and deficits that would occur should that budget be adopted. In our view, analyzing the federal budget in this way is the most useful assessment of what the president suggests for the budget and for which he should be held accountable.

In legislative process, the president and Congress largely focus on how new enactments will incrementally change existing spending and revenues. They then report these budgetary numbers in nominal or non-inflation-adjusted terms over time. Yet many changes in revenues and expenditures in the budget, such as the automatic growth in annual health care costs, are entrenched long before policymakers begin their negotiations. And nominal growth in programs can be caused by inflation as well as any increase in real resources.

Therefore, to better reveal the direction of the budget, Steuerle and Quakenbush (2016) proposed a new framework for analyzing budgets and fiscal initiatives. It takes a balanced "income statement" approach focused not on total nominal spending, revenues, and borrowing but rather on the total real changes in those categories. This framework starts with an initial baseline equivalent to federal spending and financing as projected under current law. Next, it converts nominal dollars over time to real dollars.

The analysis next distinguishes between passive and active changes: passive changes are those built into current law that lawmakers essentially accept without any substantial alterations, and active changes are new changes proposed or enacted on top of the existing budgetary framework. Only by dividing a budget in this way can we get a clear picture of how much change a president proposes (or a Congress legislates) relative to those changes already built into the law. In recent years, with so much spending pre-ordained or scheduled in the law, this method reveals how much or little control current elected officials exert over increases in spending relative to spending patterns they have inherited from the past.

Similar to real spending changes, changes in revenues derive from both what is scheduled under existing law and any newly proposed or enacted legislation that reduces or increases those scheduled amounts. However, total financing changes include both those revenue changes and any net additional borrowing. The sum of those changes in financing sources equals the sum of all additional spending.

Note that revenue growth under current law accompanies economic growth. Those additional revenues become a major source of financing for new spending even absent new tax legislation or new deficit financing.

In the next section, we analyze the long-term fiscal landscape by looking at both passive changes and the President's reform proposals as they would affect 2030 compared with 2019, incorporating 11 years of change. We analyze the budget over such a long period (rather than considering only the next fiscal year) to remove short-term effects from factors such as economic cycles and to accommodate a lagged structure of implementation for new programs. This gives us a better handle on which budget categories are growing, remaining stable, or shrinking. A short-term analysis

of changes, such as how appropriations for the next year differ from spending in the previous year, can also use this framework. Although we do not perform a short-term analysis here, it, too, would be particularly relevant once the size of currently evolving legislation is known.

Finally, we contrast these newly available budget numbers with the limited information available on the legislative enactments in response to the COVID-19 pandemic. Despite their size, the latter are temporary; much of the growth in deficits scheduled before this crisis are permanent and remain the greater threat to the national budget's long-term sustainability.

THE PRESIDENT'S BUDGET PROPOSAL

Under the president's proposed budget, and after converting the CBO (2020a) figures to 2019 dollars, we find real or inflation-adjusted total federal spending would increase by nearly \$970 billion by 2030 relative to 2019. In 2019, spending on mandatory programs (programs built into the law and, for the most part, requiring no appropriation by Congress) and interest on the debt constituted about 70 percent of total spending. In contrast, the president's budget would escalate spending on mandatory programs and interest on the federal debt to 79 percent of total spending and to near 100 percent of total revenues by 2030, leaving 21 percent of spending for discretionary programs, which would be largely financed out of future budget deficits. The interest payment component of that spending growth has become quite large even with relatively low interest rates; this is largely because the debt continues to grow very fast, even when large worldwide recessionary and other pressures temporarily lead to lower interest rates because of the relative security of the dollar in world markets.

These figures become starker still when we look at growth in spending categories as a share of growth in real spending. Under the president's plan, Social Security would grow by \$490 billion, or about 51 percent of total growth in spending of \$968 billion, by 2030 compared with 2019. Medicare would represent about 39 percent of total growth, and interest on the debt would represent 25 percent. Thus, the growth in spending on these three categories alone would constitute 115 percent of total spending growth by 2030. Similarly, more than 100 percent of all spending growth other than interest would go to Social Security and Medicare alone. Other categories combined would decline in real terms and quite significantly as a share of national income.

Although health care as a whole would remain a dominant spending category in the president's budget, the mandatory health care spending programs that largely support poorer and middle-class Americans without Medicare or employer-provided insurance (i.e., Medicaid, the Children's Health Insurance Program, and health insurance Marketplace subsidies under the Affordable Care Act) would together garner almost no share of the growth in real spending or revenues. Other mandatory spending would increase by about \$64 billion in real terms, while nondefense discretionary spending would decrease by \$189 billion. Defense spending in real dollars would also see a decline during this period, falling by roughly \$32 billion or close to 5 percent.

As a share of total revenues, the spending picture in the president's budget is even more stark. Total Social Security, Medicare, and interest on the debt would command 72 percent of total revenues by 2030 compared with 59 percent in 2019. The growth in those three categories would absorb 117 percent of the forecasted total growth in revenues.

TABLE 1

Changes in Real Spending and Financing under the President's Budget, 2019–30

Billions of 2019 dollars



	2019	2030	Total change	Share of change (%)
Spending				
Social Security	1,038	1,528	490	51
Mandatory health	1,127	1,516	389	40
<i>Medicare</i>	644	1,018	374	39
<i>Medicaid</i>	409	487	78	8
<i>ACA Marketplace subsidies</i>	56	0	-56	-6
<i>Children's Health Insurance Program</i>	18	11	-7	-1
Other mandatory	570	634	64	7
Defense discretionary	676	644	-32	-3
Nondefense discretionary	660	471	-189	-20
Net interest	376	622	246	25
Total spending	4,447	5,415	968	100
Financing				
Total revenues	3,463	4,411	948	98
Borrowing (deficits)	984	1,004	20	2
Total financing	4,447	5,415	968	100

Sources: Authors' estimates based on *An Analysis of the President's 2021 Budget* (CBO 2020b).

Note: Health insurance Marketplace subsidies include spending under the Affordable Care Act. Components may not sum to totals because of rounding. We use the same inflation rates assumed by CBO.

HOW LARGE ARE THE ADDITIONAL CHANGES PROPOSED BY PRESIDENT TRUMP?

Despite the size and importance of the policy changes proposed by the president, for the most part his budget would be dominated by increases in spending and revenues built in from past legislation. The increasing control of past legislation over current spending differs from most of the nation's history, when spending was largely discretionary and increases were appropriated by the sitting Congress, not mandated in law by past Congresses.

Table 2 shows the changes proposed in the president's budget relative to current law along with changes built into the law; together they sum to the same totals shown in table 1. The proposed budget reduces the growth in real spending on mandatory health programs by \$272 billion relative to current law, but health care would still remain a dominant area of spending growth. Although Medicare savings are proposed, these proposals mainly try to control costs by reforming the payment system, not by changing beneficiaries' coverage. The proposed changes in Medicaid and health insurance Marketplace subsidies, on the other hand, would reduce the number people who have health insurance. This is a critical issue given the COVID-19 pandemic, where those insurance options become lifelines for people losing jobs or moving

to part-time, lower-paid, or self-employment work. Spending on other mandatory programs would increase, largely because of proposed increases in infrastructure spending.

Although the growth in real spending under current law on all mandatory programs—Social Security, health care, and other spending—is reduced by \$222 billion in the president’s budget, real discretionary spending takes an even bigger hit. The president proposes cutting nondefense discretionary programs by an inflation-adjusted \$204 billion by 2030 relative to a scheduled-law increase just above zero. For a related analysis of what happens to items affecting children, including a 22 percent drop below current law in discretionary spending for children and a 4 percent overall drop in total spending for children (including various tax subsidies), see the report by Isaacs, Lou, and Lauderback (2020). Although the president’s budget documents tout increases in defense spending in the coming year, the proposed budget would actually convert a modest scheduled increase of \$32 billion to a total decrease of \$32 billion in inflation-adjusted terms.

The president’s budget would also cut taxes by \$189 billion in 2030 relative to current law, though revenues would still grow by about \$948 billion, mainly because of expected growth in the economy. Instead of annual deficits rising from close to \$1 trillion in 2019 to about \$1 1/3 trillion in the year 2030 relative to 2019, they would remain at about the same inflation-adjusted \$1 trillion level as in 2019 (table 2). Of course, the pandemic and recession throw those hopes out the window even were this budget enacted.

TABLE 2

Changes in Real Spending and Financing under the President's Budget Relative to Current Law, 2019-30
Billions of 2019 dollars



Category of spending	Changes in real spending			Category of financing	Changes in financing		
	Current law changes in annual spending levels	President's proposed changes	Total changes under the president's budget		Current law changes in annual revenue and deficit levels	President's proposed changes	Total changes under the president's budget
Social Security	+503	-13	+490	Revenues	+1,137	-189	+948
Mandatory health	+661	-272	+389				
<i>Medicare</i>	+484	-110	+374				
<i>Medicaid</i>	+178	-100	+78				
<i>ACA Marketplace subsidies</i>	+1	-57	-56				
<i>Children's Health Insurance Program</i>	-2	-5	-7				
Other mandatory	+1	+63	+64				
Defense discretionary	+32	-64	-32				
Nondefense discretionary	+15	-204	-189				
Net interest	+289	-43	+246	Deficit	+364	-344	+20
Total spending change	+1,501	-533	+968	Total financing	+1,501	-533	+968
ADDENDUM: TOTAL SPENDING AND REVENUES							
	Current law totals			President's proposals			
	Spending	Revenues	Deficit	Spending	Revenues	Deficit	
Total 2019 level	4,447	3,462	985	4,447	3,462	985	
Total change (from above)	+1,501	+1,137	+364	+968	+948	+20	
Total 2030 level	5,948	4,599	1,349	5,415	4,410	1,005	

Sources: Authors' estimates based on *An Analysis of the President's 2021 Budget* (CBO 2020b) and *The Budget and Economic Outlook: 2019 to 2030* (CBO 2020a).

THE IMPACT OF THE COVID-19 PANDEMIC

Finally, as we publish this brief, Congressional action to deal with the pandemic has only begun. Regardless of Congressional action, federal revenues will decline as taxpayers earn less, and federal spending will rise automatically as the number of newly eligible recipients of unemployment insurance, Supplemental Nutrition Assistance Program (formerly food stamps), and Medicaid increases. Clearly, the COVID-19 pandemic has scrambled the projections for the

federal budget over the coming decade. Deficits will soar well beyond the levels forecasted by CBO in its January budget outlook, and some projections have national debt soon exceeding any previous level relative to gross domestic product, even that of World War II.

In response to the current crisis, Congress has also passed three pieces of legislation. The first bill, signed into law on March 6, 2020, was an \$8 billion package aimed at funding vaccine research and development. The second bill, known as the Families First Coronavirus Response Act, was a \$100 billion package that grants paid sick leave and unemployment benefits to certain workers. The next bill was by far the largest of the three: the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which authorizes \$2.2 trillion in spending and tax reductions (Stein 2020). A fourth bill, smaller than the CARES Act, will likely be passed around the time this brief is published.

The CARES Act creates a \$504 billion fund to help eligible businesses and state and local governments as well as a \$377 billion loan program for small businesses. That loan program is among the top priorities for expansion in the fourth bill. Further, the CARES Act includes \$280 billion in business tax cuts and authorizes the government to send roughly \$290 billion in stimulus money to individuals and families, with the amount phased out for higher income taxpayers. The bill also injects roughly \$180 billion into the health care industry, including about \$100 billion meant for hospitals, and features many other provisions affecting everything from education to disaster assistance. The revenue provisions, as estimated by the Joint Committee on Taxation (JCT 2020), add up to \$591 billion from 2020 to 2030. CBO (2020c) estimates the total cost of the act at \$1.8 trillion under the assumption that loan guarantees—in particular, \$454 billion of lending facilities established by the Board of Governors of the Federal Reserve System—will generate income roughly equal to its costs.

By one estimate, the Federal Reserve has (through its own actions, as well as through lending facilities made available by Congress) intervened with \$10 trillion or more in lending programs and loan and credit facilities (Hughes-Cromwick 2020). These include massive loans to banks and purchases of outstanding corporate and state and local bonds. Again, however, the Federal Reserve's holding of these trillions of dollars in debt will return interest back to the government that may offset the costs of bad debt or even turn a profit.

The net impact of all these new actions and the automatic fiscal policies already in place are yet to be determined and will be substantially affected by the length and depth of the recession. Considering only estimates to date, the Center for a Responsible Federal Budget (CRFB) projected on April 13, 2020, that the nation's debt would increase another 18 percent of GDP by 2025 and that the annual addition to the deficit would level out for at least a few years, at a few hundred billion dollars each year, because of continued economic and rising interest costs (CRFB 2020).

Should these very tentative projections prove accurate, the net annual change in spending and revenues by 2030 from this crisis (as reflected in additions to net interest payments) would still be significantly less than changes already built into the law. We cannot emphasize the difference enough. Permanently large growth rates in spending, along with permanent tax cuts, dominate temporary changes in response to a crisis, even temporary changes so large they rival those made during the Great Depression and World Wars. Responding to a crisis can be affordable with good fiscal policy, but by definition, unsustainable growth rates in spending relative to revenues cannot be.

CONCLUSION

The president's fiscal year 2021 budget does not propose altering the focus of the nation's fiscal agenda almost exclusively on increasing spending for Social Security and health care and little else other than interest on the debt. His budget would, however, slash discretionary spending substantially in real terms, leaving less up to appropriations by future Congresses, and it would reduce the share of health care spending on poor and middle-class people who lack Medicare or employer-sponsored insurance. By 2030, the president's budget would cause mandatory spending as a share of either total federal spending or revenues to grow even faster than the growth built into current law.

The current COVID-19 crisis, of course, has completely upended previous assumptions and short-term policy direction as the government engages in a full-blown effort to limit the loss of lives and reverse the economic downturn.

Although we must wait to see the path of both the recession and Congressional reactions before we can fully assess their long-term impact on the federal budget, a few things are immediately clear. The deficit will balloon to unprecedented levels this year, and within a few years, total debt as a share of GDP could be even higher than at the end of World War II. If the economy rebounds quickly this year, the lingering impacts on the budget will still be large but they will be moderated. But if the recovery is lethargic (keeping in mind that the US recovery also depends in part on the global recovery) the consequences to the federal budget could be felt for years or decades. This crisis also comes at a time when government policy and demographic changes have put us on a path involving a rapid drop in the number of workers who must support each retiree in the aging population. Even independent of debt considerations, the president's proposal to focus aggregate growth in spending entirely on Social Security and Medicare and interest, while failing to provide sufficient revenue growth to support that growth, is running into powerful headwinds. The current pandemic and recession highlight that the budget must focus on other needs as well, particularly the needs of employed and unemployed members of the labor force and their families.

REFERENCES

- CBO (Congressional Budget Office). 2020a. *The Budget and Economic Outlook: 2020 to 2030*. Washington, DC: CBO.
- . 2020b. *An Analysis of the President's 2021 Budget*. Washington, DC: CBO.
- . 2020c. *Preliminary Estimate of the Effects of H.R. 748, the CARES Act, Public Law 116-136, Revised, with Corrections to the Revenue Effect of the Employee Retention Credit and to the Modification of a Limitation on Losses for Taxpayers Other Than Corporations*. Washington, DC: CBO.
- CRFB (Center for a Responsible Federal Budget). 2020. "New Projections: Debt Will Exceed the Size of the Economy This Year." Washington DC: CRFB.
- Hughes-Cromwick, Ellen. "A Tale of Two Sides," *Third Way blog*, April 9, 2020.
- Isaacs, Julia B., Cary Lou, and Eleanor Lauderback. 2020 (forthcoming). "How Would the President's Proposed 2021 Budget Affect Spending on Children." Washington, DC: Urban Institute.
- JCT (Joint Committee on Taxation). 2020. "Table JCX-11-20: Estimated Revenue Effects of the Revenue Provisions Contained in an Amendment in the Nature of a Substitute to H.R. 748, 'the Coronavirus Aid Relief, and Economic Security ("CARES") Act,' as Passed by the Senate on March 25, 2020 and Scheduled for Consideration by the House of Representatives on March 27, 2020." Washington, DC: JCT.
- OMB (Office of Management and Budget). 2020. *A Budget for America's Future*. Washington, DC: OMB.
- Stein, Jeff. "What's in the \$2.2 Trillion Coronavirus Senate Stimulus Package," *Washington Post*, March 26, 2020.
- Steuerle, C. Eugene, and Caleb Quakenbush. 2016. "How Budget Offices Should Reframe Our Long-Term Budget Problems." In *Fixing Fiscal Myopia: Why and How We Should Emphasize the Long Term in Federal Budget*, edited by the Bipartisan Policy Center, 22–42. Washington, DC: Bipartisan Policy Center.

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.

The Tax Policy Center is a joint venture of the Urban Institute and Brookings Institution. For more information, visit taxpolicycenter.org or email info@taxpolicycenter.org.

Copyright © 2020. Tax Policy Center. All rights reserved. Permission is granted for reproduction of this file, with attribution to the Urban-Brookings Tax Policy Center.