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HAS $3.5 TRILLION OF PANDEMIC RELIEF ENACTED IN 2020 ALTERED THE NATION'S LONG-TERM BUDGETARY PATH?

Erald Kolasi and C. Eugene Steuerle

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The first CBO report of the Biden presidency laid out the fiscal status of the federal government at the start of his administration. Despite the multi-trillion-dollar response to the pandemic and related increases in national debt, the long-term direction of the federal budget has changed little. Social Security, Medicare, and interest costs continue to almost totally dominate future growth in spending and at rates far in excess of the growth in revenues. One small change in the economic projection may be a harbinger of things to come: unlike in its October 2020 report, CBO no longer projects that lower interest rates are sufficient to fully offset the impact of higher debt on the rise in interest payments.

The federal government's response to the recent pandemic demonstrated its great capacity to act rapidly and mobilize significant resources to save the economy and restore the nation's health. But even a massive response to an emergency says little about the ability of elected officials to implement longer-term changes in the direction of policy. This report shows that more than all the growth in revenues from 2019 to 2030 remains committed in ways that greatly restrict any new investment in the American people for anything other than healthcare and retirement.

BACKGROUND

This brief analyzes the extent to which the pandemic has changed the trajectory of the federal budget. Our analysis is based on the annual budget outlook released by CBO in February 2021 (CBO 2021). The new budget outlook incorporates all major legislation enacted as of January 2021, but not the American Rescue Plan enacted in March 2021. To study how much recent budget changes have altered the long-term trajectory of the budget, we compare three CBO reports over the same time period, starting pre-pandemic in 2019, and ending at the same time, 2030.

Last year, the federal deficit reached its highest level in history, surpassing $3 trillion. The explosion in the deficit resulted from the pandemic and the economic crisis. However, almost all the pandemic-related policies, such as a boost in unemployment benefits and direct checks to families and individuals, were temporary. This impermanence raises the question of how much these legislative changes have affected not just the size of America's debt, revenues, and deficits, but the allocation of future spending among different categories. To address these issues, we compare the budget figures calculated in the most recent CBO report to the ones released in January 2020 and September 2020. That allows us to see the projected changes from before to about one-half year and then one full year into the pandemic.

Our analysis focuses mainly on *changes* spending, taxes, and deficits, largely because these changes point to where the government is heading, rather than to just the levels it has or will attain. Congress also largely focuses on how new programs will add to existing budgetary structures, while its appropriations process largely centers on incremental allocations to existing programs, tweaking and modifying them but not enacting a budget from scratch.

On the financing side, new revenues sometimes derive from tax increases, but in modern times they derive predominantly from economic growth. For example, under current law real (inflation-adjusted) revenues will rise by about 31 percent from 2019 to 2030, largely due to a growing economy. Additional borrowing itself is a major means of finance.

Many changes in the budget, such as the automatic growth in annual Social Security benefits, are entrenched long before any negotiations among policymakers. Steuerle and Quakenbush (2016) used this basic idea to develop 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.

We analyze the budget over a lengthy time horizon, such as 2030 versus 2019, because many federal programs take years to implement and produce significant effects, and to distinguish long-term from temporary effects. 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

Table 1 compares the actual budget figures from 2019 with the projected numbers in 2030 from CBO's February 2021 report. All numbers are shown are in 2020 dollars. Under current law, CBO estimates that real or inflation-adjusted total federal spending would increase by about $1.4 trillion in 2030 relative to the 2019 spending levels (CBO 2020b). In 2019, 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 70 percent of total spending. By contrast, spending on mandatory programs and interest on the debt would reach 75 percent of total spending by 2030, 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 of the significant debt accumulated by failure to collect enough taxes to cover spending, even in the best years.

These figures become even more sobering when we consider them in the context of pandemic related spending that attempts more effectively to serve struggling populations and improve our preparations for pandemics and other emergencies. Social Security would comprise about 34 percent of total growth in spending over the next decade. Medicare would represent about 32 percent of total growth, interest on the debt would be 13 percent, and Medicaid along with other health care subsidies would constitute about 12 percent. By comparison, other spending growth would be relatively modest. For example, other mandatory spending would decline by about $9 billion in real terms, while nondefense discretionary spending would increase by $93 billion. Defense spending during this period would rise by roughly $48 billion.

TABLE 1

Changes in Real Spending and Financing, 2019 vs 2030 (February 2021 assumptions and projections)

Billions of 2020 dollars

	2019	2030	Total change	Share of change (%)
Spending				
Social Security	1,048	1,531	483	33.9
Mandatory health	1,137	1,757	620	43.5
Medicare	650	1,108	458	32.2
Medicaid	413	577	164	11.5
ACA Marketplace subsidies	56	56	0	0.0
Children's Health Insurance Program	18	16	(2)	(0.1)
Other mandatory	576	567	(9)	(0.6)
Defense discretionary	683	731	48	3.4
Nondefense discretionary	667	760	93	6.5
Net interest	380	569	189	13.3
Total spending	4,491	5,915	1,424	100.0
Financing				
Total revenues	3,497	4,564	1,067	74.9
Borrowing (deficits)	994	1,351	357	25.1
Total financing	4,491	5,915	1,424	100.0

Sources: Authors' estimates based on *The Budget and Economic Outlook: 2021 to 2031* (CBO 2021).
Note: ACA Marketplace subsidies refer to health insurance provided in the marketplace under the Affordable Care Act. Components may not sum to totals because of rounding. Our proxy for inflation is the GDP price index projected by the Congressional Budget Office up until 2030.

Table 2 shows how federal spending, revenue, and borrowing growth from 2019 to 2030 changed between CBO's pre-pandemic, January 2020 estimates and its September 2020 and February 2021 estimates. We first showed this comparison in our December 2020 report (Kolasi and Steuerle 2020). The differences since then are modest for the most part, though the pandemic and recession likely explain the reduction in the total growth in both spending and revenues in 2030 relative to 2019 by about $95 billion in each case, despite still growing by $1,424 billion and $1,067 billion, respectively.

Net interest costs rise by $189 billion in these latest projections, versus an increase of $286 billion and $174 billion in the previous two estimates. Though the interest cost increase from September 2020 to January 2021 is quite modest, we suspect that CBO may be starting to witness the end of a long period where the annual cost of higher levels of debt is substantially offset in part or whole by declines in the interest rate due to both Federal Reserve policies and the effect of a worldwide recession on patterns of saving and investment.

The February 2021 CBO figures reveal that Social Security, health, and interest on the debt by themselves would comprise 90 percent of the total growth in spending and about 120 percent of the total growth in revenues. For the earlier January 2020 projections, they would constitute 98 percent of the total growth in spending and 128 of the total growth in revenues, and for the September 2020 projections, 91 percent and 122 percent, respectively.

TABLE 2

Changes in Real Spending and Financing, 2019 vs 2030 (January 2020 vs September 2020 vs February 2021 projections)

Billions of 2020 dollars

Spending	January 2020 projection	Mid-pandemic projection	February 2021 projection	Difference from January 2020 to 2021
Social Security	514	484	483	(31)
Mandatory health	679	632	620	(59)
Medicare	498	452	458	(40)
Medicaid	181	174	164	(17)
ACA Marketplace subsidies	2	5	0	(2)
Children's Health Insurance Program	(2)	(2)	(2)	0
Other mandatory	3	6	(9)	(12)
Defense discretionary	32	58	48	16
Nondefense discretionary	5	68	93	87
Net interest	286	174	189	(97)
Total spending	1,519	1,422	1,424	(95)
Financing				
Total revenues	1,161	1,058	1,067	(94)
Borrowing (deficits)	358	364	357	(1)
Total financing	1,519	1,422	1,424	(95)

Sources: Authors' estimates based on CBO budget reports released in January 2020, September 2020, and February 2021. See References for citations.
Note: ACA Marketplace subsidies refer to health insurance provided in the marketplace under the Affordable Care Act. Components may not sum to totals because of rounding. Our proxy for inflation is the GDP price index projected by the Congressional Budget Office up until 2030.

LOOKING FORWARD

In 2020, Congress enacted five major pieces of legislation in response to the pandemic: the Coronavirus Preparedness and Response Supplemental Appropriations Act (March 6), the Families First Coronavirus Response Act (March 18), the Coronavirus Aid, Relief, and Economic Security Act (March 27), also known as the CARES Act, the Paycheck Protection Program and Healthcare Enhancement Act (April 24), and the Consolidated Appropriations Act (December 27). More recently in early 2021, Congress and the Biden Administration succeeded in enacting the American Rescue Plan Act of 2021 (March 2021). Only the last item was excluded from the estimates here. Yet many features of the earlier legislation are repeated or extended in the latest legislation, such as direct checks to most households and more unemployment aid. Again, almost all provisions are temporary, with perhaps the major exception of significant relief to underfunded multiemployer plans. Accordingly, even when the $1.9 trillion of 2021 pandemic-related efforts is added to the $3.5 trillion enacted in 2020, we still anticipate that total pandemic and related relief efforts will have had little effect on the allocation of future spending laid out even before the pandemic. The major exceptions, of course, are that a much deeper and more prolonged recession would have set us back in many other ways, including a smaller economy and that any future rise in interest rates will apply to a much larger stock of debt.

For now, however, the latest CBO projections show that spending on health, Social Security and interest on the debt will constitute the vast majority of all new spending increases. Without any major reforms, either to raise revenues or to alter where spending growth would be allocated, our current fiscal trajectory remains rigid and ossified, while significantly higher levels of debt make it even more difficult to deficit-finance changes in that trajectory.

CONCLUSION

When it comes to both how future spending will be allocated and the unsustainability of current fiscal policy, the economic crisis caused by the coronavirus pandemic does not appear to have significantly changed the fiscal and budgetary trends that dominated before 2020. Though the current crisis has expanded the federal debt, lower interest costs as a result of aggressive monetary policy and a worldwide economic slowdown have provided some relief. While this crisis demonstrated the government's continued capacity to respond to emergencies, Congress did not respond in any way to alter the long-term inflexibility of our federal budget. The share of the increased spending for anything other than health, Social Security, and interest on the debt will continue to shrink post-recession absent major budgetary reform.

All these factors provide powerful headwinds against any long-term shift in priorities, even while the current pandemic and recession highlight the need for government to start focusing more on employed and unemployed members of the labor force and their families, as well as better preparation for future pandemics and emergencies.

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