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Assessing the President's 2020 Budget

More for the Elderly, Bond Holders, and Almost No One Else

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Regardless of rhetoric, a president's spending and tax priorities can be determined largely through his or her budget. According to President Trump's numbers in his fiscal year 2020 budget submission to Congress, he would allocate essentially all additional taxes and borrowed dollars for the same three priorities that have dominated budget growth during recent administrations: Social Security, health care, and interest on the national debt. But Trump would devote an even larger share of new resources to these areas. By proposing to pare down discretionary programs even further than under current law, abandon the Affordable Care Act, and cut back on Medicaid (all while still retaining large deficits), he demarcates the elderly as the only spending priority for new resources other than foreign and domestic bond holders. His budget effectively excludes children and working families from sharing in the additional resources that the government garners over time.

Total Budgetary Changes from All Sources

Every year, the White House proposes a budget meant to serve as a blueprint for legislative action by Congress. Although the proposals virtually never become law as written, they offer a useful guide to the administration's priorities for the country and often set the tone for the public's understanding of budgetary issues. At the same time, many of the priorities for the future have been set in laws already passed, so an administration's control over the future direction of policy depends largely on how much it adjusts those past priorities or accepts them as its own.

In this brief, we analyze the changes and priorities proposed by the Trump administration to future federal spending in its fiscal year 2020 budget (OMB 2019a). We perform this analysis using the administration's assumptions about economic growth, which are more optimistic than those used by the Congressional Budget Office (CBO). Because of this optimism, the administration in turn estimates significantly higher revenue growth than the CBO (CBO 2019). In this brief, we treat the president's budget as his revealed preference for how he would allocate resources if the economy turns out as well as he hopes.

Given the incremental nature of the budgetary process, we focus here on changes in spending, taxes, and deficits. Planners and lawmakers do not write budgets from scratch. Instead, they typically make gradual allocations to previously existing programs, tweaking and modifying items as necessary. Almost any economic growth increases household incomes and the taxes they pay. Additional borrowing also adds to financing sources. The sum of those changes in sources of financing will equal the sum of all additional spending.

A president's new proposals represent one potential source of change. But much of the change in a budget, such as the automatic provision of new health goods and services made available through new technology, or the automatic growth in Social Security annual benefits from one cohort to the next, is now built in through legislation enacted far before a president or Congress begins to negotiate a new budget.

Using this insight, Steuerle and Quakenbush (2016) proposed a new framework for analyzing budgets and fiscal initiatives. They begin their framework by establishing an initial baseline that is equivalent to federal spending and financing as projected under current law. They then distinguish between passive and active changes. When the president presents a budget, passive changes are those changes built into current law that he or she essentially accepts by not proposing to reform them. By contrast, active changes are any new changes he or she proposes to Congress.

In the next few sections, we analyze the long-term fiscal landscape by looking at changes in 2029 compared with 2018, or over 11 years of change in total. We analyze President Trump's 2020 budget over such a long period, rather than just the next fiscal year, because many federal programs take years to implement and produce a significant impact. By looking at changes from current levels, we can quickly measure which budget categories are growing, which ones are staying stable, and which ones are getting smaller.

We also use a balance-sheet approach because the total change in spending must equal the total change in sources of financing—those revenues raised by taxes and borrowing. Finally, we adjust our results for inflation. Unfortunately, almost all budget presentations, including those by the president and the CBO, do not make such an adjustment. To understand the confusion this causes, 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 a total of more than 22 percent (with compounding) over that period, this defense budget would actually decline in real terms.

Federal Budget under Current Law

Under current law as estimated by President Trump, real or inflation-adjusted total federal spending would increase by nearly $1.7 trillion. As shown in table 1, total spending growth would be slightly less than the optimistic growth in revenues he projects. This would leave the annual deficit in 2029 at $746 billion, about the same level as the $779 billion borrowed in 2018.

In 2018, spending on interest on the debt and spending on mandatory programs (programs that are built into the law and, for the most part, require no appropriation by Congress) constituted about 69 percent of total spending. By contrast, if current law is unchanged, spending on mandatory programs and on interest on the debt will reach 79 percent of total spending by 2029, leaving only 21 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, even in the best of years, to cover its spending.

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*	*1,476*	*494*	*29.3*
Major health	1,017	1,713	696	41.4
Medicare	582	1,095	513	30.5
Medicaid	389	565	176	10.5
ACA	46	53	7	0.4
ACA replacement allowance	NA	NA	NA	0.0
Other mandatory	523	647	124	7.3
Defense discretionary	*623*	*633*	*10*	*0.6*
Nondefense discretionary	*639*	*598*	*-41*	*-2.5*
Net interest	*325*	*726*	*401*	*23.8*
Total spending	*4,109*	*5,792*	*1,683*	*100.0*
Financing				
Total revenues	*3,330*	*5,047*	*1,717*	*102.0*
Borrowing (deficits)	*779*	*746*	*-33*	*-2.0*
Total financing	*4,109*	*5,792*	*1,683*	*100.0*

Sources: Authors' estimates based on OMB, *Budget of the U.S. Government* (Washington, DC: OMB, 2019).

Notes: ACA = Affordable Care Act; NA = not applicable; OMB = Office of Management and Budget. ACA replacement allowance is a placeholder for the president's proposal to repeal and replace the ACA.

Social Security and Medicare spending would each constitute about 30 percent of all growth in spending, interest on the debt would constitute 24 percent, and Medicaid and the Affordable Care Act would constitute 10 percent. Other mandatory spending would increase roughly 7 percent relative to the change in total spending, and nondefense discretionary spending for the same category would decline about 2.5 percent. Despite some initial increases under current law, defense spending will barely change over the long term, attaining a net increase of about 0.1 percentage point of gross domestic product, or GDP. Next, we compare the proposed budget from the White House with the baseline budget shown here.

Trump's Budget Proposal

On March 11, 2019, the White House released its budget for fiscal year 2020. The budget would make major changes to some important programs while leaving others largely untouched:

- Like previous Trump budgets, it would eliminate spending established as part of the Affordable Care Act (particularly the exchange subsidies) and slash federal spending on Medicaid. His budget proposes a partial replacement package that involves block grants to states to offset some of those cuts, but the proposal lacks many specifics.
- The president proposes some changes in Medicare reimbursements, some of which resemble changes proposed during the Obama administration.
- His budget expands funds for national defense only temporarily: by 2029, national defense funding would be about the same amount in real terms as in 2018. However, national defense spending as a share of GDP would decline by nearly one-quarter (a decline of about 0.8 percentage points from a current level of 3.1 percentage points).
- Nondefense discretionary spending would be cut significantly beyond the cuts already scheduled in current law.
- In keeping with the president's campaign promises, the budget does not change or address anything about Social Security.

Despite expressing a desire to transform the nation's fiscal course, the White House continues to release budgets in which mandatory programs increasingly dominate over discretionary spending, leaving Congress ever-smaller shares of spending to appropriate in the future.

Table 2 shows the president's spending changes forecasted to 2029. When looking at the source of total changes, the passive changes dominate. In real terms, the total changes can be seen in the third column of numbers; as a share of GDP, they can be seen in the second-to-last column. Overall, the administration proposes real spending growth of $1,115 billion, a decline from current law's growth of $1,683 billion. Spending reductions across many programs, combined with optimistic revenue projections, will put some brakes on the growth in interest costs, though they would still rise significantly in real terms and as a share of GDP. Total revenues would remain largely flat compared with current law.

In general, spending on Social Security, health care, and interest on the debt would continue to dictate the scope of growth in the federal budget. Those three categories would grow by $491 billion, $442 billion, and $337 billion, respectively—a total of $1,270 billion. Spending on everything else would decline in total by $165 billion. As a share of GDP, these three areas would grow in total about 1.3 percent; everything else would decline 3.0 percent, with more than half of the decline coming from nondefense discretionary programs. The remainder of the relative decline comes from defense and other mandatory programs. When measuring spending changes by program, Social Security, health care, and interest on the debt would account for 95 percent of spending changes under current law and 114 percent under Trump's budget.

Although Social Security and Medicare dominate the noninterest portion of growth under both current law and the Trump budget, current law also contains growth elsewhere, mainly in Medicaid, the ACA and, to some extent, other mandatory programs. Under the president's budget, however, the Medicaid and ACA cuts, even with a partial block grant replacement, would force their combined share of GDP to remain relatively stagnant. Thus, when looking at the shares of the new spending that the president would allocate, only Social Security and Medicare remain priorities; other beneficiaries of government programs, such as children and working families, would take a hit.

Across all major health care categories, total spending in Trump's budget declines $254 billion relative to current law. The administration plans to eliminate $53 billion by repealing the ACA's health insurance subsidies. The budget also imposes relative cuts of $120 billion to Medicare and $199 billion to Medicaid. The budget leaves Social Security essentially untouched. Although most analysts agree that health care costs must be contained, this particular allocation would especially affect millions of nonelderly Americans.

The Trump administration suggests it would replace the ACA with a plan similar to the Graham-Cassidy health care bill from 2017.[1] That plan would eliminate the Medicaid expansion in the ACA and would instead create new block grants for the states. The value of these grants would grow at a slower rate than under current law because they would be tied to the consumer price index instead of health costs, which are generally higher. The most recent White House budget estimated that this plan, which must be enacted through legislation in Congress, would have a nominal price tag of $147 billion in 2029 (OMB 2019b, 111). Because this program has no current costs (it doesn't yet exist), implementing it would represent a change of $147 billion. We calculate the inflation-adjusted value of this nominal quantity to be $118 billion (table 2). Nevertheless, this estimate is very uncertain and depends on the details of any proposal. When including the $118 billion figure in the analysis, the net spending decrease for all major health care programs relative to current law becomes about $136 billion.

Trump's budget also projects that spending on other mandatory programs will decline by $71 billion relative to current law. Defense spending remains stable in real terms, about $10 billion more than the baseline in 2018, but not as a share of GDP. Nondefense discretionary programs face another steep cut in the new budget, dropping by $187 billion. Federal agencies have been directed to reduce their programmatic spending 5 percent below the strict nondefense discretionary caps already set in law (OMB 2019c, 5).

TABLE 2

Changes in Real Spending and Finances in the President's Proposed Fiscal Year 2020 Budget, 2018–29

	Billions of 2018 Dollars				Percentage of GDP			
	Change in annual levels by 2029 under current law	President's proposed changes to current law	Total change under president's budget	2029 level under the president's budget	Change in annual levels by 2029 under current law	President's proposed changes to current law	Total change under president's budget	2029 level under the president's budget
Spending								
Social Security	*494*	*-3*	*491*	*1,473*	*0.4*	*0.0*	*0.4*	*5.3*
Major health	*696*	*-254*	*442*	*1,459*	*1.1*	*-1.0*	*0.1*	*5.1*
Medicare	513	-120	393	975	1.0	-0.4	0.6	3.5
Medicaid	176	-199	-23	366	0.1	-0.7	-0.6	1.3
ACA	7	-53	-46	0	-0.04	-0 .16	-0.2	0.0
ACA replacement allowance	NA	118	118	118	NA	0.3	0.3	0.3
Other mandatory	*124*	*-71*	*53*	*576*	*-0.3*	*-0.2*	*-0.5*	*2.1*
Defense discretionary	*10*	*10*	*20*	*643*	*-0.8*	*0.0*	*-0.8*	*2.3*
Nondefense discretionary	*-41*	*-187*	*-228*	*411*	*-1.0*	*-0.7*	*-1.7*	*1.5*
Net interest	*401*	*-64*	*337*	*662*	*1.0*	*-0.2*	*0.8*	*2.4*
Total spending	*1,683*	*-569*	*1,115*	*5,224*	*0.3*	*-2.0*	*-1.7*	*18.7*
Financing								
Total revenues	*1,717*	*14*	*1,730*	*5,060*	*1.6*	*0.0*	*1.6*	*18.1*
Borrowing (deficits)	*-33*	*-583*	*-617*	*162*	*-1.2*	*-2.0*	*-3.2*	*0.6*
Total financing	*1,683*	*-569*	*1,115*	*5,224*	*0.3*	*-2.0*	*-1.7*	*18.7*

Sources: Authors' estimates based on OMB, *Budget of the U.S. Government for Fiscal Year 2020* (Washington, DC: OMB, 2019)

Notes: ACA = the Affordable Care Act; GDP = gross domestic product; NA = not applicable; OMB = Office of Management and Budget. Total change under the president's budget equals change under current law plus the president's proposed changes to current law. The 2029 level under the president's budget equals the 2018 level (shown in table 1) plus the total change in the president's budget.

Conclusion

The Trump administration's latest budget continues the nation's unsustainable fiscal path. The new budget features less total spending than under current law, but it does not change the fundamental dynamics and trajectories for federal finances. Spending on Social Security, Medicare, and interest on the debt, which already constitute a clear majority of the federal budget, would now dominate all growth. The young and middle-aged would pay for some of this growth through higher future interest payments, but they would also pay immediately through the continued paring of many other programs, including most of the discretionary programs and the mandatory health care programs that benefit the nonelderly.

In fairness, past Congresses are largely responsible for the current fiscal path. But by refusing to address the largest sources of fiscal stress, pushing the growth in health spending toward the elderly, and putting greater burdens on the nonelderly population (who have a much lower coverage rate of health insurance and greater use of discretionary programs), the Trump administration is endangering the financial integrity of its core priorities and jeopardizing the federal government's sustainability. The Social Security system is projected to become insolvent by 2034 (Board of Trustees 2019). This budget does nothing about that. Interest payments—that is, transfers from taxpayers to foreign and domestic bond holders—will continue expanding. Although they will expand at a somewhat slower rate under the president's proposals than under current law, they will reach a larger share of GDP in 2029 than their share right now. Meanwhile, almost any program that either liberals or conservatives value for promoting opportunity or mobility among children or working families would face a greater decline than under current law.

The estimates presented in this brief are based on the president's own numbers. In the introduction to the fiscal year 2020 budget, he wrote that "we must protect future generations from Washington's habitual deficit spending" (OMB 2019d, 1). Yet even with optimistic revenue projections, all of his projected budgets entail huge deficits through the next 10 years. Future generations are left not just with the bills caused by those higher levels of debt: they will also face lower levels of government spending to support almost any programmatic opportunity or need other than retirement.

Note

[1] Joseph R. Antos and James C. Capretta, "The Graham-Cassidy Plan: Sweeping Changes in a Compressed Time Frame," *Health Affairs Blog*, September 22, 2017, https://www.healthaffairs.org/do/10.1377/hblog20170922.062134/full/.

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