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How Would the President's 2019 Budget Proposal Shift Our Fiscal Path?

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The president's annual budget proposal sets the tone for budget negotiations each year, yet its focus on individual proposals makes it challenging to hold the president accountable for the direction implied by the budget, including passive acceptance of automatic changes built into current law. In this brief, we use a framework that clarifies the sources of changes in resources proposed in the president's fiscal year (FY) 2019 budget and how they relate to each other and to the nation's fiscal health.

Comparing 2028 to 2017 using this framework shows that the president's priorities are to increase annual real spending on Social Security and Medicare by $840 billion and interest on the debt by $390 billion, essentially freeze all real growth in Medicaid spending and subsidies under the Affordable Care Act (ACA), and reduce all other spending by about $150 billion. Because the economy is projected to grow by close to one-quarter over this period, the proposed changes would continue and compound a massive shift already scheduled in current law, placing almost total priority on the elderly and bondholders and away from children, low- and moderate-income households, and nonelderly households.

The president's tax priorities are to extend the tax cuts enacted at the end of 2017 that mainly favor high-income households. While tax receipts would increase by $870 billion, this falls far short of spending growth. Despite the proposed deep spending cuts for certain programs, total spending would increase by about 150 percent of new revenues and, though deficits would fall relative to current law, they would remain on an unsustainable path. National debt would continue to grow relative to the economy.

Measuring Total Budgetary Changes from All Sources

Policymakers don't start from scratch when crafting the federal budget each year. Instead, budgeters decide *incrementally* whether to cut, freeze, or increase program budgets relative to previous allocations. Ideally, those choices are based on evidence about the programs' effectiveness, staffing and purchasing needs, inflation, and other priorities. Analyzing the changes in spending and revenues, not just overall levels, shows whether policy is being responsive to new and anticipated social and economic conditions.

To reflect better this incremental process, Steuerle and Quakenbush (2016) proposes a new view or framework for examining any major fiscal legislation or initiative. We suggest that this view be applied specifically and up front, alongside traditional budget presentations, to all pieces of major legislation. We emphasize applying it to the president's annual budget proposals because it clearly indicates the White House's priorities for the budget. Even if Congress does not enact the president's budget in the current year, proposed budgets often foreshadow future budgets. At the time of this publication, Congress had already introduced elements of the president's proposals, including more work requirements in safety net programs, a new round of tax cuts, and continued efforts to repeal and replace the ACA.

After determining an initial baseline for current law, our framework distinguishes changes to spending, taxes, and borrowing that the president *passively* accepts—changes built into that current law baseline as increases or decreases from current levels—from those he *actively* proposes to Congress. The combination of passive and active changes is then compared and added to show a more complete picture of lawmakers' fiscal priorities.

Though the president's budget proposal primarily starts the annual budget process, it is also a blueprint for the executive branch's longer-term fiscal goals, specifying spending and revenue targets for the next decade or longer. Because major initiatives like health reform, new infrastructure, or deficit reduction can take years to implement, analyzing a longer-term road map is just as, if not more, crucial as examining how requests affect the next fiscal year's budget, though the framework should be applied to both.

In the following sections, we focus on the longer-term road map, first revisiting changes over 11 years in the baseline implied by current law before adding to them legislative changes to current law requested in the president's FY 2019 budget proposal. We picked an 11-year period because the Congressional Budget Office (CBO) provides significant data for how changes would affect the current fiscal year (FY 2018) and the succeeding decade. Consistent with the framework we created, our approach includes the following:

- **Emphasizing the long-term changes in real spending and revenues**. To understand lawmakers' implicit spending and taxing priorities, we calculate the change from current levels to show clearly which budget categories are growing and which are stable or declining.

- **Presenting information within a balance sheet where the total change in spending must match the total change in sources of financing**. 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**. If prices increase and compound by 2 percent annually, the price level 11 years later is 24 percent higher. Thus, a 24 percent nominal increase in annual spending from 2017 to 2028 translates to no real increase and likely a decrease in service providers, such as teachers and soldiers, to the extent programs pay people whose compensation grows faster than inflation.

The Direction of the Federal Budget under Current Law

Budget policy changed quickly in late 2017 and early 2018. Congress enacted the Tax Cuts and Jobs Act (TCJA),[1] which drastically reduced individual income taxes through 2025, permanently cut business and corporate taxes, and repealed the ACA's penalty for not having health insurance. In early 2018, the Bipartisan Budget Act of 2018 increased domestic and defense discretionary budget caps for 2018 and 2019; authorized the Children's Health Insurance Program through 2027; repealed the ACA's Independent Payment Advisory Board for controlling health spending; funded natural disaster relief efforts; and suspended the debt ceiling until early 2019.[2] It was followed by the Consolidated Appropriations Act of 2018,[3] which funded the government through the end of the fiscal year and kept with the Bipartisan Budget Act's higher spending caps.

These changes only added to the unsustainability of the nation's long-term fiscal trajectory. In Steuerle and Quakenbush (2018), we find that projected spending growth for health, Social Security, and interest on the debt will consume more than the projected increase in annual revenues in 2028. Table 1 updates those estimates using new data from CBO. The numbers change only slightly. Increased spending on health (especially Medicare and Medicaid), Social Security, and interest alone totals over *$1.5 trillion*, compared with a *$1 trillion* revenue increase over 11 years. This is the baseline against which the president's budget proposal will be compared.

TABLE 1

Changes in Real Spending and Financing under Current Law, 2017–28

Billions of 2017 dollars

	2017	2028	Total change	Share of change (%)	Growth rate (%)
Spending					
Social Security	939	1,418	479	29.4	3.8
Major health	1,030	1,608	577	35.5	4.1
Medicare	591	1,012	421	25.9	5.0
Medicaid	375	521	146	9.0	3.0
CHIP	16	12	(4)	-0.2	-2.3
ACA	48	62	14	0.9	2.3
ACA replacement allowance	-	-	-	0.0	na
Other mandatory	549	587	38	2.3	0.6
Defense discretionary	590	614	24	1.5	0.4
Nondefense discretionary	610	654	44	2.7	0.6
Net interest	263	727	465	28.6	9.7
Total spending	**3,982**	**5,608**	**1,627**	**100.0**	**3.2**
Financing					
Total revenues	3,316	4,393	1,077	66.2	2.6
Borrowing (deficits)	665	1,215	550	33.8	5.6
Total financing	**3,982**	**5,608**	**1,627**	**100.0**	**3.2**

Source: Authors' estimates based on CBO, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: CBO, 2018).
Notes: CHIP = Children's Health Insurance Program. ACA = Affordable Care Act. ACA replacement allowance is a placeholder for the president's proposal to repeal and replace the ACA.

How Trump's Budget Would Change Our Fiscal Course

In February 2018, the White House released its FY 2019 budget proposal and in April modified the proposal to reflect the Bipartisan Budget Act's changes to discretionary budget caps. Key long-term priorities articulated in the budget proposal include repealing and replacing the ACA and slowing the growth of federal Medicaid payments to states; making permanent the TCJA's individual income tax provisions; overhauling the federal safety net with stricter work requirements and shifting more costs to states; boosting defense spending; and increasing infrastructure spending using incentive grants to spur nonfederal infrastructure investment (OMB 2018a). In line with the president's 2016 campaign promises, Social Security growth from both higher real benefit payments per beneficiary and increases in the eligible population remains largely unchanged. To slow deficit growth, the administration proposed a "two-penny plan" to reduce nondefense discretionary spending by two percent per year from 2020 through 2028, along with other spending cuts.

Compared with current law, the administration's budget proposal would slow the growth of federal spending and financing by *roughly one-third*, or *half a trillion dollars*, adjusted for inflation (table 2). The budget blueprint significantly slows deficit growth, but it does not do this by increasing revenues. Instead, in 2028 *$204 billion* in tax reductions and *$350 billion* in reduced borrowing is financed by *$554 billion* in spending cuts relative to changes implied by current law.

The $204 billion revenue reduction will mainly benefit higher-income households. Analysts estimate that for tax year 2018, only 27 percent of tax units in the bottom fifth of the income distribution would receive a tax cut averaging $190, while nearly 90 percent of the top fifth of earners would receive a tax cut averaging over $7,000—and more than $50,000 for those in the top 1 percent (Sammartino, Stallworth, and Weiner 2018). They find that the bottom fifth receives less than 1 percent of tax changes from the TCJA's individual income tax provisions, as opposed to 83 percent going to the top two income quintiles.

Reduced spending relative to current law is not evenly distributed among budget categories: nondefense discretionary spending is most heavily reduced—by *roughly $250 billion* from projected 2028 levels, including many programs for children (Lou, Isaacs, and Hong 2018). This reduction is even more stark when measured as a share of the economy. In 2017, nondefense discretionary programs totaled *3.2 percent* of gross domestic product (GDP) and were already projected to decline by *0.4 percentage points* to *2.8 percent* of GDP by 2028. The president's budget plan would *more than quadruple* the percentage-point decline, leaving spending at *1.5 percent* of GDP, *less than half* its 2017 share.

The second-largest spending reduction is *$215 billion (37.3 percent)* to projected growth for major health care programs, especially Medicaid. The administration's ACA replacement plan, modeled on the 2017 Graham-Cassidy health care bill,[4] would repeal the ACA's Medicaid expansion and create state block grants for Medicaid and other health spending. The new health block grants would grow slower than the expected rate of health inflation. Though the proposal would significantly reduce federal costs, analysts anticipate that proposed changes to the health care system would shift more costs to states and lead to large losses of insurance coverage, especially among people with low incomes (Blumberg et al. 2017; CBO 2017). In a growing economy, all health care spending other than Medicare would remain approximately flat.

Some spending categories are protected or even increased under the president's proposed budget. Defense gets a modest *$7 billion* increase on top of its projected current law growth of *$24 billion*, although this does not offset the defense budget's implied *0.5 percentage-point decline* as a share of GDP (from *3.1 percent* in 2017 to *2.6 percent* by 2028). Social Security's benefit structure is unchanged (only administrative costs are reduced). Mandatory spending varies: Though the category overall increases under the president's budget blueprint, much of this increase comes from reclassifying certain infrastructure initiatives as mandatory spending. Within this category, income security programs like the Supplemental Nutrition Assistance Program (formerly food stamps), subsidies for postsecondary student loans, and retirement benefits for federal employees are reduced (Lou, Isaacs, and Hong 2018).

TABLE 2

Changes in Real Spending and Finances in the President's Proposed FY 2019 Budget, 2017–28

Billions of 2017 dollars

	Billions of 2017 Dollars				Percentage of GDP			
	Change in annual levels by 2028 under current law	President's proposed changes to current law	Total change under president's budget	2028 level under the president's budget	Change in annual levels by 2028 under current law	President's proposed changes to current law	Total change under president's budget	2028 level under the president's budget
Spending								
Social Security	479	(5)	474	1,414	1.1	(0.0)	1.1	6.0
Major health	577	(215)	363	1,393	1.4	(0.9)	0.5	5.9
Medicare	421	(75)	346	938	1.2	(0.3)	0.9	4.0
Medicaid	146	(184)	(38)	337	0.2	(0.8)	(0.5)	1.4
CHIP	(4)	-	(4)	12	(0.0)	-	(0.0)	0.1
ACA	14	(62)	(48)	0	0.0	(0.3)	(0.3)	0.0
ACA replacement allowance	-	106	106	106	-	0.4	0.4	0.4
Other mandatory	38	28	66	616	(0.4)	0.1	(0.3)	2.6
Defense discretionary	24	7	30	621	(0.5)	0.0	(0.5)	2.6
Nondefense discretionary	44	(294)	(250)	360	(0.4)	(1.2)	(1.7)	1.5
Net interest	465	(75)	390	652	1.7	(0.3)	1.4	2.7
Total spending	**1,627**	**(554)**	**1,073**	**5,055**	**2.9**	**(2.3)**	**0.5**	**21.3**
Financing				-				0.0
Total revenues	1,077	(204)	874	4,190	1.2	(0.9)	0.4	17.7
Borrowing (deficits)	550	(350)	199	865	1.7	(1.5)	0.2	3.6
Total financing	**1,627**	**(554)**	**1,073**	**5,055**	**2.9**	**(2.3)**	**0.5**	**21.3**

Sources: Authors' estimates based on CBO, *The Budget and Economic Outlook: 2018 to 2028* (Washington, DC: CBO, 2018); and CBO, *An Analysis of the President's 2019 Budget* (Washington, DC: CBO, 2018).

Notes: Total change under the president's budget equals change under current law plus president's proposed changes to current law. The 2028 level under the president's budget equals the 2017 level (table 1) plus total change under the president's budget.

When the total change in real spending is examined, regardless of source, growth in Social Security, Medicare, and interest on the debt, at over $1.2 trillion or about $7,500 per household, would remain the spending priorities of this administration. They would comprise 113 percent of the total growth in spending. Growth in old age programs already were the overwhelming priority built into current law, and that priority would only be expanded in the president's budget, so that they ultimately comprise a significantly larger share of the total federal budget.

While proposing deep cuts to discretionary and health care spending for the nonelderly and poor to reduce the deficit, the president's budget plan would also reduce revenues relative to current law by making permanent the TCJA's individual income tax cuts. Revenues in 2028 would be about *$200 billion* less than they otherwise would be, settling in at an increase of $874 billion.

On net, spending would still rise by about $200 billion more than revenues, although by $350 billion less than under current law. In 2028, the annual deficit as percentage of GDP would be *about 3.6 percent*, about 0.2 percentage points higher than in 2017, but CBO (2018a) projects that by maintaining high deficit levels over this period, the national debt as a share of GDP would increase by about *10 percentage points* to *86.4 percent of GDP*. This projection assumes maintenance of a period of relative prosperity and peace. Any new major emergency or spending priority would add to that unsustainable growth rate in debt.

Conclusion

The administration's long-term budget plan envisions a smaller federal government, whether measured by spending or taxes collected. But the fiscal pathway it proposes to achieve that goal maintains, and in some cases worsens, unsustainable trends built into current law. Further, the burden of reducing the size of government is not evenly shared.

Making the TCJA's individual income tax cuts permanent would increase deficits that are already increasing faster than before late 2017 tax cuts and early 2018 spending increases, as OMB (2018b)'s midsession review reveals. The benefits of extending individual income tax cuts would mainly benefit higher-income households. Meanwhile, proposed cuts to safety net programs and domestic discretionary programs would most acutely affect lower-income families.

The largest sources of fiscal pressure—Social Security, health care costs, and interest on the debt—would continue growing faster than revenues and national income, and much of this growth is owed to higher real benefits per person, not just an increased elderly population. No Social Security reforms are proposed, despite the system's projected insolvency as early as 2034 (Board of Trustees 2018). Savings for Medicare, which also faces financing shortfalls, are limited. And because deficits and debt will continue to rise, so will interest costs, albeit at a slower rate than under current law.

Notes

[1] Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, Stat. 2054 (Dec. 12, 2017).

[2] Bipartisan Budget Act of 2018, Pub. L. No. 115-123 (Feb. 09, 2018).

[3] Consolidated Appropriations Act of 2018, Pub. L. No. 115-141 (Mar. 23, 2018).

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

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Between 1984 and 1986, he was the economic coordinator and original organizer of the Treasury's tax reform effort. Steuerle is the author, coauthor, or coeditor of 18 books, including *Dead Men Ruling*, *Nonprofits and Government* (3rd edition), *Contemporary US Tax Policy* (2nd edition), and *Advancing the Power of Economic Evidence to Inform Investments in Children, Youth, and Families*. He is a founder and chair emeritus of ACT for Alexandria, a community foundation, and is or has been an elected, appointed, advisory panel, or board member for the Congressional Budget Office, Comptroller General of the United States, the Joint Committee on Taxation, Venture Philanthropy Partners, and the National Center on Philanthropy and the Law (chair). Steuerle received the first Bruce Davie–Albert Davis Public Service Award from the National Tax Association in 2005, distinguished or outstanding alumnus awards from the University of Dayton and St. Xavier High School, and the TIAA-CREF Paul Samuelson award for his book *Dead Men Ruling*.

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