



The Daily Dish

Federal Budget Update

DOUGLAS HOLTZ-EAKIN | JUNE 20, 2024

On Tuesday the Congressional Budget Office (CBO) released its [updated budget and economic outlook](#) for the years 2024 to 2034. AAF's Jordan Haring does a complete tour of the revisions in [her latest](#). But the basic story is simple: The federal budget journey has arrived in Bleak with the fiscal course set for Hopeless. There needs to be a reset of the budgetary GPS, and fast.

The near-term outlook has deteriorated sharply. Per CBO: "In CBO's current projections, the deficit for 2024 is \$0.4 trillion (or 27 percent) larger than it was in the agency's February 2024 projections." This is worth noting for two reasons. First, that is a very large revision in a very short time period. The continued expansion of deficits when the economy is at full employment is unwarranted, detrimental macroeconomic policy. It fuels upward pressure on prices and makes the Fed's job of getting inflation to 2 percent harder. The second point is that CBO is evidently so psychologically beaten by the bipartisan budgetary negligence that the starting point for all discussions is trillions of dollars. In the good old days, this would have been advertised as \$400 billion because that seemed like a large number!

Over the 10-year budget window, things have gone from horrific to more horrific. In Haring's words: "federal debt held by the public will rise from 99 percent of gross domestic product (GDP) at the end of Fiscal Year 2024, to a record 106.2 percent of GDP by 2027, and later to 122 percent of GDP by the end of 2034." For those keeping score at home, the debt will top the highest in history and exceed \$50 trillion. Deficits will top \$22 trillion over the next 10 years. There are many other numbers that figure in the outlook. Haring has all of them. Enjoy.

One should also note that these projections are inherently optimistic. CBO never forecasts a recession. There will be one. CBO never forecasts a congressional freakout in response to recession, natural disasters, or world events. There will be a buffet of such selections to choose from. CBO by law must assume that the Tax Cuts and Jobs Act (TCJA) provisions will sunset along with the enhanced premium tax credits (Obamacare subsidies). The outlook is definitely worse than presented in the document.

Meanwhile, Congress is incapable of handling anything more than (budgetarily) trivial discretionary spending bills. Will it tackle the \$4.2 trillion hole created if the TCJA provisions are extended for 10 years? Will it ever fix the financially shaky infrastructure of Social Security and Medicare? For example, getting those programs to grow much more slowly (4.3 percent, the rate of revenue growth) than the current 5.5 percent annually for Social Security and 7.0 percent for Medicare would save \$3.6 trillion. But the budgetary outlook is bleak because those are unimaginably aggressive reforms – based on current norms – and combined, the \$7.8 trillion is a paltry fraction of the \$22 trillion in 10-year deficits.

Nevertheless, it is essential that the norms and attitudes change. It's not that a [crisis is imminent](#). Instead, as the late and great Brookings economist Charles Schultze noted: "the problem with the debt is not the wolf at the door; it's the termites in the wall." It is time to stop destroying the foundation of the future.