CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

CBO

An Analysis of the President's 2018 Budget

JULY 2017

Notes

Numbers in the text and tables may not add up to totals because of rounding.

Unless this report indicates otherwise, all years mentioned are federal fiscal years, which run from October 1 through September 30 and are designated by the calendar year in which they end.

Data and supplemental information accompany this report on CBO's website (www.cbo.gov/publication/52846), as does a glossary of common budgetary and economic terms (www.cbo.gov/publication/42904).

Contents

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Summary

The Congressional Budget Office, in collaboration with the staff of the Joint Committee on Taxation (JCT), examined the proposals that the Administration submitted to the Congress on May 23, 2017. This analysis is based on CBO's economic projections and both agencies' estimating models, rather than on the Administration's.

How Would the President's Proposals Affect the Federal Budget?

In their analysis of the President's budget, CBO and JCT generally produce detailed "conventional" estimates of the President's proposals for individual provisions—as well as for the deficit and debt—that exclude any feedback from macroeconomic effects; the agencies also produce "dynamic" estimates that include economic feedback effects on the budget for the set of proposals as a whole. The economic projections used in the conventional analysis reflect CBO's recently published baseline projections, which incorporate the assumption that current laws governing federal outlays and revenues will remain generally unchanged.[1]

Excluding economic feedback effects, CBO and JCT estimate, federal budget deficits under the President's proposals would shrink relative to the size of the economy over the coming decade, ranging between 2.6 percent and 3.3 percent of gross domestic product (GDP) during that period. As a result, the cumulative federal deficit would be nearly one-third smaller than in CBO's baseline projections for the 2018–2027 period. (Those baseline projections show deficits rising to more than 5 percent of GDP by 2027.) By the end of the coming decade, debt held by the public would total 80 percent of GDP—11 percentage points below the debt-to-GDP ratio projected in CBO's baseline but 3 percentage points higher than the ratio anticipated for the end of this year.

The reduction in deficits and debt under the President's budget would be achieved by decreasing both mandatory and discretionary spending significantly compared with projections under current law. In particular, federal spending for health care would be much lower than the amounts in CBO's baseline, as would outlays for war-related programs and for many nondefense purposes. Revenues also would be lower than baseline amounts under the President's proposals, offsetting some of the deficit reduction achieved by the spending cuts.

Such reductions in the deficit would have effects on the economy that would further decrease deficits by modest amounts. Including just the effects of economic feedback from deficit reduction would reduce the cumulative deficit over the next 10 years by roughly $160 billion—or about 0.1 percent of GDP, on average—compared with CBO and JCT's conventional estimate of the President's proposals. In 2027, debt held by the public would be lower by 0.6 percent of GDP.

How Do CBO's Estimates of the President's Proposals Compare With the Administration's?

The deficits that CBO estimates would occur under the President's proposals are larger than those estimated by the Administration. Nearly all of that difference arises because the Administration projects higher revenue collections—stemming mainly from a projection of faster economic growth. CBO and the Administration use different economic forecasts, reflecting differences in projections of economic activity under current law and also economic effects that the Administration attributes to its proposals.

How Might the President's Proposals Affect the Economy?

The President's proposals would affect the economy in a variety of ways; however, because the details on many of the proposed policies are not available at this time, CBO

1. CBO regularly produces such baseline projections, which serve as a benchmark against which the President's proposals and other potential legislation can be measured. For the latest projections, see Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2017 to 2027* (June 2017), www.cbo.gov/publication/52801. Those projections incorporate the effects of legislation enacted and administrative actions taken through June 19, 2017.

cannot provide an analysis of all their macroeconomic effects or of the budgetary feedback that would result from those effects. CBO did examine the effects of the reduction in deficits that would stem from the President's policies (to the extent that CBO and JCT could estimate their budgetary effects). Those estimated macroeconomic effects exclude effects from changes in people's incentives to work and save and from changes in productivity, which would depend on those details.

The lower federal borrowing, relative to that projected under current law, would increase national saving, domestic investment, and the capital stock, thereby boosting output and income slightly and lowering interest rates somewhat.[2] As a result, average growth in inflation-adjusted GDP over the 2018–2027 period would be about 0.1 percentage point higher under the President's proposals than under CBO's baseline. GDP would be little changed through calendar year 2021 and 0.7 percent higher in 2027. Those economic effects would help reduce the deficit.

Effects of the President's Proposals on the Budget

Compared with CBO's baseline projections, the deficit under the President's proposals would be slightly larger in 2018, about the same in 2019, and smaller in each year between 2020 and 2027, according to CBO and JCT's estimates (see Figure 1). The cumulative deficit from 2018 through 2027 would be reduced by $3.3 trillion from the $10.1 trillion in CBO's baseline. (The estimates discussed in this section exclude macroeconomic feedback effects. For a discussion of possible effects, see "Effects of Deficit Reduction on the Economy and the Budget" on page 16.)

As a result of those smaller deficits, debt held by the public would also be lower under the President's proposals than under current law. Federal debt held by the public would equal 77 percent of GDP this year and would hover around 80 percent for most of the 10-year period. That ratio would be lower—about 11 percentage points of GDP lower by 2027—than the amounts projected in the baseline (see Figure 2).

The proposals made by the Administration this year are in many cases not sufficiently specified for CBO and JCT to make their own estimates of their effects on the budget. For some of those proposals—such as the two largest health care proposals, as well as those related to tax reform, infrastructure, and the Postal Service—CBO and JCT included the Administration's estimates as a placeholder because the agencies judged those estimates to be achievable targets for the budgetary effects of detailed policies that might be proposed in the future.

However, in other cases where proposals lacked specificity, CBO and JCT estimated no costs or savings for three reasons: The agencies could not assess whether the effects estimated by the Administration were achievable within the parameters it presented; the agencies concluded that those effects would not be achievable; or the changes contemplated by the President could be realized through administrative actions under current law. In some cases, different reasons applied to different parts of a single proposal. Two proposals accounted for most of the savings estimated by the Administration that CBO and JCT did not count as savings:

- Reducing improper payments governmentwide, for which the Administration estimated $139 billion in savings; and
- Modifying financial regulations, for which the Administration estimated $35 billion in savings.

According to CBO's estimates, the deficit would fall from the $693 billion projected for 2017 to $593 billion in 2018 under the President's proposals. After that, the deficit would generally rise, totaling $720 billion in 2027 (see Table 1). The cumulative deficit over the 2018–2027 period would total $6.8 trillion. Measured as a percentage of output, the deficit would decline from 3.6 percent of GDP in 2017 to 2.6 percent at the end of the period. The deficit would average 2.9 percent through 2027. (The average deficit over the past 50 years has equaled 2.8 percent of GDP.) Those estimates exclude any macroeconomic feedback effects.

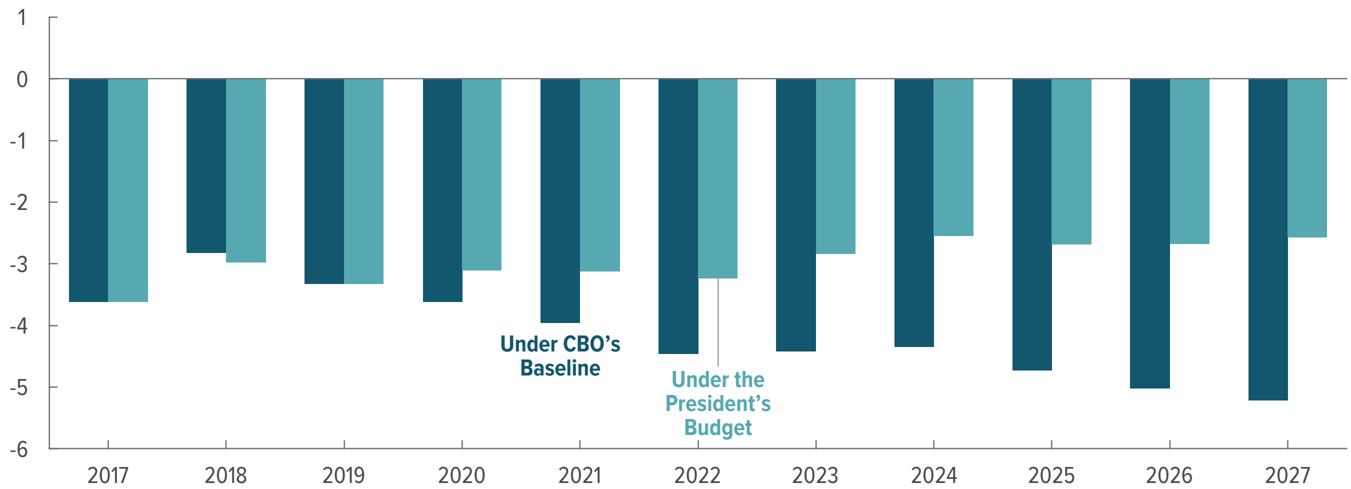
The deficit reduction under the President's proposals would stem from lower spending. The 10-year decrease of $4.2 trillion (or 8 percent) from amounts in CBO's baseline would result from the following changes:

2. The total amount of saving in the economy, called national saving, is the sum of public saving and private saving. Public saving consists of all surpluses of state and local governments and the federal government, plus government investment in fixed assets, minus all deficits; private saving consists of saving by households and businesses.

Figure 1.

Deficits Projected in CBO's Baseline and Under the President's Budget

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

The amounts shown do not include estimated macroeconomic feedback effects on the federal budget. Taking into account the smaller deficits under the President's budget, CBO estimates that the effects of that economic feedback would further reduce deficits by an average of 0.1 percent of gross domestic product.

- A decrease of $2.0 trillion in mandatory spending (which is spending for programs generally governed by provisions of permanent law), including a $1.9 trillion reduction in spending for health care, as well as cuts to income security programs and student loans;
- A decrease of $1.9 trillion in discretionary outlays (which result from funding provided or controlled by annual appropriation acts) stemming from substantial reductions in nondefense discretionary spending and from sharply lower outlays for military operations and related activities in Afghanistan and elsewhere (known as overseas contingency operations, or OCO); and
- A decrease of $0.3 trillion in net interest costs because of lower deficits.

Outlays would average 20.7 percent of GDP from 2018 to 2027 under the President's proposals. In CBO's baseline, by contrast, outlays average 22.4 percent of GDP during that period. (Over the past 50 years, they have averaged 20.3 percent of GDP.)

CBO estimates that revenues would be $0.9 trillion (or 2 percent) lower under the President's budget between 2018 and 2027 than in CBO's baseline projections.[3] (That estimate excludes any macroeconomic feedback effects.) That reduction stems from the President's proposal to repeal and replace the Affordable Care Act.

The budget also contains a proposal for deficit-neutral tax reform. That proposal lacked the specificity necessary to evaluate any effects from such a change. For that reason, CBO and JCT used as a placeholder the Administration's estimate that the proposal would have no net budgetary effect.

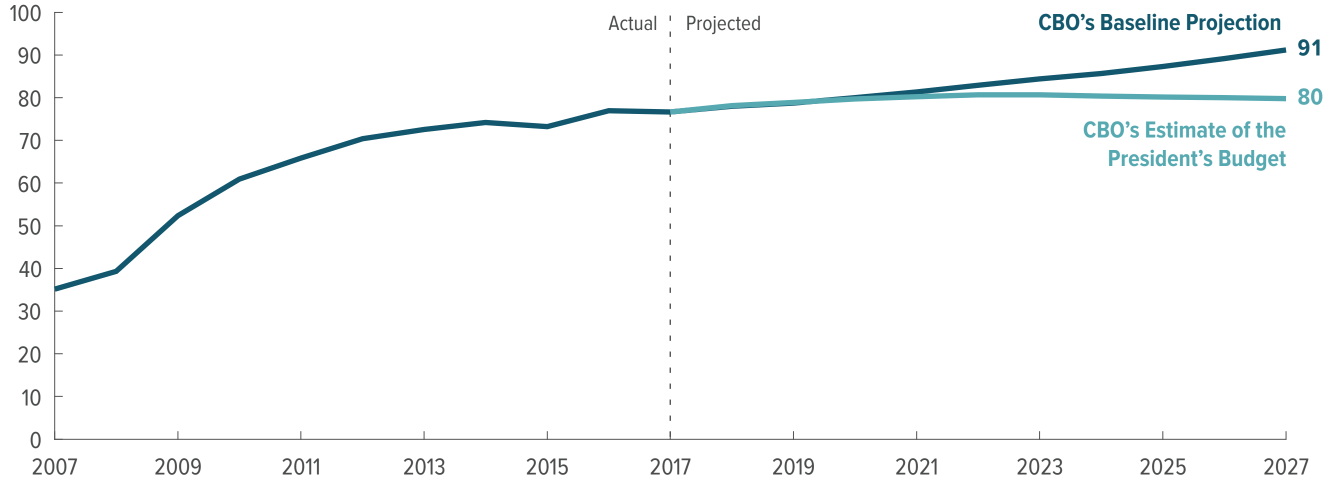
On average, revenues would equal 17.8 percent of GDP from 2018 through 2027 under the President's proposals (see Table 2). In the baseline, revenues are projected to average 18.2 percent of GDP during that period. (Over the past 50 years, they have averaged 17.4 percent.)

3. For more details about the President's tax proposals, see Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2018 Budget Proposal*, JCX-31-17 (July 10, 2017), https://go.usa.gov/xNFew.

Figure 2.

Federal Debt Held by the Public Projected in CBO's Baseline and Under the President's Budget

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

The amounts shown do not include estimated macroeconomic feedback effects on the federal budget. Taking into account the smaller deficits under the President's budget, CBO estimates that the effects of that economic feedback would reduce debt held by the public to 79 percent of gross domestic product in 2027.

Proposals That Would Affect Mandatory Spending

Over the 2018–2027 period, mandatory outlays would be lower under the President's proposals than under current law—in particular, federal spending would be much lower for health care, income security programs, and student loans (see Table 3). All told, mandatory spending would be $2.0 trillion (or 6 percent) lower than the amounts projected in the baseline, according to CBO's estimates. Mandatory outlays under the President's proposals would equal 12.7 percent of GDP in 2018 and grow to 13.9 percent by 2027; in CBO's baseline, they are projected to amount to 12.9 percent and 15.4 percent, respectively.

Reduce Federal Spending for Health Care. Overall, the Administration's proposals would reduce mandatory federal spending for health care by $1.9 trillion (or nearly 13 percent) over the coming decade, CBO and JCT estimate. The largest savings—$1.25 trillion over the 2018–2027 period—would stem from the proposal to repeal and replace the Affordable Care Act.[4] Additional 10-year savings of $610 billion would result from changes to the Medicaid program. The Administration did not specify the policies that would achieve those savings. However, CBO has interpreted the Administration's estimate as indicating a target for the budgetary effects of the detailed policies that might be proposed in the future.

The Administration also proposes changes to the medical liability system, including caps on damages awarded to successful plaintiffs. CBO expects that those changes would lower costs for health care both directly and indirectly: directly by lowering the premiums paid by providers for medical liability insurance; and indirectly by reducing the use of health care services prescribed by providers when faced with less pressure from potential malpractice suits. Those reductions in costs would, in turn, decrease the government's spending for health care programs, particularly Medicare and Medicaid, by about $64 billion over the coming decade, CBO estimates.[5]

4. The policy to repeal and replace the Affordable Care Act is also assumed to reduce revenues by $1 trillion over the 2018–2027 period.

5. The estimated effects of medical liability reform on Medicaid and on insurance purchased through the health care marketplaces established under the Affordable Care Act do not reflect interactions with other budget proposals for those programs. The proposal to modify the medical liability system would also increase revenues by approximately $9 billion from 2018 to 2027.

Table 1.

Comparison of Projected Revenues, Outlays, and Deficits in CBO's Baseline and Under the President's Budget

Billions of Dollars

	Actual, 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total 2018–2022	Total 2018–2027
							CBO's June 2017 Baseline							
Revenues	3,268	3,315	3,531	3,687	3,853	4,011	4,178	4,361	4,545	4,742	4,948	5,158	19,261	43,016
Outlays	3,853	4,008	4,094	4,375	4,628	4,891	5,205	5,419	5,628	5,967	6,300	6,621	23,194	53,128
Deficit	**-585**	**-693**	**-563**	**-689**	**-775**	**-879**	**-1,027**	**-1,057**	**-1,083**	**-1,225**	**-1,352**	**-1,463**	**-3,933**	**-10,112**
							CBO's Estimate of the President's Budget[a]							
Revenues	3,268	3,315	3,479	3,632	3,780	3,921	4,085	4,259	4,439	4,636	4,842	5,052	18,896	42,123
Outlays	3,853	4,008	4,072	4,321	4,444	4,613	4,830	4,939	5,075	5,332	5,561	5,772	22,279	48,959
Deficit	**-585**	**-693**	**-593**	**-689**	**-664**	**-692**	**-745**	**-681**	**-636**	**-696**	**-719**	**-720**	**-3,383**	**-6,836**
							Difference Between CBO's Estimate of the President's Budget and CBO's Baseline							
Revenues	n.a.	0	-53	-54	-74	-91	-93	-103	-107	-106	-106	-107	-365	-894
Outlays	n.a.	0	-23	-54	-184	-278	-376	-480	-553	-635	-739	-849	-914	-4,170
Deficit[b]	**n.a.**	**0**	**-30**	*****	**110**	**187**	**282**	**377**	**447**	**528**	**633**	**742**	**549**	**3,276**
Memorandum:														
Deficit as a Percentage of GDP														
CBO's baseline	-3.2	-3.6	-2.8	-3.3	-3.6	-4.0	-4.5	-4.4	-4.3	-4.7	-5.0	-5.2	-3.7	-4.3
CBO's estimate of the President's budget[a]	-3.2	-3.6	-3.0	-3.3	-3.1	-3.1	-3.2	-2.8	-2.6	-2.7	-2.7	-2.6	-3.2	-2.9
Debt Held by the Public as a Percentage of GDP														
CBO's baseline	77.0	76.7	78.0	78.8	80.0	81.4	82.9	84.4	85.7	87.3	89.2	91.2	n.a.	n.a.
CBO's estimate of the President's budget	77.0	76.7	78.1	78.9	79.7	80.2	80.6	80.6	80.3	80.2	80.0	79.8	n.a.	n.a.

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

GDP = gross domestic product; n.a. = not applicable; * = between -$500 million and zero.

a. The amounts shown do not include estimated macroeconomic feedback effects on the federal budget. Taking into account the smaller deficits under the President's budget, CBO estimates that the effects of that economic feedback would further reduce the cumulative deficit between 2018 and 2027 by roughly $160 billion. The resulting cumulative deficit would be 2.8 percent of gross domestic product, compared with 2.9 percent of GDP excluding such feedback.

b. Positive numbers indicate a decrease in the deficit in relation to CBO's baseline.

Some of the President's policies would increase federal spending on health care. For example, the proposal to extend funding for community health centers and the National Health Service Corps would boost outlays by $8 billion through 2027, CBO estimates. Similarly, the proposal to reauthorize funding for the Children's Health Insurance Program (CHIP) in 2018 and 2019 would increase outlays by $3 billion over the 10-year period compared with outlays projected in the baseline. That amount reflects the reduction in Medicaid outlays and in subsidies for insurance purchased through the marketplaces established under the Affordable Care Act that CBO estimates would occur if CHIP funding was extended.[6]

6. Under the rules governing baseline projections for expiring programs, CBO already projects funding for CHIP after 2017 at an annualized amount of about $6 billion. CBO estimates that fully funding the program for two years, as proposed by the President, would cost an additional $3 billion above the amounts projected in the baseline.

Table 2.

CBO's Estimate of the President's Budget

	Actual, 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total 2018–2022	Total 2018–2027
							In Billions of Dollars							
Revenues														
On-budget	2,458	2,466	2,605	2,729	2,847	2,958	3,089	3,227	3,370	3,529	3,695	3,863	14,228	31,911
Off-budget[a]	810	849	873	904	932	963	996	1,032	1,069	1,107	1,147	1,188	4,668	10,212
Total	**3,268**	**3,315**	**3,479**	**3,632**	**3,780**	**3,921**	**4,085**	**4,259**	**4,439**	**4,636**	**4,842**	**5,052**	**18,896**	**42,123**
Outlays														
Mandatory	2,428	2,536	2,529	2,738	2,828	2,975	3,154	3,223	3,319	3,530	3,715	3,884	14,225	31,897
Discretionary	1,185	1,203	1,236	1,221	1,193	1,162	1,150	1,140	1,138	1,147	1,153	1,161	5,961	11,700
Net interest	240	269	307	362	423	476	526	576	618	655	692	727	2,093	5,362
Total	**3,853**	**4,008**	**4,072**	**4,321**	**4,444**	**4,613**	**4,830**	**4,939**	**5,075**	**5,332**	**5,561**	**5,772**	**22,279**	**48,959**
On-budget	3,078	3,204	3,218	3,410	3,468	3,569	3,716	3,749	3,806	3,981	4,122	4,240	17,381	37,279
Off-budget[a]	775	804	854	911	976	1,044	1,114	1,190	1,269	1,351	1,439	1,532	4,898	11,679
Deficit (-) or Surplus	**-585**	**-693**	**-593**	**-689**	**-664**	**-692**	**-745**	**-681**	**-636**	**-696**	**-719**	**-720**	**-3,383**	**-6,836**
On-budget	-620	-739	-612	-682	-621	-611	-627	-523	-437	-452	-427	-377	-3,153	-5,369
Off-budget[a]	36	46	19	-7	-43	-81	-117	-158	-200	-244	-292	-344	-230	-1,467
Debt Held by the Public	14,168	14,656	15,568	16,316	17,035	17,782	18,579	19,316	20,010	20,768	21,550	22,337	n.a.	n.a.
Memorandum:														
Gross Domestic Product[b]	18,407	19,120	19,924	20,671	21,380	22,165	23,037	23,951	24,905	25,896	26,927	27,999	107,178	236,856
							As a Percentage of Gross Domestic Product							
Revenues														
On-budget	13.4	12.9	13.1	13.2	13.3	13.3	13.4	13.5	13.5	13.6	13.7	13.8	13.3	13.5
Off-budget[a]	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.2	4.4	4.3
Total	**17.8**	**17.3**	**17.5**	**17.6**	**17.7**	**17.7**	**17.7**	**17.8**	**17.8**	**17.9**	**18.0**	**18.0**	**17.6**	**17.8**
Outlays														
Mandatory	13.2	13.3	12.7	13.2	13.2	13.4	13.7	13.5	13.3	13.6	13.8	13.9	13.3	13.5
Discretionary	6.4	6.3	6.2	5.9	5.6	5.2	5.0	4.8	4.6	4.4	4.3	4.1	5.6	4.9
Net interest	1.3	1.4	1.5	1.8	2.0	2.1	2.3	2.4	2.5	2.5	2.6	2.6	2.0	2.3
Total	**20.9**	**21.0**	**20.4**	**20.9**	**20.8**	**20.8**	**21.0**	**20.6**	**20.4**	**20.6**	**20.7**	**20.6**	**20.8**	**20.7**
On-budget	16.7	16.8	16.1	16.5	16.2	16.1	16.1	15.7	15.3	15.4	15.3	15.1	16.2	15.7
Off-budget[a]	4.2	4.2	4.3	4.4	4.6	4.7	4.8	5.0	5.1	5.2	5.3	5.5	4.6	4.9
Deficit (-) or Surplus	**-3.2**	**-3.6**	**-3.0**	**-3.3**	**-3.1**	**-3.1**	**-3.2**	**-2.8**	**-2.6**	**-2.7**	**-2.7**	**-2.6**	**-3.2**	**-2.9**
On-budget	-3.4	-3.9	-3.1	-3.3	-2.9	-2.8	-2.7	-2.2	-1.8	-1.7	-1.6	-1.3	-2.9	-2.3
Off-budget[a]	0.2	0.2	0.1	*	-0.2	-0.4	-0.5	-0.7	-0.8	-0.9	-1.1	-1.2	-0.2	-0.6
Debt Held by the Public	77.0	76.7	78.1	78.9	79.7	80.2	80.6	80.6	80.3	80.2	80.0	79.8	n.a.	n.a.

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

The amounts shown do not include estimated macroeconomic feedback effects on the federal budget. Taking into account the smaller deficits under the President's budget, CBO estimates that the effects of that economic feedback would further reduce the cumulative deficit between 2018 and 2027 by roughly $160 billion. The resulting cumulative deficit would be 2.8 percent of gross domestic product, compared with 2.9 percent of gross domestic product excluding such feedback.

n.a. = not applicable; * = between -0.05 percent and zero.

a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

b. These estimates come from CBO's baseline economic projections and do not reflect the macroeconomic effects of the President's proposals.

Table 3.

CBO's Estimate of the Effects of the President's Budget Proposals

Billions of Dollars

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total 2018–2022	Total 2018–2027
Deficit in CBO's June 2017 Baseline	-693	-563	-689	-775	-879	-1,027	-1,057	-1,083	-1,225	-1,352	-1,463	-3,933	-10,112
Effects of the President's Proposals[a]													
Outlays													
Mandatory													
Reduce federal spending for health care	0	-31	-25	-98	-153	-187	-222	-243	-282	-304	-347	-493	-1,891
Reduce federal spending for income security	0	-3	-11	-19	-23	-26	-29	-29	-26	-34	-38	-83	-238
Provide mandatory funding for infrastructure	0	5	25	40	50	40	20	10	5	5	0	160	200
Reduce subsidies for student loans	0	-2	-4	-6	-8	-9	-11	-13	-14	-16	-17	-29	-100
Other proposals	0	-6	-5	-15	4	7	9	11	17	-10	-16	-15	-3
Subtotal, mandatory	0	-37	-21	-99	-129	-175	-233	-264	-300	-358	-417	-460	-2,033
Discretionary													
Reduce spending for overseas contingency operations	0	-7	-26	-46	-67	-86	-96	-101	-105	-108	-110	-231	-752
Other defense	0	30	45	49	50	49	48	47	45	43	42	224	448
Other nondefense	0	-10	-53	-88	-127	-152	-177	-199	-223	-247	-271	-430	-1,548
Subtotal, discretionary	0	14	-34	-85	-144	-189	-225	-254	-283	-311	-340	-438	-1,851
Net interest	0	*	1	*	-5	-12	-22	-35	-51	-69	-91	-16	-285
Total Effect on Outlays	**0**	**-23**	**-54**	**-184**	**-278**	**-376**	**-480**	**-553**	**-635**	**-739**	**-849**	**-914**	**-4,170**
Revenues													
Repeal and replace the Affordable Care Act	0	-55	-60	-85	-100	-105	-115	-120	-120	-120	-120	-405	-1,000
Increase federal employees' retirement contributions	0	2	4	7	9	11	13	14	15	15	15	33	103
Other proposals	0	*	2	5	1	1	*	-1	-1	-1	-1	8	3
Total Effect on Revenues	**0**	**-53**	**-54**	**-74**	**-91**	**-93**	**-103**	**-107**	**-106**	**-106**	**-107**	**-365**	**-894**
Total Effect on the Deficit[b]	**0**	**-30**	*****	**110**	**187**	**282**	**377**	**447**	**528**	**633**	**742**	**549**	**3,276**
Deficit Under the President's Budget as Estimated by CBO	-693	-593	-689	-664	-692	-745	-681	-636	-696	-719	-720	-3,383	-6,836
Memorandum:													
Total Effect on Noninterest Outlays	0	-23	-55	-184	-273	-364	-458	-518	-584	-670	-757	-898	-3,885

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

* = between -$500 million and $500 million.

a. The amounts shown do not include estimated macroeconomic feedback effects on the federal budget. Taking into account the smaller deficits under the President's budget, CBO estimates that the effects of that economic feedback would further reduce the cumulative deficit between 2018 and 2027 by roughly $160 billion.

b. Positive numbers indicate a decrease in the deficit in relation to CBO's baseline.

Reduce Spending for Income Security Programs. The President's proposals would decrease outlays for income security programs by $238 billion over the coming decade, CBO estimates. The proposals to reduce spending for the Supplemental Nutrition Assistance Program (SNAP) would have the largest effects, decreasing mandatory outlays by $141 billion (or 21 percent) between 2018 and 2027. Most significantly, the proposal to require states, beginning in 2020, to provide funds for a portion of the SNAP benefit would reduce federal spending by $92 billion over the 2020–2027 period, CBO estimates.[7]

The Administration's proposal to cut retirement benefits for federal civilian employees—both current and future annuitants—would decrease outlays for those benefits by an estimated $55 billion (or 6 percent) from 2018 to 2027.[8] Those savings would stem from changing the way in which benefits are calculated, from reducing or eliminating cost-of-living adjustments, and from eliminating the annuity supplement for federal workers who retire early (before age 62).

A proposal to require that taxpayers who receive the earned income or child tax credits have Social Security numbers that are valid for work would reduce outlays for those credits by $25 billion (or 3 percent) over the 2018–2027 period, according to estimates provided by JCT. (That proposal would also increase revenues, by $5 billion through 2027, according to JCT.)

A few of the President's proposals would increase mandatory outlays for income security programs. The proposal resulting in the largest increase in spending would require states to provide workers with six weeks of subsidized leave for the birth or adoption of a child. CBO's estimate of the resulting increase in outlays—$22 billion between 2018 and 2027—takes into account that some states already have such programs.[9] (The proposal would also increase revenues by $7 billion, according to CBO.)

Provide Mandatory Funding for Infrastructure. The President proposes to spend $200 billion over the 10-year period for unspecified infrastructure programs. Because the Administration did not specify the policy parameters for the proposed spending, its placeholder estimate has been incorporated into CBO's analysis.

When considering the entire set of proposals in the budget, though, overall spending on infrastructure would not increase by $200 billion. The President's proposals for discretionary spending would reduce appropriations for other accounts that provide funding for infrastructure, such as those for ground transportation and water resources. Those reductions would largely offset the proposed increase in mandatory spending on infrastructure over the 2018–2027 period.

Reduce Subsidies for Student Loans. The President's proposals would generate savings to the government from student loans of $100 billion between 2018 and 2027, according to CBO's estimates.[10] For borrowers who take out their first student loans beginning in academic year 2018–2019, the proposals would make the following changes to the Federal Direct Loan Program:

- Create a single income-driven repayment (IDR) plan. Under that plan, most borrowers would pay a higher percentage of their income than they pay in IDR plans under current law. In addition, undergraduate borrowers would have their remaining debt forgiven

7. That proposal could reduce spending even further. The policy is described as giving states the flexibility to set SNAP benefit levels, but the Administration did not specify how it would be implemented. As a result, CBO's estimate does not include potential effects of state actions, such as opting to drop out of the program completely or to reduce benefits for all recipients.

8. The President's proposals for federal retirement would increase revenues by $103 billion by boosting the amounts that federal employees would contribute toward their pensions. In addition, the proposals would reduce the contribution that agencies would make toward their employees' retirement. That reduction would affect discretionary outlays and offsetting receipts by equal amounts.

9. In estimating the costs of the proposal to require states to provide subsidized parental leave, CBO followed the Administration's presentation, which showed the outlays and revenues related to that new benefit as flowing through the states' unemployment trust fund accounts, which are reflected in the federal budget.

10. Under the Federal Credit Reform Act of 1990, the subsidy costs for loans and loan guarantees made each year are estimated by subtracting the present value of the government's projected receipts from the present value of its projected payments. Those estimates can be increased or decreased in subsequent years to reflect updated assessments by federal agencies of the payments and receipts associated with the program. Present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time. The present value depends on the rate of interest (the discount rate) that is used to translate future cash flows into current dollars.

after 15 years; for graduate borrowers, the period would be 30 years. (Under current law, most borrowers in IDR plans have their loans forgiven after 20 or 25 years.)

- Eliminate loan forgiveness for borrowers who make 120 payments on their student loan debt while employed full time in certain public-sector jobs.

- Eliminate the subsidized loan program. Under that program, borrowers accrue no interest on their loans while in school, in the six-month grace period after school ends, or in other authorized deferment periods.

Other Proposals That Would Affect Mandatory Spending. Taken together, other proposals contained in the President's budget would, on net, decrease mandatory outlays by $3 billion over the 2018–2027 period. The proposal with the largest effect on outlays would establish a new corporation to control and operate the air traffic control (ATC) system. The new entity would be allowed to collect and spend fees to fund its operations. Although the proposed corporation would be independent and autonomous, CBO would treat it as governmental for budgetary purposes because it would act as an agent of the federal government in carrying out a regulatory function.[11] Thus, in CBO's judgment, the proposal would effectively shift spending for ATC from the discretionary to the mandatory side of the budget, thereby increasing mandatory outlays by $89 billion. (To account for that shift, the President requests less in discretionary funding for ATC, which would reduce discretionary outlays by $68 billion between 2018 and 2027.) The proposal also would reduce aviation-related revenues (such as the airline ticket tax), on net, by $10 billion.

Other proposals that would reduce mandatory spending include the following: extending the automatic reductions in mandatory spending (also known as sequestration) through 2027 (saving $28 billion); cutting crop insurance and other agricultural support programs (saving $26 billion); and selling some of the oil in the Strategic Petroleum Reserve, which CBO estimates would increase offsetting receipts by $17 billion.

11. For more information on how CBO determines whether to classify an activity as governmental, see Congressional Budget Office, *How CBO Determines Whether to Classify an Activity as Governmental When Estimating Its Budgetary Effects* (June 2017), www.cbo.gov/publication/52803.

Proposals That Would Affect Discretionary Spending

The President's proposals would result in discretionary outlays over the next decade that were $1.9 trillion (or 14 percent) lower than those in the baseline, CBO estimates. (The baseline incorporates the assumption that caps on discretionary funding will remain in place through 2021 and grow with inflation thereafter; funding not constrained by the caps is projected to grow with inflation from the amount provided for 2017.) Under the President's budget, discretionary outlays for nondefense programs (excluding OCO) would be $1.5 trillion lower over the 2018–2027 period, and outlays for OCO would be $752 billion lower; those decreases would be partially offset by an increase of $448 billion in discretionary outlays for other defense programs and activities.

Total discretionary outlays under the President's proposals would decline from 6.3 percent of GDP in 2017 to 6.2 percent in 2018 and then to 4.1 percent by 2027. In CBO's baseline, discretionary spending inches down to 6.1 percent of GDP in 2018 and falls to 5.4 percent of GDP by 2027. Since 1962, total discretionary outlays have never amounted to less than 6.0 percent of GDP. (Over the past 50 years, total discretionary outlays have averaged 8.6 percent of GDP, and defense and nondefense outlays have averaged 4.8 and 3.8 percent of GDP, respectively.)

Proposed Appropriations for 2018. The President has requested a total of $1.15 trillion in discretionary appropriations for 2018. That amount includes certain proposed changes in mandatory budget authority that would be enacted in annual appropriation bills; according to long-standing procedures for enforcing budget rules, such changes are counted as affecting discretionary funding when estimating the effects of those bills. Excluding the net reductions from those changes (which are estimated to total $20 billion in 2018), the proposed appropriations for 2018 would be $1.17 trillion (see Table 4).[12] That amount is $39 billion (or 3 percent) less than the amount (likewise excluding offsets for changes

12. Two sources account for most of the proposed reduction in mandatory budget authority in appropriation bills. The largest is a limitation on the Department of Justice's ability to obligate balances from the Crime Victims Fund, which would reduce funding by $10.55 billion in 2018 and increase it by the same amount in 2019. The second source is CHIP, with proposed cancellations totaling $4 billion in funding for the program in 2018. All changes in mandatory funding proposed in appropriation bills would be for nondefense programs.

Table 4.

Discretionary Budget Authority Proposed by the President for 2018, Compared With 2017 Appropriations

Billions of Dollars

	Actual, 2016	Enacted, 2017	President's Budget, 2018[a]	Percentage Change 2016–2017	Percentage Change 2017–2018
Defense					
Funding covered by caps	548	551	603	1	9
Overseas contingency operations[b]	59	83	65	41	-22
Other adjustments to the caps	0	0	0	n.a.	n.a.
Subtotal	607	634	668	4	5
Nondefense					
Funding covered by caps	534	536	477	*	-11
Overseas contingency operations[b]	15	21	12	40	-42
Other adjustments to the caps[c]	11	15	10	41	-36
Subtotal	560	572	499	2	-13
Total	**1,166**	**1,206**	**1,167**	**3**	**-3**

Source: Congressional Budget Office.

Estimates do not include obligation limitations for certain transportation programs. They also do not include enacted and proposed changes to certain mandatory programs through the appropriation process. In keeping with long-standing procedures, those changes are credited against discretionary spending for purposes of budget enforcement.

n.a. = not applicable; * = between zero and 0.5 percent.

a. Excludes proposed changes that would, on net, reduce budget authority by $20 billion for certain mandatory programs through the appropriation process.

b. Overseas contingency operations consist of military operations and related activities in Afghanistan and elsewhere. Funding for such operations is not constrained by the statutory caps established by the Budget Control Act of 2011.

c. Funding for emergencies, disaster relief, certain program integrity initiatives (which identify and reduce overpayments in some benefit programs), and programs designated in the 21st Century Cures Act is not constrained by the statutory caps established by the Budget Control Act.

to mandatory funding) that has been appropriated for 2017. The request for 2018 would increase appropriations for defense programs and decrease appropriations for nondefense programs compared with the amounts appropriated for 2017.

For defense discretionary programs in 2018, the President proposes appropriations of $668 billion, which would be $34 billion (or 5 percent) more than the amount provided in 2017. That total comprises $65 billion for defense-related OCO activities and $603 billion for other defense activities. Relative to amounts provided for 2017, the request for defense-related OCO funding in 2018 is $18 billion (or 22 percent) less and the non-OCO defense request is $52 billion (or 9 percent) more.

For nondefense discretionary programs in 2018, the President proposes appropriations of $499 billion, an amount that includes $12 billion for OCO and $10 billion for other programs not constrained by the caps but excludes the $20 billion in proposed changes to mandatory programs enacted in appropriation bills. That $499 billion is $73 billion (or 13 percent) less than the amount of discretionary budget authority provided for 2017. In most years, lawmakers also use the appropriation process to set the amount that can be obligated for certain transportation programs. After accounting for those obligation limitations, the amount of spending authority provided through the appropriation process would be $558 billion in 2018, or 11 percent below the comparable amounts provided for 2017. The largest proposed decreases would be in funding for international affairs, which would be $19 billion (or 32 percent) lower; education, job training, and social services, which would be $13 billion (or 14 percent) lower; and discretionary health programs (including for the National Institutes of Health), which would be $12 billion (or 19 percent) lower (see Table 5).

Table 5.

Proposed Changes in Nondefense Discretionary Funding in the President's Budget, 2017 to 2018

Billions of Dollars

Budget Function	Enacted, 2017	Proposed, 2018[a]	Change	Percentage Change
Education, Training, Employment, and Social Services	93	80	-13	-14
Transportation[b]	92	88	-4	-4
Veterans' Benefits and Services	75	79	4	6
Income Security	67	60	-7	-11
Health	62	51	-12	-19
International Affairs	60	40	-19	-32
Administration of Justice	56	58	2	4
Natural Resources and Environment	38	30	-8	-21
General Science, Space, and Technology	32	30	-2	-8
Community and Regional Development	21	13	-8	-37
General Government	17	18	2	9
Medicare	7	6	-1	-13
Agriculture	6	5	-1	-15
Social Security	6	5	*	-8
Energy	5	-1	-7	-128
Commerce and Housing Credit	-8	-5	3	39
Total	**630**	**558**	**-72**	**-11**

Source: Congressional Budget Office.

* = between -$500 million and zero.

a. Excludes proposed changes that would, on net, reduce budget authority by $20 billion for certain mandatory programs through the appropriation process.

b. Includes budgetary resources provided by obligation limitations for certain ground and air transportation programs.

Proposed Appropriations for 2019 Through 2027. Appropriations would remain at roughly $1.1 trillion each year from 2019 through 2027 under the President's budget. Broad funding policies would include the following:

- Increases in defense funding (other than OCO) of about 2 percent per year;
- Reductions in nondefense funding (other than OCO) of about 2 percent per year; and
- Reductions in funding for OCO to $60 billion in 2019, $43 billion in 2020, $26 billion in 2021, and $12 billion per year beginning in 2022.[13]

Outlays for discretionary programs under the President's proposals would be lower than in the baseline in every year from 2019 to 2027. By the end of the projection period, such outlays would be $340 billion (or 23 percent) below the amount projected in the baseline for 2027; excluding OCO funding, they would be about $230 billion (or 17 percent) smaller than the amount projected in the baseline.

Outlays for defense programs (not including OCO) would be lower in 2027 than the 2.9 percent of GDP they are projected to be this year. However, at 2.5 percent of GDP under the President's proposals, they would be slightly higher in 2027 than the amounts in CBO's baseline projections (2.4 percent) for that year. In contrast, outlays for nondefense discretionary programs (not including OCO) would be much lower by 2027. Those outlays would fall from 3.2 percent this year to 1.6 percent under the President's budget. In CBO's baseline, nondefense discretionary outlays are 2.6 percent of GDP by 2027.

13. According to the Administration, OCO funding levels are notional placeholder amounts that "do not reflect specific decisions or assumptions about OCO funding in a particular year."

Proposals That Would Affect Revenues

The President's proposals include about two dozen changes to laws that would affect revenues. If enacted, those changes would reduce revenues by $894 billion (or 2 percent) over the 2018–2027 period, CBO and JCT estimate. That reduction stems mainly from the proposal to repeal and replace provisions of the Affordable Care Act, including various taxes instituted by that legislation.

The President's budget includes a set of principles to guide deficit-neutral reform of the tax system. Because that proposal lacks the specific details that CBO and JCT would need to estimate any effects on the budget and the economy (which could be significant), this analysis includes the Administration's estimate of no effect as a placeholder; many combinations of policy changes could have such an effect.

Repeal and Replace the Affordable Care Act. The President's budget includes estimates of the reductions in revenues and spending that would result from the proposal to repeal and replace provisions of the Affordable Care Act. Revenues would be affected by changes in health insurance coverage and by the repeal of any taxes instituted by that law. Although the Administration did not specify the policies underlying the proposal, the President's budget included as placeholders revenue reductions of $1.0 trillion (and spending reductions of $1.25 trillion) over the 2018–2027 period. In its analysis, CBO has incorporated those placeholders to indicate the possible effects of such policies. (Many other budgetary outcomes are possible, however, depending on the specific policies adopted.)

Increase Federal Employees' Retirement Contributions. The President proposes to increase federal employees' contributions to the defined benefit pension plan provided through the Federal Employees Retirement System. For most employees, the proposal would boost their contributions by 1 percentage point per year, for a total increase of about 7 percent of their before-tax pay (assuming that the actuarial valuation underlying the program was unchanged as a result of other proposals in the budget). Federal revenues over the 2018–2027 period would increase by $103 billion as a result of implementing the proposal, CBO estimates.

Other Proposals. On net, other proposals in the President's budget would push up revenues by an estimated $3 billion over the 10-year period. Four main proposals would increase revenues: modifying the medical liability system (boosting revenues by $9 billion); requiring states to provide parental leave (increasing state revenues that would be deposited in the unemployment trust fund by $7 billion); imposing fees for food safety inspections (raising revenues by $6 billion); and requiring taxpayers who receive the earned income and child tax credits to have Social Security numbers valid for work (increasing revenues by $5 billion, according to JCT's estimates). Two main proposals would decrease revenues: reducing appropriations for the Internal Revenue Service's enforcement activities below baseline amounts (decreasing revenues by $19 billion) and shifting air traffic control functions to a private entity (reducing revenues by $10 billion). (Four of those six proposals would also affect outlays for direct spending programs, as discussed earlier.)

Effects on Net Interest

The President's proposals would reduce the government's borrowing needs by $3.2 trillion over the 2018–2027 period, CBO estimates.[14] As a result, net interest costs over the period would be $285 billion lower than they are projected to be in the baseline. In 2027, net interest costs under the President's proposals would amount to 2.6 percent of GDP—less than the 2.9 percent in CBO's baseline projections for that year but still significantly higher than CBO's estimate for 2017, mostly because, according to CBO's baseline economic projections, interest rates are expected to be higher in the future.

Differences Between CBO's and the Administration's Estimates of the President's Budget

CBO's estimates of the deficit under the President's proposals are larger than the Administration's estimates for each year from 2017 through 2027:

- For 2017, CBO's estimate of the deficit is $91 billion higher than the Administration's: CBO's estimate of revenues is $145 billion lower, but that difference is partially offset by an estimate of outlays that is $54 billion lower (see Table 6).

14. The change in the government's borrowing needs ($3.2 trillion over the 10-year period) differs from the amount of deficit reduction under the President's budget ($3.3 trillion) because the borrowing needs include the effects of proposals that would alter the cash flows for credit programs; the budget shows the subsidy costs of those programs, not the annual cash flows. The most significant effects on such cash flows from the President's policies would stem from proposals related to student loans.

Table 6.

Sources of Differences Between CBO's and the Administration's Estimates of the President's Budget

Billions of Dollars

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total 2018–2022	Total 2018–2027
Administration's Estimate													
Deficit Under the President's Budget	-603	-440	-526	-488	-456	-442	-319	-209	-176	-110	16	-2,351	-3,150
Differences Between CBO's and the Administration's Estimates[a]													
Differences in Revenues[b]													
Economic	-23	-46	-86	-151	-221	-289	-359	-431	-515	-608	-711	-793	-3,417
Technical	-122	-130	-95	-52	-19	-16	2	6	21	33	39	-312	-211
Total, Revenues	**-145**	**-176**	**-181**	**-203**	**-240**	**-305**	**-356**	**-425**	**-494**	**-575**	**-673**	**-1,105**	**-3,628**
Differences in Outlays[c]													
Mandatory													
Economic	2	*	-1	-9	-16	-27	-37	-45	-63	-76	-96	-54	-371
Technical	-39	-6	3	2	28	26	23	20	40	38	62	53	234
Subtotal, mandatory	-38	-6	1	-7	12	-1	-14	-26	-23	-38	-34	-1	-137
Discretionary (Technical)	-9	-9	-11	-14	-11	2	11	4	8	8	9	-42	-1
Net interest													
Economic	-5	-5	-8	-5	-5	-3	4	13	26	42	61	-25	121
Technical	-2	-3	-2	*	-1	*	5	10	16	21	28	-5	75
Subtotal, net interest	-7	-8	-9	-5	-5	-3	9	24	42	64	89	-30	196
Total, Outlays	**-54**	**-23**	**-18**	**-26**	**-4**	**-2**	**6**	**2**	**27**	**33**	**64**	**-73**	**58**
Total Differences[b]	**-91**	**-153**	**-163**	**-176**	**-237**	**-303**	**-362**	**-427**	**-521**	**-609**	**-736**	**-1,032**	**-3,686**
CBO's Estimate													
Deficit Under the President's Budget	-693	-593	-689	-664	-692	-745	-681	-636	-696	-719	-720	-3,383	-6,836
Memorandum:													
Total Economic Differences[b]	-19	-41	-77	-136	-201	-259	-325	-399	-478	-574	-676	-714	-3,167
Total Technical Differences[b]	-71	-112	-86	-40	-36	-44	-37	-28	-42	-34	-60	-317	-519

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

* = between -$500 million and $500 million.

a. The amounts shown do not include estimated macroeconomic feedback effects on the federal budget. Taking into account the smaller deficits under the President's budget, CBO estimates that the effects of that economic feedback would further reduce the cumulative deficit between 2018 and 2027 by roughly $160 billion.

b. Positive numbers indicate that such differences make CBO's estimate of the deficit smaller than the Administration's estimate.

c. Positive numbers indicate that such differences make CBO's estimate of the deficit larger than the Administration's estimate.

- For the 10-year period in total, CBO's estimate of the cumulative deficit under the President's proposals (excluding macroeconomic feedback effects) is $3.7 trillion larger than the Administration's estimate ($6.8 trillion versus $3.2 trillion). Nearly all of the difference is on the revenue side of the ledger: CBO's estimate of revenues is $3.6 trillion (or 8 percent) lower than the Administration's. In contrast, CBO's estimate of outlays is $58 billion (or 0.1 percent) higher.

Most of the difference between the two sets of estimates results from the fact that CBO and the Administration use different economic forecasts—that is, projections of GDP, interest rates, inflation factors, the unemployment rate, and other economic variables. The difference between those forecasts reflects any differences in projections of economic activity under current law and also any economic effects that the Administration attributed to its proposals. In particular, over the 2018–2027 period, CBO's baseline projection of nominal GDP is about 6 percent lower than the Administration's. That lower projection of nominal GDP is associated with lower projections of wages, profits, and revenues.

The remaining differences between CBO's and the Administration's estimates result from technical estimating differences—that is, differences in how CBO and the Administration model future spending and revenues and incorporate demographic, historical, and other data into their projections.

Differences in Estimates of Revenues

CBO's estimate of revenues under the President's budget is lower than the Administration's estimate in every year of the projection period. Those differences grow each year, from a difference of about 4 percent this year to one of nearly 12 percent by 2027, excluding macroeconomic feedback effects. (The macroeconomic effects of lower deficits would boost revenues by an estimated 0.3 percent over the 10-year period, CBO estimates.)

Differences for 2017. Most of the $145 billion difference in estimated revenues for 2017 stems from technical factors. The difference may largely reflect the fact that CBO released its projections more than a month after the Administration did, thereby allowing CBO to incorporate data from recent tax-return filings by individuals and corporations that showed significantly weaker tax collections than had been expected. The small difference for economic reasons occurs because CBO projects lower GDP and a smaller overall tax base than does the Administration.

Differences for 2018 Through 2027. CBO projects that revenues under the President's budget would total $3.6 trillion (or 8 percent) less than the Administration estimates for 2018 through 2027. CBO attributes the bulk of that difference, about $3.4 trillion, to differences between its economic projections under current law and those of the Administration under its proposed policies. (The macroeconomic effects of deficit reduction would reduce that difference by $0.1 trillion, CBO estimates.)

CBO projects that, under current law, GDP and associated taxable incomes would be lower over the next 10 years than the Administration projects for the budget. In particular, CBO estimates that wages and salaries would be about $6.9 trillion (or 6 percent) lower than the Administration projects, reducing CBO's estimates of revenues from individual income and payroll taxes below those of the Administration. In addition, CBO estimates that domestic economic profits would be about $3.2 trillion (or 15 percent) lower than the Administration estimates, further reducing CBO's estimates of revenues from corporate income taxes relative to those of the Administration.

CBO attributes the rest of the difference in revenues, about $0.2 trillion, to technical factors. Those differences occur over the 2018–2022 period and probably reflect a gradual dissipation of the factors causing CBO's lower revenue projections in 2017.

Differences in Estimates of Outlays

For 2017 through 2022, CBO estimates lower outlays than the Administration does, with differences that narrow from $54 billion this year to $2 billion in 2022. Beginning in 2023, CBO's estimates for outlays are higher than the Administration's, with differences that range from $2 billion to $64 billion. Over the 2018–2027 period, CBO's estimate of outlays under the President's proposals is higher than the Administration's—by $58 billion, or 0.1 percent. (Those amounts exclude macroeconomic feedback effects, which would slightly reduce outlays over the period.)

Differences for 2017. CBO's estimate of outlays in 2017 is below that of the Administration by $54 billion. About 70 percent of that difference stems from estimates of mandatory spending.

CBO's estimate of mandatory spending this year under the President's proposals is $38 billion lower than the Administration's estimate, primarily for technical reasons (that is, because of factors that cannot be traced to differences in the agencies' economic projections or to effects of legislation). The largest technical difference is for Social Security. CBO expects that fewer people will collect Social Security benefits this year than the Administration does, so its estimate of outlays for the program is $7 billion lower. In addition, CBO's estimate of outlays for the earned income and child tax credits is

$6 billion lower than what the Administration estimates for this year.

Discretionary outlays in 2017 are projected to be $9 billion lower than the Administration's estimate. Outlays for defense programs will be $5 billion below the amount projected by the Administration, and discretionary outlays for health-related programs will be $4 billion lower, in CBO's estimation.

Net interest costs this year are estimated to be $7 billion less than the total reported by the Administration. Most of that difference results from CBO's lower projection of interest rates.

Differences for 2018 Through 2027. Over 10 years, CBO and the Administration have similar estimates of outlays overall. CBO's estimates are lower than the Administration's for mandatory spending (by $137 billion) but higher for outlays for net interest (by $196 billion). Over the 2018–2027 period, CBO estimates, discretionary spending would be $1 billion lower than the Administration estimates.

The net differences between CBO's and the Administration's estimates of mandatory spending can largely be explained by estimated outlays for Medicare. On net, CBO's estimate of Medicare spending over the decade is $111 billion (or 1 percent) lower than the Administration's. That difference stems primarily from economic factors: CBO's estimate is $378 billion lower because the agency generally expects that annual updates to payment rates for medical services—which are based on economic indexes—will be smaller. However, the economic factors are partly offset by technical factors: CBO's estimate of Medicare spending is $267 billion higher than the Administration's over the decade because CBO anticipates more rapid growth in the use of medical services per beneficiary than the Administration does.

CBO's estimate of net outlays for interest under the President's proposals is $196 billion (or 4 percent) higher than the Administration's estimate for the 2018–2027 period. The difference primarily results from the additional debt-service costs required to finance the higher cumulative deficits in CBO's estimate; partially offsetting those costs are interest rates that are projected to be generally lower in CBO's forecast than in the Administration's.

Effects of the President's Proposals on the Economy

Each year, CBO typically issues a quantitative analysis of the macroeconomic effects of the President's policy proposals and the resulting feedback effects on the budget. However, CBO cannot provide a comprehensive analysis of the effects of the proposed policies in the President's budget for fiscal year 2018 because many of them did not contain the details necessary to assess those effects. CBO did examine the effects of deficit reduction alone on the economy and, in turn, on the budget.

How the President's Proposals Might Affect the Economy

The President's proposals could influence economic growth through various channels. Some proposals, such as ones that would change the health care, tax, income support, or immigration systems or the one that would introduce paid parental leave, would affect growth mainly by changing the supply of labor. But the effects of such policies on the labor supply over the 10-year projection period would depend crucially on their specific details, particularly the size and timing of the policy changes. Moreover, as a general rule, such policies would have a onetime effect on the rate of growth of the labor supply: Once people adjusted to the new policies and the supply of labor reached its new level, no further growth effects would occur.

Other proposals in the President's budget could alter the growth of output (compared with rates under CBO's baseline) by affecting investment in capital or the growth of productivity. For example, changes to the tax system in general—and, more specifically, changes to the tax treatment of capital—could alter the size and efficiency of the allocation of capital investment. Changes in the regulatory environment that increased the profitability of domestic production would generally encourage greater investment, technological innovation, and resource extraction. In contrast, decreases in federal investment in research and development and education would tend to slow productivity growth. Again, the effects of such policies on capital formation and productivity growth would depend crucially on their details, such as the size of the policy changes and their timing. Some effects, such as many of those stemming from changes in federal investment, would mainly occur beyond the coming decade.

Effects of Deficit Reduction on the Economy and the Budget

Because many of the President's proposals currently lack specificity, CBO could only assess how the net reductions in deficits stemming from those proposals—as conventionally estimated, compared with those projected under the baseline—would affect the economy.[15] This analysis is limited in scope because legislation implementing those proposals would affect overall economic output not only by reducing federal borrowing but also by altering people's incentives to work and save and by altering productivity. In addition, policies that changed the supply of labor and capital or productivity might also affect health, safety, or other aspects of well-being.

CBO estimates that, excluding their effects on the economy, the policies in the President's budget would reduce the deficit by $3.3 trillion from 2018 to 2027. That decrease in deficits, taken in isolation, would represent an increase in public saving and thus in national saving. Greater national saving would bolster domestic investment and the nation's capital stock, thus increasing output and income and lowering interest rates. As a result of those effects, but excluding any changes in people's incentives to work and save or changes in productivity, average growth in inflation-adjusted GDP over the 2018–2027 period would be about 0.1 percentage point higher under the President's proposals (at 1.9 percent) than under CBO's baseline (at 1.8 percent). As a result, GDP would be about 0.2 percent higher in calendar year 2022 than it would be under CBO's baseline and about 0.7 percent higher in 2027.

Such economic effects would feed back into the budget and make deficits smaller than they would otherwise be. Taking into account the smaller deficits under the President's budget, CBO estimates that the effects of that economic feedback would further reduce deficits by roughly $160 billion over the 2018–2027 period.[16] During those years, deficits would be lower by an average of about 0.1 percent of GDP because of the feedback (see Table 7). In 2027, debt held by the public as a percentage of GDP would be lower by 0.6 percentage points.

Those effects on that cumulative deficit would occur almost entirely during the second half of the coming decade. From 2018 to 2022, the reductions in deficits under the President's proposals would dampen overall demand for goods and services, offsetting the effects of greater national saving. As a result, CBO estimates, the economic effects from decreases in deficits and the feedback into the budget would be negligible, on net, during that period.

15. CBO has examined such effects stemming from paths for spending and revenues specified by Budget Committee chairmen in the past. See, for example, Congressional Budget Office, *Budgetary and Economic Outcomes Under Paths for Federal Revenues and Noninterest Spending Specified by Chairman Price, March 2016* (March 2016), www.cbo.gov/publication/51260. For related discussions, see Congressional Budget Office, *How CBO Analyzes the Effects of Changes in Federal Fiscal Policies on the Economy* (November 2014), www.cbo.gov/publication/49494, and *Macroeconomic Effects of Alternative Budgetary Paths* (February 2013), www.cbo.gov/publication/43769.

16. CBO estimated those effects on the budget using a simplified analysis that accounted for changes in taxable income, interest rates, and prices, among other variables. However, the agency did not perform a detailed program-by-program analysis of the effects on the budget, as it does in constructing its budgetary baseline and cost estimates for proposed legislation.

Table 7.

Estimated Budgetary Effects of the President's Proposals, Including Macroeconomic Feedback From Deficit Reduction

Billions of Dollars

	2018–2022	2018–2027
Effects Without Macroeconomic Feedback[a]		
Effects on Revenues	-365	-894
Effects on Outlays	-914	-4,170
Increase (-) or Decrease in the Deficit	**549**	**3,276**
Effects of Macroeconomic Feedback From Changes in Deficits Only[b]		
Effects on Revenues	-5	117
Effects on Outlays	-8	-44
Increase (-) or Decrease in the Deficit	**3**	**161**
Effects With Macroeconomic Feedback From Changes in Deficits Only		
Effects on Revenues	-370	-777
Effects on Outlays	-922	-4,214
Increase (-) or Decrease in the Deficit	**553**	**3,437**
Projected Deficits		
Under CBO's June 2017 Baseline	-3,933	-10,112
Under the President's Proposals		
Without feedback from deficit changes	-3,383	-6,836
With feedback from deficit changes	-3,380	-6,675
Memorandum:		
Projected Deficits as a Percentage of GDP		
Under CBO's June 2017 baseline	-3.7	-4.3
Under the President's proposals		
Without feedback from deficit changes	-3.2	-2.9
With feedback from deficit changes	-3.2	-2.8

Source: Congressional Budget Office.

GDP = gross domestic product.

a. These are the estimates provided in Table 1.

b. Because many of the President's proposals currently lack specificity, CBO was only able to assess how the reductions in deficits, as conventionally estimated (to the extent feasible), would affect the economy, compared with deficits projected under the baseline. This analysis is limited in scope because legislation implementing those proposals would affect overall economic output not only by reducing federal borrowing but also by altering people's incentives to work and save and by altering productivity.

About This Document

The Congressional Budget Office prepared this report at the request of the Senate Committee on Appropriations. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Christina Hawley Anthony wrote the report, with assistance from Mark Booth, Felix Reichling, and Robert Shackleton, and under the guidance of Theresa Gullo, Holly Harvey, Jeffrey Holland, John McClelland, H. Samuel Papenfuss, and Jeffrey Werling. The estimates described here were the work of many analysts at CBO and on the staff of the Joint Committee on Taxation.

Wendy Edelberg, Mark Hadley, Jeffrey Kling, and Robert Sunshine reviewed the report, Christine Bogusz edited it, and Jorge Salazar prepared it for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/52846).

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Director
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