BUDGET BULLETIN

SENATE COMMITTEE ON THE BUDGET
CHAIRMAN MIKE ENZI | @BUDGETBULLETIN

115th Congress, 1st Session: No. 5 June 7, 2017

President's Budget: Economic Growth Policies

by Senate Budget Committee Republican Staff

EDITOR'S NOTE: All years are fiscal years unless otherwise stated. This *Budget Bulletin* reflects information provided by the White House Office of Management and Budget.

Overview

President Donald Trump's 2018 budget proposal aims to restore economic growth, balance the budget within 10 years, and fund new priorities. Driving the Trump administration's economic strategy is a desire to jumpstart the underperforming U.S. economy emerging from the 2007-2009 recession; in contrast with the generally robust growth rates following previous postwar recessions, average annual economic growth has not risen above 3 percent.

President Trump's budget outlines key indicators of economic performance and assumptions and links them with the administration's budget policy proposals to help restore economic growth, create jobs, and reduce government overspending.

State of the Economy

Since 2010, real growth in gross domestic product (GDP) has averaged 2.1 percent (fourth-quarter-on-fourth-quarter). In the first quarter of 2017, the U.S. economy expanded by an annual rate of only 1.2 percent, subject to revision. Historical annual growth rates have averaged 2.9 percent over the past 50 years and 3.2 percent in the postwar era.

Growth in consumer spending, business investment, and residential construction is expected to boost the economy in short-term prediction. But weak productivity growth and demographic shifts in the labor market are expected to create a drag on the supply-side in the long term.

President Trump's budget blueprint reviews the following economic performance indicators:

- **Labor Market:** The unemployment rate declined to 4.4 percent in April 2017, but the labor-force-participation rate remains below average. The share of working-age adults marginally attached or too discouraged to look for work remains higher than normal.

- **Housing:** Appreciation in the housing market has supported personal consumption expenditures and encouraged further investment in the housing sector. Homeownership rates were near all-time lows at the end of 2016.
- **Consumption:** Consumer spending in 2016 accounted for almost 70 percent of the economy and remains one of the primary drivers of growth.
- **Investment:** In 2016, growth in nonresidential fixed investment was negative (offset by residential investment growth), and growth in overall private investment remained below postwar averages.
- **Government:** State and local government investment has risen, while federal purchase growth was negative.
- **Monetary Policy:** The Federal Reserve continues to normalize monetary policy. Net interest rates remain below average, but the yield on the 10-year Treasury note increased to 2.4 percent during the first quarter of 2017.
- **Oil and Gas Production:** Oil production has rebounded with the increase in per barrel prices, as has natural gas production. Hydraulic fracturing and new technologies that increase U.S. production have moderated price fluctuation in the global market.
- **Exports:** In 2016, real exports grew, but at a slower rate than real imports. Net exports were slightly more negative compared with 2015. Predicted faster global growth could improve U.S. export performance.

Budget Economic Assumptions

President Trump's plan projects that policy proposals will raise economic growth from 2.3 percent for 2017 to a long-term trend of 3 percent by 2020. This increased growth decreases projected deficits by nearly $2.1 trillion over the 10-year window. The administration's post-policy growth projections average a percentage point higher than the Congressional Budget Office's (CBO) current-law growth projections. The private sector consensus forecast, as calculated by *Blue Chip Economic Indicators*, averages in between these estimates.

COMPARISON OF ECONOMIC ASSUMPTIONS			
Real GDP growth – Q4/Q4	Administration's 2018 Budget	CBO January 2017 Baseline	March Blue Chip
2017	2.3	2.3	2.1
2018	2.5	1.9	2.4
2019	2.8	1.6*	2.1
2020	3.0	1.6*	2.0
2021	3.0	1.9	2.0
2022	3.0	1.9	2.0
2023	3.0	1.9	2.1
2024	3.0	1.9	2.0
2025	3.0	1.9	2.0
2026	3.0	1.9	2.0
2027	3.0	1.9	2.0

* CBO's projections for 2019 and 2020 do not reflect expected cyclical developments in the economy, but serve as transitions to trend values. Projections for 2021 to 2027 are based on underlying trends in key variables that determine growth.

Historically, as growth increases, interest rates begin to rise. White House Office of Management and Budget (OMB) projections assume interest rates rise on 91-day Treasury bills from 0.8 percent in calendar year 2017 to 3.1 percent in 2027, compared with CBO's 2.8 percent in 2027; interest rates rise on 10-year Treasury notes from 2.7 percent in calendar year 2017 to 3.8 percent in 2027, compared with CBO's 3.6 percent in 2027.

The projected increases in interest rates and continued deficits cause interest costs to more than double under the White House budget proposal, from $316 billion in 2018 to $741 billion in 2027. Deficit-reducing policy proposals dampen growth in debt-servicing costs from OMB's baseline. President Trump's policies save $323 billion in debt servicing over the 10-year window. The OMB baseline that includes $2.1 trillion in economic growth accounts for the change in debt-servicing costs due to growth.

President's Economic Growth Policies

Policy proposals in the Trump budget supporting increased economic growth include:

- **Control Federal Spending:** White House budget policies propose to reduce the level of publicly held debt to 60 percent of GDP, the lowest level since 2010.
- **Repeal and Replace Obamacare:** Health care costs per capita have risen much faster than per capita GDP for decades, leading public and private spending on health care to increase as a share of the economy. The Trump budget proposes $250 billion in deficit savings associated with health care reform.
- **Reform Medicaid:** This White House proposal would provide better financial incentives, facilitate more innovation through state flexibility, and prioritize resources for the most vulnerable, giving states the choice between a per capita or block-grant-funding arrangement.
- **Reduce Burdensome Regulations:** The Trump administration seeks to eliminate unnecessary and wasteful regulations. For example, the budget proposes issuing a 10-year financial deregulation plan to rid the banking system of Dodd-Frank Act red tape, saving $35 billion over 10 years.
  - Under Executive Order 13371, President Trump requires federal agencies to eliminate at least two existing regulations for each new one they issue. Beginning in 2018, agencies will be given regulatory allowances and be required to regulate under cost caps.
- **Rebuild America's Infrastructure:** The White House proposes to support $1 trillion in U.S. infrastructure investments through long-term reforms in how projects are regulated, funded, delivered, and maintained. Revitalizing America's infrastructure, which by one estimate ranks 12^{th} in the world, would create jobs and enhance U.S. competitiveness.
- **Simplify the Tax Code and Provide Tax Relief:** The Trump budget assumes deficit-neutral tax reform. The administration pledges to work closely with Congress to enact tax legislation that would boost economic growth and investment based on the following principles:

    - For individuals and families, include lower income tax rates for families, repealing the death tax, expanding the standard deduction, and ending the alternative minimum tax.
    - For businesses and corporations, include lower rates and allow companies to repatriate earnings.
- **Reform Immigration Policy:** The president's plan supports immigration standards that protect American workers, reduce burdens on taxpayers and public resources, and focus federal funds on underserved and disadvantaged citizens.
- **Reform Welfare:** The Trump budget proposes policies to encourage government-dependent individuals to return to work through reforming the Supplemental Nutrition Assistance Program and limiting the Earned Income Tax Credit and Child Tax Credit to those who are authorized to work in the United States.
- **Other Important Policies in President Trump's Economic Plan:** The president's budget also proposes negotiating better trade deals to preserve Americans jobs and boosting domestic energy production.