

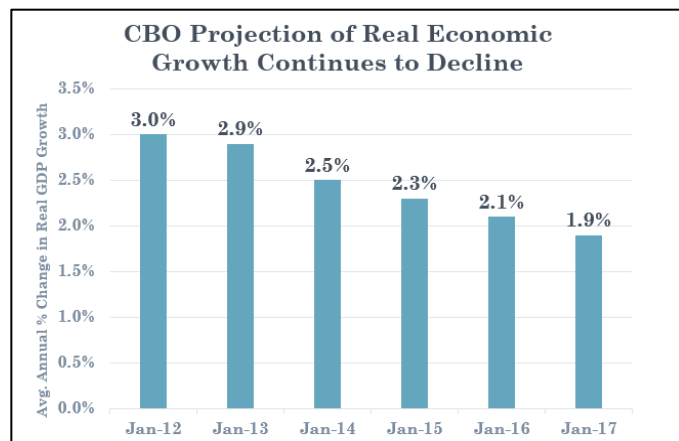


Budget Digest – Week of April 3rd

THE CHALLENGE OF BALANCING THE BUDGET

Since Republicans reclaimed the House Majority in 2011, every House budget resolution has drawn a path to balance. As Congress turns to the fiscal year 2018 budget, the fiscal outlook suffers from a weak economy, mounting pressure on spending, and deeper projected deficits. Hence the task of balancing the budget has become more challenging.

A Lackluster Economic Outlook. An expanding economy, which boosts Federal revenue without tax increases, is essential for deficit reduction. Just five years ago, the Congressional Budget Office [CBO] projected real (inflation-adjusted) economic growth would average 3 percent per year – roughly equal to the historical trend rate. Every year since then, however, CBO has ratcheted down its forecast, and now projects a sluggish 1.9-percent average annual growth rate for the next 10 years – partly due to the Obama Administration’s health care plan, high spending, and heavy regulation.



Larger Projected Deficits. As recently as February 2013, CBO projected deficits would total roughly \$7.0 trillion for the 10-year period of 2014 through 2023. In CBO’s latest report, published in January, the 10-year deficit projections have surged by nearly \$2.5 trillion, now totaling \$9.4 trillion for 2018 through 2027.

Relentless Spending Pressure. In addition to the sluggish economy, the principal drivers of these growing deficits are the government’s health, retirement, and income security programs. By 2029, these programs, plus net interest, are expected to consume all Federal tax revenue, meaning the rest of the government’s activities – defense, infrastructure, research, and myriad others – will have to be financed on borrowed money.

Greater Savings Needed. The fiscal year 2016 budget resolution conference report (S. Con. Res. 11) reached balance by proposing \$5 trillion in savings, coupled with improved economic growth due to deficit reduction and tax reform. Just one year later, the House Budget Committee-passed budget resolution for the current year, fiscal year 2017 (H. Con. Res. 125), required \$6.5 trillion in savings, along with economic growth, to achieve balance. It is expected this year’s budget will need more than \$7 trillion in net deficit reduction to reach balance.

In short, balancing the budget will require improved economic growth, bold program reforms, and a sustained commitment to fiscal discipline. That is a major task facing the 115th Congress.