

The Outlook for U.S. Fiscal Policy

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Policy Uncertainties from the Budget

- The Administration's budget is a halting beginning.
 - ✓ The Administration is behind the curve
 - Very short start-up time
 - Unconventional staffing (e.g., no government experience in key positions)
 - Unconventional policy ideas (e.g., massive privately financed infrastructure stimulus)
 - Fully completed budget, when challenged, is said to be a work in progress and not to represent the President's policies

Policy Uncertainties from the Budget

- The Congress is no better off.
 - ✓ Even the Congress is behind schedule
 - Has not written legislation with any prospect of becoming law for eight years
 - Lost some key Members and staff to the Administration
 - Unconventional policy ideas (e.g., border-adjustable income tax), lack of experience in compromise (in a highly hostile and polarized environment)
 - There is some flexibility for the Congress to pursue its budgetary agenda through reconciliation, but otherwise...
 - ...it takes 60 votes in the Senate to rename a post office

Policy Uncertainties

- The budget is stalled on a single track behind health reform (repeal and replace “Obamacare”), for parliamentary reasons.
 - ✓ To pass Obamacare repeal, the Senate must use reconciliation. The FY 2017 budget resolution (which enables reconciliation) was written solely for Obamacare repeal. FY 2017 is (obviously) nearly over. Passage of an FY 2018 budget resolution renders the FY 2017 reconciliation instruction null and void. (Otherwise, the FY 2017 reconciliation bill could be pursued until the beginning of the next Congress.)
- Health care policy also is not fully formed in the budget

Policy Uncertainties

- Therefore, all other budget initiatives that might be pursued through reconciliation are on hold.
 - ✓ Promised tax cuts cannot move ahead without some resolution (up or down) of the health care bill
 - ✓ And the tax policy proposal is not articulated in any degree of detail in the budget
 - ✓ Nor is what was billed as a major infrastructure stimulus
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 - ✓ There is uncertainty even in the Administration about the claimed amounts of “budgetary feedback” in the budget document
 - ✓ The OMB Director described the final budget as a working document

Policy Uncertainties

- The Administration has promised a major infrastructure stimulus initiative
 - ✓ But the design is highly unusual, relying on private financing
 - ✓ And there are no details, only the gross numbers, in the budget
- In short, the entire budget – coming from an Administration that had great ambitions to change the nation’s fiscal policy – is very much an unsolved system

Conclusion

- We are very much in the early stages of the budgetary process, quite well along in the fiscal cycle.
- The Administration and the Congress of the same party have not begun to build agreement.
- Internally, the Congress faces major disagreements. The partisan, hostile environment and the unconventional policy ideas on the table force the congressional majority to work with precisely zero minority votes.
- The parliamentary process itself is a significant roadblock at this time.
- But otherwise, all is well.