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White House Mid-Session Review: Still Too Optimistic About the Economy

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Every year, no later than July 15, the White House is supposed to release an update on the economy and the state of the federal budget. In addition to its tardiness, the first essential feature of this year's Mid-Session Review (MSR),[1] released by the White House on September 1, is the marked deterioration in the economic forecast just since June. The Department of Labor report released September 2—showing that the economy created exactly zero net jobs in August, with downward revisions totaling –58,000 for the previous two months—certainly validates the more somber economic forecast.

The second essential feature of the report is the modest yet welcome improvement in the budget picture for 2011 and beyond. The improvement in the outlook for 2011 is due partly to better-than-expected revenue growth and partly to two rounds of spending reductions forced into law through strong pressure by congressional conservatives. On the other hand, the outyear improvement in the budget outlook is heavily dependent on a near-term economic turnaround and outyear acceleration that seem ever more uncertain.

Economic Assumptions. The starting point for any budget is its economic assumptions relating to output, income, and inflation. For the MSR, these assumptions are typically finalized in late June and then transmitted to the Treasury Department for its revenue projections and to various agencies for their projections of outlays, all of which are then assembled and cross-checked by the Office of Management and Budget, which releases the MSR.

The Administration chose not to release the MSR on time, and as the weeks passed, the economic assumptions became increasingly stale—and, as it turns out, indefensibly optimistic. In light of the deterioration in the economy, the Administration went back to the drawing board and produced an updated set of economic assumptions for the MSR. Unfortunately, the Administration failed to indicate whether these new assumptions were its own best forecast or simply an "alternative" forecast as Table 4 in the MSR suggests.[2] This vagueness allows the Administration to hype the budget results from the optimistic forecast while allaying criticism for that optimism by pointing to the alternative.

For example, the forecast for output growth in 2011 was slashed from 2.8 percent in the June forecast to 1.6 percent in the alternative forecast, while the forecast for 2012 was cut from 3.2 percent to 2.9 percent. Even these growth rates appear highly optimistic, given that the economy grew in the first half of 2011 at an annual rate of only about 0.7 percent and appears to be slowing further, as August's zero jobs growth shows.

In light of the near-term worsening in the economy, it is disconcerting that the Administration then

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The Obama Budget: Mid-Session Review

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012–2016	2012–2021
Budget Totals in Billions of Dollars														
Outlays	3,456	3,630	3,670	3,693	3,891	4,123	4,391	4,588	4,785	5,060	5,317	5,603	19,767	45,120
Outlay changes	—	4	–2	–27	–28	–7	5	2	–4	–5	–3	–3	–58	–71
Subtotal Outlays	—	3,634	3,668	3,666	3,863	4,116	4,396	4,590	4,781	5,055	5,314	5,600	19,709	45,049
Receipts	2,163	2,314	2,674	2,964	3,292	3,464	3,657	3,923	4,140	4,370	4,571	4,811	16,050	37,865
Receipt changes	—	–9	–30	–55	–60	–50	–34	–14	–2	–2	–2	–2	–229	–250
Subtotal Receipts	—	2,305	2,644	2,909	3,232	3,414	3,623	3,909	4,138	4,368	4,569	4,809	15,821	37,615
Allowance for Joint Committee deficit reduction target	—	—	–40	–81	–125	–138	–151	–165	–178	–192	–206	–223	–536	–1,500
Deficit	–1,293	–1,329	–1,064	–838	–756	–840	–924	–846	–821	–879	–951	–1,014	–4,424	–8,934
Debt held by the public	9,019	10,348	11,412	12,250	13,006	13,846	14,770	15,616	16,437	17,316	18,267	19,281		
Alternative Nominal GDP	14,360	15,202	15,826	16,664	17,598	18,636	19,735	20,841	21,820	22,758	23,737	24,758	88,459	202,373
Budget Totals as a Percent of GDP														
Outlays (with changes)	24.1%	23.9%	23.2%	22.0%	22.0%	22.1%	22.3%	22.0%	21.9%	22.2%	22.4%	22.6%	22.3%	22.3%
Receipts (with changes)	15.1%	15.2%	16.7%	17.5%	18.4%	18.3%	18.4%	18.8%	19.0%	19.2%	19.2%	19.4%	17.9%	18.6%
Allowance for Joint Committee deficit reduction target	—	—	–0.3%	–0.5%	–0.7%	–0.7%	–0.8%	–0.8%	–0.8%	–0.8%	–0.9%	–0.9%	–3.0%	–7.2%
Deficit	–9.0%	–8.7%	–6.7%	–5.0%	–4.3%	–4.5%	–4.7%	–4.1%	–3.8%	–3.9%	–4.0%	–4.1%	–5.0%	–4.4%
Debt held by the public	62.8%	68.1%	72.1%	73.5%	73.9%	74.3%	74.8%	74.9%	75.3%	76.1%	77.0%	77.9%		

Sources: White House Office of Management and Budget, *Mid-Session Review Fiscal Year 2012*, at *http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/12msr.pdf* (September 2, 2011), and Heritage Foundation calculations.

Table 1 • WM 3351 heritage.org

substantially raised its forecast for economic growth for 2015 through 2017. This acceleration in growth, even relative to what it had optimistically forecast in June, conveniently allows the Administration to frame the economic slowdown with minimal effects on its 10-year estimates of revenues, outlays, deficits, and debt.

Budget Results. The Administration's updated economic projections affect its budget totals, though the net effects are small. The standard budget totals, shown in Table S-1 of the report,[3] are based on the June economic assumptions. The effects of the August economics appear in Table 4, which includes the updated assumptions and shows a slight decline in tax revenue, an increase in spending for unemployment benefits, and increases in the deficits. The revision also reflects lower outlays for interest payments because the revised economic projections assume lower interest rates.

The net effect of these changes is that total projected spending actually declines by $71 billion over 10 years, and the 10-year deficit total grows by just

1. See "Mid-Session Review, Budget of the U.S. Government, Fiscal Year 2012," Office of Management and Budget, The White House, September 1, 2011, at *http://www.whitehouse.gov/omb/budget/msr* (September 2, 2011). The MSR is an annual update of the Administration's economic assumptions and budget tables, accounting for new information and legislative developments since the release of the budget in February. By statute, it is required to be released no later than July 15.
2. *Ibid.*
3. *Ibid.*

$180 billion to $5.9 trillion. The result is a marginal change in the President's overall budget picture—remarkable in light of the current economic slowdown. The deficit in 2011 is projected to grow by just $13 billion, remaining at roughly $1.3 trillion. Annual deficits throughout the budget window also change only slightly, and total 10-year outlays are projected to be just over $45 trillion. Revenues over the 10 years are projected to decline by $250 billion, which is only a slight change in the revenue total of about $37.6 trillion.

Policies Turned Recovery into Decline. The delay in releasing the MSR may be due in part to the fact that the economy is slowing markedly, as the August report of zero net jobs created painfully attests. The MSR attempts to reflect this by taking the unusual step of producing a second, newer economic forecast. Though the budget figures presented are somewhat more encouraging than those released in the budget in February, this story is overshadowed and indeed tainted by the weakening economy.

At this point, yet another recession is a distinct possibility, while an extended period of slow or no growth may be optimistic. The President's policies that he began to roll out more than two years ago have failed. This is no longer a matter of stipulation, speculation, theory, or argument; it is now a matter of fact. Collectively, the President's policies have impeded the recovery that would otherwise be underway by adding to policy uncertainty and sapping the confidence of entrepreneurs and families.

This stark reality of continued economic weakness is painful for the millions of Americans who remain out of work or are underemployed. It is also a serious problem for America's fiscal policy, as a growing economy—producing more revenues and slowing spending—is the most powerful antidote to deficit spending. Fiscal policy may appear abstract under the circumstances, but behind the abstraction are all of the taxes the government collects and the programs on which the federal government spends. These taxes and programs affect nearly all Americans, at which point the abstraction of fiscal policy becomes a very stark reality.

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