

Stock Standard

Trump ‘MAGAnomics’ budget requires ‘absurd’ growth rate

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For President Trump’s budget to work, the economy will have to grow at sustained rates not seen in years.

Mr. Trump calls it “MAGAnomics,” saying he is convinced that Americans, with his leadership, can defy the prognosticators and produce economic growth at an average of about 3 percent each year over the next decade.

Budget analysts said there’s no chance that happens. They used words like “fantasy” or “absurd” to describe the White House’s predictions.

At stake is Mr. Trump’s promise to control deficits and to start to eat into the government’s debt load by the end of this decade, and to reach full balance in 15 years.

“The president’s economic assumptions are substantially rosier than any reasonable private sector assumption over the next 10 years. Hopefully, they’re correct, but the deficit is going to substantially increase if they’re not,” said Brian Riedl, a senior budget fellow at the Manhattan Institute.

He said there is a \$2.8 trillion gap over the next 10 years between the president’s revenue projections and what the Congressional Budget Office says is likely under less exuberant growth.

The White House said there is no reason to bet against it. Russell Vought, acting director of the White House budget office, said the agency got its predictions right in the past two budgets despite some naysaying.

“While many claim we were guilty of wishful thinking, we’ve met our economic forecast two years in a row, the first administration to ever do that,” he told reporters, crediting the 2017 Republican tax cuts with getting things going. “Economic policies in this budget will generate more than enough revenue to pay for the cost of the tax cut.”

He projects the country’s gross domestic product — the value of all goods and services produced — will surge 3.2 percent year to year in 2019, drop to 3.1 percent in 2020 and then hold steady at 3 percent from 2021 to 2024 before dipping to 2.8 percent a year by the end of the decade.

By contrast, the CBO says GDP will grow at an annual rate of 2.7 percent this year and drop below 2 percent the rest of this decade.

Maya MacGuineas, president of the Committee for a Responsible Federal Budget, said counting on 3 percent growth was “a fantasy assumption.”

“Every independent forecaster foresees growth to average closer to 2 percent over the next decade. Assuming an extra point of growth serves no purpose but to mask the high deficits and debt likely to materialize under the president’s budget,” she said.

It’s not so much any one year. This year’s projection of 3.2 percent year-to-year growth in gross domestic product used to be standard, with six out of 10 years in the 1990s and three out of 10 years the following decade exceeding that target.

Yet it has been 14 years since the country was last able to top 3 percent.

It has never recorded 10 straight years of growth of at least 2.8 percent — which is what Mr. Trump is counting on.

That’s not to say the president can’t be right. CBO was a full percentage point low in its projections in the 1980s and 1990s, according to an analysis last year by the Cato Institute.

Mr. Riedl said to reach Mr. Trump’s assumptions would require either a major increase in the labor force — when the opposite is likely, given the retirement of baby boomers — or the kind of productivity surge “that hasn’t been seen since the 1950s or earlier.”

He said without that, the president’s budget is upside down. “The vast majority of the president’s deficit reduction comes from the economic assumptions,” he said. Mr. Trump’s budget also assumes that while growth surges, interest rates can be held in check, limiting the government’s payments on the current debt.

He also is predicting that Congress will not extend the parts of the Republican tax cuts that are slated to expire in the middle of the 2020s. Based on the experience of the Bush tax cuts, analysts said, that is no gimme.

The White House says that under its plan debt held by the public, which ended last year at about 78 percent of GDP, will top out at about 82 percent in a few years and then begin a significant drop to reach about 71 percent by 2029.

The Committee for a Responsible Federal Budget said that without the president’s rosy assumptions, that number will continue to rise, possibly reaching 90 percent.