

Key Points

- Recently, President Trump signed the Omnibus Spending Bill of 2018 into law. The bill increases the level of federal discretionary spending in 2018.
- This report projects the impact on the economy assuming that the increase to spending levels will be sustained in future years and evolve with PWBM's demographic and macroeconomic projections.
- By 2027, we project that debt increases by 1.6 percent and GDP falls by 0.1 percent, relative to current spending levels. By 2037, debt increases by 1.6 percent and GDP falls by 0.2 percent.

Summary

The 2018 spending bill increases federal debt which dampens economic growth.

The Omnibus Spending Bill of 2018

Introduction

On March 23rd, 2018, President Trump signed the [Omnibus Spending Bill of 2018](#). The bill allows for [\\$1.3 trillion](#) in federal discretionary expenditures in fiscal year 2018. The bill includes large increases to discretionary outlays. The bill also contains fairly minor tax changes, including reducing the tax deduction related to farming cooperatives and expanding the low-income housing tax credit.

Our Modeling

Penn Wharton Budget Model (PWBM) uses its [microsimulation \(PWBMsim\)](#), [tax module](#), [spending modules](#) and [dynamic OLG model](#) to estimate the short- and long-run effects of the spending bill. Our previous projections incorporated spending increases in accordance with those passed in [2013](#) and [2015](#). In 2015, the federal government spent [\\$3.7 trillion](#) on discretionary and mandatory expenditures with discretionary spending account for about [40 percent](#) of that total.

We now update our federal spending projections to incorporate the larger spending increases in the Omnibus Spending Bill of 2018. We assume that the bill's increase in discretionary outlays will be sustained in future years and evolve in accordance with PWBM's demographic and macroeconomic projections. We project that over the next 10 years, before considering macroeconomic feedback effects, the bill will increase spending by about \$500 billion relative to the spending levels that we projected immediately before the passage of the Omnibus Spending Bill of 2018.

Separately, we also estimate a \$2.7 billion 10-year reduction in tax revenue.

Effect of the Spending Hikes

Table 1 shows the impact of increased spending under an economy that, consistent with [empirical evidence](#), is 40 percent open and 60 percent closed. In this case, 60 cents of each additional dollar of Treasury debt is financed by U.S. households and 40 cents by foreign capital flows. We also show results for an economy that is

60 percent open and 40 percent closed. In this case, U.S. households finance only 40 percent of new Treasury debt.

Table 1: Effects of the 2018 Spending Bill on Key Macroeconomic Variables

[DOWNLOAD DATA](#)

Year	Debt (% change)		Capital Services (% change)		Hourly Wages (% change)		GDP (% change)	
	40% Open	60% Open	40% Open	60% Open	40% Open	60% Open	40% Open	60% Open
2027	1.6	1.6	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
2037	2.4	2.4	-0.6	-0.4	-0.2	-0.1	-0.2	-0.2

Note: Percentage change relative to current policy in 2027 and 2037, respectively. The projections above assume a high rate of return to private capital. Projections that assume a low rate of return to private capital are not materially different. A "closure rule", which balances the federal budget is implemented in 2042.

As seen in Table 1, in 2027, the additional spending in the omnibus bill increases federal debt by 1.6 percent. More debt constricts the amount of savings available for investment which, in 2027, lowers capital services by 0.2 percent. Less investment dampens economic growth so, in 2027, the economy is 0.1 percent smaller than without the increase to spending. The effects of the omnibus spending bill continue in the long run. By 2040, debt is 2.4 percent higher, capital services are between 0.4 and 0.6 percent lower and the economy is 0.2 percent smaller.

Conclusion

Penn Wharton Budget Model reports the impact of the Omnibus Spending Bill of 2018 assuming that the increase to discretionary spending will be sustained in future years and evolve in accordance with our demographic and macroeconomic projections. Our dynamic analysis projects that the spending hikes in the Omnibus Spending Bill of 2018 increase federal debt in both the short- and long-run. The impact of federal debt crowds out domestic saving and slightly dampens economic growth.