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The Budget, the Deficit and Economic Policy

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Key Observations

The economic outlook is much more favorable than three years ago. The economy has proved itself resilient even though there's been quite extreme austerity.

U.S. debt is rising faster than the GDP, but not as fast as once feared. It's stabilized up around seventy percent.

The aging of the population is proceeding faster than thought, but the rate of health care spending has dropped dramatically enough that the Congressional Budget Office has built it into its projections.

In the long run entitlement reform and tax reform are necessary.

After a period of governing by crisis--debt limit crises, shutdown crises, fiscal cliff crises--policy making is a bit more functional. A budget was approved, appropriations bills enacted.

The cost of two wars has contributed to spending, but the level of debt is caused by demographics and healthcare, not by military spending, which is small compared to what it was in the cold war years.

The country has gone from a deficit cutting set of debates, to a period where people are debating about how to pay for things.

There's probably an opportunity to learn from the last few years of governing by crisis and rethink how to conduct the budgeting process.

Everyone hates the tax code; everyone believes that it ought to be reformed. The challenge has been how to make progress on moving towards a better tax code.

The chair of the Senate Finance Committee, Chairman Baucus, will be heading off to China as our Ambassador; as a political matter that will set back tax reform.

The President's budget will have attractive proposals for investment in early childhood education, for revamping training programs, for some infrastructure, but not much will happen.

Social Security needs to get back on a firm foundation, and it should be done outside the budget.