



How Does Macroeconomic Feedback Affect Our Revenue Scores?

Published: April 12, 2024

Key Takeaways

1

After accounting for slower real economic growth, the Full and Partial extension options would cost about 10 percent more than the conventional estimate would suggest.

2

For Clausing-Sarin, incorporating macroeconomic feedback effects increases the estimated amount of revenue raised by roughly 8 percent by the third decade after enactment.

Macroeconomic changes feed back into revenues through their effects on taxable income. Policy reforms that increase real economic growth will be less expensive (or raise more revenue) than a conventional score would suggest; the opposite is true for reforms which reduce growth. The table below presents the revenue change attributable to our estimated changes in the macroeconomy.

Indirect Budget Effects Due to Macroeconomic Feedback, FY2025-2054

Billions of dollars

Scenario	Budget window	Second decade	Third decade
Full Extension	15	-284	-572
Partial Extension	7	-197	-391
Clausing-Sarin	-85	474	989

Source: [The Budget Lab](#) • Created with [Datawrapper](#)

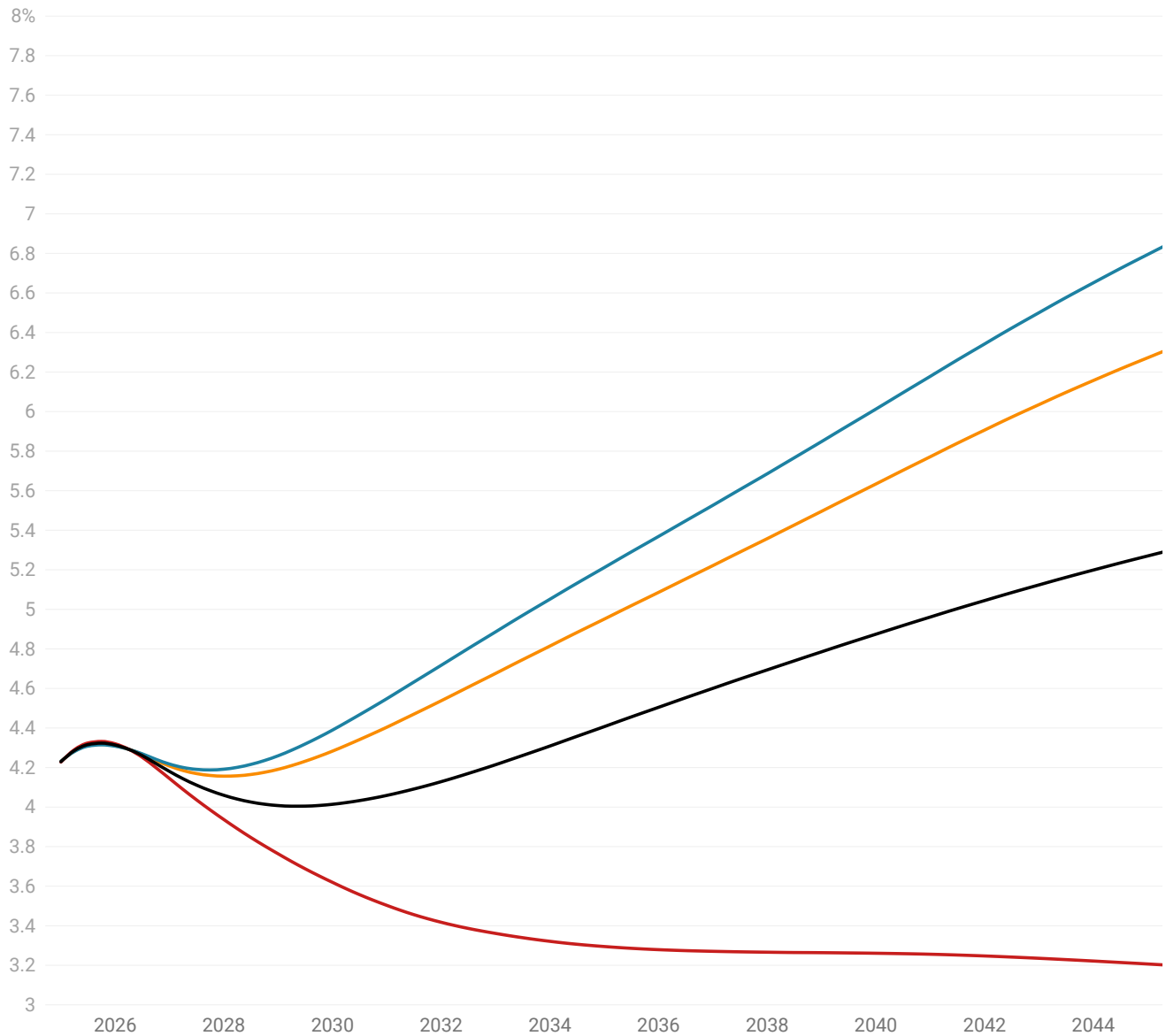
- Under Full and Partial Extensions, a temporary boost in real growth gives way to a permanent decrease in the level of economic activity in the long run. As such, revenue feedback is positive during the first few years of enactment but negative afterwards. In other words, after accounting for slower real economic growth, the Full and Partial extension options would cost about 10 percent more than the conventional estimate suggests.
- For Clausing-Sarin, incorporating macroeconomic feedback effects increases the estimated amount of revenue raised by roughly 8 percent in the third decade after enactment. This positive feedback effect follows a temporary negative feedback effect during the budget window.

The values above represent only the change in the primary deficit relative to baseline for each policy. When considering the total (nominal) deficit inclusive of changes in net interest outlays, the fiscal effects of each policy are even larger. Changes in net interest outlays, shown in the figure below, are due to both changes in the primary deficit under each scenario, and importantly, changes in the interest rate on government debt, which reflect changes in overall interest rates under each scenario (as discussed previously).

Net Interest Outlays as Share of GDP, 2025-2054

Percent of GDP

— Baseline — Full Extension — Partial Extension — Clausen-Sarin



Source: [The Budget Lab](#) • Created with [Datawrapper](#)