Congressional Budget Office

Testimony

Discretionary Appropriations Under the Budget Control Act

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Before the
Committee on the Budget
United States Senate

February 27, 2019

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Notes

Unless otherwise indicated, all years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Numbers in the text and table may not add up to totals because of rounding.

Data underlying the figures are available along with this testimony on CBO's website (www.cbo.gov/publication/54988).

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, thank you for inviting me to testify about the history of discretionary funding since enactment of the Budget Control Act of 2011 (BCA, Public Law 112-25).

These are the main points I hope you take away this afternoon:

- From 1999 to 2018, discretionary spending increased by 53 percent in real terms (that is, adjusted to remove the effects of inflation)—from $843 billion (in 2019 dollars) to $1,290 billion. Defense outlays rose by 56 percent, while nondefense outlays grew by 50 percent.

- Discretionary spending differed dramatically during the first and second halves of that period. It rose in real terms over the first half, peaking in 2010. Since the BCA took effect in 2011, however, such spending has fallen. From 2011 to 2018, total real discretionary spending fell by almost 17 percent; defense outlays fell by 21 percent, and nondefense outlays, by 12 percent. Much of that decline was caused by a sharp reduction in war funding and by the fading effects of spending attributable to the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).

- Despite those overall declines in spending, discretionary appropriations have been greater than the annual cap amounts specified in the BCA (including the automatic reduction in the caps that law later required) since the law took effect. Excluding the amounts sequestered in 2013, discretionary appropriations over the 2012–2019 period have to date been larger than those annual cap amounts by a total of $1.4 trillion (or about 17 percent).

- About 30 percent of that amount, $427 billion, stemmed from legislative changes made to the caps themselves. After two small reductions were made to the caps in 2013, three laws each increased discretionary caps for two years at a time. Most of that increase, $296 billion, was the result of the 2018 legislation, which altered the limits for 2018 and 2019.

- The remaining 70 percent, $984 billion, was the result of adjustments to the caps that were permitted by the BCA and triggered by appropriations for specified purposes. Those adjustments generally apply to funding for four types of activities, but two of them—war-related activities (referred to as overseas contingency operations, or OCO) and activities designated as emergency requirements—have accounted for most of the adjustments and for the largest amounts ($723 billion and $180 billion, respectively, since 2012).

- No changes have been enacted to the caps for 2020 and 2021, the last two years covered by the BCA. Without legislation to increase the caps, funding constrained by the caps in 2020 is set to drop by $126 billion (or 10 percent), the Congressional Budget Office estimates.[1]

- In deciding whether to implement those scheduled sharp reductions or raise the caps, the Congress will face a number of issues, including whether to offset any of the spending increases that would result from raising the caps and how it might do so, whether any changes in defense and nondefense caps should be equal, and how any resulting additional spending might change the picture for debt and deficits.

The remainder of my testimony covers those points in more detail.

What Is Discretionary Spending?

Discretionary spending, which accounts for about 30 percent of total federal spending, results from funding controlled through annual appropriations that fund a broad array of government activities, including defense, law enforcement, education, veterans' health programs, the national park system, disaster relief, and foreign aid. That spending is split about evenly between national defense and nondefense programs and activities.

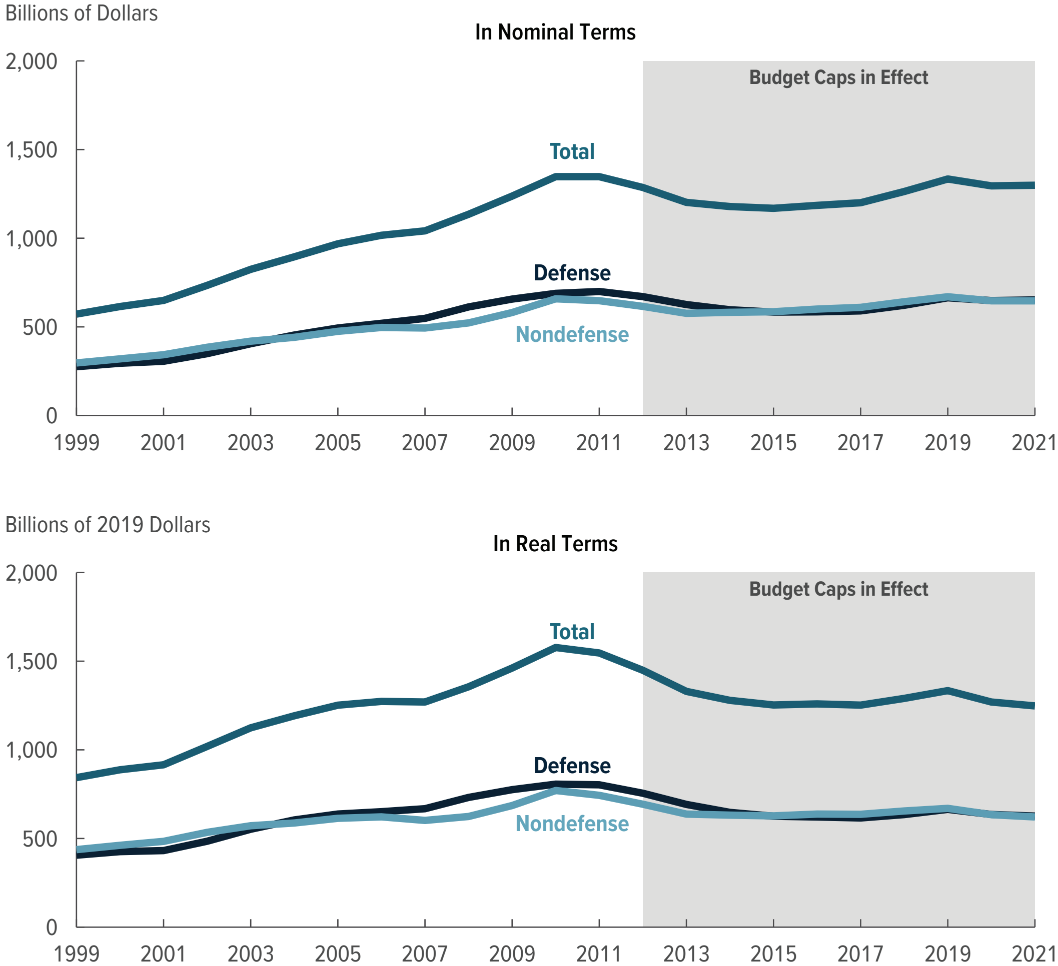
How Has Discretionary Spending Changed in Recent Years?

In nominal terms, total, defense, and nondefense discretionary outlays all roughly doubled from 1999 to 2018. Total discretionary spending increased by 121 percent; defense discretionary spending, by 126 percent; and nondefense discretionary spending, by 116 percent. In real terms, too, all categories of discretionary spending rose, but they did so by roughly half as much (see Figure 1).

1. See Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2019* (February 2019), www.cbo.gov/publication/54983.

Figure 1.

Total, Defense, and Nondefense Discretionary Outlays in Nominal and Real Terms, 1999 to 2021



In nominal terms, discretionary spending would, under current law, roughly double over the 1999–2021 period. Such spending would also increase in real terms (that is, adjusted to remove the effects of inflation), but by about half as much.

Spending trends in the two halves of the period differed significantly. During the first half, discretionary spending rose in real terms, peaking in 2010, just after the 2007–2009 recession. Since the caps on discretionary funding specified in the Budget Control Act of 2011 took effect, such spending has fallen substantially.

Source: Congressional Budget Office.

Spending during the two halves of the period differed dramatically. From 1999 to 2010, discretionary spending rose in real terms, peaking in that last year, shortly after the 2007–2009 recession. Since the BCA took effect, however, such spending has fallen substantially. From 2011 to 2018, total discretionary outlays declined in real terms by 17 percent (defense, by 21 percent, and non-defense, by 12 percent). Much of the decline was caused by a sharp drop in war funding as the United States withdrew almost all of its forces from military operations in Iraq that began after 9/11 and by the fading effects of spending attributable to the American Recovery and Reinvestment Act of 2009.

Measuring the change in real terms using constant dollars offers a more meaningful comparison of government spending over time because it removes the effect of growth in prices. That is, it measures the change in the purchasing power of spending in terms of goods and services of comparable quality. For example, if a federal program received $50 million in budget authority one year and $52 million the next, the increase in nominal terms would be 4 percent. But if prices for the program's purchases rose by 2 percent, the program would be able to purchase only 2 percent more goods and services.

What Caps Currently Exist to Limit the Amount of Discretionary Funding Provided Annually?

Most discretionary funding is controlled by statutory caps that were first imposed by the Budget Enforcement Act of 1990 (BEA, P.L. 101-508) and reestablished by the BCA. The BEA caps limited budget authority (that is, the authority provided by law to federal agencies to incur financial obligations) for three categories of spending: defense, international, and domestic. If the

Table 1.

Changes Made to the Caps on Total Discretionary Funding That Were Originally Imposed by the Budget Control Act of 2011

Billions of Dollars

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total, 2012–2021
Original Caps Imposed by the Budget Control Act of 2011	1,043	1,047	1,066	1,086	1,107	1,131	1,156	1,182	1,208	1,234	11,260
Changes Made to Caps After the JSC's 2012 Deadline Passed[a]	0	0	-91	-91	-90	-91	-91	-91	-90	-89	-724
Changes Made to Caps by the American Taxpayer Relief Act of 2012	0	-4	-8	0	0	0	0	0	0	0	-12
Statutory Caps in Effect Before Adjustments and Enactment of the Bipartisan Budget Acts	1,043	1,043	967	995	1,017	1,040	1,065	1,091	1,118	1,145	10,524
Changes Made to Caps by the Bipartisan Budget Acts											
Bipartisan Budget Act of 2013	-	-	45	18	-	-	-	-	-	-	63
Bipartisan Budget Act of 2015	-	-	-	-	50	30	-	-	-	-	80
Bipartisan Budget Act of 2018	-	-	-	-	-	-	143	153	-	-	296
Total	0	0	45	18	50	30	143	153	0	0	439
Statutory Caps Before Adjustments	1,043	1,043	1,012	1,014	1,067	1,070	1,208	1,244	1,118	1,145	10,963
Total Changes Made to Statutory Caps Since the Budget Control Act of 2011 Was Enacted	0	-4[b]	-54	-72	-40	-61	52	62	-90	-89	-297

Source: Congressional Budget Office.

JSC = Joint Select Committee on Deficit Reduction.

a. The Budget Control Act of 2011 (BCA) established the JSC to develop a proposal that would reduce deficits over the 2012–2021 period by $1.5 trillion. The committee was unable to reach an agreement, and legislation to reduce deficits over the period by the minimum amount required by the BCA—$1.2 trillion—was not enacted before the 2012 deadline, so the caps on discretionary funding were automatically lowered.

b. In March 2013, the Office of Management and Budget issued a sequestration order that cancelled $85 billion in budgetary resources for 2013, including $68 billion from discretionary accounts. Because that order did not affect the statutory funding caps for 2013, that amount is not reflected in the total change to the cap shown here.

limits on any of those categories were exceeded, the BEA provided an enforcement mechanism called sequestration that would automatically impose across-the-board cuts in budgetary resources to bring total funding back under the caps. Although the BEA caps were initially set to expire in 1995, they were extended and redefined in 1993 and 1997 before expiring in 2002.

The BCA reestablished statutory caps on discretionary budget authority for fiscal years 2012 through 2021 and created procedures that would automatically lower those caps and make other cuts if specified deficit-reducing targets were not met.[2]

2. For a detailed analysis of the methods that CBO uses to calculate automatic reductions, see Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act* (September 2011), www.cbo.gov/publication/42754.

How Have Those Limits Changed Since They Were First Imposed?

Although the BCA established initial limits on overall discretionary funding, it contained provisions that called for reductions in those initial caps if certain criteria were not met. In addition, lawmakers have enacted several pieces of legislation that have increased the funding limits in effect for certain years (see Table 1).

Initial Caps Specified in the BCA

The BCA contained procedures for reducing deficits by a minimum of $2.1 trillion over the 2012–2021 period, including setting annual caps on discretionary funding. The legislation once again authorized sequestration as an enforcement mechanism that would take effect if the caps were breached. In 2011, CBO estimated that complying with those initial caps would reduce federal outlays over the 2012–2021 period by $935 billion relative to the agency's baseline projections at that time.[3]

Reductions Made After the 2012 Deadline for a New Agreement Passed

Another provision of the BCA created the Joint Select Committee on Deficit Reduction (JSC) to develop a proposal that would reduce deficits over the 2012–2021 period by at least $1.5 trillion. The law also established an automatic process to reduce spending that would take effect in 2013 if, by January 15, 2012, the JSC did not report—and the Congress and the President did not enact—legislation that would reduce deficits over the period by at least $1.2 trillion. The automatic process would require not only annual downward adjustments of the discretionary funding limits but also sequestration of budget authority for nonexempt mandatory programs. When no such legislation was enacted, the automatic process outlined in the BCA took effect, lowering the statutory limits on defense and nondefense discretionary funding for every year from 2014 through 2021.[4] Those reductions amount to an estimated $724 billion over the 2014–2021 period (see Table 1).[5] In addition, lawmakers enacted the American Taxpayer Relief Act of 2012 (ATRA, P.L. 112-240), which reduced the statutory caps by a total of $12 billion in 2013 and 2014.[6]

3. See Congressional Budget Office, letter to the Honorable John Boehner and the Honorable Harry Reid providing an estimate of the Budget Control Act of 2011 as posted to the House Committee on Rules on August 1, 2011 (August 1, 2011), www.cbo.gov/publication/41626.

4. The failure to enact legislation that would meet the goal of $1.2 trillion in deficit reduction also resulted in annual sequestration of nonexempt mandatory spending programs. That sequestration was originally scheduled to apply to each year through 2021, but it has since been extended several times and now continues through 2027.

5. That amount does not include the effects of the March 2013 sequestration ordered by the President, which canceled $68 billion in discretionary budgetary resources—$43 billion (or 63 percent) from defense programs and $26 billion (or 37 percent) from nondefense programs. See Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013* (March 2013), https://go.usa.gov/xEydH.

6. The 2013 cap was lowered by $4 billion, and the 2014 cap, by $8 billion. Another provision in ATRA more than offset that $12 billion reduction to the caps, however, by reducing the amount of the March 2013 sequestration by $24 billion. That reduction applied to the total sequestration (including mandatory accounts).

Subsequent Increases in the BCA Caps

Facing the prospect of cutting discretionary funding to meet the new lower caps, the Congress has, since 2013, enacted a series of laws to increase the limits in certain years and thus to eliminate the effects of the automatic procedures that would have reduced funding limits. Specifically, lawmakers have raised the caps three times since the BCA was enacted—in 2013, 2015, and 2018. Those three amendments increased the caps for the years 2014 to 2019 by a total of $439 billion (see Figure 2). About 54 percent of those increases were for defense. Individually, the three acts had the following effects:

- The Bipartisan Budget Act of 2013 (P.L. 113-67) increased the combined limit for 2014 by $45 billion and the limit for 2015 by $18 billion. Those increases were evenly divided between the defense and nondefense caps.[7]

- The Bipartisan Budget Act of 2015 (P.L. 114-74) increased the combined limit for 2016 by $50 billion and the limit for 2017 by $30 billion. Again, those amounts were evenly divided between the defense and nondefense caps.[8]

- The Bipartisan Budget Act of 2018 (P.L. 115-123) increased the combined limit for 2018 by $143 billion and the limit for 2019 by $153 billion. More of those increases (56 percent in both years) were for defense funding than for nondefense funding.[9]

What Adjustments to the Caps Are Allowed, and How Have They Been Used?

The BCA includes other mechanisms that allow lawmakers to adjust the caps to accommodate funding for certain activities. Specifically, the caps can be adjusted upward to provide funding for five types of activities:

- Overseas contingency operations (most notably since 2011, military operations in Iraq and Afghanistan);

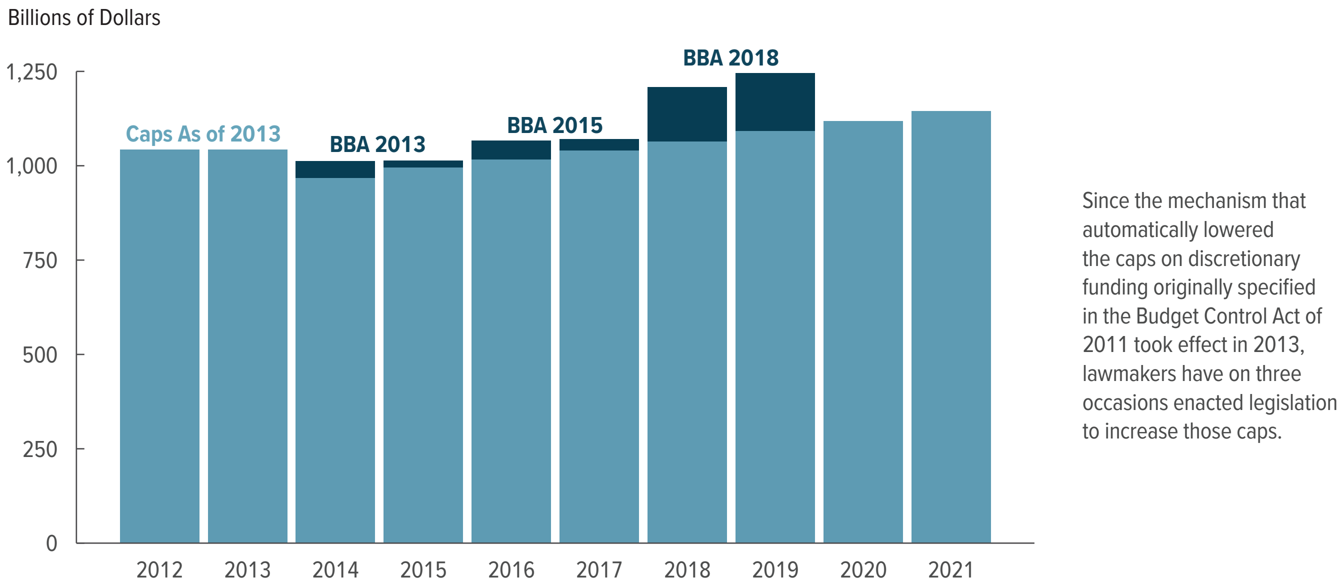
7. See Congressional Budget Office, cost estimate for the Bipartisan Budget Act of 2013 (December 11, 2013), www.cbo.gov/publication/44964.

8. See Congressional Budget Office, cost estimate for H.R. 1314, the Bipartisan Budget Act of 2015 (October 28, 2015), www.cbo.gov/publication/50938.

9. See Congressional Budget Office, cost estimate for the Bipartisan Budget Act of 2018 (February 8, 2018), www.cbo.gov/publication/53556.

Figure 2.

Caps on Total Discretionary Funding and the Changes Made to Them by Recent Bipartisan Budget Acts



Source: Congressional Budget Office.

The lighter portions of the bars represent the caps on discretionary funding as of 2013, including the automatic reductions required for 2014 through 2021 after the Joint Select Committee on Deficit Reduction created by the Budget Control Act of 2011 was unable to reach an agreement to reduce deficits as well the amendments to the caps made by the American Taxpayer Relief Act of 2012. The darker portions of the bars represent the increases in those caps enacted in the Bipartisan Budget Acts of 2013, 2015, and 2018.

BBA = Bipartisan Budget Act.

- Emergency requirements;
- Certain activities related to disaster relief (particularly those connected to major disasters as defined by the Robert T. Stafford Disaster Relief and Emergency Assistance Act—the Stafford Act);
- Certain program integrity initiatives, including continually reviewing and reassessing Social Security beneficiaries' disability status and controlling health care fraud and abuse in the Medicare system; and
- Beginning in 2020, wildfire suppression activities.

Adjustments for those activities have allowed discretionary funding to exceed the original caps by a total of almost $984 billion since 2012. Most of that funding has been for OCO and emergency requirements (see Figure 3).

The extent to which the caps can be adjusted to accommodate those activities differs. The BCA allows for three types of adjustments: one has no ceiling, one is based on a formula, and one requires the Congress to provide a specified amount in regular appropriations for an activity before the additional amount is available. For a select group of activities, funding does not count against the caps at all.

Adjustments With No Ceiling

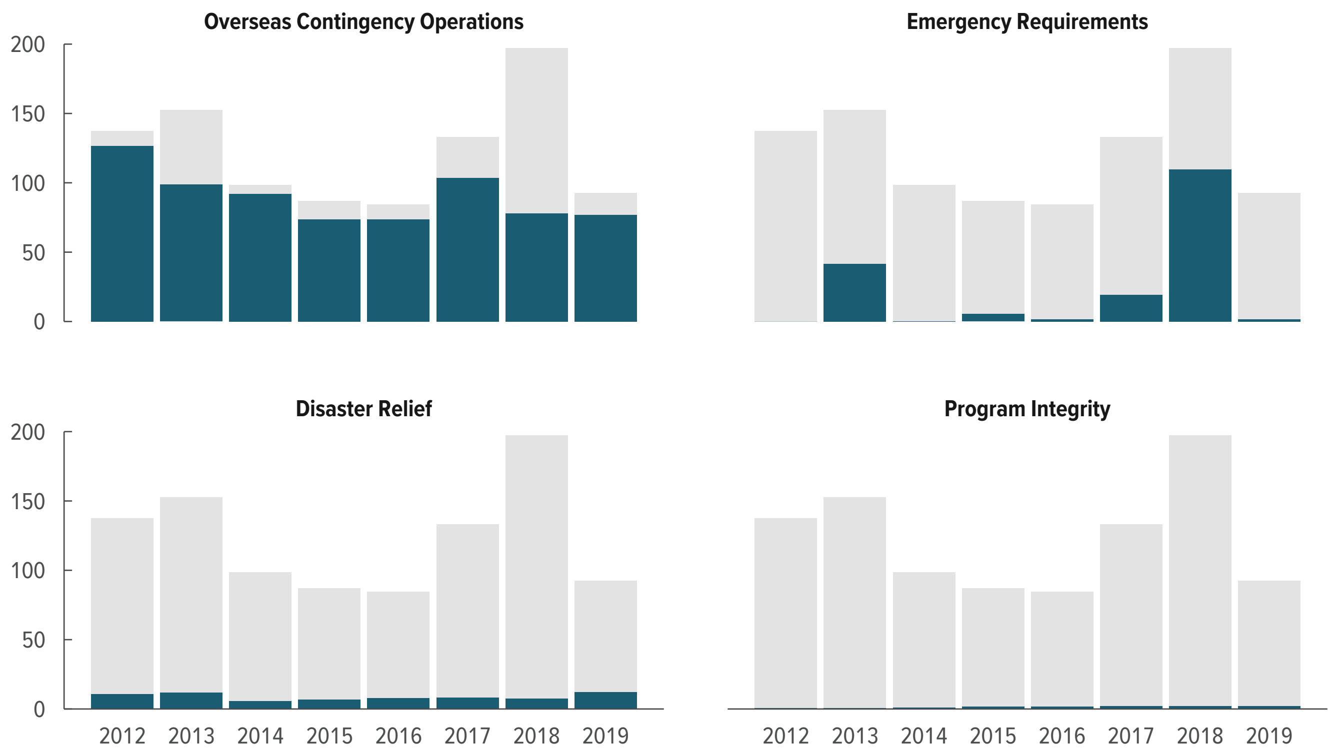
For some categories of spending, unlimited adjustments to the caps are allowed to accommodate whatever funding the Congress and the President agree to designate for those purposes. That is, there is no ceiling on the size of cap adjustments for spending for those purposes.

Overseas Contingency Operations. Funding limits can be adjusted upward, on an unlimited basis, to accommodate certain defense funding, namely appropriations designated for overseas contingency operations and international affairs. The BCA does not strictly define what activities constitute OCO; rather, it requires the Congress and the President to specifically designate, on an account-by-account basis, funding as being for

Figure 3.

Adjustments Made to Caps on Discretionary Funding to Accommodate Funding for Certain Activities Specified in the Budget Control Act of 2011

Billions of Dollars



Source: Congressional Budget Office.

The light gray background of each panel shows the sum of all adjustments made to the caps to accommodate funding for activities for which the Budget Control Act of 2011 allows adjustments. In other words, the bar in the background for a given year is the sum of the darker bars in all four panels for that year.

OCO. Since 2012, the Congress has provided a total of $723 billion in funding for OCO, which accounts for 73 percent of all cap adjustments allowed by the BCA over the 2012–2019 period.

OCO funding has increased defense and nondefense funding in different ways. For defense, OCO funding has added 14 percent to the Department of Defense's (DoD's) total funding since 2012 to cover a variety of activities outside of DoD's base budget. (The base budget includes funding for the department's planned or regularly occurring activities.) Although OCO funding has paid for the temporary costs of DoD's overseas contingency operations, CBO estimates that since 2012 such funding has also included an average of about $50 billion (in 2019 dollars) each year to cover the costs of enduring activities—including funding explicitly identified for base-budget activities—that could have been incorporated into the department's base budget but were not.[10] Those enduring activities have accounted for almost 60 percent of OCO spending since the BCA was enacted.

By contrast, OCO funding for activities of the State Department and other agencies related to international affairs has not, for the most part, increased overall funding for those activities since 2012. Rather, it has displaced base-budget funding for those activities, leaving

10. See Congressional Budget Office, *Funding for Overseas Contingency Operations and Its Impact on Defense Spending* (October 2018), www.cbo.gov/publication/54219.

total funding for them flat but creating room under the caps for spending on other nondefense activities unrelated to international affairs.[11]

Funding enduring activities in the OCO budget rather than in the base budget tends to understate the actual costs of implementing U.S. national security strategy and foreign policy. For example, if DoD's regular base budget had incorporated the enduring activities funded through OCO, it would have been about 9 percent higher per year, on average, since 2012. Furthermore, the practice of funding overseas conflicts outside of the base budget departs from historical norms. For example, during the Korean and Vietnam Wars, DoD's base budget rose rapidly each year to incorporate almost all of the funding for those conflicts.

Emergency Requirements. Like budgetary resources for OCO, any funding designated as an emergency requirement results in an adjustment to the caps for whatever amounts are appropriated. As with OCO, both the Congress and the President must agree on the emergency designation. Over the 2012–2019 period, a total of $180 billion has been provided for purposes designated as emergency requirements. Most of that amount (61 percent) was provided in 2018 in response to Hurricanes Harvey, Irma, and Maria and to wildfires in California.

The BCA codified the definition of *emergency spending* first developed by the Office of Management and Budget (OMB) in 1991—that is, that such spending must be necessary, sudden, urgent, unforeseen, and not permanent. The law also distinguished disaster relief from other forms of emergency spending and allowed a separate adjustment for disaster relief spending (discussed below) so that limited appropriations for disaster costs could be provided in regular annual appropriation bills and would not require emergency designations and supplemental appropriations.

Adjustments That Are Based on a Formula

The adjustments to the caps for disaster relief allow for funding to pay for the costs of major disasters as designated under the Stafford Act. The size of the adjustment is based on a 10-year rolling average of appropriations for disaster relief, excluding the highest and lowest annual amounts over the applicable period. If the full allowable amount is not used in a year, the unused amount can be rolled forward. Since 2012, almost $70 billion has been provided for disaster relief through this cap adjustment.

The Consolidated Appropriations Act of 2018 (P.L. 115-141) made some changes to the formula for calculating the disaster relief adjustment. It allowed unused carryovers to remain available indefinitely (through 2018, that rollover amount was available for only one year), and it added an additional amount to the formula. Specifically, 5 percent of disaster relief provided since 2011 as part of amounts designated as an emergency requirement is now added to the calculation for this adjustment.

The adjustment for disaster relief has been used in different ways. In some years it has been used only to provide funding to the Disaster Relief Fund managed by the Federal Emergency Management Administration as part of the regular appropriation process. But it has also been used to provide funding to other agencies as they responded to major disasters.

The allowable adjustment for disaster relief does not, however, limit federal appropriations for disaster assistance. When the Congress provides more funding for disaster relief than can be covered by the adjustment for such relief in a given fiscal year—as it did for Hurricane Sandy in 2013 and for severe hurricanes and wildfires in 2018—it has supplemented such appropriations with funds made available through the emergency cap adjustment.

Adjustments With Base Funding Requirements

For a third category, additional funding is contingent on meeting base funding requirements.

Program Integrity. The caps can be adjusted to accommodate additional funding for three types of program integrity activities—initiatives that aim to reduce improper benefits payments in certain programs—as long as the Congress provides a base level of funding for those activities. Before any adjustment can be made to accommodate additional funding, base appropriations for continuing disability reviews and redeterminations for Social Security's Disability Insurance program must total $273 million, base funding for health care fraud and abuse control in the Medicare system must equal at least $311 million, and base appropriations to support

11. See Congressional Budget Office, *Funding for International Affairs Activities, Within and Outside Agencies' Base Budgets* (December 2018), www.cbo.gov/publication/54848.

the establishment of reemployment services and to reduce improper unemployment compensation payments must amount to at least $117 million. Since 2012, the Congress has provided $11 billion in program integrity funding through this adjustment after it first provided base appropriations for those activities totaling $5 billion.

Wildfire Suppression. Beginning in 2020, the caps can be adjusted upward to accommodate additional funding for wildfire suppression activities once the base appropriation equals $1.395 billion—the 10-year average of the cost for such activities as reported by OMB in the President's budget for 2015.

Funding That Does Not Count Against the Caps

Finally, funding for some activities specified by statute is not counted for the purposes of enforcing the caps. Under the 21st Century Cures Act (P.L. 114-255), funding for certain activities of the Food and Drug Administration that was authorized by that act would not be counted (up to specified levels) for the purposes of enforcing the caps. Amounts not counted against the caps because of that exemption totaled about $1,056 million in 2018 and $781 million in 2019. The maximum allowable amount of such funding will decrease to $567 million in 2020 and to $474 million in 2021.

What Is Scheduled to Happen to the Discretionary Caps Over the Next Two Years?

Lawmakers have not enacted any changes to the caps for 2020 and 2021, the last two years subject to the limits established by the BCA. Without additional legislation to amend those limits, CBO estimates, total funding constrained by the caps is set to drop by 10 percent, or $126 billion, in 2020 before increasing by 2 percent, or $27 billion, in 2021 (see Figure 2 on page 5).

What Issues Will Lawmakers Face in the Future?

The Congress faces a number of issues related to the caps and to the statutory adjustments that can be made to them. Those issues include whether to change the caps for 2020 and 2021, whether to ensure that any such changes are equal across spending categories, whether to offset those increases with deficit-reducing measures, and how any net changes in spending would change the outlook for debt and deficits.

Adjusting the Caps for 2020 and 2021

If no new legislation is enacted, the discretionary caps for 2020 and 2021 will return to the significantly lower levels set after the JSC failed to meet the 2012 deadline established by the BCA. When faced with similar situations in the past, the Congress has chosen to increase cap levels for two years at a time.

Parity in Future Cap Adjustments

There is no requirement that changes made to the caps on defense and nondefense budget authority be the same size, but the Congress has made equal changes since the BCA was enacted in one form or another. How that principle has been applied, however, has changed over time.

The budgetary effects of the automatic changes to the caps specified in the BCA were the same for defense and nondefense spending (including both discretionary and mandatory spending). At the time, CBO estimated that the automatic procedures would lead to funding reductions totaling $984 billion over the 2014–2021 period. Half of that amount, $492 billion, was attributable to reductions in defense funding, nearly all of which affected discretionary accounts. The other half stemmed from reductions in nondefense funding, but those reductions were split between discretionary accounts ($322 billion) and mandatory accounts ($171 billion).[12]

The Bipartisan Budget Acts of 2013 and 2015 made equal changes in the caps for the two categories of discretionary spending. However, they also included deficit reduction measures that mostly affected mandatory spending for nondefense activities. In both cases, the net increase in funding was larger for defense programs because cuts in mandatory spending offset a larger portion of the increase to nondefense discretionary funding.

The Bipartisan Budget Act of 2018 increased the defense and nondefense caps for 2018 and 2019 by about the same amount measured in relation to the initial BCA caps. But relative to the lower caps that took effect after the 2012 deadline for a new agreement passed, the 2018 act's increases to the defense caps were larger than those to the nondefense caps.

If the Congress considers making parity between defense and nondefense spending a priority, it will have to decide how to define that concept. Considerations include the following: Should parity be limited to the levels of

12. See Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act* (September 2011), www.cbo.gov/publication/42754.

defense and nondefense discretionary caps themselves? Should comparisons include changes in mandatory spending? How does the historical shifting of base funding outside the constraints of the caps—using the OCO cap adjustment to fund the enduring activities of DoD and the State Department, for example—or the adjustment for wildfire suppression funding that will soon be permitted factor into considerations of what the caps should be?

Offsets to Future Cap Increases

The Congress will also have to consider whether to offset any changes it might make to the caps. Previous legislative increases in the caps were offset, at least in part, with some reductions in mandatory spending, increases in revenues, and extensions of the mandatory sequester.

The Bipartisan Budget Acts of 2013 and 2015 raised the caps for 2014 through 2017. Both of those acts included provisions to offset the increased spending that would eventually stem from the higher caps. When the 2013 act was being considered, CBO estimated that it would reduce deficits over the 2014–2023 period by $85 billion, more than offsetting the $63 billion cumulative increase to the 2014 and 2015 discretionary caps. Similarly, CBO estimated that the 2015 act would reduce deficits by about $80 billion, offsetting the $80 billion cumulative increase to the caps.

The Bipartisan Budget Act of 2018 increased the discretionary caps for 2018 and 2019 by a total of $296 billion. Whereas the previous two acts fully offset the increased spending that would result from their adjustments to the caps, the 2018 act only partially offset those increases by cutting mandatory spending and increasing revenues. CBO estimated that the mandatory spending and revenue provisions would reduce deficits by $38 billion over the 2018–2027 period—$258 billion less than the increase in discretionary spending that would result from raising the caps.[13]

Effects on the Deficit and Debt

Finally, in making choices about changes in the caps and possible offsets, the Congress also will have to consider how such changes might alter the picture for debt and deficits. As CBO's Director recently testified, federal deficits in the agency's baseline projections average 4.4 percent of gross domestic product (GDP) over the 2020–2029 period. Aside from the period immediately following World War II, the only time the average deficit has been so large over so many years was after the 2007–2009 recession. Over the past 50 years, annual deficits have averaged 2.9 percent of GDP.

Large deficits over the next 10 years would cause debt held by the public to rise steadily. In CBO's baseline projections, that debt is projected to increase from 78 percent of GDP in 2018 to 93 percent at the end of 2029. At that point, federal debt would be higher as a percentage of GDP than at any point since just after World War II—and heading still higher.

This testimony was prepared by Theresa Gullo with contributions from Christina Hawley Anthony, Barry Blom, Kent Christensen, Aaron Feinstein, Edward G. Keating, Avi Lerner, Leo Lex, David Mosher, David Newman, Adam Wilson, and Matt Woodward. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the testimony contains no recommendations.

This document was reviewed by Keith Hall, Mark Hadley, Jeffrey Kling, and Robert Sunshine. Bo Peery edited the testimony, and Casey Labrack prepared it for publication. An electronic version is available on CBO's website at www.cbo.gov/publication/54988.

13. Other provisions of the Bipartisan Budget Act of 2018 included supplemental appropriations for fiscal year 2018. CBO estimated that those provisions would increase the deficit by $68 billion over the 2018–2027 period. See Congressional Budget Office, cost estimate for the Bipartisan Budget Act of 2018 (February 8, 2018), www.cbo.gov/publication/53556.