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The Budget Control Act of 2011 as Amended: Budgetary Effects

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Summary

Following a lengthy debate over raising the debt limit, the Budget Control Act of 2011 (BCA; P.L. 112-25) was signed into law by President Obama on August 2, 2011. In addition to including a mechanism to increase the debt limit, the BCA contained a variety of measures intended to reduce the budget deficit through spending restrictions. There are two main components to the spending reductions in the BCA: (1) discretionary spending caps that came into effect in FY2012 and (2) a \$1.2 trillion automatic spending reduction process that was initially scheduled to come into effect on January 2, 2013. Combined, these measures were projected to reduce the deficit by roughly \$2 trillion over the FY2012-FY2021 period. The American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) reduced and postponed the start of the FY2013 spending reductions, commonly known as the sequester, until March 1, 2013. The Bipartisan Budget Act of 2013 (BBA 2013; P.L. 113-67) increased the discretionary spending caps in FY2014 and FY2015 and extended mandatory sequestration through FY2023. The Bipartisan Budget Act of 2015 (BBA 2015; P.L. 114-74) raised the discretionary spending caps in FY2016 and FY2017, and further extended mandatory sequestration.

Congress has debated whether to maintain scheduled spending cuts in future years. To inform that debate, this report discusses the effects of the BCA as amended on spending and the deficit, assuming that the discretionary spending caps remain in place. From FY2012 to FY2021, the BCA is projected to cut discretionary spending by \$1.5 trillion. Discretionary spending subject to the caps was 4.3% lower on a nominal basis and 9.7% lower on a real (inflation-adjusted) basis than in FY2011, the year before BCA discretionary caps were established. Real discretionary spending subject to the caps is projected to remain relatively constant from FY2016 to FY2021, with real growth projected to be 1.0% in that time period. Total discretionary spending (which includes discretionary outlays not subject to the BCA caps) under the BCA was 13.7% lower on a nominal basis and 18.6% lower on a real basis in FY2015 than it was in FY2011. The current budget outlook projects that real spending in FY2021 will be 3.9% lower than that in FY2015.

The BCA imposes smaller reductions to mandatory outlays. Mandatory spending under the BCA is cut by less than \$0.2 trillion from FY2012 to FY2021, with most non-Medicare mandatory spending exempted from spending cuts. Mandatory spending accounted for 66% of spending in FY2015, but received only 16% of the sequester cuts. Total mandatory spending from FY2011 to FY2015 increased by 13.4% on a nominal basis and 7.0% in real terms. The rise in mandatory spending is projected to accelerate in the latest budget outlook, as mandatory spending in FY2021 is forecasted to be 49.9% higher in FY2021 (67.7% on a real basis) than it was in FY2015.

Under the BCA, discretionary spending is projected to average 6.4% of GDP from FY2012 to FY2021, a notable decline from the 9.1% of GDP average from FY1962 to FY2011. From FY2018 on, overall discretionary spending would be below its lowest share of GDP since data were first collected in 1962 (6.0% of GDP), assuming current levels of uncapped discretionary spending. However, because projected growth in mandatory spending, total federal spending from FY2012 to FY2021 is projected to average 21.0% of GDP, which is lower than its peak of 24.4% in FY2012 but above the post-World War II average.

Although the BCA reduced projected deficits, its savings has been mitigated by subsequent legislation that has increased current law deficits since the BCA was enacted. Altogether, legislative changes since August 2011 have increased the deficit by \$1.5 trillion from FY2012 to FY2021. As a result, the federal debt is projected to continue to increase relative to GDP in future years.

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Following a lengthy debate over raising the debt limit, the Budget Control Act of 2011 (BCA; P.L. 112-25) was signed into law by President Obama on August 2, 2011. In addition to including a mechanism to increase the debt limit, the BCA contained measures intended to reduce the budget deficit through spending restrictions.¹ Combined, these measures were projected to reduce the deficit by roughly \$2 trillion over the FY2012-FY2021 period.²

The spending reductions in the BCA are achieved mainly through two mechanisms: (1) statutory discretionary spending caps covering 10 years that came into effect in 2012 and (2) a \$1.2 trillion automatic spending reduction process (sometimes referred to as the “sequester”) covering nine years that was initially scheduled to come into effect on January 2, 2013. Three subsequent pieces of legislation have modified the BCA as enacted. The American Taxpayer Relief Act (ATRA; P.L. 112-240) postponed the start of the FY2013 spending reductions, commonly known as the sequester, until March 1, 2013, and canceled the first two months of spending cuts. The Bipartisan Budget Act (BBA 2013; P.L. 113-67) raised the caps under the BCA on defense and non-defense discretionary spending in FY2014 and FY2015, and extended BCA mandatory sequestration through FY2023. Finally, the Bipartisan Budget Act of 2015 (BBA 2015; P.L. 114-74) raised the discretionary spending caps in FY2016 and FY2017, and further extended mandatory sequestration.³

This report discusses the effects of the BCA on spending and the deficit, assuming that the automatic spending reductions proceed as scheduled from FY2016 to FY2021 and the discretionary spending caps remain in place. Other CRS reports provide additional analysis of the BCA.⁴

Background on the Budget Control Act of 2011 as Amended

The BCA was enacted in response to congressional concern about rapid growth in the federal debt and deficit. The federal budget has been in deficit (spending exceeding revenue) since FY2002, and incurred particularly large deficits from FY2009 to FY2013. Increases in spending on defense, lower tax receipts, and responses to the recent economic downturn all contributed to deficit increases in that time period.⁵ In FY2010, spending reached its highest level as a share of GDP since FY1946, while revenues reached their lowest level as a share of GDP since FY1950. As the effects of the recession wane, higher tax revenue and lower levels of spending as a percentage of GDP relative to those fiscal years have resulted in lower budget deficits. In FY2015, the deficit totaled 2.4% of GDP, or 7.4 percentage points below its peak in 2009.

¹ For information on the debt limit increases in the BCA, see CRS Report R43389, *The Debt Limit Since 2011*, by (name redacted) .

² Unless otherwise noted, all budget data presented in this report are from Congressional Budget Office, *The Budget and Economic Outlook*, January 2015 (hereinafter referred to as “CBO baseline”) or Congressional Budget Office, *The Budget and Economic Outlook: An Update*, August 2015.

³ For legislation considered during the 114th Congress, see CRS Insight IN10389, *Bipartisan Budget Act of 2015: Adjustments to the Budget Control Act of 2011*, by (name redacted) .

⁴ For an explanation of the BCA’s provisions and procedures, see CRS Report R41965, *The Budget Control Act of 2011*, by (name redacted)(name redacted), and (name redacted) . For information on exemptions from sequestration, see CRS Report R42050, *Budget “Sequestration” and Selected Program Exemptions and Special Rules*, coordinated by (name redacted)

⁵ For an overview of causes of large deficits and policy options to reduce them, see CRS Report R43933, *The Federal Budget: Overview and Issues for FY2016 and Beyond*, coordinated by (name redacted)

The BCA reduces projected spending through two primary mechanisms, discretionary spending caps that began in FY2012 and an automatic spending reduction process that began in FY2013.

Discretionary Spending Caps

The BCA placed statutory caps on most discretionary spending from FY2012 through FY2021. The caps essentially limit the amount of spending through the annual appropriations process for that time period, with adjustments permitted for certain purposes. The limits could be adjusted to accommodate (1) changes in concepts and definitions; (2) appropriations designated as emergency requirements; (3) appropriations for Overseas Contingency Operations/Global War on Terrorism (OCO; e.g., for military activities in Afghanistan); (4) appropriations for continuing disability reviews and redeterminations; (5) appropriations for controlling health care fraud and abuse; and (6) appropriations for disaster relief. The last five of the listed adjustments effectively exempt those types of discretionary spending from the statutory caps, reducing the ability of the caps to limit total discretionary spending. The BCA limits adjustments for spending on disability reviews and controlling health care fraud abuse to relatively small amounts and limits adjustments for disaster relief by a formula based on historical levels.⁶ Funds classified by Congress and the President as OCO and emergency spending are not limited by the BCA.

Cap levels are enforced through a sequestration process (spending cuts that are automatically triggered if cap levels are breached).⁷ The sequestration process has not been used to date, as Congress has enacted budgets with spending amounts consistent with the cap levels. The adjustable caps are not placed on specific accounts or even on each of the appropriations bills; instead, they are broad caps on the total amount of discretionary spending. In FY2012 and FY2013, the BCA placed separate caps exist on security and non-security spending.⁸ The largest amounts of spending in the non-security category are tied to the Departments of Health and Human Services, Education, and Housing and Urban Development. For FY2014 to FY2021, the BCA institutes separate caps for defense and non-defense spending. Decisions about how these caps will affect specific agencies or programs are made by Congress and the President through the regular appropriations process. **Table 1** displays BCA discretionary cap levels, before and after the automatic spending reductions discussed in the next section, as amended by ATRA, BBA 2013, and BBA 2015.

⁶ The BCA allows annual disaster spending in amounts up to “the average funding provided for disaster relief over the previous 10 years, excluding the highest and lowest years” plus the difference between disaster spending in the preceding fiscal year and the applicable average funding level for that year. Disaster spending is defined in the BCA as spending classified in specified budget accounts. For more information on disaster relief spending, see CRS Report R42352, *An Examination of Federal Disaster Relief Under the Budget Control Act*, by (name redacted), (name redacted), and (name redacted).

⁷ The sequestration process to enforce statutory spending levels is separate and distinct from the sequester that carries out the “Automatic Spending Reduction Process” described in the next section. For more information on sequestration, see CRS Report R42972, *Sequestration as a Budget Enforcement Process: Frequently Asked Questions*, by (name redacted).

⁸ Security spending is defined by the BCA as discretionary appropriations associated with agency budgets for the Departments of Defense, Homeland Security, Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account, and all budget accounts in the budget function for international affairs (Function 150).

Table I. Discretionary Spending Caps Under the BCA as Amended
(billions of \$)

	2014	2015	2016	2017	2018	2019	2020	2021
Original Cap Levels								
Defense	556	566	577	590	603	616	630	644
Non-Defense	510	520	530	541	553	566	578	590
Total	1,066	1,086	1,107	1,131	1,156	1,182	1,208	1,234
Automatic Spending Reductions								
Defense	-36	-45	-29	-39	-54	-54	-54	-54
Non-Defense	-18	-28	-11	-22	-38	-37	-35	-35
Total	-54	-72	-40	-61	-92	-91	-89	-89
Reduced Cap Levels								
Defense	520	521	548	551	549	562	576	590
Non-Defense	492	492	518	519	515	529	543	555
Total	1,012	1,014	1,066	1,070	1,064	1,091	1,119	1,145

Sources: Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2014*, January 2014; and Congressional Budget Office, *Sequestration Update Report*, August 2015, Table 2.

Notes: Discretionary spending limits for 2012 and 2013 were assigned into Security and Non-Security categories; see **Table 2** for discretionary spending levels in those years. Totals may not sum due to rounding. Totals have been adjusted based on modifications made in ATRA, BBA 2013, and BBA 2015.

Automatic Spending Reduction Process

Title IV of the BCA established a Joint Select Committee on Deficit Reduction (hereinafter Joint Committee), composed of an equal number of Senators and Representatives, and instructed it to develop a proposal that would reduce the deficit by at least \$1.5 trillion over FY2012 to FY2021. To ensure deficit reduction occurred if a Joint Committee bill was not enacted, Section 302 of the BCA established an automatic process to reduce spending. On November 21, 2011, the co-chairs of the Joint Committee announced that they were unable to reach a deficit-reduction agreement before the committee’s deadline. As a result, a \$1.2 trillion automatic spending reduction process was triggered, beginning in January 2013.

Of the \$1.2 trillion in deficit reduction, the BCA specified that 18% of the total (\$216 billion) be credited to debt service savings that would result from the spending reduction.⁹ Therefore, the amount of the reduction in budget authority would equal the remaining 82% of the required deficit reduction total. The amount of the automatic spending reduction under the BCA was spread evenly over the nine years from FY2013 to FY2021 and split evenly between defense

⁹ The actual amount of debt service savings will depend on future interest rates and the timing of the deficit reduction; 18% was set by the BCA. As described in CBO’s analysis of the net budgetary savings resulting from an automatic \$1.2 trillion reduction in the event a Joint Committee bill was not enacted, debt service savings amounted to 16% of the total between FY2013 and FY2021. See Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act*, September 12, 2011.

(defined as budget function 050) and non-defense spending categories and applied proportionally to discretionary and mandatory programs within each of these categories. The automatic spending restriction would amount to a reduction in budget authority of \$109.3 billion each year for nine years, with \$54.7 billion of the reduction to be applied to defense and \$54.7 billion applied to non-defense programs. ATRA, BBA 2013 and BBA 2015 modified this process, lowering the required reductions in defense and non-defense spending from FY2013 through FY2017.

Within the defense and non-defense categories, some programs are exempted from an automatic spending reduction and the cuts to other programs are limited by statute.¹⁰ For example, an automatic spending reduction to Medicare is limited to 2% of total program spending.¹¹ Although the BCA as enacted made no revisions to the total automatic spending reductions in subsequent years, the amount applied to any given budget account could be recalculated, if the relative size of budget accounts changes or the exempt/nonexempt status of an account changes.

For purposes of the automatic reductions, the BCA created new discretionary cap levels for defense and non-defense for the 10-year budget window. The amount of the automatic reduction is then subtracted from the new defense and non-defense cap levels. In FY2013, the automatic spending reduction was carried out through an across-the-board sequester (cancellation) of previously authorized budgetary resources. From FY2014 forward, the automatic spending reduction has been carried out through a sequester for mandatory spending and through reductions in the overall discretionary caps, rather than a sequester, for discretionary spending. The sequester is applied proportionately to all non-exempt accounts, while it is left to future Congresses to determine how to apply the reductions to discretionary accounts within the caps. Cuts to discretionary programs as a result of the automatic spending reduction process would be in addition to the projected savings resulting from the initial discretionary caps in the BCA.

The FY2013 sequester reduced non-exempt defense discretionary spending by 7.8% relative to the cap levels, non-defense discretionary spending by 5.0% relative to the cap levels, Medicare by 2% relative to baseline levels (per the statutory limit), and other mandatory spending by 5.1% relative to the baseline levels.¹² For FY2014, a sequester order was issued which reduced mandatory defense spending by 9.8% and mandatory non-defense spending by 7.2%. The sequester order issued in FY2015 reduced mandatory defense and non-defense spending totals by 9.5% and 7.3% respectively. Reductions to Medicare remained capped at 2% in each year, per the statutory limit.¹³ To gauge how these reductions compare with overall spending, **Figure 1** compares the projected percentage of budgetary resources tied to each major programmatic area to the percentage of budget cuts that that spending category absorbs in FY2015.¹⁴

¹⁰ These exemptions and special sequester rules are found in 2 USC 905 and 2 USC 906, Section 255 and 256 of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.

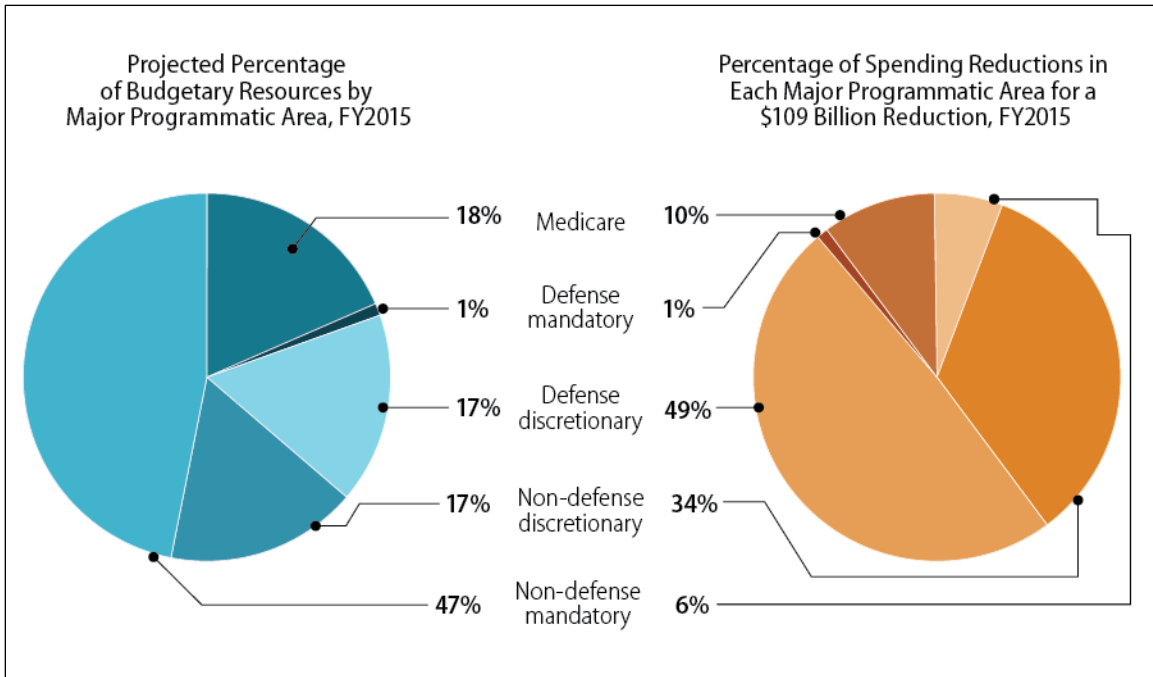
¹¹ Some Medicare spending is exempt from automatic spending reductions, including Medicare Part D low-income and catastrophic subsidies and qualified individual (QI) premiums. For more information, see 2 USC 906(d)(7).

¹² Office of Management and Budget, *Report to the Congress on the Joint Committee Sequestration for FY2013*, March 1, 2013.

¹³ Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014*, May 20, 2013 and *OMB Final Sequestration Report to the President and Congress for Fiscal Year 2015*, January 2015. Executive Office of the President, “Sequestration Order for Fiscal Year 2014 Pursuant to Section 251A of the Balance Budget and Emergency Deficit Control Act, As Amended,” 22407-22409, April 15, 2013 and “Sequestration Order for Fiscal Year 2015 Pursuant to Section 251A of the Balance Budget and Emergency Deficit Control Act, As Amended,” 14363-14365, March 13, 2014.

¹⁴ These calculations are based on estimates made before full-year appropriations for FY2015 had been enacted.

Figure 1. Comparing the Composition of the FY2015 Budget to the FY2015 Sequester Cuts



Source: CRS calculations based on CBO and OMB data.

Notes: Mandatory spending is measured on a gross basis (i.e., offsetting receipts are not netted out). All data are based on estimates. The non-defense category does not include Medicare spending. The figure does not include spending devoted to net interest payments.

Total gross budgetary resources for FY2015 are shown in the pie chart on the left side of **Figure 1**. Mandatory programs account for roughly two-thirds of FY2015 outlays (excluding net interest payments). The majority of mandatory outlays are attributable to non-defense programs (47% of all non-interest spending). Nearly all of the remaining mandatory expenditures in FY2015 are devoted to Medicare (18% of non-interest spending), with the remaining portion allotted to defense programs (1% of total spending). The remaining 34% percent of total spending is discretionary, and is split almost evenly between defense and non-defense expenditures (17% of total spending each).

The pie chart on the right side of **Figure 1** shows the percentage share of the spending cuts in FY2015 for each category under the sequester. As most of the spending exempt from reduction falls within the mandatory category, the automatic spending cuts fall most heavily on discretionary programs. In FY2015, discretionary spending is projected to account for 34% of budgetary resources, but receives 84% of the automatic spending reductions. Defense discretionary spending is particularly affected, as the defense spending category would receive 49% of all automatic cuts but accounts for 17% of total gross budgetary resources. In contrast, mandatory programs account for 66% of budgetary resources in FY2013, but would bear 16% of the spending reduction (10% on Medicare and 6% on other mandatory programs). Mandatory spending received disproportionately fewer cuts because much of that spending is exempt from reductions under the BCA. Of the mandatory spending that is eligible for reductions, a significant portion is attributable to Medicare, which is limited to a 2% cut under the BCA.

The automatic spending reduction process does not guarantee that a specific deficit or spending level is realized in the future, or protect the deficit saving accomplished through the automatic

spending reduction from future legislation. Moreover, the amount of automatic spending reduction does not change if future budget deficits turn out to be larger or smaller than projected at the time the automatic spending reduction is determined, which could occur because of subsequent legislative changes or forecasting errors.¹⁵

Legislative Changes to the BCA

Since the enactment of the BCA, its spending reductions have been modified by three pieces of legislation, the American Taxpayer Relief Act of 2012 (ATRA), the Bipartisan Budget Act of 2013 (BBA 2013), and the Bipartisan Budget Act of 2015 (BBA 2015). This legislation lowered the spending reductions required in FY2013 through FY2017. None of these actions modified the provisions of the BCA that affect discretionary spending beyond FY2017, though BBA 2013 and BBA 2015 extended the BCA's mandatory spending sequester through FY2025.

The American Taxpayer Relief Act of 2012

The enactment of ATRA postponed the start of the FY2013 spending reductions until March 1, 2013. This reduced the FY2013 spending reductions implemented via this process by \$24 billion, to roughly \$85.3 billion, equally divided between defense and non-defense (\$42.7 billion for each category). Several other minor modifications were also made to the process by which these spending cuts would be calculated. Although ATRA reduced the total spending cuts achieved by the automatic process, the cost of these provisions was offset by other spending reductions and revenue increases. ATRA reduced the BCA's discretionary spending caps by \$4 billion in FY2013 and \$8 billion in FY2014, which offset roughly half of the total cost. In addition, ATRA contained a provision which raised revenue during the budget window by permitting certain retirement accounts to be transferred to designated Roth accounts without distribution. This was used to offset the remaining cost of the legislation.

The Bipartisan Budget Act of 2013

Passage of the BBA 2013 further amended the budgetary changes under the BCA. BBA 2013 eased the discretionary spending restrictions imposed by the BCA in FY2014 and FY2015 through equivalent increases to the defense and non-defense spending authority in those years. The defense and non-defense discretionary spending caps were each increased by roughly \$22 billion in FY2014 and \$9 billion in FY2015. As with ATRA, the short-term reduction in spending cuts imposed by BBA was offset by other budgetary changes. Those changes included an extension of the mandatory sequestration process applied by the BCA to FY2022 and FY2023, which was projected to reduce the deficit by a total of \$28 billion, and a number of other modifications that produced budgetary savings and did not interfere with the process established by the BCA.

The Bipartisan Budget Act of 2015

The budgetary changes instituted by the BCA were again modified with the passage of BBA 2015. That legislation increased the defense and non-defense discretionary spending caps as enacted by the BCA by \$25 billion each in FY2016 and \$15 billion each in FY2017. BBA 2015

¹⁵ For more information on the accuracy of projections, see Congressional Budget Office, *CBO's Economic Forecasting Record: 2015 Update*, February 2015, available at https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/49891-Forecasting_Record_2015.pdf.

also extended the automatic direct spending reductions from FY2024 through FY2025, and altered the limits to budget authority adjustment for certain integrity programs from FY2017 to FY2021.¹⁶ Finally, it established nonbinding targets for OCO/GWOT services in FY2016 and FY2017. As with BBA 2013, BBA 2015 also included a number of actions with an effect on the budget, but did not affect BCA restrictions.¹⁷

Effects of BCA as Amended on the Federal Budget

The BCA as enacted contained over \$2 trillion in deficit reduction over 10 years, affecting primarily the discretionary side of the budget.¹⁸ This section evaluates the effect of the Budget Control Act's discretionary caps and automatic spending reduction process (as amended by ATRA and BBA) on total spending levels, and decomposes those changes into their effects on outlays or budget authority, depending on the context. The BCA as amended sets new levels of budget authority, which eventually leads to changes in outlays. The difference between budget authority and outlays is discussed in the following text box.

Outlays and Budget Authority

Outlays are disbursed federal funds. Budget authority is what federal agencies are legally permitted to spend, and it is granted by Congress through appropriation acts in the case of discretionary spending or through other acts in the case of mandatory spending. Budget authority gives federal officials the ability to spend. Until the federal government disburses funds to make payments, no outlays occur. Therefore, there is generally a lag between when Congress grants budget authority and outlays occur. This report relies principally on budget authority to measure federal spending levels.

Discretionary Spending in FY2012 through FY2015

To date, appropriations for four fiscal years, 2012 through 2015, have been provided under the BCA framework (as amended by ATRA and BBA). **Table 2** illustrates how discretionary budget authority has been provided within categories subject to the caps and categories that are not limited by the caps. Discretionary budget authority subject to the caps equaled \$1,043 billion in FY2012 and FY2013, \$1,012 billion in FY2014, and \$1,014 billion in FY2015. Total discretionary budget authority has exceeded the caps in all years because, as permitted by the BCA, there has been discretionary budget authority (BA) provided ranging from \$87 billion in 2015 to \$153 billion in 2013 in categories not subject to the caps. In 2013, a sequester was applied to the adjusted cap level as a result of the BCA's automatic spending cuts, reducing discretionary BA from \$1,196 billion to \$1,127 billion. Of the spending reductions, \$59 billion reduced spending subject to the caps and \$9 billion reduced OCO, emergency, and disaster

¹⁶ P.L. 113-82 extended the mandatory spending sequester from FY2023 through FY2024, but did not modify other provisions of the BCA.

¹⁷ For more information on the provisions of the BBA 2015 that interacted with the BCA, see CRS Insight IN10389, *Bipartisan Budget Act of 2015: Adjustments to the Budget Control Act of 2011*, by (name redacted) .

¹⁸ This amount of deficit reduction was measured relative to a baseline using FY2011 appropriated levels adjusted for inflation. This baseline was used because it was the official CBO baseline for discretionary spending at the time the BCA was enacted. The amount of savings garnered by the Budget Control Act depends on the baseline to which it is being compared. For example, if it were being compared with a baseline based on 2010 levels of discretionary spending adjusted for inflation, the savings would be higher than if it were compared with the 2011 levels. The spending cuts would also be larger if compared with a baseline where discretionary spending was held constant relative to GDP.

spending.¹⁹ Total discretionary BA was \$1,181 billion in 2012, \$1,127 billion in 2013, \$1,111 billion in 2014, and \$1,101 in 2015.

Table 2. Discretionary Budget Authority, FY2012-FY2015
(billions of \$)

	FY2012	FY2013	FY2014	FY2015
BCA Caps + Adjustments for:	1,043	1,043	1,012	1,014
OCO	127	99	92	74
+ Emergency	0	42	*	5
+ Disaster Relief	11	12	6	7
+ Program Integrity	*	*	1	1
= Total Adjustments	138	153	99	87
= Adjusted BCA Caps	1,181	1,196	1,111	1,101
- Automatic Spending Reductions (Sequester)	n/a	68	n/a	n/a
= Total Discretionary BA	1,181	1,127	1,111	1,101

Source: Congressional Budget Office, *Sequestration Update Report*, August 2012, Table 1; Congressional Budget Office, *Sequestration Update Report*, August 2013, Table 1; Congressional Budget Office, *Sequestration Update Report*, August 2014, Table 1; Congressional Budget Office, *Sequestration Update Report*, August 2015, Table 1.

Notes: * = less than \$1 billion. Numbers may not add due to rounding. Figures incorporate changes made by ATRA. This table does not include additional discretionary spending that is offset by mandatory spending savings.

BCA Spending Cuts Relative to a Baseline Projection

For FY2012 to FY2021, discretionary and mandatory spending under the BCA as amended by ATRA, BBA 2013, and BBA2015 is projected to be reduced relative to baseline levels. Relative to a baseline using FY2011 appropriated levels adjusted for inflation,²⁰ CBO projects that the combination of the BCA’s caps and automatic spending reduction process as amended reduced discretionary outlays by \$95 billion in FY2013 and \$1,459 billion over 10 years, as shown in **Table 3**. The dollar amount of reductions to defense discretionary spending are modestly larger than the reductions to non-defense discretionary spending from 2016 to 2021 because of the formula used in the BCA to determine the allocation of the automatic spending reductions.

¹⁹ Congressional Budget Office, Letter to Honorable Paul Ryan, March 4, 2013, Table 1.

²⁰ This baseline is used because it was the official CBO baseline for discretionary spending until the enactment of the BCA. The amount of savings garnered by the Budget Control Act depends on the baseline to which it is being compared. For example, if it were being compared with a baseline based on 2010 levels of discretionary spending, the savings would be higher than if it were compared with 2011 levels. The spending cuts would also be larger if compared with a baseline where discretionary spending was held constant relative to GDP.

What Is a Baseline?

Baselines provide a benchmark for comparing how proposed budget policy changes would affect existing policies. Notably, a baseline allows the effect of a policy change to be compared with a benchmark of spending, revenue, or the deficit in the year that the change occurs, as opposed to comparing the change to, say, spending levels in prior years. The measured savings or costs from policy changes will depend on how the baseline is constructed. Conventional scoring procedures would measure a legislative proposal relative to CBO's official baseline, which is a current law baseline. In the current law baseline, CBO assumes that certain policies—notably, tax provisions—set to expire under current law will do so as scheduled.

However, changes in policy can also be measured relative to other proposals and baselines. For example, a baseline could assume that certain current policies will be extended; this is sometimes referred to as a *current policy* baseline.

Whether the BCA leads to lower overall discretionary spending than it intended depends on the level of spending outside the caps and which baseline spending level is used for comparison. Spending on disaster relief from 2012 to 2015 was at levels permitted by the BCA and spending on OCO was below 2011 levels. Thus, it could be argued that these categories outside the caps were not used to offset cuts to discretionary spending subject to the caps. By contrast, emergency spending in 2013 and 2015, enacted in the Disaster Relief Appropriations Act of 2013 (P.L. 113-2) and Consolidated and Further Continuing Appropriations Act, 2015 (P.L. 113-235) respectively, can be viewed as allowing overall discretionary spending to be \$42 billion higher in 2013 and \$5 billion in 2015 than it otherwise would have been. Stated differently, instead of offsetting the supplemental by reducing other discretionary spending under the cap, the supplemental was designated by Congress as emergency to provide spending in addition to the cap amount, in effect through deficit financing. Enacted emergency spending was netted out of the reductions in discretionary spending in **Table 3**; if emergency spending is not netted out, discretionary reductions were \$137 billion (the \$95 billion reduction plus \$42 billion in emergency spending) in FY2013, and \$147 billion (the \$142 billion reduction plus \$5 billion in emergency spending) in FY2015. There was no enacted emergency spending in FY2012 or FY2014.

Table 3. Total Changes in Budget Authority by Type from the BCA as Amended, FY2012-FY2021

(billions of \$; + increase in spending/- decrease in spending)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2012- FY2021
Discretionary	-30	-95	-124	-142	-124	-150	-186	-193	-201	-209	-1,459
Defense	-8	n/a	-66	-78	-66	-79	-98	-103	-107	-111	n/a
Non-Defense	-22	n/a	-58	-64	-58	-71	-88	-90	-94	-98	n/a
Mandatory	+3	-11	-15	-20	-21	-21	-22	-23	-24	-26	-182
Student Loans	+3	+6	+3	-2	-2	-2	-2	-2	-2	-3	-5
Automatic Process	n/a	-17	-18	-18	-19	-19	-20	-21	-22	-23	-177
- Medicare	n/a	-11	-9	-9	-10	-11	-12	-12	-13	-14	-101
- Other Mandatory	n/a	-6	-9	-9	-9	-8	-8	-9	-8	-9	-75
Memorandum: Total Cuts by Round											
Discretionary Caps/ Student Loans/Emergency Spending	-27	-21	-75	-77	-85	-91	-98	-106	-115	-125	-822
Automatic Process	n/a	-85	-109	-109	-109	-109	-109	-109	-109	-109	-957

Source: CRS calculations based on Congressional Budget Office, *Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2013; Office of Management and Budget, *OMB Sequestration Update Report to the President and Congress for Fiscal Year 2016*, August 2015; Congressional Budget Office, *Testimony Before the Joint Select Committee on Deficit Reduction*, U.S. Congress, October 26, 2011, Tables B-1 and B-2; Congressional Budget Office, *Letter to Honorable Paul Ryan*, March 4, 2013, Table 1.

Notes: The table incorporates changes made to the BCA by ATRA (P.L. 112-240), BBA 2013 (P.L. 113-67) and BBA 2015 (P.L. 114-74). A defense/non-defense breakdown is not available for 2013. The reductions in discretionary spending illustrated in this table are the combined effects of the statutory limits on discretionary spending (i.e., discretionary caps) and the automatic spending reduction process (those two sources of spending cuts are broken out in the memorandum). The savings from the cuts to discretionary spending are measured relative to discretionary funding levels for 2011, adjusted for inflation. The reductions in mandatory spending are a result of the BCA's student loan provisions and automatic spending reduction process; the latter did not begin until 2013. The table reduces discretionary spending cuts by \$42 billion in 2013 and by \$5 billion in 2015 to account for spending classified as emergency as a result of the Disaster Relief Appropriations Act (P.L. 113-2); for other years, emergency spending is assumed to be zero. The allocation of the cuts between discretionary and mandatory are based on current projections and could change over time based on actual spending levels. Totals may not sum due to rounding.

As seen in **Table 3**, mandatory spending was cut by \$11 billion in FY2013, and is projected to be cut by \$182 billion over the FY2013-FY2021 period under the automatic spending reduction process. Subsequent legislation has extended the mandatory spending reduction imposed by the BCA until FY2025, while the discretionary spending restrictions are still scheduled to end in FY2021. Most of the mandatory spending cuts in dollar terms are to Medicare. The amount of the cuts to mandatory spending is lower than those to discretionary spending because much of mandatory spending is exempt from the BCA's automatic cuts and mandatory spending is not subject to caps similar to those implemented for discretionary spending. Separate from the automatic process, the BCA also cuts mandatory spending on student loan programs by \$5 billion over 10 years.²¹

Spending Trends: Historical and Projected

To understand how the BCA affects spending over time, this section compares the levels and percentage changes in spending under the BCA to historical data. Spending levels over time can be compared using a number of different measures, however (see the text box below).

Measuring Spending Over Time

There are three main ways to measure changes in spending over time. Often, actual (nominal) dollar levels are used because that measure is most familiar. Over short periods of time when inflation is low, this measure can be useful; it has a number of drawbacks when making comparisons over long periods, however. The purpose of a comparison is to gauge the relative impact of spending over time, thereby making real or inflation-adjusted figures a more appropriate comparison. Real figures, which adjust for the increase in prices, account for the decline in the purchasing power of \$1 over time. For example, based on the consumer price index, \$1 in 1944 could buy the same amount of goods and services as \$13.45 in 2014. To buy a constant amount of goods and services over that period, the federal budget would have to increase by more than a factor of 13. Further, the relative impact of spending on households and the economy is eroded over time by economic growth, which provides households more income to spend on public and private goods. For example, at the height of World War II (1944), total federal spending was about \$91 billion, compared with \$3.5 trillion in 2014. But as a percentage of GDP, total federal spending was 43% of GDP in 1944, compared with 20% of GDP in 2014. This report compares spending levels using all three measures—nominal, real (inflation-adjusted), and as a percentage of GDP.

To date, recent policies to reduce the deficit have primarily focused on reducing discretionary spending (spending that is provided and controlled through the appropriations process). This trend pre-dates the BCA. In terms of budget authority, overall discretionary spending declined from \$1.264 trillion in FY2010 to \$1.221 trillion in FY2011 and to \$1.198 trillion in FY2012.²² These declines are in terms of nominal dollars; the decline would be larger if the figures were adjusted for inflation. In 2011, the decline was mostly the result of a reduction in non-defense discretionary spending, and in 2012 the decline was mostly caused by a reduction in spending on overseas contingency operations (OCO).

Table 4 shows the projected levels of discretionary budget authority and annual percentage changes, in real and nominal terms, subject to the BCA caps under the automatic spending reduction process (“trigger”). The levels in the table exclude funding for categories of spending

²¹ Congressional Budget Office, *Budget and Economic Outlook*, January 2012, p. 13.

²² Budget authority reported in **Table 2** comes from CBO's Sequestration Report, which measures discretionary spending differently from the definition used to calculate budgetary aggregates. In the context of this section, data from budgetary aggregates are more appropriate. Discretionary outlays declined from \$1.347 trillion in 2010 and \$1.346 trillion in 2011 to \$1.285 trillion in 2012. Office of Management and Budget, *Budget for FY2013, Historical Tables*, Tables 5.6 and 8.1; Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, Table 3-5.

(such as OCO, emergency, and disaster) for which cap adjustments are permitted.²³ Because those categories of spending are effectively exempt from the caps, it is possible that the trend of growth in overall discretionary spending (spending subject to the cap plus exempt spending) could turn out to be higher than growth in discretionary spending subject to the BCA caps in future years, even if there is strict compliance with the caps. Alternatively, future Congresses could decide to appropriate an overall level of discretionary spending below the BCA caps, in which case the growth in actual spending would be lower than the growth in the caps.

²³ See **Table 2** for levels of discretionary spending in exempt categories in FY2012 and FY2013.

Table 4. Discretionary Budget Authority Subject to BCA Caps as Amended, 2011-2021

(billions of \$; percentage change from prior year)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Nominal											
Defense	551	555	518	520	521	548	551	549	562	576	590
Nominal % Change	-0.3%	0.6%	-6.5%	0.4%	0.2%	5.1%	0.5%	-0.4%	2.4%	2.5%	2.4%
Non-Defense	508	507	484	492	492	518	519	515	529	543	555
Nominal % Change	-5.9%	-0.3%	-4.5%	1.6%	0.1%	5.2%	0.1%	-0.6%	2.7%	2.5%	2.3%
Total	1,059	1,062	1,080	1,012	1,014	1,066	1,070	1,064	1,091	1,119	1,145
Nominal % Change	-3.2%	0.2%	1.8%	-6.7%	0.1%	4.9%	0.3%	-0.5%	2.5%	2.4%	2.3%
Real (Inflation-Adjusted, Relative to FY2009)											
Defense	536	530	487	482	478	496	490	479	480	482	484
% Change	-2.3%	-1.1%	-8.0%	-1.1%	-0.8%	3.7%	-1.2%	-2.3%	0.3%	0.4%	0.3%
Non-Defense	494	484	455	455	452	469	461	449	452	454	455
% Change	-7.7%	-2.0%	-6.0%	0.1%	-0.8%	3.8%	-1.6%	-2.6%	0.7%	0.4%	0.2%
Total	1,030	1,014	1,016	937	930	964	951	928	932	936	939
% Change	-5.0%	-1.5%	0.1%	-7.7%	-0.8%	3.7%	-1.4%	-2.4%	0.5%	0.4%	0.3%

Source: CRS calculations and inflation projections based on Office of Management and Budget, *Budget for Fiscal Year 2016, Historical Tables*, Tables 5.6 and 10.1; OMB Report on Disaster Relief Funding to the Committees on Appropriations and the Budget of the U.S. House of Representatives and the Senate, September 1, 2011, Table 1; Congressional Budget Office, *The Budget and Economic Outlook: 2014 to 2024*, February 2014, Table 3-4; Congressional Budget Office, *An Update to The Budget and Economic Outlook: Fiscal Years 2015 to 2025*, August 2015, various tables.

Notes: The table incorporates changes made to the BCA by ATRA (P.L. 112-240), BBA 2013 (P.L. 113-67) and BBA 2015 (P.L. 114-74). The reductions in discretionary spending illustrated in this table are the combined effects of the statutory limits on discretionary spending (i.e., discretionary caps) and the automatic spending reduction process. Totals may not sum due to rounding. Budget authority numbers are BCA cap levels as amended by ATRA and BBA, and do not include adjustments to the caps allowed under BCA for categories of spending not subject to the caps (disaster spending, OCO, and emergency spending). For 2012 through 2015, additional discretionary spending offset by mandatory savings is added to the cap levels. CBO categorizes data according to definitions that are different from those used in the BCA; therefore, totals in this table differ slightly from totals prescribed in the BCA.

From FY2011 to FY2015, discretionary budget authority subject to the caps fell in real terms each year. In both nominal and real terms, the largest year-over-year percentage declines in spending over the FY2011 to FY2021 period took place in FY2013, largely as a result of the spending reductions instituted by the BCA. That year, discretionary budget authority subject to the caps fell by 6.5% in nominal terms and 8.0% as a percentage of GDP compared with FY2012 levels.²⁴ Spending subject to the caps experienced smaller real declines in FY2014 and FY2015, as BBA 2013 increased the caps on discretionary budget authority in those years. Discretionary spending is forecasted to rise by 5.1% on a nominal basis and 3.7% in real terms in FY2016, and fall by 1.4% in real terms (though rise by 0.5% on nominal terms) in FY2017. The spending patterns in these years deviate from the trend largely due to the agreement to raise the caps on discretionary spending made by BBA 2015. BBA 2015 made no changes to FY2018 discretionary spending limits, resulting in a nominal and real decline in discretionary budget authority as the more restrictive limits designed by the BCA take effect.

Discretionary spending is then forecasted to undertake modest real increases from FY2019 through FY2021, the last years that discretionary spending is affected by the BCA as amended. Since the BCA caps nominal spending, whether real spending increases or decreases from FY2016 to FY2021 will be highly sensitive to the inflation rate. For example, if inflation turns out to be slightly higher than projected, spending would decrease in real terms from FY2019 to FY2021 instead of the decline shown in **Table 4**.²⁵

Although data on spending subject to the caps is only available since FY1976, overall nominal discretionary budget authority fell in only nine other years from FY1976 through FY2011, and by less than 5% in each of those years except FY2010.²⁶ The FY2013 decline was larger than in any other year except FY2010.²⁷ The decline in spending subject to the caps in FY2013 follows a nominal decline in FY2011 and a nominal increase in FY2012 that was less than the rate of inflation (resulting in a decline in real terms).²⁸ In FY2015 real discretionary spending again declined, and was at its lowest value since FY2007.

To compare projections of discretionary spending under the BCA to historical trends, adjustments need to be made for types of discretionary spending not subject to the BCA caps, such as emergency spending, disaster spending, and OCO. **Table 5** makes this adjustment by excluding funding for OCO and disaster spending for FY2001 to FY2011. Emergency spending was not removed from spending totals.

Table 5 compares growth in discretionary spending (adjusted to remove OCO and disaster spending) before and after the changes made by the BCA, ATRA, and BBA took effect. In real terms, discretionary spending subject to the caps grew at an average annual rate of 2.9% from FY2001 through FY2011. Growth in real defense discretionary spending (3.5% on average) was stronger than that of non-defense discretionary spending (2.3% on average) in that time period. From FY2012 to FY2015, the combined effect of the BCA, ATRA, and BBA cause spending to

²⁴ The percentage decline in overall discretionary budget authority will depend on the change in budget authority for exempt categories, such as OCO, disaster, and emergency spending.

²⁵ Because the population is growing over the next 10 years, real or nominal declines would be greater on a per capita basis than the overall rates shown in **Table 4**.

²⁶ From 1977 to 2011, overall discretionary outlays only fell in two years in nominal terms, however.

²⁷ The FY2010 spending declines largely reflect the previous year increase in discretionary BA caused by the American Reinvestment and Recovery Act (ARRA), popularly referred to as the “stimulus act.” Non-defense budget authority was \$1.2 trillion in 2008, \$1.5 trillion in 2009, and \$1.3 trillion in 2010.

²⁸ As noted above, overall discretionary budget authority fell in 2012, but mainly because of a decline in OCO spending, which is not subject to the caps.

decline by an average of 2.5% annually, with a fairly evenly split between defense (2.8% average decline) and non-defense (2.2% average decline) discretionary reductions. The difference between the first and third columns of **Table 5** demonstrates the potential for overall discretionary spending growth to exceed the growth rate desired under the caps. In the 2001-2011 period, spending primarily related to Hurricane Katrina and operations in Iraq and Afghanistan caused OCO and disaster spending growth to exceed the growth rate of other discretionary spending.²⁹ From 2012 to 2015, the trend has reversed, with total real discretionary spending declining by an annual average of 4.0%. Discretionary spending subject to the caps and outside of the caps (mainly OCO) both declined in those years.

Table 5. Compound Annual Real Growth Rate of Discretionary Budget Authority, FY2001-FY2015

(percentage change, adjusted for inflation)

	Overall		Subject to Caps	
	2001-2011	2012-2015	2001-2011	2012-2015
Defense	5.9%	-6.1%	3.4%	-2.8%
Non-Defense	3.3%	-1.3%	2.2%	-2.2%
Total	4.7%	-4.0%	2.3%	-2.5%

Source: CRS calculations based on CBO and OMB data.

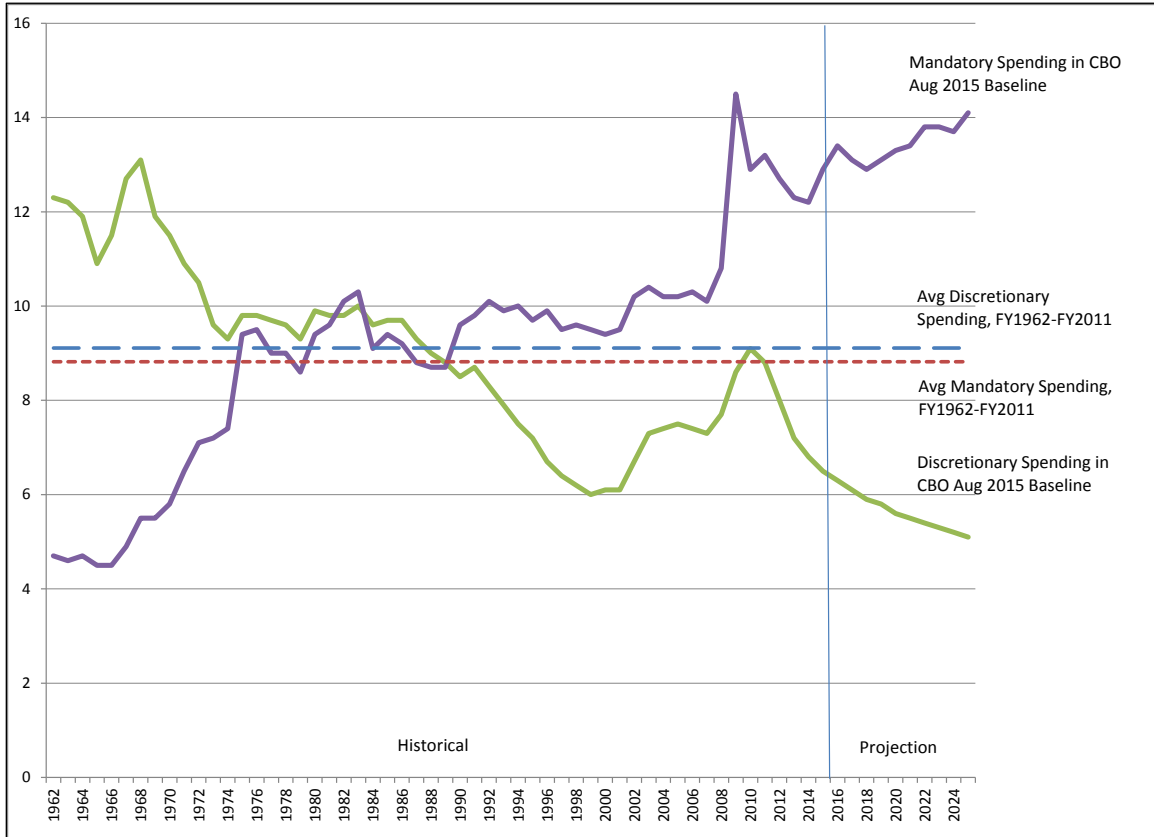
Notes: The projections of discretionary spending illustrated in this table assume that the statutory limits on discretionary spending (i.e., discretionary caps) and the automatic spending reduction process come into effect as scheduled. For historical data, numbers subject to caps are total discretionary BA less disaster spending and OCO. Data adjusted for inflation using GDP price deflator.

Figure 2 shows levels of total discretionary and mandatory spending as a percentage of GDP between FY1962 and FY2025.³⁰ The levels between FY2016 and FY2025 are projected and assume that the discretionary caps and automatic spending cuts go into effect as scheduled under current law. As noted above, to compare historical data to projections, adjustments must be made for categories of discretionary spending exempt from the BCA caps.

²⁹ From 2001 to 2010, OCO BA averaged \$111 billion and disaster BA averaged \$13 billion.

³⁰ The remainder of this report (including **Figure 2** and **Table 6**) will use outlays in lieu of budget authority as a measure for federal spending levels.

Figure 2. Discretionary and Mandatory Outlays, FY1962-FY2015
(Outlays as a Percentage of GDP)



Source: Office of Management and Budget, *Budget for FY2016, Historical Tables*, Table 8.4; Congressional Budget Office, *An Update to The Budget and Economic Outlook: Fiscal Years 2015 to 2025*, August 2015, Table I-1; CRS calculations.

Notes: The projection of discretionary spending illustrated in this table assumes that the statutory limits on discretionary spending (i.e., discretionary caps) and the automatic spending reduction process come into effect as scheduled. Federal spending data are categorized as discretionary and mandatory only back to FY1962.

Discretionary spending over the FY1962-FY2011 period averaged 9.1% of GDP.³¹ As **Figure 2** shows, it rose relative to GDP from 1999 to 2011, but remained below the levels prevalent from FY1962 to FY1987.³² In 2018, discretionary spending under the baseline would reach its lowest share of GDP since data were first available, at 5.9% of GDP, and would continue to decline thereafter. By FY2025, discretionary spending is projected to reach 5.1% of GDP, or nearly 4 percentage points below the historical average. CBO’s baseline projection assumes that defense discretionary spending and non-defense discretionary spending will reach their lowest share of GDP in this time frame in FY2025.

Before the enactment of the BCA, there were two periods of sustained decline in discretionary spending as a percentage of GDP since 1962, occurring in FY1969-FY1974 and FY1987-FY1999, respectively. In both cases, the decline was driven mainly by a reduction in defense

³¹ Federal spending data are categorized as discretionary and mandatory only back to FY1962.

³² Defense discretionary spending rose throughout the 2001-2011 period as a percentage of GDP. Non-defense discretionary spending showed no upward trend until 2009.

spending as a percentage of GDP, in the former case because of a wind-down of operations in Vietnam and in the latter case by the “peace dividend” associated with the end of the Cold War. Non-defense discretionary spending fell as a percentage of GDP only in the second half of the latter period. In both cases, the decline in spending began from a higher starting point than today.

Mandatory spending under the BCA, by contrast, is projected to continue to grow in nominal terms and relative to GDP over the next 10 years. It is projected to increase from \$2.0 trillion (12.9% of GDP) in FY2015 to \$3.9 trillion (14.1% of GDP) in FY2021. This growth is primarily due to the projection that elderly entitlement spending (notably, Social Security and Medicare) will grow more quickly than GDP over the next 10 years. The BCA has a minimal effect on this trend—it reduces mandatory spending under the automatic spending reduction process by one-tenth of 1% of GDP annually. Social Security is exempt from the BCA’s automatic process, and most Medicare payments are reduced by no more than 2% relative to baseline levels. As can be seen in **Figure 2**, the increased level in mandatory spending as a percentage of GDP that began in 2009 persisted through the enactment of the BCA and continues through the current budget window. The cuts to Medicare under the BCA relative to current policy are not projected to prevent Medicare spending from growing in real terms or relative to GDP over the 10-year budget window.

Total spending is composed of discretionary spending, mandatory spending, and net interest on the federal debt. From FY2019 to FY2021, the growth in mandatory spending and net interest is greater than the decline in discretionary spending, resulting in a projected rise in total spending as a percentage of GDP. In FY2021, total spending is projected to equal 21.3% of GDP.³³ This is well above the historical average; from FY1947 to FY2011, total outlays averaged 19.7% of GDP.

Effects on the Budget Deficit

As discussed earlier, the BCA was originally projected to reduce the deficit by roughly \$1.9 trillion between FY2012 and FY2021, ignoring subsequent modifications. These figures include both the direct effect of lower spending on deficits and the interest savings stemming from the lower deficits resulting from lower spending. However, since the law has been enacted, various legislative provisions have resulted in increases in the deficit, relative to current law, which “offset” the deficit reduction enacted in the BCA. **Table 6** below illustrates the changes to the current law baseline as a result of legislation enacted since August 2011 (the month of enactment for the BCA).

³³ OCO spending is about 1% of GDP in this projection. If OCO spending were zero, spending in 2021 would still exceed the historical average.

Table 6. Legislative Changes Affecting the Current Law Baseline Deficit, August 2011-August 2015

(billions of \$)

Effect on Deficit (Increase (+)/Decrease (-))											FY2012
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	- FY2021
Budget Control Act											
Discretionary Spending Caps and Other Provisions	-22	-41	-56	-69	-76	-83	-91	-99	-106	-115	-758
Automatic Spending Reductions	0	-66	-93	-101	-104	-106	-106	-105	-105	-105	-891
Net Interest Savings from the BCA	0	-1	-3	-7	-15	-25	-37	-50	-62	-76	-276
Non-BCA Spending Changes	48	49	44	-12	-47	-71	-66	-94	-101	-110	-357
Revenue Changes	89	313	339	348	244	321	356	392	419	473	3,294
Other Net Interest	0	2	7	10	23	42	67	86	105	129	471
Total Increase in the Deficit as a Result of Legislative Action Since August 2011 Excluding the BCA	137	364	390	346	220	292	357	384	423	492	3,408
Total Increase in the Deficit as a Result of Legislative Action Since August 2011 Including the BCA	115	256	238	169	25	78	123	130	150	196	1,483
<i>Memo (not including net interest effects):</i>											
Effect on the deficit due to ATRA	0	329	354	311	340	371	405	416	448	482	3,456
Effect on the deficit due to BBA 2013	0	0	42	15	-4	-5	-5	-5	-5	-5	30

Source: CRS calculations based on CBO data from The Budget and Economic Outlook: An Update, August 2011, Table A-1; The Budget and Economic Outlook: Fiscal Years 2012 to 2022, January 2012, Table A-1 and A-2; Updated Budget Projections: Fiscal Years 2012 to 2022, March 2012, Table 3; An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022, August 2012, Table A-1; and The Budget and Economic Outlook: Fiscal Years 2013 to 2023, February 2013, Table A-1; Updated Budget Projections: Fiscal Years 2013 to 2023, May 2013, Box 1-1 and Table 6; Cost Estimate of the Bipartisan Budget Act of 2013, December 11, 2013, Table 1; The Budget and Economic Outlook: Fiscal Years 2014 to 2024, February 2014, Table A-1; Updated Budget Projections: 2014 to 2024, April 2014, Table 5; An Update to the Budget and Economic Outlook: 2014 to 2024, August 2014, Table A-1; The Budget and Economic Outlook: 2015 to 2025, January 2015, Table A-1; Updated Budget Projections: 2015 to 2025, March 2015, Table 5; and An Update to the Budget and Economic Outlook: 2015 to 2025, August 2015, Table A-1 .

Notes: Totals may not sum due to rounding. A portion of the non-BCA spending changes result from baseline rules that extrapolate discretionary funding from the current year to future years. This table does not include changes made since August 2015, including from BBA 2015 (P.L. 114-74), as those modifications occurred after

the most recent CBO budget forecast. CBO projected that the direct and indirect provisions of BBA 2015 would reduce budget deficits by \$0.5 billion from FY2016-FY2025: that effect includes deficit increases in the first part of the budget window, followed by reductions in later years. CBO estimates that the BBA will increase budget deficits by a combined \$70.3 billion from FY2016-FY2021, including a \$33.7 billion increase in FY2016.

The legislation that increased the deficit the most relative to current law was ATRA. ATRA made various changes to the tax code and several spending programs, including modification of the provisions of the BCA as it related to the FY2013 sequester as discussed earlier.³⁴ As a result of ATRA, CBO projected the deficit would increase by more than \$3 trillion between FY2013 and FY2021. (The total increase in the deficit from the legislation was estimated at \$4 trillion over the FY2013-FY2022 period.³⁵ Compared with a current policy baseline that assumes expiring provisions will be extended, however, ATRA reduced the deficit.)³⁶ Other legislation had much smaller effects on both spending and revenue levels.

Relative to CBO's current law baseline, the cumulative effect of legislative action from August 2011 to August 2015 increased the projected deficit over the FY2012-FY2021 (or the period during which all components of the BCA are in place) period by \$1.483 trillion. If the deficit reduction provisions of the BCA are not included, the legislative action during this period increased the projected budget deficit by \$3.408 trillion.

As this discussion illustrates, individual policy changes cannot be taken in isolation. The BCA sought to match deficit reduction provisions with a multi-step increase in the debt limit, although in isolation BCA deficit reductions would not prevent the need for future debt limit increases. In any case, matching deficit reduction with debt limit increases is an intermediate goal, but not an ultimate goal of fiscal policy. Two other potential goals of deficit reduction are to balance the budget or to place the deficit on a sustainable path. Economists believe that the budget will eventually need to be placed on a sustainable path because debt cannot rise faster than income (GDP) indefinitely.³⁷

Under the most recent CBO baseline, the budget deficit falls from 2.8% of GDP in FY2014 to 2.4% of GDP in FY2015 to a low of 2.1% of GDP in FY2017. After that, it begins to rise once again, reaching 3.7% of GDP by FY2025, though it falls slightly in 2023 and 2024. Over the same period, the debt held by the public is projected to rise from 74.0% of GDP to 76.9% of GDP in FY2025, though as with the deficit the debt does not increase in all years during this period.³⁸ Beyond the 10-year budget window, projected budget deficits become much larger relative to GDP, primarily due to the assumption that health care costs will continue to grow faster than GDP.³⁹

Moreover, these deficit and debt projections assume that current law will remain in place. If Congress and the President enact subsequent legislation to decrease revenue levels or increase spending, these projections could change. Congress also has the option of offsetting discretionary spending increases with reductions in mandatory budget authority that were unlikely to be realized as outlays under current law. Such reductions, which are commonly referred to as CHIMPS, may decrease the impact of such legislation on net deficits under the present

³⁴ In **Table 6**, changes made by ATRA to the BCA are included as part of the "Non-BCA Spending Changes" and "Revenue Changes" categories.

³⁵ CBO, *Estimate of the Budget Effects of H.R. 8, the American Taxpayer Relief Act of 2012, as passed by the Senate on January 1, 2013*, January 1, 2013.

³⁶ See, for example, Office of Management and Budget, OMBlog, *American Taxpayer Relief Act Reduces Deficits by \$737 Billion*, January 1, 2013, available at <http://www.whitehouse.gov/blog/2013/01/01/american-taxpayer-relief-act-reduces-deficits-737-billion>.

³⁷ For more information, see CRS Report R40770, *The Sustainability of the Federal Budget Deficit: Market Confidence and Economic Effects*, by (name redacted)

³⁸ CBO, *An Update to The Budget and Economic Outlook: Fiscal Years 2015 to 2025*, August 2015, Summary Table 1.

³⁹ For more information, see CRS Report RL32747, *The Economic Implications of the Long-Term Federal Budget Outlook*, by (name redacted)

scorekeeping rules, but have no effect on the actual mandatory spending if such budget authority would not have been exercised. Besides new initiatives, Congress and the President have routinely increased the deficit by temporarily extending over 50 expiring tax provisions in recent years.⁴⁰ If these policies continue to be extended, CBO projects that the deficit will increase by nearly an additional \$1 trillion over the FY2016-FY2025 period, with additional deficit increases beyond FY2025.

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⁴⁰ For more information about expiring tax provisions, see CRS Report R43898, *Tax Provisions that Expired in 2014* (“*Tax Extenders*”), by (name redacted) .

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