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# The Federal Budget: Overview and Issues for FY2017 and Beyond

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## Summary

The federal budget is a central component of the congressional “power of the purse.” Each fiscal year, Congress and the President engage in a number of practices that influence short- and long-run revenue and expenditure trends. This report offers context for the current budget debate, and tracks legislative events related to the federal budget as they occur.

In recent years, policies enacted to decrease spending, along with a stronger economy, have led to reduced budget deficits. The Budget Control Act of 2011 (BCA; P.L. 112-25) implemented several measures intended to reduce the deficit from FY2012-FY2021. Three subsequent pieces of legislation have modified the BCA since its enactment—the American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240), the Bipartisan Budget Act of 2013 (BBA 2013; P.L. 113-67), and the Bipartisan Budget Act of 2015 (BBA 2015; P.L. 114-74). These measures modified the discretionary budget authority levels permitted under the BCA for FY2013 through FY2017. Various deficit reduction measures were included to offset the costs of the changes to spending levels in that legislation, including extensions of the mandatory portion of spending reductions established by the BCA. The BCA will continue to affect spending limits in FY2017 and beyond, and Congress may debate enacting further modifications.

The Obama Administration released its budget for FY2017 on February 9, 2016. If the policies included in the budget proposal are fully implemented, spending (outlays) would total an estimated \$4,147 billion (21.5% of GDP) and revenues an estimated \$3,644 billion (18.9% of GDP) in FY2017. Over the 10-year window, the proposed budget would decrease the deficit from an estimated 3.3% of GDP in FY2016 to 2.8% of GDP in FY2026, averaging 2.6% of GDP over the next decade.

The President’s budget proposes a small decrease in the FY2017 cap on nondefense discretionary budget authority, followed by larger increases in the defense and nondefense discretionary caps for FY2018 through FY2021. The budget also proposes to eliminate the sequester on mandatory programs through FY2025. Deficit reduction is proposed through various changes to the tax code, immigration reform, and mandatory health programs.

Congressional consideration of the FY2017 budget is underway. The Budget Committees in the House and Senate each develop a budget resolution as they receive information and testimony from a number of sources, including the Administration, the Congressional Budget Office, and congressional committees with jurisdiction over spending and revenues. In February, House Budget Committee Chairman Tom Price (R-GA) and Senate Budget Committee Chairman Mike Enzi (R-WY) began the process of preparing budget resolutions in advance of consideration in the House and Senate. Absent an agreement on a budget resolution conference report for FY2017 by the House and Senate, the BBA 2015 provides that the Senate Budget Committee Chairman submit an allocation for publication in the *Congressional Record* of FY2017 budgetary resources between April 15, 2016, and May 15, 2016.

Though the federal budget deficit has fallen in recent years, trends resulting from current federal fiscal policies are generally thought by economists to be unsustainable in the long term. Projections suggest that achieving a sustainable long-term trajectory for the federal budget will require deficit reduction. Reductions in deficits could be accomplished through revenue increases, spending reductions, or some combination of the two.

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Federal budget decisions express the priorities of Congress and reinforce its influence on federal policies. Making budgetary decisions for the federal government is a complex process and requires the balance of competing goals.<sup>1</sup> The recent economic recession adversely affected federal budget outcomes through declines in revenue and increases in spending. Subsequent improvement of the economy and implementation of policies designed to lower spending have improved the short-term budget outlook. In FY2015, the federal budget recorded a deficit of 2.5% of gross domestic product (GDP), which represents the lowest deficit level since FY2007.

Over the next several years, projections of a continued decline in discretionary spending are more than offset by increases in mandatory spending and net interest payments, leading to a rise in federal deficits. Increases in the long-term cost of federal health care programs, federal debt levels, and the retirement of the baby boom generation all contribute to upward pressure on federal spending levels. Operating these programs in their current form may pass on substantial economic burdens to future generations. Congress and the President may consider proposals for deficit reduction if fiscal issues remain a key item on the legislative agenda.

This report summarizes issues surrounding the federal budget and discusses policy changes relevant to the budget framework for FY2017. It also discusses the major policy proposals included in the President's FY2017 budget and, when available, the House and Senate budget resolutions. Finally, this report addresses major short- and long-term fiscal challenges facing the federal government.

## Overview

Each fiscal year, Congress and the President engage in a number of practices that influence short- and long-run revenue and expenditure trends. This section describes the budget cycle and explains how budget baselines are constructed. Budget baselines are used to measure how legislative changes affect the budget outlook and are integral to evaluating these policy choices.

## Budget Cycle<sup>2</sup>

Action on a given year's federal budget, from initial formation by the Office of Management and Budget (OMB) until final audit, typically spans four calendar years.<sup>3</sup> The executive agencies begin the budget process by compiling detailed budget requests, overseen by OMB. Agencies work on their budget requests in the calendar year before the budget submission, often during the spring and summer (about a year and a half before the fiscal year begins). The President usually submits the budget to Congress around the first Monday in February, or about eight months before the beginning of the fiscal year.<sup>4</sup>

Congress typically begins formal consideration of a budget resolution once the President submits the budget request. The budget resolution is a plan, agreed to by the House and Senate, which

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<sup>1</sup> For more information, see CRS Report 98-721, *Introduction to the Federal Budget Process*, coordinated by James V. Saturno.

<sup>2</sup> This section provides an outline for the formulation and execution of a budget and appropriations cycle for a fiscal year. However, this timetable is not fixed and often varies by year.

<sup>3</sup> CRS Report 98-325, *The Federal Fiscal Year*, by Bill Heniff Jr.

<sup>4</sup> The contents of the presidential budget submission are governed by 31 U.S.C. §1105. For reasons why the budget may be delayed, see CRS Report RS20179, *The Role of the President in Budget Development*, by Clinton T. Brass.

establishes the framework for subsequent budgetary legislation. Because the budget resolution is a concurrent resolution, it is not sent to the President for approval.<sup>5</sup> If the House of Representatives and Senate cannot agree on a budget resolution, a substitute measure known as a “deeming resolution” may be implemented by each chamber.<sup>6</sup>

House and Senate Appropriations Committees and their subcommittees typically begin reporting discretionary spending bills after the budget resolution is agreed upon. Appropriations Committees review agency funding requests and propose levels of budget authority (BA).<sup>7</sup> Appropriations acts passed by Congress set the amount of BA available for specific programs and activities. Authorizing committees, which control mandatory spending, and committees with jurisdiction over revenues also play important roles in budget decision making.<sup>8</sup>

During the fiscal year, Congress and OMB oversee the execution of the budget.<sup>9</sup> Once the fiscal year ends on the following September 30, the Department of the Treasury and the Government Accountability Office (GAO) begin year-end audits.

## **Budget Baseline Projections**

Budget baseline projections are used to project the future impact of current laws and measure the effect of future legislation on spending and revenues. They are not meant to predict future budget outcomes. Baseline projections are included in both the President’s budget and the congressional budget resolution. It is important to understand the assumptions and components included in budget baselines. In some cases, slight changes in the underlying models or assumptions can lead to large effects on projected deficits, receipts, or expenditures.

The Congressional Budget Office (CBO) computes current-law baseline projections using assumptions set out in budget enforcement legislation.<sup>10</sup> Since Congress and the President have resolved certain questions related to expiring tax policy and have enacted specific policies set to control discretionary spending over the next decade, there are fewer policy uncertainties affecting the baseline levels under current law. On the revenue side of the budget, the American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240; see additional discussion below) permanently set into law many individual tax rates and tax policy provisions. On the spending side, baseline discretionary spending levels are largely constrained by the caps and automatic spending reductions enacted as part of the Budget Control Act of 2011 (BCA; P.L. 112-25) and further modified by the Bipartisan Budget Act of 2015 (BBA 2015; P.L. 114-74).<sup>11</sup>

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<sup>5</sup> For more information, see CRS Report RL30297, *Congressional Budget Resolutions: Historical Information*, by Bill Heniff Jr.

<sup>6</sup> For information on deeming resolutions, see CRS Report R44296, *Deeming Resolutions: Budget Enforcement in the Absence of a Budget Resolution*, by Megan S. Lynch.

<sup>7</sup> Budget authority represents the amounts appropriated for a program, or the funds that may legally be spent. Outlays represent the disbursed federal funds. There is generally a lag between when budget authority is appropriated and outlays occur, sometimes across fiscal years.

<sup>8</sup> For more information on the appropriations and authorization process, see CRS Report R42388, *The Congressional Appropriations Process: An Introduction*, by Jessica Tollestrup.

<sup>9</sup> The fiscal year runs from October through September: FY2016 began on October 1, 2015, and ends on September 30, 2016.

<sup>10</sup> Many of the rules governing the baseline contained in Section 257 of the Balanced Budget and Emergency Deficit Control Act, as amended, were extended or modified as part of the Budget Control Act of 2011 (P.L. 112-25).

<sup>11</sup> The BCA allows for discretionary spending to be adjusted for war funding, disaster, emergency, and program integrity spending.

The CBO baseline also incorporates policy provisions in current law that have historically been revised before the subsequent policy changes actually took effect. Specifically, the CBO baseline assumes that discretionary budget authority from FY2018 through FY2021 will be restricted by the caps as created by the BCA, and that certain expiring tax provisions will not be extended.<sup>12</sup> This leads to baseline projections of lower spending and higher revenue levels relative to what some consider likely based on previous policy actions.

In addition to these elements of current law, macroeconomic assumptions, specifically of GDP growth, inflation, and interest rates, will also affect the baseline estimates and projections. Minor changes in the economic or technical assumptions that are used to project the baseline also could result in significant changes in the outyear deficit levels.<sup>13</sup>

Current baseline projections show rising budget deficits over the next several years.<sup>14</sup> Such a trend represents a reversal from the significant declines in inflation-adjusted deficits experienced in the past few fiscal years.<sup>15</sup> Those declines were primarily due to continued increases in employment (which increased revenues collected from income and payroll taxes) and reductions in discretionary spending. While the baseline projections include continued declines in discretionary outlays, those reductions are more than offset by increases in mandatory spending, which are largely due to the rising cost of Social Security and Medicare programs.

Baseline projections also include increases in debt held by the public throughout the 10-year budget window. Debt held by the public finances budget deficits and federal loan activity, and is a function of three things: (1) the size of existing debt, (2) economic growth, and (3) interest rates.<sup>16</sup> Debt held by the public declined in FY2015 for the first time since FY2007, which was largely attributable to interest rates that were well below their historical averages. However, the baseline projections include a rise in interest rates, which causes debt held by the public to increase. Debt held by the public was 73.6% of GDP at the end of FY2015, and is projected to be 86.1% of GDP at the end of FY2026.

**Table 1. Selected CBO Baseline Budget Projections**  
(% of GDP)

	FY2015 (actual)	FY2016	FY2021	FY2026
Budget Deficit	2.5%	2.9%	4.0%	4.9%
Debt Held by the Public	73.6%	75.6%	78.8%	86.1%

**Source:** Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026*, January 2016, Table S-1.

<sup>12</sup> The Protecting Americans from Tax Hikes Act of 2015 (PATH Act), passed as part of the Consolidated Appropriations Act, 2016 (P.L. 114-113; see additional discussion below), modified most of the previously expired tax provisions that had been extended several times by past Congresses. The PATH Act made many of those provisions permanent, while others were extended through the 2016 or 2019 tax year. Provisions that were not made permanent are assumed to expire as scheduled under the CBO baseline.

<sup>13</sup> CBO, *The Budget and Economic Outlook: 2016 to 2026*, January 2016.

<sup>14</sup> Unless otherwise noted, budget data in this report are taken from tables in CBO, *The Budget and Economic Outlook: 2016 to 2026*, January 2016.

<sup>15</sup> Except where otherwise noted, all deficit and debt figures are expressed as a percentage of GDP, in order to account for the effects of inflation.

<sup>16</sup> For more information on the interaction of deficits and debt, see CRS Report R44383, *Deficits and Debt: Economic Effects and Other Issues*, by Grant A. Driessen.

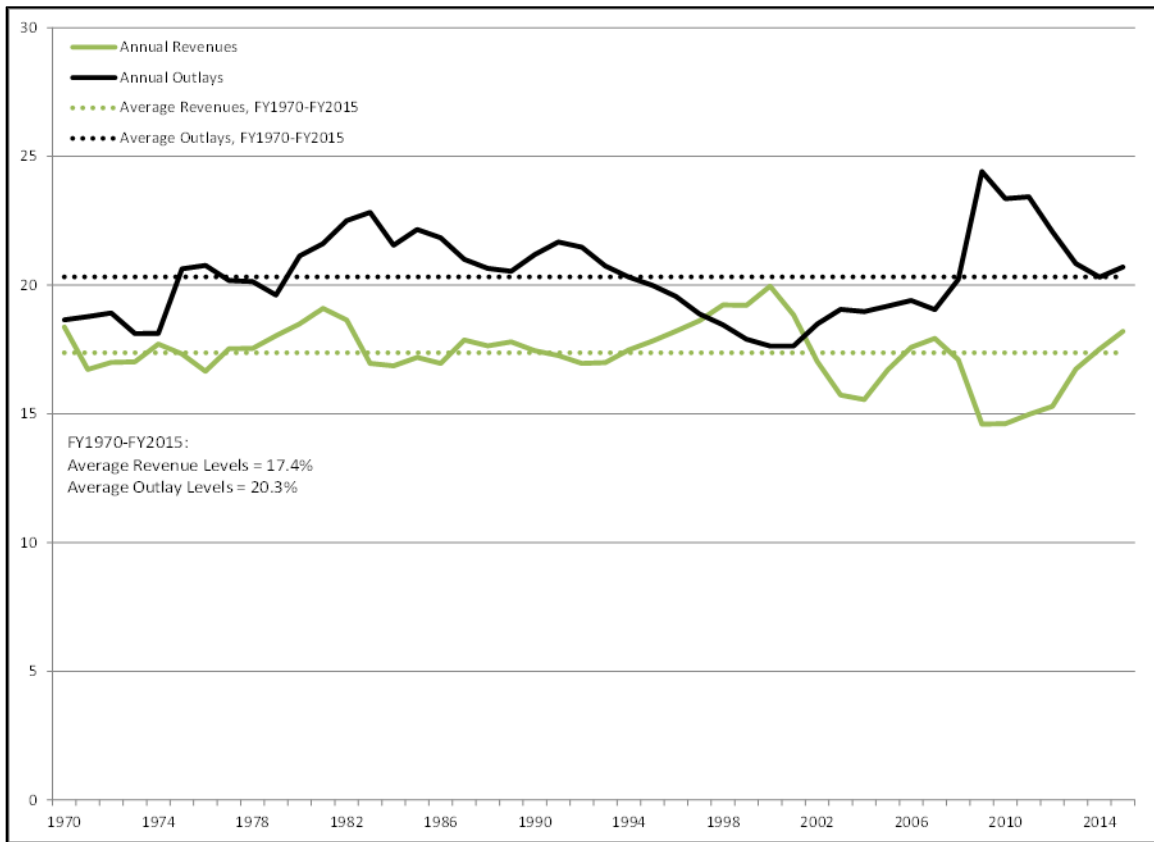
CBO also provides projections based on alternative policy assumptions, which illustrate the levels of spending and revenue if current policies continue, rather than expire as scheduled under current law. If discretionary spending caps established by the BCA are lifted and expiring tax provisions are extended, CBO projects an increase in the budget deficit of more than \$1.0 trillion relative to the current-law baseline, inclusive of debt servicing costs, over the FY2017 to FY2026 period. Beyond the 10-year forecast window, federal deficits are expected to grow unless major policy changes are made. This is a result of increased outlays largely attributable to health care and retirement costs.

## Spending and Revenue Trends

Over the last four decades, on average, federal spending has accounted for approximately 20.5% of the economy (as measured by GDP), while federal revenues averaged roughly 17.4% of GDP. Since FY2002, spending exceeded revenues in each fiscal year, resulting in budget deficits. Between FY2009 and FY2012, spending and revenue deviated significantly from historical averages, primarily as a result of the economic downturn and policies enacted in response to financial turmoil. In FY2015, the U.S. government spent \$3.69 trillion and collected \$3.25 trillion in revenue. At 2.5% of GDP, the resulting budget deficit was the smallest imbalance since FY2007. The trends in revenues and outlays between FY1970 and FY2015 are shown in **Figure 1**.

**Figure 1. Total Outlays and Revenues, FY1970-FY2015**

(as a % of GDP)



**Source:** Congressional Budget Office, Historical Tables, January 2016. CRS calculations.



## Federal Spending

Federal outlays are often divided into three categories: discretionary spending, mandatory spending, and net interest.<sup>17</sup> Discretionary spending is controlled by annual congressional appropriations acts. Mandatory spending encompasses spending on entitlement programs and spending controlled by laws other than annual appropriations acts.<sup>18</sup> Entitlement programs such as Social Security, Medicare, and Medicaid make up the bulk of mandatory spending. Congress sets eligibility requirements and benefits for entitlement programs, rather than appropriating a fixed sum each year. Therefore, if the eligibility requirements are met for a specific mandatory program, outlays are made without further congressional action. Net interest comprises the government's interest payments on the debt held by the public, offset by small amounts of interest income the government receives from certain loans and investments.<sup>19</sup>

### *Federal Spending Relative to the Size of the Economy (GDP)*

In FY2000, total outlays equaled 17.6% of GDP, the lowest recorded level since FY1966. In FY2009, outlays peaked at 24.4% of GDP. Outlays then fell steadily for the next few years, equaling 20.3% of GDP in FY2014, before rising to 20.7% of GDP in FY2015. Under the CBO baseline, total outlays are projected to continue rising and will reach 23.1% of GDP in FY2026. **Figure 2** shows the level of federal spending as a percentage of GDP, broken into the discretionary, mandatory, and net interest categories, between FY2000 and FY2026, as projected in the CBO baseline.

In FY2000, discretionary spending totaled 6.1% of GDP. Discretionary spending increased in most years between FY2000 and FY2010, largely as a result of increases in security spending<sup>20</sup> and federal interventions designed to stimulate the economy. Discretionary spending peaked in FY2010 at 9.1% of GDP. Since FY2010, discretionary spending has fallen, due both to the wind down of stimulus programs and the implementation of restrictions established by the BCA. In FY2015, discretionary spending totaled 6.5% of GDP. Baseline projections show continuing declines through the 10-year budget window. By FY2019, discretionary spending will fall to 5.8% of GDP, which would be its lowest level ever: discretionary spending is projected to total 5.2% of GDP by FY2026. The projected decline in discretionary spending in the baseline over the next decade is largely due to the reductions under current law contained in the BCA.<sup>21</sup>

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<sup>17</sup> Although both types of spending had previously existed, categories distinguishing between discretionary and mandatory spending in the federal budget were first established in FY1962.

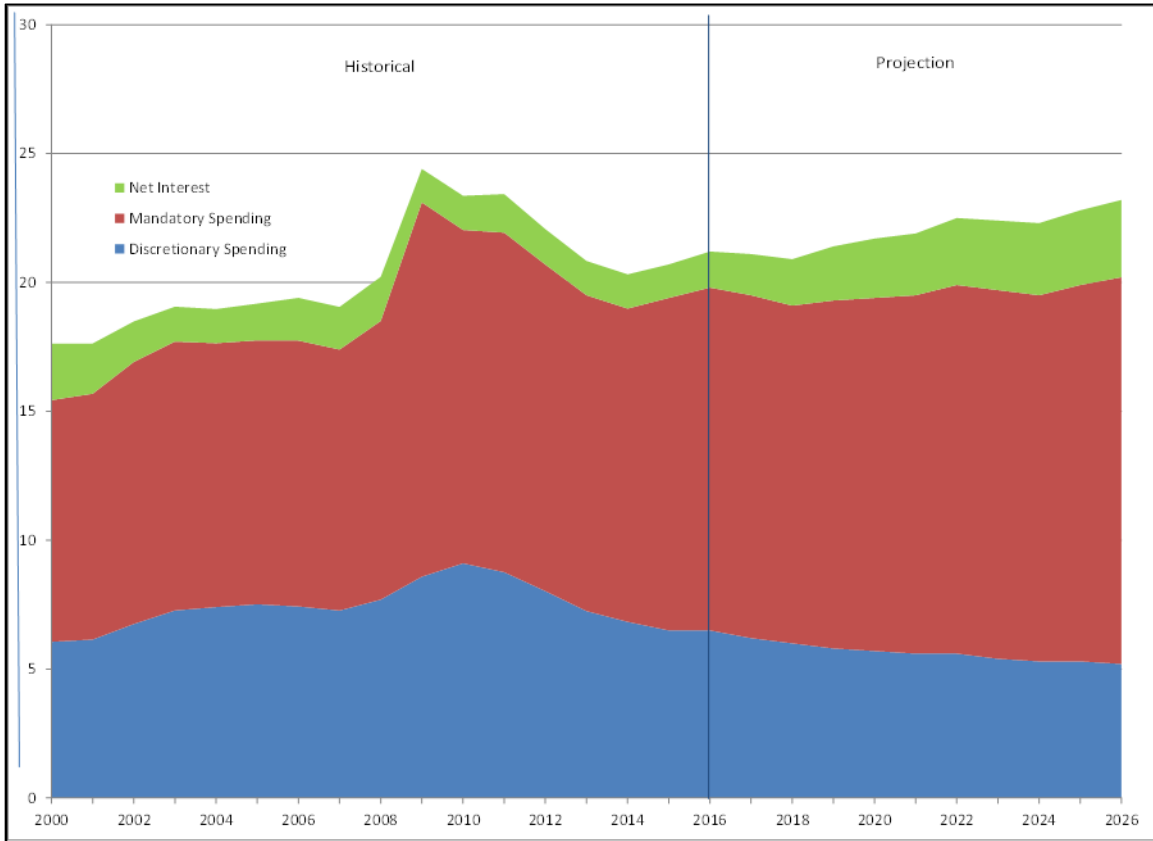
<sup>18</sup> For more information on trends in discretionary and mandatory spending, see CRS Report RL34424, *The Budget Control Act and Trends in Discretionary Spending*, by D. Andrew Austin and CRS Report RL33074, *Mandatory Spending Since 1962*, by D. Andrew Austin and Jeffrey M. Stupak.

<sup>19</sup> Net interest is discussed in further detail in the section "Deficits, Debt, and Interest."

<sup>20</sup> The definition of security spending has varied over time. The Obama Administration has defined security spending as funding for the Department of Defense – Military, the Department of Energy's National Nuclear Security Administration, International Affairs (budget function 150), the Department of Homeland Security, and the Department of Veterans Affairs. Security spending has defense and nondefense components.

<sup>21</sup> The caps on discretionary spending contained in the BCA expire after FY2021. Beginning in FY2022, the baseline assumes that discretionary spending will grow at the rate of inflation, which is generally less than the projected growth of nominal GDP. Therefore, discretionary spending continues to fall, as a percentage of GDP, throughout the budget window.

**Figure 2. Outlays by Major Category, FY2000-FY2026**  
(as a % of GDP)



**Source:** Congressional Budget Office, Historical Tables, January 2016 and The Budget and Economic Outlook: 2016 to 2026. CRS calculations.

**Notes:** FY2000-FY2015 figures represent actual data, while FY2016-FY2026 are projections under current-law baseline.

**Figure 2** also shows mandatory spending as a share of GDP. Mandatory spending totaled 12.9% of GDP in FY2015, up from 9.4% of GDP in FY2000. Mandatory spending peaked in FY2009 at 14.5% of GDP. Mandatory spending levels during the FY2009-FY2012 period were elevated mainly because of increases in outlays for income security programs as a result of the recession. The continuing economic recovery has resulted in lower mandatory spending on certain programs. However, mandatory spending is projected to continue its upward trend towards the end of the budget window due to growth in certain entitlement programs. As a result, under current law, CBO projects that mandatory spending will total 15.0% of GDP in FY2026, greater than the FY2009 level.

### Size of Federal Spending Components Relative to Each Other

It is also possible to evaluate trends in the share of total spending devoted to each component. In FY2015, mandatory spending amounted to 62.4% of total outlays, discretionary spending reached 31.6% of total outlays, and net interest comprised 6.0% of total outlays. The largest mandatory programs, Social Security, Medicare, and the federal share of Medicaid, constituted 50.6% of all federal spending in FY2015. By FY2026, mandatory and net interest spending are projected to increase, while the share of outlays devoted to discretionary spending is projected to decline.

Mandatory spending is projected to rise to 64.7% of total outlays while discretionary spending's share is projected to fall to 22.3% in that year. Net interest spending is projected to rise to 13.0% of total outlays in FY2026.

Discretionary spending currently represents under one-third of total federal outlays. Some budget experts contend that to achieve significant reductions in federal spending, reductions in mandatory spending are needed.<sup>22</sup> Budget and social policy experts have also stated that cuts in mandatory spending may cause substantial disruption to many households, because mandatory spending comprises important parts of the social safety net.<sup>23</sup> Even though the budget deficit has recently been declining, future projections of increasing deficits and resulting high debt levels may warrant further action to restore fiscal health over the long term.<sup>24</sup>

## Federal Revenue

In FY2015, federal revenue collections totaled 18.2% of GDP, somewhat higher than the historical average over the last four decades (17.3% of GDP). Real federal revenues have increased in recent years, due primarily to increases in the tax base driven by an improving economy. Between FY2009 and FY2013, revenue collection was depressed as the result of the economic downturn and certain tax relief provisions. In FY2009 and FY2010, revenue collections totaled 14.6% of GDP.

ATRA (P.L. 112-240) increased the certainty of the revenue outlook. ATRA permanently extended reduced tax rates for most income groups, while raising tax rates for upper-income households beginning in calendar year 2013.<sup>25</sup> As in FY2015, revenues are projected to total 18.2% of GDP in FY2026 under the CBO baseline.

Individual income taxes have long been the largest source of federal revenues, followed by social insurance (payroll) and corporate income taxes.<sup>26</sup> In FY2015, individual income tax revenues totaled 8.7% of GDP. Social insurance tax revenue accounted for 6.0% of GDP, and corporate income tax revenues equaled 1.9% of GDP in FY2015. All other taxes accounted for 1.7% of GDP in FY2015. **Figure 3** shows revenue collections between FY2000 and FY2026, as projected in the CBO baseline.

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<sup>22</sup> Net interest payments are a function of the existing stock of publicly held debt, which is the product of past federal budget outcomes, and prevailing interest rates, which are determined by economic conditions. Congress's ability to influence the level of short-term net interest payments is limited.

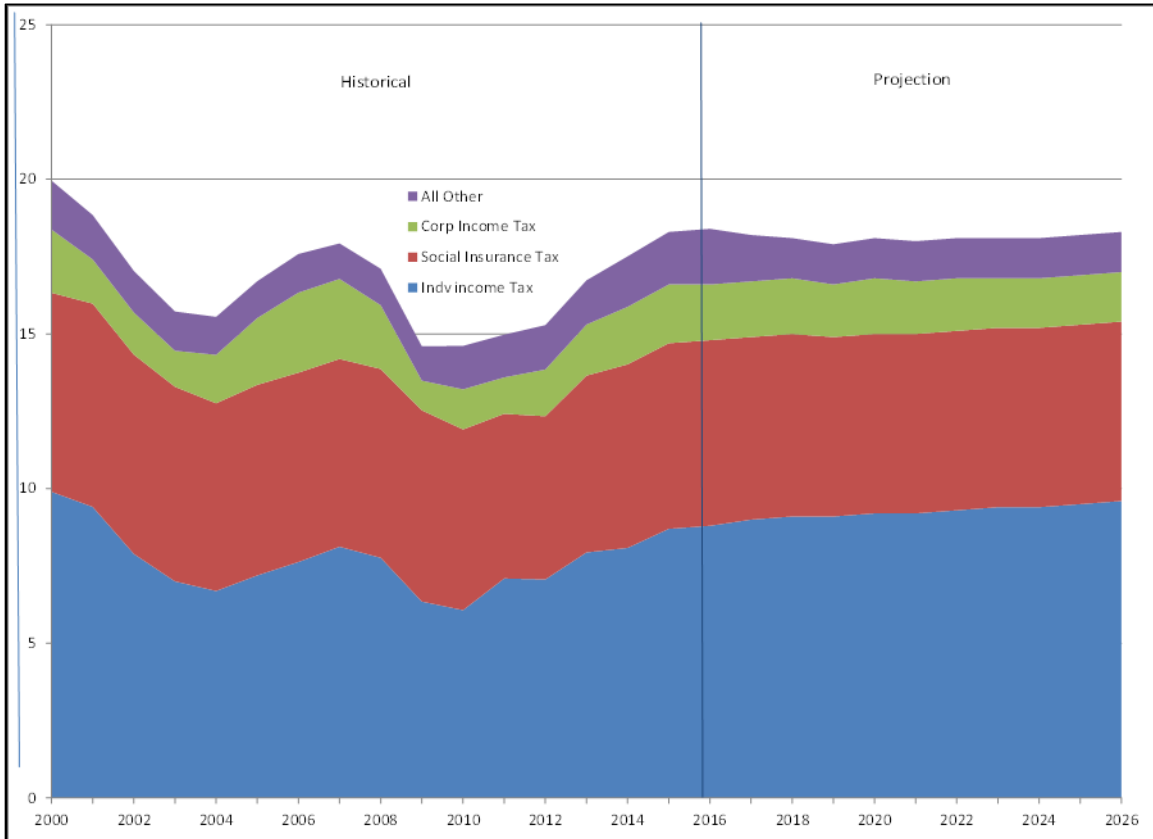
<sup>23</sup> For more information, see CRS Report R41970, *Addressing the Long-Run Budget Deficit: A Comparison of Approaches*, by Jane G. Gravelle and CRS Report R43680, *Reducing the Budget Deficit: Overview of Policy Issues*, by Marc Labonte.

<sup>24</sup> In various reports, the Congressional Budget Office, the Government Accountability Office, and the Administration agree that the federal government's budget is on an unsustainable path. For more information, see the section of this report titled, "Long-Term Considerations."

<sup>25</sup> For more information on ATRA's tax provisions, see CRS Report R42894, *An Overview of the Tax Provisions in the American Taxpayer Relief Act of 2012*, by Margot L. Crandall-Hollick.

<sup>26</sup> For more information, see CRS Report RL32808, *Overview of the Federal Tax System*, by Molly F. Sherlock and Donald J. Marples.

**Figure 3. Revenues by Major Category, FY2000-FY2026**  
(as a % of GDP)



**Source:** Congressional Budget Office, Historical Tables, January 2016 and *The Budget and Economic Outlook: 2016 to 2026*. CRS calculations.

**Notes:** FY2000-FY2015 figures represent actual data, while FY2016-FY2026 are projections under current-law baseline.

## Deficits, Debt, and Interest

The annual differences between revenue (i.e., taxes and fees) that the government collects and outlays (i.e., spending) result in the budget deficit (or surplus). Annual budget deficits or surpluses determine, over time, the level of publicly held federal debt and affect the level of interest payments to finance the debt.

### Budget Deficits

Between FY2009 and FY2012, annual budgets as a percentage of GDP were sharply higher than deficits in any period since FY1945.<sup>27</sup> The unified budget deficit in FY2015 was \$439 billion, or 2.5% of GDP—the lowest level since FY2007. The unified deficit, according to some budget experts, gives an incomplete view of the government’s fiscal conditions because it includes off-budget surpluses.<sup>28</sup> Excluding off-budget items (Social Security benefits paid net of Social

<sup>27</sup> The budget deficit peaked at 9.8% of GDP in FY2009.

<sup>28</sup> From an overall budget perspective, these surpluses are used to offset other federal spending, thereby decreasing the (continued...)

Security payroll taxes collected and the U.S. Postal Service's net balance), the on-budget FY2015 federal deficit was \$466 billion.

### ***Budget Deficit for FY2016***

The January 2016 CBO baseline estimated the FY2016 budget deficit at \$544 billion, or 2.9% of GDP. The rise in the estimated budget deficit for FY2016 is the result of increases in spending more than offsetting a smaller rise in revenues. FY2016 outlays are projected to increase to 21.2% of GDP, up from 20.7% of GDP in FY2015; revenues are projected to increase from 18.2% of GDP to 18.3% of GDP over the same period.

### **Federal Debt and Debt Limit**

Gross federal debt is composed of debt held by the public and intragovernmental debt. Intragovernmental debt is the amount owed by the federal government to other federal agencies, to be paid by the Department of the Treasury, which mostly consists of money contained in trust funds. Debt held by the public is the total amount the federal government has borrowed from the public and remains outstanding. This measure is generally considered to be the most relevant in macroeconomic terms because it is the debt sold in credit markets. Changes in debt held by the public generally track the movements of the annual unified deficits and surpluses.<sup>29</sup>

Historically, Congress has set a ceiling on federal debt through a legislatively established limit. The debt limit also imposes a form of fiscal accountability that compels Congress, in the form of a vote authorizing a debt limit increase, and the President, by signing the legislation, to take visible action to allow further federal borrowing when nearing the statutory limit.

The debt limit by itself has no effect on the borrowing needs of the government.<sup>30</sup> The debt limit, however, can hinder the Treasury's ability to manage the federal government's finances when the amount of federal debt approaches this ceiling, or when the suspension expires. In those instances, the Treasury has had to take extraordinary measures to meet federal obligations, leading to inconvenience and uncertainty in Treasury operations at times.<sup>31</sup> At the end of CY2015 (December 31, 2015), federal debt subject to limit was approximately \$18.922 trillion, of which \$13.673 trillion was held by the public.<sup>32</sup>

The debt limit is currently suspended until March 15, 2017. Upon reinstatement, the debt limit will be modified to exactly accommodate any increases in statutory debt subject to limit above

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(...continued)

current budget deficit while increasing the amount of Treasury securities held in the Social Security Trust Funds Off-budget surpluses have historically been large. However, declining surpluses in the Social Security program will lead to off-budget deficits beginning in FY2017 according to the CBO baseline.

<sup>29</sup> For more information on the components of federal debt, see CRS Report R44383, *Deficits and Debt: Economic Effects and Other Issues*, by Grant A. Driessen.

<sup>30</sup> The need to raise (or lower) the limit during a session of Congress is driven by previous decisions regarding revenues and spending stemming from legislation enacted earlier in the session or in prior years. The consideration of debt limit legislation often is viewed as an opportunity to reexamine fiscal and budgetary policy.

<sup>31</sup> For more information, see CRS Report R41633, *Reaching the Debt Limit: Background and Potential Effects on Government Operations*, by D. Andrew Austin et al., and CRS Report R41633, *Reaching the Debt Limit: Background and Potential Effects on Government Operations*, by D. Andrew Austin et al., and U.S. Government Accountability Office, *Delays Create Debt management Challenges and Increase Uncertainty in the Treasury Market*, GAO-11-203, February 2011.

<sup>32</sup> U.S. Department of the Treasury, *Daily Treasury Statement*, December 31, 2015, Table III-C.

the previous limit (\$18.1 trillion). At the end of calendar year 2015, total debt subject to limit was \$18.9 trillion. Barring advanced legislative action, the debt limit will be reached when reinstated, so long as federal debt remains above the previous limit and continues to rise.

## **Net Interest**

In FY2015, the United States spent \$223 billion, or 1.3% of GDP, on net interest payments on the debt. What the government pays in interest depends on market interest rates as well as on the size and composition of the federal debt. Currently, low interest rates have held net interest payments as a percentage of GDP below the historical average despite increases in borrowing to finance the debt.<sup>33</sup> Some economists, however, have expressed concern that federal interest costs could rise once the economy fully recovers, resulting in future strain on the budget. Interest rates are projected to gradually rise in the CBO baseline, resulting in net interest payments of \$830 billion (3.0% of GDP) in FY2026. If interest costs rise to this level, they will be higher than the historical average.

## **Recent Budget Policy Legislation and Events<sup>34</sup>**

During the 112<sup>th</sup> and 113<sup>th</sup> Congresses, several legislative actions and events affected the fiscal outlook. The Budget Control Act of 2011 (BCA; P.L. 112-25), enacted in August 2011, increased the debt limit and required deficit reduction (ultimately implemented through across-the-board spending cuts) and caps on discretionary budget authority. Subsequent legislation has revised the spending reductions established in the BCA. The American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) was enacted in January 2013 to deal with numerous expiring tax provisions, the BCA's across-the-board spending cuts (i.e., sequester), and other short-term considerations that were scheduled to take effect at the very end of 2012 or in early 2013. This combination was referred to by some as the "fiscal cliff." During October 2013, certain activities of the federal government were required to shut down due to a lapse in appropriations.<sup>35</sup> Several months after the shutdown, the second piece of legislation modifying the BCA, the Bipartisan Budget Act of 2013 (BBA 2013; P.L. 113-67), was enacted (December 2014). It contained new discretionary spending levels for FY2014 and FY2015, replacing the old levels prescribed by the BCA.

Actions taken in the 114<sup>th</sup> Congress further modified the short- and long-run budget outlook. The Balanced Budget Act of 2015 (BBA 2015; P.L. 114-74) suspended the debt limit until March 2017, and raised the discretionary spending caps established by the BCA for FY2016 and FY2017. The Consolidated Appropriations Act, 2016 (P.L. 114-113) enacted budget authority for FY2016 in accordance with the discretionary caps modified by BBA 2015. Finally, the Protecting Americans from Tax Hikes Act of 2015 (PATH Act; P.L. 114-113) extended a number of tax provisions that expired at the end of 2014 (and which had been extended several times in recent years), and made some of the provisions permanent. The actions are discussed in more detail below.

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<sup>33</sup> Since FY1970, the United States has spent an average of 2.1% of GDP on net interest payments.

<sup>34</sup> This section is not meant to address all recently enacted changes in budget policy, but rather to highlight some of the major legislative actions and events. For more information on budget-related legislation in 2016, see CRS Report R44347, *Congress and the Budget: 2016 Actions and Events*, by Grant A. Driessen and Megan S. Lynch.

<sup>35</sup> For more information, see CRS Report RL34680, *Shutdown of the Federal Government: Causes, Processes, and Effects*, coordinated by Clinton T. Brass.

## Budget Control Act of 2011<sup>36</sup>

The Budget Control Act of 2011 (BCA; P.L. 112-25) was enacted on August 2, 2011. The BCA contained a variety of measures intended to reduce the deficit by at least \$2.1 trillion over the FY2012-FY2021 period, along with a mechanism to increase the debt limit. The deficit reduction provisions included \$917 billion in savings from statutory caps on discretionary spending and the establishment of a Joint Select Committee on Deficit Reduction (Joint Committee) to identify further budgetary savings of at least \$1.2 trillion over 10 years. Because the Joint Committee was unable to reach an agreement, an automatic spending reduction process was triggered to begin in FY2013. This automatic process was intended to reduce spending levels further in the absence of other legislation to implement these changes.

## American Taxpayer Relief Act of 2012<sup>37</sup>

As the BCA's additional spending reductions were set to take effect in early 2013, the American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) was signed into law by President Obama on January 2, 2013. ATRA included a number of spending provisions. First, ATRA postponed the start of the FY2013 BCA automatic spending reductions until March 1, 2013. ATRA also reduced the FY2013 BCA spending reductions implemented via the automatic process by \$24 billion (i.e., two months' worth of reductions), to roughly \$85 billion equally divided between defense and nondefense spending. These provisions were offset by other changes in spending and revenue. Other spending changes unrelated to the BCA included an extension of certain unemployment benefits, prevention of reductions in Medicare physician payment rates, and a one-year extension of the 2008 farm bill.<sup>38</sup>

In addition, ATRA made a variety of changes to tax policy, including the permanent extension of the 2001 and 2003 tax cuts on both ordinary income and capital gains and dividends for taxpayers with taxable income below \$400,000 (\$450,000 for married taxpayers filing jointly). For taxpayers with taxable income above these thresholds, the marginal tax rate on ordinary income rose from 35% to 39.6% on the portion of their income above these thresholds, and the top tax rate on long-term capital gains and dividends rose from 15% to 20%. ATRA also reinstated the personal exemption phase-out (PEP) and limitation on itemized deductions (Pease) for taxpayers with adjusted gross income (AGI) above \$250,000 (\$300,000 for married couples filing jointly), allowing these limitations to expire for those with AGI below these thresholds. ATRA also extended the tax changes to a variety of tax credits, provided marriage tax penalty relief, and modified certain education-related tax incentives. ATRA also included a permanent "patch" for the alternative minimum tax and provided permanent estate and gift tax rules.

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<sup>36</sup> For more information, see CRS Report R42506, *The Budget Control Act of 2011 as Amended: Budgetary Effects*, by Grant A. Driessen and Marc Labonte.

<sup>37</sup> For more information, see CRS Report R42894, *An Overview of the Tax Provisions in the American Taxpayer Relief Act of 2012*, by Margot L. Crandall-Hollick.

<sup>38</sup> ATRA extended certain unemployment benefits and prevented reductions in Medicare physician payment rates through the end of calendar year 2013. It extended the 2008 farm bill through the end of FY2013. For more information on the current status of these programs, see CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*, by Julie M. Whittaker and Katelin P. Isaacs, CRS Report R40907, *Medicare Physician Payment Updates and the Sustainable Growth Rate (SGR) System*, by Jim Hahn, and CRS Report R43076, *The 2014 Farm Bill (P.L. 113-79): Summary and Side-by-Side*, coordinated by Ralph M. Chite.

## **Government Shutdown and Appropriations, FY2014-FY2015**

On October 1, 2013, the federal government experienced a funding gap and partial shutdown after appropriations to fund many departments and agencies were not enacted by the beginning of FY2014.<sup>39</sup> The funding gap and associated shutdown ended on October 17, 2013, with the enactment of the Continuing Appropriations Act, 2014 (P.L. 113-46). The act provided interim appropriations through January 15, 2014. As part of the negotiations related to the passage of the Continuing Appropriations Act, the House and Senate agreed to go to conference on the FY2014 budget resolution. On December 9, 2013, Senator Patty Murray and Representative Paul Ryan released an agreement on discretionary spending caps for the remainder of the current fiscal year (FY2014) and the next fiscal year (FY2015), which was later enacted into law as the Bipartisan Budget Act of 2013 (BBA 2013; P.L. 113-67). The BBA 2013 replaced a portion of the BCA's automatic spending process reductions for FY2014 (\$45 billion) and FY2015 (\$18 billion). These changes allowed for more discretionary spending than was provided under the BCA for FY2014 and FY2015. Various deficit reduction measures were included to offset the cost of increases to discretionary spending.

## **FY2016-FY2017 Appropriations and Tax Extenders**

On November 2, 2015, the Bipartisan Budget Act of 2015 (BBA 2015; P.L. 114-74) was signed into law. The BBA 2015 modified the caps on discretionary spending established by the BCA for FY2016 and FY2017. The BBA 2015 increased FY2016 discretionary caps by \$50 billion (with \$25 billion increases to both the defense and nondefense caps) relative to the limits designated by the BCA, and increased FY2017 discretionary caps by a total of \$30 billion (with \$15 billion increases to the defense and nondefense caps). The Consolidated Appropriations Act, 2016 (P.L. 114-113), enacted on December 18, 2015, appropriated FY2016 discretionary budget authority to government agencies.<sup>40</sup>

The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) was enacted as Division Q of the Consolidated Appropriations Act, 2016 (P.L. 114-113). The PATH Act extended 56 tax provisions that expired at the end of tax year 2014, and which had been extended several times in recent years. The PATH Act included three types of extensions: 30 tax preferences were extended for two years, through tax year 2016; four provisions were extended for five years, through tax year 2019; and 22 provisions were made permanent.

## **Budget for FY2017**

The Obama Administration submitted its FY2017 budget to Congress on February 9, 2016. The President's budget lays out for Congress the Administration's views on national priorities and policy initiatives. Congress has also begun its consideration of the FY2017 budget.

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<sup>39</sup> For more information on lapses of appropriations, see CRS Report RL34680, *Shutdown of the Federal Government: Causes, Processes, and Effects*, coordinated by Clinton T. Brass, and CRS Report RS20348, *Federal Funding Gaps: A Brief Overview*, by Jessica Tollestrup.

<sup>40</sup> From the beginning of FY2016 through the date of enactment of the Consolidated Appropriations Act, 2016, the government was funded through continuing resolutions. The Continuing Appropriations Act, 2016 (P.L. 114-53) provided budget authority through December 11, 2015, which was extended by the Further Continuing Appropriations Act, 2016 (P.L. 114-96) through December 16, 2015.



## **Obama Administration's FY2017 Budget**

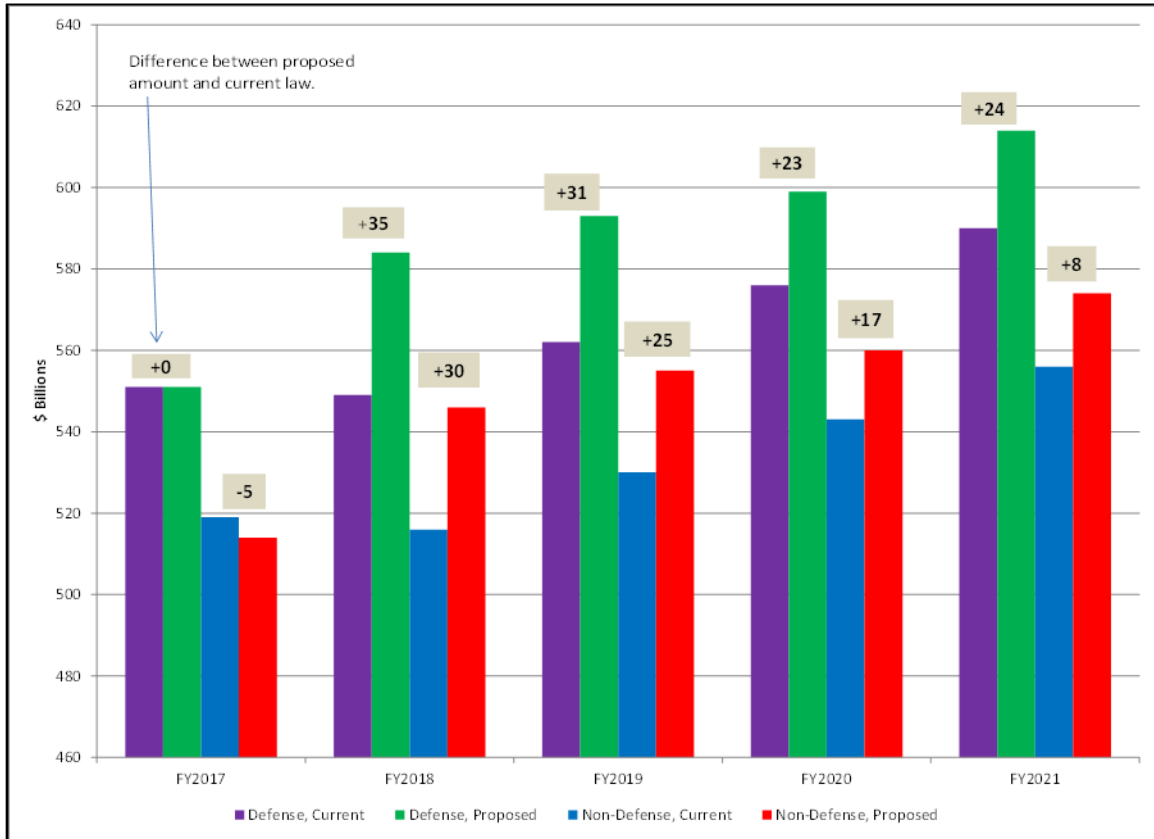
President Obama presented his policy agenda in the Administration's FY2017 budget submission. If the policies are fully implemented, the Administration estimates that total FY2017 outlays would be \$4,147 billion (21.5% of GDP) and revenues would be \$3,644 billion (18.9% of GDP), resulting in a budget deficit of \$503 billion (2.6% of GDP). Deficits under the proposed budget remain relatively constant over time, with an average annual deficit of \$611 billion (2.6% of GDP) from FY2017 through FY2026.

The President's budget proposes a variety of tax and spending measures intended to pay for a number of initiatives. Specifically, the President's budget proposes to adjust the caps on discretionary spending, as originally established by the Budget Control Act (BCA). In August 2011, the BCA placed limits on discretionary budget authority and included provisions for additional spending cuts to be implemented through an automatic process. Since enactment of the BCA, Congress and the President have modified the BCA several times, primarily to allow increases in discretionary spending (for more information, see the section titled "Recent Budget Policy Legislation and Events"). In FY2017, the President's budget would decrease the cap on discretionary nondefense spending in FY2017 by \$5 billion. That decrease would be followed by larger increases to the caps on both defense and nondefense spending in FY2018 through FY2021.<sup>41</sup> A summary of the changes to discretionary caps in all years is presented in **Figure 4**. The President's budget would increase total capped discretionary budget authority by \$188 billion from FY2017 through FY2021. Though the budget achieves net deficit reduction over the 10-year budget window, it does not identify which policy initiatives specifically offset the proposed increases in the discretionary caps.

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<sup>41</sup> The Balanced Budget and Emergency Deficit Control Act, as amended by the BCA, allows the discretionary caps to be adjusted for specific types of spending, including spending designated for Overseas Contingency Operations (OCO), Global War on Terrorism, disaster relief, and emergency requirements.

**Figure 4. Discretionary Cap Changes in the President’s FY2017 Budget Proposal**  
(billions of dollars of budget authority)



**Source:** Congressional Budget Office, Final Sequestration Report for FY2016, December 2015, Table 2; Office of Management and Budget, Budget of the U.S. Government Fiscal Year 2017, Table S-10.

**Notes:** Figures for President Obama’s proposal do not include reclassification of certain nondefense spending (i.e., surface transportation and contract support costs) in the amount of \$4-6 billion per year.

The budget also proposes to eliminate the sequester on mandatory programs through FY2025.<sup>42</sup> Reductions in spending on Overseas Contingency Operations (OCO) more than offset the budgetary effect of the sequester elimination.<sup>43</sup> Additional deficit reduction is proposed through various changes to the tax code, immigration reform, and other mandatory health programs. Together, these deficit reduction proposals total \$1,719 billion relative to the Administration’s Adjusted Baseline between FY2017 and FY2026.<sup>44</sup>

<sup>42</sup> The BCA’s sequester on mandatory spending was initially scheduled to expire in FY2021. It was extended through FY2025 in three pieces of legislation: the Bipartisan Budget Act of 2013 (BBA 2013; P.L. 113-67), a law modifying the COLA for certain military retirees (P.L. 113-82), and the Bipartisan Budget Act of 2015 (P.L. 114-74).

<sup>43</sup> OCO spending is currently exempt from the BCA discretionary spending caps. Whether or not savings reducing OCO spending from current levels should be considered savings has been controversial. For more information on this issue, see Congressional Budget Office, Director’s Blog, *Can Proposed Reductions in Future War-Related Spending Be Used To Offset Proposed Deficit Increases in Other Areas?*, February 1, 2012, and CBO, *Capping War-Related Spending*, February 10, 2014.

<sup>44</sup> U.S. Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2017*, Table S-3.

Finally, the President's Budget also includes a **Cuts, Consolidations, and Savings** section that contains proposed changes to 117 discretionary and mandatory programs, which would save approximately \$14 billion in FY2017 if enacted.<sup>45</sup>

## Deficit Projections in the FY2017 Budget

Consistent with the presentation of previous budgets, the Obama Administration provided three separate deficit projections.<sup>46</sup> First, OMB projected a Balanced Budget and Emergency Deficit Control Act (BBEDCA) baseline as required by statute. The BBEDCA baseline assumes that discretionary spending remains constant in real (i.e., inflation-adjusted) terms and revenue and mandatory (or direct) spending continue as under current law.<sup>47</sup> Under this scenario, the FY2017 deficit is projected to total \$636 billion.

The Obama Administration also projected an adjusted baseline, which in its view provides a more transparent and realistic reflection of the federal government's current fiscal situation. This methodology is used to provide a basis for understanding how new policy choices would affect the fiscal outlook, essentially replacing the current BBEDCA baseline. The Administration's adjusted baseline assumes that discretionary spending will be limited by the discretionary caps put in place as part of the Budget Control Act as modified, and that emergency and disaster costs will be greater than BBEDCA baseline levels. The deficit under this scenario is projected to reach \$612 billion in FY2017.

The final deficit projection, the proposed budget, illustrates the impact on the budget outlook if all of the policies proposed in the budget are implemented. In FY2017, the Administration projects that the deficit will reach \$503 billion. For FY2016, the budget deficit is estimated to be 2.6% of GDP, which is roughly the same level as the budget projects over the next decade. Under the Proposed Budget, the deficit would remain relatively flat throughout the budget window, averaging 2.6% of GDP over the period. (It rises in dollar terms.)<sup>48</sup>

The proposals in the President's budget are projected to result in deficit reductions of \$3,640 billion over the next decade relative to the Administration-calculated adjusted baseline.<sup>49</sup> The deficit levels in the proposed budget scenario are projected to be lower than both the CBO baseline and the adjusted baseline figures in each year of the budget window. **Figure 5** below illustrates how the levels in the President's proposed budget compare to current law (CBO baseline) and the Administration's adjusted baseline (current policy) over the next decade.

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<sup>45</sup> U.S. Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2017*, p. 109.

<sup>46</sup> For details of these projections, see U.S. Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2017*, Tables S-1 through S-8.

<sup>47</sup> For a description of the policies included in the various baselines, see U.S. Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2017*, Analytical Perspectives.

<sup>48</sup> U.S. Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2017*, Table S-1.

<sup>49</sup> U.S. Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2017*, Table S-2.

**Figure 5. Budget Deficit Projections**  
(% of GDP)



**Source:** Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026*, January 2016, Summary Table 1; Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2017*, Tables S-1 and S-2.

**Notes:** The proposed budget illustrates the impact on the budget outlook if all of the policies proposed in the budget are implemented. The Administration's adjusted baseline assumes that discretionary spending will be limited by the discretionary caps put in place as part of the Budget Control Act and that various tax benefits will be extended. This has sometimes been referred to as a current policy baseline. The CBO baseline assumes current law continues. See additional discussion above.

### What Do These Baselines Reflect?

As stated above, the adjusted baseline assumes that certain policies due to expire will be continued. The President's budget views the adjusted baseline as the most realistic projection of the budget deficit, and it is used as a benchmark to measure the impact of budget proposals. The proposed budget, however, is the one that illustrates the resulting budget outlook if all of the policies proposed by the President were implemented. Whether or not a certain policy proposal increases or decreases the deficit depends on which baseline is used as the starting point. Ultimately, the question of whether or not the amount of deficit reduction is sufficient can only be measured by actual budget outcomes (i.e., whether the budget deficit is higher or lower in the future relative to today) and whether or not the budget is on a sustainable path.

There are no real limits on what assumptions can be used to construct the adjusted baseline as opposed to the BBEDCA baseline, whose parameters were set by legislation. The adjusted and BBEDCA baselines in the FY2017 budget assume, for example, that OCO funding will continue at current year levels, adjusted for inflation. However, in the proposed budget, the Administration

assumes a reduction in OCO funding. As a result, the proposed budget allocates a reduction in the deficit of \$636 billion over the FY2017-FY2026 period for reduced OCO costs relative to the adjusted baseline and BBEDCA baseline.<sup>50</sup>

## **The FY2017 Congressional Budget Resolution**

The Budget Committees in the House and Senate each work to develop a budget resolution as they receive information and testimony from various sources, such as the Administration, CBO, and congressional committees with jurisdiction over spending and revenues. In February, House Budget Committee Chairman Tom Price (R-GA) and Senate Budget Committee Chairman Mike Enzi (R-WY) began the process of preparing budget resolutions in advance of House and Senate consideration.<sup>51</sup> Absent an agreement of a budget resolution conference report for FY2017 by the House and Senate, the BBA 2015 provides that the Senate Budget Committee chairman submit an allocation of FY2017 budgetary resources for publication in the *Congressional Record* between April 15, 2016, and May 15, 2016.

## **Considerations for Congress**

Ongoing budgetary challenges remain, which may result in congressional action. Issues related to deficit reduction and the long-term budget outlook may continue to dominate the policy debate. Increased spending on entitlement programs, as currently structured, will likely contribute to rising deficits and debt, placing ever-increasing focus on how to achieve fiscal sustainability over the long term.

## **Addressing Ongoing Budget Issues**

Various budget issues may feature prominently in the congressional debate in the near-term. Ongoing discussions over the budget resolution and legislation related to the Budget Control Act may be highlights of the agenda. As discussed above, the Bipartisan Budget Act of 2015 (BBA 2015) raised the caps on defense and nondefense budget authority as implemented by the BCA for FY2016 and FY2017. Under current law, those caps are scheduled to return to levels established by the BCA for FY2018 through their expiration at the end of FY2021.

The Consolidated Appropriations Act, 2016 (P.L. 114-113) was enacted in December 2015, and provided discretionary budget authority for FY2016 under the discretionary caps as amended by the BBA 2015. Congress has begun work on the FY2017 annual appropriations process. While the BBA 2015 amended the discretionary caps for FY2017, an allocation of FY2017 budget authority across federal agencies remains to be established into law. Congress may also choose to consider further modifications to the BCA discretionary caps as amended.

## **Long-Term Considerations**

Occasional budget deficits, in and of themselves, are not necessarily problematic. Deficit spending can allow governments to smooth outlays and revenues to shield taxpayers and program beneficiaries from abrupt economic shocks in the short term, while also temporarily boosting GDP when the economy is underperforming. Persistent deficits, however, lead to growing levels

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<sup>50</sup> U.S. Office of Management and Budget, Budget of the U.S. Government Fiscal Year 2017, Table S-2.

<sup>51</sup> Paul M. Krawzak, "Curbs in Entitlement Programs Eyed by House Republicans," *CQ*, February 16, 2016.

of federal debt that may lead to higher interest payments and may also have adverse macroeconomic consequences in the long term, including slowing investment and lowering economic growth. Since the debt cannot grow faster than GDP indefinitely, large deficits will eventually need to be reduced through increases in taxes, reductions in spending, or both.

The federal government faces long-term budget challenges. Some measures of fiscal solvency in the long term indicate that, under current policy, the United State faces major future imbalance, specifically as it relates to rising health care costs and the likely impact on government-financed health care spending. Even as Congress and the President worked to enact deficit reduction legislation (i.e., the BCA), these laws were not seen to have made significant changes to the part of the budget that is projected to grow. Therefore, many budget analysts believe that additional deficit reduction is required to put the budget on a sustainable path over the long term. Further, over the last two years, many of those deficit reduction provisions have been softened. Under the current-law baseline, deficits continue to be projected over the budget window.

CBO, GAO, and the Administration agree that the current mix of federal fiscal policies is unsustainable in the long term. The nation's aging population, combined with rising health care costs per beneficiary, may keep federal health costs rising faster than per capita GDP. CBO projected in June 2015 that under current policy, federal spending on health programs (including Medicare, Medicaid, CHIP, and exchange subsidies) would grow from 5.2% of GDP in FY2015 to 8.0% of GDP in FY2040.<sup>52</sup> The 2014 Economic Report of the President also projected that future federal spending on Medicare and Medicaid would rise significantly under current-law projections.<sup>53</sup> Though these forecasts are highly uncertain, it seems probable that spending on these programs will rise as a share of GDP over time.

In addition, growing debt and rising interest rates are projected to cause interest payments to consume a greater share of future federal spending. CBO projects that under current law, spending to service the federal debt (net interest payments) will grow rapidly, from 1.3% of GDP in FY2015 to 4.3% of GDP in FY2040.<sup>54</sup> GAO's recent long-term fiscal simulations, under an alternative policy scenario, projected that debt held by the public as a share of GDP would exceed the post-World War II historical high in the next 15 to 25 years.<sup>55</sup>

Keeping future federal outlays at 20% of GDP, or approximately at its historical average, and leaving fiscal policies unchanged, according to CBO projections, would require drastic reductions in all spending other than that for Medicare, Social Security, and Medicaid, or reining in the costs of these programs. Under CBO's extended baseline, maintaining the debt-to-GDP ratio at today's level (74%) in FY2040 would require an immediate and permanent cut in non-interest spending, increase in revenues, or some combination of the two in the amount of 1.1% of GDP (or about \$210 billion in FY2016 alone) in each year. Maintaining this debt-to-GDP ratio beyond FY2040 would require additional deficit reduction. If policymakers wanted to lower future debt levels relative to today, the annual spending reductions or revenue increases would have to be larger. For example, in order to bring debt as a percentage of GDP in FY2040 down to its historical average

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<sup>52</sup> Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015.

<sup>53</sup> If health care costs continue to grow at the same rate as GDP, as they have over the past several years, health care spending 75 years from now will be roughly equal to what it is today as a percentage of GDP. Historically, however, growth rates in health care costs per capita have outpaced the growth in the economy by a significant margin. Council of Economic Advisors, *Economic Report of the President*, March 2013, Figure 5-8 and p. 30.

<sup>54</sup> Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015.

<sup>55</sup> Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: Spring 2015 Update* available at <http://www.gao.gov/assets/670/669538.pdf>.

over the past 40 years (38% of GDP), spending reductions or revenue increases or some combination of the two would need to generate net savings of roughly 2.6% of GDP (or \$480 billion in FY2016 alone) in each year.<sup>56</sup>

Debt requires interest payments that can strain budgets if debt levels and interest rates are high. High debt levels could limit the government's flexibility in meeting its obligations or in responding to emerging needs of its citizens. Ultimately, failing to take action to reduce the projected growth in the debt might lead to future insolvency.<sup>57</sup>

## Appendix. Budget Documents

### CBO Documents

The Congressional Budget Office (CBO) provides data and analysis to Congress throughout the budget and appropriations process. Each January, CBO issues a *Budget and Economic Outlook* that contains current-law baseline estimates of outlays and revenues. In March, CBO typically issues an analysis of the President's budget submission with revised baseline estimates and projections. These documents can be delayed as a result of the legislative agenda or if the President's Budget is off schedule. In late summer, CBO issues an updated *Budget and Economic Outlook* with new baseline projections.

In these documents, CBO sets a current-law baseline as a benchmark to evaluate whether legislative proposals would increase or decrease outlays and revenue collection. Baseline estimates are not intended to predict likely future outcomes, but to show what spending and revenues would be if current law remained in effect. CBO typically evaluates the budgetary consequences of legislative proposals and the Joint Committee on Taxation (JCT) evaluates the consequences of revenue proposals.

CBO also releases other periodic publications focusing on the future fiscal health of the United States. In their publication, *The Long-Term Budget Outlook*, CBO makes projections on the state of the federal budget over the next 75 years. CBO discusses spending and revenue levels and the related issues that it expects will arise under different policy assumptions. In its *Budget Options* volumes, CBO provides specific policy options and the impact they will have on spending and revenues over a 10-year budget window. CBO also provides arguments for and against enacting each policy.

### OMB Documents

The President's Budget contains five major volumes: (1) *The Budget*, (2) *Historical Tables*, (3) *Analytical Perspectives*, (4) *Appendix*, and (5) *Supplemental Materials*.<sup>58</sup> These documents lay out the Administration's projections of the fiscal outlook for the country, along with spending levels proposed for each of the federal government's departments and programs. The *Historical Tables* volume also provides significant amounts of budget data, much of which extends back to

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<sup>56</sup> Congressional Budget Office, *The 2015 Long-Term Budget Outlook*, June 2015.

<sup>57</sup> For a discussion on when debt may become unsustainable, see CRS Report R40770, *The Sustainability of the Federal Budget Deficit: Market Confidence and Economic Effects*, by Marc Labonte.

<sup>58</sup> The President's budget proposals can be found on the OMB website at <http://www.whitehouse.gov/omb/>. The Supplemental Materials include the Federal Credit Supplement, the Object Class Analysis, the Balances of Budget Authority, and the Public Budget Database.

1962 or earlier. Along with the Administration's budget documents, the Department of the Treasury also releases its *Green Book*, which provides further detail on the revenue proposals that are contained in the budget.<sup>59</sup>

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<sup>59</sup> U.S. Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2017 Revenue Proposals*, February 2016, available at [http://www.treasury.gov/resource-center/tax-policy/Pages/general\\_explanation.aspx](http://www.treasury.gov/resource-center/tax-policy/Pages/general_explanation.aspx).