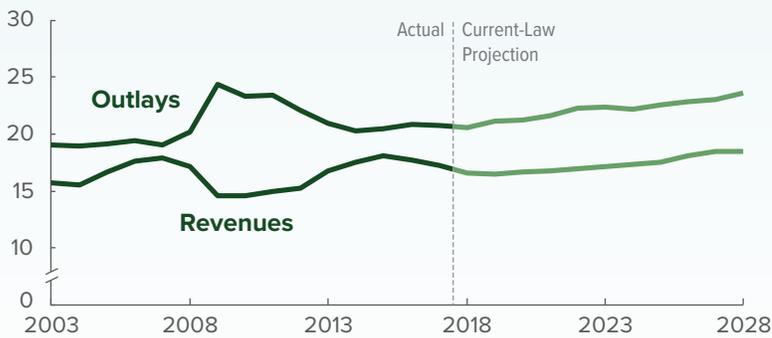


CBO

The Budget and Economic Outlook: 2018 to 2028

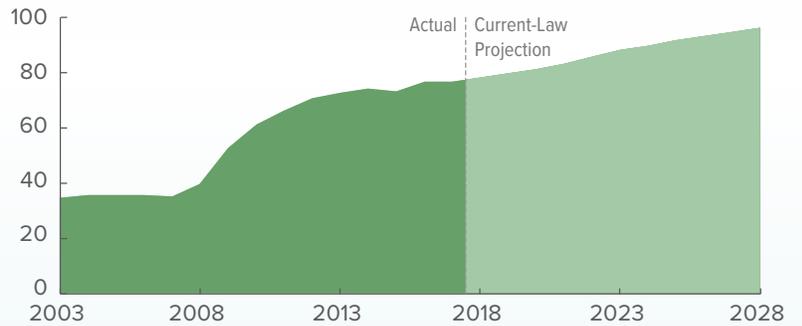
Percentage of GDP



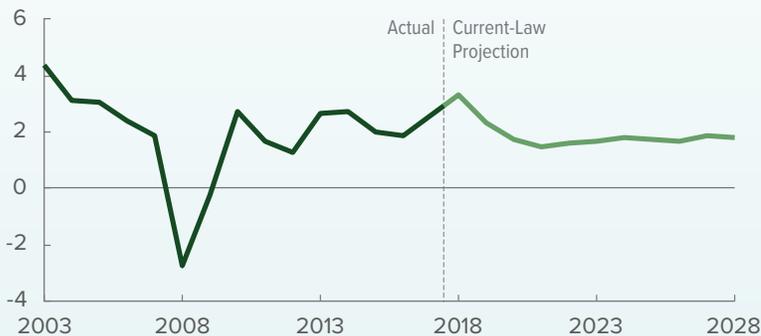
Over the next decade, the gap between **outlays** and **revenues** is projected to be persistently large.

That imbalance would cause **federal debt held by the public** to rise to nearly 100 percent of GDP.

Percentage of GDP



Percent



The **growth of real GDP** is projected to be relatively strong this year and next and then to moderate.

and 2018 only), and various fees paid by users of public property and services.¹²

CBO estimates that offsetting receipts will dip slightly this year, from \$253 billion in 2017 to \$252 billion in 2018. That decline is the result of two factors with countervailing effects. First, CBO estimates that remittances to the Treasury from Fannie Mae and Freddie Mac will decrease by \$23 billion. About two-thirds of that reduction is from write-downs the entities took on their tax-deferred assets in response to the 2017 tax act; in addition, the Federal Housing Finance Agency and the Treasury Department recently directed the entities to increase their capital reserves, which means they will remit less in order to meet that goal. Second, other offsetting receipts are estimated to be about \$22 billion higher in 2018 than in 2017, largely as a result of a \$13 billion increase in receipts of Medicare beneficiaries' premiums.

After 2018, offsetting receipts are projected to grow by an average of about 5 percent per year, from \$260 billion in 2019 to \$406 billion in 2028. Growth in receipts of Medicare premiums, which is projected to average almost 8 percent per year, accounts for nearly 90 percent of that increase.

Assumptions About Expiring Programs

In keeping with the rules established by the Deficit Control Act, CBO's baseline projections incorporate the assumption that some mandatory programs will be extended when their authorization expires, although the rules provide for different treatment of programs created before and after the Balanced Budget Act of 1997 (P.L. 105-33). All direct spending programs that

predate that act and have current-year outlays greater than \$50 million are assumed to continue in CBO's baseline projections. Whether programs established after 1997 are assumed to continue is determined on a program-by-program basis, in consultation with the House and Senate Budget Committees.

CBO's baseline projections therefore incorporate the assumption that the following programs whose authorization expires within the current projection period will continue: SNAP, TANF, the Child Care Entitlement to States, rehabilitation services, child nutrition programs, some transportation programs, the Trade Adjustment Assistance program for workers, family preservation and support programs, CHIP, and most farm subsidy programs. In addition, the Deficit Control Act directs CBO to assume that a COLA for veterans' compensation will be granted each year. In CBO's projections, the assumption that expiring programs and veterans' COLAs will continue accounts for about \$1.1 trillion in outlays between 2019 and 2028, most of which are for SNAP and TANF (see Table 2-3 on page 56). That amount represents about 3 percent of all mandatory spending.

Discretionary Spending

An array of federal activities is funded or controlled through annual appropriations. Such discretionary spending, which CBO estimates will account for about 30 percent of total outlays in 2018, includes most spending on national defense, elementary and secondary education, housing assistance, international affairs, and the administration of justice, as well as outlays for transportation and other programs.

How Caps on Discretionary Funding Affect CBO's Projections

Most discretionary funding is limited by caps on annual discretionary appropriations that were originally specified in the Budget Control Act of 2011 (P.L. 112-25) and modified by subsequent legislation. Under current law, separate caps exist for defense and nondefense spending through 2021. If the total amount of discretionary funding provided in appropriation acts for a given year exceeds the cap for either category, the President must sequester—or cancel—a sufficient amount of new budget authority (following procedures specified in the Budget Control Act) to eliminate the breach.¹³

12. Because the government placed Fannie Mae and Freddie Mac into conservatorship in 2008 and now controls their operations, CBO considers their activities governmental and includes the budgetary effects of their activities in its projections as if they were federal agencies. On that basis, for the 10-year period after the current fiscal year, CBO projects the subsidy costs of their new activities using procedures that are similar to those specified in the Federal Credit Reform Act of 1990 for determining the costs of federal credit programs—but with adjustments to reflect the associated market risk. The Administration, by contrast, considers Fannie Mae and Freddie Mac to be outside the federal government for budgetary purposes and records cash transactions between them and the Treasury as federal outlays or receipts. As a result, in its baseline projections, CBO treats only the current fiscal year in the same manner as the Administration in order to provide its best estimate of the amount that the Treasury ultimately will report as the federal deficit for 2018. Similarly, to match the Administration's historical budget totals, CBO also uses the Administration's treatment for past years.

13. The authority to determine whether a sequestration is required (and, if so, exactly how to make the necessary cuts in budget authority) rests with the Administration's Office of Management and Budget.

CBO's projections for discretionary funding incorporate those limits and are formulated following principles and rules that are largely set in law. In accordance with section 257 of the Deficit Control Act, CBO starts projections for individual accounts with the most recent appropriation and applies the appropriate inflation rate to project funding for future years.¹⁴ After account-level projections of discretionary funding are made, the total amount of budget authority is adjusted to comply with the caps on discretionary funding through 2021. (CBO does not adjust each account because, although the total amount of spending is constrained by the caps, individual accounts themselves are not.) Projections for years after 2021 reflect the assumption that discretionary funding keeps pace with inflation.

In addition, some or all of the discretionary funding related to five types of activities is not constrained by the caps (instead, for most of those activities, the caps are adjusted to accommodate such funding, up to certain limits) and is generally assumed to grow with inflation after 2018.¹⁵ Specifically, appropriations designated for overseas contingency operations (OCO) and activities designated as emergency requirements are assumed to grow with inflation.¹⁶ For two other activities—certain efforts to reduce overpayments in benefit programs, and disaster relief—the extent to which the caps can be adjusted is subject to annual constraints, as specified in law. Finally, programs designated by the 21st Century Cures Act (P.L. 114-225) are not subject to the caps, but their total funding is subject to specified annual limits.

The recently enacted Bipartisan Budget Act of 2018 (P.L. 115-123) increased, by \$143 billion and \$152 billion, respectively, limits on discretionary funding that otherwise would have been in place for 2018 and

2019 under the Budget Control Act (as modified).¹⁷ As a result, overall limits on discretionary budget authority total \$1,208 billion in 2018, rise to \$1,244 billion (a 3 percent increase) in 2019, and then fall to an estimated \$1,118 billion (a 10 percent reduction) in 2020, when limits return to the lower levels set by the Budget Control Act (see Table 2-4 on page 58). They then rise to \$1,145 billion (a 2 percent increase) in 2021, CBO estimates, the last year the caps are in place under current law.

All told, discretionary budget authority in CBO's baseline projections follows a pattern similar to that of the caps through 2021 and then increases gradually, to account for inflation, through 2028. Outlays that arise from that budget authority generally follow the same trend but more gradually, because of the delay between when funding is provided and when it is spent. Outlays can occur over short periods (to pay salaries, for example) or longer ones (for example, to pay for long-term research or construction). Therefore, discretionary outlays estimated for each year represent a mix of spending stemming not only from new budget authority but also from prior appropriations. Increases in outlays are particularly likely to lag behind increases in budget authority when the latter are large or occur well after the beginning of a fiscal year.

CBO's Baseline Projections of Discretionary Spending in 2018

If no more appropriations are enacted for 2018, discretionary funding will total \$1,422 billion this year, CBO estimates, including \$197 billion for activities that permit adjustments to the funding caps.¹⁸ The remaining amount—\$1,225 billion—is \$17 billion more than the overall limit on discretionary funding for 2018; that excess occurs because certain provisions in the Consolidated Appropriations Act, 2018, are estimated to reduce net funding for mandatory programs by \$17 billion. When appropriation acts include changes that reduce mandatory funding, the savings are credited against the discretionary funding provided by those acts

14. In CBO's baseline projections, discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries of workers in private industry; other discretionary funding is adjusted using the gross domestic product price index.

15. Spending for certain transportation programs is controlled by obligation limitations, which also are not constrained by the caps on discretionary funding and are assumed to grow with inflation.

16. Overseas contingency operations refer to certain military and diplomatic activities in Afghanistan and elsewhere, but some designated OCO funding has not been directly related to those activities. Funding that is categorized as an emergency requirement is funding designated in statute pursuant to section 251(b)(2)(A)(i) of the Deficit Control Act.

17. For more information about the discretionary caps, see Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2018* (April 2018), www.cbo.gov/publication/53696.

18. The \$1,422 billion total includes CBO's estimates of some components of discretionary funding—for example, market-driven fees that are credited as offsets to discretionary appropriations. However, the bulk of discretionary funding consists of specified appropriations.

Table 2-4.

Discretionary Spending Projected in CBO's Baseline

Billions of Dollars

	Actual,												Total	
	2017 ^a	2018 ^a	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019–2023	2019–2028
Budget Authority														
Defense	634	701	719	651	666	683	699	717	734	752	771	789	3,419	7,182
Nondefense	586	721	724	671	687	704	721	739	757	775	794	814	3,507	7,385
Total	1,220	1,422	1,443	1,322	1,353	1,386	1,420	1,455	1,491	1,527	1,565	1,603	6,925	14,567
Outlays														
Defense	590	622	669	651	655	671	679	688	710	727	745	769	3,325	6,964
Nondefense	610	658	693	689	693	708	727	748	771	794	817	839	3,511	7,480
Total	1,200	1,280	1,362	1,340	1,348	1,380	1,406	1,436	1,481	1,522	1,562	1,608	6,836	14,445
Memorandum:														
Caps in the Budget Control Act (As Amended), Including Automatic Reductions to the Caps														
Defense	551	629	647	576	590	n.a.								
Nondefense	519	579	597	542	555	n.a.								
Total	1,070	1,208	1,244	1,118	1,145	n.a.								
Adjustments to the Caps ^b														
Defense	83	72	73	75	76	n.a.								
Nondefense	51	125	127	129	132	n.a.								
Total	134	197	200	204	209	n.a.								

Source: Congressional Budget Office.

CBO's baseline projections incorporate the assumption that the caps on discretionary budget authority and the automatic enforcement procedures specified in the Budget Control Act of 2011 (as amended) remain in effect through 2021.

Nondefense discretionary outlays are usually greater than budget authority because of spending from the Highway Trust Fund and the Airport and Airway Trust Fund that is subject to obligation limitations set in appropriation acts. The budget authority for such programs is provided in authorizing legislation and is not considered discretionary.

n.a. = not applicable.

- The amount of budget authority for 2017 and for 2018 in CBO's baseline does not match the sum of the spending caps plus adjustments to the caps, mostly because changes to mandatory programs included in the appropriation acts for those years were credited against the caps. In the baseline, those changes (which reduced mandatory budget authority in both years) appear in their normal mandatory accounts.
- Some or all of the discretionary funding related to five types of activities is not constrained by the caps; for most of those activities, the caps are adjusted to accommodate such funding, up to certain limits. Specifically, appropriations designated for overseas contingency operations and activities designated as emergency requirements are assumed to grow with inflation after 2018. For two other activities—certain efforts to reduce overpayments in benefit programs, and disaster relief—the extent to which the caps can be adjusted is subject to annual constraints, as specified in law. Finally, programs designated by the 21st Century Cures Act are not subject to the caps, but their total funding is subject to specified annual limits.

estimation—\$135 billion (or 23 percent) more than last year.²⁰ That amount is \$142 billion more than the statutory limit on nondefense funding for this year:

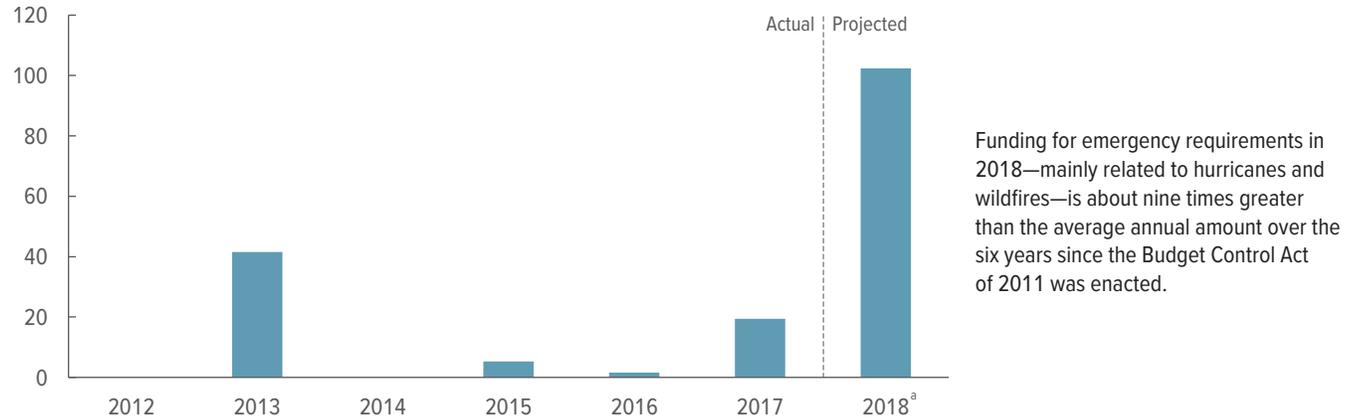
- Most of that added funding—nearly \$125 billion—is not constrained by the limit, including \$102 billion designated as an emergency requirement related to hurricanes Harvey, Irma, and Maria and wildfires

20. In addition, transportation-related obligation limitations enacted for 2018 total \$59 billion.

Figure 2-3.

Discretionary Nondefense Funding for Emergency Requirements

Billions of Dollars



Source: Congressional Budget Office.

a. The amount of funding shown for 2018 does not include almost \$18 billion in additional budget authority from changes to mandatory programs that also were designated as emergency requirements.

in western states.²¹ (By comparison, from 2012 through 2017, nondefense funding designated as an emergency requirement averaged about \$11 billion annually; see Figure 2-3.) Appropriations for other activities that are not subject to the overall limit on nondefense funding total \$22 billion and consist of \$12 billion for OCO, slightly more than \$7 billion for disaster relief, and \$3 billion (in total) for program-integrity and health programs designated by the 21st Century Cures Act.

- The remaining \$17 billion in excess of the 2018 cap reflects larger gross appropriations that are offset by estimated reductions in budget authority for mandatory programs stemming from changes that were included in the Consolidated Appropriations Act, 2018.

Altogether, CBO estimates that nondefense outlays will total \$658 billion this year (3.3 percent of GDP), \$48 billion, or almost 8 percent, more than in 2017.

CBO's Baseline Projections of Discretionary Spending From 2019 to 2028

Total discretionary outlays in CBO's baseline projections increase by 6.4 percent in 2019, dip by 1.6 percent in 2020, remain about the same in 2021 and grow thereafter, to \$1,608 billion, or 5.4 percent of GDP, in 2028. By comparison, the lowest percentage of GDP for discretionary spending over the past 50 years was 6.0 percent in 1999, and the average over that time has been 8.5 percent (see Figure 2-4).

Budget Authority in 2019. Caps on discretionary budget authority will be \$36 billion higher in 2019 than in 2018, reflecting an \$18 billion increase to both the defense and nondefense limits. Projected increases in defense funding for 2019 total \$18 billion. Projected increases in nondefense funding are smaller, totaling \$3 billion.

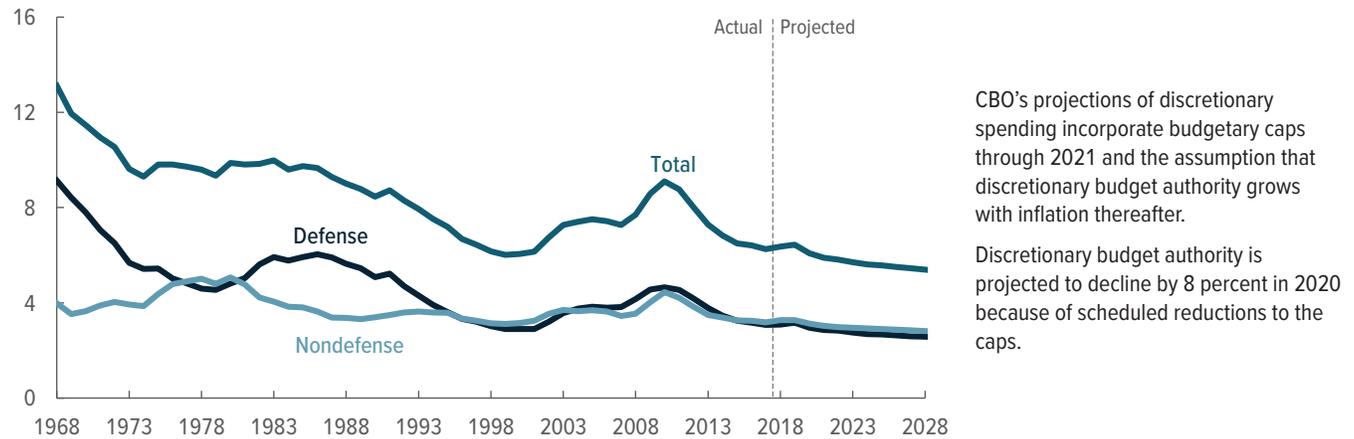
The projected increase in nondefense funding consists of \$2 billion for funding not constrained by the caps and \$1 billion for funding constrained by the caps. In accordance with rules set in law, the former increase reflects the assumption that the historically large amount

21. Total emergency funding in 2018 was more than \$102 billion; that amount does not include almost \$18 billion in additional budget authority from changes to *mandatory* programs that also were designated as emergency requirements. The largest of the changes was the cancellation of \$16 billion of the outstanding debt owed to the Treasury by the National Flood Insurance Fund. Because those changes in mandatory programs were designated as emergency requirements, they did not affect the amount of discretionary funding allowed under the caps. CBO's baseline projections for mandatory programs include the anticipated effects of the changes.

Figure 2-4.

Discretionary Outlays, by Category

Percentage of Gross Domestic Product



Source: Congressional Budget Office, using data from the Office of Management and Budget.

of emergency funding for 2018 grows with inflation. The latter increase reflects the net effects of an \$18 billion increase in the nondefense limits and the fact that the Consolidated Appropriations Act, 2018, includes \$17 billion in offsets to discretionary budget authority in 2018. Those offsets stem from estimated reductions in mandatory budget authority, which are typically included in appropriation acts that provide nondefense funding and allow discretionary funding to exceed the cap.²² No such changes to mandatory programs have been enacted for 2019.

Budget Authority in 2020 and Subsequent Years. In 2020, discretionary limits fall by an estimated \$126 billion, resulting in a \$121 billion (or 8 percent) net reduction in overall budget authority. (That change includes a \$4 billion projected increase in funding not constrained by the caps.) In total, defense and nondefense funding fall, respectively, by \$68 billion (or almost 10 percent) and \$52 billion (or 7 percent). In the baseline projections, discretionary budget authority after 2020 rises by 2.4 percent a year, on average, reflecting both the rate of increase in the caps in 2021 pursuant to the Budget Control Act and the

assumption that such budget authority will grow with inflation beginning in 2022.

Alternative Assumptions About Discretionary Funding

If the policies governing discretionary funding differed from those underlying the baseline projections, discretionary outlays could differ greatly from the amounts projected in CBO's baseline. To illustrate such potential differences, CBO estimated the budgetary consequences of three alternative paths for discretionary funding. (Those estimates are provided in Chapter 4.) The first alternative reflects different assumptions about future funding for emergency requirements. In the two other scenarios, funding for discretionary programs in future years increases at rates different from those CBO is required to use in its baseline projections (see Figure 2-5).

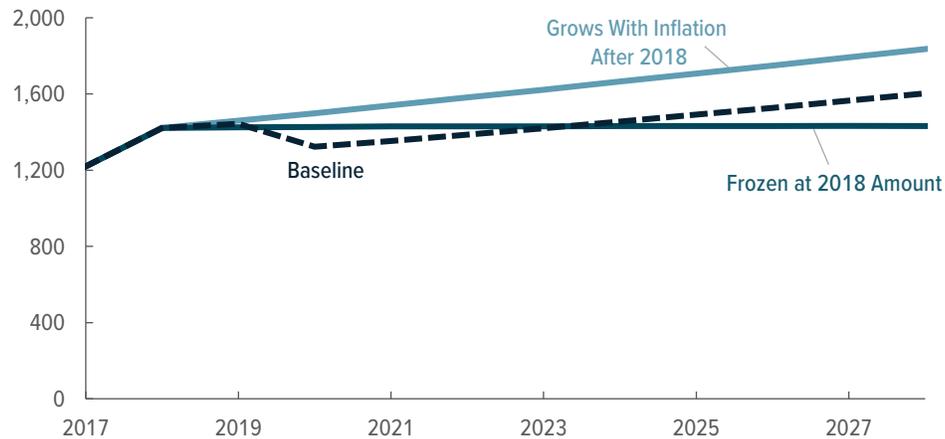
Emergency Spending. CBO projected spending assuming that nondefense funding designated as emergency requirements would remain in line with the average amount of such funding over the 2012–2017 period—\$11 billion (with adjustments to reflect growth at the rate of inflation)—rather than the historically large amount provided for 2018. Under that scenario, holding all other projections unchanged from CBO's baseline, discretionary outlays over the 2019–2028 period would total \$577 billion (or 4 percent) less

22. Since 2012, such offsets to discretionary budget authority have averaged about \$18 billion per year, thus allowing discretionary funding in each year to exceed the statutory limits by about that amount.

Figure 2-5.

Discretionary Budget Authority Projected in CBO's Baseline and Under Two Alternative Scenarios

Billions of Dollars



Discretionary funding in future years could be more or less than the amounts in CBO's baseline projections, which reflect the assumption that funding for 2019 through 2021 will adhere to the current-law caps and grow with inflation after that.

Source: Congressional Budget Office.

than the amounts projected in the baseline. In 2028, discretionary outlays would equal 5.1 percent of GDP—significantly less than the 6.4 percent estimated for 2018.

Other Discretionary Spending. For the first of the two other alternative scenarios, CBO assumed that most discretionary funding constrained by the caps would grow at the rate of inflation after 2018, rather than being adjusted to accord with the caps for 2019 and the lower limits that will otherwise apply to funding for 2020 and 2021 under the Budget Control Act (as modified).²³ If that occurred, discretionary funding over the 2019–2028 period would grow, on average, by 2.6 percent a year. As a result, outlays would rise at a slightly faster rate (7 percent) in 2019 than in the baseline and would grow by 5 percent (rather than fall) in 2020. They would increase steadily thereafter, by an average of 3 percent per year through 2028. In that scenario, outlays would surpass CBO's baseline projections by \$1.7 trillion (or nearly 12 percent) over the 2019–2028 period. In 2028, discretionary spending would equal 6.2 percent of GDP—slightly less than the percentage estimated for 2018 in CBO's baseline.

23. This scenario would not affect spending for activities that are not constrained by discretionary spending limits under the Budget Control Act, including transportation programs controlled by obligation limitations.

The second other scenario reflects the assumption that most discretionary budget authority, transportation-related obligation limitations, and funding for activities that are not constrained by the caps would be kept at the nominal 2018 amounts for the entire projection period.²⁴ (Such scenarios are sometimes called freezes in regular appropriations.) In that case, total discretionary spending would dip below the amount in CBO's baseline in 2019, exceed baseline amounts between 2020 and 2023, and again drop below the baseline (by increasing sums) between 2024 and 2028. Over the 2019–2028 period, discretionary outlays would be \$175 billion (or about 1 percent) less than projected in the baseline and would fall to 4.9 percent of GDP in 2028—well below the percentage estimated for 2018 in CBO's baseline.

Net Interest

In the budget, net interest primarily encompasses the government's interest payments on federal debt, offset by income that the government receives from interest on loans. Outlays for net interest are dominated by the interest paid to holders of the debt that the Department of the Treasury issues to the public. The Treasury also pays interest on debt issued to trust funds and other government accounts, but such payments are

24. Some items, such as offsetting collections and payments made by the Treasury on behalf of the Department of Defense's TRICARE for Life program, would not be held constant.