

BACKGROUND

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Reform the Budget Control Act Spending Caps

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Abstract

The Budget Control Act (BCA) was passed into law in 2011 in an effort to rein in growing budget deficits and make a down payment on the national debt before again increasing the debt limit. The BCA has been successful at imposing fiscal controls but has far too often been undermined by the actions of Congress. The future of the BCA remains unclear. Some in Congress will look to increase the BCA spending limits or to repeal the law entirely. The U.S. cannot afford to abandon one of the few mechanisms that control spending in Washington. Congress must reject the temptation to bust the BCA spending caps. Instead, lawmakers should prioritize national defense under the overall discretionary budget cap by eliminating the firewall between defense and nondefense spending and offsetting increased defense funding with cuts to ineffective, inappropriate, and duplicative domestic programs. Congress should furthermore extend spending controls beyond fiscal year 2021 when the BCA expires. The BCA is one of the few fiscal controls limiting spending in law. Congress should seize the opportunity for fiscal discipline and save and reform the Budget Control Act.

The Budget Control Act (BCA) is one of the few fiscal controls on spending. Passed in 2011, the BCA was part of a deal to raise the nation's debt limit while simultaneously cutting and controlling spending to rein in growing budget deficits and stabilize the federal budget. The BCA has been successful at controlling discretionary spending growth and cutting some mandatory spending but has far too often been undermined by the actions of Congress. In fiscal year (FY) 2018, the future of the BCA remains unclear. Some in Congress will look to bust the BCA spending caps again, or repeal the law entirely.

KEY POINTS

- The BCA has been successful at imposing fiscal controls but has far too often been undermined by the actions of Congress.
- Heading into fiscal year 2018, and with the 2021 expiration date near, the future of the BCA is unclear.
- Lawmakers are preparing to increase BCA spending caps in 2018 and beyond; some would like to repeal the law altogether.
- Congress should reject the temptation to increase the caps for the remainder of the BCA's lifespan. Lawmakers should prioritize national defense under the overall discretionary budget cap by eliminating the firewall between defense and nondefense spending and offsetting increased funds to defense with cuts to ineffective, inappropriate, and duplicative domestic programs.
- Congress should cut spending and adopt fiscal controls in law that reform and extend the Budget Control Act spending caps beyond 2021.

This paper, in its entirety, can be found at <http://report.heritage.org/bg3262>

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The nation cannot afford to lose one of the few mechanisms that currently control spending and encourage fiscal discipline. Congress should reject increasing discretionary spending and instead prioritize defense spending under a broad discretionary budget cap by eliminating the firewall between defense and nondefense spending and cutting ineffective, inappropriate, and duplicative domestic programs. President Trump's first budget proposal lays out how to accomplish this goal. Congress should furthermore adopt spending caps beyond 2021. The Budget Control Act is a critical fiscal tool. Congress should reform and save it.

History of the Budget Control Act

The BCA came to pass after nearly eight months of negotiations between the Obama Administration and Congress. In January 2011, then-Treasury Secretary Timothy Geithner warned Congress that, sometime between late March and mid-May, the federal government would exceed its legal borrowing limit of \$14.3 trillion.¹ Over the previous three fiscal years, budget deficits had averaged 9 percent of gross domestic product (GDP), higher than at any other point in the post-World War II era.²

In the following months, and under pressure from outside activists, including the Tea Party, a divided Congress worked with the President to develop a plan to raise the debt ceiling. House Republicans demanded spending cuts before allowing for an increase in the debt ceiling. Fiscal conservatives rallied behind the Cut, Cap, and Balance Act, which proposed to cut discretionary and mandatory spending immediately, to cap overall spending as a declining percentage of GDP, and for Congress to adopt a constitutional balanced budget amendment to send to the states for ratification.

By mid-July, no deal had been reached. Moody's Investors Services and Standard and Poor's both

warned that the U.S. credit rating was in danger of being downgraded. Negotiations hastened at that point, and several different proposals were rejected before July 31, 2011, when President Obama announced that a deal had been reached. Two days later, the Budget Control Act was signed into law.³

Effects of the BCA. The BCA made several major changes to law that had a direct impact on the federal budget.

- The BCA authorized a three-part debt ceiling increase and also established a procedure by which Congress could disapprove of those increases. The BCA authorized a \$2.1 trillion increase in the debt limit with the possibility that the limit could be increased by up to \$2.4 trillion if Congress met other conditions. The initial increase came when the President certified to Congress that the debt was within \$100 billion of the statutory limit. It then allowed for a second increase of up to \$500 billion later in 2011 and a third and final increase once debt again grew to within \$100 billion of the revised limit. Congress had the power to object to the second and third increases by adopting a joint resolution of disapproval.⁴ All such attempts failed.

The BCA required both the House and Senate to vote on a constitutional amendment requiring a balanced budget each year.⁵ The House brought the amendment to the floor in November 2011 but it failed to garner enough votes for final passage. A month later, the Senate also failed to pass a balanced budget amendment.⁶

- The BCA, in an effort to achieve enough savings to offset the \$2.1 trillion increase in the debt limit, established discretionary spending limits for FY 2012–FY 2021. The BCA further established defense and

1. "Debt Ceiling: Timeline of Deal's Development," CNN, August 2, 2011, <http://www.cnn.com/2011/POLITICS/07/25/debt.talks.timeline/index.html> (accessed October 10, 2017).

2. Grant A. Driessen and Megan S. Lynch, "The Budget Control Act: Frequently Asked Questions," Congressional Research Service Report for Congress No. 44874, June 22, 2017, <https://fas.org/sgp/crs/misc/R44874.pdf> (accessed October 10, 2017).

3. "Debt Ceiling: Timeline of Deal's Development," CNN.

4. Bill Henniff Jr., Elizabeth Rybicki, and Shannon M. Mahan, "The Budget Control Act of 2011," Congressional Research Service Report for Congress No. 41965, August 19, 2011, <https://fas.org/sgp/crs/misc/R41965.pdf> (accessed October 10, 2017).

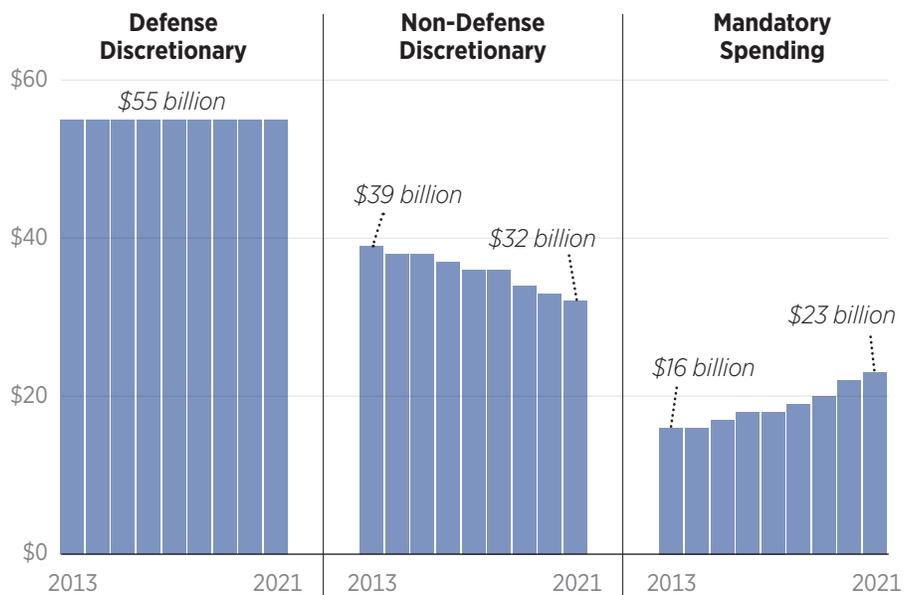
5. Ibid.

6. Felicia Sonmez, "Balanced-budget Amendment Falls Short in Senate," December 14, 2011, *The Washington Post*, https://www.washingtonpost.com/blogs/2chambers/post/balanced-budget-amendments-fall-short-in-senate/2011/12/14/g1QA8Ka8tO_blog.html?utm_term=.cf8e976cda28 (accessed October 10, 2017).

CHART 1

Sequestration Cuts Are Severely Unbalanced

CUTS IN BUDGET AUTHORITY, IN BILLIONS OF CURRENT DOLLARS



SOURCE: Congressional Budget Office, “An Update to the Economic and Budget Outlook: Fiscal Years 2012 to 2022,” Tables 1-3 and 1-4, <http://cbo.gov/publication/43543> (accessed August 23, 2012).

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nondefense category caps within the overall funding levels. The BCA provided for the enforcement of these statutory caps by requiring that an automatic sequester be triggered if Congress appropriated funds in excess of the caps. While overall funding is limited by the caps, the BCA does allow for certain upward adjustments to be made for purposes such as Overseas Contingency Operation (OCO) funding, as well as disaster and emergency designated funding and program integrity initiatives.⁷

The Congressional Budget Office (CBO) estimated that the new spending limits put in place by the BCA would save \$917 billion over 10 years.⁸ That left an additional \$1.2 trillion in cuts that had to be met to match the overall increase in the debt limit. To achieve those savings, the BCA created the Joint Select Committee on Deficit Reduction, also referred to as the Super Committee. The committee was instructed to produce legislation which would reduce federal deficits by a minimum of \$1.5 trillion

through 2021. Committee members were given wide latitude to develop a proposal and the BCA allowed for special procedures to be used to expedite consideration of the legislation. They were given a deadline of January 15, 2012, to enact a bill into law.⁹

After months of work and intense negotiations, on November 21, 2011, Senator Patty Murray (D-WA) and Representative Jeb Hensarling (R-TX), the co-chairs of the joint select committee, announced that “we have come to the conclusion today that it will not be possible to make any bipartisan agreement available to the public before the committee’s deadline.”¹⁰ The failure of the committee meant that the remaining \$1.2 trillion in required cuts would have to come from another source: automatic spending reductions or sequestration.

The authors of the BCA foresaw that Congress might struggle to reach agreement on a long-term deficit-reduction plan. To still achieve savings in that event, the BCA stated that an automatic spending-reduction process would be triggered. The automatic reductions triggered by the failure of the joint com-

7. Driessen and Lynch, “The Budget Control Act: Frequently Asked Questions.”

8. Congressional Budget Office, “CBO Analysis of August 1 Budget Control Act,” August 1, 2011, <https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/costestimate/budgetcontrolactaug1.pdf> (accessed October 10, 2017).

9. Henniff Jr., Rybicki, and Mahan, “The Budget Control Act of 2011.”

10. Ted Barrett, Kate Bolduan, and Deirdre Walsh, “‘Super Committee’ Fails to Reach Agreement,” CNN, November 21, 2011, <http://www.cnn.com/2011/11/21/politics/super-committee/index.html> (accessed October 10, 2017).

mittee involved a two-part process; a reduction of the discretionary spending caps and an annual sequester of non-exempt mandatory funds.¹¹

For discretionary accounts, funds were to first be sequestered in FY 2013, and then for the remaining years through 2021 the defense and nondefense category caps would be adjusted downward.¹² If Congress had stuck to the 2013 automatic enforcement and the adjusted cap levels, total discretionary budget authority would have been reduced by an estimated \$813 billion from 2014 to 2021.¹³ One major shortcoming of the BCA was that its sequestration cuts were unbalanced, falling most heavily on national defense.

Congress was unable to stick with the original discretionary-spending restrictions imposed by the BCA without undermining U.S. military readiness. The resulting political dynamic strengthened the hands of big-spending lawmakers who held adjustments to the defense caps hostage to funding increases of their pet domestic projects.

In 2013, implementation of the discretionary sequester was delayed by more than three months; for 2014–2017, Congress passed budget agreements that raised the cap levels, something that is discussed in greater detail below. Still, discretionary funding has made up the bulk of the savings prescribed by the BCA.

On the mandatory spending side, the BCA implemented an automatic reduction of funds for 2013–2021. However, the BCA spared some of the largest programs within the federal government’s mandatory budget. The BCA specifically excludes Social Security, Medicaid, the Children’s Health Insurance Program (CHIP), Temporary Assistance for Needy Families (TANF), and the Supplemental Nutrition Assistance Program (SNAP) from cuts. It also lim-

its cuts to Medicare to 2 percent.¹⁴ Shortly after the BCA’s passage, the CBO estimated that the mandatory enforcement would save \$171 billion through 2021.¹⁵ The mandatory cuts have subsequently been extended through 2025 in order to help pay for some of the increases to the discretionary-spending caps adopted in recent years.

The remaining savings to achieve the overall total required by the BCA come through lower interest payments on the federal debt.¹⁶

Implementation of the BCA.

FY 2013. Once the super committee failed to pass deficit-reduction legislation, the BCA prescribed that automatic enforcement would be triggered on January 2, 2013. Enforcement measures targeted defense for 50 percent of automatic spending reductions, despite defense composing only 17 percent of federal spending in 2013. Lawmakers prevented enforcement from taking effect as scheduled. As part of the American Taxpayer Relief Act of 2012, lawmakers delayed implementation of budgetary enforcement by over three months, resulting in discretionary spending levels that were \$24 billion higher than originally provided by the BCA.¹⁷

FY 2014–FY 2015. This was just the start of Congress’ efforts to circumvent the spending controls put in place by the BCA. With FY 2014 spending scheduled to be cut by \$76 billion compared to 2013, and the House and Senate deeply divided on where funding cuts should ultimately be made, some Members of Congress began to discuss the idea of passing a budget deal to provide some enforcement relief and end the stalemate over 2014 appropriations. Earlier in 2013, the House had passed a budget resolution calling for a discretionary funding level of \$967 billion in 2014 (equal to the BCA cap level). However, the Senate called for a much larger funding total of \$1.058 trillion.¹⁸ This

11. Henniff Jr., Rybicki, and Mahan, “The Budget Control Act of 2011.”

12. *Ibid.*

13. Congressional Budget Office, “Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act,” September 12, 2011, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/09-12-BudgetControlAct.pdf> (accessed October 10, 2017).

14. Henniff Jr., Rybicki, and Mahan, “The Budget Control Act of 2011.”

15. Congressional Budget Office, “Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act.”

16. *Ibid.*

17. Congressional Budget Office, “Estimate of the Budgetary Effects of H.R. 8, the American Taxpayer Relief Act of 2012, as passed by the Senate on January 1, 2013,” January 1, 2013, <https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/costestimate/american-taxpayer-relief-act0.pdf> (accessed October 10, 2017)

18. Committee on the Budget, U.S. House of Representatives, “Summary of the Bipartisan Budget Act of 2013,” December 10, 2013, <https://budget.house.gov/uploadedfiles/bba2013summary.pdf> (accessed October 10, 2017).

TABLE 1

Sizing Up the Budget Control Act and Sequestration

FIGURES ARE IN BILLIONS OF CURRENT DOLLARS

INCREASE IN DEBT LIMIT IN EXCHANGE FOR EQUAL SPENDING REDUCTIONS			
Date	Increase in Debit Limit	Spending Reduction	Amount
August 2, 2011	\$400	Spending caps and reductions	\$917
September 21, 2011	\$500	Super Committee reductions	\$1,200
January 30, 2012	\$1,200		
Totals	\$2,100		\$2,117

PHASE 1: BUDGET CONTROL ACT REDUCTIONS		PHASE 2: SEQUESTRATION	
Outlays for 2012–2021	Amount	Budget Authority, 2013–2021	Dollars (Share)
Caps on discretionary spending	\$756	Defense Discretionary	\$492 (50%)
Cap adjustments for program integrity initiatives	\$15	Non-Defense Discretionary	\$323 (32.8%)
Subtotal	\$741	Mandatory	\$169 (17.2%)
		Total	\$984 (100%)
Mandatory reductions and policy changes in student loans and Pell grants	\$20	Net interest savings	\$169
Net interest savings	\$156	Total Reductions from Phase 2	\$1,153
Total Reductions from Phase 1	\$917	Total Estimated Reductions from Budget Control Act 1*	\$2,070

* Figure is lower than stipulated in the BCA due to CBO assumptions.

SOURCE: Congressional Budget Office and Congressional Research Service. Extended source on file at The Heritage Foundation.

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disagreement and other policy battles, including over implementation of the Affordable Care Act, led to a 16-day government shutdown in October 2013.¹⁹

House Budget Committee Chairman Paul Ryan (R-WI) and Senate Budget Committee Chairwoman Patty Murray negotiated a deal that provided \$63 billion in enforcement relief for 2014 and 2015. The increases in discretionary budget authority were divided evenly between defense and nondefense programs. To pay for the increases, Congress also imple-

mented over \$78 billion in spending cuts and raised federal revenues by almost \$7 billion. In total, the Ryan–Murray spending agreement was projected to reduce the overall deficit by nearly \$23 billion.²⁰

While the Ryan–Murray legislation did cut spending in some areas, some of those reductions were problematic and others were gimmicky in nature. About \$6 billion in savings resulted from reducing cost-of-living pay increases for the pensions of retired military personnel between the ages of 40 and 62. This

19. Lori Montgomery and Rosalind S. Helderman, “Congress Sends Obama Bill to End Shutdown,” *The Washington Post*, October 17, 2013, https://www.washingtonpost.com/politics/house-effort-to-end-fiscal-crisis-collapses-leaving-senate-to-forge-last-minute-solution/2013/10/16/1e8bb150-364d-11e3-be86-6aeaa439845b_story.html?utm_term=.dc9e75e3c85e (accessed October 10, 2017).

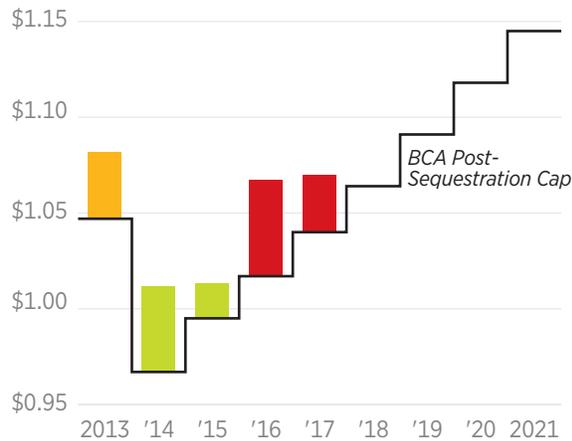
20. Congressional Budget Office, “Cost Estimate, Bipartisan Budget Act of 2013,” December 11, 2013, <https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/costestimate/bipartisan-budget-act-20130.pdf> (accessed October 10, 2017).

CHART 2

Congress Busts BCA Caps

- American Taxpayer Relief Act of 2012
- Bipartisan Budget Act of 2013
- Bipartisan Budget Act of 2015

BUDGET AUTHORITY IN TRILLIONS OF DOLLARS



NOTE: It is likely that Congress will amend the BCA caps in 2018 and possibly beyond, increasing discretionary spending above current law levels.

SOURCE: Congressional Budget Office, “Sequestration,” <https://www.cbo.gov/taxonomy/term/33/latest> (accessed October 10, 2017).

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reduction was intended to make additional military spending possible in other areas.²¹ Amidst mounting backlash from the defense community, the pension

reforms were reversed and the savings wiped out just two months after the agreement was enacted.²² The bill also relied on the extension of customs user fees and sold off parts of the Strategic Petroleum Reserves (SPR) at inflated cost estimates—two often-used budget gimmicks²³—to add another \$10 billion in deficit reductions.²⁴

FY 2016–FY 2017. Heading into FY 2016, Congress was again unable to reach agreement on how to stay within the discretionary spending levels in law. Funding levels in 2016 were set to increase by \$3 billion compared to 2015. The House and Senate passed a conferenced budget resolution which set topline spending levels for 2016 at the BCA level of \$1.017 trillion.²⁵ However, when it came time to pass the appropriations measure, lawmakers lacked 60 votes in the Senate to move bills forward at that level. Congress passed a continuing resolution to avoid a government shutdown and continued negotiations over how to proceed with appropriations.²⁶

In the meantime, then-Speaker of the House John Boehner (R–OH) announced his resignation from Congress. Before leaving, he reached a budget agreement with President Obama. The Bipartisan Budget Act of 2015, known as the “Boehner–Obama deal,” faced significant opposition in the House, with two-thirds of Republicans voting against it.²⁷ Nevertheless, the bill was passed by Congress at the end of October 2015 and then signed into law by President Obama. The deal raised the BCA spending caps again, this time by a total of \$80 billion with \$50 billion of the spending increase provided for 2016 and the remaining \$30 billion for 2017, and suspended the debt limit for a period of 17 months, allowing for unlimited borrowing from the Treasury.²⁸

21. Committee for a Responsible Federal Budget, “Understanding the Defense Retirement Reforms in the Bipartisan Budget Act,” December 16, 2013, <http://www.crfb.org/blogs/understanding-defense-retirement-reforms-bipartisan-budget-act> (accessed October 10, 2017).
22. Jeremy Herb, “Senate Reverses Pension Cut,” *The Hill*, February 12, 2014, <http://thehill.com/policy/defense/198241-senate-sends-military-pension-cuts-repeal-to-obama> (accessed October 10, 2017).
23. Justin Bogie, “Budget Gimmicks Increase Federal Spending and Mask True Costs of Legislation,” Heritage Foundation *Backgrounders* No. 3234, July 26, 2017, <http://www.heritage.org/sites/default/files/2017-07/BG3234.pdf>.
24. Congressional Budget Office, “Cost Estimate, Bipartisan Budget Act of 2013.”
25. “An Original Concurrent Resolution,” S. Con. Res. 11, 114th Congress, May 5, 2015, <https://www.congress.gov/114/bills/sconres11/BILLS-114sconres11enr.pdf> (accessed October 10, 2017).
26. “An Original House Resolution” H.R. 719, 114th Congress., September 30, 2015, <https://www.congress.gov/bill/114th-congress/house-bill/719/all-info> (accessed October 10, 2017).
27. *Ibid.*
28. Committee on Rules, U.S. House of Representatives, “Bipartisan Budget Act of 2015 Section-by-Section Summary,” October 27, 2015, <http://docs.house.gov/meetings/RU/RU00/CPRT-114-RU00-D001.pdf> (accessed October 10, 2017).

The Bipartisan Budget Act, like the last budget deal, relied in part on dubious offsets to pay for other spending increases and nearly half of the scheduled spending reductions were delayed until the 10th year of the budget window.²⁹ None of the resulting increase in the deficit from higher interest costs was offset. The bill was credited with more than \$5 billion in inflated savings from Strategic Petroleum Reserve sales and also relied on over \$4 billion in spectrum pipeline sales as an offset, with none of the savings being realized until 2025. Selling spectrum pipeline is generally good policy, but the revenues gained from doing so are highly speculative, especially a decade out.³⁰ By relying on gimmicks and savings that would not be realized until far into the future (if ever), Congress avoided concrete spending reforms from which savings could have been realized immediately.

Above the Cap Spending

As noted above, the BCA allowed for certain upward spending adjustments to be made that would not count towards the caps. This includes OCO funding, disaster and emergency spending, and funding for program-integrity initiatives. The CBO is required to periodically produce sequestration update reports which provide estimates of the BCA's discretionary budget caps. Within these reports, the CBO shows the appropriated funds which are not subject to the caps.

In FY 2017 alone, nearly \$118 billion in discretionary funding not subject to the caps was appropriated by Congress.³¹ In total, over \$677 billion in uncapped funding has been provided since 2012. Of that number, OCO funding accounts for more than

\$568 billion and emergency designated funds adds approximately \$102 billion.³²

OCO funding should not be used as a slush fund to prop up base defense and State Department funding needs. Congress should phase out OCO entirely and instead fully fund national defense through the base budget at the level needed to protect the country from increasing global threats.³³ Regular funding for disasters and other emergencies should be accounted for within agencies' base budgets, reserving any additional funds for truly unforeseen, catastrophic events that fall within the responsibility of the federal government.³⁴

2018 Budget and Appropriations

As is common with a new Administration, the 2018 budget and appropriations process got off to a slow start. Released on May 23, 2017, the President's full budget proposal called for the elimination of the firewall between defense and nondefense spending to increase defense spending and pay for it with cuts to domestic programs. Overall, the plan proposed total discretionary spending at the BCA level for 2018 and below those levels through 2021.³⁵ The President's budget presented the critical rationale for prioritizing federal funding and making some politically difficult budget decisions in the face of the U.S.'s currently unsustainable fiscal path. Congress should be guided by the President's approach in prioritizing national defense within the overall discretionary BCA spending cap.

In July, the House Budget Committee released its FY 2018 budget resolution. Like the President's budget, it called for much needed increases to national defense spending. However, it did not call for corre-

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29. Paul Winfree, "The Boehner-Obama Budget Deal Explained in One Chart," *The Daily Signal*, October 27, 2015, <http://dailysignal.com/2015/10/27/the-boehner-obama-budget-deal-explained-in-one-chart/>.
 30. Paul L. Winfree, Romina Boccia, Justin T. Johnson, Daren Bakst, Nicolas D. Loris, James L. Gattuso, Jason Snead, Rachel Greszler, Robert E. Moffit, David R. Burton, and Curtis S. Dubay, "Analysis of the Bipartisan Budget Act of 2015," *Heritage Foundation Issue Brief* No. 4477, October 28, 2015, <http://www.heritage.org/budget-and-spending/report/analysis-the-bipartisan-budget-act-2015>.
 31. Congressional Budget Office, "Sequestration Update Report: August 2017," August 11, 2017, <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53004-sequestrationupdate.pdf> (accessed October 10, 2017).
 32. Congressional Budget Office, "Sequestration Update Reports 2012-2017," <https://www.cbo.gov/taxonomy/term/33/latest> (accessed October 10, 2017).
 33. Bogie, "Budget Gimmicks Increase Federal Spending and Mask True Costs of Legislation."
 34. Justin Bogie, "A Primer on Disaster and Emergency Appropriations," *Heritage Foundation Issue Brief* No. 4524, March 2, 2016, <http://www.heritage.org/budget-and-spending/report/primer-disaster-and-emergency-appropriations>.
 35. U.S. Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2018*, May 23, 2017, <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/budget.pdf> (accessed October 10, 2017).
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spending reductions to domestic programs to fully offset the costs of higher military spending. In total, the House budget called for a base discretionary spending level of \$1.132 trillion in 2018, \$67 billion higher than the BCA cap.³⁶ The budget failed to be brought to the House floor prior to the August recess. The House Appropriations Committee subsequently began marking up all of its FY 2018 appropriations bills at the level recommended by the budget resolution.³⁷ By mid-September, the House was able to pass legislation that provided funding for all 12 annual appropriations bills.³⁸

The Senate budget resolution, introduced at the end of September, adopts the Budget Control Act levels for 2018. Even before having a budget in place, the Senate Appropriations Committee proceeded with marking up bills. In July, the Senate appropriators had released guidance for the process and announced that they would be marking up bills at the FY 2017 BCA cap level of \$1.07 trillion; \$5 billion higher than the 2018 allowance.³⁹ By the August recess, the committee had approved six of the 12 annual bills.⁴⁰ In October 2017, the House adopted and passed the Senate budget resolution.

The Future (2018–2021)

Since 2013, Congress has taken steps to lessen the impact of the enforcement measures and discretionary caps imposed by the BCA. If past is prologue, it is safe to assume that Congress will look to revise the caps through the end of the BCA in 2021. In early September, President Trump negotiated a deal with Democratic leaders in the House and Senate to suspend the debt limit and continue all discretionary spending at current (FY 2017) levels through December 8, 2017.

Because of the likely impasse on 2018 appropriations, another budget deal that addresses the caps in 2018 is highly probable. Congress should resist any movement to increase overall discretionary spending and instead, make reforms to wasteful and duplicative domestic programs. Much needed increases to defense spending should be fully offset with cuts to nondefense programs. Congress and the Administration should embrace this opportunity to pursue a fiscally responsible budget.⁴¹

Congress may instead consider legislation to raise the BCA caps for 2018 and possibly through 2019. In addition, Congress could also consider a longer-term agreement that modifies the caps through 2021, affecting the remainder of the BCA's discretionary enforcement provisions. In either case, Congress must ensure that any spending increased is paired with budget offsets that produce immediate and legitimate savings, instead of relying on gimmicks and accounting tricks, and that budget enforcement provisions extend past the duration of the budget deal.⁴²

Spending Limits Matter

Spending limits are critical fiscal tools to encourage budgetary discipline. Spending limits encourage Congress to prioritize among competing programs. Such budgetary restraints can facilitate greater transparency and encourage lawmakers to more carefully examine and debate the trade-offs involved in spending decisions.

The spending limits in the BCA are an effective tool for controlling the growth of discretionary spending and for encouraging spending offsets when Congress increases discretionary spending beyond the limits in law. Congress' desire to increase discretionary spend-

36. "Concurrent Resolution on the Budget—Fiscal Year 2018, Report of the Committee on the Budget House of Representatives," Committee on the Budget, U.S. House of Representatives, July 21, 2017, <https://www.gpo.gov/fdsys/pkg/CRPT-115hrpt240/pdf/CRPT-115hrpt240.pdf> (accessed October 10, 2017).

37. "Revised Interim Suballocation of Budget Allocations for Fiscal Year 2018," Committee on Appropriations, U.S. House of Representatives, July 2017, <https://appropriations.house.gov/uploadedfiles/sbdv-3.pdf> (accessed October 10, 2017).

38. News release, "Government-Wide Funding Legislation Approved by the House," Committee on Appropriations, U.S. House of Representatives, September 14, 2017, <https://appropriations.house.gov/news/documentsingle.aspx?DocumentID=395050> (accessed October 10, 2017).

39. News release, "Background: Fiscal Year 2018 Funding Guidance," Committee on Appropriations, U.S. Senate, July 20, 2017, <https://www.appropriations.senate.gov/imo/media/doc/072017%20FY2018%20Funding-Guidance.pdf> (accessed October 10, 2017).

40. Jennifer Shutt, "On Appropriations, It's See You in September," *Congressional Quarterly*, July 28, 2017, <http://www.cq.com/doc/news-5153917?2> (accessed October 10, 2017).

41. Justin Bogie, "Congress Must Embrace These 5 Principles to Create a More Responsible Budget," *The Daily Signal*, May 23, 2017, <http://dailysignal.com/2017/05/23/congress-must-embrace-5-principles-create-responsible-budget>.

42. Bogie, "Budget Gimmicks Increase Federal Spending and Mask True Costs of Legislation."

ing above the BCA caps has been a motivating force for lawmakers to make reforms, albeit small, to mandatory programs.⁴³ While long-term fiscal sustainability demands greater reforms to mandatory programs, the changes implemented by the BCA and its subsequent revisions show that Congress, when confronted with automatic spending enforcement, can deliberate and adopt specific spending reductions.

Congress should preserve the Budget Control Act spending caps by extending them past 2021. Alternatively, Congress should adopt a broad statutory spending cap that encompasses all non-interest spending to begin the important reform process to control the main drivers of debt: health care, Social Security, and federal welfare programs. Congress must not let fiscal controls fall by the wayside.

BCA Cap Options

In FY 2021 the discretionary enforcement provisions of the Budget Control Act will expire, meaning that no discretionary spending restraints will be in effect beginning in 2022. Cap adjustments for OCO, disaster and emergencies, and program integrity would expire; these categories of spending are assumed by the CBO to be absorbed into base discretionary funding.⁴⁴ For 2022–2027, the CBO projects that without the budget caps in place discretionary spending would grow by an average of 2.5 percent each year.⁴⁵

With the U.S. already at \$20 trillion in debt and the CBO projecting that number to rise by another \$10 trillion in the next decade,⁴⁶ now is not the time to do away with spending-enforcement mechanisms.

Congress should follow the plan outlined in The Heritage Foundation’s *Blueprint for Balance: A Federal Budget for 2018*. The Heritage *Blueprint* would increase defense spending over the next two years to make critical investments in military readiness, and then continue to grow defense spending at inflation through 2027. The Heritage *Blueprint* recommends nearly \$87 billion in cuts to domestic programs in

2018 as well as numerous budget-process reforms that would save additional money. Domestic discretionary spending is then frozen at that level through 2027. The Heritage *Blueprint* also assumes that above-the-cap spending would be absorbed into the base budget by 2022.⁴⁷

Under the Heritage *Blueprint*, discretionary savings would total nearly \$1.7 trillion over the next 10 years relative to the CBO baseline. This proposal would require lawmakers to carefully perform their oversight duties and thoroughly examine most activities of the federal government for reductions to stay within the tight caps. This would not only save taxpayers money, but also bring greater accountability to the budget process.

Another approach would extend the Budget Control Act caps into the foreseeable future at the current projected spending growth rate, with some modifications. Congress should revise the current BCA structure to permanently eliminate the firewall between defense and nondefense spending. This will allow Congress greater flexibility to adjust national defense spending without the need for a statutory change each year. A wide variety of cuts could be made to domestic programs and through budget-process reforms to offset increases to defense spending. Congress should also absorb OCO funding and other above-the-cap spending into base agency budgets. This would provide more transparency within the budget process and leave less leeway for lawmakers to abuse these designations or use them in non-intended ways.

Congress could then grow discretionary spending at the average BCA growth rate from 2022–2027, not including increases passed by budget deals. This means that total discretionary spending would grow at around 1.1 percent annually. The combination of structural changes to the BCA and assuming a lower spending growth rate would save taxpayers nearly \$1.2 trillion from 2022–2027 compared to current

43. Romina Boccia, Justin Bogie, Robert E. Moffit, Michael Sargent, and Diane Katz, “A September Guide for Congress in 2017,” Heritage Foundation *Backgrounder* No. 3242, August 30, 2017, <http://www.heritage.org/budget-and-spending/report/september-action-guide-congress-2017>.

44. Congressional Budget Office, “An Update to the Budget and Economic Outlook: 2017 to 2027,” June 29, 2017, <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52801-june2017outlook.pdf> (accessed October 10, 2017)

45. Heritage Foundation calculation based on the CBO’s July 2017 “Budget and Economic Outlook.”

46. Congressional Budget Office, “An Update to the Budget and Economic Outlook: 2017 to 2027,” June 29, 2017, <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52801-june2017outlook.pdf> (accessed October 10, 2017)

47. The Heritage Foundation, *Blueprint for Balance: A Federal Budget for Fiscal Year 2018*, March 28, 2017, <http://www.heritage.org/budget-and-spending/report/blueprint-balance-federal-budget-fiscal-year-2018>.

CHART 3

BCA Extension Proposals

BASE BUDGET AUTHORITY IN BILLIONS OF DOLLARS



* Reflects a continuation of the original post-sequestration BCA caps prior to revisions by Congress.

SOURCES: Congressional Budget Office, "An Update to the Budget and Economic Outlook: 2017 to 2027," <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52801-june2017outlook.pdf> (accessed October 10, 2017), and Heritage Foundation calculations.

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projections.⁴⁸ The Heritage *Blueprint* would save an additional \$522 billion over 10 years.

If additional discretionary spending was deemed necessary at any time during which Congress was bound by discretionary spending limits, automatic enforcement would encourage Congress to adopt alternative mandatory spending reductions to prevent an increase in the deficit from higher spending. Such offsets should also take into account any interest costs incurred from lifting the spending limits.

With the national debt at \$20 trillion, exceeding the economic product of the U.S., the nation cannot afford for Congress to allow the Budget Control Act

spending limits to expire without another mechanism to take their place.

Budget Control Act Reforms

Congress should make a number of reforms to improve the current law. In general, Congress should extend the overall Budget Control Act discretionary-spending limit beyond 2021 and reform the law to enhance its effectiveness.

Remove the Defense/Nondefense Firewall. Congress should remove the firewall between defense and nondefense spending and fund discretionary programs under one aggregate spending cap. This will allow for greater flexibility in funding decisions without encouraging higher discretionary spending or compromising the country's national defense. It will also encourage a deeper examination of current domestic discretionary funding priorities in order to allow for prioritization of national defense funding within the overall discretionary spending limit.

Repeal Sequestration Exemptions. Under current law, most mandatory programs are exempt from the automatic enforcement mechanisms. This includes programs such as Social Security, Medicaid, and CHIP, among others. Medicare cuts are limited to 2 percent. By reversing these exemptions and limitations, Congress would be more likely to consider long-term structural reforms to auto-pilot entitlement programs which would help ensure their sustainability and limit costs to taxpayers.⁴⁹ Removing these exemptions would put all programs on the table for spending cuts, encouraging prioritization within the federal budget.

Prohibit the Use of CHIMPs to Increase Spending. Changes in mandatory programs (CHIMPs) are the largest and most often used budget gimmick during the appropriations process. The vast majority of CHIMPs authorized by Congress have no real savings and serve only to increase discretionary spending without running afoul of current spending limits. In revising the BCA, Congress should prohibit the use of CHIMPs with no real outlay savings over 10 years. This will eliminate one key mechanism used to evade the spending caps.⁵⁰

48. Heritage Foundation calculation based on the CBO's July 2017 "Budget and Economic Outlook."

49. Justin Bogie and Romina Boccia, "How the Federal Government Can Get Its Spending Under Control," The Daily Signal, July 12, 2016, <http://dailysignal.com/2016/07/12/how-the-federal-government-can-get-its-spending-under-control/>.

50. Bogie, "Budget Gimmicks Increase Federal Spending and Mask True Costs of Legislation."

Require that Interest Costs Be Offset When Cap Revisions Are Made. Under current budget scorekeeping conventions, the interest costs of additional spending are not included in cost estimates. This creates a discrepancy between the actual costs of legislation and what is being reported by the CBO which could distort the decisions of lawmakers in favor of greater spending and debt accumulations. This change could be implemented at the request of the House and Senate Budget Committees, but a statutory requirement would ensure that it is required for all future cost estimates.⁵¹

Budget for Disasters, Emergencies, and Overseas Contingency Operations Within the Caps. While the BCA limits discretionary spending each year, it allows for certain cap adjustments to be made for purposes like disaster response, emergencies, and war spending. While these are in many cases worthy purposes, they are also generally routine and recurring expenses. Furthermore, OCO funding has increasingly been used to prop up base Department of Defense and State budgets because of the undue burden placed on defense by the current BCA firewalls.⁵² Moving forward, Congress should budget for these recurring expenses within base agency budgets. Disaster and emergency funding designations should be reserved for truly unpredictable large-scale events and unforeseen threats to the country.

Sequester Unauthorized Appropriations. Congress currently appropriates hundreds of billions of dollars each year to so-called zombie programs. These are programs with expired authorizations or, in some cases, programs that have never been authorized by Congress at all. The authorization process, designed in part as an oversight tool, is

a chance for members of authorizing committees to closely examine the activities that the federal government is funding, and to make decisions about whether they are worthy purposes and legitimate federal functions.⁵³ As part of a BCA revision, Congress should eliminate unauthorized appropriations. Once programs are reauthorized, Congress could provide a cap adjustment for 90 percent of the appropriation. This would provide an incentive for Congress to perform its oversight function and regularly authorize programs and save taxpayers money in the process.⁵⁴

Conclusion

Spending has been out of control in Washington for far too long. Exhibit A: \$20 trillion and growing in national debt. With debt and deficit levels projected to further skyrocket over the next decade and beyond,⁵⁵ Congress must preserve every tool for fiscal responsibility and adopt others. The Budget Control Act is one of the very few legislative controls in place to encourage fiscal discipline among lawmakers and to control the growth of discretionary spending. As the BCA is once again subject to revisions and is nearing its expiration in 2021, Congress should reform the law and extend discretionary spending limits indefinitely. Congress should be subject to more, not fewer, opportunities and incentives to reduce spending.

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51. Ibid.

52. Ibid.

53. Justin Bogie, "Time to End 'Zombie' Appropriations," Heritage Foundation *Issue Brief* No. 4583, June 24, 2016, <http://www.heritage.org/budget-and-spending/report/time-end-zombie-appropriations>.

54. The Heritage Foundation, *Blueprint for Balance: A Federal Budget for Fiscal Year 2018*.

55. Congressional Budget Office, "The 2017 Long-Term Budget Outlook," March 30, 2017, <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/52480-ltbo.pdf> (accessed October 10, 2017).