CONGRESSIONAL BUDGET OFFICE

Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act

September 12, 2011

The Budget Control Act of 2011 (enacted on August 2 as Public Law 112-25) made several changes to federal programs and established budget enforcement mechanisms—including caps on future discretionary appropriations—that were estimated to reduce federal budget deficits by a total of at least $2.1 trillion over the 2012–2021 period.[1] The caps on discretionary appropriations will decrease spending (including debt-service costs) by an estimated $0.9 trillion during that period, compared with what such spending would have been if annual appropriations had grown at the rate of inflation. At least another $1.2 trillion in deficit reduction was anticipated from provisions related to a newly established Congressional Joint Select Committee on Deficit Reduction. That committee is charged with proposing legislation to trim budget deficits by at least $1.5 trillion between 2012 and 2021. However, if legislation originating from the committee and estimated to produce at least $1.2 trillion in deficit reduction (including an allowance for interest savings) is not enacted by January 15, 2012, automatic procedures for cutting both discretionary and mandatory spending will take effect.[2] The magnitude of those cuts would depend on any shortfall in the estimated effects of such legislation relative to the $1.2 trillion amount.

The automatic reductions—if triggered—would take the form of equal cuts (in dollar terms) in defense and nondefense spending starting in fiscal year 2013. Those cuts would be achieved by lowering the caps on discretionary budget authority specified in the Budget Control Act and by automatically cancelling budgetary resources (a process known as sequestration) for some programs and activities financed by mandatory spending.[3] The law exempts a significant portion of mandatory spending from

1. For an analysis of the new law, see Congressional Budget Office, letter to the Honorable John A. Boehner and the Honorable Harry Reid estimating the impact on the deficit of the Budget Control Act of 2011 (August 1, 2011).

2. “Discretionary spending” refers to outlays from budget authority that is provided and controlled by appropriation acts. “Mandatory spending” refers to outlays from budget authority that is provided by laws other than appropriation acts. (Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds; it may be provided in an appropriation act or an authorization act.)

3. Budgetary resources consist of all sources of authority provided to federal agencies that permit them to incur financial obligations, including new budget authority, unobligated balances, direct spending authority, and obligation limitations.

sequestration, however. The total savings attributed to the automatic procedures would include lower debt-service costs resulting from those cuts.[4]

The Congressional Budget Office (CBO) has estimated the changes in discretionary and mandatory spending that would occur if the automatic enforcement mechanisms were triggered because no new deficit reduction legislation was enacted. CBO's analysis can only approximate the ultimate results; the Administration's Office of Management and Budget (OMB) would be responsible for implementing any such automatic reductions on the basis of its own estimates.

CBO estimates that, if no legislation originating from the deficit reduction committee was enacted, the automatic enforcement process specified in the Budget Control Act would produce the following results between 2013 and 2021:

- Reductions ranging from 10.0 percent (in 2013) to 8.5 percent (in 2021) in the caps on new discretionary appropriations for defense programs, yielding total outlay savings of $454 billion.

- Reductions ranging from 7.8 percent (in 2013) to 5.5 percent (in 2021) in the caps on new discretionary appropriations for nondefense programs, resulting in outlay savings of $294 billion.

- Reductions ranging from 10.0 percent (in 2013) to 8.5 percent (in 2021) in mandatory budgetary resources for nonexempt defense programs, generating savings of about $0.1 billion.

- Reductions of 2.0 percent each year in most Medicare spending because of the application of a special rule that applies to that program, producing savings of $123 billion, and reductions ranging from 7.8 percent (in 2013) to 5.5 percent (in 2021) in mandatory budgetary resources for other nonexempt nondefense programs and activities, yielding savings of $47 billion. Thus, savings in nondefense mandatory spending would total $170 billion.

- About $31 billion in outlays stemming from the reductions in premiums for Part B of Medicare and other changes in spending that would result from the sequestration actions.

- An estimated reduction of $169 billion in debt-service costs.

In all, those automatic cuts would produce net budgetary savings of about $1.1 trillion over the 2013–2021 period, CBO estimates (see Table 1). That amount is lower than the $1.2 trillion figure for deficit reduction in the Budget Control Act for three reasons. First, because of the lag in timing between appropriations and subsequent

4. "Debt service" refers to a change in interest payments from a change in projected deficits.

Table 1.

Estimated Savings from Automatic Reductions If No Savings Result from Enacting Legislation Originated by the Joint Select Committee on Deficit Reduction

(By fiscal year, in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total, 2013-2021
Changes in Mandatory Spending										
Defense										
Budget authority	*	*	*	*	*	*	*	*	*	*
Outlays	*	*	*	*	*	*	*	*	*	*
Nondefense										
Budget authority	-16	-17	-18	-19	-19	-19	-20	-21	-22	-170
Outlays	-16	-17	-18	-19	-19	-19	-20	-21	-22	-170
Total										
Budget authority	-16	-17	-18	-19	-19	-19	-20	-21	-22	-171
Outlays	-16	-17	-18	-19	-19	-19	-20	-21	-22	-171
Changes in Discretionary Spending										
Defense										
Budget authority	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Outlays	-33	-46	-51	-53	-54	-54	-54	-54	-54	-454
Nondefense										
Budget authority	-39	-38	-37	-36	-36	-35	-34	-33	-33	-322
Outlays	-21	-32	-35	-35	-36	-35	-34	-34	-33	-294
Total										
Budget authority	-94	-93	-92	-91	-90	-90	-89	-88	-87	-813
Outlays	-54	-78	-86	-88	-90	-89	-89	-88	-87	-749
Outlays Resulting from Sequestration of Mandatory Spending[a]	2	3	3	4	3	3	4	4	5	31
Changes in Debt-Service Costs[b]	-1	-2	-5	-10	-17	-23	-30	-37	-44	-169
Total Impact on the Deficit	**-68**	**-94**	**-105**	**-114**	**-122**	**-129**	**-135**	**-142**	**-148**	**-1,057**

Source: Congressional Budget Office.

Notes: For enforcement purposes, section 302 of the Budget Control Act establishes a goal of $1.2 trillion in reductions and stipulates that 18 percent of that amount be considered reduced spending for debt service, with the remainder split equally between defense and nondefense spending. In this analysis, the $1.2 trillion goal is allocated as follows:

Total Goal for Reductions (Billions of dollars)	-1,200
Stipulated reduction for debt service	-216
Required reduction in defense budgetary resources	-492
Required reduction in nondefense budgetary resources	-492

* = between -$500 million and zero. "Budget authority" refers to the authority provided by law to incur financial obligations, which eventually result in outlays.

a. These estimates reflect subsequent changes in spending for some programs that would offset estimated savings stemming from the original reductions.

b. "Debt service" refers to a change in interest payments from a change in projected deficits.

expenditures, part of the savings from the automatic cuts in budgetary resources would occur after 2021. Second, CBO expects that some reductions—particularly those related to Medicare—would have other effects that would boost net spending (by the $31 billion mentioned above). Third, CBO estimates that the reduction in debt-service costs would be lower than the amount of such savings stipulated in the Budget Control Act.[5]

The majority of the savings from the automatic spending reductions would stem from further cuts in discretionary spending (beyond those embodied in the new law's caps on discretionary budget authority). CBO expects that about 71 percent of the net savings from the automatic procedures would come from lowering the caps on discretionary appropriations, 13 percent would come from a net reduction in mandatory spending, and 16 percent would result from lower debt-service costs.

Of course, the Budget Control Act could produce outcomes that are very different than the figures outlined above. The Congress could enact legislation originating from the deficit reduction committee that would produce $1.2 trillion in savings through changes that differ significantly from the automatic reductions that would be required in the absence of such legislation. Or such legislation could yield some savings, but less than $1.2 trillion, so the automatic procedures would have a smaller impact than CBO has estimated here. Alternatively, the deficit reduction committee could recommend, and the Congress could enact, legislation saving significantly more than $1.2 trillion. (The Budget Control Act states that the committee's goal is to achieve at least $1.5 trillion in savings over the 2012–2021 period.)

Overview of the Budget Control Act's Enforcement Process

Section 302 of the Budget Control Act specifies procedures that, if triggered, would result in automatic cuts in mandatory and discretionary spending beginning in 2013. The law requires that any necessary automatic reductions be calculated as follows:

1. The deficit reduction amount of $1.2 trillion for the 2012–2021 period would be reduced to account for any estimated savings stemming from legislation originated by the deficit reduction committee and enacted before January 15, 2012. (This analysis shows the automatic reductions that CBO estimates would occur if no such legislation was enacted.)

2. To determine the amount of the reductions in spending for the government's programs and activities that would be necessary to achieve the required savings, the act stipulates that 18 percent of the savings should be assumed to come from decreases

5. The Budget Control Act specifies that 18 percent of the $1.2 trillion goal for deficit reduction be assumed to result from debt-service savings; that amount comes to $216 billion. In the analysis presented here, CBO estimates that the automatic spending reductions would produce debt-service savings of $169 billion through 2021.

in debt-service costs. Thus, if the required savings were the entire $1.2 trillion, $216 billion would be assumed to come from reduced debt-service costs, leaving $984 billion to come from reductions in budgetary resources through 2021.

3. That adjusted target would be divided evenly over the nine years from 2013 to 2021, requiring a reduction of about $109 billion per year to produce a nine-year total of $984 billion.[6]

4. That annual total would be allocated equally between defense spending (accounts in budget function 050, most—but not all—of which finance activities of the Department of Defense) and nondefense spending (all other budget functions).[7] Thus, reductions of roughly $55 billion per year would be required in each of those two broad spending categories if no savings resulted from legislation originated by the deficit reduction committee.

5. Within the defense and nondefense categories, the required reductions would be allocated proportionally between discretionary and mandatory spending, according to various rules discussed below.

Each year, OMB would determine the proportional allocations of required cuts in budgetary resources for mandatory and discretionary programs in both the defense and nondefense categories. The President would order any necessary sequestrations for mandatory programs and activities or reductions in discretionary spending caps in order to achieve the required reductions. For discretionary spending, reductions in 2013 would be executed by canceling new budget authority made available in that year (that cut would take the form of a sequestration of existing appropriations because it would occur in January 2013, well after the start of the fiscal year). Reductions in discretionary spending from 2014 to 2021 would be achieved by reducing the caps on such spending for each year, pursuant to the procedures specified in the Budget Control Act.[8] For mandatory spending, reductions in all years would be achieved through sequestrations.

---

6. The $109 billion annual amount is slightly less than the annual savings included in CBO's *The Budget and Economic Outlook: An Update* (August 2011) because that report showed a placeholder for provisions related to the deficit reduction committee, whereas this analysis shows the estimated effects of the enforcement provisions of the Budget Control Act in the event that no legislation stemming from the committee's work is enacted.

7. Budget functions are the 20 general subject-area categories into which budget accounts are grouped so that all budget authority and outlays can be presented according to the national interests being addressed.

8. The Budget Control Act specifies caps on discretionary spending that take the following form: One overall cap applies to total discretionary spending over the 2014–2021 period, but separate caps are in place in 2012 and 2013 for "security" and "nonsecurity" funding. The categories and the caps used in the Budget Control Act's automatic enforcement process are different, however. For carrying out that process, the act specifies two separate caps for every year through 2021. Those caps are also labeled "security" and "nonsecurity," but they encompass different budget accounts than the caps on discretionary spending in 2012 and 2013. The caps on "security" spending used for the automatic reductions apply only to budget function 050 (national defense); the "nonsecurity" caps apply to all other discretionary spending.

A sequestration of mandatory budgetary resources would be subject to rules that exempt Social Security, Medicaid, and certain other programs from any automatic cancellation of funding.[9] In general, unless a program is specifically exempted by such rules, CBO assumes that it would be included in any sequestration under the Budget Control Act. CBO estimates that, under current law, mandatory spending over the 2013–2021 period would total $24 trillion and that roughly 70 percent of that spending would be exempt from sequestration.

With exempt programs and activities excluded, slightly more than $600 billion in mandatory spending would be subject to sequestration in 2013, CBO estimates. That amount would grow to $950 billion by 2021, for a total of $6.9 trillion over the 2013–2021 period—virtually all of it for nondefense programs and activities (see Table 2). The vast majority of that spending is for Medicare, but the Budget Control Act specifies that most Medicare spending for program benefits may not be cut by more than 2.0 percent in a sequestration.[10] CBO estimates that, under current law, the 2.0 percent limit would apply to approximately $6.1 trillion of Medicare spending over the nine-year period. Other mandatory spending subject to sequestration would total about $725 billion over that period. (Those estimates are consistent with CBO's August 2011 baseline.) Once the 2.0 percent limit was reached for Medicare, spending cuts for all other nondefense discretionary and mandatory programs would be increased by a uniform percentage to achieve the required deficit reduction.

The amounts of discretionary budget authority that would be subject to sequestration in 2013 or to cap reductions in later years are specified in section 302 of the Budget Control Act. They total about $1.0 trillion in 2013 and increase to $1.2 trillion by 2021; budget authority for defense constitutes just over half of those amounts in each year (see Table 2).

CBO's Estimates of Automatic Reductions in Budgetary Resources

If no budgetary savings were achieved by enacting recommendations from the deficit reduction committee before January 15, 2012, automatic reductions in budgetary

9. A sequestration would follow procedures and rules specified in section 6 of the Statutory Pay-As-You-Go Act of 2010 and would be subject to exemptions and special rules specified in sections 255 and 256 of the Balanced Budget and Emergency Deficit Control Act of 1985. In addition, a few individual budget accounts may be covered by unique statutory provisions that affect whether their budgetary resources are subject to sequestration.

10. Low-income subsidies and additional subsidies for beneficiaries whose spending exceeds certain levels defined as catastrophic in Medicare's Part D prescription drug program are exempt from sequestration. (The qualifying-individual program, if funded by future legislation, would also be exempt.) The sequestration percentage cannot exceed 2.0 percent for payments made for individual services covered under Parts A and B and for monthly contractual payments to Medicare Advantage plans and Part D plans. Other mandatory Medicare spending for benefits and administrative costs would be subject to the same percentage reduction that would apply to nonexempt mandatory spending.

Table 2.

Projected Budgetary Resources Subject to Automatic Reductions

(By fiscal year, in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total, 2013-2021
Defense[a]										
Mandatory outlays subject to sequestration	*	*	*	*	*	*	*	*	*	2
Limit on discretionary budget authority[b]	546	556	566	577	590	603	616	630	644	5,328
Total	**546**	**556**	**566**	**577**	**590**	**603**	**616**	**630**	**644**	**5,330**
Nondefense[a]										
Mandatory outlays subject to sequestration										
Portion of Medicare spending subject to 2 percent limit[c]	542	571	598	644	671	700	756	806	860	6,148
All other nonexempt mandatory spending[d]	63	71	80	83	82	83	85	88	90	725
Subtotal	606	642	678	727	753	783	841	894	950	6,874
Limit on discretionary budget authority[b]	501	510	520	530	541	553	566	578	590	4,889
Total	**1,107**	**1,152**	**1,198**	**1,257**	**1,294**	**1,336**	**1,407**	**1,472**	**1,540**	**11,763**

Source: Congressional Budget Office.

Note: * = between zero and $500 million. "Budget authority" refers to the authority provided by law to incur financial obligations, which eventually result in outlays.

a. For the purposes of this table, "defense" refers to all accounts in budget function 050, and "nondefense" refers to all other budget accounts.

b. Limits on discretionary budget authority as specified in section 302 of the Budget Control Act.

c. Sequestration cannot exceed 2 percent for payments made for individual services covered under Parts A and B of Medicare and for monthly contractual payments to Medicare Advantage plans and Part D plans.

d. Accounts that are exempt from sequestration are listed in the Balanced Budget and Emergency Deficit Control Act of 1985; 2 U.S.C. 905, 906(d)(7).

resources would be triggered that would total $984 billion over the 2013–2021 period (excluding effects on debt service)—$492 billion from defense programs and $492 billion from nondefense programs (see Table 3). In estimating the allocations of those savings among different categories of spending and the percentage reductions that would be required, CBO based its calculations on its most recent baseline budget projections, which incorporate the assumptions that programs will operate as specified in current law and that future discretionary appropriations will adhere to the caps in the Budget Control Act.[11]

11. For details about CBO's baseline projections, see Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2011), Chapter 1.

Table 3.

CBO's Estimates of Sequestration Amounts for Mandatory Spending and Reductions in Caps on Discretionary Budget Authority

(By fiscal year, in billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total, 2013-2021
Defense[a]										
Mandatory sequestration	*	*	*	*	*	*	*	*	*	*
Reduction in the cap on discretionary budget authority	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Total	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-492**
Nondefense[a]										
Mandatory sequestration										
Medicare spending subject to 2 percent limit	-11	-11	-12	-13	-13	-14	-15	-16	-17	-123
Other nonexempt programs	-3	-3	-4	-4	-3	-3	-3	-3	-3	-30
Additional sequestration applied to other programs because of the 2 percent limit for Medicare[b]	-2	-2	-2	-2	-2	-2	-2	-2	-2	-17
Subtotal	-16	-17	-18	-19	-19	-19	-20	-21	-22	-170
Reduction in the cap on discretionary budget authority										
Preliminary reductions	-25	-24	-24	-23	-23	-23	-22	-21	-21	-206
Further reductions because of the 2 percent limit for Medicare	-14	-14	-13	-13	-13	-13	-12	-12	-12	-116
Total	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-492**
Memorandum:										
Percentage Cut to Nonexempt Budget Accounts										
Defense	10.0	9.8	9.7	9.5	9.3	9.1	8.9	8.7	8.5	n.a.
Nondefense										
Discretionary	7.8	7.4	7.1	6.8	6.6	6.4	6.1	5.8	5.5	n.a.
Mandatory										
Medicare spending subject to 2 percent limit	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	n.a.
Other	7.8	7.4	7.1	6.8	6.6	6.4	6.1	5.8	5.5	n.a.

Source: Congressional Budget Office.

Notes: This table excludes additional savings that would accrue from reductions in debt-service costs attributable to the reductions in mandatory and discretionary spending. Under the Budget Control Act, those debt-service savings are assumed to be 18 percent of the $1.2 trillion total goal. ("Debt service" refers to a change in interest payments from a change in projected deficits.)

* = between -$500 million and zero; n.a. = not applicable. "Budget authority" refers to the authority provided by law to incur financial obligations, which eventually result in outlays.

a. For the purposes of this table, "defense" refers to all accounts in budget function 050, and "nondefense" refers to all other budget accounts.

b. Because a portion of Medicare spending cannot be subject to a sequestration of more than 2 percent, the remaining amount of required reductions must be reallocated proportionally among other nonexempt mandatory programs and nondefense discretionary funding.

Reductions in Budgetary Resources for Defense

If none of the specified savings of $1.2 trillion was obtained through legislation originating with the deficit reduction committee, the automatic procedures would reduce budgetary resources for national defense (budget function 050) by about $55 billion a year between 2013 and 2021. Such annual reductions would be split proportionally between mandatory and discretionary defense spending. Because mandatory spending makes up less than 1 percent of all defense spending, however, CBO estimates that only about $150 million would be sequestered from mandatory defense programs over the 2013–2021 period. Consequently, almost all of the required deficit reduction in the defense category would have to be achieved by lowering the caps on future discretionary appropriations for defense activities. (Under the Budget Control Act, the discretionary caps would not constrain spending that is designated by the Congress for overseas contingency operations, such as war-related efforts in Afghanistan or Iraq).

The estimated reduction in defense funding from those automatic cuts would require the cap on new defense appropriations in 2013 to be lowered by 10.0 percent (see the memorandum in Table 3). The percentage reductions in the caps for later years would be successively smaller, amounting to 8.5 percent in 2021.

Reductions in Budgetary Resources for Nondefense Programs and Activities

Estimating automatic reductions for nondefense programs is more complicated, particularly because of provisions in the Budget Control Act that limit cuts in most spending for Medicare benefits to 2.0 percent. CBO estimates that about 90 percent of Medicare spending would be subject to that limit, and another 8 percent of such spending would be exempt from sequestration altogether, leaving just 2 percent of Medicare spending subject to the same sequestration as nonexempt mandatory programs.

In calculating the reductions required in the nondefense spending category, the $492 billion target for the 2013–2021 period would first be allocated proportionally between discretionary and nonexempt mandatory programs. CBO estimates that mandatory spending will account for roughly 58 percent of all nondefense spending that would be subject to enforcement procedures under the Budget Control Act during those nine years. Of that nonexempt mandatory spending, the vast majority is for Medicare programs and activities that would be subject to the 2.0 percent limit. In the absence of such a limit, reductions in budgetary resources for Medicare would total $256 billion between 2013 and 2021, CBO estimates; with the 2.0 percent ceiling, however, such reductions would total $123 billion over that period.

The other $133 billion in required reductions that could not be accomplished because of the 2.0 percent limit would be reallocated proportionally among the remaining nonexempt mandatory programs and discretionary programs in the nondefense category. As a result, CBO estimates, cuts to those nonexempt mandatory programs would total $47 billion over the 2013–2021 period ($17 billion of which would stem from the limit on the sequestration of Medicare spending), and reductions in caps on future appropriations for nondefense discretionary programs would total $322 billion ($116 billion of which would result from the Medicare limit). Those cuts would represent reductions ranging from 7.8 percent for 2013 to 5.5 percent for 2021 (see the memorandum in Table 3).

Estimated Impact of Budget Enforcement Mechanisms on Future Deficits

CBO estimates that the enforcement procedures described in this analysis would reduce deficits by a total of $1.1 trillion over the 2013–2021 period (see Table 1 on page 3). That amount comprises savings of $140 billion in projected mandatory spending, of $749 billion from lower discretionary appropriations, and of $169 billion in projected debt-service costs.

The total deficit reduction is lower than the $1.2 trillion target specified in the Budget Control Act, for three reasons:

- Changes in outlays resulting from reductions in budgetary resources occur gradually because of the lag between the timing of appropriations and subsequent expenditures; therefore, some of the outlay savings (about $60 billion in this analysis) would come after 2021.

- CBO expects that reductions in budgetary resources for some programs and activities—such as certain parts of Medicare—would have effects that would offset some of the original savings; for example, premiums for Part B of Medicare are set to cover a fraction of that program's costs, and if those costs are reduced, receipts from premiums will be lower. In total (including the effects on Medicare and other programs), those offsetting costs would amount to $31 billion through 2021, CBO estimates.

- CBO estimates that savings in debt-service costs would total only $169 billion—less than the $216 billion in savings implied by applying the 18 percent adjustment stipulated in the Budget Control Act to the savings target of $1.2 trillion.

This analysis is based on CBO's August 2011 baseline budget and economic projections. However, those projections are subject to a considerable degree of uncertainty. Furthermore, under the Budget Control Act, OMB will calculate the reductions in discretionary spending caps and sequestrations of mandatory spending for each fiscal year. Although the amount of deficit reduction required each year would be set according to the provisions of the Budget Control Act, the reductions in mandatory programs would depend not only on future actions by the Congress but also on OMB's projections of spending for those programs, which might well differ from CBO's estimates.