

# Estimated Budgetary Outcomes Under Alternative Assumptions About Fiscal Policy

## Overview

The Congressional Budget Office's baseline budget projections are intended to show what would happen to federal spending, revenues, and deficits if current laws governing spending and taxes generally remained unchanged. To assist policymakers and analysts who may hold differing views about the most useful benchmark against which to consider possible changes to laws, CBO has estimated how its budget projections would change given alternative assumptions about future policies. (Those estimates do not incorporate any economic effects of such changes in fiscal policies relative to current law.)

To develop the policy alternatives, CBO considered assumptions about discretionary spending and revenues that differ from those underlying the baseline. For example, CBO's baseline projections of discretionary spending reflect the assumption that substantial spending cuts will take place in 2020 to comply with the existing caps on discretionary appropriations currently set in law. Some policymakers have discussed alternatives to such cuts. As another example, CBO's projections of revenues reflect assumptions that substantial tax increases will take place as scheduled under current law and that recently imposed tariffs will remain at current levels. In those cases as well, policymakers have discussed alternatives to the policies that would take effect under current law.

Using some of those options, CBO developed an alternative fiscal scenario that illustrates the effects of deviations from current law that would maintain major policies that are currently in place. The projected budgetary outcomes under that scenario account for some of the interactions that would occur if the separate policies were enacted in combination.

## Discretionary Spending

CBO projects discretionary spending according to procedures specified in law. However, lawmakers have often enacted legislation providing amounts of funding that differ from what is projected in the baseline. For

example, CBO's baseline projections have incorporated caps on most new discretionary funding that were put in place by the Budget Control Act of 2011. Since 2013, however, lawmakers have ultimately raised those caps by a total of \$439 billion. Additionally, some funding is not limited by those caps and can vary significantly. For example, in recent years, the Congress has appropriated funding for emergency requirements (one category of funding not subject to the caps) in amounts varying from zero to \$102 billion.

In CBO's baseline, discretionary funding subject to the caps is projected to fall sharply in 2020 before increasing with inflation after 2021, whereas funding not limited by the caps is projected to increase with inflation after 2019. To illustrate two ways in which discretionary spending could differ from CBO's baseline projections, the agency estimated budgetary outcomes if all such funding were to grow with inflation after 2019 and if it were held at the estimated 2019 amounts after that year (see Figure 5-1).

If discretionary appropriations grew at the same rate as inflation from 2020 through 2029 rather than being constrained by the funding caps that would otherwise apply in 2020 and 2021, outlays would be \$1.8 trillion more over the 2020–2029 period than they are in CBO's baseline, excluding added debt-service costs (see Table 5-1 on page 108).<sup>1</sup> All told, discretionary outlays under that scenario would total 5.6 percent of gross domestic product (GDP) in 2029, instead of 4.9 percent as projected in CBO's baseline. In 2018, they were 6.2 percent of GDP. The resulting increase in debt-service costs would add another \$290 billion to outlays over the 2020–2029 period.

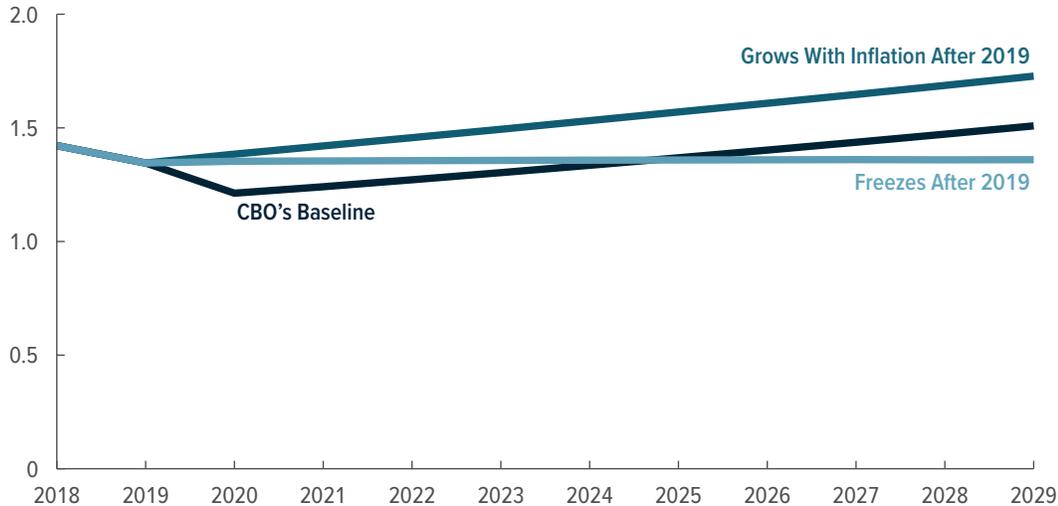
If, by contrast, lawmakers froze appropriations, including transportation-related obligation limitations, at the

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

Figure 5-1.

**Alternative Paths for Discretionary Budget Authority**

Trillions 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 2020 and 2021 will adhere to the current-law caps and grow with inflation thereafter.

Source: Congressional Budget Office.

nominal 2019 amount for 2020 through 2029, outlays would be \$36 billion more over that period than projected in the baseline, excluding added debt-service costs. Total discretionary budget authority under this scenario would exceed the amount in CBO's baseline from 2020 through 2024 and would then drop below the amount in the baseline (by increasing amounts each year) between 2025 and 2029. In 2029, discretionary outlays under this scenario would total 4.5 percent of GDP.

**Revenues**

CBO's baseline projections reflect assumptions that temporary provisions of the tax code will expire as scheduled under current law and that recently imposed tariffs will remain at current levels. Revenues would differ if certain temporary tax policies were continued or if tariffs were changed.

**Alternatives That Affect the Tax Code**

A number of tax provisions have recently expired or are scheduled to expire over the next decade. They include many provisions of the 2017 tax act (Public Law 115-97), most of which expire at the end of 2025. The expiring provisions affect major elements of the individual income tax, including tax rates and brackets, the amount of deductions that are allowed, the size and refundability of the child tax credit, and the reach of the alternative

minimum tax (that is, the number of people who pay the alternative minimum tax and the amounts they pay).<sup>2</sup> The act's expansion of the estate and gift tax exemption also expires at the end of 2025. According to estimates by the staff of the Joint Committee on Taxation (JCT), if those and certain other expiring elements of the 2017 tax act were extended, deficits would be larger than those in CBO's baseline, on net, by \$957 billion over the 2020–2029 period (excluding added debt-service costs). Most of those effects would occur after 2026.

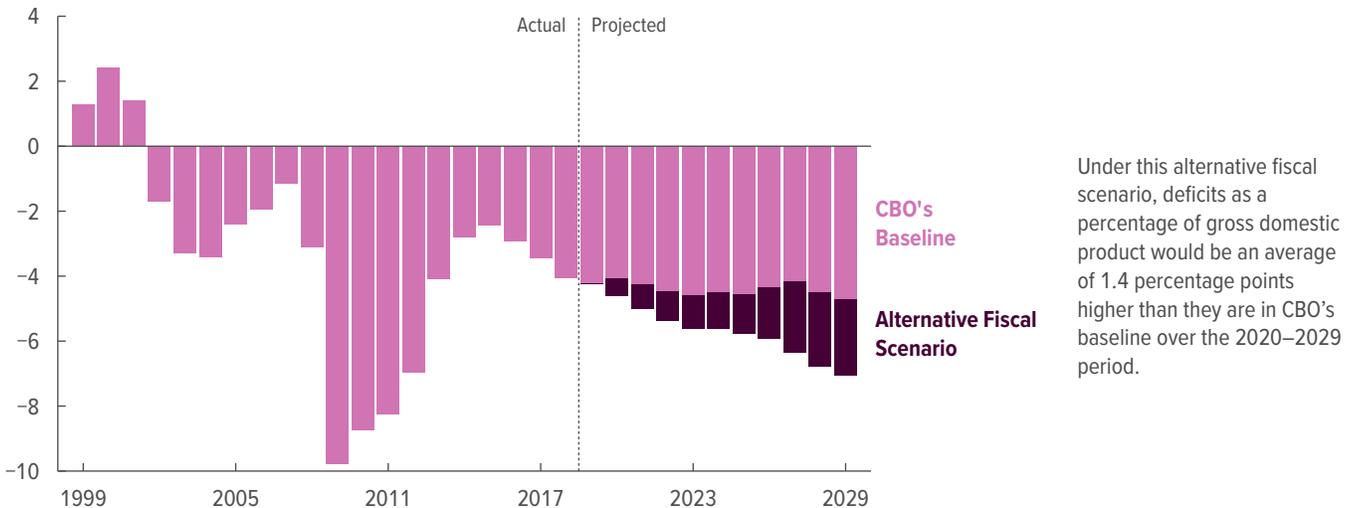
The 2017 tax act also temporarily expanded a provision known as bonus depreciation, which allows businesses to immediately deduct a portion of the cost of certain investments. Bonus depreciation was expanded to 100 percent of the cost of such investments through 2022; it then phases down between 2023 and 2026. Extending that expansion of bonus depreciation, and thus averting the phasedown, would increase deficits by \$174 billion (excluding added debt-service costs) over the 2020–2029 period.

2. The alternative minimum tax is similar to the regular income tax, but its calculation includes fewer exemptions, deductions, and rates. People who file individual income tax returns must calculate the tax owed under each system and pay the larger of the two amounts.

Figure 5-2.

### Projected Deficits Under CBO's Baseline and an Alternative Fiscal Scenario

Percentage of Gross Domestic Product



Under this alternative fiscal scenario, deficits as a percentage of gross domestic product would be an average of 1.4 percentage points higher than they are in CBO's baseline over the 2020–2029 period.

Source: Congressional Budget Office.

The alternative fiscal scenario depicted includes the effects of allowing discretionary funding to grow with inflation beginning in 2020, extending several expiring tax provisions (namely, certain provisions of the 2017 tax act, expensing of certain investments at a 100 percent rate, and more than 20 other expiring revenue provisions, including trade preference programs), and repealing certain postponed health taxes.

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

In addition to the provisions described above, more than 20 tax provisions expire between December 31, 2018, and the end of the projection period. Those include tax preferences for renewable energy and other tax credits. In addition, several trade preference programs, which promote trade with certain developing countries, including those in the Caribbean and sub-Saharan Africa, are scheduled to expire between 2020 and 2026. If those temporary tax provisions and trade preference programs were permanently extended, JCT and CBO estimate, the deficit would be larger than projected in the baseline by a total of \$103 billion (excluding added debt-service costs) over the 2020–2029 period.

Deficits also would increase if certain postponed taxes established by the Affordable Care Act were repealed. The Extension of Continuing Appropriations Act, 2018 (P.L. 115-120), temporarily suspended or delayed the medical device excise tax, the excise tax on high-cost employment-based health care coverage, and the annual fee on health insurance providers. Repealing those

taxes would increase the deficit by a total of \$392 billion (excluding added debt-service costs) over the 2020–2029 period, JCT estimates.

Altogether, if all of the above revenue provisions were permanently extended, CBO and JCT estimate, deficits would be larger by a total of \$1.6 trillion over the 2020–2029 period. Increased debt-service costs would add another \$143 billion to those deficits.

#### Alternatives That Affect Tariffs

The Administration has broad authority to impose tariffs without legislative action. CBO's baseline reflects the assumption that tariffs imposed with that authority and in effect at the time the analysis was completed would continue permanently without scheduled or unscheduled changes. Those include tariffs on imports of solar panels and certain appliances, which took effect on February 7, 2018; on steel and aluminum imports from most countries, which took effect on March 23, 2018; and on a range of products imported from China, the

Table 5-1.

**Budgetary Effects of Selected Policy Alternatives Not Included in CBO's Baseline**

Billions of Dollars

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total	
												2020–2024	2020–2029
<b>Policy Alternatives That Affect Discretionary Outlays</b>													
Increase Discretionary Appropriations at the Rate of Inflation <sup>a</sup>													
Increase (-) in the deficit <sup>b</sup>	0	-97	-144	-165	-178	-187	-193	-199	-204	-208	-213	-770	-1,787
Added debt-service costs	0	-2	-6	-11	-18	-24	-30	-37	-45	-54	-62	-61	-290
Freeze Discretionary Appropriations at the 2019 Amount <sup>c</sup>													
Increase (-) in the deficit <sup>b</sup>	0	-78	-96	-84	-62	-35	-4	28	62	99	133	-355	-36
Added debt-service costs	0	-1	-4	-8	-10	-12	-13	-13	-12	-9	-6	-36	-89
<b>Policy Alternatives That Affect the Tax Code<sup>d</sup></b>													
Continue Certain Revenue Policies													
Extend certain provisions of the 2017 tax act <sup>e</sup>	*	-3	-4	-4	-5	-5	-12	-98	-257	-275	-295	-21	-957
Extend the expansion of bonus depreciation at 100 percent rate <sup>f</sup>	0	0	0	0	-9	-19	-27	-32	-36	-29	-23	-28	-174
Extend other expiring revenue provisions <sup>g</sup>	*	-1	-4	-5	-8	-9	-11	-13	-15	-17	-20	-27	-103
Repeal certain postponed health taxes <sup>h</sup>	0	-15	-16	-25	-33	-37	-42	-46	-54	-59	-66	-125	-392
Increase (-) in the deficit <sup>b</sup>	*	-18	-24	-34	-54	-70	-91	-189	-362	-381	-403	-201	-1,626
Added debt-service costs	*	*	-1	-2	-4	-6	-9	-13	-23	-36	-50	-13	-143
<b>Policy Alternatives That Affect Trade Policies</b>													
Allow Scheduled Changes to Tariffs to Take Effect <sup>i</sup>													
Decrease in the deficit <sup>b</sup>	1	11	11	11	11	11	11	11	11	11	11	54	110
Reduced debt-service costs	*	*	1	1	1	2	2	3	3	3	4	5	20
Revert Tariffs to 2017 Levels <sup>j</sup>													
Increase (-) in the deficit <sup>b</sup>	-15	-35	-36	-37	-38	-38	-39	-39	-39	-40	-40	-184	-381
Added debt-service costs	*	-1	-2	-4	-5	-6	-8	-9	-11	-12	-14	-19	-73

Continued

first of which took effect on July 6, 2018. Those policies increase the revenues from tariffs by about 0.1 percent of GDP in 2019.

Projected revenues would differ if scheduled changes took place or if tariffs returned to their historical levels. Under the Administration's announced plans, the tariffs on certain Chinese imports are scheduled to increase from 10 percent to 25 percent in March 2019, and the tariffs on certain imported appliances and solar panels will sunset in 2021 and 2022, respectively. If those changes occurred and there were no further changes to tariffs on those goods over the next decade, revenues would increase by \$110 billion over the

2020–2029 period relative to CBO's baseline projections. If, instead, the new policies put in place in 2018 were reversed beginning on April 1, 2019, and then tariffs remained at their historical levels for the next decade, revenues from tariffs would be reduced by \$381 billion over the 2020–2029 period relative to the baseline.

### An Alternative Fiscal Scenario

If current law were changed to maintain major policies that are currently in place, far larger deficits and greater debt would result than are shown in CBO's current baseline. Over the 2020–2029 period, deficits would be larger by a total of \$3.4 trillion (plus an added \$433 billion in debt-service costs), causing cumulative deficits

Table 5-1.

Continued

**Budgetary Effects of Selected Policy Alternatives Not Included in CBO's Baseline**

Billions of Dollars

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total	
												2020– 2024	2020– 2029
<b>Policy Alternative That Affects Outlays and Revenues</b>													
Changes in Deficits From an Alternative Fiscal Scenario <sup>a</sup>													
Increase (-) in the deficit <sup>b</sup>	*	-115	-168	-199	-232	-257	-285	-388	-565	-589	-615	-971	-3,413
Added debt-service costs	*	-2	-7	-14	-21	-30	-39	-51	-68	-89	-112	-74	-433
<b>Memorandum:</b>													
Alternative Fiscal Scenario													
Revenues <sup>1</sup>	3,515	3,667	3,817	3,977	4,152	4,376	4,553	4,763	4,906	5,078	5,282	19,988	44,570
Outlays <sup>1</sup>	4,412	4,688	4,966	5,256	5,539	5,820	6,089	6,406	6,731	7,100	7,470	26,268	60,064
Deficit <sup>1</sup>	-898	-1,021	-1,149	-1,279	-1,387	-1,444	-1,536	-1,643	-1,825	-2,022	-2,188	-6,279	-15,494
Deficit in CBO's Baseline <sup>1</sup>	-897	-903	-974	-1,066	-1,134	-1,158	-1,212	-1,204	-1,192	-1,344	-1,460	-5,235	-11,648

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

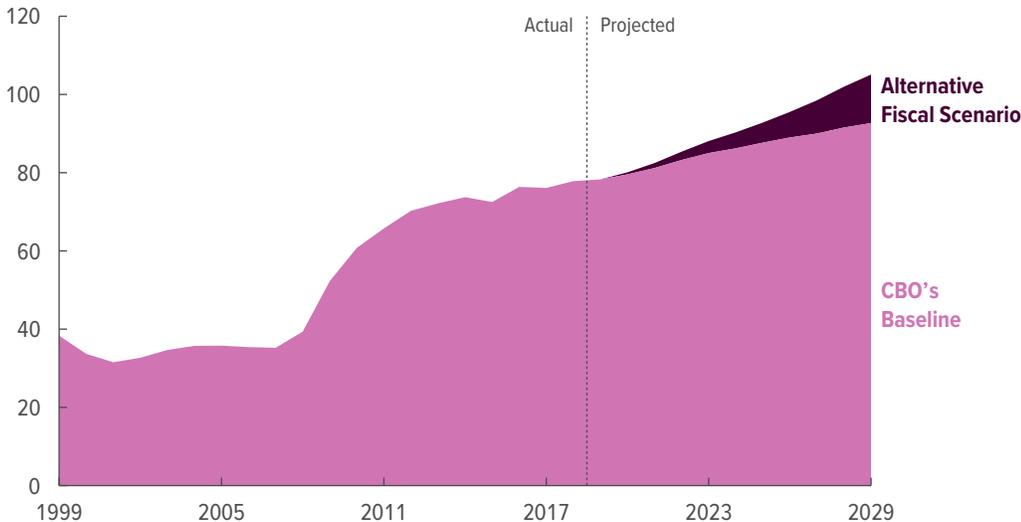
\* = between -\$500 million and \$500 million.

- a. These estimates reflect the assumption that appropriations will not be constrained by caps set by the Budget Control Act of 2011 (as amended) and will instead grow from their 2019 level at the rate of inflation. Discretionary funding related to federal personnel was inflated using the employment cost index for wages and salaries; other discretionary funding was inflated using the gross domestic product price index.
- b. Excludes debt-service costs.
- c. This option reflects the assumption that appropriations would generally be frozen at the 2019 level.
- d. These estimates are mainly from the staff of the Joint Committee on Taxation and are preliminary. They are relative to current law and incorporate economic projections that underlie CBO's April 2018 baseline. The estimates include some effects on outlays for refundable tax credits.
- e. This alternative incorporates the assumption that lawmakers will permanently extend many provisions of the 2017 tax act (Public Law 115-97). Most significantly, under this alternative the provisions that lower individual income tax rates, expand the income tax base, expand the child tax credit, reduce the amount of income subject to the alternative minimum tax, and increase the estate and gift tax exemption are all extended. The expanded expensing of certain investments, however, is not extended; the effects of that alternative are shown separately.
- f. This alternative would extend the provisions that allow businesses to expense (immediately deduct from their taxable income) a greater share of the cost of their investment in equipment and certain other assets. Under current law, the portion that can be expensed is 100 percent through 2022, 80 percent in 2023, 60 percent in 2024, 40 percent in 2025, and 20 percent in 2026, after which the provisions expire. The alternative would extend the 100 percent allowance permanently beyond 2022.
- g. This alternative would extend more than 20 tax provisions that expired in 2018 or are scheduled to expire. It also includes the extension of a number of trade preference programs scheduled to expire between 2020 and 2026 that affect customs duties. It does not include an extension of the bonus depreciation provisions or a repeal of certain health-related provisions; those effects are shown separately.
- h. This alternative would repeal the health insurance provider tax, the medical device excise tax, and the excise tax on certain health insurance plans with high premiums. All were postponed for either one or two years by the Extension of Continuing Appropriations Act, 2018. The component of the estimate from repealing the high-premium excise tax does not include largely offsetting effects that would result because some people who would otherwise have been enrolled in insurance through Medicaid or the marketplaces established by the Affordable Care Act would instead enroll in employment-based coverage.
- i. This alternative would allow scheduled changes to newly imposed tariffs to occur. Tariffs on certain Chinese imports would increase from 10 percent to 25 percent in March 2019, and tariffs on certain imported appliances and solar panels would expire in 2021 and 2022, respectively.
- j. This alternative would return tariffs that were raised by administrative action in 2018 to their 2017 levels. Those include tariffs on imports of solar panels and certain appliances, on steel and aluminum imports from most countries, and on a range of products imported from China.
- k. This alternative fiscal scenario incorporates all of the policy alternatives in this table except the ones labeled "Freeze Discretionary Appropriations at the 2019 Amount" and "Policy Alternatives That Affect Trade Policies."
- l. When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All values have been adjusted to exclude the effects of those timing shifts.

Figure 5-3.

### Federal Debt Held by the Public Under CBO's Baseline and an Alternative Fiscal Scenario

Percentage of Gross Domestic Product



Under this alternative fiscal scenario, by 2028 debt held by the public would exceed the country's gross domestic product for the first time since 1946.

Source: Congressional Budget Office.

The alternative fiscal scenario depicted includes the effects of allowing discretionary funding to grow with inflation beginning in 2020, extending several expiring tax provisions (namely, certain provisions of the 2017 tax act, expensing of certain investments at a 100 percent rate, and roughly 20 other expiring revenue provisions, including trade preference programs), and repealing certain postponed health taxes.

of nearly \$15.5 trillion, if the following policy decisions were made:

- The caps on discretionary appropriations did not take effect and appropriations instead grew at the same rate as inflation in each year after 2019;
- The expiring revenue provisions of the 2017 tax act were extended, including provisions that specify tax rates and brackets, the amount of deductions that are allowed, the size and refundability of the child tax credit, and the reach of the alternative minimum tax;
- The expansion of bonus depreciation for businesses deducting certain investments were held at a 100 percent rate;
- Certain temporary tax provisions that have recently expired or are scheduled to expire in coming years, including several trade preference programs, were permanently extended; and

- Certain postponed taxes established by the Affordable Care Act were repealed.<sup>3</sup>

Under that scenario, revenues from 2020 through 2029 would average 16.9 percent of GDP, almost 0.5 percentage points below their 50-year average, and outlays would average 22.7 percent, roughly 2.4 percentage points above their 50-year average. Deficits would average nearly 5.8 percent of GDP through 2029 and end up 2.3 percentage points higher in 2029 than under CBO's baseline (see Figure 5-2 on page 107). Debt held by the public would reach about 105 percent of GDP by the end of 2029 (see Figure 5-3). That amount would be the largest share since 1946. Moreover, the pressures that are projected to contribute to that rise—such as an aging population and rising interest rates—would accelerate and drive up debt even more in subsequent decades.

3. Those policies encompass all of the policy alternatives shown in Table 5-1 except the ones labeled "Freeze Discretionary Appropriations at the 2019 Amount" and "Policy Alternatives That Affect Trade Policies."