



An Analysis of the President's 2021 Budget

On February 10, 2020, the Administration submitted its annual set of budgetary proposals to the Congress. In this report, the Congressional Budget Office examines how those proposals, if enacted, would affect budgetary outcomes over the 2020–2030 period relative to CBO's most recent baseline budget projections.¹

CBO's baseline budget projections and its analysis of the Administration's proposals are based on the economic forecast that the agency developed in January 2020, and they incorporate legislation enacted through March 6, 2020, as well as technical adjustments based on certain new information (such as program details released in conjunction with the President's budget).² They do not take into account any other economic or budgetary information. Specifically, CBO's latest budget projections and this analysis do not account for changes to the nation's economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus.

1. For CBO's most recent baseline budget projections, see Congressional Budget Office, *Baseline Budget Projections as of March 6, 2020* (March 2020), www.cbo.gov/publication/56268. Those projections extend from 2020 to 2030 and are based on the assumption that current laws governing federal spending and revenues will generally remain in place. CBO's baseline is intended to provide a benchmark that policymakers can use to assess the potential effects of future policy decisions on federal spending and revenues and, therefore, on deficits and debt.
2. See Congressional Budget Office, *The Budget and Economic Outlook: 2020 to 2030* (January 2020), www.cbo.gov/publication/56020.

According to CBO's projections, the Administration's proposals would have the following major effects:

- The *federal deficit* would be \$2.1 trillion smaller under the President's budget than in CBO's baseline over the 2021–2030 period, CBO projects (see Table 1). (That outcome would be the net result of a reduction in spending that would more than offset a reduction in revenues.) As a percentage of gross domestic product (GDP), *federal debt held by the public* would be 6 percentage points lower in 2030 under the President's budget than in CBO's baseline (but still 13 percentage points higher than it was in 2019).
- The *cumulative deficit* under the President's policies over the 2021–2030 period would total \$11.0 trillion, according to CBO's calculations. That estimate is almost twice the Administration's estimate of \$5.6 trillion, mostly because CBO projects lower revenues over that period as a result of differences between its economic forecast (which was finalized in January 2020) and the Administration's forecast.
- *Total outlays* would be reduced, relative to CBO's baseline, by \$3.0 trillion (or 5 percent) over the 2021–2030 period. Outlays for nondefense discretionary programs would account for \$1.7 trillion of that reduction. Mandatory spending for health care would be reduced by \$0.6 trillion, in part by reducing some of Medicare's payments to health care providers.

Notes: Unless this report indicates otherwise, all years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end. Numbers in the text and tables may not add up to totals because of rounding.

Table 1.

Projected Revenues, Outlays, and Deficits in CBO's Baseline and Under the President's Budget

Billions of Dollars

| | Actual, 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | Total | |
|--|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | | | | | | | | | | | | | 2021– 2025 | 2021– 2030 |
| CBO's March 2020 Baseline | | | | | | | | | | | | | | |
| Revenues | 3,463 | 3,632 | 3,815 | 4,000 | 4,205 | 4,381 | 4,562 | 4,851 | 5,153 | 5,341 | 5,544 | 5,743 | 20,964 | 47,597 |
| Outlays | 4,447 | 4,706 | 4,817 | 5,118 | 5,319 | 5,523 | 5,868 | 6,176 | 6,464 | 6,884 | 7,016 | 7,503 | 26,645 | 60,688 |
| Deficit | -984 | -1,073 | -1,002 | -1,118 | -1,114 | -1,141 | -1,306 | -1,325 | -1,311 | -1,543 | -1,472 | -1,760 | -5,681 | -13,091 |
| CBO's Estimate of the President's Budget | | | | | | | | | | | | | | |
| Revenues | 3,463 | 3,632 | 3,819 | 4,008 | 4,217 | 4,398 | 4,579 | 4,777 | 4,940 | 5,114 | 5,310 | 5,501 | 21,019 | 46,661 |
| Outlays | 4,447 | 4,706 | 4,796 | 5,002 | 5,130 | 5,296 | 5,595 | 5,843 | 6,098 | 6,457 | 6,540 | 6,923 | 25,819 | 57,680 |
| Deficit | -984 | -1,074 | -977 | -994 | -913 | -898 | -1,016 | -1,066 | -1,158 | -1,343 | -1,231 | -1,422 | -4,799 | -11,020 |
| Difference Between CBO's Estimate of the President's Budget and CBO's March 2020 Baseline | | | | | | | | | | | | | | |
| Revenues | n.a. | 0 | 3 | 7 | 12 | 16 | 17 | -74 | -214 | -228 | -234 | -242 | 55 | -936 |
| Outlays | n.a. | 1 | -21 | -116 | -189 | -227 | -273 | -333 | -366 | -427 | -475 | -580 | -826 | -3,007 |
| Deficit^a | n.a. | -1 | 24 | 124 | 201 | 243 | 289 | 259 | 152 | 200 | 241 | 338 | 881 | 2,071 |
| Memorandum: | | | | | | | | | | | | | | |
| Deficit (Percentage of GDP) | | | | | | | | | | | | | | |
| CBO's baseline | -4.6 | -4.9 | -4.3 | -4.7 | -4.5 | -4.4 | -4.9 | -4.8 | -4.6 | -5.2 | -4.8 | -5.5 | -4.6 | -4.8 |
| CBO's estimate of the President's budget | -4.6 | -4.9 | -4.2 | -4.2 | -3.7 | -3.5 | -3.8 | -3.9 | -4.0 | -4.5 | -4.0 | -4.4 | -3.9 | -4.0 |
| Debt Held by the Public (Percentage of GDP) | | | | | | | | | | | | | | |
| CBO's baseline | 79.2 | 80.7 | 81.7 | 83.6 | 85.2 | 86.8 | 88.9 | 90.7 | 92.1 | 94.1 | 95.6 | 97.8 | n.a. | n.a. |
| CBO's estimate of the President's budget | 79.2 | 80.7 | 81.6 | 83.0 | 83.9 | 84.6 | 85.7 | 86.8 | 87.8 | 89.3 | 90.3 | 91.7 | n.a. | n.a. |

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

The estimates shown here are based on CBO's baseline budget projections as of March 6, 2020, which do not account for changes to the nation's economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus. See Congressional Budget Office, *Baseline Budget Projections as of March 6, 2020* (March 2020), www.cbo.gov/publication/56268.

GDP = gross domestic product; n.a. = not applicable.

a. Positive numbers indicate a decrease in the deficit relative to CBO's baseline.

- Relative to CBO's baseline, *federal revenues* over the projection period would be reduced by \$0.9 trillion (or 2 percent). The proposal to extend certain provisions of the 2017 tax act (Public Law 115-97) would account for the largest difference.

CBO conducted this analysis in collaboration with the staff of the Joint Committee on Taxation (JCT). The analysis is based on both agencies' budget estimates, rather than on the Administration's. For discretionary programs, CBO incorporated the funding levels requested by the President rather than using baseline amounts, which incorporate the assumption that funding will grow with inflation once the caps on such

funding expire after 2021. This analysis does not take into account the potential budgetary effects of proposed changes in regulations and other administrative actions included in the President's budget that are not already incorporated in CBO's baseline.³ In addition, the analysis excludes any feedback to the budget from the macroeconomic effects of the President's policies.

Finally, some of the Administration's proposals were not specific enough for CBO and JCT to assess their

3. For a discussion of how CBO accounts for anticipated administrative actions in its baseline projections, see Congressional Budget Office, letter to the Honorable John M. Spratt Jr. (May 2, 2007), www.cbo.gov/publication/18615.

budgetary effects. In total, the Administration estimated roughly \$1 trillion in savings for proposals for which CBO and JCT estimated no cost or savings—either because the agencies could not determine whether the effects estimated by the Administration were achievable within the parameters it presented or because the agencies concluded that those effects would not be achievable. The largest such example was an allowance included in the President's budget of \$844 billion in savings between 2021 and 2030 that would result from changes to the nation's health care system.⁴

Projections Under the President's Budget for 2020 Through 2030

Measured relative to the nation's economic output, as projected in January 2020, the deficit would fall to a low of 3.5 percent of GDP in 2024 if the President's proposals were enacted. It would then rise in most years, equaling 4.4 percent by 2030 and averaging 4.0 percent of GDP over the 10-year period (see Table 2).⁵

Outlays under the President's proposals would average 21.1 percent of GDP over the next 10 years, CBO estimates. Revenues as a share of GDP would rise from 16.6 percent in 2021 to 17.3 percent in 2026 and then would stabilize at 17.2 percent through 2030.

A Comparison With CBO's Baseline

According to CBO's calculations, if the proposals outlined in the President's budget were enacted, the deficit in 2020 would be nearly identical to the deficit in CBO's March 2020 baseline projections. In 2021, CBO estimates, the deficit under the President's budget would be about \$24 billion less than the shortfall projected in the baseline.

Compared with CBO's baseline projections, the deficit under the President's proposals would be smaller in every year between 2021 and 2030, according to CBO and JCT's estimates. Over that period, the cumulative deficit would be \$2.1 trillion smaller than the \$13.1 trillion in

CBO's most recent baseline. Relative to the size of the economy, the average deficit under the President's budget would be 0.8 percentage points below the average of 4.8 percent in CBO's baseline but still above the 3.0 percent of GDP that deficits have averaged since 1970.

As a result of those smaller deficits, federal debt held by the public would also be smaller each year under the President's proposals than in CBO's baseline. By 2030, debt held by the public would be about 6 percentage points lower than the 98 percent of GDP projected in CBO's baseline.

The smaller estimated deficits under the President's proposals relative to CBO's baseline would stem largely from lower outlays, which would be \$3.0 trillion less than baseline amounts. As a share of projected GDP, outlays under the President's budget would average 1.1 percentage points below the average of 22.2 percent in the baseline. (Over the past 50 years, they have averaged 20.4 percent.)

The Administration's policies would reduce revenues by \$0.9 trillion over the next decade relative to CBO's baseline. Revenues would average 17.1 percent of GDP through 2030, below the 17.4 percent that CBO projects under current law and that revenues have averaged since 1970.

Proposals That Would Affect Mandatory Spending

Over the 2021–2030 period, mandatory outlays under the President's proposals would be \$656 billion (or 1.7 percent) lower than projected in the baseline, according to CBO's estimates (see Table 3).⁶

The President's budget includes proposals that would:

- Make a variety of changes to federal health care programs, lowering outlays by \$581 billion (or 3.4 percent) over the 10-year projection period, CBO estimates. Among other things, the Administration proposes to restructure and reduce Medicare's payments to providers for uncompensated care, restructure and reduce spending on graduate medical education, reduce some Medicare payments to outpatient hospitals as well as to postacute-care providers, and require Medicaid beneficiaries to work, volunteer, or otherwise participate in the community.

4. In certain cases, CBO and JCT used the Administration's estimates as placeholders because the agencies concluded that those estimates were achievable targets for the budgetary effects of detailed policies that might be proposed in the future.

5. That pattern is affected by shifts in the timing of certain payments. When October 1 falls on a weekend, as it will in 2022, 2023, and 2028, certain payments due on October 1 will be made at the end of September and thus will be recorded in the previous fiscal year. If not for those shifts, deficits under the President's proposals would fall to 3.7 percent in 2023 and then rise each year through 2030.

6. Mandatory spending is generally governed by statutory criteria and is not normally constrained by the annual appropriation process. Such spending consists primarily of payments for benefit programs such as Social Security and Medicare.

Table 2.

CBO's Estimate of the President's Budget

| | Actual, | | | | | | | | | | | | Total | |
|--|--------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2021– 2025 | 2021– 2030 |
| In Billions of Dollars | | | | | | | | | | | | | | |
| Revenues | | | | | | | | | | | | | | |
| On-budget | 2,548 | 2,672 | 2,818 | 2,968 | 3,138 | 3,279 | 3,420 | 3,576 | 3,694 | 3,822 | 3,971 | 4,115 | 15,622 | 34,801 |
| Off-budget ^a | 914 | 960 | 1,001 | 1,040 | 1,078 | 1,119 | 1,159 | 1,201 | 1,245 | 1,292 | 1,339 | 1,386 | 5,397 | 11,859 |
| Total | 3,463 | 3,632 | 3,819 | 4,008 | 4,217 | 4,398 | 4,579 | 4,777 | 4,940 | 5,114 | 5,310 | 5,501 | 21,019 | 46,661 |
| Outlays | | | | | | | | | | | | | | |
| Mandatory | 2,734 | 2,911 | 2,956 | 3,142 | 3,244 | 3,380 | 3,631 | 3,844 | 4,060 | 4,374 | 4,431 | 4,763 | 16,353 | 37,824 |
| Discretionary | 1,338 | 1,413 | 1,446 | 1,438 | 1,422 | 1,411 | 1,419 | 1,413 | 1,407 | 1,404 | 1,386 | 1,385 | 7,136 | 14,131 |
| Net interest | 375 | 383 | 394 | 422 | 465 | 505 | 545 | 586 | 631 | 679 | 724 | 776 | 2,331 | 5,726 |
| Total | 4,447 | 4,706 | 4,796 | 5,002 | 5,130 | 5,296 | 5,595 | 5,843 | 6,098 | 6,457 | 6,540 | 6,923 | 25,819 | 57,680 |
| On-budget | 3,540 | 3,749 | 3,776 | 3,911 | 3,964 | 4,050 | 4,268 | 4,438 | 4,605 | 4,873 | 4,861 | 5,141 | 19,969 | 43,886 |
| Off-budget ^a | 907 | 958 | 1,020 | 1,090 | 1,167 | 1,245 | 1,327 | 1,406 | 1,493 | 1,584 | 1,679 | 1,782 | 5,850 | 13,794 |
| Deficit (-) or Surplus | -984 | -1,074 | -977 | -994 | -913 | -898 | -1,016 | -1,066 | -1,158 | -1,343 | -1,231 | -1,422 | -4,799 | -11,020 |
| On-budget | -992 | -1,076 | -958 | -944 | -825 | -771 | -848 | -862 | -910 | -1,050 | -890 | -1,026 | -4,347 | -9,085 |
| Off-budget ^a | 8 | 2 | -19 | -50 | -88 | -127 | -168 | -205 | -248 | -293 | -341 | -396 | -453 | -1,935 |
| Debt Held by the Public | 16,801 | 17,836 | 18,793 | 19,854 | 20,808 | 21,768 | 22,844 | 23,958 | 25,166 | 26,557 | 27,844 | 29,341 | n.a. | n.a. |
| Memorandum: | | | | | | | | | | | | | | |
| Gross Domestic Product ^b | 21,220 | 22,111 | 23,029 | 23,916 | 24,809 | 25,724 | 26,653 | 27,615 | 28,653 | 29,737 | 30,850 | 32,003 | 124,131 | 272,989 |
| As a Percentage of Gross Domestic Product | | | | | | | | | | | | | | |
| Revenues | | | | | | | | | | | | | | |
| On-budget | 12.0 | 12.1 | 12.2 | 12.4 | 12.6 | 12.7 | 12.8 | 12.9 | 12.9 | 12.9 | 12.9 | 12.9 | 12.6 | 12.7 |
| Off-budget ^a | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Total | 16.3 | 16.4 | 16.6 | 16.8 | 17.0 | 17.1 | 17.2 | 17.3 | 17.2 | 17.2 | 17.2 | 17.2 | 16.9 | 17.1 |
| Outlays | | | | | | | | | | | | | | |
| Mandatory | 12.9 | 13.2 | 12.8 | 13.1 | 13.1 | 13.1 | 13.6 | 13.9 | 14.2 | 14.7 | 14.4 | 14.9 | 13.2 | 13.9 |
| Discretionary | 6.3 | 6.4 | 6.3 | 6.0 | 5.7 | 5.5 | 5.3 | 5.1 | 4.9 | 4.7 | 4.5 | 4.3 | 5.7 | 5.2 |
| Net interest | 1.8 | 1.7 | 1.7 | 1.8 | 1.9 | 2.0 | 2.0 | 2.1 | 2.2 | 2.3 | 2.3 | 2.4 | 1.9 | 2.1 |
| Total | 21.0 | 21.3 | 20.8 | 20.9 | 20.7 | 20.6 | 21.0 | 21.2 | 21.3 | 21.7 | 21.2 | 21.6 | 20.8 | 21.1 |
| On-budget | 16.7 | 17.0 | 16.4 | 16.4 | 16.0 | 15.7 | 16.0 | 16.1 | 16.1 | 16.4 | 15.8 | 16.1 | 16.1 | 16.1 |
| Off-budget ^a | 4.3 | 4.3 | 4.4 | 4.6 | 4.7 | 4.8 | 5.0 | 5.1 | 5.2 | 5.3 | 5.4 | 5.6 | 4.7 | 5.1 |
| Deficit (-) or Surplus | -4.6 | -4.9 | -4.2 | -4.2 | -3.7 | -3.5 | -3.8 | -3.9 | -4.0 | -4.5 | -4.0 | -4.4 | -3.9 | -4.0 |
| On-budget | -4.7 | -4.9 | -4.2 | -3.9 | -3.3 | -3.0 | -3.2 | -3.1 | -3.2 | -3.5 | -2.9 | -3.2 | -3.5 | -3.3 |
| Off-budget ^a | * | * | -0.1 | -0.2 | -0.4 | -0.5 | -0.6 | -0.7 | -0.9 | -1.0 | -1.1 | -1.2 | -0.4 | -0.7 |
| Debt Held by the Public | 79.2 | 80.7 | 81.6 | 83.0 | 83.9 | 84.6 | 85.7 | 86.8 | 87.8 | 89.3 | 90.3 | 91.7 | n.a. | n.a. |

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

The estimates shown here are based on CBO's baseline budget projections as of March 6, 2020, which do not account for changes to the nation's economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus. See Congressional Budget Office, *Baseline Budget Projections as of March 6, 2020* (March 2020), www.cbo.gov/publication/56268.

n.a. = not applicable; * = between zero and 0.05 percent.

a. The revenues and outlays of the Social Security trust funds and the net cash flows of the Postal Service are classified as off-budget.

b. These estimates come from CBO's baseline economic projections and do not reflect the macroeconomic effects of the President's proposals.

Table 3.

CBO's Estimate of the Effects of the President's Budget Proposals

Billions of Dollars

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | Total | |
|--|-----------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|
| | | | | | | | | | | | | 2021–2025 | 2021–2030 |
| Deficit in CBO's March 2020 Baseline | -1,073 | -1,002 | -1,118 | -1,114 | -1,141 | -1,306 | -1,325 | -1,311 | -1,543 | -1,472 | -1,760 | -5,681 | -13,091 |
| Effects of the President's Proposals | | | | | | | | | | | | | |
| Outlays | | | | | | | | | | | | | |
| Mandatory | | | | | | | | | | | | | |
| Reduce federal spending for health care | 1 | -3 | -30 | -43 | -50 | -59 | -66 | -71 | -80 | -83 | -94 | -186 | -581 |
| Provide mandatory funding for infrastructure | 0 | * | 4 | 8 | 10 | 12 | 13 | 15 | 15 | 19 | 19 | 33 | 114 |
| Reduce subsidies for student loans | 0 | -2 | -5 | -7 | -8 | -10 | -12 | -14 | -16 | -18 | -19 | -32 | -111 |
| Reduce spending for income security | 0 | -2 | -10 | -13 | -14 | -11 | -20 | * | * | -1 | -2 | -49 | -72 |
| Other proposals | * | -6 | -8 | -19 | -3 | * | 7 | 10 | 12 | 18 | -16 | -36 | -5 |
| Subtotal, mandatory | 1 | -12 | -49 | -75 | -65 | -68 | -78 | -61 | -70 | -65 | -112 | -270 | -656 |
| Discretionary | | | | | | | | | | | | | |
| Defense | 0 | 5 | * | -12 | -20 | -24 | -37 | -53 | -72 | -91 | -112 | -51 | -416 |
| Nondefense | * | -12 | -65 | -95 | -128 | -161 | -191 | -219 | -248 | -276 | -303 | -461 | -1,698 |
| Subtotal, discretionary | * | -7 | -64 | -107 | -149 | -185 | -228 | -273 | -320 | -366 | -415 | -512 | -2,114 |
| Net interest | * | -1 | -3 | -7 | -13 | -19 | -27 | -32 | -38 | -44 | -52 | -44 | -237 |
| Total Effect on Outlays | 1 | -21 | -116 | -189 | -227 | -273 | -333 | -366 | -427 | -475 | -580 | -826 | -3,007 |
| Revenues | | | | | | | | | | | | | |
| Extend individual and estate and gift tax provisions of the 2017 tax act | 0 | 0 | 0 | 0 | * | -6 | -101 | -246 | -263 | -272 | -280 | -6 | -1,167 |
| Increase federal employees' retirement contributions | 0 | 0 | 2 | 5 | 8 | 11 | 14 | 16 | 17 | 18 | 19 | 26 | 110 |
| Implement tax-enforcement program integrity cap adjustment | 0 | * | 1 | 3 | 5 | 7 | 9 | 11 | 11 | 12 | 12 | 16 | 71 |
| Establish Education Freedom Scholarships | 0 | -1 | -5 | -5 | -5 | -5 | -5 | -5 | -5 | -5 | -5 | -21 | -46 |
| Repeal the Energy Investment Credit | 0 | 3 | 5 | 5 | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 20 | 44 |
| Other proposals | 0 | 1 | 5 | 4 | 4 | 6 | 5 | 6 | 7 | 7 | 7 | 20 | 52 |
| Total Effect on Revenues | 0 | 3 | 7 | 12 | 16 | 17 | -74 | -214 | -228 | -234 | -242 | 55 | -936 |
| Total Effect on the Deficit^a | -1 | 24 | 124 | 201 | 243 | 289 | 259 | 152 | 200 | 241 | 338 | 881 | 2,071 |
| Deficit Under the President's Budget as Estimated by CBO | -1,074 | -977 | -994 | -913 | -898 | -1,016 | -1,066 | -1,158 | -1,343 | -1,231 | -1,422 | -4,799 | -11,020 |
| Memorandum: | | | | | | | | | | | | | |
| Total Effect on Noninterest Outlays | 1 | -20 | -113 | -182 | -214 | -253 | -306 | -334 | -390 | -431 | -527 | -782 | -2,770 |

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

The estimates shown here are based on CBO's baseline budget projections as of March 6, 2020, which do not account for changes to the nation's economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus. See Congressional Budget Office, *Baseline Budget Projections as of March 6, 2020* (March 2020), www.cbo.gov/publication/56268.

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

a. Positive numbers indicate a decrease in the deficit relative to CBO's baseline.

- Boost mandatory funding for infrastructure programs, increasing outlays by \$114 billion over the next 10 years, CBO estimates.
- Make a number of changes to the federal government's student loan program, including creating a single income-driven repayment plan, eliminating loan forgiveness for some borrowers, limiting borrowing by graduate students and parents, and eliminating subsidized loans. In total, those changes would generate \$111 billion in savings to the government between 2021 and 2030, according to CBO's estimates.⁷
- Reduce spending for a number of income security programs, which would lower outlays by \$72 billion (or 1.4 percent) through 2030, according to CBO's calculations. The largest reductions would result from proposals to cut retirement benefits for federal civilian employees—both current and future annuitants—as well as spending for the Supplemental Nutrition Assistance Program. The proposal to permanently extend provisions of the 2017 tax act, including the expansion of the child tax credit, would partially offset those reductions.

In total, mandatory outlays under the President's proposals would increase from 12.8 percent of GDP in 2021 to 14.9 percent in 2030; in CBO's most recent baseline, they are projected to equal 12.9 percent next year and to grow to 15.2 percent in 2030.

Proposals That Would Affect Discretionary Spending

The President has requested a total of \$1.34 trillion in discretionary appropriations for 2021.⁸ Excluding the \$9 billion in net reductions from the proposed

7. Under the Federal Credit Reform Act of 1990, the subsidy costs for loans and loan guarantees made each year are estimated by subtracting the present value of the government's projected receipts from the present value of its projected payments. (A present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time. The present value depends on the rate of interest that is used to translate future cash flows into current dollars.) Those estimates can be increased or decreased in subsequent years to reflect federal agencies' updated assessments of the payments and receipts associated with the program.
8. Discretionary spending is controlled by annual appropriation acts in which policymakers specify how much money can be obligated for certain government programs in specific years. Appropriations fund a broad array of government activities. Through 2021, most discretionary funding is limited by caps on annual discretionary

changes in mandatory budget authority that would be enacted in annual appropriation bills, the proposed appropriations for 2021 would be \$1.35 trillion (see Table 4).⁹ That amount is 6 percent (or \$79 billion) less than the amount that has been appropriated so far for 2020 (which likewise excludes offsets for changes to mandatory funding). Appropriations would range between \$1.30 trillion and \$1.36 trillion from 2022 through 2030 under the President's budget.

Broad funding policies would include the following:

- Decreasing total defense funding by 1 percent (or \$5 billion) in 2021. Defense funding that is constrained by the caps on discretionary funding would increase by 1 percent to \$672 billion, CBO estimates, an amount slightly above the limit set for such funding in 2021 under current law. In addition to the amounts constrained by the caps, the Administration has requested \$69 billion in funding designated for overseas contingency operations (OCO), which is not constrained by the caps; that is about \$3 billion less than the amount provided for such purposes in 2020.¹⁰ The President proposes no defense funding designated as an emergency requirement. (So far in 2020, \$8 billion in such funding has been provided.)
- Increasing total defense funding by 2 percent per year between 2022 through 2025 and then freezing such funding at the 2025 amount through 2030.
- Reducing total nondefense funding by 11 percent (or \$74 billion) in 2021. Funding that is constrained by the caps would fall by 6 percent, to \$600 billion, under the President's request—\$26 billion below the statutory cap on such funding. No nondefense funding would be provided for OCO in 2021 (such funding totaled \$8 billion in 2020). In addition,
 9. A \$9 billion reduction in budget authority for the Children's Health Insurance Program accounts for nearly all of the proposed reduction in mandatory budget authority in appropriation bills. That reduction would have no effect on outlays, CBO estimates.
 10. In past years, most funding requested for overseas contingency operations was for costs associated with military operations and related activities in Afghanistan and elsewhere. In 2021, \$16 billion of the \$69 billion requested would be for regular defense activities that otherwise would be funded from capped appropriations.

Table 4.

Discretionary Budget Authority Proposed by the President for 2021, Compared With 2020 Appropriations

Billions of Dollars

| | Actual, 2019 | Enacted, 2020 | President's Budget, 2021 | Percentage Change | |
|--|--------------|---------------|-----------------------------|-------------------|-------------|
| | | | | 2019–2020 | 2020–2021 |
| Defense | | | | | |
| Funding constrained by caps | 647 | 667 | 672 | 3.0 | 0.8 |
| Overseas contingency operations ^a | 69 | 72 | 69 | 3.6 | -3.5 |
| Emergency requirements | 3 | 8 | 0 | 181.6 | n.a. |
| Subtotal | 719 | 746 | 741 | 3.8 | -0.7 |
| Nondefense | | | | | |
| Funding constrained by caps | 613 | 638 | 600 | 4.0 | -5.9 |
| Overseas contingency operations ^a | 8 | 8 | 0 | 3.5 | -100.0 |
| Emergency requirements | 22 | 9 | -5 | -58.1 | n.a. |
| Other funding not constrained by caps ^b | 15 | 25 | 10 | 68.0 | -58.8 |
| Subtotal | 658 | 680 | 606 | 3.3 | -10.9 |
| Total | 1,376 | 1,426 | 1,346 | 3.6 | -5.6 |

Source: Congressional Budget Office.

The estimates shown here are based on CBO's baseline budget projections as of March 6, 2020, which do not account for changes to the nation's economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus. See Congressional Budget Office, *Baseline Budget Projections as of March 6, 2020* (March 2020), www.cbo.gov/publication/56268.

These estimates do not include obligation limitations for certain transportation programs. They also do not include changes to certain mandatory programs that were made through the appropriation process and enacted in previous years or the \$9 billion in such changes proposed for 2021. In keeping with long-standing procedures, those changes are credited against discretionary spending for purposes of budget enforcement.

n.a. = not applicable.

- a. In past years, most funding requested for overseas contingency operations was for costs associated with military operations and related activities in Afghanistan and elsewhere. In 2021, \$16 billion of the \$69 billion requested would be for regular defense activities that otherwise would be funded from capped appropriations.
- b. Funding for disaster relief, certain program integrity initiatives (which identify and reduce overpayments in some benefit programs), certain wildfire suppression operations (starting in 2020), activities related to the 2020 census (in 2020 only), and programs designated in the 21st Century Cures Act is not constrained by the statutory caps established by the Budget Control Act of 2011.

\$5 billion of funding previously designated as an emergency requirement would be rescinded. Appropriations for other programs that are not constrained by the caps on discretionary funding would total \$10 billion in 2021, nearly \$15 billion less than the amount appropriated so far for 2020.

- Reducing total nondefense funding by about 2 percent per year, on average, between 2022 and 2030.

Taken together, the President's proposals would reduce discretionary outlays over the next decade by \$2.1 trillion (or 13 percent) relative to the amounts in the most

recent baseline, CBO estimates.¹¹ Discretionary outlays under the President's proposals would fall as a share of GDP in each year over the next decade, from 6.3 percent in 2021 to 4.3 percent in 2030; in CBO's baseline, they are projected to fall from 6.3 percent to 5.6 percent, respectively. (Over the past 50 years, total discretionary outlays have averaged 8.3 percent of GDP.)

The reductions would be concentrated on nondefense spending. Relative to CBO's baseline, discretionary

11. The baseline incorporates the assumption that caps on discretionary funding will remain in place through 2021 and that funding will grow with inflation thereafter; funding not constrained by the caps is generally projected to grow with inflation from the amount provided for 2020.

outlays for nondefense activities under the President's budget would be \$1.7 trillion (or 21 percent) lower over the 2021–2030 period. Outlays for defense programs and activities over the next decade would be \$0.4 trillion (or 5 percent) lower than in the baseline.

As a share of GDP, outlays for defense programs would fall under the President's proposals, from 3.2 percent this year to 2.5 percent in 2030, about 0.3 percentage points lower than the amounts in CBO's baseline. (The lowest percentage recorded in the past 50 years was 2.9 percent.) Outlays for nondefense discretionary programs as a share of GDP would be much lower under the President's budget than in the baseline, falling from 3.2 percent this year to 1.8 percent in 2030. (The lowest percentage in the past 50 years was 3.1 percent.) In CBO's baseline, those outlays total 2.8 percent of GDP in 2030.

Proposals That Would Affect Revenues

The President's proposals include about three dozen changes to laws that would affect revenues. If enacted, CBO and JCT estimate, those changes would reduce revenues by \$936 billion (or 2.0 percent) over the 2021–2030 period relative to CBO's baseline projections. The proposals that would have the largest effects on revenues include the following:

- Extend certain provisions of the 2017 tax act that are scheduled to expire in 2025—specifically, those that pertain to the individual income tax and the estate and gift tax. Those provisions include the current statutory tax rates, a higher standard deduction, the repeal of personal exemptions, and limits on certain itemized deductions.¹² That proposal would reduce revenues by \$1.17 trillion over the 2021–2030 period, mostly in the last four years, JCT estimates.
- Increase federal employees' contributions to the defined benefit pension plan provided through the Federal Employees Retirement System to 50 percent of the cost of the plan; increases to those contributions would be phased in by 1 percentage point per year. In CBO's estimation, implementing that proposal would increase federal revenues by \$110 billion over the 2021–2030 period.

12. For more details about the expiring provisions of the 2017 tax act, see Appendix B of Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (April 2018), www.cbo.gov/publication/53651.

- Establish a cap adjustment to increase funding for the Internal Revenue Service's enforcement activities, which would increase revenues by \$71 billion over the 2021–2030 period, CBO estimates.¹³
- Establish Education Freedom Scholarships, which would provide a tax credit for individual and corporate donations to organizations that grant scholarships. That proposal would decrease revenues by \$46 billion over the 2021–2030 period, JCT estimates.
- Repeal the energy investment credit, which provides a subsidy for certain investments in properties that use renewable energy. The proposal would increase revenues by \$44 billion over the 2021–2030 period, JCT estimates.

Effects on Net Interest

Under the President's proposals, the federal government would borrow less, and net interest costs over the 2021–2030 period would be \$237 billion lower than they are projected to be in CBO's most recent baseline. That reduction includes the effects of a proposal to reduce the interest rate that the Treasury pays on securities issued to participants in the G Fund of the Thrift Savings Plan, which would lower outlays by \$22 billion through 2030, CBO estimates.

In 2030, net interest costs under the President's proposals would amount to 2.4 percent of GDP—slightly less than the 2.6 percent in CBO's baseline projections for that year but still significantly more than the 1.7 percent that CBO projected in its baseline for 2020. (As with the other components of CBO's analysis that are described in this report, those estimates of net outlays for interest are based on the economic projections CBO completed in January. Interest rates unexpectedly declined in March, and that development—like other economic developments since January—is not incorporated in this analysis.)

13. That proposal would provide funding for the Internal Revenue Service's enforcement activities above the amounts projected in CBO's most recent baseline. If lawmakers provided such increased funding, CBO estimates, additional revenues would result; an estimate of such revenues is included in this analysis. However, the scorekeeping guidelines agreed upon by the House and Senate Budget Committees, CBO, and the Office of Management and Budget substantially limit the extent to which CBO and JCT would include savings from a tax-compliance initiative when estimating, for budget enforcement purposes, the budgetary effects of appropriations for the Internal Revenue Service.

Table 5.

Differences Between CBO's and the Administration's Estimates of the President's Budget

Billions of Dollars

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | Total | |
|--|---|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|---------------|---------------|
| | | | | | | | | | | | | 2021–2025 | 2021–2030 |
| | Administration's Estimate | | | | | | | | | | | | |
| Deficit Under the President's Budget | -1,083 | -966 | -920 | -746 | -552 | -527 | -481 | -435 | -475 | -250 | -261 | -3,711 | -5,613 |
| | Differences Between CBO's and the Administration's Estimates | | | | | | | | | | | | |
| Differences From CBO's Lower Estimate of Revenues^a | -74 | -45 | -78 | -143 | -259 | -345 | -405 | -516 | -648 | -749 | -876 | -870 | -4,064 |
| Differences in Outlays ^b | | | | | | | | | | | | | |
| Mandatory | -64 | -10 | 12 | 15 | 66 | 107 | 145 | 167 | 164 | 163 | 179 | 192 | 1,011 |
| Discretionary | -26 | -39 | -39 | -28 | -27 | -8 | -8 | -5 | -2 | -11 | -6 | -141 | -174 |
| Net interest | 6 | 16 | 23 | 37 | 47 | 45 | 43 | 45 | 59 | 79 | 111 | 169 | 505 |
| Differences From CBO's Higher or Lower Estimate of Outlays | -83 | -33 | -4 | 25 | 87 | 144 | 180 | 207 | 221 | 231 | 284 | 219 | 1,342 |
| Amount by Which CBO's Estimate of the Deficit Is Larger or Smaller Than the Administration's Estimate^c | 9 | -11 | -74 | -167 | -346 | -490 | -585 | -723 | -868 | -981 | -1,161 | -1,089 | -5,406 |
| | CBO's Estimate | | | | | | | | | | | | |
| Deficit Under the President's Budget | -1,074 | -977 | -994 | -913 | -898 | -1,016 | -1,066 | -1,158 | -1,343 | -1,231 | -1,422 | -4,799 | -11,020 |

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

The estimates shown here are based on CBO's baseline budget projections as of March 6, 2020, which do not account for changes to the nation's economic outlook and fiscal situation arising from the recent and rapidly evolving public health emergency related to the novel coronavirus. See Congressional Budget Office, *Baseline Budget Projections as of March 6, 2020* (March 2020), www.cbo.gov/publication/56268.

- a. Negative numbers indicate that such differences result from CBO's lower estimates of revenues and thus make CBO's estimate of the deficit larger than the Administration's estimate.
- b. Positive numbers indicate that such differences result from CBO's higher estimates of outlays and thus make CBO's estimate of the deficit larger than the Administration's estimate.
- c. Negative numbers indicate that CBO's estimate of the deficit is larger than the Administration's estimate.

A Comparison of CBO's and the Administration's Estimates of Deficits Under the President's Proposals

CBO's estimate of the cumulative 10-year deficit under the President's proposals is \$5.4 trillion larger than the Administration's estimate of \$5.6 trillion. Specifically, CBO and JCT's estimates of revenues are \$4.1 trillion (or 8 percent) lower than the Administration's, and the agencies' estimates of outlays are \$1.3 trillion (or 2.4 percent) higher (see Table 5).

By CBO's estimates, the cumulative 5-year deficit from 2021 to 2025 would be \$1.1 trillion larger than the Administration anticipates. After 2025, CBO projects much larger deficits under the President's proposals

primarily because of the increasingly large gap in revenue projections. As a result, CBO projects a cumulative deficit from 2026 to 2030 that is \$4.3 trillion larger than the Administration's estimate.

Revenue Estimates

According to CBO and JCT's calculations, revenues early in the period would be similar to those that the Administration expects. However, in 2023, the revenue projections begin to significantly diverge. In 2030, CBO and JCT estimate, revenues would be \$876 billion (or 14 percent) less than the Administration anticipates. Over the 2021–2030 period, the agencies estimate, total revenues would be \$4.1 trillion less.

CBO and JCT's estimates of revenues differ from the Administration's mostly because of differences in economic forecasts. Over the 2021–2030 period, the Administration projects faster growth in real (inflation-adjusted) GDP under current law than in CBO's January 2020 economic projections, and it anticipates that implementing its policies and proposals would contribute to even higher growth rates. All told, the Administration projects real economic growth averaging 2.9 percent over the 2021–2030 period; in the baseline projections that CBO produced at the beginning of this year, real economic growth averages 1.7 percent over that period.

In particular, CBO and JCT estimate that total wages and salaries between 2021 and 2030 would be 9 percent lower than the Administration estimates. As a consequence of those lower wage projections, CBO and JCT project revenues from individual income and payroll taxes that are lower by \$3.4 trillion over the 2021–2030 period than the Administration anticipates. Other economic differences account for an additional \$1.0 trillion difference between CBO and JCT's estimates and those of the Administration. Variations in modeling approaches also contribute to differences in revenue projections.

Although CBO and JCT's estimates of revenues differ from the Administration's because of differences in economic forecasts, their estimates of revenues as a share of GDP are similar. According to the Administration's calculations, revenues as a share of GDP would average 17.2 percent over the 2021–2030 period under the President's proposals. CBO and JCT estimate that revenues as a share of GDP would average 17.1 percent under those proposals.

Spending Estimates

Over the 10-year projection period, CBO estimates that under the President's proposals, outlays would be \$1.3 trillion higher than the Administration anticipates. Outlays would be similar to those that the Administration expects at the beginning of the period but would diverge significantly beginning in 2025.

Relative to the Administration's estimates of spending under the President's proposals, CBO projects that:

- *Mandatory outlays* would be \$1 trillion more over the 10-year period, primarily because the President's budget includes an allowance of \$844 billion in savings between 2021 and 2030 from changes to the

nation's health care system. However, CBO and JCT did not include any of those savings in their estimates because they could not determine whether those savings were achievable within the parameters the Administration presented.

- *Discretionary outlays* would be \$174 billion lower over the 10-year period, largely because CBO projects lower defense spending than the Administration anticipates. That difference is a result of the agency's projection that a slightly smaller percentage of defense appropriations would be spent during that period.
- *Net outlays for interest* would be \$505 billion higher over the 2021–2030 period than the Administration estimates, primarily because of the additional debt-service costs required to finance the larger deficits that CBO projects.

The Congressional Budget Office prepared this report at the request of the Senate Committee on Appropriations. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Barry Blom wrote the report with assistance from Aaron Feinstein, Jennifer Shand, and Ellen Steele. Christina Hawley Anthony, Theresa Gullo, Leo Lex, John McClelland, Sam Papenfuss, and Joshua Shakin provided guidance. The estimates in the report are the work of more than 100 staff members at CBO and the staff of the Joint Committee on Taxation.

Wendy Edelberg, Mark Hadley, Jeffrey Kling, and Robert Sunshine reviewed the report; Loretta Lettner was the editor; and Casey Labrack was the graphics editor. An electronic version is available on CBO's website (www.cbo.gov/publication/56278).

CBO continually seeks feedback to make its work as useful as possible. Please send any comments to communications@cbo.gov.



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