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The Debt Ceiling: Reviewing Federal Budget Data

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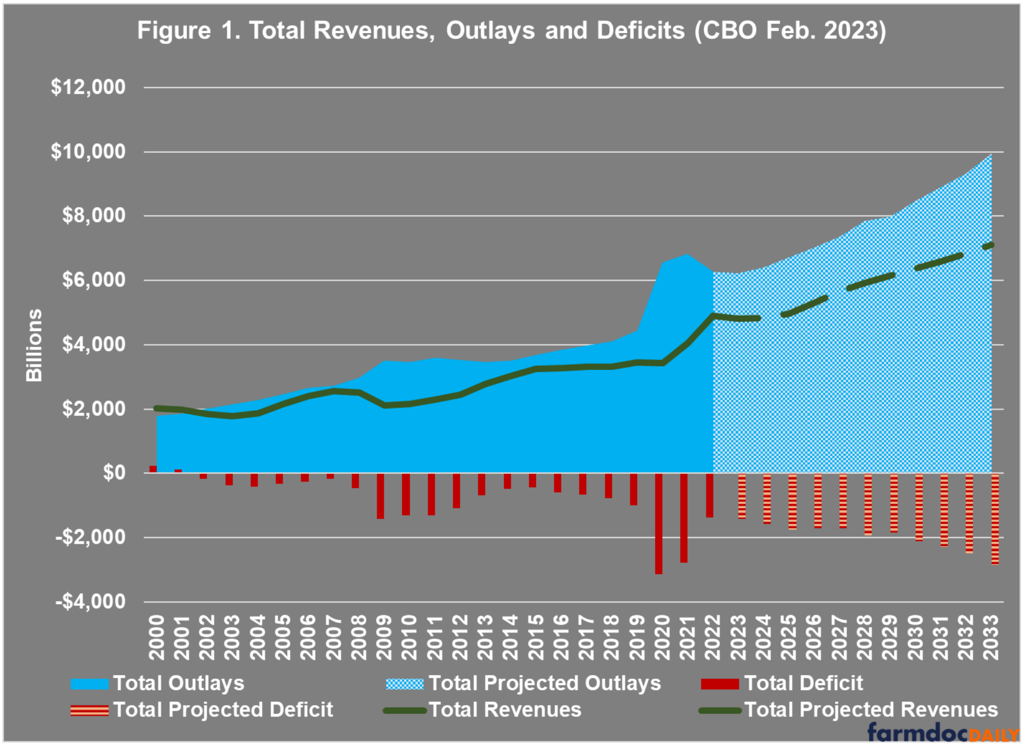
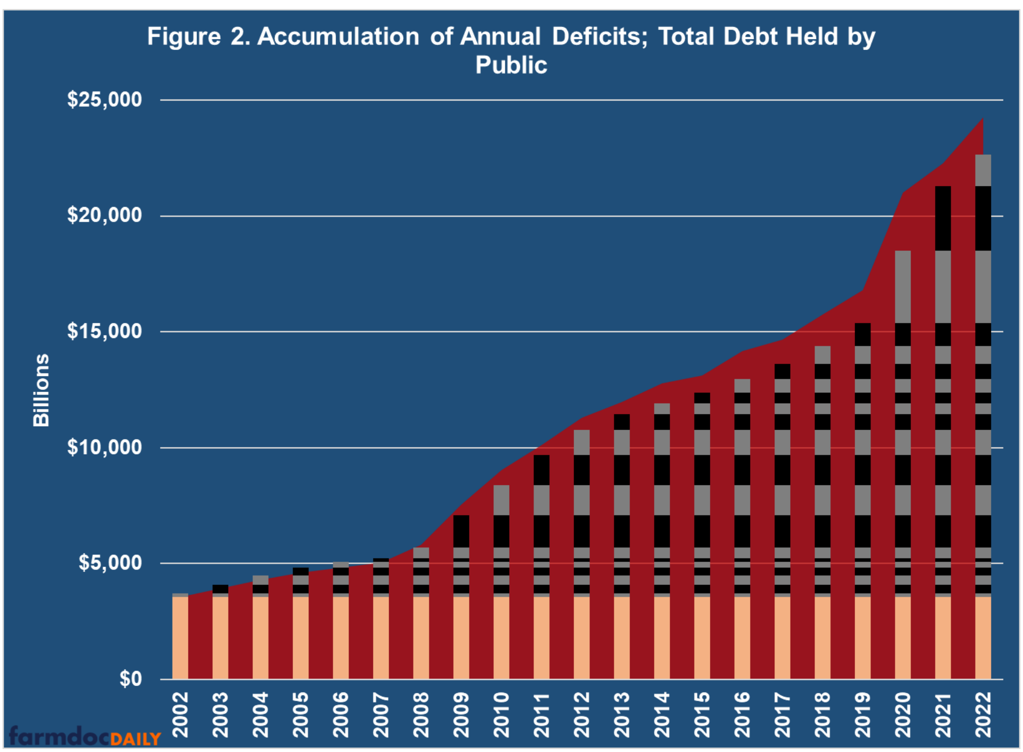
If there is any single topic that threatens to swallow all federal policymaking in the near future (and possibly much, much more), it is the current partisan stand-off over the debt ceiling (CBO, February 2023; Skelley, February 14, 2023; Elkind, March 1, 2023; Parlapano, Sanger-Katz and Katz, March 6, 2023; Scholtes and Emma, March 6, 2023; Tankersley, March 6, 2023; Tankersley, March 7, 2023; Romm, March 8, 2023). The United States officially reached the statutory debt limit on January 19, 2023, and the Treasury Department responded by taking what are known as "extraordinary measures" to temporarily avoid a default (CBO, February 15, 2023; Rappeport, February 1, 2023). Because a farm bill authorizes mandatory spending programs, such as commodities subsidies, crop insurance, conservation and low-income food assistance, and is scheduled for reauthorization this year, the debt ceiling showdown will almost certainly impact the timing and outcome of a farm bill effort. To provide context to the debt ceiling matter, as well as for any potential farm bill debate, this article reviews the recent budget data reported by the Congressional Budget Office (CBO, Budget and Economic Data).

Background

The federal debt is held by the public and is the accumulation of annual deficits; annual deficits are the result of federal spending (outlays) exceeding federal revenues (mostly taxes). The figures and discussion in this article are based on the most recent data reported by CBO in the historical budget and long-term budget projections tables (CBO, Budget and Economic Data). Figure 1 graphs total outlays, revenues and deficits back to 2000, which is the time the federal budget last experienced surpluses (more revenue than outlays). Figure 1 also includes the CBO projections from February 2023 for outlays, revenues and deficits through fiscal year (FY) 2033. For Fiscal Year (FY) 2022, the deficit was $1.394 trillion based on $6.208 trillion in total outlays against $4.896 trillion in total revenues (CBO, February 15, 2023).



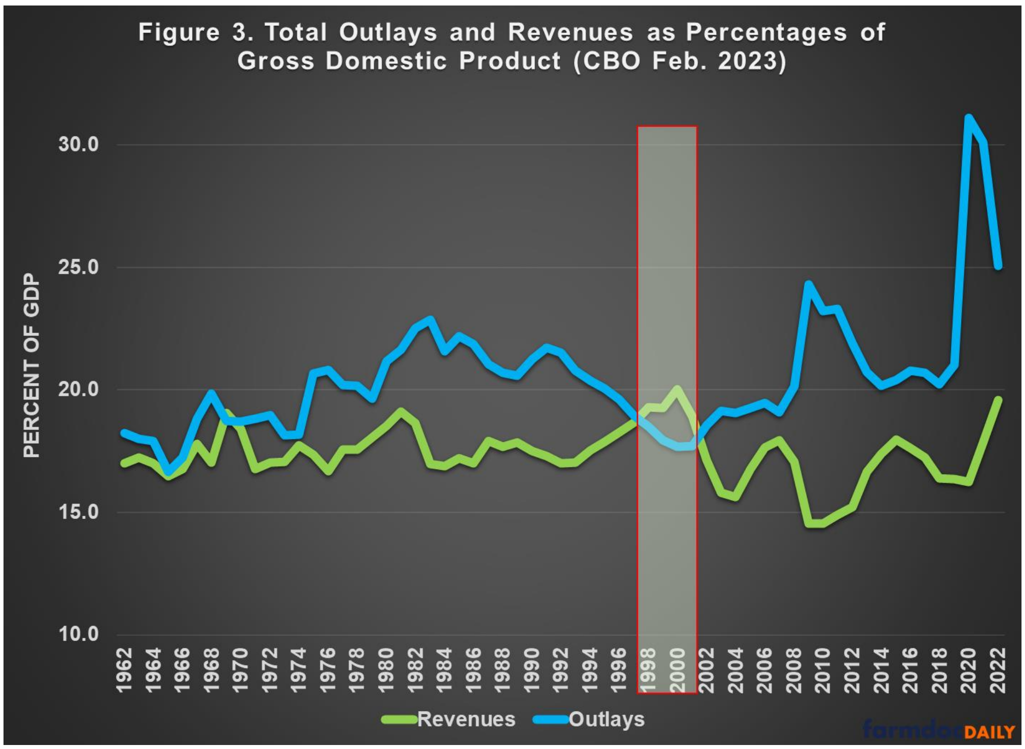
The statutory debt limit is $31.4 trillion (31 U.S.C. §3101). Figure 2 attempts to illustrate the accumulation of annual deficits (stacked black and gray bars). Each stacked bar is the deficit for each fiscal year. For example, the first gray bar is the deficit for 2002 (shown across all fiscal years) and the final gray bar in FY2022 is the deficit for that fiscal year (shown only in FY2022). The thicker the bar the larger the deficit in the fiscal year associated with it; larger deficits have a larger contribution to the overall debt. Each year of deficits builds upon the total debt as it existed in 2002 (light red stacked bar), which CBO reports was the year the federal budget returned to deficits after a brief period of surpluses. Finally, Figure 2 provides the total debt held by the public for each fiscal year (red area).



Combined, Figures 1 and 2 provide the basic picture for the federal budget. The debt has built mostly since 2001 with two key events driving much of the increase: (1) the 2008 financial crisis and recession which both lowered revenues and increased outlays; and (2) the coronavirus pandemic in 2020 which resulted in a drastic increase in outlays. Along the way, large tax cuts, additions to Medicare and new healthcare spending, the bursting of the dot-com bubble, a terrorist attack and two wars all add up (Tankersley, March 7, 2023). Looking ahead, CBO projects outlays in the 10-year forecast will continue to outpace revenues, which will produce increasing deficits that add further to the debt (CBO, March 8, 2023).

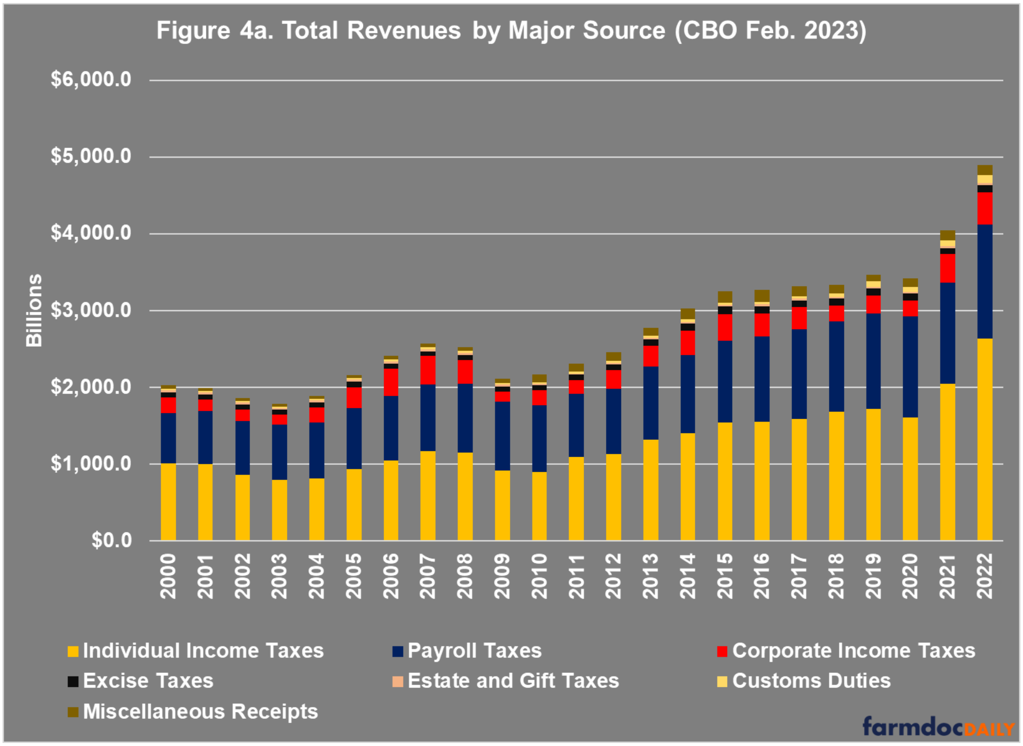
Discussion

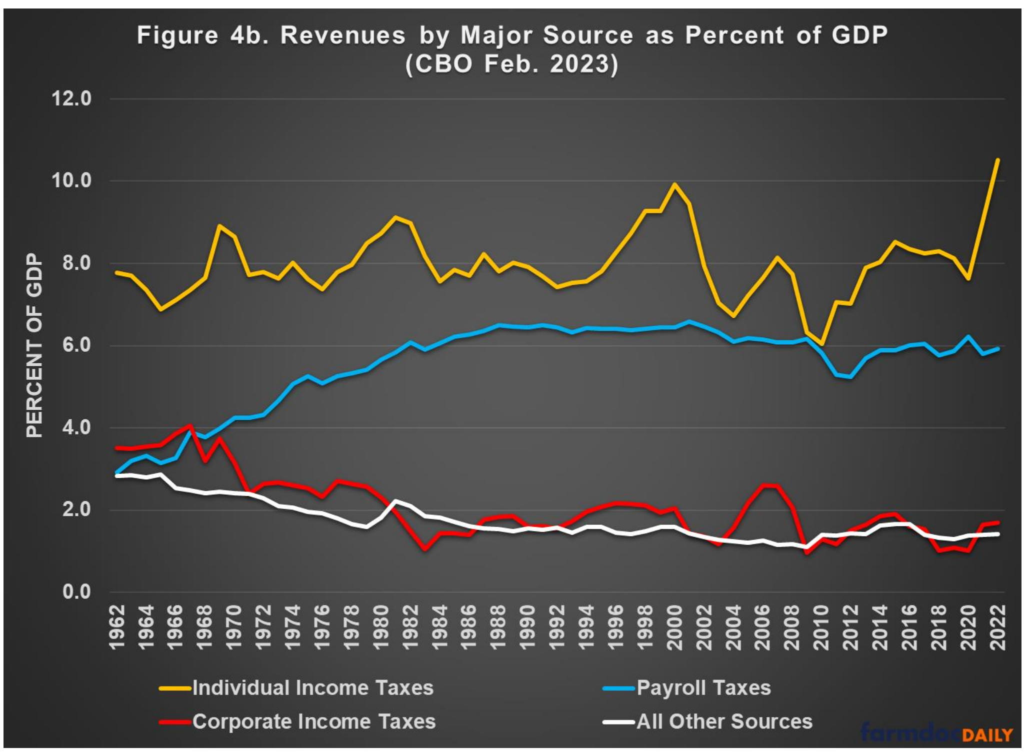
As evidenced by stories in the press, the tendency in this discussion is towards a focus only on outlays or spending. The deficit and debt, however, are the combined product of spending and revenue; the annual deficits are due to revenues failing to cover expenditures. For a long-term perspective, CBO reports the annual budget data as a percentage of the gross domestic product (GDP) as illustrated in Figure 3. Here again, the divergence between revenues and outlays after the 2008 recession and in the wake of the pandemic are clear.



(1) Federal Revenues

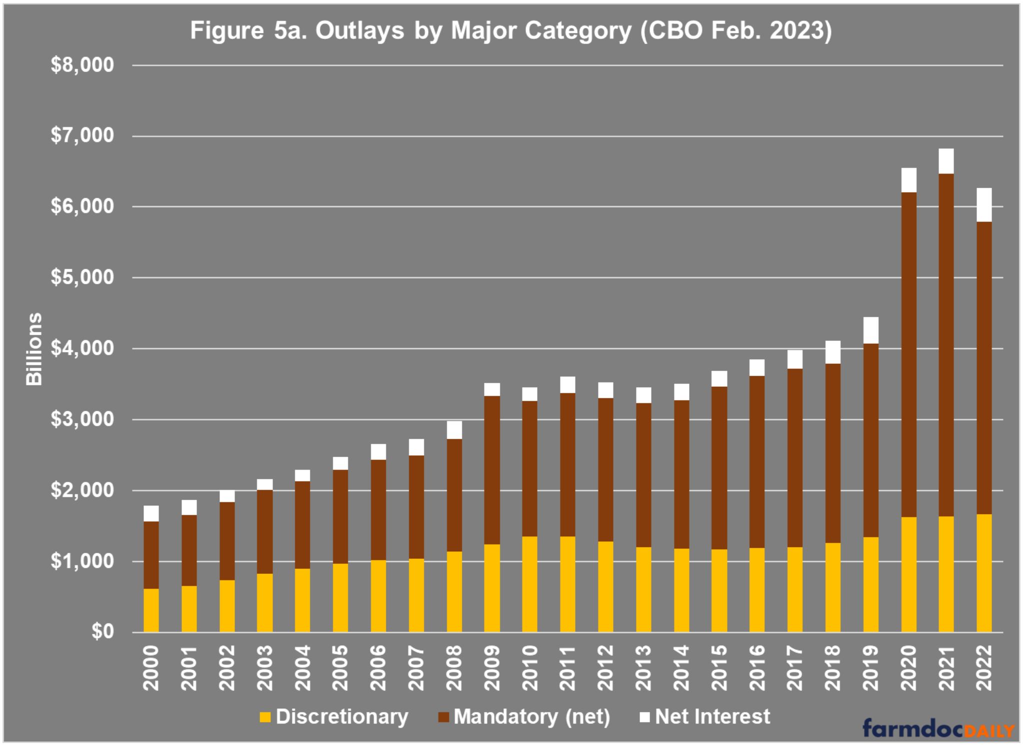
Figures 4a and 4b illustrate the total revenues by major source; Figure 4a, the revenue amounts since 2000, while Figure 4b the revenues as percent of GDP back to 1962. Individual income taxes provide the largest source of federal revenues. Payroll taxes are the second largest source of revenues and are used to finance Social Security, Medicare and other social insurance programs (CBO, December 7, 2022). Combined, these make up more than 80 percent of total federal revenues and in some years exceed 85 percent.

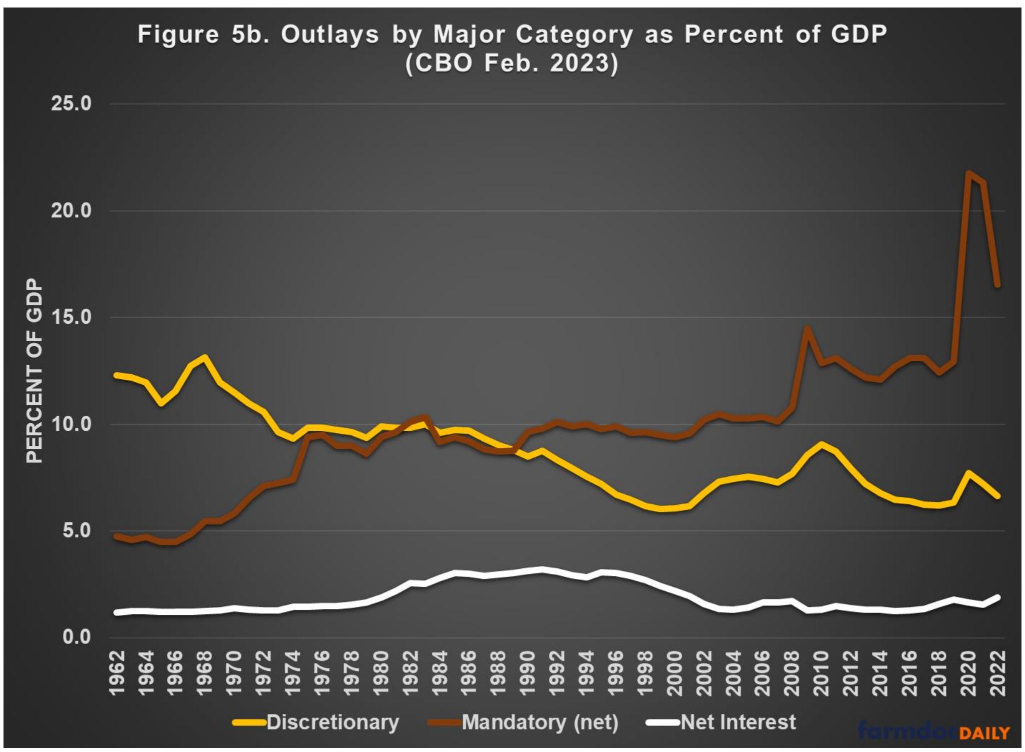




(2) Total Outlays

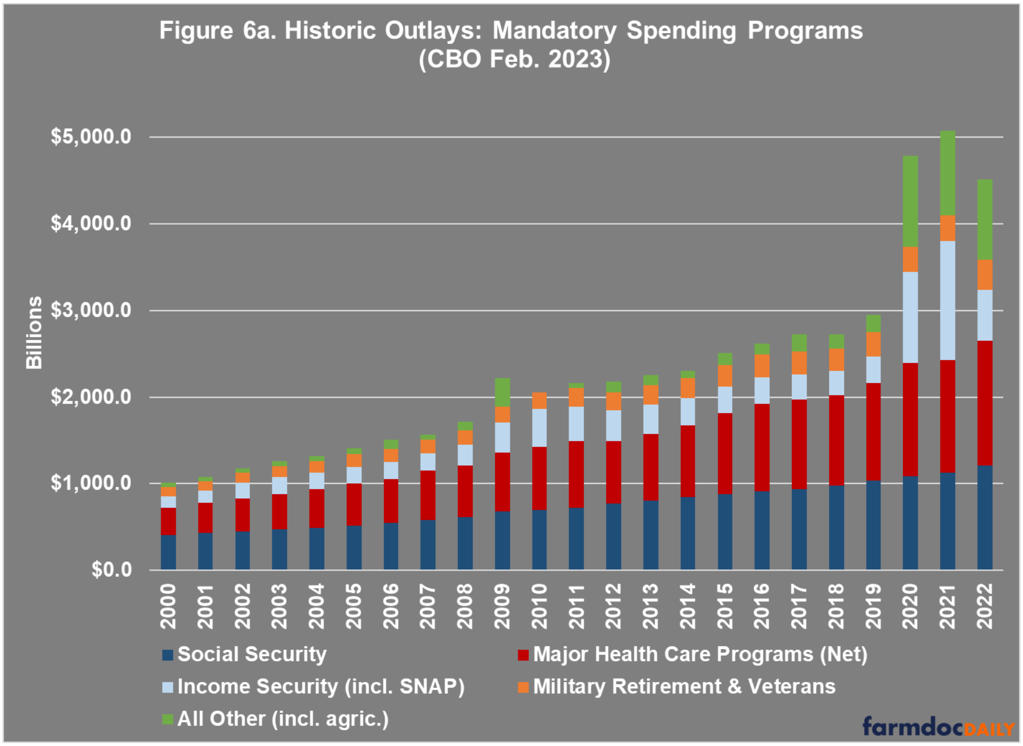
Figures 5a and 5b illustrate the other side of the deficit equation, total spending, or outlays, by major category. Figure 5a illustrates the amount of spending by major category since 2000 and Figure 5b illustrates total spending by major category as a percent of GDP back to 1962. The major categories are: (1) discretionary outlays, which must be appropriated each year by Congress and include defense spending; (2) mandatory program outlays net of offsetting receipts, which are spent each year without an appropriation, generally by entitlement programs; and (3) net interest on the federal debt.

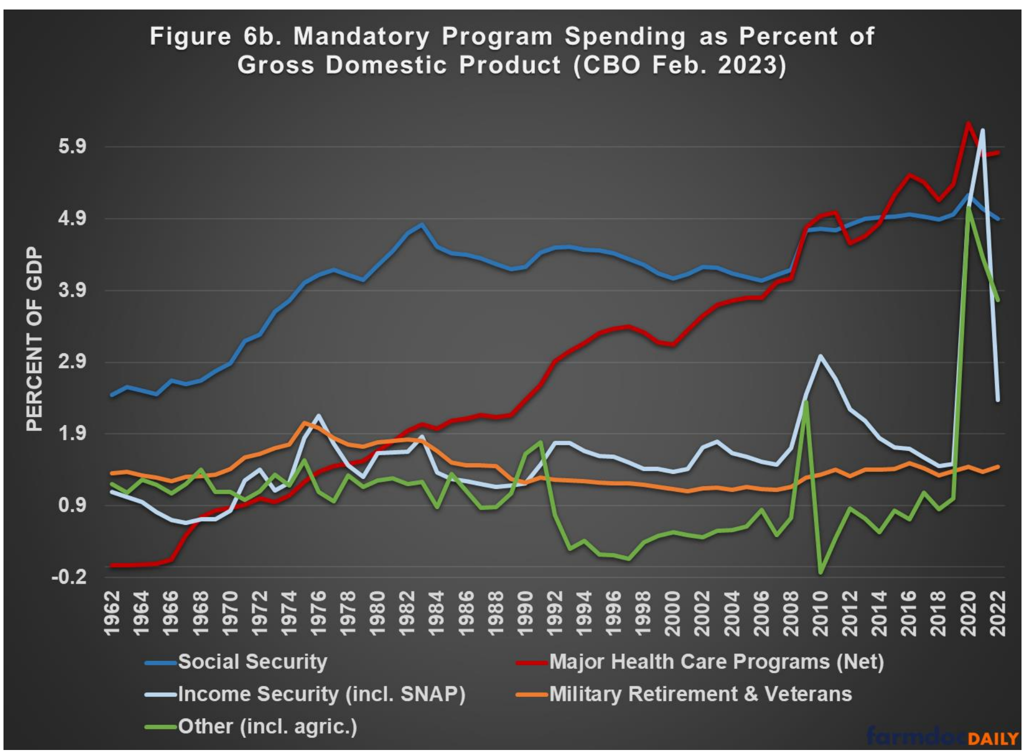




(3) Mandatory Spending

Below the topline of the mandatory outlays is where the farm bill programs with mandatory funding reside, namely farm payment programs, crop insurance, conservation, and the Supplemental Nutrition Assistance Program (SNAP). Figures 6a and 6b graph the historic outlays data for these mandatory programs. Figure 6a provides the outlays since 2000 and Figure 6b the outlays as a percent of GDP since 1962. For a farm bill, SNAP resides in the income security category (light blue) and farm policy programs (commodities, crop insurance and conservation programs, as well as the ad hoc and supplemental assistance, such as the Market Facilitation Program and the Coronavirus Food Assistance Programs) are in the other category (green).





Concluding Thoughts

Reviewing annual budgetary data reported by the Congressional Budget Office helps provide context to the debt ceiling issue, but there are vast complexities and complications contained within these large numbers. Reducing annual deficits and the federal debt is an extraordinary political and policy puzzle. A recent analysis of various proposals for reducing spending, deficits and the debt—including those proposals and ideas for balancing the federal budget—demonstrated the substantial political difficulties inherent in this matter (Parlapano, Sanger-Katz and Katz, March 6, 2023). This analysis built upon the list of budget options put forward by the Congressional Budget Office (CBO, Budget Options). As these analyses point out, removing some items from the equation—such as refusing to increase revenues, or cut large programs like defense spending, Social Security, and healthcare—increases the burden on other programs, interests, and constituencies. As one example, taking those main items off the list would be expected to result in requiring an estimated 70% cut to all other programs in order to achieve some form of budget balance. The Farm Bill provides a useful case study; that level of reduction would be approximately a $992 billion cut to the 2023 Farm Bill Baseline. If applied to the major mandatory titles, it would require about $40 billion each from farm programs and conservation, about $68 billion from crop insurance and more than $840 billion from SNAP. The result would not be much of a farm bill, and certainly one unlikely to garner many votes in Congress; therein lies a glimpse of the manifold problems of this matter.

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