The Gathering Storm: Fiscal Clouds Amass This Fall
August 20, 2015

In early 2015, the Committee for a Responsible Federal Budget (CRFB) warned of the upcoming Fiscal Speed Bumps, explaining "lawmakers will face a number of important budget related deadlines…that will require legislative action."

Inaction and postponed deadlines have created a gathering storm where Congress and the President must address four remaining Fiscal Speed Bumps before the end of the year:

- The end of **2015 appropriations** and return of **sequester** caps (October 1)
- The expiration of the **highway bill** and insolvency of the **Highway Trust Fund** (October 30 & Summer 2016)
- The exhaustion of extraordinary measures to avoid raising the **Debt Ceiling** (mid-Fall)
- The deadline to renew **tax extenders** *retroactively* (December 31)

Although deadlines vary, political considerations may cause lawmakers to combine these issues – leading to a double, triple, or even quadruple cliff.

An irresponsible approach could add up to $2.5 trillion to the debt by 2025 above what current law allows, after interest. Instead, lawmakers should take advantage of this gathering storm to make sensible reforms to improve policy, accelerate economic growth, and address the overall fiscal situation.

Appropriations End. Sequester-Level Caps Return (October 1)

When the government's fiscal year ends on September 30, so too will the laws that provide discretionary dollars. In theory, Congress is supposed to pass 12 appropriations bills before October in order to fund the government for Fiscal Year 2016 (FY 2016). However, the House has passed only six so far, while the Senate has not passed any. Failure to pass appropriations bills or a Continuing Resolution (CR) would result in a government shutdown.

Assuming policymakers avoid a shutdown, they will still need to decide at what level to fund the government. The Ryan-Murray Bipartisan Budget Act set spending levels for only FY 2014 and FY 2015. For FY 2016, current law spending caps will be dictated by automatic spending reductions commonly referred to as the "sequester."

Under sequestration spending levels, nominal discretionary caps will rise only $3 billion (0.3 percent) next year – and remain about $90 billion below the pre-sequester caps set in the Budget Control Act. A number of policymakers and outside analysts have called for repealing or reducing the impact of this sequester.

Permanent sequester repeal would cost $1 trillion before interest over the next decade – although policymakers could enact a partial and/or temporary reduction of the sequester cuts. In any case, lawmakers should fully offset the costs with more thoughtful permanent savings that grow over time, without relying on gimmicks.

Legislation increasing the discretionary caps could also be accompanied by budget process reforms to strengthen their enforcement and restrict the use of gimmicks – such as the use of the Overseas Contingency Operations in the Congressional budget to effectively circumvent the defense caps. We describe such reforms in *Strengthening Statutory Budget Enforcement*.

In September, CRFB will release a plan to replace a portion of the sequester cuts over the next two years and on a permanent basis with savings elsewhere in the budget.

To learn more, read Everything You Should Know About Government Shutdowns, Appropriations 101, and Understanding the Sequester.

Highway Bill Expires and Trust Fund Runs Low (October 30 & Summer 2016)

At the end of October when the current highway bill expires, no new funds may be obligated to transportation projects without additional legislation. If highway spending is continued at current levels without additional revenue, the Highway Trust Fund will run out of money in the fourth quarter of FY 2016, or next summer.

Ultimately, policymakers should close the structural gap between dedicated tax revenue (e.g., the gas tax) and highway spending, which is projected to total about $13 billion this year and $175 billion through 2025. Preferably, this gap would be closed permanently with structural changes to revenue and/or spending, although a fully-offset general revenue transfer could be used to buy time, as it was this July.

CRFB released an illustrative plan in May: *The Road to Sustainable Highway Spending*, which included a fully-offset, short-term cash infusion into the trust fund, a process for tax and transportation reform, a scheduled 9-cent per gallon gas tax increase if alternatives were not identified, and a spending limit to keep future highway costs in line with revenue.

For more background, see our paper Trust or Bust: Fixing the Highway Trust Fund.

Federal Debt Ceiling is Reinstated (Mid-Fall)

The federal debt ceiling – which was suspended in February 2014 – was reinstated this March, limiting gross federal debt to its current level of $18.15 trillion. Through "extraordinary measures," the Department of Treasury has been able to delay the need to address the debt ceiling even as the federal government continues to borrow. However, those measures are estimated to run out sometime some after the end of October.

Policymakers **must** increase or suspend the debt ceiling to avoid a potentially disastrous government default, and should do so in a timely manner because waiting until the 11th hour could have negative economic consequences. At the same time, the debt ceiling can be – and in the past has been – an opportunity to take stock of the nation's unsustainable fiscal situation and make fiscal reforms. An increase would ideally be accompanied with improvements to reduce the long-term debt.

Reforms to the debt ceiling itself should also be considered. Through our *Better Budget Process Initiative*, CRFB has presented a number of ideas for *Improving the Debt Limit* to better promote fiscal responsibility without generating as much economic risk.

To learn more about the debt ceiling, read Q&A: Everything You Should Know About the Debt Ceiling and Understanding the Debt Limit.

"Tax Extenders" Reach Reinstatement Deadline (December 31, 2015)

At the end of last year, over 50 temporary "tax extenders" expired. These include individual and business tax breaks for research and experimentation, wind energy, state and local sales tax, and many others.

Most are renewed regularly and can be reinstated retroactively through the end of 2015, and possibly later. Doing so for 2015 would cost over $40 billion before interest, and extending them into 2016 would cost about $95 billion. Many of these provisions have been enacted temporarily to hide their costs, but the price mounts if they are continued year after year. A permanent extension would cost roughly $500 billion through 2025 for traditional extenders, $245 billion for bonus depreciation, and $200 billion for expiring refundable credits – about $940 billion total, without factoring in interest costs.

Rather than add to the debt, lawmakers should use this deadline as an opportunity for comprehensive, pro-growth tax reform that simplifies the tax code, reduces tax rates and deficits, broadens the tax base, promotes growth, and makes thoughtful choices about how to address each tax extender. Last year, CRFB proposed the PREP Plan, which combined a temporary extension with a fast-track process for tax reform and offset the cost with tax compliance measures.

To read more about the tax extenders, see The Tax Break-Down: Tax Extenders

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The gathering fiscal storm facing our country this fall will require legislation to address the important budgetary issues mentioned above. We hope Congress and the President use this as an opportunity to improve, rather than worsen, the nation's unsustainable fiscal situation.