Florida School Boards Association
The voice of education in Florida.

FSBA Issue Brief: Federal Deficit, Federal Debt, and Sequestration

Federal Deficit

A budget ***deficit*** exists in any fiscal year in which the total federal expenditures exceed the federal revenues collected. Beginning with the financing of the American Revolution, it has been fairly typical throughout U.S. history for the federal government to have budget deficits. Indeed, since 1970, the federal government has had a budget deficit in all but four years – 1998-2001. For example, in fiscal year 2016 (10/1/15 - 9/30/16), federal budget expenditures totaled $3.54 trillion, but federal revenues for that fiscal year totaled only $2.99 trillion. Thus, the federal deficit in 2016 was about $550 billion.

The amount of the deficit can vary significantly from one fiscal year to the next because of the difficulty in equalizing federal revenues with federal expenditures, particularly in years that include significant national events – such as the Great Recession or natural disasters – that often require an increase in federal spending when there is not a matching increase in federal revenues. With regard to expenditures, it is important to understand that federal spending is divided into two categories:

- Mandatory Spending – Congress has little control over this spending because it is based on existing laws rather than the budget process. This spending is mainly directed to fund entitlement programs such as Social Security and Medicare. About two-thirds of federal spending is mandatory spending and this accounted for $2.44 trillion of the $3.54 trillion in expenditures during fiscal year 2016.
- Discretionary Spending – This is the portion of the budget that Congress appropriates every year through the budget process. About half of all discretionary spending is directed to fund national defense. The balance is used to fund all other discretionary programs such as international affairs, science and technology, energy and environment, housing, transportation, veterans' benefits, and education. About one-third of federal spending is discretionary spending and this accounted for $1.10 trillion of the $3.54 trillion in expenditures during fiscal year 2016.

Federal Debt and Debt Ceiling

When the federal government has a deficit, federal law requires Congress to borrow any money that is necessary to fill the deficit to meet the fiscal obligations that Congress has *already* approved. The ***federal debt*** is the total amount the government has been required to borrow to pay for these deficits. At the end of fiscal year 2016, the federal debt totaled more than $19.573 trillion.

The ***debt ceiling*** is the total amount of money that the government has been authorized to borrow to pay for these existing mandatory and discretionary fiscal obligations. First established in by Congress in 1917, only Congress has the authority to raise the debt ceiling. It is important to understand that raising the debt ceiling *does not* authorize new government spending nor does it prevent Congress from having annual budget deficits. Instead, it simply allows the government to pay its existing financial commitments as previously approved by Congress. If the debt ceiling is reached and Congress fails to raise the debt ceiling, the U.S. government could default on payments due on the loans previously borrowed to fund all the spending required by prior acts of Congress.

Sequestration
The debt ceiling has been raised many times – including 78 times since 1960 alone – and usually was raised with little fanfare. However, in 2011, the debt ceiling became the central battleground for a budget conflict in the U.S. Congress when the Treasury Department warned that the borrowing capacity of the debt ceiling soon would be exhausted. In response, the House made it clear that it would not agree to increase the debt ceiling unless the increase was accompanied by a deficit-reduction package. Just days before the government would default on its loan payments, a budget agreement was reached and later enacted in the Budget Control Act of 2011 (Act). The major provisions of the Act include:

1. Raising the debt ceiling, in stages, with portions of the increase subject to a specified approval process and/or subject to the amount of accompanying deficit reduction over 10 years (through 2021);
2. Establishing caps on discretionary spending that, if exceeded, would result in across-the-board cuts (***cap sequestrations***);
3. Establishing the Joint Select Committee on Deficit Reduction to produce deficit reduction legislation that included a fall-back mechanism to be triggered in the event that Congress failed to enact deficit reduction legislation to require, among other things, $1.2 trillion in across-the-board future spending cuts (***sequestrations***) beginning in 2013.

Unfortunately, Congress failed to enact the deficit reduction legislation required by the Act which triggered the fall-back mechanism calling for $1.2 trillion in across-the-board sequestrations – this is in addition to the cap sequestrations. The sequestrations are in effect through 2021 and apply to all federal discretionary spending and, to a far lesser extent, to some federal mandatory spending. The first of these sequestrations, totaling about $85.4 billion, was imposed in 2013 – this included a reduction of $2.5 billion in federal spending for education. Since spending in 2013 did not exceed the caps, no cap sequestrations were applied. With some exceptions, a combination of caps and sequestration totalling about $109 billion per year have occurred, or are projected to occur, during the remaining years in which sequestration remains in effect.

An important footnote is that the nation's credit rating was downgraded in 2011 as a result of this budget and debt ceiling standoff, making it more expensive for the government to borrow money to pay for the federal debt.

Sources:
Inside Gov – 2016 United States Budget
ThoughtCo – History of the U.S. Federal Budget Deficit
The Washington Post
White House Office of Management and Budget