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INSIGHT

FY2022 NDAA: Budgetary Context

November 10, 2021

Congressional consideration of the National Defense Authorization Act for Fiscal Year 2022 (NDAA; H.R. 4350 and S. 2792) occurs as federal spending is projected to continue to exceed revenues. This trend raises questions about whether pressure to reduce the federal deficit may affect defense budget plans.

In July 2021, the Congressional Budget Office (CBO) projected a federal deficit of $3.0 trillion for FY2021, or 13.4% of Gross Domestic Product (GDP). That percentage would be the second-highest since 1945. CBO attributed the size of the projected deficit in part to "the economic disruption caused by the 2020-2021 coronavirus pandemic and the legislation enacted in response." CBO projects spending will continue to exceed revenues over the next decade (**Figure 1**). From FY2022 to FY2031, CBO projects discretionary defense outlays will increase 23% and nondefense discretionary outlays 6%, while mandatory outlays will increase 40% and net interest payments on the national debt 198%.

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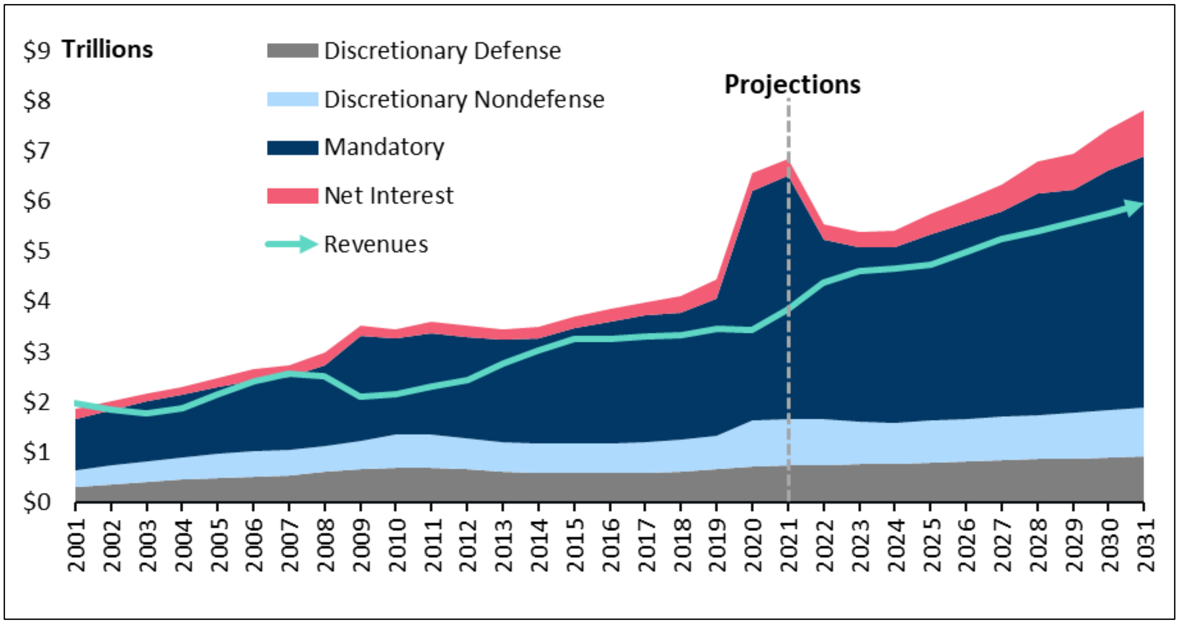
Figure 1. Outlays by Budget Enforcement Category and Revenues, FY2001-FY2031 (Projected)

(in trillions of nominal dollars)



Source: CRS analysis of Office of Management and Budget (OMB), Historical Tables, Table 1.4 and Table 8.1; and CBO, Budget and Economic Data, 10-Year Budget Projections, July 2021, Table 1-1 and Table 1-4.

Notes: Outlays from 2001 through 2020 reflect OMB amounts (actual); outlays from 2021 through 2031 reflect CBO projections.

In recent decades, during periods of widening gaps between revenues and outlays, Congress has sometimes enacted legislation intended to reduce the deficit in part by limiting defense spending.

After the deficit reached nearly 6% of GDP in 1983, Congress enacted the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177). This legislation created annual deficit limits and stated that breaching them would trigger automatic funding reductions equally divided between defense and nondefense spending. In 1990, Congress passed the Budget Enforcement Act of 1990 (Title XIII of P.L. 101-508), which included statutory limits on discretionary spending. These limits were in effect through 2002 and, in certain years, included a specific limit on defense spending.

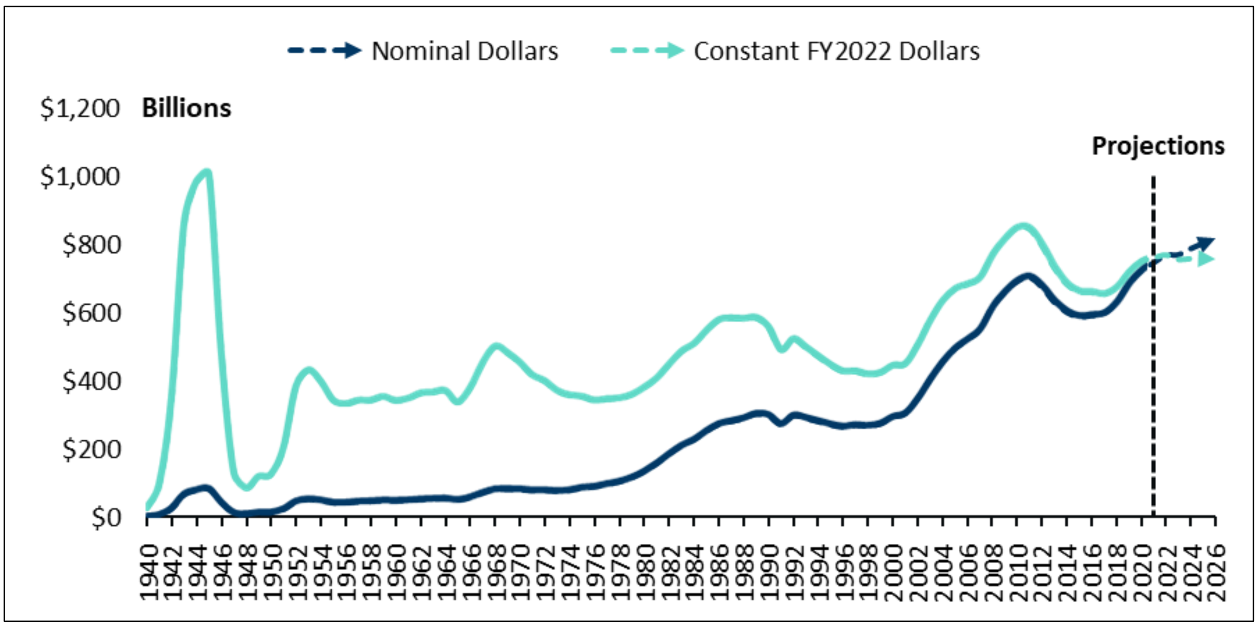
After the deficit reached nearly 10% of GDP in 2009, Congress enacted the Budget Control Act of 2011 (BCA; P.L. 112-25). The legislation reinstated statutory limits on discretionary spending for FY2012-FY2021 and resulted in separate annual limits for defense spending. The defense spending caps under BCA as amended applied to discretionary base budget authority for the national defense budget function (050). The legislation effectively exempted certain other types of funding from the caps, including funding designated for Overseas Contingency Operations (OCO). Under the BCA, discretionary spending limits were enforced through a mechanism called sequestration, which automatically cancels previously enacted appropriations by an amount necessary to reach prespecified levels. Over the past decade, Congress enacted appropriations within BCA discretionary spending limits except in FY2013, when then-President Barack Obama ordered the sequestration of budgetary resources across nonexempt federal government accounts. BCA discretionary spending limits expired in FY2021; there are no discretionary spending limits for FY2022 or thereafter. As part of the FY2022 budget request, the Biden Administration proposed discontinuing funding for OCO and, instead, requested funding for contingency operations in the base budget.

Some observers have argued statutory spending limits disproportionately affect defense programs and inadequately address projected growth in mandatory programs; others have argued they are necessary in light of recurring deficits and increasing federal debt. In 2020, CBO identified options for reducing the federal budget deficit through budgetary savings in both mandatory and discretionary programs. Twelve options involved reducing funding for discretionary defense programs (e.g., operation and maintenance, naval ship construction, aircraft). In 2021, CBO published a report describing three options for carrying out national defense activities under a smaller defense budget.

Figure 2 shows defense spending over time in both nominal and constant FY2022 dollars. The inflation-adjusted line shows the cyclical nature of defense spending during wartime. The level of defense outlays requested for national defense in FY2022, when adjusted for inflation, is higher than during the Cold War-era military buildup of the 1980s and lower than during the height of post-9/11 operations in Iraq and Afghanistan. Defense outlays are projected to remain relatively flat through FY2026.

Figure 2. National Defense Outlays, FY1940-FY2026 (projected)

(in billions of nominal and constant FY2022 dollars)



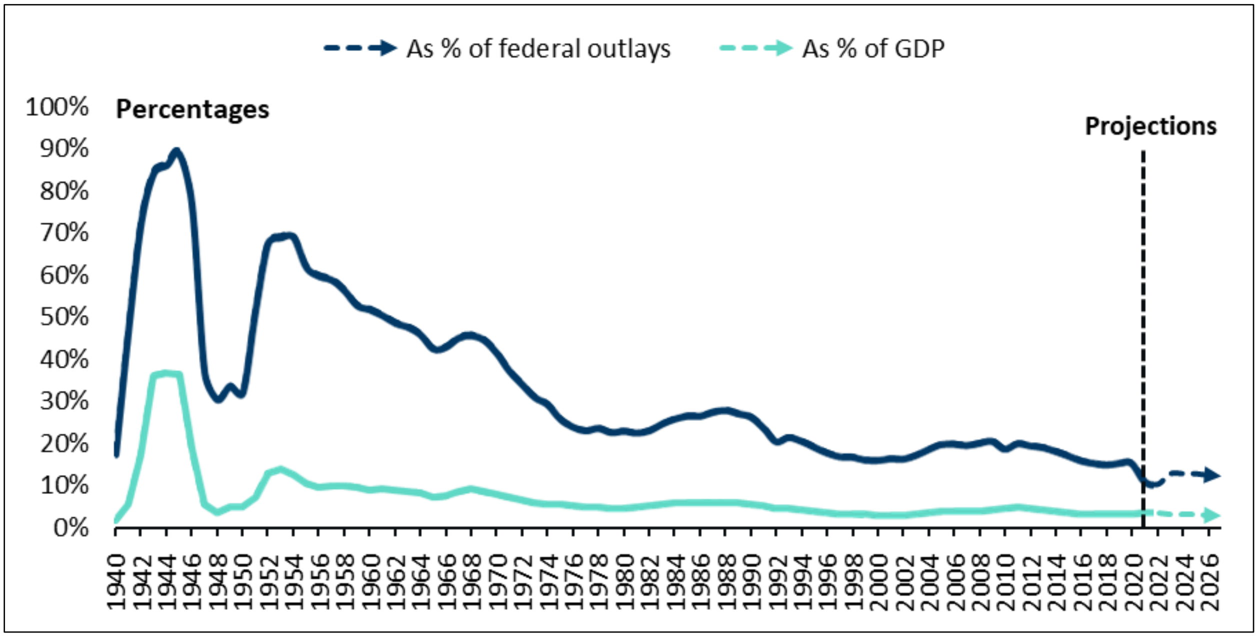
Source: CRS analysis of OMB, Historical Tables, Table 3.1 and Table 10.1.

Notes: FY2021 through FY2026 reflect projections. Figures adjusted to constant FY2022 dollars using GDP (chained) price index in Table 10.1.

Figure 3 shows defense spending over time as a share of both federal outlays and GDP. Defense outlays have steadily decreased from peaks of nearly 90% of federal outlays and more than a third of the overall economy in the 1940s during World War II—to less than 13% of federal outlays and 3.3% of the economy in FY2022.

Figure 3. National Defense Outlays as Share of Total Federal Outlays and GDP, FY1940-FY2026 (projected)

(in percentages)



Source: CRS analysis of OMB, Historical Tables, Table 3.1.

Notes: FY2021 through FY2026 reflect projections.

Congress is debating competing proposals regarding the overall size of the defense budget. In August 2021, the Senate and House adopted an FY2022 budget resolution (S.Con.Res. 14), which recommended $765.7 billion in new budget authority for FY2022 national defense programs and assumed "discretionary levels as proposed in the President's budget request." On September 23, the House passed its version of the NDAA (H.R. 4350), which included a total budget authority implication of $790.5 billion for national defense (including mandatory and discretionary budget authority beyond the scope of the legislation). That amount is $25 billion (3%) more than the President's budget request. The Senate has not yet acted on its version of the bill (S. 2792), which includes a similar increase to discretionary authorizations for national defense.

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