COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Controlling Discretionary Spending
December 17, 2009

Wednesday President Obama signed a $1.1 trillion "minibus" spending bill, which included six appropriations bills totaling **$447 billion** for FY2010. When added to the five already-passed bills, this minibus will put total non-stimulus, non-defense[1] FY2010 appropriations at $583 billion. This represents an **8.2 percent** increase over last year's $539 billion.

If the House-passed Defense bill is signed into law as is, it would total $1.22 trillion, **4.1 percent** greater than last year's $1.17 trillion – and **7.3 percent** greater when war costs are excluded. Even a 4.1 percent increase is quite significant (not to mention an 8.2 percent increase), given that prices and nominal GDP have both *fallen* over the last fiscal year, and are expected to grow only modestly (at 1.6 percent and 2.1 percent, respectively) over the next year.

Though large, this discretionary spending increase is not unusual. Excluding the 1990s, when tough discretionary spending caps were in place, discretionary spending has typically grown by between 7 percent and 8 percent per year. Over the last decade, it has grown by 7.5 percent. As a result, discretionary spending has grown faster than mandatory spending in recent years.

It is true that the largest budgetary threat, looking forward, will stem from the rapid projected growth of Social Security, Medicare and Medicaid. Also true is that discretionary spending itself makes up less than 40 percent of federal spending in a normal year.

But as Congress searches for ways to bring the debt under control, it cannot ignore the growth of discretionary spending. In addition to entitlement reform, tax reform, and tough pay-as-you-go rules, CRFB believes Congress needs an enforcement mechanism to ensure members will not bow to the temptation to spend more each year. One proven mechanism is discretionary spending caps.

Below we discuss both the FY2010 appropriations bills and the historical growth of discretionary spending.

[1] "Non-defense" refers to spending other than in the Defense Appropriations bill, rather than the formal "domestic discretionary" category of spending measured by CBO and OMB.

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FY2010 Appropriations

In total, appropriations will be nearly $50 billion, or 4.1 percent higher than last year. The defense appropriations bill is roughly 0.7 percent higher, while the remaining bills are nearly 8.2 percent higher. So far, most of the FY2010 (Oct 2009-Sept 2010) spending bill levels have fallen between the House and Senate requested levels, and have been relatively close to the President's budget request ($6.5 billion lower in total).

Fig. 1: Appropriations Bills Summary Table (billions and percent)

Appropriations Bill	Final Spending Levels			Proposed Spending Levels for FY2010		
	FY 2010	FY 2009	Growth	Senate	House	President
Agriculture	$23.3	$20.6	13.1%	$23.6	$22.9	$23.0
Energy-Water	$33.5	$33.3	0.6%	$33.8	$33.3	$34.4
Interior	$32.2	$27.6	16.9%	$32.1	$32.3	$32.3
Homeland Security	$42.8	$40.1	6.6%	$42.9	$42.6	$43.1[a]
Legislative Affairs	$4.7	$4.5[b]	4.0%	$4.6	$4.7	$5.0
Individually-Passed Bills	***$136.5***	***$126.1***	***8.2%***	***$137.0***	***$135.8***	***$137.8***
Commerce-Justice-Science	$64.4	$57.7[b]	11.6%	$64.9	$64.4	$64.6
Financial Services-Government	$24.2	$22.6	7.3%	$24.2[d]	$24.2	$24.2
Labor-HHS-Education	$163.6	$155.0[c]	5.5%	$163.1[d]	$163.4	$160.7
State-Foreign Operations	$48.8	$50.0[b]	-2.5%	$48.7[d]	$48.8	$52.0
Transportation-HUD	$67.9	$55.0	23.5%	*$67.7*	$68.2	$68.9
Military Construction-VA	$78.0	$72.9	7.0%	*$78.1*	$77.9	$77.7
"Minibus" Legislation	***$446.8***	***$413.2***	***8.1%***	***$446.7***	***$446.9***	***$448.2***
Pending Defense Bill	***$636.3***	***$631.9***[b]	***0.7%***	***$636.3***	***$636.3***	***$640.1***
TOTAL	**$1219.6**	**$1,171.2**	**4.1%**	**$1220.0**	**$1,219.0**	**$1,226.1**

Source: House Appropriations Committee, Senate Appropriations Committee, and Authors' Calculations.
[a]Includes Coast Guard overseas contingencies; [b]Includes supplemental funds; [c]Excludes supplemental funds; [d]Approved by Committee, but not passed by full Senate.

These growth rates underestimate the real increase for several reasons:

- The 0.7 percent defense increase is in part a result of the gradual troop withdrawal from Iraq. Excluding war-related spending, Defense appropriations will increase by roughly 7 percent.
- The Defense bill increase excludes additional funds which may be necessary to finance the announced "troop surge" in Afghanistan; estimates put these costs at about $30 billion, which would bring the total growth rate to 6.7 percent.
- They exclude over $300 billion in discretionary spending appropriated through the American Recovery and Reinvestment Act, $110 billion of which the CBO estimates will be spent in FY2010. Although much of this spending was for temporary stimulus measures, some of it, were it not included in the stimulus bill, would have likely been enacted through the normal appropriations process.

FY2010 spending would grow fastest for Transportation-HUD (24 percent), Interior (17 percent), and Agriculture (13 percent).

Other areas grow more slowly. The Defense bill calls for a 0.7 percent increase, the Energy and Water bill calls for a 0.6 percent increase, and the State-Foreign Operations bill calls for a 2.5 percent *cut.* However, these growth rates mask what is really going on – the Energy and Water bill is likely lower than it otherwise would be due to the $51 billion of appropriations offered through the stimulus bill; State-Foreign Operations programs would actually be higher if supplemental appropriations were excluded; and low Defense growth is driven almost entirely by declining war costs (excluding war costs, growth would be about 7 percent).

Overall, discretionary spending growth is quite significant. While discretionary budget authority[2] will grow by about $50 billion (4.1 percent), Social Security is projected to grow by only $20 billion (2.9 percent) and Medicare by $14 billion (3.3 percent).

What About President Obama's Spending Cuts?

In his 2010 budget request, President Obama proposed terminating or cutting about 75 discretionary spending programs to achieve $11.5 billion in savings. Proposals ranged from as large as $3 billion for the F-22 Fighter Aircraft – which most experts deem no longer necessary -- to as small as $1 *million* for the Christopher Columbus Fellowship Foundation – which the Administration found spent 80% of its funds on overhead.

Using ten of President Obama's largest proposed cuts to non-defense domestic discretionary spending as a case study, it does not appear Congress has enacted many of these recommendations. Of these ten cuts, two were accepted in full, three in part, and the remaining five not at all. Out of the $1.78 billion in proposed savings, Congress only enacted $560 million. And this is partially offset by $200 million in increased spending for four programs that the Administration recommended cutting.

Although the Defense bill has not yet been passed, Congress does not appear willing to follow the President's recommendations any more for this than in the other bills. Congress will likely maintain funding for the JSF Alternate Engine ($465 million) and C-17 Cargo Planes ($91 million), and will provide some excess funding for the Presidential Helicopter ($130 million). To its credit, it does appear Congress *will* enact the President's largest proposed cut -- $3 billion for the F-22 Fighter Jet program.

We will post a complete analysis of the President's cuts on *The Bottom Line* (http://www.crfb.org/blog) as soon as the numbers are available.

[2] Budget authority (BA) measures the amount of money Congress authorizes agencies to spend. This number often differs from outlays – which measures actual spending – since authority need not be used in the year in which it is given. Because outlays tend to be more volatile on the whole, and especially in light of the large amounts of stimulus spending, we consider non-stimulus BA to be a more useful measure.

Historical Growth of Discretionary Spending

Concern about the long-term debt picture tends to focus on mandatory spending—in particular on Social Security, Medicare, and Medicaid. This makes sense given that these programs consume such a large percentage of the budget, they are on autopilot, and their costs are projected to explode as the population ages and health care costs grow.

Still, this should not be an excuse for ignoring the discretionary side of the budget.

Over the past decade, discretionary spending has grown *faster* than mandatory. Between 1999 and 2008, mandatory spending grew by an annual average of **6.4 percent,** from about $900 billion to almost $1.6 trillion. Discretionary spending grew annually, on average, by **7.5 percent** – from less than $570 billion to over $1.1 trillion.

This high growth rate is in part a result of the **8.6 percent** annual growth of defense and international spending – which includes spending for the wars in Iraq and Afghanistan – and to the large increase in homeland security spending. Even *domestic* discretionary spending, however, has grown at an average rate of **6.3 percent** per year, or 6 percent if homeland security spending is excluded.

Fig. 2: Spending Levels and Growth Rates by Category (billions)

	1998 Level	2008 Level	Average Annual Growth Rate
Discretionary Spending	***$552***	***$1,135***	***7.5%***
Domestic	*$270*	*$612*	*6.3%*
Defense/International	*$282*	*$522*	*8.6%*
Mandatory Spending	***$860***	***$1,591***	***6.4%***
Social Security	*$376*	*$612*	*5.0%*
Medicare	*$193*	*$391*	*7.4%*
Medicaid	*$101*	*$201*	*7.2%*
Other	*$190*	*$387*	*8.0%*
Interest	***$241***	***$253***	***1.1%***
TOTAL OUTLAYS	**$1,653**	**$2,979**	**6.1%**
REVENUE	**$1,722**	**$2,524**	**4.1%**
INFLATION	**n/a**	**n/a**	**2.8%**
GDP	**$8,626**	**$14,222**	**5.0%**

Source: Congressional Budget Office, Office of Management and Budget, and Authors' Calculations.

Discretionary spending growth *was* contained in the 1990s, in large part due to discretionary spending caps enacted in 1990, and reinforced in 1993 and 1997. These caps were designed to be tough enough to force real spending control, but realistic enough that they could be met – and they were enforced through the threat of automatic across-the-board spending cuts (sequestration). As a result of these caps, along with a strong commitment to spending controls, discretionary spending grew by only 1.6 percent annually during the 1990s.

This, however, was the exception to the rule. In the prior two decades – between 1970 and 1990 – discretionary spending grew by an average of 7.5 percent per year. Domestic discretionary spending grew ever faster, by over 9 percent per year.

The problem with discretionary spending growth is that it can be difficult to notice. Generally speaking, Congress makes appropriations decisions on a year-by-year basis, and therefore does not see the effects of those increases over a longer time period. By contrast, Social Security (and to a lesser extent, Medicare) changes are often measured on a 75-year basis, and all other mandatory and tax changes on a 10-year basis.

Compounding this problem is a baseline issue, whereby the CBO assumes discretionary spending will grow only with inflation. This convention leads to projections in which discretionary spending is actually *shrinking* as a percent of GDP, even though this is rarely the case. As a result, the CBO is forced to adjust the baseline upward almost every year. In 2001, for example, 2008 discretionary spending was projected at 5.6 percent of GDP. Estimates increased to 6.4 percent by 2002, 7.2 percent by 2005, and ultimately 7.9 percent.

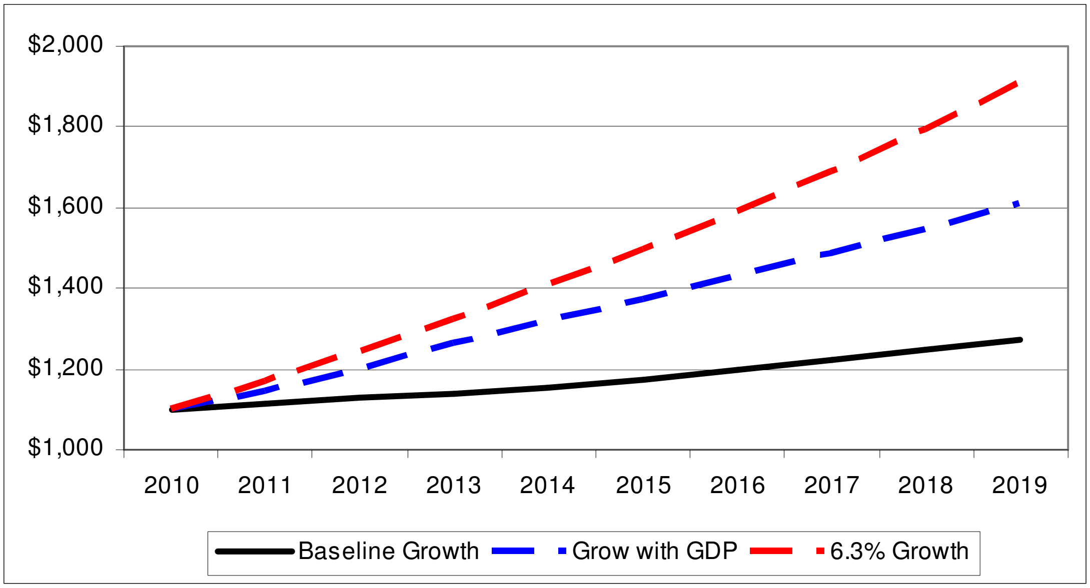
The fact that 2008 discretionary spending was 2.3 percent of GDP (more than $300 billion) higher in 2008 than projected just seven years earlier shows both the fallacy of using the budget baseline to predict discretionary spending growth, as well as the need for Congress to better control this growth in the first place.

Controlling Discretionary Spending

Although the CBO baseline makes it appear as if discretionary spending will grow only modestly, more realistic assumptions tell a different story. This year's regular (non-war, non-stimulus) discretionary appropriations will be roughly $1.1 trillion. Under baseline conventions, they would probably grow to a bit under $1.3 trillion by 2019. If regular discretionary appropriations grew at the rate of GDP – so that they remained a constant share of the economy – they would grow to over $1.6 trillion and would cost around $1.7 trillion more (excluding interest) over the next decade.

If discretionary spending were to grow at 6.3 percent per year – the average rate of domestic discretionary growth in the last decade – it would grow even larger, to $1.9 trillion in 2019. Over ten years, regular discretionary appropriations would be almost $3 trillion larger than under the baseline.

Fig. 3: Regular Discretionary Appropriations Under Various Assumptions (billions)



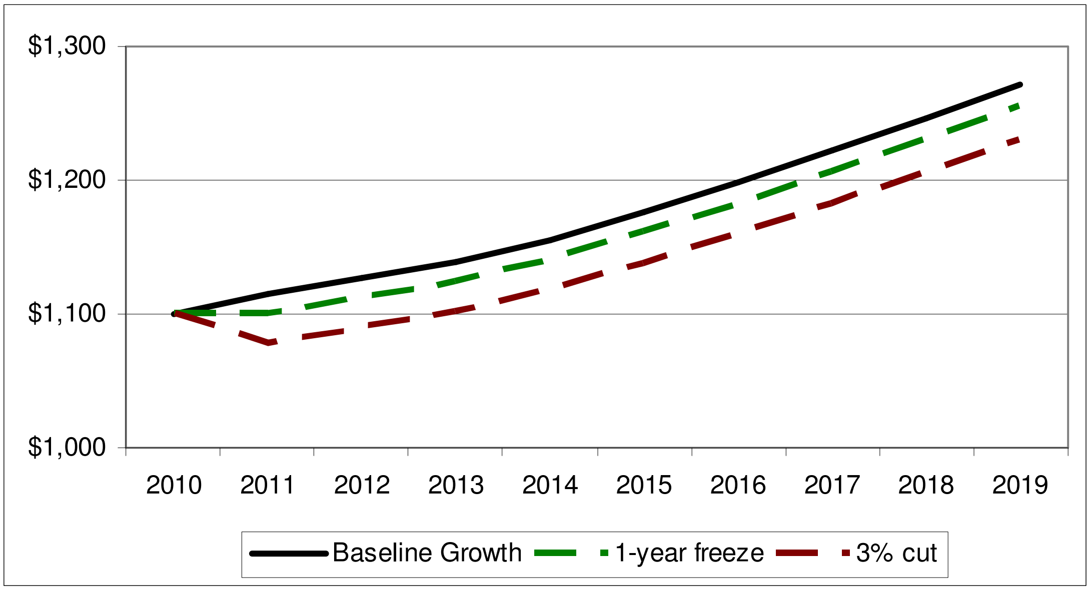
Source: Congressional Budget Office and Authors' Calculations.
Note: Calculations are meant to approximate CBO projections rather than replicate them. CBO technically relies on two measures of inflation to project forward discretionary spending (one for wages and salaries of federal personnel, the other for non-personnel spending), whereas we rely on a single measure which falls roughly between the two.

Just holding discretionary spending growth to inflation – with strong enforceable spending caps – would be a positive step. In the 1990s, it was these types of caps, along with pay-as-you-go rules, strong economic growth, slower-than-usual health care cost growth, and a commitment to deficit reduction that led to budget surpluses.

True, capping discretionary growth at inflation would yield no savings relative to the baseline. But such caps would prevent the situation from further deteriorating, something which would almost certainly occur under the current process.

Congress could go further and decide to freeze discretionary spending next year or even cut it in nominal terms. These measures could have both direct and indirect budgetary benefits. Freezing 2011 normal appropriations at 2010 levels, for example, could save almost $140 billion relative to the baseline over the next decade, if inflation caps were enforced. Cutting normal appropriations by 3 percent could save as much as $350 billion dollars. Both these estimates exclude interest savings.

Fig. 4: Regular Discretionary Appropriations Under Various Scenarios (billions)



Source: Congressional Budget Office and Authors' Calculations.

However they are implemented, discretionary spending controls won't necessarily be easy. They will require prioritizing spending in a way Washington is not used to, and making tough choices about where limited resources should be directed.

Moreover, controlling discretionary spending alone cannot be enough to avert the coming debt crisis. Indeed, on our current path, mandatory spending alone is projected to eventually surpass historical revenue levels.

But discretionary controls can make a far bigger difference than most policymakers realize, and more importantly, they can send a signal that we are serious about getting our burgeoning debt under control.