

Revised March 5, 2004

CONCENTRATING ON THE WRONG TARGET:

**Bush Cuts Would Reduce Domestic Discretionary Spending,
As A Share of GDP, To Its Lowest Level in 46 Years**

By Isaac Shapiro and David Kamin

The Administration's new budget has one main focus when it comes to reducing the deficit: domestic discretionary spending. This focus is disproportionate; the rise in domestic discretionary spending plays a bit part when it comes to telling the story of why the nation's fiscal situation has worsened. Further, because such spending constitutes a minor part of the budget, even though the proposed cuts in this area will hit a range of programs sharply, the cuts will not dramatically improve the fiscal picture.

- As a share of the economy, domestic discretionary spending — which includes programs such as education, child care, environmental protection, veterans' health, housing, and many other areas — has risen since 2001, but only to a moderate degree. (As defined here, domestic discretionary spending excludes spending on homeland security programs.) The modest rise, in turn, has had only a modest effect on the deficit. The increase in domestic discretionary spending accounts for one-twentieth of the deterioration in the fiscal situation over the past three years.
- Even with the recent increases, domestic discretionary spending in 2004, measured as a share of the economy (i.e., of the Gross Domestic Product), is expected to be slightly below its average level since 1970.

Key Findings

- The increase in domestic discretionary spending (outside homeland security) accounts for just five percent of the deterioration in the fiscal picture from 2001 to 2004.
- As a share of GDP, domestic discretionary spending is currently below its average level since 1970. Domestic discretionary spending is just one-sixth of the budget.
- Under the Administration's budget, in 2009 domestic discretionary spending as a share of GDP will fall to its lowest level since 1963.
- The cost of the tax cuts for the top one percent of taxpayers substantially exceeds the savings from all of the proposed cuts in domestic discretionary programs.

- Yet domestic discretionary spending is singled out by the Administration for sharp cuts. The Administration's budget would result in this area of spending falling to 2.6 percent of GDP in 2009, its smallest share of the economy since 1963.
- Domestic discretionary spending constitutes just one-sixth of the budget. Thus, although the proposed cuts in the Bush budget would hit this area hard, the overall effect on the deficit would be relatively modest. The cost in 2009 of the tax cuts that have been enacted since 2001, in combination with the cost of the new tax cuts the Administration is now proposing and the continuation of relief from the Alternative Minimum Tax, would be six times greater than the amount that would be saved by the proposed cuts in domestic discretionary programs. Indeed, the savings through 2009 from all of the domestic discretionary cuts combined would be substantially less than the cost in those years of the income tax cuts just for the one percent of households with the highest incomes.

Recent Domestic Discretionary Spending Trends

As a share of GDP, domestic discretionary spending has risen since 2001. This increase is explained entirely by bipartisan efforts to boost spending in the areas of education and transportation and for the National Institutes of Health. Outside of those areas, domestic discretionary spending has essentially remained flat as a share of GDP.

Further, the overall increase has not been very significant. It still leaves such spending below its average over the past few decades.

- In 2004, domestic discretionary spending will constitute 3.4 percent of the economy, up from its 2001 level of 3.1 percent.
- The 2004 level is slightly lower than the average level since 1970, which is 3.5 percent of the economy.

The rise in discretionary spending explains only a tiny fraction of the deterioration in the nation's fiscal situation.

- The nation's fiscal balance has swung from a surplus of 1.3 percent in 2001 to a projected deficit of 4.2 percent in 2004.
- The increase in domestic discretionary spending accounts for *one-twentieth* of this swing.¹
- By contrast, both CBO and OMB estimate that revenues in 2004 will hit their lowest level as a share of GDP since 1950. When measured as a share of the

¹ Specifically, as a share of GDP, domestic discretionary spending has risen by 0.25 percent since 2001. This represents 1/22 of the overall deterioration in the fiscal situation from 2001 to 2004 of 5.43 percent of GDP.

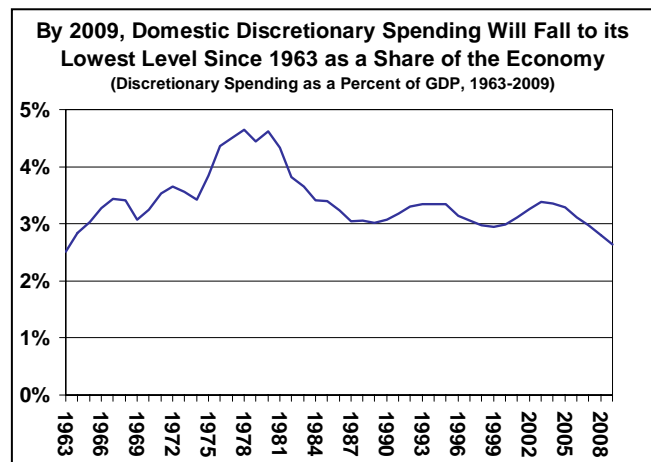
economy, the decline in revenues since 2001 accounts for about three-quarters of the deterioration in the fiscal situation.

- Much of the revenue drop reflects the tax cuts enacted starting in 2001. These tax cuts account for close to *ten* times as much of the change in the fiscal picture as the increase in domestic discretionary spending.

How Domestic Discretionary Spending Fares Under the Budget

Overall, the Administration's budget would make future deficits larger than they otherwise would be, mostly because of its proposal to make its tax cuts permanent. The budget singles out domestic discretionary spending for belt-tightening. Here, deep cuts are proposed by 2009, sending such spending to an exceptionally low level.

- The Administration's budget proposes to cut funding for domestic discretionary programs in 2009 by \$49 billion — or 12 percent — below the 2004 level, adjusted for inflation.² Substantial reductions would occur in the number of children who would be enrolled in federally subsidized child care, and the nation's principal low-income housing program would be hit especially hard. The cuts would occur even in most of the popular programs the Administration proposes to *increase* in 2005, and would be enforced by new budget procedures.
- As a result, as a share of GDP, already-below-average spending on domestic discretionary spending would plummet to a level not seen in many decades. In 2009, domestic discretionary spending would equal just 2.6 percent of the economy, the lowest level since 1963. See figure and Table 1.



² This analysis compares OMB's proposed funding levels to the OMB baseline, rather than the CBO baseline, for ease of analysis. The CBO baseline is slightly lower in aggregate than the Administration's baseline because of lower inflation projections. If the Administration's fiscal year 2009 domestic discretionary funding levels are compared to the CBO baseline, the cut in 2009 is \$45.4 billion, or 10.4 percent, below the fiscal year 2004 level adjusted for inflation.

Table 1			
Domestic Discretionary Spending (Outside Homeland Security) as a Percent of GDP			
Year	Percent	Year	Percent
1963	2.5%	1987	3.0%
1964	2.8%	1988	3.1%
1965	3.0%	1989	3.0%
1966	3.3%	1990	3.1%
1967	3.4%	1991	3.2%
1968	3.4%	1992	3.3%
1969	3.1%	1993	3.3%
1970	3.2%	1994	3.3%
1971	3.5%	1995	3.3%
1972	3.6%	1996	3.1%
1973	3.6%	1997	3.1%
1974	3.4%	1998	3.0%
1975	3.8%	1999	3.0%
1976	4.4%	2000	3.0%
1977	4.5%	2001	3.1%
1978	4.6%	2002	3.3%
1979	4.4%	2003	3.4%
1980	4.6%	2004est.	3.4%
1981	4.3%	2005est.	3.3%
1982	3.8%	2006est.	3.1%
1983	3.7%	2007est.	3.0%
1984	3.4%	2008est.	2.8%
1985	3.4%	2009est.	2.6%
1986	3.2%		

Sources: Office of Management and Budget and the Congressional Budget Office.