



CENTER ON BUDGET AND POLICY PRIORITIES

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HOUSE BUDGET COMMITTEE ADOPTS SEVERE FIVE-YEAR CAPS ON DISCRETIONARY PROGRAMS

The House Budget Committee adopted legislation on March 17 that would set caps on discretionary programs for each of the next five years. This legislation raises serious concerns.

- The caps in the legislation are designed to lock in the steep cuts in domestic discretionary programs outside homeland security that are featured in the House Budget Committee's new budget plan (i.e., in the budget resolution the Committee approved) and in the budget the Senate adopted on March 12. (The legislation the House Budget Committee approved would set the caps at the discretionary spending levels included in the final budget resolution that the House and Senate work out in conference.) The House Budget Committee plan calls for \$113 billion in funding reductions over five years in domestic discretionary programs outside homeland security. The Senate plan calls for \$117 billion in cuts in these programs.
- By 2009, the cuts would reach \$36 billion under the House Budget Committee plan and a similar level under the Senate plan. Under either plan, total funding for domestic discretionary programs — measured as a share of the economy — would fall by 2009 to its lowest level since 1963.
- Under the House budget plan, every area of domestic discretionary funding would be cut over the next five years except for education and training and Social Security administrative costs. The Senate plan increases space exploration but otherwise cuts the same areas as the House plan. By 2009, funding for environment and natural resources programs would be cut under the House plan by 14 percent — or \$4.8 billion — below the 2004 level, adjusted for inflation (i.e., 14 percent below the CBO baseline). Even veterans' programs — including veterans' health care — would be cut five percent, or almost \$2 billion, by 2009.
- By 2009, the cuts in domestic discretionary programs outside homeland security would be nearly *seven times as deep* under the House and Senate plans, when measured as a share of the economy, as the domestic discretionary cuts instituted under the discretionary caps imposed in 1990 and 1993.
- Moreover, the cuts in domestic discretionary programs could prove even deeper than that. The proposed caps would cover *total* discretionary spending, including defense spending. But a Congressional Budget Office analysis has found that the funding levels for defense in years after 2005 that are contained in the Administration's budget (and hence in the House and Senate budget plans) are *well below* the projected costs of implementing the Administration's own multi-year defense plan (the Pentagon's "Future-Year Defense Plan"). While the legislation that the House Budget Committee approved on March 17 specifically allows for costs in 2005 for the "war on terrorism" to be exempt from the caps, the planned build-up of overall military capabilities and hardware that is envisioned as part of the "Future-Year

Defense Plan” is not part of the “war on terrorism.” If the caps are enacted and defense spending turns out to be higher in coming years than the levels assumed in this year’s Congressional budget plan, domestic programs will have to be cut by even larger amounts than the amounts cited here.

Caps Would Be Used To Pay For Tax Cuts, *Not* To Achieve Deficit Reduction

- Unlike the discretionary caps set in 1990 and 1993, the new caps that the House Budget Committee bill would establish would *not* be part of a balanced deficit-reduction package that puts every part of the budget on the table and calls for shared sacrifice. To the contrary, the House and Senate budget resolutions fail to reduce deficits at all; they would *increase* deficits above the levels at which deficits otherwise would stand, primarily because of the tax cuts in the budget resolutions.
- The large cuts in discretionary programs that the caps are designed to enforce consequently would be used to finance a portion of the oversized tax cuts, *not* to reduce deficits.

Unrealistic Caps Can Undermine Fiscal Discipline

- The proposed caps would be more likely to *hinder* deficit reduction than to advance it. One key lesson of the past 15 years is that passing large-scale deficit-reduction bills entails putting *all* parts of the budget on the table and having various Congressional factions agree to accept deficit-reduction measures that affect their favored parts of the budget in return for the application of comparable measures to the other parts of the budget. To make substantial progress, discretionary programs, entitlement programs, and taxes all need to contribute.

The proposed discretionary caps, however, would necessitate such large reductions that further discretionary cuts over the next five years would almost certainly be out of the question. That would mean there would be nothing left to give on the discretionary side of the budget to help induce tax-cut advocates to agree to a comprehensive deficit-reduction package that restores some revenues. The proposed five-year discretionary caps consequently are likely to set back the cause of deficit reduction by making it harder to develop and pass a major, multi-year deficit-reduction package that covers all parts of the budget.

- Finally, history strongly indicates that discretionary caps that are too severe cannot be enforced and are eventually blown away, leaving no fiscal discipline at all. The realistic discretionary caps set in 1990 and 1993 were honored. The unrealistically severe caps set in 1997 were not. The result was that discretionary spending grew far more under the severe 1997 caps than under the more moderate and realistic 1990 and 1993 caps.

Moreover, it is impossible to know at this point at what levels to set five-year caps, because reliable estimates of defense costs in years after 2005 are lacking. As noted, the Administration has apparently “low-balled” the out-year numbers for defense spending in its budget. Despite this uncertainty and the lesson that caps need to be realistic to be enforceable, the House Budget Committee has endorsed caps that are more severe, and would require even deeper cuts, than the unrealistic 1997 caps that could not be sustained.