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HOUSE BUDGET COMMITTEE'S DISCRETIONARY SPENDING CAP PROPOSAL REPRESENTS UNSOUND POLICY

by Robert Greenstein and Richard Kogan

The House Budget Committee approved legislation on March 17 that would establish binding caps for each of the next five years on overall levels for discretionary programs (i.e., programs that are non-entitlements). Under the measure, which was introduced by House Budget Committee Chairman Jim Nussle, the cap for each year would be set at the overall levels for discretionary programs contained in the final budget resolution that the House and Senate agree to in conference.

Although the discretionary caps will be set based on the levels in the conference agreement, this analysis uses for illustrative purposes the levels in the resolution reported by the House Budget Committee. The levels in the Committee plan are very similar to those in the Senate budget resolution, so the conference agreement is likely to be very close to the discretionary totals in the House Budget Committee's plan.

Caps Would Require Deep Cuts in Domestic Discretionary Programs

The proposed caps would necessitate steep cuts in domestic discretionary programs, unless defense and homeland security programs are funded at levels well below those contained in the House Budget Committee's five-year budget plan. (As explained below, the funding levels that Congress ultimately provides for defense and anti-terrorism programs in years after 2005 are more likely to *exceed* than to fall below the levels shown in the Committee's budget. The amounts reflected in the Committee's budget for defense and anti-terrorism efforts, like the amounts in the Bush Administration's budget, omit defense and anti-terrorism costs in years after 2005 that are likely to be funded.)

- Under the Committee's budget plan, overall funding for domestic discretionary programs outside homeland security would be reduced by *$113 billion over the next five years*.[1] This is the amount by which these programs would have to be cut under the proposed caps, unless defense, homeland security, and international affairs programs were funded at levels below those reflected in the budget. (The $113 billion figure represents the amount by which the funding levels in the Budget Committee's five-year budget plan fall below the CBO baseline; the baseline is CBO's estimate of the amounts needed to maintain current levels of service in these programs, and equals the fiscal year 2004 funding levels for these programs, adjusted for inflation.)

- Under the caps and the Committee's five-year budget plan, the reductions in domestic discretionary programs would grow larger with each passing year,

[1] Under the Senate budget plan, overall funding for domestic discretionary programs outside homeland security would be reduced by $117 billion over the next five years.

> reaching $36 billion a year by 2009. By that year, expenditures for domestic discretionary programs outside homeland security would fall to their lowest level, measured as a share of the economy, since 1963.

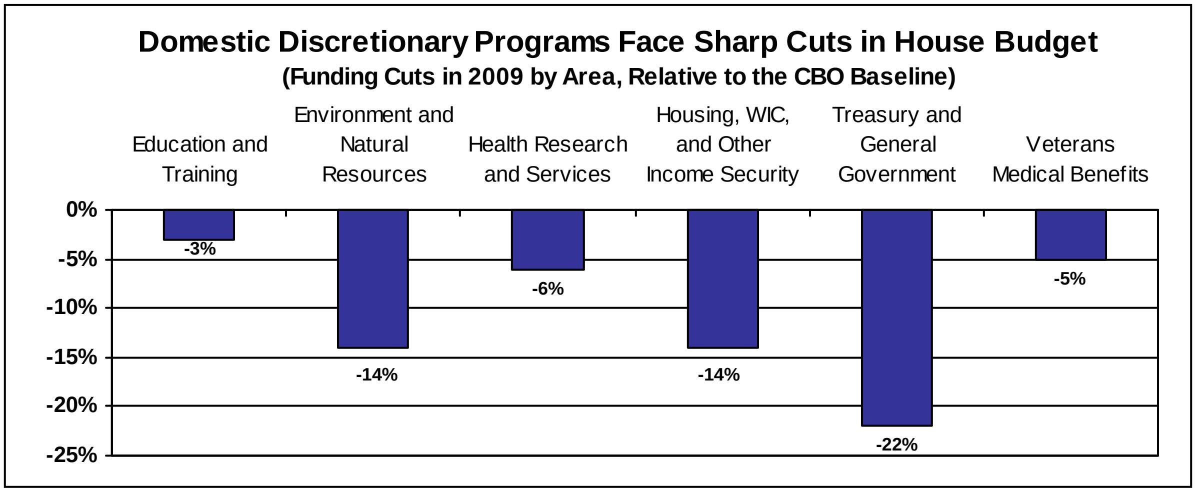
As noted, these figures may *understate* the depth of the cuts in domestic discretionary programs that would occur under the caps. Each year's cap would apply to total discretionary funding for that year, including funding for defense and anti-terrorism programs. A major CBO analysis indicates that the defense-funding levels for years after 2005 that are reflected in the Administration's budget (and hence in the Budget Committee plan) significantly understate the costs in those years of the Administration's own multi-year defense plan. Moreover, the Committee's budget plan contains no funds for the international war on terrorism after 2005.

This suggests that the amounts the Administration actually requests in future years for defense and anti-terrorism activities — and the amounts that Congress appropriates for such activities in those years — may be significantly larger than the amounts shown in the Committee's budget plan. If the proposed caps are enacted and defense and anti-terrorism activities are funded at higher levels than the levels the Committee's budget now shows, the reductions in domestic discretionary programs will have to be even larger than the amounts cited above. Under the caps, each additional dollar provided for defense and anti-terrorism programs could necessitate an additional dollar in cuts in non-defense programs. (See box on page 5.)

Severe Caps Unlikely To Promote Fiscal Restraint

The cuts that the proposed caps would necessitate stand out not only because of their depth but also because they depart sharply from the experience with discretionary caps in the 1990s, when such caps proved effective. The caps in effect through most of the 1990s were part of larger, carefully balanced deficit-reduction packages. Both in 1990 when discretionary caps were first established and in 1993 when they were extended, discretionary caps were instituted as part of deficit-reduction measures. These measures combined restraint on discretionary programs with increases in taxes (particularly for those who could best afford to pay more) and reductions in entitlement spending (in part by reducing Medicare payments to health-care providers). The discretionary caps of the 1990s also were accompanied by "pay-as-you-go" rules that required both entitlement expansions *and* tax cuts to be offset fully. In short, the discretionary spending caps of the 1990s were part of a larger program of shared sacrifice that was spread across the population and that played a major role in eliminating the large deficits of that era.

The House Budget Committee's current discretionary-cap proposal is very different. His Committee's five-year budget plan singles out domestic discretionary programs for hefty cuts, without producing any overall deficit reduction. Taken as a whole, the budget proposals in the Committee's plan would make deficits *larger* than they otherwise would be, primarily because of the plan's tax cuts. The stiff cuts in domestic discretionary programs that the proposed caps are designed to lock in would be used not to reduce the deficit, but to finance a portion of the cost of the tax cuts.



This analysis finds that the Chairman Nussle's proposed caps on discretionary caps would be ill-advised. The caps would be inequitable and also would be likely to do more to hinder fiscal discipline than to advance it. The proposed caps have at least five basic flaws.

1. **The cuts that these caps would require are too severe**. The budget calls for funding cuts in domestic discretionary programs outside homeland security that total $113 billion over five years and reach $36 billion in 2009.[2] Under the budget plan, funding for 13 of the 15 domestic discretionary program areas (or budget functions) would be cut over the next five years. Every domestic discretionary program area except education and training and Social Security administrative costs would be hit.

As the above graph shows, the Budget Committee's five-year budget plan envisions reductions in environmental and national resource programs of 14 percent by 2009. In other words, funding for these programs in 2009 would fall 14 percent — or $4.8 billion — below the CBO baseline, which equals the 2004 funding level adjusted for inflation. As another example, veterans health benefits would be cut five percent, or almost $2 billion, in 2009.

2. **These cuts are *not* part of a balanced package; they do not contribute to deficit reduction, but would instead be used to help finance tax cuts.** The domestic discretionary cuts that would be required under the proposed caps would be nearly *seven times as deep* (measured as a share of the economy) as the domestic discretionary program cuts instituted under the discretionary caps enacted in 1990 and 1993. (See Table 1.) Moreover, the 1990 and 1993

[2] The funding totals used in this analysis treat "obligation levels" for transportation programs as a type of budget authority, just as CBO has done in its recent budget analyses. The Nussle cap proposal does not do so, which may lead some to think that transportation funding would fall largely outside the caps. Such a conclusion would be incorrect. The Nussle caps would constrain both funding *and expenditures* in each year through 2009, and the expenditure caps *would* cover transportation programs, as well as other programs. As a result, it is better to judge the severity of the caps by assessing all discretionary programs, including transportation.

Table 1

The Discretionary Caps Agreed to in 1990 Were Adhered to, the More Severe Caps Agreed to in 1997 Were Not, and the Proposed Caps are Even More Severe

Change in expenditures for domestic discretionary programs	**Actual change from 1990 through 1998** (reflects actual results, which were consistent with the caps)	**Assumed change from 1998 through 2002 under the caps enacted in 1997**[(a)]	**Proposed change from 2004 to 2009 under House budget plan**
As a share of GDP	-0.1% of GDP	-0.5% of GDP	-0.6% of GDP
Average annual growth rate, adjusting for inflation and population	+0.7% per year	-2.5% per year	-3.7% per year

(a) Assumes the subdivisions between defense, international, and domestic programs set forth in the 1997 budget agreement. Under that agreement, defense and domestic programs were assumed to be squeezed equally hard, although that was not required as a matter of statute. In practice, funding for all types of discretionary programs — defense, international, and domestic — exceeded the plan by increasingly large amounts starting in fiscal 1999.

budget packages substantially reduced budget deficits. The Budget Committee plan would increase them.[3]

The discretionary spending restraints enacted in the early 1990s were part of broader deficit-reduction efforts that entailed shared sacrifice. Members of Congress who favored increased discretionary spending, Members who sought entitlement expansions, and Members who wanted tax cuts all agreed to forgo their favored proposals in return for restraint on all parts of the budget.

The new discretionary cap proposal, by contrast, is being offered in a quite different context. Not only would there be no restraint on the revenue side of the budget, but nearly all of the recent tax cuts would be extended and made permanent, and scheduled tax cuts for high-income individuals that have not even started to take effect would be implemented in full. Over the next ten years, the cost of the extending the 2001 and 2003 tax cuts — a policy reflected in both the House and Senate budget plans — would surpass $1.3 trillion, including the cost of the added interest payments on the debt.

3. The proposed discretionary caps would likely make it *harder* to secure agreement in coming years on a major deficit-reduction package. One lesson of the 1990s is that passing large-scale deficit-reduction measures entails putting all parts of the budget on the table and having various Congressional factions agree to accept deficit-reduction measures affecting their favored parts of the budget in return for the application of such measures to the other parts of the budget as well. To craft large-scale deficit reduction measures that can pass and be sustained, discretionary programs, entitlement programs, and taxes all need to contribute.

Yet the five-year discretionary caps are so austere (with regard to domestic programs) that further cuts in discretionary spending almost certainly would be out of the question over the next five years. That would make it considerably more difficult to craft a major deficit-reduction

[3] See Richard Kogan and Robert Greenstein, "House Budget Plan Would Swell Deficits by Extending the 2001 and 2003 Tax Cuts and Making Them Permanent," Center on Budget and Policy Priorities, March 24, 2004.

Treatment of Emergencies

Under the House Budget Committee's proposal, funding designated as an emergency would be outside the caps. In addition, supplemental funding in 2005 for "contingency operations related to the global war on terrorism" could receive a similar designation. These possibilities add uncertainty to any analysis of the caps. Will Congress and the President be willing to declare increases in defense costs that CBO attributes to the Pentagon's "future-year defense plan" (and that are unrelated to Iraq, Afghanistan, and the war on terrorism) as an emergency? It is impossible to tell at this time to what extent, if any, such costs would be designated an emergency, and therefore to what extent extra defense costs would further squeeze the domestic side of the budget.

Under the Committee's bill, as under prior statutes, an emergency (or "war on terrorism") designation would have to surmount a number of hurdles. First, any such designation could only be included in appropriation bills with the approval of the House Rules Committee and agreement by the House to a rule that contained the emergency designation. Second, emergency designations for domestic programs are against the rules of the Senate and would require the affirmative vote of 60 Senators to waive those rules. Finally, even if an emergency (or "war on terrorism") designation is included in legislation that is enacted, the President must independently concur with the designation. If he declares that some or all of the funding is *not* an emergency, then notwithstanding the emergency designation in the statute, that amount of funding *would* count against the caps. Emergency designations thus can be misused only with the acquiescence of the Leadership, both houses of Congress, and the President.

package after the 2004 election, since there would be nothing left to give on the discretionary side to induce those favoring continued tax cuts to agree to start restoring the federal revenue base.

The proposed five-year discretionary caps consequently are likely to set back the cause of deficit reduction, which badly needs a large, multi-year deficit reduction package that covers all parts of the budget. For reasons of both equity and fiscal responsibility, the proposed caps consequently appear worse than no caps at all.

4. It is not possible at the present time to set reasonable caps through 2009, because the Administration has not provided reliable budget figures for defense and anti-terrorism costs in coming years. In an important study released last summer and revised this February, the Congressional Budget Office found that the defense funding levels included in the Administration's budget for the "out-years" significantly understate the cost of implementing the Administration's own multi-year defense plan, known as the "Future-Year Defense Plan." CBO also found that the Administration's budget omitted the costs of continuing to prosecute the international war on terrorism — costs that are expected to continue for a number of years to come. The House five-year budget plan includes defense funding levels similar to those proposed by the Administration.

Based on the CBO analysis, the omitted defense costs could total as much as $125 billion over five years. CBO also has estimated the ongoing costs of anti-terrorism activities, exclusive of operations in Afghanistan and Iraq, as being in the range of $25 billion a year.

In the absence of reliable estimates from the Administration on defense and anti-terrorism costs over the next five years, it is impossible to know where to set multi-year caps.

5. History shows that unrealistically severe discretionary caps get blown away and may *weaken* fiscal discipline. In 1990 and 1993, discretionary caps that placed realistic restraints on discretionary programs were enacted. Those caps were honored.[4] In 1997, far more austere caps were established as part of the 1997 Balanced Budget Act, which sought to produce a balanced budget by 2002 under the budget assumptions in use at that time. These caps were so tight that Congress could not live with them, and they were blown away. The ultimate result was no meaningful restraint at all on discretionary spending. (See Table 1 on page 4.)

The lesson is that reasonable caps negotiated as part of a balanced deficit-reduction package that contains shared sacrifice can be effective, but caps that are too severe are not sustained, especially when they are *not* part of a larger, balanced set of deficit-reduction policies. (Another factor that weakened Congress' ability to adhere to the austere caps set in 1997 — which would have required substantial reductions in discretionary programs — was that Congress simultaneously began passing tax cuts that were not offset and violated the "pay-as-you-go" rules, then part of federal law. If fiscal discipline is not enforced in other parts of the budget and deficit-*increasing* actions are taken in those areas, it is difficult to enforce rules that require cuts in discretionary programs.)

It should be noted that the caps that the Budget Committee is proposing would entail reductions in domestic discretionary programs noticeably *deeper* than those called for under the unrealistic caps that were enacted in 1997 and could not be sustained.

Conclusion

The proposed five-year caps on discretionary programs would be inequitable; they are designed to produce substantial cuts in a broad array of domestic programs, with the savings essentially being used to help finance tax cuts. In addition, the establishment of such caps right now would likely make it harder to craft a large bipartisan deficit-reduction measure next year (or in subsequent years) that seeks shared sacrifice from all parts of the budget.

Adoption of the proposed caps would be ill-advised. Both from the standpoint of fiscal responsibility and from the standpoint of advancing the well-being of the American public in areas ranging from the environment to education to health and safety to aiding the less fortunate, the proposed caps would be likely to do more harm than good.

[4] The caps allowed emergency expenditures under circumscribed conditions. Through 1998, emergency funding was used only for the Gulf War and major natural disasters.