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HAVE DOMESTIC APPROPRIATIONS EXPLODED? Claims of Runaway Costs Not Supported by the Data; Growth in Defense Funding Far Outpaces Domestic Funding Growth

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Summary

As Congress seeks to complete action on appropriations bills for fiscal year 2006, many Members of Congress seem to be laboring under the impression that appropriations for domestic programs have exploded in recent years. This impression appears to stem, in part, from several releases issued by conservative groups charging that the federal government has been on a “spending spree.”

For example, a recent Heritage Foundation brief contends that expenditures for discretionary (i.e., appropriated) programs increased 48 percent between 2001 and 2005¹ and that domestic programs, rather than defense and anti-terrorism spending, have been the main culprit. A memorandum by G. William Hoagland, the respected senior budget staffer for Senate Majority Leader Bill Frist and a former Republican staff director of the Senate Budget Committee, addressed the Heritage contentions. The Hoagland memorandum showed that federal spending as a share of the economy is *below* its average level for both the 1980s and 1990s and that most of the recent budget growth has occurred in defense and related security programs, rather than domestic programs.²

Where does the true story lie? Have appropriations for domestic programs exploded since 2001? This analysis examines the data.

Budget Data Do Not Support Claims of Runaway Domestic Appropriations Growth

Analysts generally believe that the best measure of the size and burden of the federal government is the magnitude of the federal budget measured as a share of the economy. When the budget remains steady as a share of the economy, deficit and debt burdens do not rise, and no increase in tax rates is required.³ Accordingly, the Hoagland memorandum relies upon this measure.

¹ Brian M. Riedl, *Federal Spending – By The Numbers*, Heritage Foundation, October 7, 2005, available at <http://www.heritage.org/Research/Budget/wm881.cfm>.

² G. William Hoagland, “Republicans and Fiscal Responsibility,” October 18, 2005.

³ If, however, the existing deficit is so large that it causes the debt to grow faster than the economy, taxes must be raised or programs cut to get the deficit under control. Once that is done, the programs can continue to grow at the same pace as the economy with no need for further tax increases.

TABLE 1

Funding Growth in Defense and Domestic Discretionary Programs, 2001-2005

	Defense and related security programs	Domestic discretionary programs	All discretionary programs
Total increase in funding	64%	23%	44%
Increase, after adjustment for inflation and population growth	44%	8%	26%
Increase as a share of GDP	+1.2% of GDP	No Change	+1.2% of GDP
Average annual growth rate, with adjustment for inflation and population growth	9.5% per year	1.9% per year	5.9% per year

- Total appropriations for discretionary programs, including both defense and domestic programs, rose from 6.8 percent of the Gross Domestic Product (the basic measure of the size of the economy) in 2001 to 8.0 percent of GDP in 2005.
- *All* of this growth came in defense and related security areas. Overall funding for defense, homeland security, and international affairs (which includes funding for post-war operations and reconstruction in Iraq and Afghanistan) rose from 3.4 percent of GDP in 2001 to 4.6 percent of GDP in 2005. Funding for domestic discretionary programs, by contrast, *remained unchanged*, at slightly less than 3.4 percent of GDP in both 2001 and 2005. In other words, measured as a share of the economy, funding for domestic discretionary programs was no higher in 2005 than in 2001.

An examination of the growth rates for defense and domestic discretionary programs tells much the same story. Funding for defense and related security programs has grown far more rapidly than funding for domestic programs. (Growth rates are measured here taking inflation and changes in the size of the U.S. population into account; see the box on page 3.)

- Funding for defense, homeland security, and international programs grew at an average annual rate of 9.5 percent per U.S. resident between 2001 and 2005, after adjusting for inflation.
- By contrast, funding for domestic discretionary programs rose at an average annual rate of 1.9 percent per U.S. resident from 2001 to 2005, after adjustment for inflation.

The picture also remains unchanged if one examines *cumulative* budget growth between 2001 and 2005, rather than annual growth *rates*.

- Total funding for defense and related security programs climbed a total of 44 percent between 2001 and 2005 in real per capita terms (i.e., after adjustment for inflation and growth in the U.S. population).
- Total funding for domestic programs rose 8 percent in real per capita terms.

Adjusting for Inflation and Population Growth

Due to inflation, a dollar in 2005 is not worth as much as a dollar in 2001. In addition, when the U.S. population increases, revenues increase because there are more workers paying taxes, and the cost of government programs rise because more children attend school, the number of people seeking government services from passports to child care assistance increases, and so forth. (The economy also grows, because the size of the labor force — a key component of economic growth — increases.)

In other words, as the population grows, government services are spread over a larger number of people and supported by a larger number of taxpayers. Were government to remain static in the face of a growing population, either the share of Americans receiving government services would have to fall every year or the average benefits received by each person would have to be cut every year. Accordingly, to measure trends in funding levels over time, it is best to adjust for population growth as well as inflation.

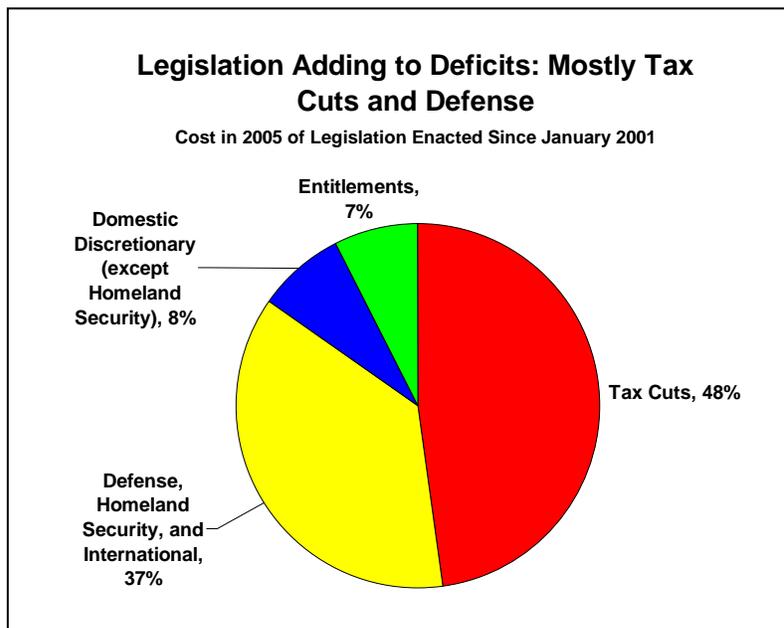
Adjusting for population growth does not have a large effect on this paper's findings. For instance, if one adjusts *only* for inflation, domestic discretionary funding is found to grow at an average annual rate of 2.9 percent between 2001 and 2005. Further adjusting to account for changes in the size of the U.S. population lowers the average annual growth rate to 1.9 percent.

In other words, funding for defense and security-related programs rose more than *five times as fast* as funding for domestic discretionary programs. Furthermore, what growth did occur in domestic discretionary programs came almost entirely between 2001, when large budget surpluses still were projected, and 2002. After that, when deficits returned, the growth essentially stopped. Funding for domestic discretionary programs actually *declined* as a share of the economy between 2002 and 2005.

CBO Data Indicate Tax Cuts and Defense-related Increases Have Been the Primary Factors Behind the Growth in the Deficit

To assess changes in the *budget as a whole* — and how changes in policies affecting the budget have contributed to the reemergence of deficits — one must look at changes in all parts of the budget, including revenues and entitlement programs. To do this, one can examine Congressional Budget Office analyses of the cost of all legislation enacted since the start of 2001, when budget surpluses were large.

The CBO data show that the single largest factor (among factors that were caused by policymakers' actions) in the slide from surpluses to deficits has been the tax cuts enacted in recent years. Increases in defense and security-related spending have been the second largest factor. Increases in domestic discretionary programs have played only a modest role.



- CBO estimates show that legislation enacted since the start of 2001 increased the deficit by \$542 billion in 2005 alone, far in excess of the \$319 billion deficit the government ran in 2005. Without such legislation, the budget would still be in surplus.
- The CBO data also show that 48 percent of this \$542 billion in costs — or \$260 billion — came from tax cuts. Some 37 percent of the cost came from legislated increases in defense and security costs.
- Increases in costs for domestic discretionary programs accounted for only 8 percent of the \$542 billion in increased costs. (The remaining 7 percent of the increased costs is due to expansion of entitlement programs.)⁴

How Much Have Discretionary Programs Grown?

The Heritage Foundation release referred to above notes that discretionary programs grew 48 percent between 2001 and 2005. This number is rather misleading, however. To derive it, Heritage failed to adjust for inflation (acting as though a dollar in 2005 were the same as a dollar in 2001) and used other problematic practices. This number also masks an enormous disparity between the growth in defense and security programs and the much smaller growth in domestic discretionary programs.

- Heritage's 48 percent figure measures changes in total yearly *expenditures* for discretionary programs. This measure is not consistent with how federal budgeting is conducted. Congress appropriates funds for federal agencies to use, and the agencies spend this money on schedules that make sense for the programs they administer. When long-term contracts are involved, there can be a lag of several years or more between when funding is appropriated and when it is spent. For this reason, in examining trends in the decisions that particular Administrations or Congresses have made regarding discretionary programs, analysts generally examine changes in *funding levels* (i.e., appropriations) that occurred during the particular administration's or Congress' term, rather than the changes in expenditures.

Overall expenditures for appropriated programs increased by 48 percent from 2001 through 2005, as Heritage notes, but this partly reflects spending increases that were budgeted for in the final years of the previous decade (before the current Administration took office), at a time when large budget surpluses had emerged. Over the 2001-2005 period, *funding* for these programs increased by a slightly smaller amount, 44 percent.⁵

⁴ CBPP calculations from data issued by CBO in August 2005. Both tax cuts and spending increases result in increases in the cost of interest payments on the debt, since they cause the debt to be larger than it otherwise would have been. The analysis provided here attributes these increased interest costs to the legislation that caused them. For example, the total cost of the tax cuts in 2005 is \$260 billion, which consists of \$225 billion in direct costs and \$35 billion in increased interest payments.

⁵ Funding data from 2001 through 2004 are from the Office of Management and Budget, Historical Tables, February 2005. Funding data for 2005 were supplied by CBO and accompanied *The Budget and Economic Outlook: An Update*, CBO, August, 2005. Funding for relief and reconstruction after Hurricane Katrina, enacted in September 2005, is not included in the figures used in this analysis. (In every other case, these figures cover all discretionary funding, whether "regular" or "emergency.") Because the Heritage Foundation uses expenditure data rather than funding data and because expenditures for Katrina relief will occur almost entirely *after* fiscal year 2005 (which ended on September 30, 2005), the Heritage foundation analyses also exclude most Katrina-related costs. Finally, we adjust the OMB and CBO funding data to account for anomalies associated with transportation trust funds, advance appropriations, low-income housing, and the timing of the change in administrations. (Expenditure data do not require such adjustments.) The bases for

Domestic Spending As a Whole, Including Entitlement Programs

Some readers of this analysis may wonder whether the claim that government spending has exploded in recent years and that the bulk of the growth has come in domestic programs might hold true when the analysis is broadened to include *entitlements* as well as discretionary programs. This claim is not correct, however, even when the entitlements are included.

- Total federal expenditures (including expenditures for entitlement programs) rose from 18.5 percent of the Gross Domestic Product in 2001 to 20.15 percent of GDP in 2005. At 20.15 percent of GDP, total federal spending was still lower in 2005, as a share of the economy, than its average level over the past 30 years, and also lower than in every year from 1975-1996, a period that includes all of the Reagan years. G. William Hoagland makes a similar point in his memorandum, noting that the size of the government, measured as a share of the economy, is now below its average level both for the 1980s and for the 1990s.
- As Hoagland also observes, the majority of the spending growth that has occurred since 2001 has been for defense and related security costs. Spending for defense and related security programs rose more as a share of GDP than spending for all domestic programs, including entitlement programs. And growth rates for defense spending have far outstripped growth rates for domestic programs.
- Spending for defense and related programs (i.e., for defense, homeland security, and international programs) grew at an average annual rate of 10.3 percent per U.S. resident between 2001 and 2005, after adjusting for inflation.^a By contrast, expenditures for all domestic programs — including entitlement programs — rose an average annual rate of 3.4 percent per U.S. resident from 2001 to 2005, after adjusting for inflation.^b
- If one examines *cumulative* spending growth between 2001 and 2005 rather than annual growth *rates*, the picture stays the same. Spending for defense and related security programs climbed a total of 48 percent over this period in real per capita terms (i.e., after adjustment for inflation and population growth). Spending for domestic programs rose 15 percent.
- Furthermore, nearly all of the domestic spending growth that took place from 2001 to 2005 occurred between 2001 — when large surpluses were still projected — and 2002. Since 2002, spending for domestic programs, including the entitlement programs, has remained *largely unchanged* as a share of the economy, and has actually *declined* as a share of the economy since 2003. Federal spending for all domestic programs totaled 13.9 percent of GDP in 2002, 14.3 percent in 2003, and 14.1 percent in 2005.

Finally, as noted elsewhere in this analysis, CBO data show that legislation enacted since the start of 2001 cost \$542 billion in fiscal year 2005, substantially more than the size of the deficit in 2005. The CBO data show that enacted increases in defense and security expenditures accounted for 37 percent of this \$542 billion in costs, while increases in domestic programs (including both entitlement programs and domestic discretionary programs) accounted for 15 percent of the costs. (Tax cuts were responsible for the other 48 percent of the costs.)

^a Interest payments on the debt are not considered as either a defense or a domestic program. Were interest payments to be included as a domestic program, the rise in domestic spending would be smaller than is shown here, because interest costs were lower in 2005 than in 2001.

^b On page 2, we noted that *funding* for defense and security programs increased by an average of 9.5 percent per year from 2001 to 2005, after adjusting for inflation and population growth. The 10.3 percent growth figure cited in this box differs for two reasons. First, it refers to the growth rate for *expenditures* for defense and security programs. It is customary for budget analyses, including those produced by OMB, to measure changes in *funding* for discretionary programs and changes in *spending* for entitlements and the budget as a whole. We follow that convention here. Second, the 10.3 percent figure includes a small amount of *entitlement/mandatory* amounts for defense and security, while the 9.5 percent figure is limited to *discretionary* amounts.

- This 44 percent figure needs to be adjusted, however, to take inflation into account. To get a meaningful sense of funding trends over time, one must adjust funding-level figures from different years for increases in prices, as the Congressional Budget Office does in its budget baseline. When an inflation adjustment is made, the 44 percent growth in total discretionary funding between 2001 and 2005 is seen to be an increase of 31 percent in real (i.e., inflation-adjusted) dollars.
- In undertaking analyses of this sort, adjustment for growth in the U.S. population also is necessary to produce the most meaningful results, as explained in the box on page 3. Were government to remain static in the face of a growing population, either the proportion of the population receiving government services would have to fall every year or the benefits received by each person would have to be cut every year. Accordingly, to measure trends in funding levels over time, one should adjust for changes in the size of the population.
- When this is done, the overall increase in funding for discretionary programs from 2001 through 2005 — including both defense and domestic programs — is found to be 26 percent in real per-capita terms (i.e., after adjustment for inflation and population growth).

Defense Versus Domestic Discretionary Programs

Funding for discretionary programs thus grew 44 percent from 2001 to 2005 *without* adjustment for inflation or population growth and 26 percent with such an adjustment. These figures, however, mask large disparities between growth for defense and domestic programs.

What is “Runaway Spending”? An Example Illustrates the Misleading Nature of the Heritage Approach

Between 1990 and 2004, American households increased their total expenditures on food by 78 percent. This sort of cumulative figure — the type that Heritage uses — could be used to make it sound as though Americans went on a “food spending spree” or engaged in “runaway food spending.” But such a statement would not be accurate. The annual growth rate of U.S. food expenditures averaged 4.2 percent per year over this period. And as with the figures on domestic spending that Heritage generally uses, neither the cumulative 78 percent overall increase in food expenditures nor the 4.2 percent average annual *rate* of growth takes inflation or increases in population into account. Doing so reveals that, after accounting for inflation, an American family’s food bill rose by an average of only *0.8 percent* per year.

Furthermore, while adjusting for inflation and population is superior analytically to using unadjusted figures, it does not take into account real increases in household income. Over the 1990-2004 period, total disposable (i.e., after-tax) household income in the United States rose by 102 percent, or *more* than the increase in total expenditures on food. In 1990, food costs equaled 14.4 percent of disposable income. By 2004, they had *shrunk* to 13.3 percent of disposable income, leaving *more* income available for other purposes.

This example illustrates the shortcomings of the Heritage approach to increases in the budget. To claim that Americans’ food costs exploded because they rose 78 percent would be numerically correct but highly misleading. An application here of the Heritage approach would imply a “food spending spree” or “runaway food costs,” when in reality food costs have been a *shrinking* part of the family budget.

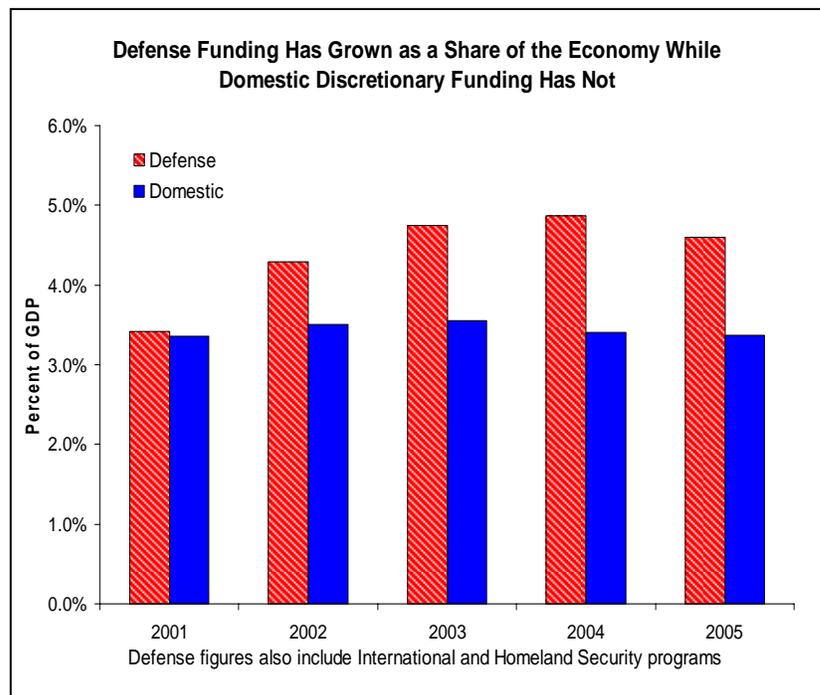
This helps to illustrate why terms like “spending spree,” “runaway spending,” and “increasing the size of government” should be used only when federal costs grow faster than the economy over several years and threaten to remain elevated or to continue growing faster than the economy in the future.

- Funding for defense, homeland security, the reconstruction of New York City after 9-11, and international affairs (including post-war operations and reconstruction in Iraq and Afghanistan) grew a total of *64 percent* between 2001 and 2005, *without* adjustment for inflation and population growth, and 44 percent when such adjustments are made. (See Table 1 on page 2.)
- By contrast, funding for domestic appropriated programs grew 23 percent without adjustment for inflation and population growth and just 8 percent when those adjustments are made. As these figures indicate, funding growth for defense, homeland security, and international programs has been on a much more rapid upward trajectory than funding for domestic discretionary programs.
- It also is instructive to look at average annual growth rates. From 2001 to 2005, real per capita funding for defense and security programs rose at an annual average rate of 9.5 percent, while funding for domestic discretionary programs rose at an annual average rate of 1.9 percent.
- Moreover, the majority of the growth in funding for discretionary programs occurred between 2001, when large surpluses were still projected, and 2002. Since 2002, real per-capita funding for domestic discretionary programs has risen at an average annual rate of only 0.8 percent.

Funding for defense and security programs climbed at an annual average rate of 4.4 percent over this period.

Discretionary Programs as a Share of the Economy

The real per capita growth rate figures just cited show the degree to which funding for discretionary programs has simply kept pace with inflation and increases in the U.S. population, and the degree to which it has climbed faster than that. Real per capita growth rates do *not*, however, tell us whether government programs are growing faster than the economy as a whole and thus whether they are consuming a steadily increasing share of the national income. To determine that, we must examine changes in the federal budget as a share of the economy. When the budget absorbs a rapidly increasing share of the economy, it is growing at an unsustainable rate.



As reported earlier in this analysis, appropriations for domestic discretionary programs, measured as a share of the economy, have remained unchanged since 2001. All of the growth in discretionary programs as a share of GDP has come in defense and related security areas.

Appendix Table

Discretionary Budget Growth, FY 2001 through FY 2005			
Figures using <i>Budget Authority</i> (i.e., <i>Funding</i>)			
<i>* "Defense" includes discretionary amounts for international, homeland security, and NYC reconstruction.</i>			
NOMINAL, in billions	Discretionary Programs		
	Defense*	Domestic	Total
2001	\$344	\$338	\$681
2002	446	364	809
2003	515	385	900
2004	562	394	956
<u>2005</u>	<u>564</u>	<u>414</u>	<u>978</u>
% growth	<u>64%</u>	<u>23%</u>	<u>44%</u>
avg annual % growth	13.2%	5.3%	9.5%
avg annual % since 02	8.2%	4.5%	6.5%
ADJUSTED for CPI, in billions			
2001	\$377	\$370	\$747
2002	481	393	874
2003	543	406	949
2004	580	406	986
<u>2005</u>	<u>564</u>	<u>414</u>	<u>978</u>
% growth	50%	12%	<u>31%</u>
avg annual % growth	10.6%	2.9%	7.0%
avg annual % since 02	5.4%	1.8%	3.8%
PER PERSON and adjusted for CPI, in dollars			
2001	\$1,324	\$1,300	\$2,624
2002	1,673	1,366	3,039
2003	1,871	1,398	3,269
2004	1,978	1,385	3,363
<u>2005</u>	<u>1,905</u>	<u>1,400</u>	<u>3,305</u>
% growth	<u>44%</u>	<u>8%</u>	<u>26%</u>
avg annual % growth	<u>9.5%</u>	<u>1.9%</u>	<u>5.9%</u>
avg annual % since 02	<u>4.4%</u>	<u>0.8%</u>	2.8%
AS A PERCENT of GDP			
2001	<u>3.42%</u>	<u>3.36%</u>	<u>6.78%</u>
2002	4.29%	3.50%	7.79%
2003	4.75%	3.55%	8.30%
2004	4.87%	3.41%	8.28%
<u>2005</u>	<u>4.59%</u>	<u>3.38%</u>	<u>7.97%</u>
% point growth	<u>1.17%</u>	<u>0.02%</u>	<u>1.20%</u>
avg annual percentage point growth	0.29%	0.01%	0.30%
avg annual percentage point growth since 02	0.10%	-0.04%	0.06%

Highlighted figures appear in our analysis.