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Non-Defense Funding Will Continue to Erode Under Current Funding Caps

By David Reich

As Congress turns to appropriations for fiscal year 2025, it will face another year of tight funding levels, with appropriations likely falling short of what's needed to keep up with rising costs, let alone address long-standing unmet needs.

Overall levels for defense and non-defense appropriations were set in 2023 as part of the agreement between the Administration and congressional leaders to raise the federal debt ceiling. That agreement set statutory funding caps in the Fiscal Responsibility Act (FRA) and included certain adjustments to accommodate higher non-defense funding under the caps in both 2024 and 2025. The adjustments proved controversial for 2024, requiring additional negotiations, and House Republicans are planning to omit the adjustments from their 2025 appropriations bills altogether. But without the adjustments, non-defense appropriations will face steep cuts in 2025, falling well below what was enacted in 2024.

Moreover, even the agreed-on level for 2025 — a 1 percent increase over the 2024 level, not adjusted for inflation — would deepen the erosion over the past decade and a half in the purchasing power of non-defense funding, which supports a wide range of public services. (See box.) Between 2010 and 2024, non-defense appropriations other than for veterans' medical care fell by 14 percent when adjusted for inflation and population growth, and 6 percent when adjusting just for inflation.

Policymakers should step back and reevaluate the funding levels for 2025, setting them at a level that can accommodate rising costs and better meet the nation's needs. The chair of the Senate Appropriations Committee has expressed interest in doing that. House Republicans' plans to omit the agreed-on adjustments would do the opposite.

FRA Appropriations Caps and Agreed-On Adjustments

Appropriations for 2024 and 2025 are governed by agreements reached in May 2023 in negotiations among congressional leaders and the Biden Administration to raise the debt ceiling. Many, but not all, of those agreements were codified in the Fiscal Responsibility Act of 2023. Among other things, the FRA set legally binding caps on both defense and non-defense appropriations, similar to the caps in effect from 2012 through 2021 under the Budget Control Act of 2011.

The negotiators announced that they had agreed to allow defense funding to increase by 3.3 percent in 2024 and then by 1 percent in 2025, but to hold non-defense funding in 2024 roughly level with 2023[1] and follow that with a 1 percent increase in 2025.

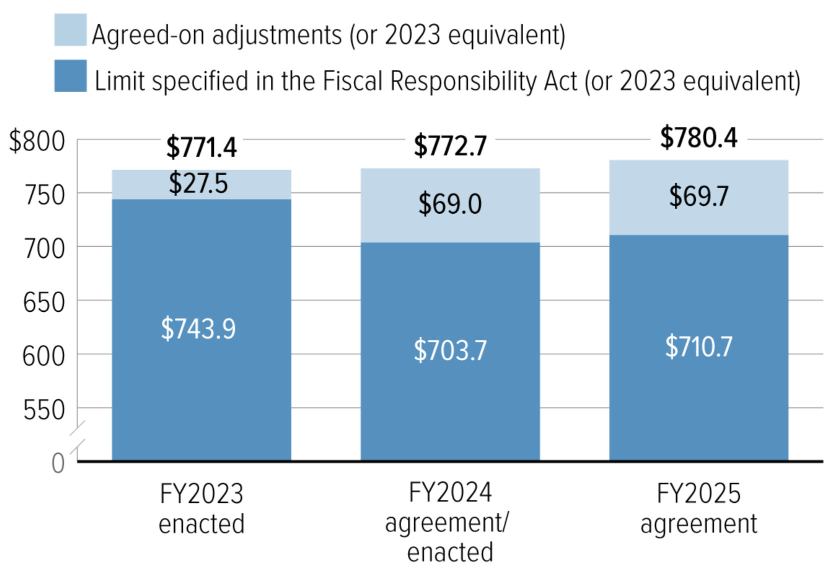
For defense, implementation of the agreement is straightforward, as the FRA caps were set to allow the intended increases. For non-defense, however, the agreement is more complex because the FRA non-defense caps for 2024 and 2025 were set *substantially below* the announced agreed-on funding levels. For example, the 2024 cap is about 9 percent below the enacted 2023 level (*not* adjusting for inflation). (See Figure 1.)

To raise funding back up to the agreed-on levels for 2024 and 2025, the parties to the FRA negotiations relied on what became known as "side-deal" adjustments. These were agreements to include provisions in the appropriations bills that would create additional room under the cap, thus allowing the cap to remain at the lower level set by the law while providing higher funding. Some of these agreed-on adjustments had also been included in the 2023 appropriations bills (prior to the FRA), but the side agreements for 2024 and 2025 increased the funding that is freed up under the caps. (See Table 1.)

FIGURE 1

Adjustments Are Key to Reaching Agreed-On Funding for Non-Defense Appropriations

Appropriations totals, in billions of dollars



Note: Amounts are in nominal dollars (i.e., not adjusted for inflation).

Source: CBPP analysis of 2023 and 2024 appropriations bills and the FRA and associated agreements

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[1] A White House document describes the levels "when factoring in agreed upon appropriations adjustments." See https://www.politico.com/f/?id=00000188-6282-d5ba-a7fe-fede3d010000.

One type of adjustment involves designating certain funding as being for emergency purposes and therefore not counted against the cap, even though it's intended for ongoing programs. Other adjustments involve rescinding existing funding (generally funding provided in legislation other than appropriations bills). Savings from such rescissions and similar measures offset the cost of equivalent amounts of new appropriations. Sometimes the rescissions are of funds that may not have otherwise been spent, but sometimes — as in 2024's rescission of funding for the IRS — the rescissions are cuts in other program areas.

Non-Defense Appropriations Support a Wide Range of Public Services

This paper deals primarily with the non-defense category of appropriations, though the FRA also sets caps on defense funding.

On the non-defense side, annual appropriations cover a wide range of federal services, activities, and assistance. Examples include public health measures, weather forecasts and warnings, medical care for veterans, air traffic control and aviation safety, national parks and forests, help with child care costs, medical and scientific research, support for elementary and secondary education, Pell Grants and other aid for college students, rental assistance, maintenance and operation of dams and waterways, administrative costs like customer service in Social Security and Medicare, federal courts and law enforcement, and upgrades to infrastructure such as wastewater and drinking water systems.

The agreed-on totals for these adjustments are $69 billion in 2024 and roughly $69.7 billion in 2025.[2] Of the agreed-on adjustments for 2024 and 2025, $27.5 billion mirrored adjustments enacted as part of 2023 appropriations; the remainder reflected new adjustments or expansions of those used in 2023. (See Appendix for more information.)

Adjustments Needed to Meet Agreed-On Totals for 2025 Funding

For 2025, the FRA agreements call for a 1 percent increase above 2024 for overall non-defense appropriations. As noted, this will require continued enactment of the agreed-on adjustments to supplement the cap amounts, since the caps themselves remain below the 2023 level.

For 2024, the enacted appropriations bills produced the funding levels intended in the debt ceiling agreement. Non-defense funding was roughly level with 2023, as Congress enacted sufficient adjustment measures to largely offset the funding cuts that would otherwise have been made to comply with the FRA caps. But this outcome was achieved only after the specific agreed-on adjustments for 2024 — but not the $69 billion amount — were renegotiated at the demand of House Republicans; a new agreement was reached this January.[3]

Under the January agreement, $11.6 billion in rescissions that were intended to be used in 2025 under the original agreement were instead used for 2024. Most of those rescissions came from

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[2] The 1 percent increase in the agreed-on adjustments for 2025 reflects the agreed-on 1 percent increase in overall appropriations for 2025.

[3] For description of the revised agreement, see Bobby Kogan and Jean Ross, "The Schumer-Johnson Budget Deal, Explained," Center for American Progress, February 6, 2024, https://www.americanprogress.org/article/the-schumer-johnson-budget-deal-explained/.

appropriations provided in the Inflation Reduction Act to rebuild the capacity of the Internal Revenue Service to improve customer service and enforce the nation's tax laws. The Biden Administration has made clear that it will not support additional IRS rescissions in 2025 to replace the amounts moved up to 2024 [4]— nor should it, given that rescinding enforcement funding *increases* tax cheating and deficits. The January agreement also included the adjustments that were used in 2023 as well as some new adjustments, such as rescissions of pandemic-related funding, to reach the previously agreed-on total for 2024.

As a result, some agreed-on adjustments planned for 2025 have already been used and so won't be available, but others that were available in 2024 were not used and so could be available in 2025.

Agreed-On Funding Levels Are Insufficient

The 1 percent increase in non-defense appropriations slated for 2025 under the FRA agreements is short of what's needed to simply keep up with general inflation, which is estimated at 2.5 percent for 2025 in the latest Congressional Budget Office forecast. And it would compound the damage from the rough freeze on overall appropriations in 2024, with inflation estimated at 2.8 percent. Over 2024 and 2025 together, the two-year loss in purchasing power of non-defense appropriations would be about 4 percent, if CBO's forecast for 2025 proves correct. In addition, the total U.S. population is projected to increase by 1.3 percent from 2023 to 2025, according to new estimates from the Social Security Administration, further eroding the value of non-defense appropriations.

This erosion is a particular problem because it follows a longer period of relative austerity in appropriated funding resulting largely from the Budget Control Act of 2011. Between 2010 and 2024, non-defense appropriations other than for veterans' medical care fell by 6 percent when adjusted for inflation — and fell by 14 percent when adjusted for inflation and population growth, a more appropriate adjustment when looking over longer periods of time.[5] (See Figure 2.) The FRA continues this erosion into 2025.

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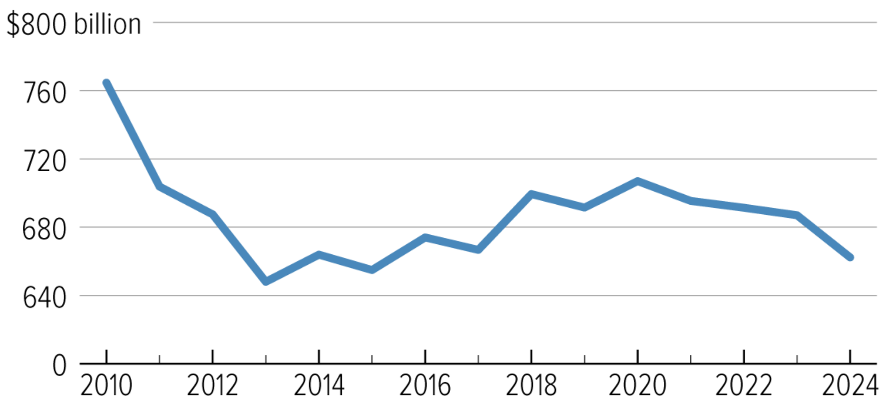
[4] Remarks by National Economic Advisor Lael Brainard on the Tax Debate Ahead, May 10, 2024, https://www.whitehouse.gov/briefing-room/speeches-remarks/2024/05/10/remarks-by-national-economic-advisor-lael-brainard-on-the-tax-debate-ahead/.

[5] This analysis separates out veterans' medical care because it is by far the largest item of non-defense appropriations and has received much larger increases than the non-defense category as a whole, due to rising costs and the high priority placed on meeting veterans' needs. The analysis takes account of population growth along with inflation because the number of people served becomes a significant factor when evaluating funding levels over multi-year periods. The analysis also uses a somewhat broader concept of appropriations totals, as it includes some funding not constrained by the appropriations caps.

FIGURE 2

Non-Defense Funding Outside Veterans' Medical Care Down 14 Percent Since 2010

Enacted appropriations, in billions of 2024 dollars, adjusted for population growth and inflation



Note: Totals in this graph include the following categories exempt from the Fiscal Responsibility Act (FRA) appropriations caps: overseas contingency operations, program integrity, wildfire suppression, Cures Act, and Harbor Maintenance Trust Fund. They exclude veterans' medical care (budget subfunction 703), and the Census Bureau (excluded to avoid distortions because this graph starts in 2010, a decennial census year when the Bureau's funding rises dramatically). They also exclude offsets from Changes in Mandatory Programs ("CHIMPs") and mortgage insurance receipts. (Note that excluding these two categories of negative numbers raises the overall total.) Also note that for 2023, the FRA directly appropriated some funding and rescinded some other funding that might otherwise be considered discretionary, but we treat those 2023 effects as mandatory, following the legal definition of mandatory funding: funding not provided by appropriations acts.

Source: CBPP analysis of appropriations data

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A 1 percent increase in 2025 is sure to be insufficient. Absorbing a below-inflation increase for one year may be manageable for some programs, but doing it for two or more years, as will be the case for many programs, will be far more challenging. Particularly in recent years, federal agencies, like private-sector businesses, have been facing rising costs in everything from paying employees to purchasing needed equipment. They will find it increasingly difficult to absorb these higher costs within constrained budgets without jeopardizing services or benefits.

Maintaining Current Services Can Require Increases Beyond Inflation

The 2024 appropriations process highlighted the fact that some programs need increases beyond inflation to keep up with rising costs and avoid damaging cuts that would harm vulnerable populations. That was the case, for instance, with WIC (the Special Supplemental Nutrition Program for Women, Infants and Children), which faced growing participation in addition to rising food costs. Because only about half of all eligible people participate in WIC, the participation growth was important to improve nutrition and health outcomes for young children and pregnant and postpartum adults with low incomes.[6] As a result, however, a roughly $1 billion increase was needed to allow WIC to serve all eligible people who seek to participate.[7] Similarly, because rent increases have been outpacing general inflation, the Housing Choice Voucher program, the country's largest rental assistance program, needed increased funding in 2024 to avoid a reduction in the number of families receiving help. People left without vouchers would be at high risk of eviction and potential homelessness.[8] These same programs will need increased funding again in 2025.

Long-standing Funding Gaps Exist in Many Areas

Beyond the need for funding levels to keep up with rising costs, a number of programs and agencies have ongoing gaps between the resources they are given and the needs they are tasked with meeting. Here are just a few examples:

- **Child care.** Safe and affordable child care is critically important to working parents but often financially out of reach. The federal government provides some assistance for families with low or modest incomes, primarily through appropriations, but funding is small relative to need. According to a 2020 estimate from the Department of Health and Human Services, only about 1 in 7 children who met the federal eligibility requirements for child care assistance actually received it.[9]

  During the pandemic, emergency relief measures substantially increased federal child care assistance, but much of that funding expired in September 2023, creating a "child care funding cliff," and the rest will expire in September 2024. And while regular federal appropriations for child care assistance have risen somewhat in the past few years, they remain far short of need.
- **Rental assistance.** As rents rise, increases are needed just to continue providing rental assistance to the same number of families, let alone address the large unmet need. Only about one-quarter of those who need and qualify for rental assistance receive it.[10]
- **Homelessness assistance.** The number of people who are experiencing homelessness has risen well above pre-pandemic levels as temporary pandemic assistance has largely expired while the gap between rent costs and incomes has persisted and funding for rental assistance has failed to meet the need. On a given night in January 2023, over 650,000 people were

[6] Zoe Neuberger, Lauren Hall, and Linnea Sallack, "WIC's Critical Benefits Reach Only Half of Those Eligible," CBPP, February 21, 2024, https://www.cbpp.org/research/food-assistance/wics-critical-benefits-reach-only-half-of-those-eligible.

[7] Katie Bergh, "2024 Appropriations Agreement Fully Funds WIC and Rejects Harmful Food Package Proposals, Creating Opportunities to Reach More Eligible Low-Income Families," CBPP, March 25, 2024, https://www.cbpp.org/blog/2024-appropriations-agreement-fully-funds-wic-and-rejects-harmful-food-package-proposals.

[8] Sonya Acosta, "Added Funding Needed to Prevent Harmful Cuts to Housing Vouchers and Other Rental Assistance Programs in 2024," CBPP, January 23, 2024, https://www.cbpp.org/blog/added-funding-needed-to-prevent-harmful-cuts-to-housing-vouchers-and-other-rental-assistance.

[9] Department of Health and Human Services, "ACF Releases Guidance on Supplemental Child Care Funds in the American Rescue Plan, June 11, 2021, https://www.acf.hhs.gov/media/press/2021/acf-releases-guidance-supplemental-child-care-funds-american-rescue-plan.

[10] Acosta, *op. cit.*

unhoused, an all-time high in data going back to 2007.[11] In addition to rental assistance, sufficient resources are needed for Homeless Assistance Grants to maintain existing services and bolster communities' ability to respond to the increased number of people becoming unhoused.

- **Social Security operations.** The Social Security Administration's (SSA) funding falls short of what's needed to provide adequate customer service. Between 2010 and 2024, SSA's customer service budget fell 19 percent, after inflation, even as the number of Social Security beneficiaries grew by 25 percent. The results of this underfunding include record-long waits of nearly eight months for initial determinations of eligibility for disability benefits, an additional seven-month wait for those who appeal, and long wait times on hold for those who phone SSA for help.[12]

In light of the many needs and the tight constraints under the existing caps, the Administration's fiscal year 2025 budget proposed $74.3 billion of adjustments for 2025, $4.6 billion more than the May 2023 agreement. Similarly, Senate Appropriations Committee Chair Patty Murray has said that a 1 percent increase in 2025 will be insufficient for both defense and non-defense and has indicated a desire for additional funding.[13] And Senator Susan Collins, ranking Republican member of the committee, has emphasized the inadequacy of the defense cap.[14] For the 2024 appropriations bills, the Senate Appropriations Committee agreed on a bipartisan basis to $13.7 billion of additional adjustments to boost funding for defense and non-defense above the levels in the original agreement, though those adjustments ultimately were not enacted. In contrast, House Appropriations Committee Chair Tom Cole has said his committee will write bills based on the FRA caps alone, excluding the agreed-on adjustments, suggesting deep cuts in non-defense appropriations.[15]

Considering the important services that non-defense appropriations provide and their declining purchasing power over time, it makes little sense to continue on this downward course. Policymakers should re-evaluate the FRA and its associated agreed-to adjustments and set higher levels that will allow appropriations for 2025 to better meet the nation's needs.

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[11] Anna Bailey and Peggy Bailey, "Solutions to Homelessness Within Reach Regardless of Supreme Court Ruling in Upcoming Case," CBPP, April 16, 2024, https://www.cbpp.org/blog/solutions-to-homelessness-within-reach-regardless-of-supreme-court-ruling-in-upcoming-case.

[12] Paul N. Van de Water, "SSA Budget Will Worsen Customer Service Crisis, But Investment in 2025 Could Fund Turnaround," CBPP, April 12, 2024, https://www.cbpp.org/blog/ssa-budget-will-worsen-customer-service-crisis-but-investment-in-2025-could-fund-turnaround.

[13] Opening Remarks of Senator Patty Murray, Chair, U.S. Senate Committee on Appropriations, May 8, 2024, https://www.appropriations.senate.gov/news/majority/senator-murray-discusses-importance-of-investing-in-all-of-government-national-defense-strategy-with-defense-secretary-austin.

[14] Bryant Harris, "Senate defense panel faces uphill battle in ditching debt ceiling caps," *Defense News*, May 8, 2024, https://www.defensenews.com/congress/2024/05/08/senate-defense-panel-faces-uphill-battle-in-ditching-debt-ceiling-caps/

[15] Aidan Quigley, "Cole: No 'side deal' for nondefense as markups approach," CQ News, May 15, 2024, https://plus.cq.com/doc/news-8011579%3F3%26srcpage%3Dhome%26srcsec%3Dcqn.

Appendix

TABLE 1

Non-Defense Funding Under the Debt Limit Agreement

($ in billions)

	2023 enacted	2024 enacted	2025 agreement
Fiscal Responsibility Act cap (and 2023 equivalent)	$743.9	$703.7	$710.7
Adjustments that were used in 2023	27.5	27.5	27.5
Additional agreed-on adjustments	n/a	41.5	42.2
Total Adjustments	27.5	69.0	69.7
Total: Non-defense cap plus adjustments	**$771.4**	**$772.7**	**$780.4**

Source: CBPP analysis