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APPROPRIATIONS FOR 2006

Domestic Funding Continues to Shrink as a Percentage of the Economy and Is Now Below 2001 Levels

By Richard Kogan

Congress completed action on the regular appropriations bills for fiscal year 2006 on December 21, 2005, after imposing a one-percent across-the-board cut on all funding except that for veterans or emergencies. The one-percent cut is in addition to the specific reductions or increases otherwise provided by the 2006 bills. In June 2006, Congress enacted an emergency supplemental appropriations bill for 2006.

During debates on the regular appropriations bills, many Members of Congress appeared to labor under the impression that funding for domestic discretionary programs had exploded in recent years. This impression seems to stem, at least in part, from releases issued by conservative groups charging that the federal government has been on a “spending spree” and that domestic programs, rather than defense and anti-terrorism spending, have been the main culprit.¹ These releases were seriously misleading. As a recent Center analysis explains,² funding for domestic appropriations actually followed a sustainable path between 2001 and 2005 — it remained stable, rather than increasing, as a share of the economy. By contrast, funding for security programs — defense, international affairs, and homeland security — grew rapidly.

Then, in action on the fiscal year 2006 appropriations bills, Congress restrained funding for domestic discretionary programs to a greater extent than in any year since fiscal 1996, the first budget produced by the “Contract with America” Congress. As a result, as Tables 1 and 2 and the appendix tables show:

- Between fiscal years 2001 and 2006, funding for domestic discretionary programs *shrank* relative to the economy, falling from 3.36 percent of Gross Domestic Product to 3.15 percent.

¹ See for example, Brian Reidl, *Senate Leader Defends Spending Spree Rather than Enacting Reforms*, Heritage Foundation, October 19, 2005, <http://www.heritage.org/Research/Budget/wm887.cfm>, and *Federal Spending: By the Numbers*, October 11, 2005, <http://www.heritage.org/Research/Budget/wm881.cfm>.

² Kogan, Richards, and Greenstein, *Have Domestic Appropriations Exploded? Claims of Runaway Costs Not Supported by the Data; Growth in Defense Funding Far Outpaces Domestic Funding Growth*, Center on Budget and Policy Priorities, December 8, 2005, <http://www.cbpp.org/12-8-05bud3.pdf>.

TABLE 1			
Funding Growth in Domestic Discretionary and Security* Programs, 2001-2006**			
	Domestic discretionary programs	Security programs*	All discretionary programs
Total increase in funding	22%	78%	50%
Increase, after adjustment for inflation and population growth	2%	49%	26%
Average annual growth rate, with adjustment for inflation and population growth	0.5% per year	8.3% per year	4.7% per year
Increase (+) or decrease (-) as a share of GDP	-0.2% of GDP	+1.3% of GDP	+1.0% of GDP

* Security programs encompass discretionary programs for national defense and international affairs, as well as discretionary funding for homeland security located in other budget functions.

** Totals for 2006 exclude \$24.6 billion of one-time funding for Katrina relief.

- Over the same period, real per capita funding for domestic discretionary programs (i.e., funding adjusted for inflation and population growth) grew by only two percent.
- And between 2005 and 2006, funding for domestic discretionary programs grew by only \$9 billion in nominal terms. This means that funding for these programs declined by \$6 billion once inflation is taken into account. (This comparison excludes funding provided in 2005 and 2006 in response to several hurricanes; were that funding included, domestic funding in 2006

TABLE 2			
Funding Changes in Domestic Discretionary and Security Programs, 2005-2006**			
	Domestic discretionary programs	Security* programs	All discretionary programs
Change in funding	+2.3%	+9.0%	+6.2%
Change after adjustment for inflation and population growth	-2.2%	+4.2%	+1.5%
Decrease as a share of GDP	-0.13% of GDP	0.10% of GDP	-0.03% of GDP

* Security programs encompass discretionary programs for national defense and international affairs, as well as discretionary funding for homeland security located in other budget functions.

** Funding levels for 2005 and 2006 exclude funding provided in response to Katrina and several earlier hurricanes.

would be far below the 2005 funding level.) This marks the second year in a row that funding for domestic discretionary programs has shrunk when adjusted for inflation.

Adjusting for Inflation and Population Growth

Due to inflation, a dollar in 2006 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 have grown at an average annual rate of 1.4 percent between 2001 and 2006. Further adjusting to account for changes in the size of the U.S. population lowers the average annual growth rate to 0.5 percent.

Security Programs Have Grown Far Faster than Domestic Discretionary Programs

As noted, funding for security programs has followed a different path and has increased very substantially.

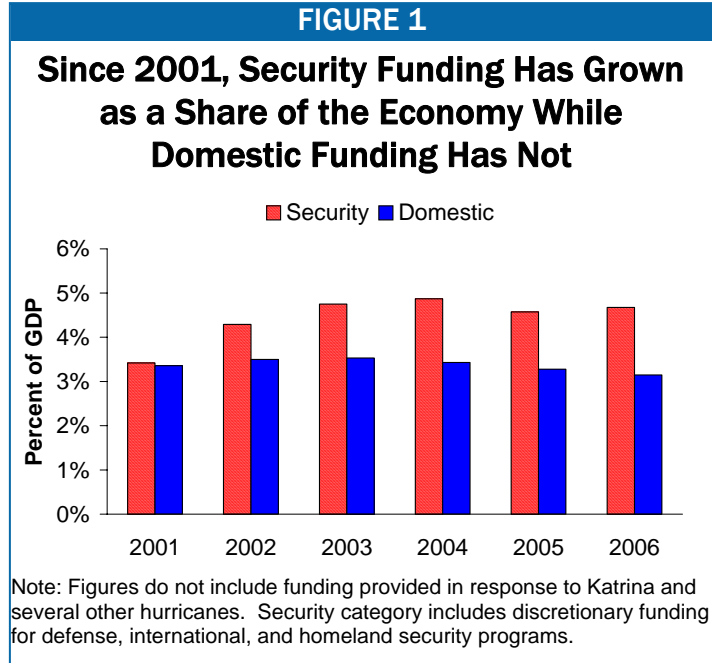
- Funding for security programs (defense, international, and homeland security programs) grew at an average annual rate of 8.3 percent per U.S. resident between 2001 and 2006, after adjusting for inflation.
- As noted above, funding per U.S. resident for domestic discretionary programs rose at an average annual rate of 0.5 percent between 2001 and 2006, after adjustment for inflation. Measured in this way, funding for security programs grew more than 16 times as rapidly as funding for domestic programs.

These real per capita growth rate figures show the degree to which funding for discretionary programs has kept pace with, or grown faster than, inflation and population growth. Real per capita growth rates do not, however, tell us whether government programs are growing more rapidly 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. In contrast, programs that grow no faster than the economy can continue at that pace forever without exerting increased pressure on the budget.

- Total funding for discretionary programs, including *both* domestic and security programs, rose from 6.8 percent of the Gross Domestic Product (the basic measure of the size of the economy) in 2001 to 7.8 percent of GDP in 2006.
- All of this growth occurred in the security area. Overall funding for defense, homeland

security, and international affairs (which includes funding for operations and reconstruction in Iraq and Afghanistan) rose from 3.4 percent of GDP in 2001 to 4.7 percent of GDP in 2006. By contrast, as reported above, funding for domestic discretionary programs shrank during this period, declining from 3.4 percent of GDP in 2001 to 3.1 percent in 2006.

The graph on this page and the tables in the Appendix show overall funding levels for both security programs and domestic discretionary programs, measured as a percentage of GDP, for each year from 2001. The Appendix tables also show overall funding levels for security and domestic discretionary programs in nominal terms, in inflation-adjusted terms, and in per-person inflation-adjusted terms (i.e., in real per-capita terms).



Appendix Table³

Discretionary Budget Growth, FY 2001 through FY 2006			
Budget Authority (i.e., funding)			
<i>"Security" includes discretionary amounts for defense, international, homeland security, and NYC reconstruction.</i>			
<i>NOTE: Funding levels for 2005 and 2006 exclude funding for relief activities for Katrina and several earlier hurricanes.</i>			
NOMINAL, in billions			
	Security	Domestic	Total
2001	\$344	\$338	\$681
2002	446	364	809
2003	515	383	897
2004	562	396	958
2005	562	403	965
<u>2006</u>	<u>613</u>	<u>412</u>	<u>1,025</u>
% growth	78%	22%	50%
avg annual % growth	12.2%	4.1%	8.5%
ADJUSTED for CPI, in billions of 2006 dollars			
2001	\$391	\$384	\$776
2002	500	408	908
2003	564	419	983
2004	602	424	1,027
2005	583	418	1,001
<u>2006</u>	<u>613</u>	<u>412</u>	<u>1,025</u>
% growth	57%	7%	32%
avg annual % growth	9.4%	1.4%	5.7%
PER PERSON and adjusted for CPI, in 2006 dollars			
2001	\$1,355	\$1,331	\$2,686
2002	1,713	1,398	3,111
2003	1,915	1,423	3,338
2004	2,025	1,426	3,450
2005	1,941	1,392	3,333
<u>2006</u>	<u>2,022</u>	<u>1,361</u>	<u>3,383</u>
% growth	49%	2%	26%
avg annual % growth	8.3%	0.5%	4.7%
AS A PERCENT of GDP			
2001	3.42%	3.36%	6.78%
2002	4.29%	3.50%	7.79%
2003	4.75%	3.53%	8.28%
2004	4.87%	3.43%	8.30%
2005	4.57%	3.28%	7.85%
<u>2006</u>	<u>4.67%</u>	<u>3.15%</u>	<u>7.82%</u>
% point growth	1.26%	-0.21%	1.05%
avg annual percentage point growth	0.25%	-0.04%	0.21%

Highlighted figures appear in our analysis.

³ Funding data from 2001 through 2004 are from the Office of Management and Budget, Historical Tables, February 2005. Funding data for 2005 and 2006 were supplied by CBO. 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. The reasons for these adjustments to the funding data are explained in the appendix to *The Omnibus Appropriations Act: Are Appropriation For Domestic Programs Out of Control?* CBPP, February 1, 2004, available at <http://www.cbpp.org/12-16-03bud.pdf>.