

Revised February 1, 2004

## THE OMNIBUS APPROPRIATIONS ACT: ARE APPROPRIATIONS FOR DOMESTIC PROGRAMS OUT OF CONTROL?

by Richard Kogan

The President recently signed the omnibus appropriations bill for fiscal year 2004. Debate over this legislation has been accompanied by charges that appropriations in general — and appropriations for domestic programs in particular — are spiraling out of control.

This analysis examines the rate of growth in appropriated (or “discretionary”) programs in fiscal year 2004, now that the omnibus bill has become law. The analysis also examines growth rates in discretionary programs over the past several years. The analysis is based on official Congressional Budget Office estimates of funding (or “budget authority”) for discretionary programs, adjusted to account for technical anomalies. (See the Appendix.)

As the analysis indicates, total funding for domestic discretionary programs outside of homeland security will rise by *only one percent* in fiscal year 2004, after inflation is taken into account. *This is the lowest rate of growth since 1996.*

Total appropriations for defense, homeland security, and international affairs will increase somewhat more in 2004, but the increase is considerably smaller than in the two previous fiscal years.<sup>1</sup> Appropriations for defense, homeland security, and international affairs will rise by 2.2 percent in 2004, after adjusting for inflation.

Appropriations for *all* discretionary programs — defense, international, and domestic combined — will increase by 1.7 percent, after inflation is taken into account. Without adjusting for inflation, the increase is 3.4 percent.

It should be noted that while the increase in appropriations for defense, homeland security, and international affairs is modest in 2004, this modest growth is built on top of a very high 2003 funding-level base. This part of the budget received dramatic funding increases in both 2002 and 2003. Funding for defense, homeland security, and international affairs jumped

Table 1

<b>Increase in Funding for Annually Appropriated Programs in 2004</b>		
	<b>% Increase, Before Inflation</b>	<b>% Increase, Adjusted for Inflation</b>
Defense, International, Homeland Security	4.0%	2.2%
Domestic (outside homeland)	<u>2.7%</u>	<u>1.0%</u>
<b>Average for all appropriated programs</b>	<b>3.4%</b>	<b>1.7%</b>

<sup>1</sup> Throughout this analysis, funding for the reconstruction of New York City after 9-11 is included in the category “defense, homeland security, and international affairs.”

27.9 percent in 2002, after adjusting for inflation. It then rose another 12.8 percent in 2003.

- Funding for defense, homeland security, and international affairs stood at \$344 billion in fiscal year 2001. It equals \$535 billion in 2004. This represents an increase of \$191 billion — or 55.5 percent — before adjustment for inflation. After inflation is taken into account, the increase is 47.6 percent.
- By contrast, funding for domestic discretionary programs outside homeland security increased from \$338 billion in 2001 to \$392 billion in 2004, an increase of 16.3 percent before adjustment for inflation and 10.3 percent after inflation is taken into account.
- The total level of appropriations for *all* discretionary programs will be \$209 billion higher in 2004 than it was in 2001, after adjustment for inflation. *One sixth* of this increase — or \$36 billion — occurred in domestic programs. *Five-sixths* — or 82 percent — occurred in defense, international affairs, and homeland security programs.

**Table 2**  
**Funding for Annually Appropriated Programs, 2001-2004**  
(in billions of dollars)

	2001 Level	Percentage growth in 2002	Percentage growth in 2003	2004 Level	Percentage growth in 2004
<b>In current dollars (i.e., before adjusting for inflation)</b>					
Defense, Int'l, Homeland	\$344	29.6%	15.5%	\$535	4.0%
Domestic (outside homeland)	\$338	7.7%	5.1%	\$392	2.7%
<b>In constant 2004 dollars (i.e., after adjusting for inflation)</b>					
Defense, Int'l, Homeland	\$362	27.9%	12.8%	\$535	2.2%
Domestic (outside homeland)	\$356	6.3%	2.7%	\$392	1.0%

Once the large budget surpluses that were projected at the time the 2002 budget was being written had evaporated, growth in domestic discretionary programs slowed markedly, as Table 2 shows. The average growth rate of these programs in 2003 and 2004 is less than one-third the growth rate in 2002. Growth in defense, international affairs, and homeland security also slowed considerably in 2004, although the funding level for that part of the budget remains unusually high, because of military and reconstruction costs in Iraq and Afghanistan, as well as major increases in defense and homeland security that are unrelated to Iraq and Afghanistan and are expected to be ongoing.

### Funding Levels as a Share of the Economy

Another way to understand these trends is to examine changes in discretionary spending relative to the size of the U. S. economy (i.e., the Gross Domestic Product). As Table 3 shows, overall funding for discretionary programs climbed from 6.8 percent of GDP in 2001 to 8.3

percent in 2003, a very sizeable increase for a two-year period. This level will edge down to 8.1 percent of GDP in 2004.

Virtually all of the increase occurred in defense, homeland security, and international programs. That part of the budget stood at 3.4 percent of GDP in 2001, but jumped to 4.8 percent of GDP by 2003, before edging down to 4.7 percent in 2004. By contrast, funding for domestic discretionary programs outside homeland security equaled 3.4 percent of GDP in 2001 and will stand at 3.4 percent of GDP in 2004. Funding for this part of the budget declined relative to GDP in 2004.

**Table 3**  
**Funding for Appropriated Programs Relative to Gross Domestic Product**

	Defense, International Affairs, Homeland Security	Domestic (outside homeland security)	Total
2001	3.42%	3.36%	6.79%
2002	4.29%	3.50%	7.80%
2003	4.75%	3.53%	8.28%
2004	4.66%	3.42%	8.09%

Note: rows may not add due to rounding.

In short, domestic discretionary programs have played a modest role in the rapid growth of appropriations that has occurred over the past three years. Of late, some pundits and policymakers have decried the rapid growth of *overall* appropriations during the last three years and have implied or stated that *this year's* appropriations bills continue that pattern or that *domestic* appropriations are substantially to blame. Neither of those contentions withstands analysis.

### The Most Recent Three Years Compared with the Three Years Before Them

A further perspective on budget trends in discretionary programs is provided by comparing average annual rates of funding growth in fiscal years 2002, 2003, and 2004 — the period of President Bush's presidency to date — to rates of funding growth for the previous three fiscal years. Table 4 displays the average annual growth rates over these two periods: fiscal years 1999, 2000, and 2001 versus fiscal years 2002, 2003, and 2004.

The average growth rate in funding for discretionary programs has indeed been considerably higher in 2002, 2003, and 2004 than in the three preceding years. The increase in the rate of growth for discretionary programs has been driven entirely by faster growth for the defense-international affairs-homeland security part of the discretionary budget. In fact, the average growth rate for domestic programs outside homeland security has declined relative to the rate in the earlier three-year period.

- After adjusting for inflation, the average annual rate of growth in funding for discretionary programs was 4.2 percent in the three final Clinton budget years and 8.9 percent in the first three Bush years. The average rate of funding growth thus more than doubled under the Bush Administration, despite the fact that the final

Clinton years were a time of growing budget surpluses while the recent period has been one of mounting deficits.

- This overall upward trend for the most recent three years masks quite divergent trends, however, for the different categories of discretionary programs. The average annual rate of growth for defense, homeland security, and international affairs funding *more than quintupled*, from 2.2 percent in the final Clinton years to 13.9 percent in the Bush years. By contrast, the average annual growth rate in funding for domestic discretionary programs was cut nearly in half, from 5.8 percent in the final Clinton years to 3.3 percent in the first three Bush years. (These figures represent the growth rates after adjustment for inflation.)

As noted above, increases for domestic discretionary programs slowed considerably after fiscal year 2002, in inflation-adjusted terms. The budget for fiscal year 2002 was developed at a time when the Congressional Budget Office and the Office of Management and Budget projected large surpluses for decades into the future, the President was maintaining that the nation could afford large tax cuts and a prescription drug benefit and have large surpluses left over even excluding the surpluses in Social Security, and the Federal Reserve chairman was warning of a risk that the federal debt might be paid off “too quickly.”

**Table 4**  
**Average Annual Rates of Growth in Appropriated Funding**

	in 1999, 2000, and 2001	in 2002, 2003, and 2004
<b>Before adjustment for inflation</b>		
Defense, Homeland, Int'l	4.8%	15.9%
Domestic (outside homeland)	<u>8.0%</u>	<u>5.1%</u>
All appropriated funding	6.3%	10.8%
<b>After adjustment for inflation</b>		
Defense, Homeland, Int'l	2.7%	13.9%
Domestic (outside homeland)	<u>5.8%</u>	<u>3.3%</u>
All appropriated funding	4.2%	8.9%

### **Discretionary Spending Increases, Tax Cuts, Mandatory Program Increases, and Deficits**

A related question concerns the role that the increases in funding for discretionary programs have played in the emergence of deficits. The budget data demonstrate that declines in revenues — both as a result of tax cuts and for economic and technical reasons — have been a much larger factor than increases in either discretionary or mandatory spending. Table 5 compares expenditures and revenues in 2001 and 2004, measured as a share of the economy.<sup>2</sup>

<sup>2</sup> In Tables 5 and 6, the figures for domestic discretionary programs and for defense, international, and homeland security programs represent expenditures (or outlays) rather than funding (or budget authority) for these programs. Thus, the data are similar but not identical to those that underlie Tables 1 through 4. Expenditures (rather than funding) are used for Tables 5 and 6 because deficits or surpluses are calculated as the difference between revenues and expenditures in any given year.

As the table indicates, decreases in revenue have been almost three times as significant as increases in spending in accounting for the stark change in budget outcomes between 2001 and 2004. The increase in expenditures attributable to domestic discretionary programs during this period is one of the least significant factors, accounting for only 4 percent of the budget deterioration.

**Table 5**  
**Change in Budget Outcomes from 2001 to 2004, as a Share of GDP**

	percentage point change	contribution to total change
<b>Change from surplus to deficit</b>	<b>5.4%</b>	<b>100%</b>
Decreased revenues	-4.0%	73%
Increased expenditures:	+1.4%	27%
mandatory programs	+0.1%	2%
defense, international, homeland	+1.1%	21%
domestic discretionary	+0.2%	4%

Table 6 makes the same point in a different way: it shows CBO's estimates of the budgetary effects of *legislation* enacted since January 2001. Here, too, spending increases — and especially those associated with domestic appropriations — are shown to be much less significant in explaining the budget deterioration than tax cuts. If we examine the total cost in fiscal year 2004 of all legislation that has been enacted since January 2001, we find that increases in expenditures for domestic discretionary programs have amounted to only 3 percent of these costs. Tax cuts account for 58 percent of the total cost of legislation enacted in the past three years.<sup>3</sup>

**Table 6**  
**The Cost in 2004 of Legislation Enacted Since January 2001**  
in billions of dollars

	2004 cost	share of total
tax cuts	\$289	58%
defense, international affairs, and homeland security	\$150	30%
entitlement increases	\$46	9%
domestic appropriated programs	\$16	3%
<b>Total Cost of Legislation</b>	<b>\$500</b>	<b>100%</b>

Note: The figures shown above include both the direct cost of legislation and the associated interest costs. Both tax cuts and program increases have increased the federal debt above the levels projected in 2001, thereby increasing the interest payments on the debt above the levels that were projected in 2001.

## Conclusion

Some recent public pronouncements have suggested that the deficit is swelling primarily because spending is exploding, including spending for domestic programs. This line of argument is flawed in two respects. First, tax cuts and other revenue losses are twice as

<sup>3</sup> The baseline against which the cuts are measured has been adjusted for comparability as described in "Deficit Picture Grimmer Than New CBO Projections Suggest," Center on Budget and Policy Priorities, revised January 30, 2004.

significant as spending increases in explaining the return to deficits over the past few years. Second, the increases for defense, international affairs, and homeland security have been much greater — and thus have played a substantially larger role in the return to deficits — than the increases in domestic appropriations.

## Appendix

### Adjustments to CBO's Data

We adjust CBO's budget data in several ways, in order to provide totals that more accurately reflect year-to-year changes in funding levels for appropriated programs.

- **Transportation trust funds.** The principal adjustment is to include the amounts provided in transportation appropriations bills for highways, mass transit, air traffic control, and other programs that are covered by the transportation trust funds. CBO does not include these amounts in its official figures on overall budget authority levels for domestic discretionary programs for technical reasons. Although the funding to cover these appropriations comes from the transportation trust funds, these funding levels are clearly discretionary: Congress uses the annual appropriations bills to establish the funding levels for these programs each year.

Another indication that the funding levels for these programs are discretionary is that when Congress imposes across-the-board cuts in discretionary funding, as it has done in this year's omnibus appropriations bill, the funding levels for these transportation programs are fully subject to those reductions. Furthermore, CBO classifies the *expenditure* of these funds as discretionary spending, even though the appropriations that result in that spending is not counted in the discretionary funding totals.

- **Forward Funding and Advance Appropriations.** We have also adjusted for timing anomalies associated with certain "advance appropriations" and "forward funding." From time to time, Congress changes the financing mechanisms for some "forward funded" programs that have 12-month funding periods that straddle two fiscal years. Congress converts a single 12-month appropriation of forward-funded budget authority for these programs to two separate appropriation items that are both included in the same appropriations bill. The first of the two items is a *part-year* regular appropriation for the coming fiscal year. The second item is a *part-year* "advance" appropriation for the following fiscal year. Together, the two appropriation items continue to cover the same 12-month period as the single appropriation item that was included in prior appropriations bills.

In the first year in which such a change is made, the amount appropriated for the coming fiscal year *appears* to be substantially reduced from the previous year's appropriations level, because the funding for the second part of the 12-month period is no longer recorded as an appropriation for the coming fiscal year. This is clearly a timing gimmick and has been widely recognized as such. OMB has characterized this maneuver as a "distortion," and Congressional rules have attempted to bar its further use. Moreover, the Department of Education, in presenting its budget (which includes most of the programs in which this change

was made), corrects for this distortion by attributing these advance appropriations to the coming fiscal year. In this analysis, we do the same.

**Housing Assistance.** Figures on funding levels for assisted housing programs can be subject to two types of distortion. First, the housing totals understate the level of housing assistance provided each year, because a portion of the assistance continues to be funded from budget authority included in appropriations bills enacted many years ago to cover 20-year or 30-year housing contracts. Because that budget authority was recorded as an up-front lump sum when it was enacted, it is not recorded in current budgets.

The degree to which the amount of *new* budget authority that is provided for these programs in the annual appropriation bills understates the programs' overall funding levels will, however, vary from year to year, as old multi-year funding contracts expire and are replaced by new one-year contracts. The level of funding included in the multi-year contracts that expire each year varies markedly from one year to the next.

Second, and adding to the difficulties in comparing year-to-year funding levels for the housing assistance programs, Congress periodically addresses build-ups of assisted housing funds that have turned out to be in excess of actual costs by rescinding unused funds; these rescissions count as "negative" budget authority in the year in which they are enacted. The timing of these rescissions is irregular, and their size varies substantially.

Each of these factors causes large year-to-year fluctuations in the levels of new budget authority that are provided for the housing assistance programs in the annual appropriations bills and that consequently appear in the official budget figures. These fluctuations are not meaningful in reality. There is no ideal method of handling these distortions in comparisons of year-to-year funding levels that include the housing programs. We address them in the soundest way available, by using housing *expenditures* rather than *funding* in our totals, because housing expenditures are not subject to either of these distortions.

- **Change of Administrations.** Our figures for fiscal 2001 show the appropriations for that year enacted under the Clinton Administration. Supplemental appropriations enacted under the new Administration and Congress, primarily the first \$20 billion in the "911" supplemental appropriations bill, are attributed to fiscal year 2002. We do this because we, the Administration, and others generally attribute 2001 funding to the Clinton Administration. This is accurate with respect to the regular appropriations bills enacted in the fall of 2000. But it would not be accurate to attribute the supplemental appropriations bills requested and signed into law by President Bush in the summer and fall of 2001 to the Clinton Administration.



The total effect of our adjustments is shown in Table 7, below. Note that the adjustments make only a tiny difference in the funding *growth rates* for 2004, because the adjustments for fiscal years 2003 and 2004 are nearly identical.

**Table 7**  
**Adjustments to “Scored” Budget Authority Used in Our Analysis**  
Dollars in billions

	1998	2001	2002	2003	2004
Budget authority as officially recorded	530	664	735	849	876
Add funding from transportation trust funds	26	37	41	41	43
Adjust for the “advance appropriations” gimmick	*	2	*	*	*
Adjust for assisted housing anomalies	11	5	6	7	8
Adjust for the change in administrations		-27	27		
Total adjustments	37	18	74	48	52
Figures used in our analysis	567	681	809	897	927

\* means “less than ½ billion”

Note: Columns may not add due to rounding