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ASSESSING THE ADMINISTRATION'S FIVE-YEAR APPROPRIATION "CAPS"

Administration's Five-Year Caps on Appropriations Would Lead to Substantial Reductions in Important Domestic Programs

by James Horney and Richard Kogan

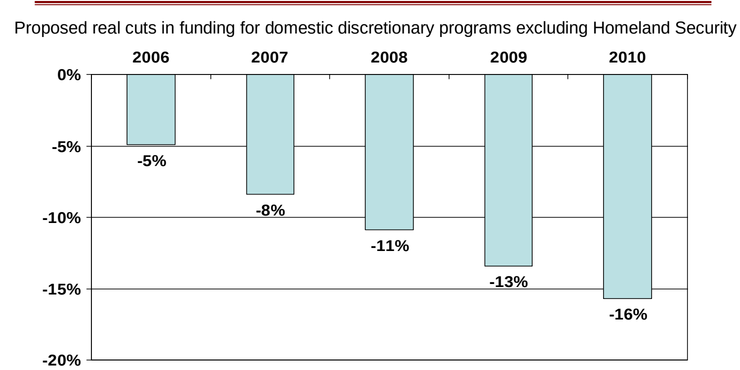
Summary

The President's budget proposes that statutory caps be established for each of the next five years on both funding levels and expenditure levels for annually appropriated ("discretionary") programs. The caps would be set at the levels of funding and expenditures that the President's budget proposes for these programs for 2006 through 2010. This analysis reviews the structure and implications of these caps. It also synthesizes information from two previous Center analyses that examined the effects of the funding levels proposed in the President's budget on categories of domestic discretionary programs and on particular programs.

- If the proposed caps are established and Congress provides funding for the Department of Defense, homeland security activities, and international affairs programs at the levels the President proposes, then other discretionary programs — i.e., the domestic discretionary programs — would have to be cut by a total of $214 billion over five years. (All reductions described here are as compared with the amounts appropriated for these programs for 2005, adjusted only for inflation.)

- The cuts would grow deeper with each passing year. In 2010, the cuts would reach $66 billion, representing a 16 percent reduction in funding for these programs in the aggregate.

Cuts in "Domestic Discretionary" Programs Would Grow Deeper Over Time



Note: To calculate funding cuts, the FY 2010 proposed funding levels are compared to the FY 2005 funding levels adjusted for inflation.

- The reductions in domestic discretionary programs that would be required to comply with the caps would be about *six times as deep*, measured as a share of the economy, as the cuts achieved between 1990 and 1998 under the discretionary caps in place at that time (assuming

Congress approves the President's proposed funding levels for the Department of Defense, international affairs, and homeland security).

- By 2010, these cuts would reduce expenditures for domestic discretionary programs, measured as a share of the economy, to the lowest level since sometime before 1962. (1962 is the earliest year for which these data are available.)

These findings make clear that complying with the proposed caps would require substantial reductions in a wide array of programs that provide public services, such as education, environmental protection, veterans' health care, medical research, law enforcement, and food and drug safety inspection. Perhaps for this reason, the cuts that would be needed in specific discretionary programs after 2006 to meet the caps are not shown in the Administration's budget; for the first time since at least 1989, an Administration has declined to provide information about the specific funding levels it is proposing for individual discretionary programs for years beyond the coming year. This lack of information on funding levels after 2006 for specific domestic discretionary programs obscures the nature and depth of the cuts that the proposed caps would necessitate (although it is possible, from supplementary budget tables that the Administration has provided to the Congressional budget committees, to estimate the reductions in individual programs that the budget would entail).

Enactment of these caps also would be likely to make it more difficult to secure agreement in the next few years on a large, bipartisan deficit-reduction package. The five-year discretionary caps put in place in 1990 and 1993 were integral parts of packages that also included both reductions in certain entitlement programs and revenue increases — and that substantially reduced deficits. The shared sacrifice represented by these three elements of the 1990 and 1993 packages was critical to building support for the packages as a whole. If five-year caps are enacted at the levels proposed in the Administration's budget, however, it will be extremely difficult to impose any *further* cuts in domestic discretionary programs as part of a future, large-scale deficit-reduction package. And without additional cuts in discretionary programs, it is likely to be harder to garner support for a package that includes revenue increases and changes in certain entitlement programs. Policymakers who defend other parts of the budget, such as those who resist revenue-raising measures, are likely to be less willing to agree to a package that includes added revenues if the package contains no further reductions in domestic discretionary programs, beyond those already required.

The Administration's Proposal to Establish Five-Year Discretionary Caps

The President's budget proposes that caps be established for each of the next five fiscal years (2006 – 2010) on funding and expenditures for discretionary programs (i.e., programs funded through annual appropriations).[1] Under this proposal, enactment of appropriations in

[1] In 2006 and 2007, there would be separate caps on each of four categories of discretionary programs: highways, mass transit, defense, and nondefense. (For highways and mass transit, there would be caps only on outlays. For defense and nondefense, there would be caps on both outlays and budget authority). In 2008 and 2009, there would again be separate outlay caps for the highway and mass transit categories, but a single set of caps would apply to all other discretionary programs, including both defense and non-defense discretionary programs (except for highways

excess of the caps would lead automatically to across-the-board cuts in discretionary funding in the amounts needed to produce compliance with the caps.

The proposed structure of the caps and the mechanism to enforce them is similar to the discretionary cap procedures enacted into law for five years as part of the Budget Enforcement Act of 1990 and then extended in 1993. (The caps were extended again in 1997, but the emergence of budget surpluses after 1997, and the increasing severity of those caps, led to widespread noncompliance.)

The caps the Administration is now proposing differ, however, in key respects from the caps that were in effect in the 1990s. As noted above, the caps the Administration is now proposing would require much deeper reductions in domestic discretionary programs than the cuts achieved under the caps from 1990 through 1998. In addition, the circumstances in which the new caps are being proposed differ significantly from the circumstances in the 1990s.

In 1990 and 1993, discretionary caps were enacted as part of major deficit reduction packages that put virtually all of the budget "on the table" and combined restraint in funding for discretionary programs with reductions in certain entitlement programs and increases in revenues. By contrast, under the Bush Administration's new budget, substantial parts of the budget would be *off* the table, and new tax cuts that would deepen deficits would be instituted on top of the existing tax cuts. In fact, according to the Administration's own estimates, total deficits for 2006 through 2010 would be *$29 billion higher under its budget* than they would be if there were no changes in current policies. This is because the cost of the President's proposed tax cuts and increases in spending for defense and homeland security would more than offset the proposed cuts in domestic programs. In other words, the large cuts in domestic discretionary programs that would be made to comply with the proposed caps would help pay for the President's tax cuts, rather than reduce the deficit.[2]

Putting the proposed five-year caps in place now could also make it harder to achieve deficit reduction in the future. It would be very difficult to impose further reductions in discretionary programs as part of any possible future deficit-reduction package. Yet it would be harder to gather widespread support for the increases in revenues and reductions in certain entitlement programs that would have to be included in any large deficit-reduction package if that package does not also promise some new restraints on discretionary programs. Policymakers who are concerned about deficits but resist raising revenues and argue that discretionary programs are a significant cause of the deficit are unlikely to join in an effort to reduce deficits that includes an increase in revenues but no reduction in discretionary programs beyond reductions that have already been mandated.

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and mass transit). In 2010, there would be an outlay cap and a budget authority cap that would apply to *all* discretionary programs, including highways and mass transit.

[2] See James Horney, Robert Greenstein, and Richard Kogan, "What the President's Budget Shows About the Administration's Priorities," Center on Budget and Policy Priorities, revised February 9, 2005.

The Depth and Nature of the Proposed Reductions in Domestic Discretionary Programs

The discretionary caps that the Administration is proposing for each of the next five years would be set at the levels of funding and expenditures for discretionary programs that are shown in the President's budget. Under these caps, unless the Department of Defense, homeland security, and international affairs are funded at levels well below those the President is seeking, very large cuts in domestic discretionary programs would have to be made. Relative to the OMB budget baseline (i.e., to the 2005 funding levels, adjusted for inflation), the cuts in funding for domestic discretionary programs would total $214 billion over five years. In 2006, the cuts would be $18 billion, or 5 percent, below the level needed to maintain the current level of services in these programs. By 2010, the real cut in funding for domestic discretionary programs would be $66 billion, or 16 percent.

These cuts in domestic discretionary programs would be roughly *six times as deep*, when measured as a share of the economy, as the cuts instituted under the caps imposed in 1990 and 1993.[3] By 2010, expenditures for domestic discretionary programs, measured as a share of the economy, would be at the lowest level on record, with the data available back to 1962.

The President's budget does not show the cuts that would be made in individual domestic discretionary programs after 2006. The Administration has not provided information about its proposed funding levels for individual discretionary program accounts beyond the coming year. Supplementary budget materials that the Office of Management and Budget has provided to the Congressional budget committees, however, do contain proposed levels of funding and expenditures for 2007 – 2010 for each of the 15 broad budget categories (known as budget "functions") that include domestic discretionary programs. The supplementary budget materials that OMB has provided also contain proposed levels of funding for 57 smaller subcategories of discretionary programs (known as "subfunctions").[4]

[3] Between 1990 and 1998, when most observers believe caps were effective in holding down discretionary spending, domestic discretionary spending expenditures declined as a share of GDP by slightly more than 0.1 percent. Under the caps proposed by the Administration, domestic discretionary expenditures would decline as a share of GDP by about 0.8 percent in five years (unless the Department of Defense, homeland security, and international affairs were funded at levels below those included in the President's budget).

[4] The OMB documents show total year-by-year funding levels by subfunction, as well as year-by-year levels for mandatory programs alone within each subfunction. The Administration's levels of discretionary funding by subfunction simply equal its *total* levels by subfunction minus its *mandatory* levels by subfunction. See Sharon Parrott, Isaac Shapiro, David Kamin, and Ruth Carlitz, "Unpublished Administration Documents Show Domestic Cuts Would Significantly Reduce Funding for Most Public Services," Center on Budget and Policy Priorities, revised February 14, 2005.

Because the budget omits funding details for individual programs after 2006, we know the funding levels for homeland security *in total* but not by budget function. In our overall total of $214 billion in cuts over five years, we are able to pull out the increases in homeland security. We cannot do so, however, in the various domestic program areas.

It also should be noted that the part of the budget that would be reduced $214 billion over five years includes programs outside of the Defense Department that are considered part of the defense budget function, such as atomic energy programs of the Energy Department. The OMB documents provide budget data in a way that necessitates such an approach.

According to the information provided by the Administration, overall funding in the budget for discretionary programs would be reduced in 13 of the 15 budget *functions* that include domestic discretionary programs. (The only two functions *not* slated for cuts are the function that consists solely of the administrative costs for operating the Medicare program, including the costs of administering the new drug benefit, and the function that is dominated in 2010 by funding for the decennial census, which must be carried out that year.) Similarly, funding for discretionary programs would be cut in 2010 in 49 of the 57 *subfunctions* that contain domestic discretionary programs. In 45 of these subfunctions, the 2010 reduction would exceed 10 percent.[5]

Using this information — and assuming that an individual program's share of the funding in its subcategory will remain the same in 2007, 2008, 2009, and 2010, as it would be under the President's budget proposal for 2006 — one can project how individual programs would fare under the budget in 2007 through 2010. In other words, based on the assumption that the priorities within each subcategory of domestic discretionary programs continue to be those that the President has proposed for 2006, one can calculate the effect on selected programs of the reductions that the budget would impose on the subfunction in which those programs are located. The total reduction in funding for all of the subfunctions would be enforced by the proposed discretionary caps.[6]

Accordingly, the proposed caps would entail the following reductions:

- **Education**: A reduction in overall funding for education of 14 percent in 2010, as compared to the 2005 level adjusted only for inflation. These cuts would not spare K-12 education programs. Overall funding for the major elementary and secondary education programs — Education for the Disadvantaged, Special Education funding, School Improvement programs, and Impact Aid — would be reduced by $11.5 billion over the 2006-2010 period and by $4.6 billion, or 14 percent, in 2010 alone.

- **Veterans Health Care**: Funding for hospital and medical care for veterans would be reduced by $5.3 billion, or 16 percent, by 2010. This reduction is separate from and in addition to the Administration's budget proposal to assess higher fees on some veterans in connection with services and drugs provided by the Department of Veterans Affairs.

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[5] These estimates do not include the effects of proposed obligation limits for certain transportation programs. These obligation limits determine the level of resources available for most highway and mass transit programs, but for technical reasons are not counted as budget authority and, therefore, are not included in the information about discretionary funding provided by the Administration. If adjustments were made to the Administration's proposed levels of discretionary funding to account for increases in highway and mass transit assumed in the budget (an adjustment we cannot make because the Administration has not provided information about proposed obligation limits in 2010), it is likely that the overall transportation function and the ground transportation subfunction would show an increase in 2010 instead of a decrease.

[6] For a detailed description of the data sources and the calculations involved, see Ruth Carlitz, "Domestic Discretionary Funding Levels for 2006 through 2010, Detailed Data," Center on Budget and Policy Priorities, February 15, 2005, http://www.cbpp.org/2-15-05bud.htm.

- **National Institutes of Health**: Funding for the National Institutes of Health, the agency charged with conducting and promoting cutting-edge research on promising new treatments of cancer and other deadly diseases, would be reduced by $3.9 billion, or 12 percent, in 2010.

- **Criminal Justice Assistance**: Funding for criminal justice assistance, including Community Oriented Policing Services (COPS), State and Local Law Enforcement Assistance, and Violence Against Women Prevention and Prosecution programs would be reduced by $1.8 billion, or 48 percent, in 2010.

- **Low-Income Programs:** Programs targeted on low-income families that provide early childhood education and child care, home energy assistance and rental assistance, and nutrition assistance to pregnant women, infants, and young children all would be subject to substantial cuts by 2010. These cuts could significantly reduce the number of low-income people who are served by these programs.

  For instance, the projected cuts in this area suggest that, in 2010, some 670,000 fewer low-income women, infants, and children would be served under the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). In addition, 300,000 fewer children in low-income working families would be provided child care, 370,000 fewer families and elderly and disabled individuals would receive rental assistance vouchers, 360,000 fewer families and elderly and disabled individuals would receive assistance in meeting heating bills in winter months (or in meeting other home energy bills), and nearly 120,000 fewer children would be served through Head Start. (These estimates assume that cuts would be achieved by reducing the number of participants rather than cutting the value of the benefits or services provided.)

- **HIV/AIDS Treatment Funding:** The federal government provides funding to states and communities for HIV/AIDS treatment services, including funding to help those with HIV/AIDS purchase drugs. Under the budget, this funding would be cut by $550 million over the 2006-2010 period and by $191 million, or 10 percent, in 2010.[7]

- **Environmental Protection:** The reductions to environmental protection and natural resource programs (including national parks) would be severe. Overall, environmental and natural resource programs would be cut by $27 billion over the 2006-2010 period and by $8 billion, or 23 percent, in 2010 alone. This would require widespread, deep cuts in these programs. For instance, the set of EPA programs that support state and local environmental efforts related to ensuring clean drinking water, upgrading sewage treatment facilities, and reducing air pollution (known as the State and Tribal Assistance Grants) would be reduced by $1.1 billion — a cut of 28 percent — in 2010.

- **Community Development Funding:** The Administration is proposing to consolidate 18 community development and community service programs — including the Community

[7] This analysis only considers funding under Titles I and II of the Ryan White Care Act. The other funding under the Ryan White Care Act does not go to states and cities on a formula basis but is awarded on a competitive basis to individual service providers.

Enforcing Multi-Year Caps on Appropriated Programs

In 1990, Congress enacted caps on appropriations, which applied separately to the amount of funding (budget authority) and estimated expenditures (outlays) provided by annual appropriations bills. These statutory caps applied to each of the next five fiscal years, 1991 through 1995. In 1993, the caps were extended through fiscal year 1998; in 1997, they were extended through fiscal year 2002.

Under these laws, at the end of each session of Congress, the Office of Management and Budget was required to tabulate whether the caps for the fiscal year just started would be exceeded. If so, OMB was required to implement an across-the-board cut of all appropriations sufficient to bring the totals back down to the caps.

The caps were adhered to through fiscal 1998, but evaded by increasingly large amounts after that. Evasion required more than a simple majority vote.

- It required 60 Senate votes to move non-defense costs outside the caps by designating them an "emergency." Furthermore, the President had to agree affirmatively and independently that the costs were an emergency; his mere signature on the legislation including an emergency designation did not suffice.

- Raising the caps by statute (or directing OMB by statute to ignore certain costs in measuring compliance with the caps) could be accomplished only through legislation that either was reported by the Senate Budget Committee or secured 60 votes on the Senate floor. If the Budget Committee were to report legislation raising the caps, that legislation could be filibustered and hence itself could require 60 votes.

- Legislation to raise the statutory caps also required the president's signature.

The fact that the caps were exceeded after 1998 despite these hurdles is usually attributed to the emergence of substantial budget surpluses, as well as to the assent of Presidents Clinton and Bush and the fact that the caps set in 1997 were unrealistically tight.

Enforcement of multi-year caps through the Congressional budget resolution

It does not require a statute to impose multi-year discretionary caps. The Congressional budget resolution can be used to set such caps.

A budget resolution could impose a requirement that the Congressional budget resolutions for each of the following four years — as well as the appropriation bills passed during that period — remain within the caps that the initial budget resolution had set. The budget resolution establishing the caps could specify that it would take 60 votes to pass any future budget resolution, or any other legislation, that would set aside, raise, or breach the caps. In this manner, a budget resolution approved in one year could establish caps for the next five years. And just as with caps set by statute, the caps imposed by the budget resolution would take 60 votes to overcome.

The Senate thus could use this year's budget resolution, passage of which requires only a majority vote and cannot be filibustered, to impose severe caps on discretionary programs for each of the next five years. This year's budget resolution also could require that the Senate not set aside, waive, repeal, or exceed these caps unless 60 Senators voted to do so, and, similarly could require that the Senate not pass a new budget resolution that raised or repealed the caps unless 60 Senators agreed to do so.

Development Block Grant and the Community Services Block Grant — into a single block grant with reduced funding. Under this proposal, funding for community and economic development to states and localities would fall by more than one-third in 2010.

Conclusion

The Administration is proposing five-year discretionary caps that would lock in large cuts in domestic discretionary programs, with the cuts reaching $66 billion, or 16 percent, by 2010. According to the Administration's own estimates, these cuts are part of a budget that would increase deficits over the next five years by $29 billion above what the deficits would be without any change in current policies.

Specific program-by-program proposals detailing the cuts that would be instituted to comply with the caps are missing from the budget. It seems unlikely that cuts of this depth in so many important and widely supported domestic programs would be enacted today if there were a full and open debate about those cuts and the priorities in the budget. The proposal for five-year caps, coupled with the omission of the normal information on proposed funding levels for discretionary programs for years after 2006, appears to be designed to lock in cuts that otherwise would encounter vigorous opposition and probably could not be passed. If these caps are established, however, it is likely to prove difficult to avoid cuts of considerable depth that would affect most domestic discretionary program areas throughout the federal budget in the years ahead.