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## THE MYTH OF THE 4 PERCENT SPENDING INCREASE:

### A Closer Look Shows the Bush Budget Cuts Domestic Appropriations

by Richard Kogan

President Bush frequently says he is proposing a four percent increase in funding for appropriated programs. He terms this a "healthy" increase and has stated that "my budget blueprint will ... meet growing needs with a reasonable 4 percent growth rate, which is a little more than inflation."<sup>1</sup> The media have generally taken this at face value. The *Washington Post*, for example, has written "overall spending will grow by 4 percent, just over the inflation rate..." and has discussed "the president's goal of limiting the growth of *domestic* spending to 4 percent..." [emphasis added].<sup>2</sup> Some apparently think the four percent growth rate is intended to continue each year.

The reality, however, is different. Under the President's budget, funding for domestic appropriated programs would increase only 1.5 percent next year, well below the inflation rate, and be cut \$9 billion below the Congressional Budget Office baseline; the CBO baseline shows what it would take to maintain these programs at their current levels, adjusted only for inflation.

These figures help to explain why the budget contains a number of budget cuts. (See the Appendices for a discussion of the budget data used here. This analysis relies on CBO's re-estimates of the President's budget, which CBO provided in March to the House and Senate Budget Committees, as well as the budget numbers OMB released on April 9.)

An earlier version of this analysis estimated that the Administration's budget includes a funding increase for domestic appropriated programs of 0.4 percent. This revision relies on more detailed data provided in conjunction with the April 9 budget.

- First, the often-cited four percent figure — which is a figure for 2002 only — applies to *total* discretionary (i.e., non-entitlement) funding, *not* to domestic discretionary programs. This is important because although the four percent increase represents an average increase in funding (that is, in "budget authority") for all appropriated programs for 2002, most of that increase is devoted to defense, international affairs, and a new "emergency reserve" for major natural disasters.

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<sup>1</sup> Bush, George W., weekly radio address, February 24, 2001.

<sup>2</sup> Washington Post, *Bush Offers Plan to Slow Spending*, March 1, 2001, page A1, and *Budget Trims Take Parts of Clinton Vision*, April 1, 2001, page A6.

**Table 1: Funding Increase from 2001 to 2002 in Bush Budget**  
(Budget Authority in billions of dollars)

	In dollars	In percentages
Total Funding Increase Shown In Budget	\$25.4	4.0%
Defense	\$14.0	4.5%
International Affairs	\$1.2	5.4%
New Emergency Reserve for Major Natural Disasters	\$3.9	na
Ongoing Domestic Programs	\$6.3	2.1%
Funding Increases After Adjustments to Remove Distortions and Include Transportation Funding	\$24.2	3.6%
Defense	\$13.8	4.4%
International Affairs	\$1.2	5.5%
New Emergency Reserve for Major Natural Disasters	\$3.9	na
Ongoing Domestic Programs	\$5.3	1.5%

Ongoing domestic appropriated programs would receive an average funding increase of 2.1 percent for 2002. This is *before* adjustment for inflation. Once inflation is taken into account, this is a decrease.

- Second, this 2.1 percent figure itself overstates the increase. This is because the last Congress hid, through gimmicks, some 2001 funding in an attempt to make the 2001 budget look smaller than it really is. The principal gimmick is explained in Appendix II. The budget book that the Bush Administration issued on February 28 takes note of this gimmick; in fact, the February 28 budget book shows this gimmick results in a distortion that makes the education increases that President Bush has proposed look significantly larger than they actually are. (A second problem, explained in Appendix III, relates to budgeting for transportation programs funded from the highway and aviation trust funds. For technical reasons, calculations of the percentage changes that the Administration is proposing in discretionary programs have generally overlooked an increase the Administration is seeking in transportation. Correcting for this problem offsets some, but not all, of the overstatement caused by the gimmicks in past budgeting for education and a few other areas.) The bottom line is that when the needed adjustments are made to eliminate both upward and downward distortions, the overall funding increase that the Bush budget contains for domestic appropriated programs in 2002 turns out to be 1.5 percent. This is shown in Table 1.

A funding increase of 1.5 percent in 2002 is less than is needed to offset the costs of inflation. The Congressional Budget Office has developed a budget baseline that shows the costs of maintaining fiscal year 2001 appropriations in fiscal year 2002 and subsequent years,

**Table 2: Proposed Funding for Ongoing Domestic Programs,  
Compared with Baseline Projections**

(Budget Authority in billions of dollars)

	2002	Ten-year Total
Compared with CBO's baseline	-9	-50
Compared with CBO's baseline adjusted for population growth	-12	-246

correcting for gimmicks and adjusting for inflation. The funding levels for ongoing domestic programs that President Bush has proposed are *below* CBO's "baseline" by \$9 billion in 2002 and \$50 billion over the ten-year period from 2002 to 2011.

In other words, the Bush budget would cut funding for domestic discretionary appropriations by \$9 billion next year and \$50 billion over ten years, relative to the levels needed to maintain the programs at their current levels of service. The president's budget does not merely "limit the growth of domestic spending" — it cuts domestic programs.

Moreover, CBO's baseline projections do not account for growth in the U.S. population. Even if the President's budget had proposed to keep domestic funding even with inflation, inflation-adjusted funding still would fall on a per-person basis. Recent history has demonstrated that it is difficult to pass appropriations bills if program resources per person fall year after year. Perhaps for this reason, Governor Bush, when running for president, agreed that the "honest" way to measure spending growth is by adjusting for *both* inflation and population.<sup>3</sup> By that standard, President Bush's budget reduces funding for ongoing domestic appropriated programs by \$12 billion, or 3.4 percent, in 2002. His budget reduces domestic funding below a baseline that adjusts for inflation and population by a total of \$246 billion over ten years, with the reductions reaching \$47 billion, or 10 percent, in 2011. (See Table 2.)

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<sup>3</sup> "When adjusted for inflation and population, state spending will increase by only 3.6 percent between 1994-1995 and the end of the 2000-2001 biennium." George W. Bush for President official web site. "Wednesday, [Governor Bush] said an 'honest comparison' of spending growth should take inflation and the state's increasing population into account." Dallas Morning News, *Bush ads on spending challenged*, October 28, 1999.

## Appendix I

### The New Reserve for Domestic Emergencies

The Administration's budget includes an allowance of \$5.6 billion in 2002 and \$62 billion over the next decade for major natural disasters such as earthquakes, floods, hurricanes, and large forest fires. These figures are derived from historical averages of federal costs associated with disasters. The inclusion of this provision in the budget is a departure from recent practice, in which funds for such disasters have been added to the budget each year as the natural disasters occurred.

The inclusion of this provision is a useful innovation because it makes the budget totals more complete. Unlike past budgets, the Bush budget does not simply omit the unpredictable but inevitable costs of dealing with natural disasters. Unfortunately, however, this provision has contributed to confusion about the level of program "increases" the Administration is proposing.

Under the President's budget and the House and Senate budget resolutions, this proposed allowance for natural disasters is *not* available to the Appropriations Committees for any other purpose. If natural disasters do not occur in a given year or are less costly than the historical average built into the budget, the Appropriations Committees may not tap the allowances for other needs. Instead, the funds go unused. This approach may represent the best way to account for both the probability and unpredictability of major natural disasters. But it means that a budget total that includes the amounts reserved for natural disasters overstates the amount the Bush budget is proposing for *ongoing domestic programs*.

Counting funds that would be set aside in this emergency reserve for 2002 as though they were part of the ongoing spending the Administration is proposing — and comparing a level for 2002 that *includes* these reserve funds to an appropriation level for 2001 that includes much less funding for natural disasters since few major disasters have yet occurred this year — would produce misleading results. Unfortunately, that is precisely what the White House has done in showing a "four-percent increase." Since the amounts proposed for the natural disaster reserve are not available for ongoing programs, they are removed from our analysis here.

Specifically, \$5.6 billion is removed from the 2002 domestic totals and \$1.7 billion is removed from the 2001 domestic totals. OMB documents indicate that \$1.7 billion is the amount already appropriated in 2001 for the costs of the New Mexico fires and a few other non-routine disasters.

Removing these amounts is necessary to produce an apples-to-apples comparison. Otherwise, a misleading impression would be created that the Administration is proposing a \$3.9 billion increase in disaster funding in 2002, which is not the case. (Indeed, if more disasters were to occur later this year but few occurred next year, expenditures on natural disasters would go down next year, rather than up. Inclusion of disaster funding that necessarily fluctuates with the occurrence of disasters distorts attempts to measure changes in the resources being sought for ongoing domestic programs.)

## Appendix II

### Budget Gimmicks Distort Funding Analyses and Inflate Apparent Funding Increases

For the last two years, Congress has resorted to a budget gimmick to shift the fiscal year in which certain funding is counted, without in any way affecting the way the government spends money. Use of this gimmick plays a significant role in the Administration's claims that it is proposing a four percent increase in discretionary spending next year.

This budget gimmick has shown up most prominently in the education budget. To understand the gimmick, some background on education funding is necessary. Federal grants to school districts track the school year; the government makes monthly payments that start in August, as the school year begins, and run through the following July. Since the federal fiscal year runs from October through September, Congress traditionally has "forward funded" education programs. Each summer or fall, Congress appropriates a year's worth of funding to become available the *following* August and to be paid out over 12 months — in the last two months of the coming federal fiscal year and the first ten months of the succeeding federal fiscal year. Last year, however, Congress resorted to a budget gimmick. Instead of appropriating a lump sum for the 12 monthly payments to school districts, which by convention is shown in the federal budget accounts as being charged to the coming federal fiscal year (in this case, fiscal year 2001), Congress appropriated the funding in two pieces — one to cover the August and September payments for the coming federal fiscal year (which would be counted as part of the federal budget for fiscal year 2001) and the other to cover the remaining ten months of the school year, October through July. Because Congress did not make the second portion of the funding legally available until the following October, the first month of fiscal year 2002 (the month that this portion of the funding was scheduled first to be used in any case), the second batch of funding was not counted as part of the fiscal year 2001 budget but rather as fiscal year 2002 funding.

This change makes no difference to school districts. They receive their monthly funding on the same schedule either way. What this gimmick does is to understate artificially the amount of education funding in the federal budget for fiscal year 2001, since only two-twelfths of the 12-month cost of the program in question is counted as part of the 2001 budget. As a result, the amount of education funding for 2001 (and the overall amount of domestic discretionary funding as well) is artificially understated by \$2.1 billion. The supposed education funding "increase" in the Bush budget from 2001 to 2002 overstates the actual increase in resources for education programs by this amount.

Indeed, pages 103 and 104 of the budget book the Bush Administration issued on February 28 acknowledges that the budget figures that count this \$2.1 billion as an increase in education funding in 2002 are a distortion. These pages of the budget contains a graph designed, as the budget explains, to "correct for the distortion of advance appropriations." This graph shows — and page 103 of the budget book states — that the funding increase for the Department of Education, widely billed by the White House as \$4.6 billion or 11.5 percent in 2002, is

actually \$2.5 billion or 5.9 percent. Stated another way, \$2.1 billion of the apparent “increase” the president says he is proposing for education in 2002 was already enacted by the previous Congress and signed into law by the previous president. Page 118 of the February 28 budget book shows that an apparent increase in HUD funding is really a decrease, for similar reasons.

The Congressional Budget Office has issued data that correct for these distortions, as well as for similar distortions in several other parts of the budget. The CBO data show that the use of such budget devices by the last Congress, for the purpose of making 2001 funding levels appear lower than they actually are, results in an understatement of \$3.6 billion in the overall level of program resources actually available for 2001. (Some \$2.1 billion of this amount occurs in education. Another \$1.3 billion occurs elsewhere in domestic appropriated programs, while \$0.2 billion occurs in the defense budget.)

Unfortunately, the figures the Administration uses to claim it has proposed a four percent increase include this \$3.6 billion and count all of this amount as part of the Bush increase. While counting this money as an increase helps get the White House to its four percent figure, doing so does not represent sound budget analysis and produces misleading results.

## **Appendix III**

### **Hidden Increases for Some Transportation Programs Should be Counted**

A longstanding but erroneous "scorekeeping convention" omits funding for most highway and mass transit programs and many aviation programs from discretionary funding totals even though the funding levels for these transportation programs are decided annually by the Appropriations Committee and even though the actual expenditures for these programs are treated as discretionary. The result is that both 2001 and 2002 funding totals for discretionary programs are understated by some tens of billions of dollars.

In its budget, the Bush Administration is proposing an increase in these trust fund programs of \$2.5 billion, from \$38.4 billion in 2001 to \$40.9 billion in 2002. This \$2.5 billion increase is revealed on page 138 of the February 28 budget book the Administration issued and turns an apparent deep cut in overall transportation funding into a small increase. The exact amount of this increase became available when the April 9 budget was submitted.

To make this analysis of funding complete, this paper treats the omitted funding for these transportation programs as discretionary funding and includes it in the bottom part of Table 1 (which adjusts the Administration's figures for missing amounts) and in Table 2.

## Appendix IV

### The CBO and OMB Data Used in This Analysis

The underlying data for this analysis were provided by the Congressional Budget Office on March 19, 2001, when it completed its "reestimate" of the spending proposals that President Bush submitted on February 28, 2001. These CBO data cover funding (i.e., Budget Authority, or BA) for appropriated programs — that is, programs classified as "discretionary," which means that the Appropriations Committees have legal discretion to decide the level of annual funding for these programs. Discretionary programs do not include entitlement programs, such as Social Security, Medicare, Medicaid, and veterans compensation and pensions.

Also on March 19, the Office of Management and Budget (OMB) released a letter in which it set forth the dollar amounts by which it intended to change the president's February 28 budget when the budget was formally submitted in April. These changes arrived too late for CBO to incorporate them in its reestimate of the Bush budget or for the House and Senate Budget Committees to incorporate them into their budget plans. The changes, however, were very small. For instance, total appropriated funding for 2002 was increased by \$0.041 billion. The data in this analysis use the CBO reestimate of discretionary budget authority in the February 28 Bush budget, adjusted to reflect the very small changes that OMB reported on March 19 and that are reflected in the more detailed budget documents OMB released on April 9.<sup>4</sup>

The resulting figures for 2002 were compared to CBO's "freeze level," which is CBO's way of portraying the existing level of discretionary funding for 2001, after adjustments to remove the effects of the timing gimmick discussed in Appendix II.

As explained in Appendices I and III, data from the April 9 budget and other supporting documents have been used to calculate the increase in transportation funding. These data also have been used to determine the amount of natural disaster funding provided so far in fiscal year 2001, which is excluded from this analysis of funding levels for ongoing domestic programs, along with the funding that the Administration's budget requests for its proposed natural disaster "reserve."

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<sup>4</sup> In addition, the Bush budget proposes to increase the share of each agency's funding that will be deposited in the Civil Service Retirement trust fund, starting in 2003. One effect of this proposal is to make slightly less of the proposed funding available for program needs such grants to states, federal purchases, employee salaries, and other expenses. In effect, this constitutes a slight cut in the purchasing power of the Bush budget and is taken into account in this analysis. The total amount of this hidden cut, however, is only \$3 billion over the period 2003-2011.