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**HOW REALISTIC ARE THE DISCRETIONARY FUNDING LEVELS IN THE  
PRESIDENT'S BUDGET AND THE CONGRESSIONAL BUDGET RESOLUTION?**

**Average Increase in Non-defense Programs Would Be One Percent,  
Not Four Percent, with Many Programs Slated for Cuts**

by Cynthia Perry and Richard Kogan

President Bush frequently says he is proposing a four percent increase in funding for appropriated programs (i.e. for programs that are not entitlements). 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, and rarely point out that the President's budget calls for much greater defense increases than domestic increases. As a result, readers may infer that the President wants to increase non-defense appropriations by four percent in the coming year. That, however, is not the case; the claimed four-percent increase does not apply to non-defense appropriations. Funding for these programs would rise only 1.1 percent in fiscal year 2002. After adjusting for inflation, funding for these programs would *fall* 1.6 percent. After adjusting for both inflation and population growth, the decline would be 2.5 percent.

The funding level assumed for non-defense discretionary programs in the Congressional budget resolution is modestly higher; funding for

these programs would increase 2.7 percent before inflation is taken into account. After accounting for inflation, these programs are left with no increase over 2001 levels. After accounting for population growth as well as inflation, these programs would face a 0.9 percent funding reduction.

Even these figures make the funding levels sound more realistic and attainable than they are likely to be, since these figures represent an *average* across all non-defense discretionary programs. Within these averages, certain program areas — such as congressional operations, health research, education, and expenses for the White House and supporting agencies — would see increases. Other areas — such as energy, community and regional development, and natural resources and environment — would experience significant decreases.

By calling for budget reductions in a time of projected surpluses, both the President's budget and the congressional budget resolution appear unrealistic.

**Funding Changes for Non-Defense Discretionary Programs**  
(percentage change from 2001 to 2002)

	Relative to CBO freeze	After adjusting for inflation	After adjusting for inflation and population
President's Budget	1.1%	-1.6%	-2.5%
Congressional Budget Resolution	2.7%	0.0%	-0.9%

### A Stated Four-Percent Increase in Funding

In discussing his budget proposal for FY 2002 discretionary funding, President Bush has stated, "We have increased spending by a very reasonable four percent, [which is] above the rate of inflation."<sup>2</sup> This analysis finds that the President's budget meets this stated increase of four percent only after accounting for his recently amended defense request. In addition, his budget would reduce funding in a number of domestic program areas. The Congressional budget plan<sup>3</sup> comes close to the overall four-percent figure, but still falls short of the mark, with a 3.5 percent increase in total discretionary funding. The Congressional budget plan, and especially the President's budget, provide larger increases for defense than for non-defense programs.

### Overall Non-Discretionary Funding Increases

The first step in measuring the change proposed in discretionary funding is to avoid distortions that mar such a comparison. The often-cited four-percent-increase figure, which is supposed to apply to discretionary funding as a whole rather than to non-defense discretionary funding in particular, is derived through a methodology that contains several significant distortions. Some of these distortions make the proposed increases in funding for discretionary programs look larger than they actually are; other

distortions make the proposed increases look smaller than they are. The appendix to this paper discusses the methodology used in this analysis to avoid distortions in either direction. (The methodology takes steps to avoid distortions in such areas as natural disaster funding, advance appropriations, transportation funding, and funding for low-income housing.)

An appropriate comparison, free of distortions, can be conducted, using CBO's "freeze baseline." The CBO freeze baseline shows what the level of discretionary funding would be in 2002 if all appropriations bills were "frozen" at their 2001 level. (This baseline is discussed in more detail in the appendix.) This CBO baseline is the appropriate benchmark to use to measure proposed changes in discretionary funding levels. Table 1 shows the percentage change in discretionary funding in the President's budget and the Congressional budget plan relative to the CBO freeze. Counting the administration's new defense request, the President has proposed to increase discretionary funding by an average of 5.3 percent in 2002. Most of this increase is driven by higher defense funding. Non-defense discretionary programs would increase by only 1.1 percent.

Table 1 offers a similar analysis for the Congressional budget plan as well. While both the President's budget (before the supplemental defense request) and the Congressional budget plan proposed to allocate \$661 billion to overall (defense and non-defense) discretionary funding, the Congressional budget plan actually allows for

**Table 1: Nominal Change in Fiscal Year 2002 Discretionary Funding**

	President's Budget*	Congressional Budget Plan
Defense	10.4%	4.4%
Non-defense discretionary	1.1%	2.7%
<b>Total</b>	<b>5.3%</b>	<b>3.5%</b>

slightly higher funding. This is because some of the President's proposed funding would be for a "reserve fund" for natural disasters. Counting this amount as a 2002 funding request produces a distorted result, as explained in the appendix. Congress has always provided funds for relief from natural disasters on an as-needed basis; establishing a reserve fund for natural disaster funding in 2002, which may or may not be tapped, does not represent a funding increase but rather an accounting change. The Congressional budget plan includes an overall increase of 3.5 percent in non-disaster funding for discretionary programs, and a funding increase for non-defense programs of 2.7 percent. To provide an overall (or average) 4 percent increase for non-defense discretionary programs, Congress would need to provide \$10.8 billion more for these programs than the President has requested and \$4.7 billion more than the Congressional budget plan includes.

These figures do not account for inflation. This is a logical adjustment to make when analyzing these proposals; as prices increase, a frozen level of funding will provide a lower amount of services. Table 2 shows that after adjusting for inflation, the President's budget

proposes a *cut* in non-defense discretionary programs, while the Congressional budget plan shows neither an increase nor a decrease in non-defense funding.

It also makes sense to account for population growth. The number of people using the services funded by the government increases as the population grows. If funding levels are adjusted only for inflation, the amount of services that can be provided to each person will still decline unless funding is increased to cover population growth. Adjusting for inflation and population is the same standard that President Bush used during his campaign and that the Bush White House has used in recent months in describing changes in state spending in Texas during George W. Bush's tenure as governor.<sup>4</sup>

Table 3 shows the changes in funding levels reflected in the President's budget and the Congressional budget plan, adjusting for both inflation and population growth. The President's budget contains an overall increase in total discretionary funding of 1.3 percent after adjusting for inflation and population growth, and a reduction in funding for non-defense discretionary

**Table 2: Real Change in Fiscal Year 2002 Discretionary Funding**

	President's Budget*	Congressional Budget Plan
Defense	6.8%	1.0%
Non-defense discretionary	-1.6%	0.0%
<b>Total</b>	<b>2.2%</b>	<b>0.5%</b>

\* Includes the President's recent \$18 billion addition to his original defense request

**Table 3: Real Per Capita Change in Fiscal Year 2002 Discretionary Funding**

	President's Budget*	Congressional Budget Plan
Defense	5.8%	0.1%
Non-defense discretionary	-2.5%	-0.9%
<b>Total</b>	<b>1.3%</b>	<b>-0.4%</b>

\* Includes the President's recent \$18 billion addition to his original defense request

**Table 4: Non-Defense Discretionary Priorities, President's Budget Proposal**

Budget function or subfunction	Nominal Change in 2002 Funding		Real Change in 2002 Funding		Real, Per-Capita Change in 2002 Funding	
	in percent	in millions of dollars	in percent	in millions of dollars	in percent	in millions of dollars
Congress [801]	17.1%	373	12.2%	278	11.2%	257
Health Research and Training [552]	11.1%	2,371	8.5%	1,853	7.5%	1,656
White House and Supporting Agencies [802]	8.1%	58	5.5%	40	4.5%	33
International Affairs [150]	5.4%	1,231	2.8%	652	1.9%	443
Education (elementary, secondary, and vocational ed; higher ed; research and general ed aids) [501-503]	5.3%	2,328	3.7%	1,665	2.8%	1,261
Veterans Benefits and Services [700]	4.5%	1,000	0.3%	59	-0.6%	-152
Transportation [400]	2.1%	1,195	-0.1%	-47	-1.0%	-568
Training, Employment, and Social Services [504-506]	-1.2%	-231	-3.1%	-615	-4.0%	-792
Admin. of Justice [750]	-1.5%	-445	-5.1%	-1,589	-6.0%	-1,870
Low-Income Housing [604]	-3.3%	-947	-5.4%	-1,593	-6.2%	-1,860
Natural Resources and Environment [300]	-5.6%	-1,562	-8.6%	-2,493	-9.4%	-2,754
Community and Regional Development [450]	-7.8%	-872	-10.0%	-1,145	-10.8%	-1,249
Energy [270]	-12.5%	-403	-14.8%	-487	-15.5%	-517

programs of 2.5 percent. Similarly, after accounting for inflation and population growth, the Congressional budget plan includes a 0.9 percent reduction in non-defense funding.

### Budget Priorities

One might suppose that despite the President's proposed reduction in overall non-defense discretionary funding, priority areas still would

receive increases. In some cases, however, the areas the President has identified as priorities would see only modest increases, and several of these areas would face cuts.

"The highest percentage increase in our budget should go to our children's education. Education is my top priority," President Bush has said.<sup>5</sup> Table 4 shows a breakdown of changes in funding for a number of budget functions and subfunctions.

### **Cutting Non-Defense Programs to Pay for Further Defense Increases**

When the President submitted his budget, he proposed to increase defense funding by \$14 billion, or 4.4 percent, over the level of funding provided last year. That increase was also reflected in the congressional budget resolution. On June 27, the President increased his defense request by \$18 billion; the national defense funding total in his 2002 budget is now \$344 billion, some \$32 billion — or 10.4 percent — above last year's level.

In a recent hearing before the Senate Budget Committee, Senator Conrad suggested that the additional \$18 billion might cause a deficit outside of Social Security and Medicare Hospital Insurance. Senator Domenici responded that if Senator Conrad believes the money is not there to provide the additional \$18 billion that the Administration has requested, Congress could cut all other appropriations bills sufficiently to free up the \$18 billion.\*

Covering the additional \$18 billion for defense by cutting non-defense appropriations an equivalent amount below the level in the congressional budget resolution would result in a defense increase of \$32 billion over last year's level (as the President has requested) and a reduction in non-defense appropriations of \$8 billion below last year's level. The non-defense figures would be: 2.3 percent below last year's level; 4.9 percent below last year's level, adjusted for inflation; and 5.8 percent below last year's level, adjusted for inflation and population growth.

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\* National Journal's *Congress Daily*, July 18, 2001, Lisa Caruso and Mark Wegner.

Measured by the percentage increase in funding relative to a freeze, the President's top priority appears to be Congressional operations. Education falls in the ranking to fifth place, with a funding increase of 5.3 percent before inflation is taken into account. Once the numbers are adjusted to account for inflation, the increase in education funding is 3.7 percent. Accounting for population growth as well leaves a 2.8 percent increase in education funding.

Education is one of relatively few domestic program areas to receive any increase at all in the President's proposal. Programs intended to help lower-income Americans support themselves, such as job training and employment services, would face reductions of 1.2 percent before adjusting for inflation, 3.1 percent after adjusting for inflation, and 4 percent after also adjusting for population growth. Similarly, the President has proposed cuts in low-income housing programs of 3.3 percent below a freeze level, 5.4 percent after adjusting for

inflation, and 6.2 percent after adjusting for inflation and population growth. This reduction does not seem consistent with the promises in "Blueprint for New Beginnings" that "the President proposes a multi-faceted attack on need, including initiatives to... expand efforts to help low-income families pay the rent and avoid homelessness."

Three other notable areas that would face funding reductions under the President's proposed budget are natural resources and the environment, community and regional development, and energy programs. The budget would cut programs designed to conserve natural resources and protect the environment by 5.6 percent, which is a reduction of 8.6 percent after adjusting for inflation. Similarly, his budget would reduce programs aimed at community and regional development by 7.8 percent relative to a freeze, or 10 percent after adjusting for inflation. Finally, the President's budget requests a 12.5 percent cut in funding for energy resources relative to the freeze

level; this becomes a 14.8 percent cut after adjusting for inflation and a 15.5 percent cut after further adjusting for population growth.

As these figures demonstrate, the Administration has proposed to reduce overall non-defense discretionary funding after adjusting for inflation. The Congressional budget plan would keep overall non-defense discretionary funding level with inflation but reduce such funding in real, per-capita funding terms. Under both the Administration's budget and the budget resolution, funding for some favored program areas would increase, which in turn would necessitate reductions in a range of other domestic areas. Decreases of this nature do not seem realistic, especially in a time of budget surpluses.

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1. Bush, George W., weekly radio address, February 24, 2001.

2. 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.

3. The President's address to Congress, February 27, 2001, available at [www.washingtonpost.com/wp-srv/onpolitics/transcripts/bushtext022701.htm](http://www.washingtonpost.com/wp-srv/onpolitics/transcripts/bushtext022701.htm).

4. "Congressional budget plan" refers to the Congressional Budget Resolution passed on May 10, 2001, which is a budget outline approved by Congress. This provides the framework for committees to make detailed funding or tax decisions, but is not actually law.

5. For example, the George W. Bush for President official web site states: "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." Similarly, the Dallas Morning News reported: "Wednesday, [Governor Bush] said an 'honest comparison' of spending growth should take inflation and the state's increasing population into account" (October 28, 1999).

6. President's address to Congress, *op. cit.*

7. *A Blueprint for New Beginnings*, Office of Management and Budget, February 28, 2001, page 103.

## Appendix: Avoiding Distortions in Measuring the Change Proposed in Funding For Non-defense Discretionary Programs

The first step in measuring proposed funding changes for non-defense discretionary programs is to avoid distortions that would mar such a comparison. The often-cited four-percent-increase figure, which is supposed to apply to discretionary funding as a whole rather than to non-defense discretionary funding in particular, is derived through a methodology that contains several significant distortions. Some of these distortions make the proposed increases in funding for discretionary programs look larger than they actually are; other distortions make the proposed increases look smaller than they are.

- The figures used to generate the four-percent-increase figure rely on inconsistent treatment in 2001 and 2002 of funding for relief from natural disasters. When the President submitted his budget, the level of funding in 2001 for relief from natural disasters was low; this is both because the current fiscal year has yet to be completed and because this year has been relatively free so far of major disasters. The President's budget for 2002 proposes a reserve fund for natural disasters, which would include an amount equal to the average annual level of spending on disasters in past years. These funds would not be able to be used unless disasters actually occurred. The figures used to generate the four-percent-increase figure for discretionary programs in general compare the limited amount used for disasters so far in 2001 to the full amount that would be placed in the reserve for fiscal year 2002, under the President's budget, with the supposed increment in funding counted as an increase that the Administration is proposing in discretionary funding. It is, of course, not an increase; if more disasters occur in 2001, Congress will provide the requisite funds, and if no disasters occur in 2002, none of the funds in the proposed reserve could be used. To conduct a valid

comparison of discretionary funding levels for 2001 and 2002, funding in both years for natural disasters needs to be set to the side.

- A second problem occurs since the amount that the last Congress appropriated for discretionary programs for 2001 is artificially low — this results from the use by that Congress of “timing shift” gimmicks. Under these gimmicks, some of the funding that would normally have been recorded as being provided for certain programs in 2001 (but not spent until 2002) was instead recorded as being provided for 2002, through the mechanism of “advance appropriations.” The sole function this maneuver served was to make 2001 funding look smaller *on paper* than it actually is. As a result of this gimmick, increases in 2002 in the Administration's budget in several program areas appear larger than they actually are, because a correctly measured 2002 funding proposal is compared with an artificially low 2001 funding level.

The President's February 28 budget document itself contains a discussion that explains that a major distortion of this nature occurs in education funding. According to that document, the President's budget “provides a \$4.6 billion, or 11.5 percent, increase in total budget authority for the Department of Education.” But when the budget “corrects for the distortion of advance appropriations, [it] provides a \$2.5 billion, or 5.9 percent increase, for Education Department programs...”<sup>6</sup> (The increase of 5.9 percent correctly measures the funding increase for discretionary programs in the Department of Education. The figure of 5.3 percent used earlier in this paper is applicable to a slightly wider set of programs that are included in the part of

the federal budget classified as education (subfunctions 501-503); this classification includes a small number of programs, such as the Smithsonian Institution, that are not part of the Department of Education.)

To produce analyses of year-to-year changes in funding levels that are not distorted by such gimmicks (and for other reasons), the Congressional Budget Office produces an estimate of what the level of discretionary funding would be in 2002 if all appropriations bills were “frozen” at their 2001 level. This “CBO freeze” has the effect of removing timing gimmicks. As budget analysts recognize, the appropriate way to analyze the dimensions of proposed increases in discretionary funding for 2002 is to compare the levels proposed for 2002 to this “CBO freeze baseline.”

- The figures used to generate the four-percent-increase figure also contain a distortion related to low-income housing programs. Some low-income housing assistance is financed by multi-year contracts that were funded in full many years ago. Because these housing contracts were funded in the past, their funding was recorded in the past. As a result, funding levels for low-income housing are understated for both 2001 and 2002. However, the understatement for 2001 is larger than the understatement for 2002, because more of the old, multi-year contracts are expiring in 2002 and being replaced with new, one-year contracts, which are recorded as new funding even though that funding does not increase the size of the low-income housing programs. The better way to analyze 2002 funding for low-income housing is to compare it with the funding level necessary to freeze the number of subsidized housing units at the 2001 level (assuming no inflation in the cost of housing).

- There also is one area where the figures used to generate the four-percent-increase figure *understate* the Administration’s proposed funding increases. The area of understatement is in transportation programs. The understatement occurs because the figures that underlie the four-percent calculation do not include programs funded from the transportation trust funds, even though these are discretionary programs controlled through the annual appropriations process. These programs should be included. Since the President has proposed increases in these programs, failing to include the programs understates the increase in discretionary programs the President is seeking.

In this analysis, these distortions are removed. This is done by removing natural disaster funding in both years, comparing the proposed 2002 funding levels with the CBO freeze baseline, comparing funding proposed for 2002 for low-income housing programs with the funding level needed to freeze the number of federally subsidized housing units, and including funding for programs financed from the transportation trust funds.

We also made one change in the functional distribution of funding, for comparability reasons. By law, the President must incorporate into his budget the funding requests made by the Legislative and Judicial branches of government without change. Almost every President considers those requests excessive, however, and includes within the “Allowance” function of the budget a reduction in these requests to bring the funding for these branches into line. President Bush’s budget includes such a reduction in the “Allowance” function. All of that reduction is intended to offset increases that the Judicial branch requested and that are shown in the Administration of Justice function. We therefore netted that reduction against the total otherwise proposed in the Administration of Justice function.