



CENTER ON BUDGET AND POLICY PRIORITIES

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NON-DEFENSE APPROPRIATIONS AND THE CONGRESSIONAL BUDGET PLAN by Richard Kogan

The congressional budget plan calls for zero growth in non-defense appropriations for fiscal year 2002, after adjusting for inflation. (This area of the budget excludes entitlements; it cover only non-defense “discretionary” programs.) The President’s budget calls for less — a 1.6 percent reduction in total 2002 funding for non-defense appropriations, after adjusting for inflation.

If one also accounts for the nation’s growing population, the congressional budget reduces real, per-person funding for these programs by 0.9 percent in fiscal year 2002, while the president’s budget reduces real, per-person funding for these programs by 2.5 percent.

If Congress adheres to the non-defense limits in its budget plan while granting the President’s proposed increases in biomedical research, education, and international affairs, other non-defense programs will have to be cut. The cut will average 1.5 percent after accounting for inflation. Such cuts could partially offset the economic stimulus contained in a new stimulus package.

One argument sometimes made for a tight-fisted approach to non-defense programs is that there was a “spending explosion” in the final months of the last Congress and Administration, so it is necessary to squeeze these programs now. This argument is not supported by the evidence. Taken as a whole, federal spending grew more slowly than the historical average in 2001 and shrank to its smallest share of the economy since 1966.

Emergency Supplemental Appropriations Not Included in this Analysis

The terrorist attacks of September 11 have already prompted funding increases for disaster relief, repair and reconstruction, additional intelligence gathering and civil defense, and military operations against groups that helped support or harbor the terrorists. Further emergency appropriations are expected. For the purposes of this analysis, we assume the \$40 billion emergency appropriation is outside of the normal appropriations process and exempt from the targets in the congressional budget. When this analysis discusses the range of possible funding outcomes for defense and non-defense programs, it refers to ongoing programs without counting the additional emergency funds for military engagements, FEMA, disaster relief, the FBI, an airline bail-out, etc.

The Congressional Budget Plan

Congress agreed to its budget plan (or “budget resolution”) in May. That plan set targets for tax cuts, initiatives in entitlement programs such as a Medicare prescription drug benefit, and overall levels for appropriated programs. Appropriated programs comprise one-third of the federal budget and include such areas as education, defense, transportation, housing, veterans medical care, and biomedical research.

Congress’s budget plan entails no real growth in non-defense appropriations; that is, the overall amount of funding for non-defense discretionary programs in 2002 under the budget plan is the same, after adjusting for inflation, as the level the previous Congress and President provided for 2001. Even if inflation is ignored, the Congressional plan would increase non-defense programs only 2.7 percent over last year’s level.¹

Related Center Analyses

This paper includes elements of two reports the Center on Budget issued in August. “How Realistic Are The Discretionary Funding Levels in the President’s Budget and the Congressional Budget Resolution?” discusses the total level of funding proposed for appropriated programs and examines the increases and decreases within the President’s budget. The report is available at <http://www.centeronbudget.org/8-3-01bud.htm>.

“The Disappearing 2001 Surplus: Tax Cuts, Budget Increases, and the Economy” analyzes why the 2001 surplus, recently projected at \$125 billion, has turned to a deficit. It also examines the claim of a “spending” explosion by the prior Congress and finds it unwarranted. The report is available at <http://www.centeronbudget.org/8-22-01bud3.htm>.

Table 1
Funding Levels for Non-defense Discretionary Programs
in the Congressional Budget Resolution
dollars in billions

	Funding levels	2002 funding level compared with the 2001 level	
		dollars	percent
2002 funding level in Congressional budget plan	\$377		
2001 funding level enacted by previous Congress	\$367	+\$10	+2.7%
2001 funding level, adjusted for inflation	\$377	\$0	0.0%
<u>2001 funding level, adjusted for inflation and population growth</u>	<u>\$381</u>	<u>-\$4</u>	<u>-0.9%</u>

Note: figures are for “budget authority” (and for “obligation levels” for transportation programs, which are the equivalent of budget authority).

¹ In this analysis, 2001 funding levels are based on the levels enacted by the previous Congress. This spring, Congress increased these 2001 funding levels (mostly for defense) in the supplemental appropriations bill requested by President Bush; that increase does not figure in this analysis. We have made slight technical adjustments in the 2001 figures to make them comparable to the figures for 2002, so these will be “apples to apples” comparisons. These technical adjustments are described in detail in the first of the two Center analyses cited in the box on this page.

The common belief that the congressional budget calls for an increase of 4 percent or 6 percent in these programs (rather than in discretionary programs as a whole, *including defense*) is mistaken, as Table 1 shows.

The President's Budget Request Compared With the Congressional Budget Plan

Excluding the recent emergency supplemental appropriations, the President's 2002 budget calls for higher defense appropriations and lower non-defense appropriations than the Congressional budget. (The level for defense in the Congressional budget is identical to the amount of the President's initial defense request. The President increased his request in June, after the budget plan was adopted. The figures below use the President's June defense request.)²

Congress is likely to increase the level of defense funding by \$18 billion beyond the level included in the Congressional budget plan, which would bring it to the level the President has requested. Table 2a shows the percentage by which the President's budget and the congressional budget plan — with and without the additional \$18 billion for defense — exceed the level of appropriations enacted by the prior Congress before an adjustment for inflation is made. That is, the table shows the “nominal” increase in funding that would be provided.

Table 2a

Nominal Percentage Change in Funding Relative to the 2001 Level			
	President's Budget	Congressional Budget Plan	
		As agreed to in May	With Bush defense
Defense appropriations	10.4%	4.4%	10.4%
Non-defense appropriations	1.1%	2.7%	2.7%
Total appropriations	5.3%	3.5%	6.2%

Note: all funding figures include both “budget authority” and the “obligation levels” for transportation programs, which are the equivalent of budget authority.

Table 2b shows the same variations, but with the percentage figures adjusted for inflation. Consequently, table 2b shows the real increases or decreases in funding that may be under consideration.

² Figures in the President's budget have been adjusted to remove the reserve for natural disasters he proposed, to make it comparable to the Congressional budget plan. This, also, is discussed in “How Realistic Are The Discretionary Funding Levels in the President's Budget and the Congressional Budget Resolution?” op cit.

Table 2b

Real Percentage Change in Funding Relative to the 2001 Level			
	President's Budget	Congressional Budget Plan	
		As agreed to in May	With Bush defense
Defense appropriations	6.8%	1.0%	6.8%
Non-defense	-1.6%	0.0%	0.0%
Total appropriations	2.2%	0.5%	3.1%

Note: all funding figures include both "budget authority" and the "obligation levels" for transportation programs, which are the equivalent of budget authority.

Non-defense Priorities

As noted, the Congressional budget plan provides for zero real growth in non-defense appropriations. The President has proposed real increases in three areas of non-defense funding: health research and training, education, and international affairs. Adjusting for inflation, he would increase these three areas by 8.5 percent, 3.7 percent, and 2.8 percent, respectively. How will other non-defense appropriations fare if these three areas get the requested increases?

Table 3 shows the results. If non-defense appropriations are held to the level in the budget resolution, funding for programs outside the three favored areas will be reduced an average of 1.5 percent, adjusting for inflation.

Table 3
Possible Winners and Losers Within Non-Defense Appropriations
Percent change from the levels funded by the previous Congress, adjusted for inflation

	President's budget	Congress' budget
Increase in total non-defense funding	-1.6%	0.0%
Health research & training; education; and international affairs, if funded at the levels requested by the President	4.6%	4.6%
Amount remaining for all other non-defense programs	-3.6%	-1.5%

The Budget and the Economy

Before the terrorist attacks, there was a debate about whether the economy needed more immediate economic stimulus than is being provided by the substantial reductions in short-term interest rates, the tax rebates, and the modest spending increases reflected in the congressional

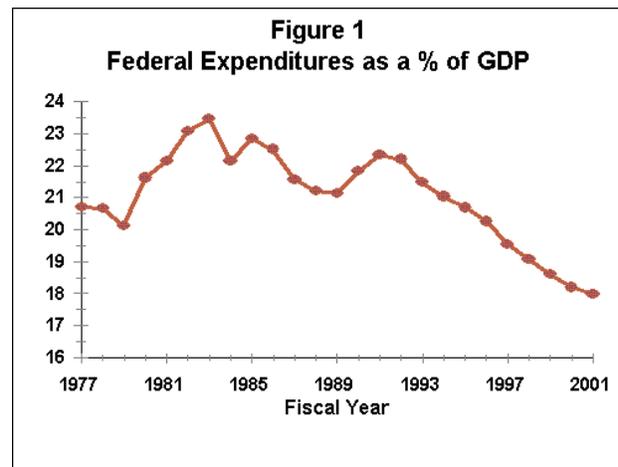
budget plan. With the terrorist attacks, the prospects for the economy are even less clear than they were before.

Some analysts have noted that the just-enacted \$40 billion emergency supplemental bill may have the ancillary effect of providing another boost to the economy. Other analysts are focusing on disruptions to the nation's transportation systems and financial markets. Some analysts suggest a mood of national unity and resolve may spill over into economic confidence; others caution that uncertainty and concern could have the opposite effect. It is too early to tell. If, however, additional economic stimulus proves warranted, it is important to remember what economic stimulus consists of — most simply, it is extra cash in the pockets of consumers or businesses who will spend it at a time the economy is operating below capacity. Tax rebates have a stimulative effect. Immediate expenditures to repair and rebuild after the terrorist attacks also should be stimulative. Cuts in domestic funding, however, would have the opposite effect.

What Spending Explosion? Putting 2001 Spending in Context

Some policymakers have termed the program increases enacted last fall a “spending explosion.” Analysis does not support these statements.

- Even with last year's program increases, federal spending continued to fall in 2001 as a share of the economy. OMB's latest figures indicate that federal expenditures will equal about 18 percent of the gross domestic product (GDP) in 2001, which is lower than in 2000 and is the lowest level since 1966. (See Figure 1.)
- The rate of growth in federal expenditures between 2000 and 2001 was *below* the historical average.
- According to CBO data, the tax cut enacted this spring reduced the projected surplus for 2001 by more than six times as much as spending increases enacted last fall.



As a share of the economy, federal spending has fallen for the last ten years and is, as noted, at its lowest level in 35 years. Federal expenditures generally rise as a share of the economy when the economy is in a recession (because even a flat level of expenditures will constitute a larger share of a smaller economy). Although the current year is characterized by a weak economy, however, federal expenditures will constitute a smaller share of GDP in fiscal

year 2001 than in any other year of recent decades, including years in which the economy was robust.

OMB projects that total federal expenditures will grow by 3.1 percent in 2001 (without adjusting for inflation). This is significantly lower than the historical average. For the period 1962-2001, the average was 7.5 percent. OMB also projects that under the Bush Administration budget, federal spending will increase at a faster rate — 6.4 percent — in 2002 (not counting the emergency expenditures in response to the terrorist attacks). These figures are shown in Table 4.

The figures just cited do not adjust for inflation; they simply show the year-over-year growth of federal expenditures. Because inflation was noticeably higher in some years in the 1970s and 1980s, the previously mentioned historical average rate of expenditure growth appears larger than it really is. A better comparison, also provided in Table 4, shows the *real* rate of growth, in which the effects of inflation are removed. In real terms, federal spending grew by 0.5 percent in 2001, well below the historical average of 2.8 percent per year.

Table 4

Annual Growth Rates in Federal Expenditures		
	Nominal increase	Real increase (i.e., adjusted for inflation)
Historical average, 1962 — 2001	7.5%	2.8%
In 2001	3.1%	0.5%
In 2002	6.4%	3.9%

Source: figures for 1962-2000, *Historical Tables*, OMB, April 2001; figures for 2001 and 2002, *Midsession Review*, OMB, August 22, 2001. The 2001 costs of the spring supplemental appropriations bill and the recent farm bill are omitted, as they were not enacted by the previous Congress. Had they been included, the figures would be only slightly different. The adjustments for inflation use the OMB deflators published in April 2001.

Conclusion

Perhaps contrary to common belief, the Congressional budget calls for no real increase in non-defense appropriations. Moreover, because some non-defense programs are certain to be increased, others would have to be cut. Also of note, evidence that a spending explosion occurred last year is weak. If the economy needs further economic stimulus, Congress should ensure it does not institute real reductions in non-defense discretionary programs that partially offset the stimulus contained in a new stimulus package.