



# CENTER ON BUDGET AND POLICY PRIORITIES

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## WAR AND ANTI-TERRORISM SPENDING OR RAMPANT GROWTH IN DOMESTIC PROGRAMS: WHAT HAS CAUSED THE LARGE INCREASES IN APPROPRIATIONS BILLS SINCE 2001?

by Richard Kogan

*"[C]onservatives have complained about the 31.5 percent growth in discretionary spending since Bush took office.<sup>1</sup> ...the conservative Heritage Foundation's analyst said that "no matter how you massage the numbers it's still a 27 percent increase in two years."... [He] said that with enactment of the FY04 omnibus, outlays would jump another 9 percent to \$900 billion."<sup>2</sup>*

Are appropriations growing at out-of-control rates? Is the growth occurring in domestic programs or is it overwhelmingly for defense and related war and terrorism expenses? Do this year's appropriations bills continue the trend? And what do these figures have to do with deficits? This brief analysis summarizes the facts.<sup>3</sup>

**How Much Has Been Appropriated?** The annual appropriations bills fund about one-third of the budget; the other two-thirds of the budget (programs such as Social Security, Medicare, and interest on the debt) is determined outside of annual appropriations.

When assigning credit or blame to a particular Congress or President for the level of appropriated programs, one must examine *funding* rather than *expenditures*, because funding is enacted by Congress for a specific year, while as much as two-fifths of expenditures for discretionary programs in any year come from funding enacted in prior years. The citation above refers to a 31.5 percent increase in *funding* and a 27 percent increase in *expenditures* for appropriated programs from 2001 to 2003; if the issue is the accountability of elected officials, the 31.5 percent funding figure is the one to use.

- **Defense vs. Domestic (2001 to 2003):** Within the 31.5 percent overall increase in funding for discretionary programs between 2001 and 2003, defense and homeland security and international affairs (which includes post-war operations in Iraq and Afghanistan) grew by **49.6 percent**, while funding for domestic programs outside homeland security grew by **13.2 percent**.<sup>4</sup> Three of the fastest growing domestic areas were education (which the President called his number

<sup>1</sup> Martin Crutsinger, "Snow: Economy Will Help Slash Deficit," *Associated Press*, Jan 7, 2004.

<sup>2</sup> Peter Cohn, *Congress Daily*, Jan 7, 2004.

<sup>3</sup> For more detail, see Greenstein, Kamin, Kogan, and Friedman, *Is Domestic Spending Exploding? An Assessment of Claims by the Heritage Foundation and Others*, Center on Budget and Policy Priorities, revised February 1, 2004, and Kogan, *The Omnibus Appropriations Bill: Are Appropriations For Domestic Programs Out of Control?* February 1, 2004, Center on Budget and Policy Priorities.

<sup>4</sup> In this analysis, we include appropriations for the cleanup and reconstruction of New York City after 9-11 within the category "defense, homeland security, and international affairs."

one priority in his first State of the Union message), discretionary health (where Congress completed its commitment to double funding for research at the National Institute of Health over five years), and transportation (e.g., highway construction and repair).

- **Taking inflation and economic growth into account and adding the 2004 appropriations bills:** The growth rates just cited do *not* take inflation, population growth, or other elements of economic growth into account. Failing to take such factors into account makes the rate of growth in these programs look larger.

To get a better sense of recent funding trends, one should add in the funding levels for 2004 that are reflected in the recently enacted omnibus appropriations bill and the other 2004 appropriations bills. One also should adjust the funding-level figures for inflation, as the Congressional Budget Office does in constructing its budget baseline. Finally, it is instructive to examine trends in discretionary spending as a share of the economy; doing so allows us to see whether discretionary programs are absorbing a rapidly increasing share of national income and hence are growing at an unsustainable rate.

Total funding for discretionary programs has increased 36.1 percent between 2001 and 2004, *before* adjusting for inflation. After adjusting for inflation, the increase is 29.1 percent.

These figures, however, mask large differences between funding growth for defense, homeland security, and international affairs on the one hand, and funding growth for domestic programs outside homeland security, on the other hand.

- Funding for defense, homeland security, and international affairs has risen 47.6 percent between 2001 and 2004, after adjusting for inflation.
- By contrast, funding for domestic discretionary programs outside homeland security has risen 10.3 percent, after adjusting for inflation. Funding for defense and related programs has thus grown 4½ times as rapidly. Moreover, most of the 10.3 percent increase in funding for domestic programs outside homeland security came in the appropriations bills for fiscal year 2002, which were written in 2001 at a time when policymakers believed large surpluses remained. Once the surpluses disappeared, the growth of funding for domestic discretionary programs outside homeland security slowed sharply, to less than one-third its 2002 rate.

Furthermore, measured as a share of the economy, funding for domestic discretionary programs outside homeland security has barely budged.

- Funding for these programs equaled 3.4 percent of the Gross Domestic Product (the basic measure of the size of the economy) in 2001; funding for these programs still equals 3.4 percent of GDP in 2004.
- By contrast, funding for defense, homeland security, and international affairs has jumped from 3.4 percent of GDP in 2001 to 4.7 percent of GDP in 2004.

- Thus, virtually all of the increase in appropriations since 2001, measured as a share of the economy, has occurred in appropriations for defense, homeland security, and international affairs.

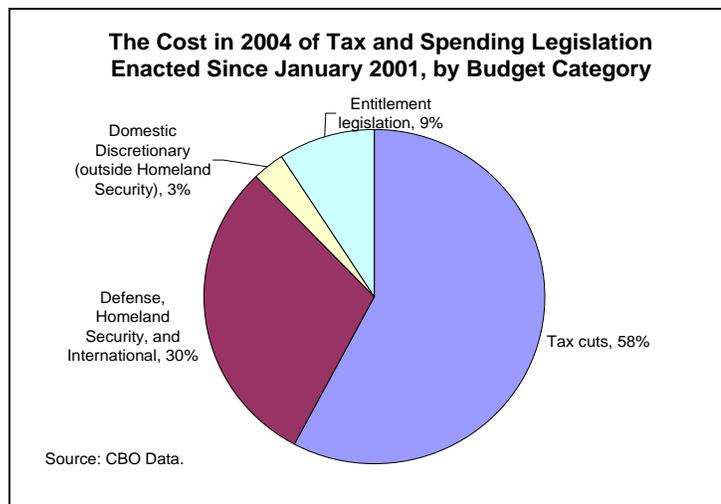
**How Quickly are Expenditures Rising this Year?** As noted, as much as two-fifths of expenditures for discretionary (i.e., non-entitlement) programs in any year derives from funding appropriated in prior years. Expenditures may rise in a given year even if funding falls, if funding increases enacted in previous years are still working their way through the “budget pipeline.” For this reason, measuring expenditure growth in fiscal year 2004 is *not* the best way to decide if this year’s appropriations bills are excessive.

Nevertheless, the expenditure growth rates for 2004 may be instructive.

- *Expenditures* for defense, international affairs, and homeland security are estimated to grow by 11.4 percent in 2004, relative to the 2003 levels (after inflation, this increase is 9.5 percent). By contrast, *funding* for this category grows only 4.0 percent in 2004 (and 2.2 percent when inflation is taken into account).
- *Expenditures* for domestic programs outside homeland security are estimated to grow 5.5 percent in 2004, before adjusting for inflation. But *funding* for these programs is up only 2.7 percent in 2004, before adjustment for inflation. (These figures are 3.8 percent and 1.0 percent, respectively, after adjustment for inflation.)
- Expenditures for defense, international affairs, and homeland security grow by 0.22 percent of GDP in 2004. Expenditures for domestic programs outside homeland security shrink very slightly as a percent of GDP in 2004.

**Does Spending Growth Increase the Deficit?** Yes. So do tax cuts. So does deterioration in the economy.

When we consider the costs of all legislation enacted since January 2001, Congressional Budget Office estimates show that tax cuts are more costly than all the defense, anti-terrorism, and domestic spending increases combined, and that increases in spending for domestic discretionary programs outside homeland security are the *least* important factor in the return of deficits. The CBO data show



that increases in domestic discretionary spending outside homeland security accounted for 3 percent of the cost in 2004 of all legislation enacted since January 2001. Tax cuts accounted for 58 percent of the cost of legislation enacted since the start of 2001, or 19 times as much.

Increases in spending for defense, homeland security, and international affairs accounted for 30 percent of the cost in 2003 of legislation enacted since 2001. This was nearly ten times as much as the increases in spending for domestic discretionary programs outside homeland security, but only about half as much as the cost of the tax cuts.

## Figures Behind the Analysis<sup>5</sup>

When comparing program size from year to year, the raw data (the nominal figures) may be the least appropriate measure, because they do not take into account factors such as inflation and economic growth. The longer the time period, the more important it is to adjust older figures to make them comparable to newer data. Nevertheless, because the Administration and institutions like the Heritage Foundation often compare figures over time without any adjustment, we present the data here in three ways: in nominal terms (i.e., with no adjustments); after adjusting for inflation (using the Consumer Price Index)<sup>6</sup>; and after adjusting for economic growth (i.e., as a share of the economy).<sup>7</sup>

The first set of tables show funding, or “budget authority” — that is, the amounts appropriated by Congress in the annual and supplemental appropriations bills each year. The second set of tables show expenditures that flow each year from funding provided in that year or prior years. As much as two-fifths of expenditures in any given year are derived from funding appropriated in prior years.

These tables may provide more comparisons than some readers can use. We present these figures for two purposes — first, so readers confused by the calculations that various institutions are circulating can make the comparisons that they believe to be the most salient, and second, to document that no matter how the figures are calculated, the increases in funding for defense, international affairs, and homeland security far surpass those for domestic discretionary programs outside homeland security.

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<sup>5</sup> As explained in Kogan, *op cit*, the funding or “budget authority” data have been adjusted to account for scoring anomalies and gimmicks. These adjustments increase the total amount of funding relative to the amounts shown by CBO and OMB, but have little effect on the growth rates from 2001 to 2004 or from 2003 to 2004. All estimates are by CBO except for homeland security expenditure figures for 2001 and 2002 and expenditure estimates associated with funding for reconstructing New York City. CBO’s overall expenditure estimates do not show this level of detail, so we have estimated the outlays for those items based on CBO’s funding data.

<sup>6</sup> Adjusting appropriated funding for inflation is the approach that CBO takes when constructing its baseline. CBO does not simply adjust funding for changes in the CPI; it uses more complex inflation factors. Over time, however, CBO’s results are quite similar to a simple CPI adjustment.

<sup>7</sup> Measuring funding or spending as a share of the economy is the best way to determine if growth patterns are sustainable over time. If the economy grows and federal expenditures grow at the same rate (so that program costs do not increase as a share of the economy), taxes will not need to be raised and the federal government will consume no greater share of national income.

**Table 1a**

<b>Funding levels for Annually Appropriated (or Discretionary) Programs</b> (in billions of dollars)						
	<b>Defense, homeland security, and international affairs*</b>		<b>Domestic programs other than homeland security</b>		<b>Total</b>	
	<b>Funding Levels</b>	<b>Funding levels adjusted for inflation (in 2004 dollars)</b>	<b>Funding Levels</b>	<b>Funding levels adjusted for inflation (in 2004 dollars)</b>	<b>Funding Levels</b>	<b>Funding levels adjusted for inflation (in 2004 dollars)</b>
2001	\$344	\$362	\$338	\$356	\$681	\$718
2002	446	464	364	378	809	842
2003	515	523	382	389	897	912
2004	535	535	392	392	927	927
Percentage increase 2001-2004	55.5%	47.6%	16.3%	10.3%	36.1%	29.1%
Percentage increase 2003-2004	4.0%	2.2%	2.7%	1.0%	3.4%	1.7%

\* This category includes appropriations for the reconstruction of New York.

**Table 1b**

<b>Changes in Funding Levels for Appropriated Programs, Measured as a Share of the Economy</b>			
	<b>Defense, international affairs, and homeland security*, as a share of GDP</b>	<b>Domestic programs other than homeland security, as a share of GDP</b>	<b>Total, as a share of GDP</b>
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%
Increase 2001-2004	1.24% of GDP	0.06% of GDP	1.30% of GDP

\* This category includes appropriations for the reconstruction of New York.

**Table 1c**

<b>Growth from 2001 to 2004: Funding For Defense, International Affairs, and Homeland Security* Versus Funding For Other Discretionary Programs</b>		
	<b>Defense, International, and Homeland share of total dollar funding growth, 2001-2004</b>	<b>Domestic (outside Homeland) share of total dollar funding growth, 2001-2004</b>
In nominal dollars (no inflation adjustment)	78%	22%
After adjusting for inflation	82%	18%
As a share of GDP	95%	5%

\* This category includes appropriations for the reconstruction of New York.

Table 2a

<b>Expenditures for Annually Appropriated (or Discretionary) Programs</b> (in billions of dollars)						
	<b>Defense, homeland security, and international affairs*</b>		<b>Domestic programs other than homeland security</b>		<b>Total</b>	
	<b>Expenditures</b>	<b>Adjusted for inflation (in 2004 dollars)</b>	<b>Expenditures</b>	<b>Adjusted for inflation (in 2004 dollars)</b>	<b>Expenditures</b>	<b>Adjusted for inflation (in 2004 dollars)</b>
2001	\$337	\$356	\$312	\$329	\$649	\$684
2002	396	412	339	352	734	764
2003	460	467	364	370	824	838
2004	512	512	384	384	896	896
Percentage increase 2001-2004	51.7%	44.0%	23.3%	17.0%	38.1%	31.0%
Percentage increase 2003-2004	11.4%	9.5%	5.5%	3.8%	8.8%	7.0%

\* This category includes expenditures for the reconstruction of New York.

Table 2b

<b>Changes in Expenditures for Appropriated Programs, Measured as a Share of the Economy</b>			
	<b>Defense, international affairs, and homeland security,* as a share of GDP</b>	<b>Domestic programs other than homeland security, as a share of GDP</b>	<b>Total, as a share of GDP</b>
2001	3.36%	3.11%	6.47%
2002	3.82%	3.26%	7.08%
2003	4.24%	3.36%	7.61%
2004	4.46%	3.35%	7.82%
Increase 2001-2004	1.10% of GDP	0.25% of GDP	1.35% of GDP

\* This category includes expenditures for the reconstruction of New York.

Table 2c

<b>Growth from 2001 to 2004: Expenditures For Defense, International Affairs, and Homeland Security Versus Expenditures For Other Discretionary Programs</b>		
	<b>Defense, International, and Homeland share of total dollar expenditure growth, 2001-2004</b>	<b>Domestic (outside Homeland) share of total dollar expenditure growth, 2001-2004</b>
In nominal dollars (no inflation adjustment)	71%	29%
After adjusting for inflation	74%	26%
As a share of GDP	82%	18%

\* This category includes expenditures for the reconstruction of New York.