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PRESIDENT'S BUDGET WOULD ELIMINATE SEPARATE FUNDING CAPS FOR DEFENSE AND NONDEFENSE DISCRETIONARY PROGRAMS

Likely Result Would Be More Funding for Defense, Less for Domestic Programs

by Richard Kogan

The President's budget proposes to alter the structure, although not the overall level, of the "discretionary caps" that limit annual appropriations bills. It would combine the existing caps — which separately constrain total defense and total nondefense appropriations — into a *single overall cap on all discretionary appropriations*, starting in fiscal year 2014. In other words, the Administration proposes to tear down the firewalls separating defense and nondefense discretionary programs, throwing all funding into the same pot. (As explained below, the Administration is essentially proposing to return to the original cap structure under last August's Budget Control Act (BCA), before the failure of the Supercommittee triggered a reconfiguration of the caps.)

In the current political environment, in which advocates of defense spending are emphatic, defense contractors employ well-connected lobbyists and make substantial campaign contributions (and, in many cases, are strategically located in key congressional districts), and budgetary savings in defense often are attacked as jeopardizing national security, this proposal likely would lead to further cuts in domestic and international discretionary programs to help protect the military budget.

Indeed, the Administration's budget itself breaches the existing defense cap for 2013 by about \$5 billion, while providing nearly \$5 billion *less* for nondefense programs than the current cap allows. Such a funding shift is possible because the budget would change the 2013 caps from caps on defense and nondefense programs back to the original BCA caps on security and nonsecurity programs; the proposed funding levels for 2013 would match the proposed security/nonsecurity caps. (The security category includes various parts of the budget that are not in the defense category, such as the Departments of Veterans Affairs and Homeland Security, while excluding some spending that is within the defense category, such as cleanup of nuclear sites.)

The Existing Caps and the Proposal to Change Them

Annual discretionary appropriations, which fund about one-third of the budget, must stay within ceilings, or "caps," specified by law. If Congress votes more funding than the caps allow, the excess discretionary funding is eliminated *automatically* by across-the-board cuts known as "sequestration."¹

¹ The discretionary caps apply to funding, or "budget authority" — i.e., to the dollar amounts provided in appropriations bills. The rate at which those appropriations are spent is not constrained by caps — i.e., there are no outlay caps; it is

Box 1: What's Under the Existing Defense and Nondefense Caps

The caps apply to “discretionary” (or non-entitlement) programs — programs whose annual funding level Congress sets in annual appropriations legislation. The existing defense caps apply to the “National Defense Function”: the military budget of the Department of Defense plus about \$24 billion for the nuclear weaponry and environmental cleanup activities of the Department of Energy, the defense-related activities of the FBI, and a small number of other defense-related activities.

The nondefense caps apply to a far broader portion of the budget that includes: education; scientific and biomedical research; veterans’ medical care; NASA; national parks and forests; the administrative costs (but not the benefit costs) of entitlements such as Social Security and Medicare; environmental cleanup and protection; law enforcement; Head Start, child care, and other social services; job training; housing; low-income energy assistance; WIC (nutrition assistance for women, infants, and children); the State Department (including foreign aid); and the operations of the Treasury and Congress, among many other programs and activities.

Congress first enacted caps on discretionary programs in 1990, but they expired after 2002. Congress enacted caps again last August as part of the Budget Control Act (BCA). Currently, two caps apply each year: a “defense” cap and a “nondefense” cap (see Box 1). They apply both for the coming fiscal year (2013) and for each year through 2021. The caps are quite restrictive; relative to the funding levels for fiscal year 2010, adjusted for inflation, they will force cuts of 6.3 percent in defense and 12.7 percent in nondefense funding in 2013, growing to 10 percent in defense and 16 percent in nondefense by 2021.

Failure of the Supercommittee Altered the Cap Structure

When Congress enacted discretionary caps last August in the BCA, they were structured somewhat differently than they are now. For 2012 and 2013, the caps were to apply separately to security and nonsecurity discretionary programs rather than to defense and nondefense programs, and for 2014 through 2021, there would be a single overall cap. (See Box 2 for the difference between the security/nonsecurity and defense/nondefense categories.)

Under the BCA, however, the failure of the Joint Select Committee on Deficit Reduction (the Supercommittee) to achieve \$1.2 trillion in deficit reduction automatically triggered two separate changes in law.

- The original caps have been reconfigured: there now are firewalls between defense and nondefense programs for each year from 2013 through 2021. For 2013, the security and nonsecurity caps have become defense and nondefense caps, though the total amount for discretionary programs as a whole has remained unchanged. For 2014-2021, there now are two caps rather than just one overall cap.

the amount of funding provided through the appropriations process that is constrained. (Mandatory spending and revenues are not controlled by caps but rather by the Pay-As-You-Go rule, which requires Congress to offset the cost of legislation that cuts taxes or increases mandatory spending. If the net cost of all mandatory and revenue legislation enacted in a congressional session is not fully offset, then specified mandatory programs are cut automatically.)

Box 2: How Defense/Nondefense Caps Differ From Security/Nonsecurity Caps

As Box 1 explains, the defense caps apply to the National Defense budget function, which includes the military activities of the Department of Defense (DoD) and about \$24 billion of other activities.

The security caps, in contrast, exclude \$13 billion that is within the defense function for the Department of Energy's environmental cleanup of nuclear sites, some FBI activities, and certain other non-DoD activities. But the security category includes various parts of the budget that are not in the defense category: the entire Departments of Veterans Affairs (about \$58 billion) and Homeland Security (about \$45 billion), as well as the International Affairs part of the budget (about \$56 billion, overwhelmingly for the State Department and foreign military and other assistance). All of the above dollar levels refer to actual funding levels for 2012.

For 2013, the existing caps are \$546 billion for defense and \$501 billion for nondefense programs, totaling \$1.047 trillion. The Administration's proposed 2013 caps, in contrast, are \$686 billion for security and \$361 billion for nonsecurity, again totaling \$1.047 trillion. (The caps the budget proposes for 2013 are identical to the original BCA caps that had been slated to be in effect before the Supercommittee failed.)

- A sequestration has been triggered, to start in 2013 and run through 2021. (The sequestration mechanism was intended to induce the Supercommittee to achieve a compromise but now is scheduled to cut discretionary and some mandatory funding by \$984 billion over the nine-year period from 2013 through 2021.²⁾

The automatic reconfiguration of the caps into defense and nondefense caps through 2021 does *not* depend on implementation of sequestration — rather, it is *now law*, having been triggered by the failure of the Supercommittee. If Congress chooses to turn off the sequestration, as the Administration's budget proposes (in return for enacting a greater amount of savings through reductions in mandatory programs and revenue increases), that action will not reverse the reconfiguration of the caps.

However, the Administration is also proposing that Congress reverse the reconfiguration of the caps. It seeks to have the 2013 caps revert to their original security/nonsecurity configuration and levels, and it proposes that the 2014-2021 caps revert to one overall cap for each year on total discretionary funding. The Administration thus seeks to tear down the existing firewalls for 2014-2021.

What the Proposed Changes Would Portend

On its face, tearing down the firewalls would give the Administration and Congress more freedom to reallocate funding. But in the current political environment, the likely result would be that

² This sequestration is separate from any sequestration that may be needed to enforce either the discretionary caps themselves or the Pay-As-You-Go rule.

domestic cuts would be even deeper than already scheduled, while the defense cuts would be less deep.

The nondefense cuts required by the existing caps already are very substantial. Relative to the comparable 2010 funding levels adjusted only for inflation, the 2013 nondefense cap requires a cut of \$73 billion or 12.7 percent; by 2021, the cap for that year would reduce nondefense funding below the inflation-adjusted 2010 level by \$111 billion or 16 percent.³ (The 2010 appropriations levels are the appropriate starting point here, as they represent the last appropriations levels before cuts started to be made, and they contain no Recovery Act funding — all such funding was provided in 2009.)

The President's new budget itself supports our conclusion that tearing down the firewalls could squeeze nondefense funding even more tightly than the existing caps, as it moves some funding from nondefense programs to defense in 2013. The budget breaches the existing defense cap for 2013 by almost \$5 billion, while providing almost \$5 billion *less* than the current cap permits for nondefense programs. As noted, the Administration proposes to revert to the original security/nonsecurity caps for 2013, and its budget adheres to the caps as reconfigured in this way. This reallocation of this modest amount of funding in 2013 may be just a foretaste of much larger reallocations to come in future years, especially on Capitol Hill, if the firewalls are completely removed.

³ The cuts in discretionary programs required by the existing nondefense caps might be somewhat smaller than the dollar and percent figures we show above. The reason is that congressional rules allow Congress to enact cuts in mandatory programs through language contained in appropriations bills, and those cuts can take the place of cuts that would otherwise have to occur in discretionary programs. For 2013, the Administration has proposed \$18 billion of such mandatory cuts in appropriations bills. To the extent Congress goes along, discretionary programs will be cut somewhat less. But while this might mean that discretionary programs do not need to be cut in 2013 more deeply than they already have been in 2012, the caps will still squeeze more tightly with each year after that. And the actual cuts already made by 2012 are sizable; overall funding for nondefense discretionary programs in 2012 is 10.6 percent below the 2010 level, adjusted for inflation.