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## Non-Defense Programs Face Tight Funding in 2021

By Richard Kogan, David Reich, and Jennifer Beltrán

Last year's bipartisan budget agreement provided relief in fiscal years 2020 and 2021 from the 2011 Budget Control Act's (BCA) severe limits on defense and non-defense appropriations, but most of the increase over the 2019 levels came in 2020. As a result, funding will be quite tight in 2021 for non-defense appropriations, also known as non-defense discretionary (NDD) programs, relative to the levels those programs received in 2020. These programs cover a wide range of activities — from education to environmental protection, low-income housing assistance, veterans' medical care, national parks, international affairs, and scientific research.

For 2021, the additional funding available for NDD relative to its 2020 level is about \$11.7 billion, before adjusting for inflation. This figure reflects the \$5 billion (about 0.8 percent) increase in the statutory limit (or cap) on NDD funding between 2020 and 2021, plus the extra funds freed up by both the drop in Census Bureau needs after completion of the 2020 decennial census and projected increases in fee income from mortgage insurance programs, which help offset other appropriations. But virtually all of this \$11.7 billion apparent increase is expected to be needed just to cover rising costs for veterans' medical care, for which the President's budget requests an \$11.5 billion increase in 2021. Thus, almost any increases for other programs, including increases simply to counter the effects of inflation or a growing population, will require cuts elsewhere in the NDD budget.

With the boost provided by the 2019 budget agreement (the Bipartisan Budget Act of 2019), overall NDD funding in 2020 is now roughly back to its 2010 level in inflation-adjusted terms, after falling well below that level for much of the past decade. But that recovery largely reflects the substantial increases in funding for veterans' medical care, which grew by 48 percent between 2010 and 2020 after adjustment for inflation, while the rest of NDD shrank by 4 percent (see Appendix for an explanation of the data). So while increases provided in 2020 allowed for some important investments in areas such as the decennial census, housing assistance, and child care, overall funding for programs outside veterans' medical care remains below its level a decade ago.

## 2020 NDD Increase Helped Address Some Pressing Needs, Though Many Remain

The Bipartisan Budget Act of 2019 eliminated the threat of damaging cuts in annual appropriations that the BCA would have triggered in fiscal years 2020 and 2021.<sup>1</sup> For 2020, the new agreement set the NDD cap at \$621.5 billion, or \$24.5 billion (4.1 percent) over the 2019 cap. After accounting for inflation and funding provided outside the caps, the NDD funds available in 2020 were \$12.3 billion (1.9 percent) above the 2019 level.

As Figure 1 shows, seven of the 11 non-defense appropriations bills received inflation-adjusted increases in 2020 relative to 2019. The Commerce, Justice, Science bill received the largest increase (7.4 percent), in large part to address necessary decennial census costs, though the rest of the bill received an increase of over 2 percent in real terms. The second-largest increase, for Energy & Water, includes substantial increases for the U.S. Army Corps of Engineers and various Energy Department programs. The 5.2 percent increase for the Interior bill largely reflects a new arrangement for funding wildfire management. And the sizeable increase for the bill funding the Department of Veterans Affairs mostly results from rising costs for health care, due in part to the 2018 MISSION Act, which improves veterans' access to health services provided outside of VA facilities.

Last year's budget deal allowed investments in key areas such as early childhood development and rental assistance. The Child Care and Development Block Grant rose by nearly 8 percent in 2020, and Head Start rose by over 3 percent, after adjusting for inflation, though neither program is able to serve more than a fraction of eligible households even at these higher funding levels.<sup>2</sup> Funding for housing assistance programs — most of which help low-income seniors, families, and others to pay rent — increased 3 percent, after adjusting for inflation. This assistance is especially critical: 8.3 million renter households with very low incomes either pay more than half their income for rent or live in severely substandard housing,<sup>3</sup> and only 1 in 4 eligible low-income households receives any housing assistance due to funding limitations.<sup>4</sup>

Despite increases in some priority areas, 2020 appropriations left many needs unmet, including needs at the Social Security Administration (SSA) and Internal Revenue Service (IRS). SSA's operating budget fell over 10 percent between 2010 and 2019 after inflation, even as the number of Social Security beneficiaries grew by 17 percent. Yet SSA's inflation-adjusted funding declined again in 2020. Similarly, funding for IRS enforcement and operations support fell by nearly one-quarter in inflation-adjusted terms between 2010 and 2019. For 2020, IRS enforcement funding received a small inflation-adjusted increase of less than 1 percent — clearly insufficient given the depleted state

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<sup>1</sup> Sharon Parrott, Richard Kogan, and Roderick Taylor, "New Budget Deal Needed to Avert Cuts, Invest in National Priorities," Center on Budget and Policy Priorities, March 1, 2019, <https://www.cbpp.org/research/federal-budget/new-budget-deal-needed-to-avert-cuts-invest-in-national-priorities>.

<sup>2</sup> Douglas Rice, Stephanie Schmit, and Hannah Matthews, "Child Care and Housing: Big Expenses With Too Little Help Available," Center on Budget and Policy Priorities and CLASP, April 26, 2019, <https://www.cbpp.org/research/housing/child-care-and-housing-big-expenses-with-too-little-help-available>.

<sup>3</sup> Alicia Mazzara, "Census: Income-Rent Gap Grew in 2018," Center on Budget and Policy Priorities, September 27, 2019, <https://www.cbpp.org/blog/census-income-rent-gap-grew-in-2018>.

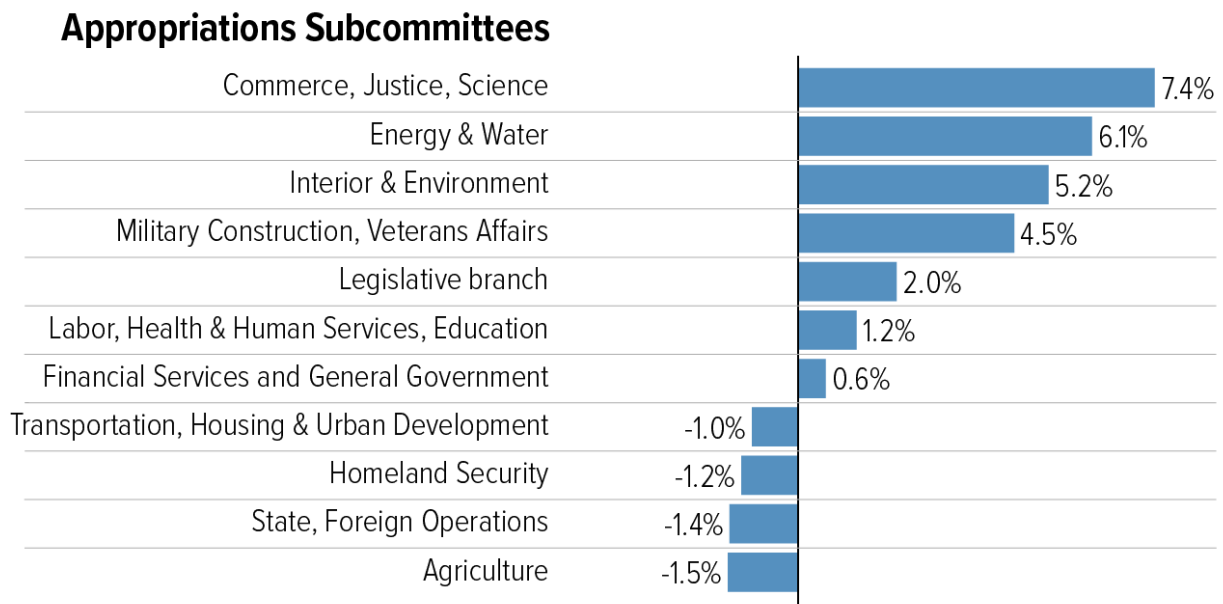
<sup>4</sup> "Three Out of Four Low-Income At-Risk Renters Do Not Receive Federal Assistance," Center on Budget and Policy Priorities, <https://www.cbpp.org/three-out-of-four-low-income-at-risk-renters-do-not-receive-federal-rental-assistance>.

of enforcement funding, which has weakened the agency’s ability to perform its core functions and likely is increasing the gap between the revenue owed and the revenue actually being collected.<sup>5</sup>

FIGURE 1

## 2020 Non-Defense Discretionary Funding

Percent change relative to 2019 level, in 2020 dollars



Note: Funding levels include: wildfire suppression, overseas contingency operations, and program integrity; levels exclude: mortgage insurance, and Changes in Mandatory Programs (CHIMPS). The increase for Commerce, Justice, Science is largely due to funding for the 2020 decennial census. The Veterans Affairs funding increase is due in large part to rising health care costs and the implementation of the 2018 MISSION Act, which increases veterans’ access to health care outside of VA facilities.

Source: Congressional Budget Office.

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## Greater Constraints on NDD in 2021

NDD programs face greater constraints in 2021 than in 2020, particularly outside of veterans’ medical care. These programs likely will lose ground overall after accounting for inflation, and lose still more when population growth is also accounted for.

Under the 2019 Bipartisan Budget Act, the NDD funding cap will rise by \$5.0 billion from 2020 to 2021, from \$621.5 billion to \$626.5 billion. Roughly \$3.7 billion of additional room will be freed

<sup>5</sup> Natasha Sarin, Lawrence Summers, and Joe Kupferberg, “Tax Reform for Progressivity: A Pragmatic Approach,” The Hamilton Project, January 28, 2020, [https://www.hamiltonproject.org/papers/tax\\_reform\\_for\\_progressivity\\_a\\_pragmatic\\_approach](https://www.hamiltonproject.org/papers/tax_reform_for_progressivity_a_pragmatic_approach).

up because the Census Bureau's needs will shrink in 2021 following the decennial census.<sup>6</sup> And fees generated by the federal mortgage insurance agencies will increase by \$3.0 billion in 2021, the Congressional Budget Office estimates.<sup>7</sup>

Taken together, therefore, as much as \$11.7 billion is available for funding increases from 2020 to 2021. However, the Administration's budget requests an increase of \$11.5 billion for veterans' medical care, which would consume virtually all of the overall increase under the cap. Given the high priority placed on meeting the health care needs of veterans, Congress is likely to appropriate close to the full amount requested for that purpose and quite possibly more.

But that's not all. NDD programs other than veterans' medical care and Census will need to grow by \$13 billion over their 2020 levels just to cover inflation, so they face about a 2½ percent cut in 2021 after inflation if they receive no nominal increase. If we also account for population growth — since a larger U.S. population means that additional funding is needed for many NDD programs — the cut grows to about 3 percent. The challenge for Congress will be how to deal with this constrained level of funding, since protecting various priority programs or providing increases for them will require deeper cuts in other programs.

## **NDD Programs Outside Veterans' Health Care Still Far Below 2010 Level**

The current squeeze on NDD funding dates back to 2011, after control of Congress changed hands in the 2010 election and NDD funding was reduced the following year. Those cuts became noticeably deeper when the BCA established separate caps on defense and NDD funding and reduced funding further through the "sequestration" process. Congress and the Obama and Trump Administrations subsequently agreed to scale back those cuts to varying degrees, most recently in the 2019 Bipartisan Budget Act.

Even with these agreements, overall NDD funding did not return to its inflation-adjusted 2010 level for a full decade, until 2020. This period of disinvestment has led to higher funding needs in various areas today. For example, agencies that deferred basic maintenance, repairs, and capital improvements in national parks and public housing developments need to catch up on this work. Also, deferred projects are sometimes more expensive than they otherwise would have been; for instance, delays in fixing a leaky roof in a public housing development can lead to more severe structural damage that costs more to repair. In other cases, the disinvestment meant that the public received fewer — or lower-quality — services than if funding had kept pace with inflation.

Moreover, the rise in funding for veterans' health care is increasingly squeezing other NDD programs. Veterans' health constituted nearly 9 percent of NDD funding in 2010 but grew to almost 13 percent in 2020, and is expected to grow further in 2021. That growth reflects rising costs of

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<sup>6</sup> The budget account for Periodic Censuses and Programs was funded at \$7.3 billion in 2020, but under the terms of the 2019 Bipartisan Budget Act, only \$4.8 billion of that funding counted against the 2020 cap. If we assume 2021 funding is equal to the Administration's budget request of \$1.1 billion, all of which counts against the 2021 cap, the decrease from 2020 will be \$1.7 billion. So the decrease from 2020 to 2021 in funding that counts against the cap is \$3.7 billion.

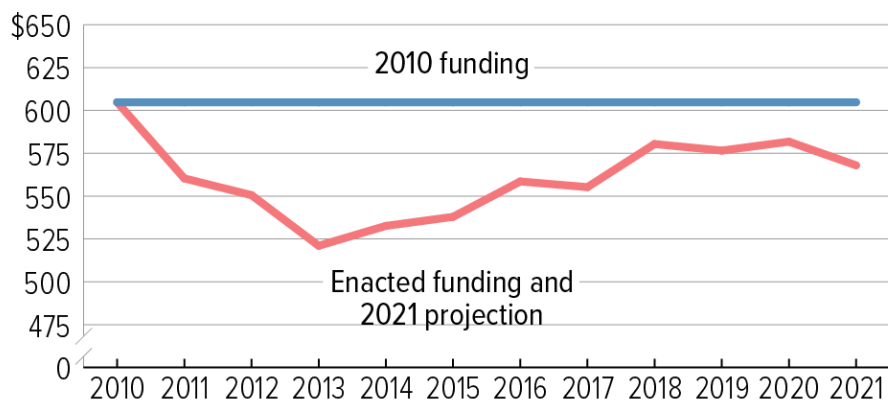
<sup>7</sup> This increase is relative to the amount CBO *scored* for 2020 against the 2020 NDD cap, not the slightly lower amount of fees CBO now believes will be received in 2020. Note that CBO's 2021 estimate of this fee income might change by as much as a few billion dollars before April, when CBO expects to settle on a "scoring base" for the 2021 appropriations bills.

medical care and measures to improve access to care provided outside VA facilities, among other factors. Looking at inflation-adjusted dollars, funding for veterans' health rose 48 percent from 2010 to 2020 and will rise more in 2021, while all other NDD programs *fell* 4 percent from 2010 to 2020 and will likely fall a bit more in 2021. (See Figure 2.<sup>8</sup>)

FIGURE 2

## Non-Defense Discretionary Funding Outside Veterans' Health Remains Below 2010 Level Adjusted for Inflation

In billions of 2021 dollars



Note: Amounts include: overseas contingency operations, program integrity, wildfire suppression; amounts exclude: veterans' health, the periodic census account, and savings from mandatory programs and housing receipts.

Source: CBPP analysis of data from the Office of Management Budget, Congressional Budget Office, and the Bipartisan Budget Agreement of 2019

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Finally, it's also worth looking at trends over longer periods of time, which analysts customarily do using spending relative to the size of the economy (gross domestic product or GDP). Total NDD spending for 2020 is 3.2 percent of GDP, near the lowest level on record in data going back to 1962.<sup>9</sup> (See Figure 3.) That percentage will likely head further downward in future years. In short, the share of the nation's resources that we devote to all NDD programs is near its lowest point in at least six decades. The bipartisan agreements over the last decade have only slowed this decline.

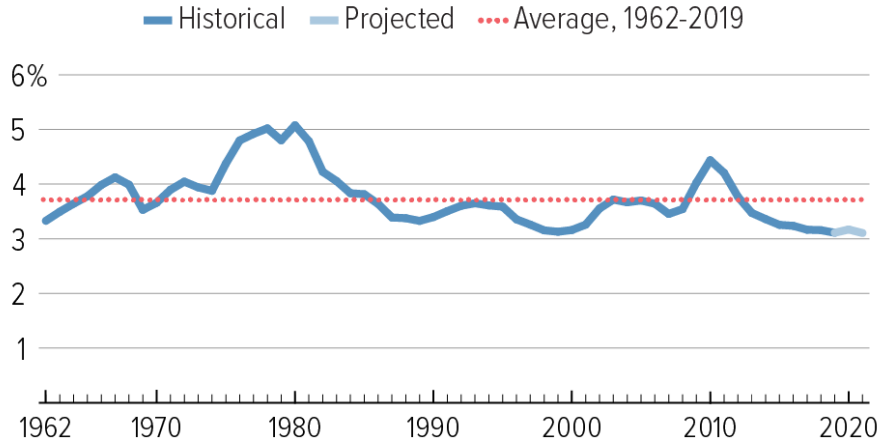
<sup>8</sup> Figure 2 excludes not only veterans' health but also funding for Periodic Censuses and Programs, to avoid the distorting effects of the temporary funding boosts provided in 2010 and 2020 to conduct the decennial census. Including the census funding would have made the 2010 and 2020 levels atypically high. However, NDD funding outside veterans' health fell by 4 percent between 2010 and 2020 whether or not census funding is excluded from the calculation, because both were decennial census years.

<sup>9</sup> Unlike other figures in this paper, these percentages are based on actual expenditures ("outlays") for appropriated programs in a given year, because this is the basis used in the long-term historical data maintained by the Office of Management and Budget. Outlays often occur in years after an appropriation is made. These spending figures include both amounts subject to the NDD caps and amounts outside the caps, such as for disasters and for all spending from the Highway Trust Fund. Because disaster funding can vary considerably from year to year, NDD outlays tend to spike after major disasters such as Hurricanes Katrina and Harvey.

FIGURE 3

## Non-Defense Discretionary Spending at Historic Lows

Spending as a percent of gross domestic product



Note: Available data go back to 1962.

Source: Congressional Budget Office and Office of Management and Budget

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## Appendix: Basis for Funding Data Used in This Paper

Except where the text indicates otherwise, numbers used in this paper for NDD appropriations represent funding subject to the caps set by the BCA, along with adjustments to better reflect actual programmatic funding. The adjustments are as follows:

- Certain categories of funding not subject to the caps are included to provide a more complete picture of overall non-defense appropriations trends. These categories are overseas contingency operations (“OCO”) funding for certain war-related costs, program integrity funding intended to help identify and eliminate fraud and abuse in areas such as federal health care programs and disability benefits, and funding to support management and control of wildfires.
- Two other categories of funding outside the caps — emergencies and disaster relief — are *not* included because their amounts fluctuate greatly from year to year, are unpredictable, and are often not final until late in the fiscal year.
- Two categories of offsets to appropriations are excluded from our figures. One is changes to mandatory programs made in appropriations bills (commonly known as “CHIMPs”), which provide offsetting savings to the discretionary appropriations measure that contains them. The other is fee income derived from mortgage insurance programs at the Department of Housing and Urban Development. Excluding these offsets (but not the funding they offset) better focuses the analysis on actual funding for appropriated programs.