

September 24, 2007

PRESIDENT'S ATTACK ON CONGRESSIONAL APPROPRIATIONS PLAN IS MISLEADING

His Defense Budget is Driving Higher Spending, Not Congress' Modest Domestic Increases

In the escalating battle over the domestic appropriations bills for fiscal year 2008, the President and senior Administration officials have charged that congressional Democrats plan an irresponsible increase of \$205 billion over the next five years in discretionary spending (i.e., spending on programs funded through the appropriations process). Yet this claim — which the President repeated in his press conference today — is false. It is based on misuse of budget numbers, including the use of a large gimmick that distorts the numbers in the President's budget. The facts are as follows:

- The \$205 billion is supposedly the amount by which total funding for *domestic* discretionary programs under the Congressional budget plan exceeds the President's proposed level. *But that does not make the \$205 billion figure an "increase" or what the President calls "new spending."* Most of this amount simply reflects a decision by Congress to maintain current funding (after accounting for inflation) for various domestic programs that the President seeks to cut.
- The difference between the President and Congress regarding domestic discretionary funding is *not*, in fact, \$205 billion; it is \$173 billion. The President proposes a \$111 billion cut over five years, while Congress plans a \$62 billion increase. (See Table 1, and Table 2 on page 2.) The White House has exaggerated the difference by \$30 billion through the use of a budget gimmick, which is explained in the box on page 5.
- These figures — the President's \$111 billion cut and Congress' \$62 billion increase — actually understate the

TABLE 1	
President would cut domestic funding \$111 billion; Congress would increase it \$62 billion.	
Cumulative domestic funding in billions of 2008 dollars over the five-year period 2008-2012	
Current level* maintained for 5 years (2008-2012)	2,314
Bush proposal (2008-2012)	2,203
Bush's proposed dollar reduction	-111
Bush's proposed percentage reduction	-4.8%
Congressional proposal (2008-2012)	2,376
Congress's proposed dollar increase	+62
Congress's proposed percentage increase	+2.7%
Bush vs. Congress	-173

* The current level is the 2007 funding level; maintaining it for five years means assuming it grows only with inflation over the period 2008-2012. Emergency funding (e.g. for Katrina relief) is not included in the above amounts.

TABLE 2

President would reduce, Congress would increase, domestic funding relative to its 2007 level (adjusted for inflation) in each of the next five years.
 (in billions of dollars, with funding for years other than 2008 adjusted for inflation, to be comparable with 2008 funding)

	2007 actual	2008	2009	2010	2011	2012	Total, 08-12
2007 level	463	463	463	463	463	463	2,314
Congress		475	479	479	472	471	2,376
President		451	448	440	434	430	2,203
Congress vs '07 level		+12	+16	+16	+10	+9	+62
President vs '07 level		-12	-15	-22	-28	-33	-111
President vs Congress		-24	-31	-38	-38	-41	-173

Notes: Figures may not add due to rounding. Emergency funding (e.g. Iraq and Katrina relief) is not included.

former and overstate the latter. They adjust for inflation but not for population growth. Many analysts, including ourselves (and including President Bush when he ran for President in 2000) have concluded that the most accurate way to measure increases or reductions in funding levels over time is to adjust for both inflation and population growth; only in this way can one measure the increases or decreases over time in what a given level of funding will purchase on a per-person basis, and thereby take into account that funding must be spread over more schoolchildren,

more veterans, and the like. If we adjust for population growth as well as inflation, the President's cuts rise to \$169 billion over five years, while Congress' increases shrink to zero: that is, the funding levels in the Congressional budget plan equal exactly what is required to maintain the 2007 funding levels for domestic appropriated programs, adjusted for inflation and increases in the U.S. population. For a fuller discussion of this issue, see the box on p. 4. (If one adjusts *only* for inflation, Congress' planned funding levels for domestic discretionary programs over the next five years will, on average, be 2.7 percent higher than the 2007 level, as shown in Table 1.)

What Are the Major Domestic Discretionary Programs?

The ten largest areas of domestic non-entitlement funding, from largest to smallest, are —

- Ground transportation, including highways, mass transit, bridges, and railroads;
- Elementary and secondary education;
- Veterans health care;
- Housing assistance for low-income families and elderly and disabled people, such as Section 8 vouchers;
- Health research and training, primarily at the National Institutes of Health;
- Federal law enforcement, e.g., the FBI and DEA;
- Public health services, such as community health centers;
- Higher education, including Pell Grants;
- The Federal Aviation Administration and airports; and
- NASA space flight.

- Ironically, the only substantial increases contemplated for appropriated programs are those that the President has requested for defense and international programs, which total \$252 billion over the next five years (i.e., \$252 billion above the 2007 levels for these programs, adjusted only for inflation). Moreover, this \$252 billion increase *does not count* the additional funding that

the President has requested — and will seek more of in the future — for operations in Iraq and Afghanistan. Congress plans to give the President virtually all of the increases he has requested in the defense and international areas. (See Table 3.)

- These sizeable increases for defense and international programs enable the President to claim that he has proposed generous increases in discretionary programs in general, and that Congressional Democrats are irresponsibly seeking to enlarge these already ample increases. In

reality, however, his large increases for defense and international programs mask the fact that he is proposing *cuts* in a broad array of domestic programs, and in domestic funding overall.

- The President’s claim that Congress’ planned levels of funding for domestic appropriated programs would require tax increases also is incorrect. Tax revenue naturally keeps pace with growth in the economy over time, so tax increases are necessitated when spending grows as a share of the economy

(unless deficits are permitted to grow). As shown in Table 4, the levels of domestic discretionary funding included in the Congressional budget plan, however, would *decline* as a share of the economy over the next five years, from 3.3 percent of GDP in 2007 to 3.0 percent of GDP in 2012. (Budgetary pressures surely are growing, but this is a result of *other* factors, including the steady rise in health care costs that is pushing up Medicare and Medicaid spending, the wars in Iraq and Afghanistan, large increases in Pentagon spending unrelated to Iraq and Afghanistan, and the revenue losses from the large tax cuts of recent years.)

TABLE 3
President and Congress would increase defense and international funding by about \$250 billion.
Cumulative funding in billions of 2008 dollars over the five-year period 2008-2012

Current level* maintained for 5 years (2008-2012)	2,493
Proposed levels** (2008-2012)	2,745
Proposed dollar increase	+252
Proposed percent increase	+10.1%

* The current level is the 2007 funding level; maintaining it for five years means assuming it grows only with inflation over the period 2008-2012. Emergency funding (e.g. for the Iraq and Afghanistan wars) is not included in the above amounts.

** The proposed levels shown are the President’s; Congress’s are \$3 billion lower for international programs.

TABLE 4
Discretionary funding falls as a percent of GDP and so does not put upward pressure on taxes

	2002-2006 avg.	2007	2008	2012
Defense & International*	3.7%	3.5%	3.8%	3.4%
Domestic – Bush	3.5%	3.3%	3.1%	2.7%
Domestic – Congress			3.3%	3.0%

* Defense and international funding are virtually the same under the congressional and presidential plans. Note that emergency funding (e.g. for the Iraq war or Katrina relief) is not included in the above amounts.

The Rhetoric and the Reality

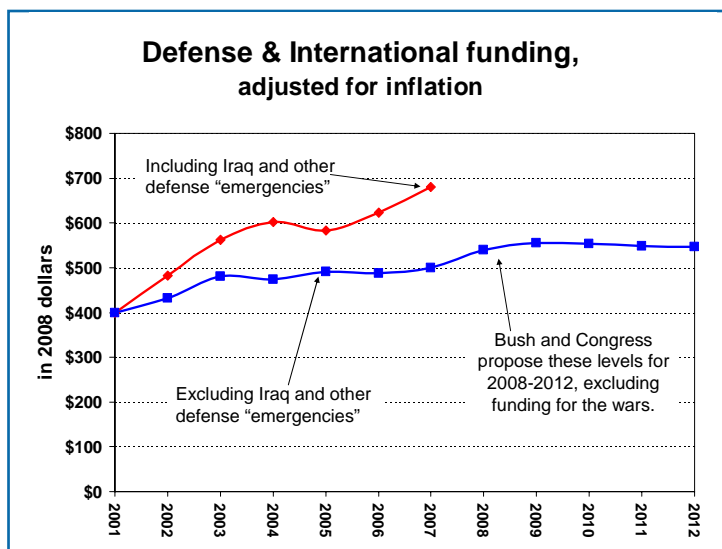
The White House has repeatedly charged that the domestic appropriations bills Congress is passing represent “irresponsible,” “excessive,” “runaway” spending. The Administration has indicated that it intends to veto seven appropriations bills that fund domestic programs.

Adjusting for Inflation and Population Growth

Adjusting funding levels for the inflation and population growth that has occurred since a particular year's funding was enacted makes the past funding levels comparable to the current levels in two respects. First, in determining whether government benefits or services are becoming more or less generous over time, one should account both for inflation and for the fact that benefits and services must be spread across a growing population (e.g., more veterans, schoolchildren, or elderly people who share a program's benefits). Second, in determining whether financing a program's costs is becoming more or less burdensome to taxpayers over time, one should account for population growth (as well as inflation) in order to take into account that the cost of financing the program is being spread over a larger number of taxpayers as the population grows.

President Bush himself said in the past that taking both inflation and population growth into account is the "honest" way to examine spending trends over time. For example, in 2000 the George W. Bush for President official web site defended Mr. Bush against the charge that he had been a "big spender" when he was Governor of Texas by saying, "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 on October 28, 1999: "Wednesday, Governor Bush said an 'honest comparison' of spending growth should take inflation and the state's increasing population into account." Many fiscal policy analysts, including those at CBPP, concur with that judgment.

In fact, the only large increases on the table are those the President himself has put forward for defense and international programs. The President has proposed increasing the Pentagon other military programs and international programs by \$42 billion in 2008 (after adjusting for inflation) and by \$252 billion over five years. These increases — which amount to nearly 10 percent by 2012 (9.4 percent to be precise) — are *in addition* to the large sums being devoted specifically to activities in Iraq and Afghanistan. There has been little public debate about whether ongoing defense programs that are unrelated to activities in Iraq and Afghanistan require such rapid increases. The Congressional budget plan accepts all of those military increases and most of the international increases.¹



¹ Although the congressional budget plan agreed to in the spring of 2007 — which is the basis for our analysis — accepts all of the defense increases in the President's budget, the Appropriations Committees have decided to move a few billion of Pentagon funding for 2008 to the Department of Veterans Affairs, which in terms of this analysis would shift those amounts from "defense" to "domestic" funding.

The \$30 Billion Gimmick – A Budget Distortion that Serves Political Ends

When the President discusses the five-year difference in funding for discretionary programs between his budget and Congress', he says that the difference is "nearly \$205" billion — rather than the \$173 billion shown in Tables 1 and 2. How does the President get a figure about \$30 billion higher than the figure in the tables?

Nearly all of the discrepancy is caused by a \$30 billion gimmick in the White House accounting. For policy reasons, the President's budget proposes scrapping most existing aviation user fees, such as the airline ticket tax, and replacing them with new fees to support the air traffic control system, starting in 2009. The \$30 billion in new fees would almost exactly equal the existing fees they would replace; the Administration and others believe the proposed fees would raise revenue in an economically sounder way. For technical accounting reasons, the elimination of the existing fees is correctly recorded as a tax cut of nearly \$30 billion while the imposition of the new user charges would be accounted for as an offset to, or a "reduction" in, spending. But because the proposal would merely substitute one fee for another, it would *not* reduce the size of any domestic discretionary programs or the overall cost of the air traffic control system. It would neither increase nor decrease the deficit or the size of the government. The White House is using this maneuver to claim that Democrats in Congress favor another \$30 billion in irresponsible discretionary spending increases that would necessitate future tax increases.

An additional indication that the proposed aviation fees are not intended as a reduction in domestic discretionary funding comes from the budget process section of the President's budget, itself. In that section, the President proposes establishing statutory caps on the total amount of appropriations that can be enacted each year through 2012. The dollar levels of the proposed appropriations caps do *not* treat the proposed new aviation fees as reductions in appropriated spending.* Consequently, the proposed funding caps are *\$30 billion higher* than the amount of appropriations funding that is shown in the President's budget and cited when the President charges that the Congressional budget plan increases spending by \$205 billion. Put differently, the congressional levels are not "nearly \$205" billion above the President's proposed discretionary caps; rather, they are "nearly \$175" billion above the Administration's discretionary caps.

*See Analytical Perspectives, Budget of the United States Government, OMB February 2007, page 212.

In the domestic arena, what the President seeks are \$12 billion in *cuts* in for 2008 and \$111 billion in cuts over five years, relative to 2007 levels adjusted only for inflation, although White House rhetoric consistently masks this fact.² In 2006, the President sought similar cuts in domestic

² In an earlier analysis, *The Fight over Appropriations: Myths and Realities*, we showed that President Bush called for \$16 billion in funding cuts for 2008 (relative to 2007 levels adjusted for inflation) in eight domestic appropriations bills. The \$12 billion in cuts in domestic appropriations that this analysis cites, and the \$16 billion in cuts cited in the prior analysis, differ because this analysis is based on the domestic *budget "functions"* while the prior analysis was based on eight domestic *appropriations bills*. The difference between these two numbers primarily involves veterans programs and homeland security programs. In the earlier analysis, we classified the Military Construction – Veterans Administration bill and the Homeland Security bill as security and international programs rather than domestic programs. However, the veterans portion of the first bill and essentially all of the second bill are part of budget functions that are considered domestic. Consequently, we classify the \$1.9 billion in increases the president proposes for veterans programs and the \$1.5 billion in increases he proposes for homeland security programs as domestic for purposes of this analysis. Treating these programs as domestic reduces the net domestic reductions planned by the president from \$16 billion to \$13 billion, and other minor adjustments further reduce the figure to \$12 billion.

appropriations programs and could not get them through a Republican Congress. Now, when a Democratic Congress is similarly resisting such cuts, Congress' actions are labeled by the White House as irresponsible and unacceptable.

But once we adjust for inflation, we see that the domestic discretionary increases planned by Congress are modest; funding would be a total of 1.9 percent higher in 2012 than in 2007.³ By contrast, during his first five years in office, the President signed into law domestic discretionary funding increases that reached 11 percent — with no vetoes and no attacks on those increases as being irresponsible.

³ On page 2, we noted that the inflation-adjusted level of funding in the congressional plan would be 2.7 percent higher than the 2007 level, on average, over the five-year period 2008-2012. However, these inflation-adjusted levels would shrink after 2009, and so by 2012 would end up only 1.9 percent above the 2007 level.

Appendix: The Data Used in This Analysis

Sources: Figures for 2001 through 2006 are derived from discretionary budget authority in OMB’s public database as of February 2008, including OMB’s classifications of amounts as discretionary and its disaggregation of those amounts by budget function (i.e., between national defense, international affairs, and the other functions, which we call domestic). Figures for 2007 are derived from CBO data issued in August 2007. Figures for 2008 through 2012 in the congressional budget plan are derived from figures in tables contained in the conference report on the congressional budget plan. Figures for the President’s budget for 2008 are derived from CBO’s reestimate of the President’s budget, issued in March 2007. Finally, figures for the President’s budget for 2009-2012 start with those contained in backup tables prepared by OMB and shared with Congress in February 2007. We adjust these raw data in three ways, as explained below: by removing supplemental and emergency funding, by adjusting for scorekeeping anomalies, and by adjusting outyear data for inflation (and, in some parts of the analysis, for inflation *and* population growth).

Why did we disaggregate funding by budget function rather than by Appropriations subcommittee?

This analysis disaggregates appropriations between defense and international affairs on the one hand, and domestic appropriations on the other. The congressional budget plan and the President’s budget specify these amounts.*

An alternative approach might have been to look at specific appropriations bills. But for years after 2008, the President’s budget and the congressional plan specify funding targets *only* by budget function, not by appropriations bill.

1. Removal of supplemental and emergency funding

Our analysis removes all funding enacted in supplemental appropriations acts since January 2001, or enacted in regular or omnibus appropriations acts but designated by Congress as an “emergency.” (With a few exceptions, almost all supplemental funding was designated an emergency, and almost all emergencies were enacted as supplemental funding.) It also excludes future emergency funding assumed by the President or Congress.

TABLE 5			
DOMESTIC FUNDING:			
Effect of Adjustments on Cumulative Levels, 2008-2012			
In billions of dollars			
	Bush	Congress	difference
Nominal funding, cumulative 2008-2012	\$1,980	\$2,186	\$206
Remove supplemental and emergency funding	+2	-1	-3
Remove airline user fee “savings”	+30	n.a.	-30
Adjust for certain advance appropriations	0	+2	+2
Adjust for §8 housing	+17	+17	0
Include transportation obligation levels	+271	+279	+7
Cumulative 2008-2012 funding, adj. for anomalies	2,300	2,482	+182
Adjust 2009-2012 amount for inflation	-97	-106	-9
Cumulative 2008-2012 funding, adj. for inflation	2,203	2,376	+173
Also adjust 2009-2012 amounts for population	-37	-40	-3
Cumulative 2008-2012 funding, adjusted for population growth and inflation	2,166	2,335	+169

NOTE: Figures may not add or subtract due to rounding; “n.a.” means not applicable

2. Adjustments for scorekeeping anomalies

We make four adjustments to historical and proposed funding levels to remove scorekeeping anomalies.⁴

- **Airline user fees.** As explained in the box on page 5, we remove from the President's figures the purported "discretionary savings" derived from his proposal to substitute new airline user fees for existing airline user taxes.
- **Certain advance appropriations.** For programs whose 12-month funding period straddles two fiscal years, we count all funding for that period in the first of the two fiscal years. (Official scoring splits the funding between the two fiscal years.) Most such programs are education programs, funded on a school-year basis, and our approach matches that taken by the Department of Education. In this case, the congressional budget plan assumes a \$2 billion increase in such funding that will be officially recorded in 2009 but that we record in 2008. We do this because the \$2 billion effectively increases the level of education funding for the 2008/2009 school year despite being recorded as 2009 funding (the monthly payments to school districts for the 2008/2009 school year will be higher than they would have been without the \$2 billion and will be the same whether the extra \$2 billion is recorded as 2008 or 2009 funding). Our approach of counting the \$2 billion as 2008 funding properly includes it as part of the overall education increase occurring between the 2007/2008 school year (which is already funded) and the 2008/2009 school year (whose funding level is in dispute).
- **Section 8 housing.** For this low-income housing program, budget authority understates the actual cost of the programs because some rental assistance continues to be financed by multiyear contracts whose funding was recorded in prior years. In addition, rescissions of older funds that turn out to be unused occur irregularly, distorting year-to-year trends. Adjustments are needed in order for comparisons of funding levels for different years to represent apples-to-apples comparisons, rather than comparisons of apples to oranges.
- **Transportation trust fund "obligation levels."** The highway, mass transit, and aviation programs funded from their respective trust funds are discretionary programs, and *expenditures* for these programs are officially and correctly recorded as discretionary. But, because of an unfortunate precedent set decades ago, *funding* for these programs is officially recorded as mandatory. To correct this anomaly, we treat the limit on obligations that is established in the annual Transportation appropriations bill as discretionary budget authority. We use the obligation limits in the House-passed Transportation bill to represent the House plan for 2008. The President's budget specifies his requested obligation levels for 2008 and, in backup documents, for 2009. For years after those specified, we assume that the congressional and presidential obligation limits would grow at the same rate as discretionary expenditures in the Transportation budget function in the congressional and presidential budgets, respectively.

⁴ A more complete explanation of the reason for the second, third, and fourth adjustments is included in the appendix to Kogan, *The Omnibus Appropriations Act: Are Appropriations For Domestic Programs Exploding?*, Center on Budget and Policy Priorities, revised February 1, 2004, at <http://www.cbpp.org/12-16-03bud.pdf>.

3. Adjustments for inflation and population growth

We adjust figures for years other than 2008 to account for the fact that prices rise over time. In the parts of the analysis that cite figures reflecting an adjustment for population growth, we also adjust the figures (for years other than 2008) to reflect the fact that the U.S. population grows over time. For example, the combination of higher prices and a larger population means that the real, per-person value of a dollar of federal benefits will be worth an estimated 12.9 percent less in 2012 than in 2008.

Table 5, on page 7, shows the effects of the adjustments discussed in this appendix, and Table 6 shows the figures for each year and over five years as adjusted for scorekeeping anomalies.

TABLE 6				
Domestic Funding By Year, 2007-2012				
In billions of dollars				
All amounts exclude emergency funding and are adjusted for scorekeeping anomalies				
	Defense & International*	Domestic programs		
		Bush	Congress	Difference
Nominal amounts:				
2007	485	451	451	
2008	540	451	475	24
2009	568	458	489	32
2010	579	460	500	40
2011	586	463	504	40
2012	595	469	514	45
Total, 08-12	2,867	2,300	2,482	182
% change, 07-12	22.6%	4.1%	14.1%	
Adjusted for inflation:				
2007	499	463	463	
2008	540	451	475	24
2009	556	448	479	31
2010	554	440	479	38
2011	549	434	472	38
2012	546	430	471	41
Total, 08-12	2,745	2,203	2,376	173
% change, 07-12	9.4%	-7.1%	1.9%	
Adj. for population & inflation:				
2007	503	467	467	
2008	540	451	475	24
2009	551	444	475	31
2010	545	433	471	38
2011	535	423	460	37
2012	527	416	456	40
Total, 08-12	2,698	2,166	2,335	169
% change, 07-12	4.8%	-11.0%	-2.4%	
As a percent of GDP:				
2007	3.5%	3.3%	3.3%	
2008	3.8%	3.1%	3.3%	0.2%
2009	3.8%	3.0%	3.2%	0.2%
2010	3.6%	2.9%	3.1%	0.3%
2011	3.5%	2.8%	3.0%	0.2%
2012	3.4%	2.7%	3.0%	0.3%
% point change, 07-12	-0.1%	-0.6%	-0.3%	

*NOTE: Figures may not add or subtract due to rounding. For defense and international programs, the amounts in the Bush budget and the congressional plan are almost identical; this table shows the President's amounts, while the congressional total is \$3 billion lower over five years. Amounts included in tables or text elsewhere in this report are highlighted in blue.