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CONGRESS HAS CUT DISCRETIONARY FUNDING BY $1.5 TRILLION OVER TEN YEARS

First Stage of Deficit Reduction Is In Law

by Richard Kogan

Policymakers and budget experts generally agree on the need to reduce projected deficits and put the federal budget on a sustainable path. They have focused less attention, however, on the amount of deficit reduction that the 112th Congress and the President have enacted. Reductions in funding for discretionary (i.e., non-entitlement) programs enacted last year, primarily in the Budget Control Act, have produced $1.5 trillion in savings in discretionary spending for fiscal years 2013 through 2022. This part of the budget includes defense, international programs, and an array of domestic programs ranging from education to law enforcement, food safety, and environmental protection.

Two-fifths of the $1.5 trillion in savings from cutting and capping funding for discretionary programs comes from defense, while the other three-fifths comes from reductions in domestic and international programs. These reductions will shrink non-defense discretionary spending to its lowest level on record as a share of GDP, with data going back to 1962.

The $1.5 trillion in reductions in discretionary spending also will produce lower interest payments on the debt. The interest savings amount to about $250 billion, bringing the total deficit reduction achieved to date to more than $1.7 trillion.

Impact of the Budget Control Act

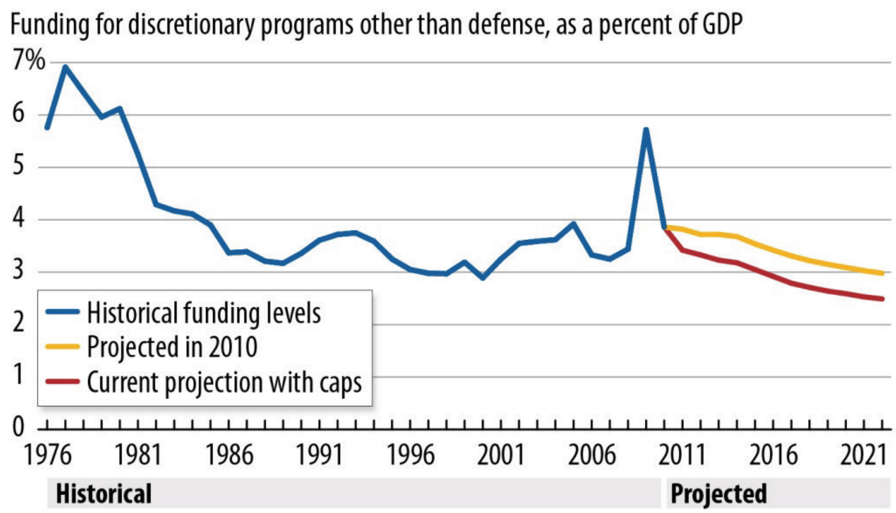
The Budget Control Act (BCA), enacted in August 2011, sets a cap on the total amount of funding (budget authority) that may be provided each year for discretionary programs, as well as separate "sub-caps" for defense and non-defense discretionary programs. The resulting levels of discretionary funding, as projected by the Congressional Budget Office (CBO) for the ten fiscal years from 2013 through 2022, are $1.5 trillion below the CBO baseline that was in place when the 112th Congress took office. That baseline reflected the final fiscal year 2010 funding levels for discretionary programs, adjusted for inflation in subsequent years.

The CBO baseline that reflected the 2010 appropriation levels adjusted for inflation is the appropriate measuring stick to use. It is the CBO baseline that was in place when the 112th Congress took office *and* when the Bowles-Simpson and Rivlin-Domenici budget plans — both of which are now standards against which other plans are compared — were issued in late 2010. In essence, policymakers last year enacted the bulk of the reductions in discretionary funding that the Bowles-Simpson plan called for, and the discretionary funding reductions they enacted exceed those that the Rivlin-Domenici deficit-reduction plan called for.

It should be noted that the 2010 appropriation levels are not pumped up by increased funding from the Recovery Act; all of the increases in discretionary funding under the Recovery Act are *2009* appropriations; they do *not* show up in the 2010 appropriations levels, as Figure 1 shows. (While many of the Recovery Act funds were not *spent* until 2010 or subsequent years, they are not part of the appropriations for 2010 and don't affect the August 2010 CBO baseline funding levels for 2010 and subsequent years.)

Figure 1

Discretionary Funding Projected to Fall to Historically Low Levels



Note: The funding spike in 2009 reflects the discretionary portion of the Recovery Act, which constituted a one-time appropriation. The smaller spike in 2005 reflects disaster relief after Hurricane Katrina.

Source: Center on Budget and Policy Priorities based on Office of Management and Budget and Congressional Budget Office data.

The $1.5 trillion in budget reductions in discretionary programs that policymakers have enacted reflect two actions that policymakers took last year. First, in the spring of 2011, Congress and the President cut discretionary funding for fiscal year 2011 *below* the 2010 inflation-adjusted level, and thereby reduced the base on which discretionary funding levels for future years are built. Second, in August 2011, they reduced future-year funding substantially by enacting the BCA, which established statutory caps on total discretionary funding and separate "sub-caps" on funding for defense and non-defense (i.e., domestic and international) discretionary programs for 2012 through 2021.[1] (Note: the Budget Control Act also required across-the-board budget cuts, called sequestration, if

[1] The BCA originally established caps on security and nonsecurity discretionary funding through 2013 and aggregate limits on total discretionary funding from 2014 through 2021. One of the automatic consequences of the failure of the "supercommittee" process is that, under another provision of the BCA, these limits now apply to defense and non-defense discretionary funding rather than security and nonsecurity funding, and the sub-caps on the two categories now apply through 2021.

the Joint Select Committee on Deficit Reduction, otherwise known as the "supercommittee," failed. The $1.5 trillion in budget reductions discussed here do *not* include the additional budget cuts that will be made if sequestration takes place.)

Under the BCA caps, non-defense discretionary funding will, by 2022, be 15 percent below the 2010 level adjusted for inflation. Defense funding will be about 10.5 percent below that level. See Table 1, below.

Measuring the Cuts from the 2010 Funding Path

To a large extent, the deficit-reduction debate in its current form began in late 2010 with the issuance of deficit-reduction plans by former Clinton White House Chief of Staff Erskine Bowles and former Republican Senator Alan Simpson (co-chairs of the President's Commission on Fiscal Responsibility and Reform) and some other members of that commission, as well as by a Bipartisan Policy Center task force chaired by former Senate Budget Committee chairman Pete Domenici and former OMB and CBO director Alice Rivlin.

At that time, fiscal year 2010 appropriations were in effect. Both the Bowles-Simpson and Rivlin-Domenici plans proposed capping discretionary funding well below the 2010 level, adjusted for inflation.[2] Policymakers' subsequent reductions in appropriations for 2011 and enactment of the BCA caps in August 2011 largely implemented the discretionary cuts that Bowles and Simpson recommended, while going substantially beyond the Rivlin-Domenici plan in this area. These savings need to be taken into account in any discussion of how a current proposal compares with the Bowles-Simpson and Rivlin-Domenici proposals.

Table 1

Funding Reductions Enacted in 2011, Relative to 2010 Funding Levels Adjusted for Inflation

(by fiscal year, dollars in billions)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Domestic/international (non-defense):											
Dollar reduction	67	71	75	83	90	94	98	102	106	108	**894**
Percent reduction	12%	12%	12%	13%	14%	14%	15%	15%	15%	15%	
Defense:											
Dollar reduction	40	44	50	57	61	65	70	73	77	78	**616**
Percent reduction	7%	7%	8%	9%	9%	10%	10%	10%	11%	11%	
Total appropriations:											
Dollar reduction	107	115	126	140	152	160	168	175	183	186	**1,510**
Percent reduction	9%	10%	10%	11%	12%	12%	12%	13%	13%	13%	

Note: War costs are excluded from all figures in this table. May not add due to rounding.

[2] The Bowles-Simpson report described its discretionary savings relative to the request for discretionary funding in President Obama's fiscal year 2011 budget, not to the 2010 levels.

It is worth noting that, at 3.8 percent of GDP in 2010, domestic and international discretionary funding was well within the historical norm: over the prior 30 years, such funding ranged from 2.9 percent to 6.1 percent of GDP and averaged 3.7 percent. See Figure 1. As noted, the 2009 Recovery Act provided all of its discretionary funding for fiscal year 2009, so 2010 funding levels do not include any exceptional one-time costs. In fact, funding for disaster relief was unusually *low* in 2010, almost $10 billion below the historical average.

The 2010 funding level consequently does not reflect a starting point that is elevated by unusually high or one-time appropriations. It simply reflects the level that Congress deemed appropriate before the current round of deficit-reduction discussions and actions began.[3]

In addition, as Figure 1 above shows, by the end of the decade, the caps on non-defense discretionary funding will reduce that area of the budget to its lowest level on record as a percent of GDP. Such funding data go back to 1976. (The funding spike shown in Figure 1 for 2009 reflects the discretionary portion of the Recovery Act, which constituted a one-time appropriation. The smaller spike in 2005 reflects disaster relief after Hurricane Katrina.) The resulting *spending* or outlay levels (as distinct from funding levels) will also be the lowest on record, with such spending data going back to 1962.

Policymakers Reduced Funding in Two Steps

The 112th Congress (the current Congress, which convened in January 2011) cut funding in two steps. First, in April 2011 (6½ months after the beginning of fiscal year 2011), it enacted final appropriations for the fiscal year at levels substantially below the 2010 levels adjusted for inflation. This produced savings in 2011 *and* reduced the baseline projections for discretionary funding for 2012 through 2021.[4]

Second, as part of the BCA, enacted in August 2011, Congress established statutory caps on total appropriations and separate sub-caps on defense and non-defense appropriations for 2012 through 2021 at levels well below the revised baseline projections. These caps produce substantial additional savings in 2012 through 2022 relative to the fiscal year 2010 funding path. (We assume funding in 2022 is at the 2021 cap level, adjusted for inflation, exactly as CBO has done; we use the CBO projections for discretionary funding in 2022.)[5]

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[3] Some descriptions of budget plans considered in 2011, including plans suggested by members of the deficit-reduction "supercommittee," measured their cuts from CBO's March 2011 baseline rather than CBO's August 2010 baseline. The March 2011 baseline is less analytically useful than the August 2010 baseline, however, because it is "neither fish nor fowl." The 2011 baseline's level for fiscal year 2011 does not represent the final inflation-adjusted level of funding enacted by the 111th Congress because it omits one year of inflation and incorporates only the first of some funding cuts insisted upon by the 112th Congress. Moreover, it does not represent the final funding levels or priorities of *either* the 111th Congress or the 112th Congress because it is simply based on a temporary Continuing Resolution left over from the 111th Congress.

[4] In the absence of statutory caps on future appropriations, CBO and the Office of Management and Budget produce baseline projections of discretionary spending that assume funding in future years will be at the same level as the most recently enacted appropriations levels, adjusted for inflation.

[5] The statutory caps are enforced by automatic across-the-board cuts (a few discretionary programs are exempted) if Congress enacts funding above the specified caps.

The figures in this analysis show the combined effect of these two steps. As noted, the figures do not include the "sequestration" scheduled to be triggered on January 2, 2013, as a result of the failure of last fall's "supercommittee" to achieve enactment of a major deficit-reduction plan. They reflect only the effect of the BCA caps, which were intended to reduce discretionary funding whether or not the supercommittee succeeded.

Projected War Costs Have Also Fallen by Half a Trillion Dollars

This analysis excludes the costs of the Iraq and Afghanistan wars; the savings from scaling down these military operations are not counted as deficit reduction here. We follow this course for several reasons: war costs are outside the BCA's discretionary caps, and deficit-reduction discussions have generally addressed war costs separately from other discretionary spending (if they have addressed them at all). Most budget analysts do not count anticipated savings from winding down these wars as deficit reduction, primarily because they view the draw-down of costs from the wars in Iraq and Afghanistan as current policy that was already in place in 2010.

It is worth noting, however, that fiscal year 2012 funding for war efforts already is more than $40 billion lower than the inflation-adjusted 2010 level. CBO currently projects war funding to be about $470 billion lower over 2013-2022 than it had projected in 2010.[6]

Resulting Spending Reductions Represent Significant Part of a Larger, Balanced, Deficit Plan

This analysis has discussed funding or budget authority cuts — the amount by which appropriations levels are or will be lower than they would have been under the 2010 funding path. These funding cuts will produce expenditure or outlay reductions over ten years (although changes in spending lag slightly behind changes in funding[7]). The ten-year estimated *spending* reductions and the ten-year *funding* reductions are essentially the same: about $900 billion in domestic and international programs and $600 billion in defense.

The estimated spending reductions will reduce non-defense discretionary spending to 2.7 percent of GDP, the lowest level on record, with data going back to 1962. Over the last 50 years, NDD spending has ranged from 3.2 percent to 5.2 percent of GDP, averaging 3.9 percent.

The $1.5 trillion of reductions in defense and non-defense discretionary spending that the 112th Congress and the President achieved represent a significant component of any comprehensive, balanced deficit-reduction plan. These discretionary spending reductions will generate about $250 billion in interest savings through 2022 by reducing projected deficits and debt, for total deficit

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[6] Moreover, CBO projects an alternative path in which troop levels for the war in Afghanistan would drop to 45,000 by 2015 and remain at that level. That path would reduce projected war funding for 2013-2022 by another $930 billion, for a total "peace dividend" of $1.4 trillion, above and beyond the $1.5 trillion in non-war cuts shown in Table 1.

[7] Expenditures lag behind funding because federal money often moves slowly from the Office of Management and Budget to federal agencies to federal employees, state and local governments, contractors, or grantees.

reduction of $1.7 trillion. These reductions are best thought of as the first stage of deficit-reduction action that is likely to consist of several measures enacted over several years.

Appendix: Data and Methodology

2010 baseline. The starting point for this analysis is CBO's August 2010 baseline, which reflected the levels of discretionary budget authority enacted in the final appropriations bills for fiscal year 2010. Congress enacted the 12 regular appropriations bills for that year in the fall of 2009, with six of the bills combined into a single piece of legislation. In addition, three small supplemental appropriations for 2010 (for disaster assistance, border security, and the Patent and Trademark Office) were enacted in the summer of 2010 and are included in CBO's figures. CBO projected this discretionary budget authority through 2020 following the baseline projection rules in §257 of the Balanced Budget and Emergency Deficit Control Act of 1985, which essentially adjusts current-year funding to account for projected inflation.

Our figures adjust CBO's August 2010 projection in two ways.

- We exclude the discretionary budget authority that Congress identified as being for war costs ("overseas contingency operations").
- We extend CBO's 2010 baseline two additional years, to 2022, by increasing budget authority in 2021 and 2022 at the same rate CBO had used for 2020.

Current baseline. To calculate how the enactment of the fiscal year 2011 appropriations levels and the BCA caps affected funding levels relative to the 2010 baseline, we compare CBO's August 2010 baseline (adjusted as discussed above) with its August 2012 "capped baseline," excluding war funding. CBO's capped baseline shows funding levels consistent with the BCA, including upward cap "adjustments" permitted by the BCA for disasters and special program integrity funding; the BCA imposes separate, special caps on those upward adjustments. (The BCA allows a limited amount of extra funding to the Social Security Administration and the Department of Health and Human Services to determine beneficiaries' continuing eligibility for disability payments and to fight provider fraud in Medicare. This extra discretionary funding has been shown to more than pay for itself by reducing the entitlement spending that would otherwise occur in the form of disability benefits and Medicare reimbursements.)

CBO's capped baseline, unlike its official baseline, does not reflect the sequestration scheduled to occur January 2, 2013, and in subsequent years because of the failure of the Joint Select Committee on Deficit Reduction (the "supercommittee"). Therefore, our analysis shows the amount of savings that the discretionary caps themselves will achieve over the ten-year period 2013-2022 relative to the inflation-adjusted level of 2010 funding; it does not include the additional savings that will occur if sequestration takes place.