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The Budget Control Act and Trends in Discretionary Spending

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Summary

Discretionary spending is provided and controlled through appropriations acts, which fund many of the activities commonly associated with such federal government functions as running executive branch agencies, congressional offices and agencies, and international operations of the government. Essentially all spending on federal wages and salaries is discretionary. Spending can be measured by budget authority (BA; what agencies can legally obligate the government to pay) or outlays (disbursements from the U.S. Treasury). This report mostly discusses trends in outlays.

Federal spending in fiscal year (FY) 2014 was just over a fifth (20.3%) of the U.S. economy, as measured as a share of gross domestic product (GDP), which is close to its average share since FY1962. Discretionary spending accounted for 33% of total outlays in FY2014 ($3,504 billion), well below mandatory spending's share (60% of outlays in FY2014). Weak economic conditions in recent years as well as demographic trends have increased spending on mandatory income support and retirement programs, while policy makers have acted to constrain the growth of discretionary spending. As interest rates return to more normal levels as the recovery proceeds, net interest costs—6.6% of federal outlays in FY2014—are projected to rise.

Discretionary spending's share of total federal spending has fallen over time largely due to rapid growth of mandatory outlays. In FY1962, discretionary spending accounted for 67% of total outlays and was the largest component of federal spending until the mid-1970s. Since then, discretionary spending as a share of federal outlays and as a share of GDP has fallen. Under current law projections, discretionary spending's share of GDP will fall to 5.2% in FY2024. Discretionary spending can be split into various categories to reflect broad national priorities or how federal spending decisions are made. In FY1962, discretionary spending was 12.7% of GDP, with defense spending making up 9.3% of GDP. In FY2014, discretionary spending was 6.8% of GDP, with defense spending (including war) totaling 3.5% of GDP. Defense spending can be divided between base budget and war expenditures, both of which grew sharply from FY2002 through FY2011. On average, defense outlays grew 6.8% per year in real terms from 2000 to 2010, while real non-defense discretionary outlays grew 5.6% per year. Discretionary spending has also been divided into security and non-security categories. Non-defense security spending rose sharply after 2001 and was 1.0% of GDP in FY2013, nearly twice its level before 2001.

The Budget Control Act of 2011 (BCA; P.L. 112-25) reintroduced statutory limits on spending by imposing a series of caps on discretionary BA from FY2012 through FY2021. The American Taxpayer Relief Act of 2012 (ATRA; P.L. 112-240) modified limits for FY2013 and FY2014. The FY2013 full-year funding bill (H.R. 933; P.L. 113-6) enacted March 26, 2013, conformed to those limits. The Bipartisan Budget Act (H.J.Res. 59; P.L. 113-67) also modified BCA limits for FY2014 and FY2015. On January 17, 2014, the Consolidated Appropriations Act, 2014 (H.R. 3547; P.L. 113-76) was enacted to provide funding within those limits for the rest of FY2014. On September 19, 2014, a continuing resolution (H.J.Res. 124; P.L. 113-164) was enacted to provide funding for the government until December 11, 2014.

The direction of fiscal policy has been the focus of contention among macroeconomists. Some contend that more spending would help reduce high unemployment levels, while others call for imposing greater budgetary stringency. Growth in entitlement program outlays, in the absence of new revenue measures, may put severe pressure on discretionary spending in the future unless policy changes are enacted. This report will be updated as events warrant.

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What Does Discretionary Spending Include?

Discretionary spending covers the costs of the routine activities commonly associated with such federal government functions as running executive branch agencies, congressional offices and agencies, and international operations of the government.[1] Mandatory programs and net interest costs are the other components of federal spending. Essentially all spending on federal wages and salaries is discretionary.[2] Discretionary spending also funds grants, purchases of equipment and other assets, and contractor services that support various federal programs and activities.

Congress provides and controls discretionary funding through annual appropriations acts, which grant federal agencies the legal authority to obligate the U.S. government to make payments. Budget authority (BA) is the amount that can be legally obligated. Outlays are the payments made by the U.S. Treasury to satisfy those obligations. This report mostly discusses trends in outlays.

Budget Authority and Outlays

The distinction between outlays and BA is important to understanding the federal budget and, particularly, discretionary spending. Appropriations legislation controls discretionary funding and provides budget authority to fund specific programs. Congress exercises its constitutional power of the purse by deciding what funds federal agencies can obligate on behalf of the U.S. government, for what purposes and for specified time periods. While budget authority is available for just a single year (such as for most personnel compensation costs), some appropriations (such as for many military construction projects) provide budget authority for multiple years, or indefinitely.[3] Agencies obligate funds by signing contracts or hiring employees or contractors or in other ways. Budget authority has been compared to funds deposited into a checking account, which then can be used for specified federal purposes.

Outlays are disbursed federal funds. Outlays are recorded when the U.S. Treasury disburses appropriated funds to purchase goods and services, pay employees, issue benefits, or make interest payments. Agencies typically do not spend all of their budget authority in the year it becomes available, which implies that outlays will lag behind budget authority.

Outlay data are used to assess the macroeconomic effects of the federal budget, whereas budget analysis of specific federal programs is often based on budget authority, because that is what Congress controls directly. Limits on discretionary spending set by the Budget Control Act of 2011 (BCA; P.L. 112-25) and modified by subsequent acts are defined in terms of BA.

[1] Annual appropriations acts fall within the jurisdiction of the House and Senate Committees on Appropriations.

[2] Exceptions exist. For example, salaries for Members of Congress, the President, and federal judges are classified as mandatory spending, as are essentially all federal retirement and disability costs. Direct spending is controlled by committees with legislative jurisdiction.

[3] While federal officials often have some discretion to choose how quickly appropriated funds are spent, they face constraints imposed by legislation designed to protect Congress's power of the purse. According to the Anti-Deficiency Act, a federal official cannot spend government money beyond what is available through appropriations or a fund by law. See Government Accountability Office, *Antideficiency Act Background*, webpage, available at http://www.gao.gov/ada/antideficiency.htm for code citations and explanations. The Congressional Budget Act and Impoundment Control Act of 1974 (P.L. 93-344) limits the ability of federal officials to withhold or delay spending of appropriated funds without congressional approval.

Categories of Federal Spending

Federal spending can be divided into three basic budget categories:

- discretionary spending ($1.17 trillion in FY2014 outlays),
- mandatory spending ($2.11 trillion in FY2014 outlays), and
- net interest costs (about $230 billion in FY2014),

for a FY2014 total of $3,504 billion.[4]

Mandatory spending, also known as direct spending, funds entitlement programs, such as the Supplemental Nutrition Assistance Program (SNAP; formerly known as the Food Stamps program), and other spending controlled by laws other than appropriation acts.[5] Spending levels for mandatory programs generally depend on eligibility criteria, size of the eligible population, and participation rates.

Different types of mandatory programs are set up in diverse ways, reflecting historical influences, technical demands, and specific legislative authorities. While the term "entitlement" can be defined to coincide with the mandatory programs, many would distinguish programs providing benefits to large populations meeting set eligibility requirements from more special payments, such as salaries of judges covered by Article III of the Constitution.

In some cases, mandatory and discretionary spending support similar activities. For example, Medicare health care benefits are classified as mandatory spending, while most health care benefits for veterans and military personnel are classified as discretionary spending.

Legislative procedures for funding discretionary programs differ from those for mandatory programs.[6] Congress provides discretionary funds (BA) each year through the annual appropriations process. Other types of legislation, such as authorization measures, control mandatory spending. Some mandatory programs, such as Social Security, are financed outside the annual appropriations process. Other mandatory programs, such as Medicaid, are funded through appropriations measures, while the level of spending reflects eligibility requirements and other provisions set in authorizing legislation, as well as the pool of potential beneficiaries and program participation rates.[7]

Table 1 provides a simple division of federal spending (i.e., mandatory and discretionary spending) by contrasting the type of budget authority needed for specific purposes.

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[4] These categories are called BEA categories in some Office of Management and Budget (OMB) publications, because they are defined in the Budget Enforcement Act of 1990 (P.L. 101-508). Amounts based on CRS calculations using data from the Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2014 to 2024*, August 27, 2014; and the *Joint Statement of Treasury Secretary Jacob J. Lew and Office of Management and Budget Director Shaun Donovan on Budget Results for Fiscal Year 2014*, October 15, 2014.

[5] The Government Accountability Office (GAO) notes that "A mandatory program is simply one that Congress directs (rather than merely authorizes) the agency to conduct, but within the limits of available funding." *Principles of Federal Appropriations Law* (Red Book), GAO-040261SP, vol. 1, p. 3-52. For an overview of mandatory spending trends, see CRS Report RL33074, *Mandatory Spending Since 1962*, by Mindy R. Levit and D. Andrew Austin.

[6] For an overview, see CRS Report 98-721, *Introduction to the Federal Budget Process*, coordinated by Bill Heniff Jr.

[7] CRS Report RS20129, *Entitlements and Appropriated Entitlements in the Federal Budget Process*, by Bill Heniff Jr. For one listing of permanent appropriations, see GAO, *Inventory of Accounts With Spending Authority and Permanent Appropriations, 1997*, OGC-98-23, January 19, 1998, available at http://www.gao.gov/assets/230/225159.pdf.

Table 1. Schematic Division of Budget Categories

	Budget Authority Provided by Law Other than Appropriation Acts	Budget Authority Provided by Appropriation Acts
Entitlement	Medicare Social Security	Appropriated entitlements (e.g., veterans' compensation, Medicaid, TANF[a]) SNAP[b] (with caveats)
Not an Entitlement	Salaries for Article III Judges Mandatory non-entitlements (e.g., Forest Service payments to states)	Discretionary spending (defense, non-defense discretionary; covers most costs of running agencies)

Source: Compiled by CRS.

a. Temporary Assistance for Needy Families.

b. The Supplemental Nutrition Assistance Program (SNAP) was formerly known as the Food Stamps program.

Recent Fiscal Policy and Discretionary Spending

Policy disagreements about fiscal policy challenges continue to influence trends in discretionary spending. Fiscal policy describes how a government chooses to balance spending and revenues, which can be used to influence the level of economic activity.[8] Substantial evidence suggests that fiscal policy can stimulate economic activity when an economy is operating below its potential level of output and when short-term interest rates are near zero.[9]

Discretionary spending, which is controlled through an annual budget process, is potentially a more flexible fiscal instrument than mandatory spending. Some features of mandatory programs have often been changed to respond to economic conditions. For example, the period of eligibility for unemployment insurance benefits has often been changed during recessions.[10] Tax policy changes have also been used to respond to macroeconomic conditions. In addition, as incomes fall during recessions, tax revenues fall and more families become eligible for means-tested mandatory programs; deficits rise, which helps dampen economic shocks.[11] When economic growth resumes, those changes run in the opposite direction. Those changes are therefore known as automatic stabilizers.

Fiscal Policy Complicated by Slow Recovery

Addressing short-term and long-term challenges simultaneously is difficult because additional government outlays, according to most economic research, would boost economic recovery, while reducing spending could help enhance fiscal sustainability—as would increases in federal revenues. Some have called for linking a package of policies to provide short-term fiscal stimulus

[8] Monetary policy, which affects the money supply, interest rates, and credit conditions, is another key instrument of macroeconomic management.

[9] Estimates of the magnitude of stimulus effects vary. For a review of the literature, see CRS Report RL33657, *Running Deficits: Positives and Pitfalls*, by D. Andrew Austin.

[10] A recession occurs when an economy contracts. See National Bureau of Economic Research (NBER), "The NBER's Business Cycle Dating Committee," available at http://www.nber.org/cycles/recessions.html.

[11] U.S. Congressional Budget Office, *The Effects of Automatic Stabilizers on the Federal Budget as of 2013*, March 8, 2013, available at http://www.cbo.gov/publication/43977.

with longer-term measures aimed at fiscal sustainability, although designing such packages to ensure credibility and effectiveness could be challenging.[12]

Financial Crisis and Recession

The financial crisis that began in 2007 and subsequent recession that ended in June 2009 continue to color current fiscal policy debates. Recessions are said to end when the economy resumes growing.

The federal government took several measures to stimulate the economy, in addition to an extraordinary set of measures aimed at housing and credit markets. Some policy makers have called for expansion or continuation of programs intended to alleviate economic vulnerabilities of households and businesses, while other policy makers have argued that discretionary spending should revert to pre-crisis levels. Whether the federal government should take immediate steps to close the gap between spending and receipts or wait until the economy is more fully recovered has been subject to debate among economists.

While much of the funds made available by measures responding to the financial crisis or the subsequent recession were classified as mandatory or revenue reductions, discretionary spending also rose sharply. Most notably, Congress in early 2009 responded to weak economic conditions and dramatic job losses that sharply increased unemployment rates by passing a major fiscal stimulus package. The resulting measure, the American Recovery and Reinvestment Act of 2009 (ARRA; H.R. 1, P.L. 111-5), enacted on February 17, 2009, included stimulus spending and tax cuts estimated at the time to total $787.2 billion, including about $300 billion in discretionary spending.[13] ARRA included funds for discretionary spending on education initiatives, support for state governments, public housing, infrastructure, and health care.[14] In 2012, CBO estimated the total budgetary effect of ARRA at $831 billion between 2009 and 2019.[15]

The recovery that followed the 2007-2009 financial crisis and recession has been relatively slow. Economic growth in the United States, however, has been faster in recent years than in many other advanced economies.[16] Economic recoveries following major financial crises can be much less robust than recoveries following more cyclical downturns.[17] Some continue to call for a more expansionary fiscal policy to respond to high unemployment levels, which would entail larger budget deficits in the short run.[18] Other economists are skeptical that such fiscal policies would

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[12] Peter R. Orszag, "History Shows U.S. Can Stimulate Now, Cut Later," Bloomberg.com, May 22, 2012, available at http://www.cfr.org/geoeconomics/history-shows-us-can-stimulate-now-cut-later/p28338.

[13] The original CBO score of ARRA is available at http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/99xx/doc9989/hr1conference.pdf.

[14] Certain Supplemental Nutrition Assistance Program (SNAP) benefits were cut by P.L. 111-226 (H.R. 1586). For details, see CRS Report R41374, *Reducing SNAP (Food Stamp) Benefits Provided by the ARRA: P.L. 111-226 and P.L. 111-296*, by Randy Alison Aussenberg, Jim Monke, and Gene Falk; and CBO, "Budgetary Effects of Senate Amendment 4575," cost estimate, August 4, 2010, available at http://www.cbo.gov/ftpdocs/117xx/doc11756/sa4575.pdf.

[15] U.S. Congressional Budget Office, *Budget and Economic Outlook*, January 2012, Box 1-1, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-31-2012_Outlook.pdf.

[16] International Monetary Fund (IMF), *World Economic Outlook: Coping with High Debt and Sluggish Growth*, October 2012, available at http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf.

[17] See Carmen M. Reinhart and Kenneth S. Rogoff, *This Time is Different: Eight Centuries of Financial Folly* (Princeton, 2009); and "Sorry, U.S. Recoveries Really Aren't Different," Bloomberg News, October 15, 2012, available at http://www.bloomberg.com/news/2012-10-15/sorry-u-s-recoveries-really-aren-t-different.html.

[18] Christina Romer, "Not My Father's Recession: The Extraordinary Challenges and Policy Responses of the First

ameliorate deeper problems caused by high personal and federal debt levels, and therefore call for fiscal restraint as a first step towards addressing longer-term fiscal challenges, or at least a transition to a less expansionary fiscal policy.[19] A 2012 International Monetary Fund (IMF) survey found that the experience of advanced countries during the recent recession suggests that active fiscal policy can stimulate economic growth when economic resources are not being fully used and when the effectiveness of standard monetary policy tools is constrained by very low interest rates.[20]

Faster Growth on the Horizon?

The U.S. economy in 2014, according to available data and projections for the 4th quarter, will have grown slightly faster than the 2.2% growth achieved in 2013.[21] Somewhat faster growth is expected in 2015.[22] Recovery from the 2007-2009 recession continues to be slower than most previous downturns. Serious risks to economic recovery persist, such as those linked to the Eurozone and signs of decelerating growth in other countries such as China.[23]

Discretionary Spending Limits Reimposed in 2011

Recent trends in discretionary spending have been controlled by statutory limits reestablished in the Budget Control Act of 2011 (BCA; P.L. 112-25), enacted on August 2, 2011. Those limits, which originally extended until FY2021, are expected to shape future trends in discretionary spending. Subsequent legislation has modified those limits in ways discussed below.

Budget Control Act of 2011 (BCA)

Provisions of the BCA are projected to bring discretionary spending as a share of GDP to levels well below that seen in recent decades. In terms of real dollars (i.e., adjusting for inflation but not for growth in population or the economy), discretionary base defense spending was slated to revert to a level slightly above its FY2007 level, while non-defense discretionary spending was slated to revert to a level near its 2002 level.[24]

Twenty Months of the Obama Administration," remarks at the National Press Club, September 1, 2010, available at http://www.whitehouse.gov/sites/default/files/microsites/100901-National-Press-Club.pdf; and Brad DeLong, "At This Point in Time, a (Larger) National Debt Would Indeed Be a National Blessing," Equitable Growth blog, October 28, 2014, available at http://equitablegrowth.org/2014/10/29/point-time-larger-national-debt-indeed-national-blessing-late-tuesday-focus-october-28-2014/.

[19] Kenneth Rogoff, "Why America Isn't Working," Project Syndicate, September 1, 2010, available at http://www.project-syndicate.org/commentary/rogoff72/English.

[20] Fund (IMF), *World Economic Outlook: Coping with High Debt and Sluggish Growth*, October 2012, available at http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf. See discussion in Box 1.1 written by IMF chief economist Olivier Blanchard and Daniel Leigh (pp. 41-43).

[21] The Bureau of Economic Analysis estimated 2013 GDP growth at 2.2%. Average growth for 2014 based on BEA estimates for the first three quarters and private estimates for the 4th quarter imply a 2.7% growth rate.

[22] *Blue Chip Economic Indicators*, vol. 39, no. 10, October 10, 2014.

[23] For example, see Claire Jones, "Too Early to Declare Crisis Over, says Draghi," *Financial Times*, January 9, 2014; and Joe Zhang, "Rising Rates Will Help Cure China's Credit Addiction," *Financial Times*, January 12, 2014.

[24] For details, see Amy Belasco and D. Andrew Austin, *The Budget Control Act and Alternate Defense and Non-Defense Spending Paths, FY2012-FY2021*, CRS congressional distribution memorandum, available from the authors to congressional clients upon request. This comparison is made in terms of budget authority. Before passage of ATRA, BCA provisions were slated to bring discretionary base defense spending to its FY2007 level and non-defense spending

The BCA set limits on discretionary spending that were initially estimated to save about $900 billion over the next decade relative to a pre-BCA baseline.[25] The BCA also established a Joint Select Committee on Deficit Reduction (JSC), known as the "Super Committee," to develop and present a plan to Congress and the President that would achieve an additional $1.2 trillion or more in savings. The BCA, in return, allowed a set of increases to the debt limit, subject to congressional disapproval, enabling the government to borrow through February 2013.[26] The BCA tied the expected reduction in spending achieved through those discretionary spending limits and other budget enforcement measures to increases in the debt limit of the same magnitude.[27]

FY2013 Sequestration Triggered

The Super Committee (JSC) reached a deadlock shortly before a key November 2011 deadline, thus triggering backup enforcement mechanisms set up in the BCA to reduce spending by $1.2 trillion. Those backup enforcement mechanisms have been modified by ATRA (more below). The original BCA caps were then superseded by *revised caps*, which imposed separate limits on defense (budget function 050) and non-defense spending. The sum of total discretionary spending under the original and revised caps was the same. Further reductions of $109 billion for each year from the revised cap levels, split between defense and non-defense, were slated to occur in each year from FY2013 through FY2021. Those reductions, along with interest savings, were designed to capture the $1.2 trillion in budget savings in the absence of a Super Committee plan.

For FY2013, the BCA had required a sequester on January 2, 2013—a cancellation of budget authority relying on pro-rata cuts to most discretionary budget authority, Medicare, and certain other mandatory outlays. Most mandatory spending was exempt from sequestration and Medicare patient care reductions are limited to 2%. Thus, the bulk of sequestration reductions applied to discretionary programs.

For later years—from FY2014 through FY2021—the BCA-specified mechanisms set *lowered spending caps* that would apply to discretionary funding levels. Within limits set by those caps, however, Congress would have flexibility to tailor the budget to suit its policy priorities. Amounts above those caps, according to budget law, would be subject to a cap enforcement sequester.[28]

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to near its level in FY2003 or FY2004. Inflation adjustments made using GDP price index.

[25] CBO, "Letter to the Honorable John A. Boehner and the Honorable Harry Reid Estimating the Impact on the Deficit of the Budget Control Act of 2011," August 1, 2011, available at http://www.cbo.gov/ftpdocs/124xx/doc12414/09-12-BudgetControlAct.pdf.

[26] For an analysis of the provisions of the BCA, see CRS Report R41965, *The Budget Control Act of 2011*, by Bill Heniff Jr., Elizabeth Rybicki, and Shannon M. Mahan. For details on debt limit provisions, see CRS Report RL31967, *The Debt Limit: History and Recent Increases*, by D. Andrew Austin and Mindy R. Levit.

[27] For two versions of the negotiations that led to the BCA, see Peter Wallsten et al., "Obama's Evolution: Behind the Failed 'Grand Bargain' on the Debt," *Washington Post*, March 17, 2012, p. A1, available at http://www.washingtonpost.com/politics/obamas-evolution-behind-the-failed-grand-bargain-on-the-debt/2012/03/15/gIQAHyyfJS_story.html; and Matthew Bai, "Obama vs. Boehner: Who Killed the Debt Deal?" *New York Times Magazine*, March 28, 2012, p. MM22, available at http://www.nytimes.com/2012/04/01/magazine/obama-vs-boehner-who-killed-the-debt-deal.html.

[28] Amounts above cap levels would be sequestered as specified in Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA; P.L. 99-177, as amended), §251(a)(1). A sequester would affect budgetary resources in addition to new budget authority as well, such as defense unobligated balances. Non-exempted mandatory programs would continue to be sequestered from FY2014 to FY2021 under provisions of the BCA.

Scaling Down Sequestration for FY2013

A continuing resolution (CR; H.J.Res. 117; P.L. 112-175) was enacted on September 28, 2012, to fund the federal government for the first six months of FY2013.[29] In general, funding levels were set 0.612% above FY2012 levels, with exceptions for war funding and certain disaster relief programs.[30] Discretionary spending in the CR was scored at $1,047 billion, which equaled the sum of the revised defense and non-defense caps. Base budget discretionary defense funding, however, was scored at $557 billion (in BA), or $11 billion above the revised BCA cap, while non-defense discretionary spending (BA) was scored at $490 billion, or $11 billion below its BCA revised cap.[31] Funding in the CR above cap levels would have been subject to a cap enforcement sequester, absent subsequent changes.[32] The American Taxpayer Relief Act (see below) delayed both the Super Committee sequester and the potential cap enforcement sequester, in addition to other changes in budget enforcement mechanisms.

The Fiscal Cliff Deal

The American Taxpayer Relief Act (ATRA; H.R. 8; P.L. 112-240) delayed the sequester triggered by the absence of a Super Committee (JSC) plan by two months, from January 2, 2013, to March 1, 2013.[33] In addition, the size of those FY2013 sequestration cuts was reduced from $109 billion to $85 billion.[34] The remaining $85 billion sequester, as before, was divided equally between defense and non-defense spending. Nearly all of the sequester reductions in defense spending fell within discretionary spending, while about a third of non-defense sequester reductions fell within the mandatory category.

Half of the $24 billion reduction in the size of the FY2013 sequester was offset by lowering discretionary spending limits for FY2013 by $4 billion ($2 billion in security spending; $2 billion in non-security spending) and lowering limits for FY2014 by $8 billion ($4 billion in defense; $4 billion in non-defense). The remaining $12 billion was offset by revenue changes affecting retirement accounts.[35]

ATRA also altered discretionary spending limits on FY2013 discretionary spending. ATRA delayed a potential cap enforcement sequester to enforce discretionary spending limits from early January 2013 to March 27, 2013.[36] The cap enforcement sequester was modified by ATRA to

[29] H.J.Res. 117 passed on a 329-91 vote in the House on September 13, 2012, and passed on a 62-30 vote in the Senate on September 22, 2012.

[30] See CRS Report R42647, *Continuing Resolutions: Overview of Components and Recent Practices*, by Jessica Tollestrup.

[31] CBO, "Budget authority subject to $1,407 (sic) billion cap: CR as introduced," September 2012.

[32] BBEDCA (P.L. 99-177), §251(a)(1). For details, see House Appropriations Committee Ranking Member Norman Dicks, "A Report on the Consequences of Sequestration," Dear Colleague Letter, October 9, 2012, available at http://www.naph.org/Links/ADV/House-Sequestration-Letter-10-9-12.aspx. Also see Amy Belasco and D. Andrew Austin, *The Budget Control Act and Alternate Defense and Non-Defense Spending Paths, FY2012-FY2021*, CRS congressional distribution memorandum, available from the authors to congressional clients upon request.

[33] For details, see CRS Report R42949, *The American Taxpayer Relief Act of 2012: Modifications to the Budget Enforcement Procedures in the Budget Control Act*, by Bill Heniff Jr.

[34] Thus the size of the FY2013 sequester was reduced by $24 billion.

[35] See CBO, "Estimate of the Budgetary Effects of H.R. 8, the American Taxpayer Relief Act of 2012, as passed by the Senate on January 1, 2013," January 1, 2013, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/American%20Taxpayer%20Relief%20Act.pdf.

[36] BBEDCA (P.L. 99-177), §251(a)(1) states that "(w)ithin 15 calendar days after Congress adjourns to end a session, there shall be a sequestration to eliminate a budget-year breach, if any, within any category."

apply to security/non-security categories, rather than the defense/non-defense categories previously in effect.[37] Because the full-year funding measure (H.R. 933; P.L. 113-6) was designed to conform to these modified discretionary spending limits, the cap sequester was avoided.[38] The discretionary spending limits enforced by that sequester, however, effectively set top-line totals for the FY2013 full-year funding measure.

The change in the FY2013 discretionary limits from defense/non-defense to security/non-security may have shifted the allocation of spending reductions. Because the security category is broader than the defense category, cap enforcement sequester reductions would have applied to a larger pool of programs. The cap enforcement sequester would have reduced spending within security programs by more than within non-security programs because the CR funded defense programs above BCA cap levels. Without changes in spending levels, the cap enforcement sequester, according to CBO estimates, would have reduced security spending by $7 billion and non-security spending by $1 billion.[39]

ATRA also put in place a less restrictive fiscal policy by extending various expiring tax provisions and extended unemployment benefits, while postponing across-the-board sequestration until March 2013.[40] Those increases in federal revenues and decreases in spending, often known as the "fiscal cliff," would have lowered the federal deficit dramatically, but could have led to a new recession in 2013, according to CBO and other forecasters.[41] Others, however, had expected more modest macroeconomic consequences from those changes.[42]

[37] The definition of the security and non-security categories is explained in more detail below.

[38] Jeffrey D. Zients, Acting OMB Director, letter to President Barack Obama, March 27, 2013.

[39] CBO, *Budget and Economic Outlook*, February 2013, Table 1-4, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf.

[40] For details, see CRS Report R42894, *An Overview of the Tax Provisions in the American Taxpayer Relief Act of 2012* , by Margot L. Crandall-Hollick; CRS Report R42884, *The "Fiscal Cliff" and the American Taxpayer Relief Act of 2012*, coordinated by Mindy R. Levit.

[41] CBO, *Economic Effects of Policies Contributing to Fiscal Tightening in 2013*, November 8, 2012; Alex Phillips, "And Now, on to the Fiscal Cliff," Goldman Sachs Global Economics, Commodities and Strategy Research U.S. Daily, November 7, 2012.

[42] CRS Report R42700, *The "Fiscal Cliff": Macroeconomic Consequences of Tax Increases and Spending Cuts*, by Jane G. Gravelle.

Attempts to Avoid the Effects of Sequestration

Many have objected to the consequences for federal programs and fiscal policy of the BCA's sequestration measures. The potential effects of defense and non-defense cuts resulting from BCA discretionary caps were also discussed in various committee hearings and remain a concern of many Members.[43] In addition, various proposals to delay, replace, or modify sequestration were put forth. For example, the Reducing Flight Delays Act of 2013 (P.L. 113-9), enacted May 1, 2013, authorized the Secretary of Transportation to transfer funds to Federal Aviation Administration (FAA) appropriations accounts in order to reduce delays due to furloughs of FAA personnel.

Numerous other measures to replace or modify the BCA sequester were also introduced in both the 112th and 113th Congresses.[44] The House-passed FY2013 budget resolution (H.Con.Res. 112; agreed to on March 29, 2012, on a 228-191 vote) called for the cancellation of the January 2013 sequester, conditional on achieving savings in domestic programs through reconciliation

[43] For example, see H.R. 3662, "Amending the Balanced Budget and Emergency Deficit Control Act," December 14, 2011, available at http://armedservices.house.gov/index.cfm/files/serve?File_id=71803a67-5d45-4bfa-88b9-80c6f5b42d82k2. See also U.S. Congress, House Budget Committee, *Hearing on the 2011 Budget Control Act and Potential Sequestration*, 112th Cong., 2nd sess., April 25, 2012. Also see U.S. Congress, Senate Committee on Appropriations, *The Impacts of Sequestration*, 113th Cong., 1st sess., February 14, 2013 (documents available at http://www.appropriations.senate.gov/ht-full.cfm?method=hearings.view&id=17d3dc99-c065-4bec-a7c8-cfd374bf41a3); U.S. Congress, Senate Committee on Armed Services, *Impacts of Sequestration and/or CR*, 113th Cong., 1st sess., February 12, 2013 (documents available at http://www.armed-services.senate.gov/hearings/event.cfm?eventid=75b85d4058863364782faf917d08a08a).

[44] On May 10, 2012, the House took another step to modify sequestration by passing the Sequester Replacement Reconciliation Act of 2012 (H.R. 5652; 218-199, 1 present). The measure, according to CBO's analysis, would limit the effect of sequestration by an estimated $72.2 billion over the next 10 years, largely by protecting defense unobligated balances and certain non-defense advance appropriations. The measure would also reduce the cap on FY2013 discretionary spending by $19 billion, from its current level of $1,047 billion.

On December 19, House Majority Whip Eric Cantor introduced H.R. 6684, the Spending Reduction Act of 2012. That measure resembles H.R. 5652, except that a flood insurance title, which had been enacted separately, was omitted. In addition, certain effective dates were also changed. In the 113th Congress, Representative Ellison introduced one bill to avoid sequestration (H.R. 505) and Senator Whitehouse introduced two measures to replace the Budget Control Act (S. 277 and S. 278).

On the day before that sequester was issued, Congress considered other measures that would have modified or replaced it. The Senate considered S. 16, a sequester replacement bill introduced by Senator Inhofe, and S. 388, introduced by Senator Mikulski. Neither measure was passed. The budget resolution measure reported by the Senate Budget Committee (S.Con.Res. 8) on March 14, 2013, proposed replacing sequestration reduction with a mix of other spending reductions and revenue increases.

On February 27, 2013, Senator James Inhofe introduced S. 16, a bill that proposed that the President submit a sequester replacement plan to Congress by March 15, 2013. The plan would be subject to a joint resolution of disapproval that would be considered under expedited procedures. A motion to proceed to consideration of S. 16 was withdrawn on February 28, 2013, following an unsuccessful motion on cloture (38-62).

On April 23, 2013, Majority Leader Harry Reid introduced S. 788, which would cancel the discretionary portion of the FY2013 BCA sequester (see next section) as well as some of the across-the-board reductions included in the full-year FY2013 funding measure (H.R. 933; P.L. 113-6; discussed below). The bill would also change how BCA discretionary spending caps would be adjusted for war funding (OCO/GWOT). Under current law, BCA caps are adjusted upwards by the amount of OCO funds (and for other items such as certain program integrity and disaster costs). The proposed legislation would limit the OCO adjustment to the BCA security cap to the amount of current OCO funding proposed by the Administration, or the actual amount of OCO appropriations if that were less than those proposed levels. The difference between those proposed OCO cap levels and baseline spending projections would total nearly $135 billion for FY2014-FY2016.

procedures.[45] Such reconciliation procedures, however, would only come into play with the agreement of the Senate.

The President's FY2013 budget request essentially conformed to the original BCA caps, but argues that the January 2013 sequester and other backup enforcement measures should be cancelled because Administration proposals would achieve savings in other ways. In February 2013, President Obama called for avoiding sequestration by substituting tax increases and targeted spending cuts.[46]

BCA Sequester Issued March 1, 2013

On March 1, 2013, the President signed a sequester order that cancelled $85 billion in budgetary resources, a measure triggered by the absence of a JSC ("Super Committee") plan to reduce the federal deficit.[47] Reductions were split equally between defense and non-defense categories.

Nearly all the defense reductions were taken in discretionary programs because less than $1 billion in defense mandatory spending was sequestrable.[48] The President chose to exempt Military Personnel accounts from sequestration, which required larger reductions in other defense accounts. Non-exempt defense discretionary accounts were reduced by 7.8% for a total reduction of $42.6 billion in budgetary resources. While war (Overseas Contingency Operations; OCO) funding was not subject to BCA caps, it was not exempted from sequestration. Former Defense Secretary Leon Panetta, however, indicated that the Defense Department would take steps to protect funding for war operations by finding other cuts.[49] In addition, unobligated balances in defense accounts were also sequestered.

The sequester reduced non-defense discretionary program funding by 5.0%, which reflected a $25.8 billion reduction in budgetary resources.[50] The remainder of non-defense reductions ($16.9 billion) was absorbed by non-defense mandatory programs. A 2% reduction in Medicare patient care accounted for most of the non-defense mandatory savings ($11.3 billion), while a 5.1% sequester was applied to other non-exempt mandatory programs, yielding another $5.5 billion in budgetary savings.

The Super Committee sequester reduced federal outlays in FY2013 by considerably less than the total reduction applied to budgetary resources. This reflects the usual lag between reductions in budget authority and reductions in obligations and outlays, as well as the time agencies require to implement plans to reduce their spending. In addition, special budgetary rules delay the start of

[45] H.Con.Res. 112, §201, §202.

[46] White House, Office of the Press Secretary, "Averting the Sequester and Finding a Balanced Approach to Deficit Reduction," February 8, 2013, available at http://www.whitehouse.gov/the-press-office/2013/02/08/averting-sequester-and-finding-balanced-approach-deficit-reduction.

[47] See OMB, *Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013*, March 1, 2013, http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy13ombjcsequestrationreport.pdf.

[48] Ibid., Table 2, p. 4.

[49] Karen Parrish, "Panetta: Fiscal Crisis Poses Biggest Immediate Threat to DOD," American Forces Press Service, January 10, 2014, available at http://www.defense.gov/News/newsarticle.aspx?ID=118974.

[50] Ibid., Table 3, pp. 6.

the sequester of Medicare patient care outlays by a month.[51] CBO estimated that the BCA sequester would reduce FY2013 outlays by $42 billion in FY2013.[52]

Full-Year Funding for FY2013

On March 6, 2013, the House passed a measure (H.R. 933) to fund the government for the remainder of FY2013 by a 267-151 vote. The measure provided detailed appropriations levels for Defense and Military Construction-Veterans' programs. Other programs, with some exceptions, were funded near FY2012 levels before taking into account a series of across-the-board reductions.[53] Spending reductions in the bill would not have affected the amount of reductions in spending made through the JSC/Super Committee sequester of March 1, 2013.[54]

On March 11, 2013, a substitute measure for H.R. 933 was posted on the Senate Committee on Appropriations website. According to Senate Appropriations Chair Barbara Mikulski, defense and military construction-veterans provisions of the substitute measure matched those in the House-passed H.R. 933.[55] The measure would have provided more detailed spending adjustments in other areas.

Both H.R. 933 and the Senate alternative were scored as conforming with discretionary spending caps as revised by ATRA (totaling $1,043 billion for regular appropriations) and thus avoided a cap enforcement sequester.[56] That scored total did not include war funding, emergency-designated spending, and program integrity funding.

The Senate passed an amended version of H.R. 933 by a 73-26 vote on March 20, 2013. The Senate version of H.R. 933 included detailed changes in spending levels for programs within the Agriculture, Commerce-Justice-Science, and Homeland Security areas, in addition to the changes in Defense, Military Construction-Veterans that the House measure had included. Most other programs received funding close to FY2012 levels. The House agreed to Senate changes the next day on a 318-109 vote. While some of the effects of sequestration were adjusted by reallocating

[51] BBEDCA Section 256. See CRS Report R42051, *Budget Control Act: Potential Impact of Sequestration on Health Reform Spending*, by C. Stephen Redhead.

[52] CBO, letter to Senator Sessions, March 12, 2013, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/Sessions_Sequester_CR.pdf. Note that FY2013 outlays estimates may change to reflect details of the OMB sequestration order of March 1, 2013.

[53] H.R. 933, Section 1101 specifies an 0.16% across-the-board rescission the Department of the Interior, Environment, and Related Agencies; a 0.189% across-the-board rescission the Departments of Labor, Health and Human Services, and Education, and Related Agencies. In addition, a 0.109% rescission would apply to security programs (as defined in the BCA) and a 0.0098% rescission in non-security programs (Section 3001).

[54] See H.R. 933, Section 3002.

[55] Senator Barbara Mikulski, floor statement, March 12, 2013, text available at http://www.appropriations.senate.gov/news.cfm?method=news.view&id=5c19a6a3-4263-4cb6-99a6-38517e1cb00f.

[56] For House version, see CBO, *Total Discretionary Appropriations for FY2013, Including H.R. 933, the Department of Defense, Military Construction and Veterans Affairs, and Full-Year Continuing Appropriations Act, 2013, as Introduced on March 4, 2013, and P.L. 113-2, the Disaster Relief Appropriations Act, 2013*, March 4, 2013, available at https://www.cbo.gov/sites/default/files/cbofiles/attachments/hr933.pdf.

For Senate version, see CBO, *Total Discretionary Appropriations for Fiscal Year 2013, Including the Consolidated and Continuing Appropriations Act, 2013 (an Amendment in the Nature of a Substitute to H.R. 933) as Posted on the Senate Committee on Appropriations Web Site on March 11, 2013 and Public Law 113-2, the Disaster Relief Appropriations Act, 2013*, March 12, 2013, available at https://www.cbo.gov/sites/default/files/cbofiles/attachments/hr933AmendmentintheNatureofaSubstitute.pdf.

spending reductions, the amount of the March 1 sequester cuts remained in place. The President signed the measure (P.L. 113-6) on March 26, 2013.

Discretionary Funding for FY2014

Submission of the Obama Administration's FY2014 budget was delayed until April 10, 2013, due to substantial changes enacted by ATRA at the beginning of January 2013 and the demands of the March 1, 2013, JSC sequester. The President's FY2014 budget request proposed several modifications of BCA caps on discretionary spending. The Administration proposed that FY2014 spending limits be set at revised cap levels (i.e., $552 billion for defense and $506 billion for non-defense) rather than lowered cap levels (i.e., $498.1 billion for defense and $469.4 billion for non-defense), which would have allowed higher levels of discretionary spending while the economy is recovering from a major recession. Spending limits for the second half of the FY2013-FY2021 budget window, in the Administration's proposals, would have been lowered by $60 billion each for defense and non-defense. In addition, discretionary caps would have been extended to FY2022 and FY2023.

The Administration estimated that those spending cap modifications would reduce discretionary spending by $202 billion over FY2014-FY2023.[57] Thus, projected discretionary spending for FY2014-FY2018 shown in the figures below, which presume the President's budgetary proposals are adopted, reflects an assumption that BCA constraints on discretionary spending would be loosened in FY2014 and tightened later, starting in FY2017. The Administration's FY2014 budget plan also includes $260 billion in unspecified reductions in discretionary spending, mostly slated for FY2015 through FY2023.[58] If those reductions were carried out, discretionary spending levels would have been less than those shown in figures below.

During the FY2014 budget cycle, the House and Senate responded to the budgetary challenges presented by BCA caps in different ways. Just before the August 2013 recess, the gap between House and Senate totals for FY2014 discretionary spending stood at about $90 billion. The House Appropriations Committee set suballocations for its subcommittees that totaled $973.1 billion, slightly above total discretionary spending at BCA lowered caps levels ($967.5 billion) for FY2014.[59] Senate Appropriations Committee guidance for its subcommittees, however, indicated a total for FY2014 consistent with BCA revised caps (i.e., a total of $1,058 billion split between a base defense subtotal of $552 billion and a non-defense total of $506 billion).[60]

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[57] OMB, *FY2014 Budget of the U.S. Government*, p. 45. For $800 billion estimate for difference between BCA revised caps and lowered caps, see Table 6 of Amy Belasco and D. Andrew Austin, *The Budget Control Act and Alternate Defense and Non-Defense Spending Paths, FY2012-FY2021*, CRS congressional distribution memorandum, available from the authors to congressional clients upon request.

[58] According to the FY2014 *Mid Session Review*, "(t)he 2014 Budget includes allowances, similar to the Function 920 allowances used in Budget Resolutions, to represent amounts to be allocated among the respective agencies to reach the proposed defense and non-defense caps for 2015 and beyond. These levels are determined for illustrative purposes but do not reflect specific policy decisions." See fn. 5, to Table S-10, p. 58, available at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/14msr.pdf.

[59] See CBO, "FY 2014 House Current Status of Discretionary Appropriations as of August 1, 2013," available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/44333_BY2014House_8-1.pdf; and OMB Sequestration Preview Report (cited above). CBO estimated that the Homeland Security bill would include a $5.6 billion disaster funding adjustment.

[60] That Senate total excluded adjustments to caps for war funding (OCO), disaster funding, program integrity, and emergency items. With those adjustments, the Senate total for FY2014 appropriations at the end of July 2013 was $1,149.6 billion. See CBO, "FY 2014 Senate Current Status of Discretionary Appropriations as of August 2, 2013,"

Differences between House and Senate discretionary spending levels were not resolved before the start of FY2014 on October 1, 2013, which resulted in a shutdown of most federal operations.[61] Funding for federal operations was restored by passage of a continuing resolution (H.R. 2775) on October 16, 2013, which was signed by the President the following morning (Continuing Appropriations Act, 2014; P.L. 113-46). The measure provides funding on an annualized basis of $986.3 billion before adjustments.[62]

The Bipartisan Budget Act of 2013

The Bipartisan Budget Act of 2013 (BBA; H.J.Res. 59; P.L. 113-67) provided a reconciliation of House and Senate discretionary spending levels for the remainder of FY2014 and for FY2015 as well. Final House approval was obtained on a 332-94 vote on December 12, 2013, and the Senate approved the final version on December 18, 2013, on a 64-36 vote.

The BBA set discretionary defense spending caps at $520.464 billion for FY2014 and $521.272 billion for FY2015. Non-defense caps were set at $491.773 billion for FY2014 and $492.356 billion for FY2015.[63] The mechanism for reducing the revised BCA caps to lowered caps levels in order to capture savings not attained by the Joint Select Committee on Deficit Reduction (JSC) was turned off for both FY2014 and FY2015.[64] Both modified defense and non-defense spending limits for FY2014 were $22.4 billion above the lowered caps levels that would have applied in the absence of the Bipartisan Budget Act, while FY2015 levels were about $9 billion higher.[65]

The BBA also extended sequestration of non-exempt mandatory account for FY2022 and FY2023, and contained provisions to reduce improper federal payments, to alter certain federal oil and gas programs, to raise certain transportation fees, and to modify funding for the servicing of federally guaranteed student loans. In addition, the BBA required higher retirement contributions by new Civil Service and Foreign Service employees and specified a 1% reduction in the cost-of-living adjustment for certain working-age military retirees.[66]

On February 11, 2014, the House also passed a separate measure (S. 25; P.L. 113-82) that ensured that the cost-of-living adjustment would not apply to those who joined the Armed Forces before January 1, 2014. That measure was passed on a 326-90 vote. The Senate agreed to the House changes on a 95-3 vote on the next day. The President signed the bill into law on February 15,

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available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/44399_BY2014_Senate_8-2.pdf.

[61] For details, see CRS Report R43338, *Congressional Action on FY2014 Appropriations Measures*, by Jessica Tollestrup.

[62] That total excludes adjustments for war funding (OCO), disaster funding, program integrity, and emergency items. Annualized funding reflecting those adjustments totaled $1,087.7 billion. See CBO, "CBO Estimate of the Continuing Appropriations Act, 2014, as Introduced in the Senate on October 16, 2013, as an Amendment to H.R. 2775," October 16, 2013, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/ ContinuingAppropriationsAct2014.pdf.

[63] The defense category (National Defense budget function 050) is called the "revised security category" in the BCA and the Bipartisan Budget Act of 2013. The non-defense category is called the "revised nonsecurity category."

[64] BBEDCA §251A (2 U.S.C. 901a) directs OMB to lower the revised spending caps for FY2014-FY2021. Section 101 of the Bipartisan Budget Act of 2013 requires that the lowering of caps "shall not be implemented for fiscal years 2014 and 2015."

[65] CRS calculations based on CBO and OMB data.

[66] CBO, "Cost Estimate of the Bipartisan Budget Act of 2013, As posted on the website of the House Committee on Rules on December 10, 2013," December 11, 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/ Bipartisan%20Budget%20Act%20of%202013.pdf.

2014. The measure also extended non-defense mandatory sequestration from FY2023 to FY2024.[67]

Final Appropriations for FY2014

The House and Senate Appropriations Committees announced an agreement on funding for the remainder of FY2014 on January 13, 2014.[68] The resulting measure (Senate Amendment to H.R. 3547) was scored as conforming to caps set in the Bipartisan Budget Act of 2014.[69] The House voted to accept the measure on January 14, 2014, on a 359-67 vote. On the following day, the Senate approved that version on a 72-26 vote. The President then signed the measure (P.L. 113-76) on January 17, 2014.

A short-term continuing resolution (H.J.Res. 106) was introduced by House Appropriations Chairman Harold Rogers to extend federal funding from January 15 to January 18, 2014, to provide more time for the consideration of final FY2014 appropriations. On January 14, 2014, that measure passed the House on a voice vote and the Senate on an 86-14 vote. The President signed the measure (P.L. 113-73) on the following day.

Discretionary Funding Proposals for FY2015

The Bipartisan Budget Act (P.L. 113-67; Sections 115 and 116) provides authority for budgetary enforcement "in the same manner as for a concurrent resolution on the budget for FY2015" if no budget resolution were agreed to by the House and Senate by April 15, 2014. In each chamber, the chairman of the Budget Committee would then be mandated to submit information normally contained in a budget resolution after April 15 but before May 15, 2014.

The Congressional Budget Office's budget and economic outlook, which contains updated economic and budgetary baseline projections through FY2024, was released on February 4, 2014.[70] Discretionary spending as a share of GDP, according to CBO current-law baseline projections, would fall by about 20% over the next decade, absent changes in statutory caps on discretionary spending.

Administration's FY2015 Budget Proposals

The Obama Administration submitted the first part of its FY2015 budget on March 4, 2014.[71] Additional materials were released on March 10, 2014. OMB attributed the delay in the budget submission to the late completion of FY2014 appropriations, which then pushed back budget formulation deadlines.[72] The FY2014 budget, as noted above, was submitted on April 10, 2013.

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[67] S. 25 also established a "Transitional Fund for Sustainable Growth Rate."

[68] For details, see CRS Report R43338, *Congressional Action on FY2014 Appropriations Measures*, by Jessica Tollestrup.

[69] CBO, "2014 Discretionary Appropriations Including H.R. 3547, as Posted on House Rules Website on January 13, Excluding OCO, Disaster, Prog. Int. and Emergencies," January 14, 2014. H.R. 3547, originally named the "Space Launch Liability Indemnification Extension Act," was used as the legislative vehicle for the final FY2014 appropriations act.

[70] CBO, *The Budget and Economic Outlook: 2014 to 2024*, February 4, 2014, available at http://www.cbo.gov/publication/45010.

[71] OMB, *Budget of the U.S. Government FY2015*, available at http://www.whitehouse.gov/omb/budget.

[72] Marcus Weisgerber, "2015 US Budget Proposal Not Likely Until Late February," *Defense News*, January 6, 2014, available at http://www.defensenews.com/article/20140106/DEFREG02/301060022/2015-US-Budget-Proposal-Not-

OMB had instructed federal agencies to submit plans that would reflect a 5% reduction in net discretionary funding, along with measures to reach a 10% reduction in net discretionary funding.[73]

The Obama Administration's FY2015 budget proposal was designed to comply with BCA caps, as modified by the BBA, on discretionary spending, aside from an "Opportunity, Growth, and Security Initiative."[74] Those caps require that defense spending be scored at less than $521.3 billion and that non-defense spending be scored at less than $492.4 billion. Scored budget totals include adjustments that cause them to vary from programmatic totals.

The Opportunity, Growth, and Security Initiative (OGSI) would provide an additional $56 billion in funding split equally between defense and non-defense spending, reflecting the Administration's view that BCA discretionary cap levels currently in place provide insufficient funding for many domestic policy initiatives and certain defense priorities. In particular, the Administration proposed increased funding for research, clean energy, education for young children, and efforts to mitigate homelessness.[75] The Administration proposed $28 billion in mandatory program reductions and $28 billion in reductions in tax benefits enjoyed by certain high-value retirement savings accounts to offset costs of its initiative.

The Administration submitted a $65.8 billion war funding (Overseas Contingency Operations; OCO) request to Congress on June 26, 2014, to supersede placeholder amounts ("plugs") totaling $85.4 billion included in the March budget submission.[76] BCA caps for defense and non-defense are adjusted upwards by the amount of war funding if Congress and the President agree on those amounts.[77]

Congressional Action on the FY2015 Budget

House Budget Chairman Paul Ryan released a budget resolution proposal on April 1, 2014.[78] Proposed levels for FY2015 discretionary funding conform to modified BCA caps. In future years, proposed levels for defense discretionary spending would be above existing BCA caps, while non-defense discretionary spending would be below cap levels. For instance, FY2016 base defense BA would be $43 billion higher than the current BCA limit and non-defense spending would be lower by the same amount.[79] The House Budget Committee reported a budget

Likely-Until-Late-February. In normal budget cycles, OMB reviews agency proposals and issues "passback" guidance in late November. For the FY2015 budget cycle, according to quoted sources, the "passback" guidance would occur in January 2014.

[73] Sylvia Burwell, OMB Director,*FY2015 Budget Guidance*, memorandum M-13-14,May 29, 2013, available at http://www.whitehouse.gov/sites/default/files/omb/memoranda/2013/m-13-14.pdf.

[74] OMB, *Budget of the U.S. Government FY2015*, pp. 11-16.

[75] Ibid., p. 11.

[76] OMB, Estimate #2: Overseas Contingency Operations (OCO) request for the Department of Defense (DOD) and the Department of State and Other International Programs (State/OIP), June 26, 2014, available at http://www.whitehouse.gov/sites/default/files/omb/assets/budget_amendments/final_fy_2015_oco_amendment_-_062414.pdf.

[77] See sec. 251(b)(2)(A) of Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), which was modified by the BCA.

[78] See House Budget Committee, *Fiscal Year 2015 Budget*; available at http://budget.house.gov/fy2015/.

[79] House Budget Committee, *The Path to Prosperity: FY 2015 Budget Resolution*, April 1, 2014, Summary Table S-5, available at http://budget.house.gov/uploadedfiles/fy15_blueprint.pdf.

resolution (H.Con.Res. 96) on April 4, 2014. The House then approved the budget resolution (H.Con.Res. 96) by a 219-205 vote on April 10, 2014.[80]

The Senate has relied on provisions of the BBA that set levels for discretionary spending for consideration of the FY2015 budget.[81] Senate Budget Committee Chairwoman Patty Murray has emphasized that budget totals set in the Bipartisan Budget Act will serve to frame FY2015 appropriation levels in the Senate, a statement that has been interpreted to imply that the Senate would not consider a budget resolution for FY2015.[82]

By mid-July 2014, the House had passed 7 of 12 appropriations bills[83] and Senate Appropriations Subcommittees had reported 8 of 12 bills.[84] The Senate, however, did not pass any appropriations bills. The Senate began consideration of a "minibus" (S.Amdt. 3244 to H.R. 4660), introduced by Senate Appropriations Chairwoman Barbara Mikulski on June 17, 2014, which combined funding provisions for three appropriations bills.[85] No action, however, was taken on the measure after divergent views on the consideration of amendments were expressed.[86]

Continuing Resolution Provides Funding Until December 11, 2014

On September 17, the House passed on a 319-108 vote a continuing resolution (H.J.Res. 124) to provide FY2015 funding for the government until December 11, 2014.[87] The Senate approved the measure without amendment the following day on a 78-22 vote. President Obama signed the measure (P.L. 113-164) into law on September 19, 2014. The FY2015 continuing resolution provides funding at nearly the same rate as for FY2014, except where otherwise specified. The act includes an across-the-board reduction of 0.0554%, which totals $571 million in budget authority.[88] **Table 2** presents a summary of FY2015 funding levels provided by the act.

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[80] See U.S. Congress, House Committee on the Budget, *Concurrent Resolution on the Budget—Fiscal Year 2015*, Report to accompany H.Con.Res. 96, 113th Cong., 2nd sess., April 4, 2014, H.Rept. 113-403 (Washington: GPO, 2014), available at http://www.gpo.gov/fdsys/pkg/CRPT-113hrpt403/pdf/CRPT-113hrpt403.pdf.

[81] See CRS Report R43535, *Provisions in the Bipartisan Budget Act of 2013 as an Alternative to a Traditional Budget Resolution*, by Megan S. Lynch.

[82] See Senate Budget Committee Memorandum to the Caucus, February 27, 2014, available at http://www.budget.senate.gov/democratic/public/_cache/files/7c3f7f70-552b-427f-8790-20559761d41d/murray-memo-to-caucus-2-28-14.pdf; and Sarah Mimms, "Murray: Senate Democrats Will Not Do a Budget This Year," *National Journal*, February 28, 2014, available at http://www.nationaljournal.com/congress/murray-senate-democrats-will-not-do-a-budget-this-year-20140228.

[83] The House passed appropriations measures for Agriculture, Commerce-Justice-Science, Defense, Energy and Water, Legislative Branch, Military Construction-Veterans Affairs, and Transportation-HUD. For details, see the CRS Appropriations Status Table at http://www.crs.gov/Pages/AppropriationsStatusTable.aspx.

[84] Senate Appropriations subcommittees reported measures for Agriculture, Commerce-Justice-Science, Defense, Homeland Security, Legislative Branch, Military Construction-Veterans Affairs, State-Foreign Operations, and Transportation-HUD. For details, see the CRS Appropriations Status Table at http://www.crs.gov/Pages/AppropriationsStatusTable.aspx.

[85] The FY2015 Minibus included provisions for Agriculture, Commerce-Justice-Science, and Transportation-HUD. See Senate Committee on Appropriations, "FY15 Minibus Text: CJS, THUD & Agriculture," June 17, 2014, available at http://www.appropriations.senate.gov/news/fy15-minibus-text-cjs-thud-agriculture.

[86] *Congressional Record*, vol. 160 (June 19, 2014), p. S3844.

[87] Funding for efforts to control the spread of the Ebola virus is provided until the end of FY2015. Authorization for the Export-Import Bank is continued until June 30, 2015.

[88] CBO, "The Continuing Appropriations Resolution, 2015 (H.J.Res. 124), Including the Amendment in Part A of H.Rept. 113-600, as Approved by the House Committee on Rules on September 15, 2014, Regular Appropriations Only," September 16, 2014; https://www.cbo.gov/publication/45727.

Table 2. Summary of FY2015 Continuing Resolution

Billions of dollars, reflects scoring adjustments

Budget Authority					
	Regular	***BBA Cap***	**War/OCO**	**Other Adjustments**	**Total**
Defense	517.7	521.3	85.1	-	602.8
Non-Defense	494.5	492.4	6.7	6.6	507.8
Subtotal	1,012.2	1,013.6	91.9	6.6	1,110.7
Outlays					
	Regular		**War/OCO**	**Other Adjustments**	**Total**
Defense	553.9		43.2	0.1	597.2
Non-Defense	597.9		1.6	1.1	600.6
Subtotal	1,151.9		44.8	1.2	1,197.8

Source: CBO, "The Continuing Appropriations Resolution, 2015 (H.J.Res. 124), Including the Amendment in Part A of H.Rept. 113-600, as Approved by the House Committee on Rules on September 15, 2014, Regular Appropriations Only," September 16, 2014; https://www.cbo.gov/publication/45727.

Notes: Adjustments to discretionary spending caps are made to reflect amounts in the War/OCO (Overseas Contingency Operations) and other adjustments categories. See notes in source document. Budgetary caps are discussed in more detail in the following section. The other adjustments category includes certain emergency funding in the defense category and disaster assistance and program integrity initiatives in the non-defense category.

Comparison of Discretionary Caps

Table 3 summarizes discretionary funding and modifications of statutory caps on discretionary funding for base defense and non-defense funding from FY2013 through FY2021. Levels are shown in terms of scored budget authority (BA) that excludes war (Overseas Contingency Operations/OCO), disaster, program integrity, and emergency funding.

The first two rows in both the defense and non-defense categories show revised caps before and after the fiscal cliff agreement (ATRA), which reduced the size of the JSC sequester. The next pair of rows show estimates of post-sequester funding in FY2013 and OMB estimates of lowered cap levels in subsequent years. Next, the modifications of the defense and non-defense caps enacted in December 2013 by the Bipartisan Budget Act are shown. That act turned off the mechanism that lowers caps to recapture savings not obtained by the JSC for FY2014 and FY2015, but did not change caps or the cap-lowering mechanism for later years. Finally, a pre-BCA Administration projection (CBO reestimate of the FY2012 plan) and the totals for the FY2014 budget submission are presented.

Table 3. Defense and Non-defense Trends Under Revised BCA Constraints

Budget Authority in Billions of Dollars; Excludes OCO/War, Disaster, Program Integrity, and Emergency Funding

Defense (base)	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
BCA revised cap									
Pre-fiscal cliff deal (ATRA)	546	556	566	577	590	603	616	630	644
Post-fiscal cliff deal (ATRA)*	544	552			← unchanged →				
Sequester/OMB Seq. Preview Reports									
JSC Sequester/Auto Enforcement†	-42.6	-53.9	-54.0	-54	-54	-54	-54	-54	-54
Sequester/Lowered Caps*	517.9	498.1	512	523	536	549	562	576	590
BBA 2013 caps		520.5	521.3		← unchanged: same as pre-ATRA revised caps →				
		Caps not to be lowered			Subject to lowering of caps				
Administration Plans									
Pre BCA: FY2012 Plan, (CBO reestimate, March 2011)	596	612	624	637	649	661	673	685	697
FY2014 Plan (OMB April 2013)		552	566	577	586	595	604	614	624
FY2015 Plan (OMB March 2014; w/ OGSI))			549	561	569	578	586	595	604
Non-Defense	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
BCA revised cap									
Pre-fiscal cliff deal (ATRA)	501	510	520	530	541	553	566	578	590
Post-fiscal cliff deal (ATRA)*	499	506			← unchanged →				
Sequester/OMB Seq. Preview Reports									
JSC Sequester/Auto Enforcement†	-25.8	-36.6	-37.4	-37	-37	-36	-35	-34	-39
Sequester/Lowered Caps*‡	470	469.4	482.6	493	504	517	531	544	551
BBA 2013 caps		491.8	492.4		← unchanged: same as pre-ATRA revised caps →				
		Caps not to be lowered			Subject to lowering of caps				
Administration Plans									
Pre BCA: FY2012 Plan, (CBO reestimate, March 2011)	550	550	559	573	586	601	617	638	646
FY2014 Plan (OMB April 2013)	503	506	536	545	556	568	581	599	603
Unspecified reductions**			-16	-15	-19	-23	-27	-37	-33
Net (see OMB Table S-10 non-defense category)		506	520	530	537	545	554	562	570
FY2015 Plan (OMB March 2014; w/o OGSI)			516	525	532	540	549	557	565

Source: CRS calculations based on the following data sources: OMB Sequestration Report, March 1, 2013; OMB Sequestration Preview Report for FY2014 (Corrected version); OMB Sequestration Preview Report for FY2015; CBO, Sequestration Update Report: August 2014, August 2014; CBO, Reestimate of the President's Budget, March 2011; CBO, "2014 Discretionary Appropriations Including H.R. 3547, as Posted on House Rules Website on January 13, Excluding OCO, Disaster, Prog. Int. and Emergencies," January 14, 2014. CBO, "Estimate of Discretionary Budget Authority for Fiscal Year 2013, Showing Amounts for Defense and Nondefense Programs," September 10, 2013, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/09-10-2013-Supplement%20_to_Table3_from_May_Outlook.xls; OMB, *FY2014 Mid-Session Review*, Tables S-9 and S-10, available at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/14msr.pdf;OMB, FY2014 Analytical Perspectives, Table 31-1, "Policy Budget Authority and Outlay by Function, Category, and Program." H.Rept. 113-290 (to accompany H.Res. 438); OMB, *Budget of the U.S. Government FY2015, Table S-10, p. 200.*

Notes: CBO describes lowered caps as "Caps established by the Budget Control Act, including automatic spending reductions." Above caps are "scored" numbers, which will generally differ from non-scored budget totals. FY2013 caps revised as part of fiscal cliff deal, caps applied to security/nonsecurity basis. Defense and non-defense post-ATRA caps were in effect used to calculate JSC sequester.

Both the FY2014 final base defense and non-defense funding totals were scored as meeting FY2014 BBA cap. Totals for FY2015 Administration proposals include amounts for the Opportunity, Growth, and Security Initiative (OGSI) and reflect adjustments for program integrity (-$1 billion each year for FY2016-FY2024) and the reclassification of surface transportation funding (-4 billion for FY2015-FY2017 and -$5 billion for FY2018-FY2024).

* ATRA redefined FY2013 discretionary spending caps using categories of "security" and "non-security," which served to bind discretionary spending levels.

Defense and non-defense categories were used to calculate the March 1, 2013, sequestration, but did not bind discretionary spending levels.

† The JSC sequester/automatic enforcement discretionary spending reduction will not equal the difference between the revised cap and sequester/lowered cap level because (i) for FY2013 the defense/non-defense cap was not binding; and (ii) some spending not covered by the defense/non-defense cap is subject to sequestration. For example, war funding (OCO) is not covered by the defense cap, but is subject to sequestration under Section 251A of the BBEDCA. More precisely, caps are adjusted upwards to accommodate funding for war funding (OCO) and emergency items, and within specified limits, to accommodate funding for disaster relief and program integrity initiatives. The Bipartisan Budget Act of 2013 prevented the lowering of caps for FY2014 and FY2015.

** According to the FY2014 *Mid-Session Review*, "The 2014 Budget includes allowances, similar to the Function 920 allowances used in Budget Resolutions, to represent amounts to be allocated among the respective agencies to reach the proposed defense and non-defense caps for 2015 and beyond. These levels are determined for illustrative purposes but do not reflect specific policy decisions." See fn. 5, to MSR Table S-10, p. 58.

FY2014 OMB net non-defense discretionary proposal levels do not reflect proposed reclassifications between mandatory and discretionary categories. Unspecified reductions for subfunctions 053 and 054 total $5.4 billion over FY2014-FY2023 and do not exceed $1 billion until FY2022. For the sake of compactness, those reductions are not shown. Unspecified subfunction 051 and 053 reductions reported in OMB, FY2014 *Analytical Perspectives*, Table 31-1. No unspecified reductions are proposed for subfunction 051 (Defense-Military).

‡ CBO estimated FY2013 non-defense spending at $483.6 billion in September 2013. That estimate excluded an $18.6 billion offset for changes in mandatory spending (CHIMPs) and did not reflect a $5 billion increase in estimated Federal Housing Administration receipts due to higher mortgage insurance charges. The FY2013 estimate of $470 billion includes those adjustments.

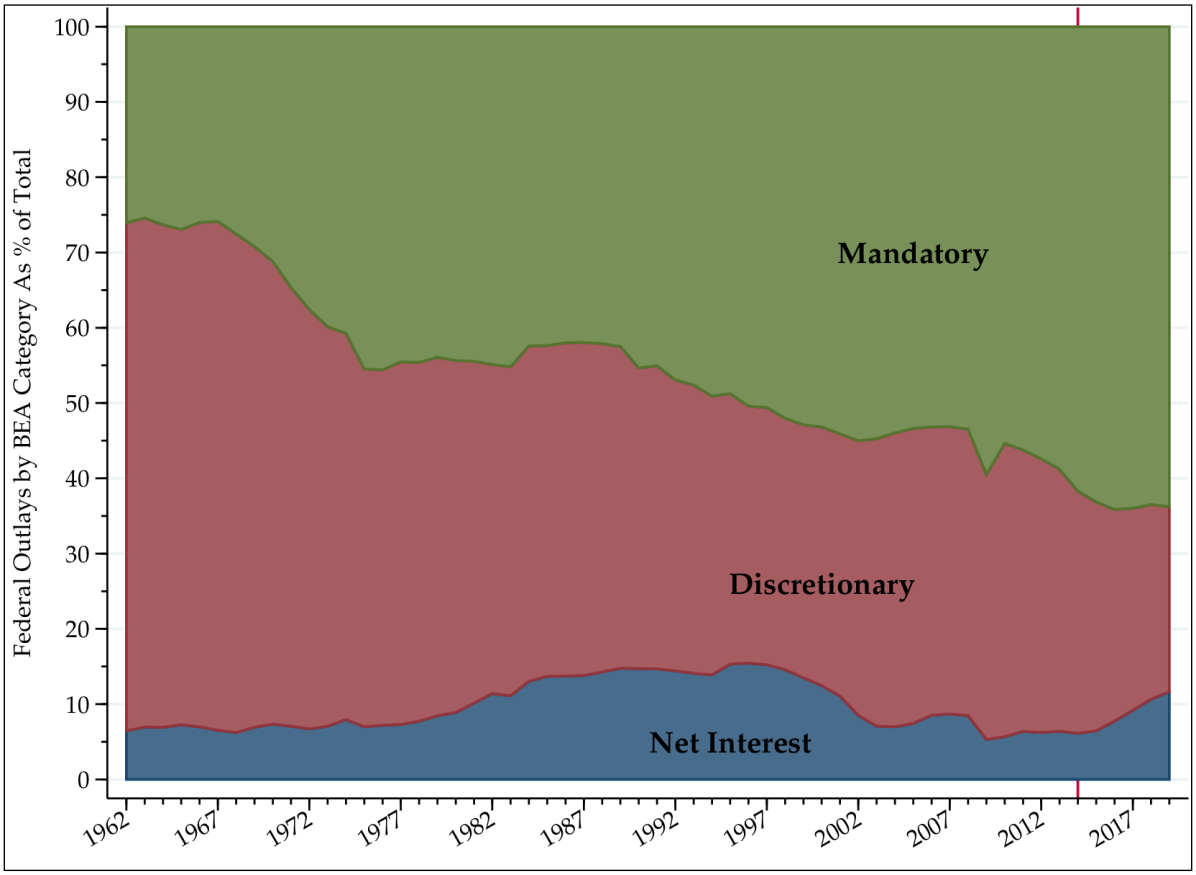
Long-Term Trends in Discretionary Spending

Discretionary Spending Now a Smaller Share of Federal Spending

The composition of the federal budget has changed dramatically since the early 1960s. As **Figure 1** shows, discretionary spending as a share of the federal budget has fallen, while mandatory spending's share has steadily increased.[89] Discretionary spending will thus have gone from comprising two-thirds of federal spending in FY1962 to only 33% of total outlays in FY2014.[90] That share, according to CBO baseline projections, will decline to just under 24% in FY2024.[91]

Figure 1. Outlays by Category as a Percentage of Total Outlays

FY1962-FY2019



Source: CRS calculations based on data from the FY2015 OMB budget submission.

Notes: FY2014 values estimated; FY2015-FY2019 values reflect President's budget proposals.

[89] These categories are defined in the Budget Enforcement Act (P.L. 101-508).

[90] CRS calculations based on data from Office of Management and Budget (OMB) FY2015 Budget materials. See OMB *Budget for FY2015, Historical Tables*, available at http://www.whitehouse.gov/omb/budget/Historicals/.

[91] CBO, *The Budget and Economic Outlook: 2014 to 2024*, February 2014, available at http://www.cbo.gov/publication/45010.

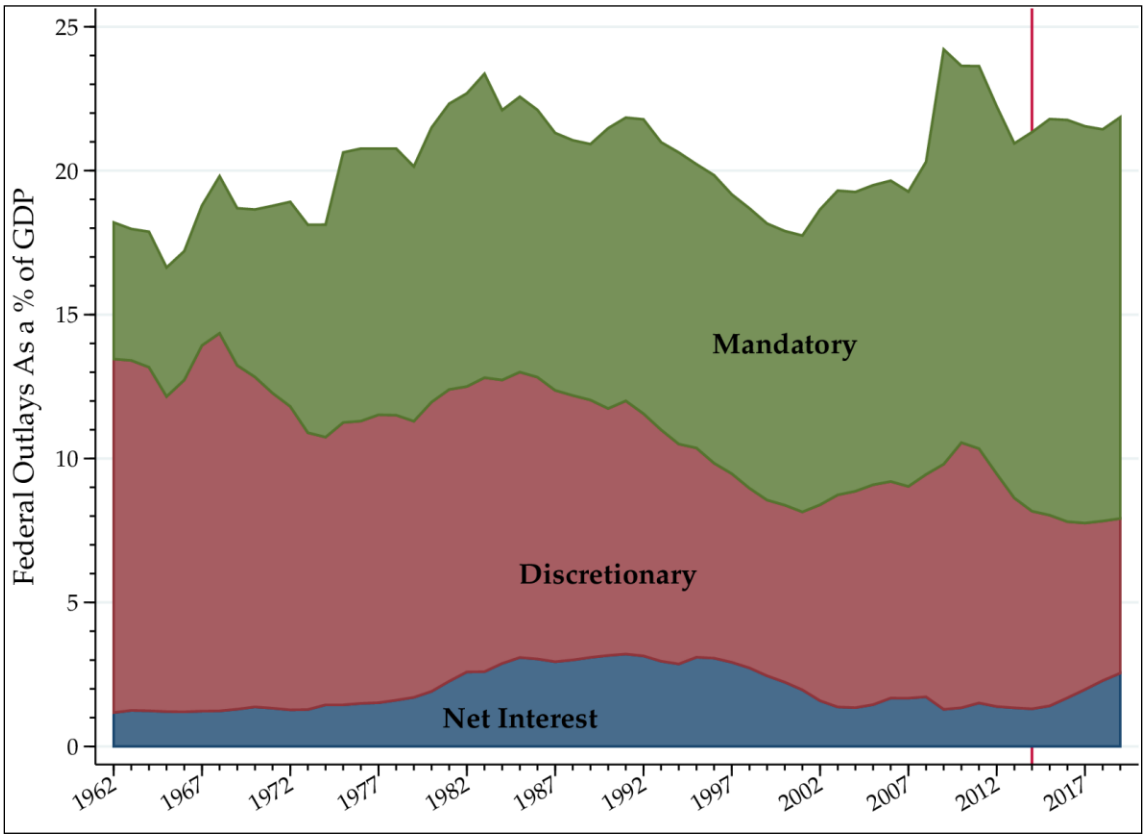
Mandatory spending, by contrast, has risen from 26% of total outlays in FY1962 to 60% in FY2014. Net interest accounted for 6% of federal outlays in FY1962 and 6.6% in FY2013. Net interest costs, according to CBO baseline projections, are expected to rise sharply to 14% in FY2024 as interest rates return to more normal levels and the federal debt continues to expand.[92]

Discretionary Spending As a Share of GDP

Trends in discretionary spending as a share of gross domestic product (GDP) provide another perspective on how the composition of federal outlays has changed. Measuring budget components as a share of GDP compares their size to the economy as a whole, and implicitly incorporates inflation and population growth. When GDP falls, however, the percentage of outlays to GDP tends to rise. **Figure 2** shows components of federal spending as a percentage of GDP since 1962.

Figure 2. Components of Federal Spending, FY1962-FY2019

FY1962-FY2019



Source: CRS calculations based on data from the FY2015 OMB budget submission.

Notes: FY2014 values estimated; FY2015-FY2019 values reflect President's budget proposals and OMB GDP projections.

Total federal outlays as a share of GDP peaked in FY2009 as a result of the current economic situation and federal interventions. While discretionary outlays declined as a percentage of total outlays in FY2009, they rose as a percentage of GDP because the economy shrank in 2008 and

[92] Ibid.

early 2009. Since 2010, discretionary outlays have been falling, both in current dollar terms and as a percentage of GDP. If caps on discretionary spending remain in place, discretionary spending will continue to fall as a share of GDP. CBO has projected that under current law discretionary spending would fall to 5.2% of GDP by FY2024.[93] That share would be about 16% lower than its minimum share during the 1990s (6.2% in FY1999).

Because of the decline in discretionary spending as a percentage of total outlays and as a percentage of GDP and the resulting increase in the share of mandatory spending over time, reaching agreement on how to control the federal budget may become more difficult for Congress.[94] Roughly speaking, discretionary defense and discretionary non-defense outlays each comprise about one-seventh of the federal budget. In other words, because net interest payments and mandatory spending are set automatically, less money is available to allocate to other government agencies and programs unless revenues rise or Congress modifies eligibility requirements and benefits of mandatory spending programs.

Because discretionary funding is provided through an annual budgeting process, this may have made it easier to target spending restrictions on discretionary programs. Most large mandatory programs are linked to people's retirement decisions, so abrupt changes in benefit levels or eligibility criteria could disrupt financial plans of those already retired or about to retire.[95] In the past, mandatory programs such as Social Security and Medicare have enjoyed broad bipartisan support. Those considerations may complicate efforts to reduce funding for mandatory programs.

Costs linked to the retirement of the baby-boom generation, born in the years following World War II, are a major cause of rising mandatory spending. As the U.S. population has aged, the composition of federal outlays has evolved to reflect needs of the elderly. On the other hand, the current trajectory of federal spending on health care appears unsustainable, and could place heavy fiscal burdens on younger generations and generations not yet born.[96]

Discretionary Spending and National Priorities

Discretionary spending can be categorized in several different ways. These divisions provide a rough indicator of national priorities as reflected in federal spending decisions. In addition, some of these categories play or have played a role in budget enforcement mechanisms.

Defense and Non-Defense Spending

One basic division of discretionary spending separates defense programs (budget function 050) from non-defense programs (everything else). Discretionary spending caps now in place due to the Budget Control Act, as modified, set separate limits for base budget defense funding and non-defense funding. Defense spending is typically divided between base budget and war spending,

[93] Ibid.

[94] In addition, fiscal reforms, according to one recent cross-country analysis, become more difficult to achieve following fiscal crises because sharper conflicts among borrowers and creditors make political agreements more difficult to achieve. See Atif Mian, Amir Sufi, and Francesco Trebbi, "Resolving Debt Overhang: Political Constraints in the Aftermath of Financial Crises," *American Economic Journal: Macroeconomics*, v.6 (April 2014), no. 6, pp. 1-18.

[95] For one analysis of the effects of abrupt changes in retirement benefits, see Andries De Grip, Maarten Lindeboom, and Raymond M. Montizaan, "Shattered Dreams: The Effects of Changing the Pension System Late in the Game," *Economic Journal*, vol. 122 (March 2012), pp. 1-25, 2012.

[96] For additional discussion, see CRS Report RL33623, *Long-Term Measures of Fiscal Imbalance*, by D. Andrew Austin.

which supports activities within Overseas Contingency Operations (OCO) or Global War on Terror (GWOT).[97] **Figure 3** shows trends in discretionary defense and non-defense BA in real (i.e., inflation-adjusted) terms since FY1977.[98]

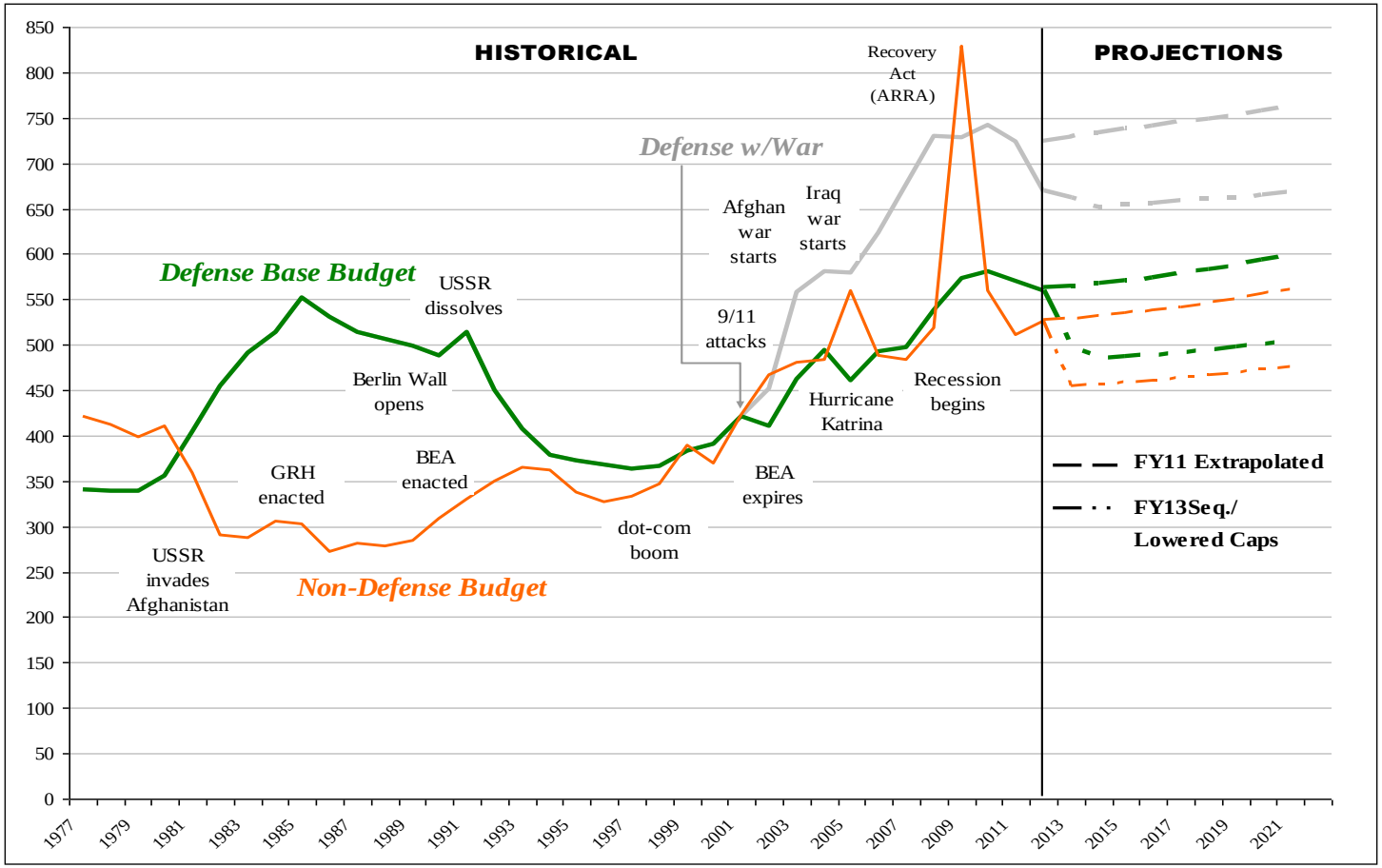
Projections in **Figure 3** reflect spending paths conforming to the original BCA caps. As noted above, ATRA and the Bipartisan Budget Act of 2014 reduced the scope of BCA spending constraints for FY2013 and FY2014.

[97] For details, see CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.

[98] Inflation adjustments calculated using GDP price index. Prices for some categories of goods and services purchased by the government, such as health care, tend to rise faster than the overall price level. Maintaining current levels of government services will require funding levels that increase faster than the overall price level, as measured by the GDP price index. Figure does not reflect changes in ATRA (FY2013 caps reduced by $4 billion, FY2014 caps reduced by $8 billion) or the supplemental funding (P.L. 113-2) for disaster relief for damage caused by Hurricane Sandy (scored at $41.7 billion in emergency-designated budget authority). See discussion about of FY2013 full-year funding measures for budget scoring information.

Figure 3. Defense and Non-Defense Discretionary Spending, FY1977-FY2021

In Billions of FY2012 Dollars of Budget Authority

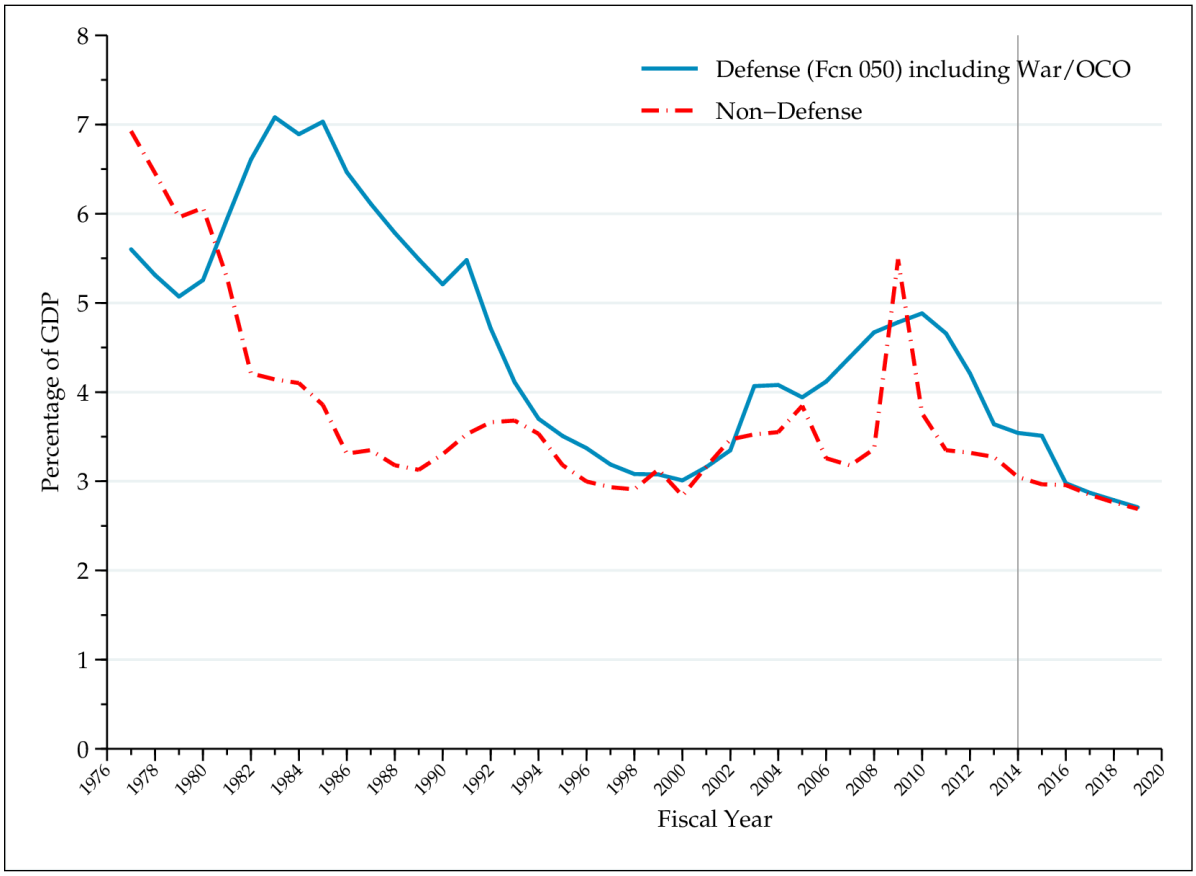


Source: CRS calculations based on CBO and OMB FY2013 historical budget data. See "An Update to the Budget and Economic Outlook: FY2012 to FY2022," August 2012, available at http://www.cbo.gov/sites/default/files/cbofiles/attachments/43539-08-22-2012-Update_One-Col.pdf. OMB data are available at http://www.whitehouse.gov/omb/budget/Supplemental/. Estimates of war costs taken from CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco. Figure does not reflect changes in ATRA or the Sandy supplemental (P.L. 113-2).

Spending trends can also be measured as shares of GDP, which reflects how federal spending compares with the size of the economy. **Figure 4** shows trends in defense and non-defense discretionary BA as a share of GDP over the period 1976-2019. BA as a percentage of GDP reflects changes in population and growth in per-capita income, which may affect the costs of federal programs. How population changes affect federal spending may also depend on whether specific governmental services are subject to scale economies. For instance, a 10% increase in population might require resources devoted to individual health care services to rise by 10% in order to maintain the same level of service, other things equal. For many governmental services, one might expect to find substantial scale economies. For example, an increase in population would likely not be expected to raise the costs of information-generating activities, such as medical and scientific research, or national defense activities.

Figure 4. Discretionary Budget Authority as % of GDP

FY1977-FY2019



Source: CRS analysis of OMB historical data.

Notes: Defense is base discretionary funding within function 050; all other budget functions are defined as non-defense discretionary spending. FY2014 values estimated; FY2015-FY2019 values reflect President's budget proposals and OMB GDP projections.

The Reagan Administration, when it took office in 1981, sought to increase defense spending and reduce spending on domestic programs.[99] Budget enforcement measures were introduced in the

[99] For an account written by President Reagan's first budget director, see David A. Stockman, *The Triumph of Politics* (New York: Harper & Row, 1986).

mid-1980s to control rising federal deficits. In 1985, the Gramm-Rudman-Hollings (GRH) deficit control legislation and subsequent measures were enacted with the aim of constraining federal spending. In 1990, the Budget Enforcement Act (BEA; P.L. 101-508) set statutory caps on discretionary spending and imposed other budgetary enforcement mechanisms, which many analysts view as having helped constrain federal spending, increase federal revenues, and thus, reduce deficits. In the decade after the attacks of September 11, 2001, and the expiration of statutory spending caps at the end of FY2002, however, both defense and non-defense discretionary spending rose in real terms. Trends in defense and non-defense spending are discussed in more detail below.

Discretionary Defense Spending

Base budget defense spending in real terms has risen and fallen to reflect national security challenges and changes in policy priorities.[100] Defense spending increased sharply in the mid-1960s as the United States' involvement in Vietnam deepened. After large-scale withdrawals of American troops from Vietnam began in 1969, defense spending as a share of GDP fell for the next decade. In the mid-1970s, when the United States took a less confrontational diplomatic stance towards the Soviet Union, termed détente, defense spending grew modestly. The Soviet invasion of Afghanistan in 1979, however, prompted the Carter Administration, and then the Reagan Administration during the early 1980s, to boost military expenditures. By the mid-1980s, however, concerns about large deficits helped constrain defense spending. After the fall of most European communist regimes in 1989 and the dissolution of the Soviet Union in 1991, defense spending declined. Costs of the first Iraq War (1990-1991) were shouldered by U.S. coalition partners.[101]

After the attacks of September 11, 2001, defense spending rose sharply as the United States began military operations in Afghanistan, but also included dramatic increases in non-war or base budget funding. War in Iraq, which began in 2003, amplified demands for higher defense spending. War costs have fallen since the drawdown of troops participating in the 2007 surge of forces in Iraq and the withdrawal of combat troops from Iraq at the end of calendar 2011. Further reductions in war costs are expected as troops are withdrawn from Afghanistan.[102] Decisions about major procurement programs and possible changes in Budget Control Act budget enforcement mechanisms could also affect trends in defense spending.

Ups and downs in defense spending have primarily reflected changes in investment funding for modernization of weapon systems and support equipment, and conducting Research, Development, Test & Evaluation (RDT&E) on new systems.[103] Defense investment typically grows when support for defense spending is high, such as in wartime or the early 1980s, and then falls as support dips and other issues become more pressing, with peaks in investment offsetting later valleys. Trends in base defense spending over the past decade may not reflect the full extent of the growth in defense costs, because it does not include about $300 billion in war-related investment in weapon systems, which will likely remain in the inventory for many years to come.

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[100] This section draws upon contributions from Amy Belasco, CRS Specialist in U.S. Defense Policy and Budget.

[101] See CRS Report RS22926, *Costs of Major U.S. Wars*, by Stephen Daggett, Table 1, note b.

[102] For details, see CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco; and CRS Report R40682, *Troop Levels in the Afghan and Iraq Wars, FY2001-FY2012: Cost and Other Potential Issues*, by Amy Belasco.

[103] See Figure 1 in CRS Report R42334, *A Historical Perspective on "Hollow Forces,"* by Andrew Feickert and Stephen Daggett.

By contrast, wartime operating costs, such as training and support of personnel, do not contribute to modernization.

Defense Spending as a Percentage of GDP

Discretionary defense spending accounts for a much smaller share of GDP in recent years than during World War II, the Korean War, or the Vietnam War.[104] At the height of the Vietnam War in FY1969, defense outlays were 8.7% of GDP. Moreover, with compulsory military service, which was in effect until 1973, the budgetary costs of war understated the full economic costs of national defense, because many draftees were prevented from pursuing other opportunities.[105]

As noted above, defense spending fell during the 1970s, rose rapidly following the Soviet invasion of Afghanistan, and fell after the collapse of most of the USSR's Warsaw Pact allied governments in 1989 and the dissolution of the USSR itself in 1991. Discretionary defense outlays, which had fallen to 3.0% of GDP by the late 1990s, rose sharply to 4.0% of GDP in 2005, and reached 4.7% of GDP in 2011, divided between 3.6% for the base defense budget and 1.1% for war funding (Overseas Contingency Operations; OCO). Increased defense outlays accounted for 53% of the real increase in total discretionary outlays over the decade of 2000-2010, rising 6.8% per year on average in real terms.[106]

Effect of Withdrawals from Iraq and Afghanistan

In FY2012 and FY2013 defense outlays as a share of GDP fell, due in large part to the withdrawal of combat troops from Iraq that was completed in December 2011. President Obama had announced that most U.S. troops would be withdrawn from Afghanistan by the end of 2014.[107] In May 2014, President Obama said that about 9,800 U.S. troops would be in Afghanistan at the start of 2015, and roughly half that amount would be there in 2016.[108] On September 29, 2014, the date that Dr. Ashraf Ghani was inaugurated as Afghan president, status of forces agreements (SOFAs) were signed between Afghanistan and the United States and between Afghanistan and the North Atlantic Treaty Organization (NATO), which provide a framework for counterterrorism and training operations.[109]

The Obama Administration requested $12.8 billion in supplemental appropriations on November 10, 2014, to fund operations in Iraq and Syria against the Islamic State of Iraq and the Levant (ISIL).[110]

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[104] See Table 1 in CRS Report RS22926, *Costs of Major U.S. Wars*, by Stephen Daggett.

[105] RAND, *The Evolution of the All-Volunteer Force*, issue brief, 2006; available at http://www.rand.org/content/dam/rand/pubs/research_briefs/2006/RAND_RB9195.pdf. For an analysis of the full economic costs of the draft, see Walter Oi, "The Economic Cost of the Draft," *American Economic Review* vol. 27, no. 2 (1967), pp. 39-62.

[106] Defense discretionary spending includes enacted supplemental requests. OMB, *Budget for Fiscal Year 2011, Historical Tables*, Table 8.2, available at http://www.whitehouse.gov/omb/budget/Historicals/. 2010 spending includes proposed $41.1 billion supplemental appropriation.

[107] See CRS Report RL30588, *Afghanistan: Post-Taliban Governance, Security, and U.S. Policy*, by Kenneth Katzman.

[108] U.S. Department of Defense, DOD News, "Hagel: Post-2014 Troop Level of Protect Afghan Progress," May 29, 2014; http://www.defense.gov/news/newsarticle.aspx?id=122362.

[109] U.S. Department of Defense, "DOD Releases Report on Progress in Afghanistan," press release NR-554-14, October 31, 2014; http://www.defense.gov/Releases/Release.aspx?ReleaseID=17014. See also CRS Report R43196, *War in Afghanistan: Campaign Progress, Political Strategy, and Issues for Congress*, by Catherine Dale.

[110] President Barack Obama, letter to Speaker John Boehner and other congressional leaders, November 10, 2014; http://www.whitehouse.gov/sites/default/files/omb/assets/budget_amendments/amendment_11_10_14.pdf

How Much Defense Spending Is Appropriate?

The appropriate size of the defense budget has long been a lively topic of debate. In 2007, General Mike Mullen, then chairman of the Joint Chiefs of Staff, said that he considered 4% of GDP "an absolute floor" for future defense spending.[111] Some analysts have expressed some doubts about the sustainability of current defense budget plans.[112] Others contend that defense expenditures as a proportion of GDP should fall over the long term because the cost of defending the nation depends on factors that are largely independent of economic growth. Geopolitical challenges, wars, major procurement programs, and changes in national spending priorities have spurred swings in defense spending in past decades.

Former Secretary of Defense Robert Gates called for cost-cutting measures within the Department of Defense (DOD), although the stated aim is not to reduce the department's top-line budget number.[113] Former Secretary of Defense Leon Panetta has raised concerns that cuts required by the Budget Control Act could have serious effects.[114] On the other hand, the Budget Control Act would have brought discretionary base defense spending in inflation-adjusted terms back to its FY2007 level. With modifications made in the American Taxpayer Relief Act of 2012 (see above), real discretionary base defense spending after sequestration would revert to a level between its FY2007 and FY2008 levels.

In early 2013, DOD leaders issued guidance on budget strategies to handle uncertainties raised by sequestration and the FY2013 continuing resolution (P.L. 112-175) that provides funding through March 27.[115] DOD budget guidance includes protection of war operations and programs associated with new strategic priorities; reduction of administrative and civilian personnel costs; and deferring less critical maintenance. Some analysts argue that budgetary constraints may require a larger reconsideration of strategic goals of DOD.[116]

In February 2014, Secretary of Defense Chuck Hagel outlined budget proposals that included reductions in troop strength and force structure across the military. Hagel said that even with those reductions, the U.S. military could decisively defeat aggression in one major war while also engaged elsewhere against another adversary.[117] The Administration's FY2015 budget includes an additional $28 billion in security funding as part of its "Opportunity, Growth, and Security

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[111] *New York Times*, October 22, 2007. Transcript available at http://www.nytimes.com/2007/10/22/washington/22mullen-text.html.

[112] Testimony of CBO Assistant Director J. Michael Gilmore, in U.S. Congress, House Budget Committee, *The 2009 Future Years Defense Program: Implications and Alternatives*, hearings, 111th Cong., 1st sess., February 4, 2009; and Testimony of CRS Specialist in Defense Policy and Budgets Stephen Daggett, in U.S. Congress, House Budget Committee, *Sustainability of Current Defense Plans*, hearings, 111th Cong., 1st sess., February 4, 2009.

[113] U.S. Secretary of Defense, Memorandum for Secretaries of the Military Departments, OSD 09637-10, August 16, 2010.

[114] Secretary of Defense, Leon Panetta, "Letter to Senator McCain and Senator Lindsey Graham," November 14, 2011, available at http://www.politico.com/static/PPM205_11_14_11_panetta_respsonse_to_mccain_graham_ltr.html (sic).

[115] Deputy Secretary of Defense Ashton B. Carter, Memorandum on Handling Budgetary Uncertainty in Fiscal Year 2013, January 10, 2013.

[116] Michael O'Hanlon, "What Cutting Defense Really Means," *Wall Street Journal*, January 30, 2013, p. A13. See also Gordon Adams, "Behind the Rhetoric: The Pentagon Starts to Manage the Defense Drawdown," *Foreign Policy*, January 15, 2013, available at http://www.foreignpolicy.com/articles/2013/01/15/behind_the_rhetoric.

[117] Nick Simeone, "Hagel Outlines Budget Reducing Troop Strength, Force Structure," American Forces Press Service, February 24, 2014, available at http://www.defense.gov/news/newsarticle.aspx?id=121703.

Initiative." Defense initiatives include weapon modernization, funding for enhancing readiness, support for maintenance of nuclear weapons facilities, and renovations of DOD installations.[118]

Non-Defense Discretionary Spending

Non-defense spending supports the largest number of federal agencies and programs, including science and technology research, natural resources, energy, education, and numerous others. None of the individual programs within the non-defense discretionary category have approached 1% of GDP since 1962, and funding for most individual programs was less than 0.5% of GDP during that period.

Non-defense discretionary spending in recent decades has typically ranged between 3% and 4% of GDP. In 1969, during the Vietnam War, non-defense spending was 3.6% of GDP. After rising to a peak of 5.2% in 1980, non-defense discretionary spending's share of GDP fell during the Reagan Administration, reaching 3.5% of GDP in 1987.[119] Since then it fluctuated between 3.2% and 3.8% of GDP until 2009. Non-defense discretionary spending rose to 4.6% of GDP in 2010, reflecting a decline in GDP (reducing the denominator of that share) due to the economic recession and policy responses such as the American Recovery and Reinvestment Act of 2009 (ARRA; H.R. 1, P.L. 111-5). Since that year, non-defense discretionary spending has declined in real terms and as a percentage of GDP. According to CBO current-law projections, non-defense discretionary spending will fall to 2.7% in 2023.[120]

The Obama Administration's FY2015 budget proposal included an "Opportunity, Growth, and Security Initiative" that would provide an additional $56 billion in funding split equally between defense and non-defense spending. Non-defense initiatives include more funding for pre-school education, K-12 teacher training, additional National Institutes of Health (NIH) research support, creation of advanced manufacturing institutes, neighborhood revitalization, education and training, and additional grants for local justice programs.

International Discretionary Spending

Some discretionary spending constraints in the 1980s and 1990s set separate caps for defense, domestic, and international (budget function 150) spending.[121] Demands for funding international programs have varied dramatically with changing geopolitical conditions.

In the past decade, international spending (budget function 150) has been strongly affected by wars in Afghanistan and Iraq. Discretionary spending for international programs since 1969 has averaged 0.3% of GDP, reaching its peak of 0.5% of GDP in 1975. International spending had trended downward from the early 1980s until the start of the Iraq war in 2003. Between 2001 and 2010, spending on international programs rose from 0.2% of GDP to 0.3% of GDP. The majority of the funding in this category in recent times has been devoted to diplomatic missions, foreign aid, and international finance.

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[118] See OMB, *The Budget for FY2015*, pp. 11-16, March 4, 2014, available at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/budget.pdf.

[119] For one view of the federal budget during the first years of the Reagan Administration, see David Stockman, *The Triumph of Politics* (New York: Harper&Row, 1986), pp. 401-411.

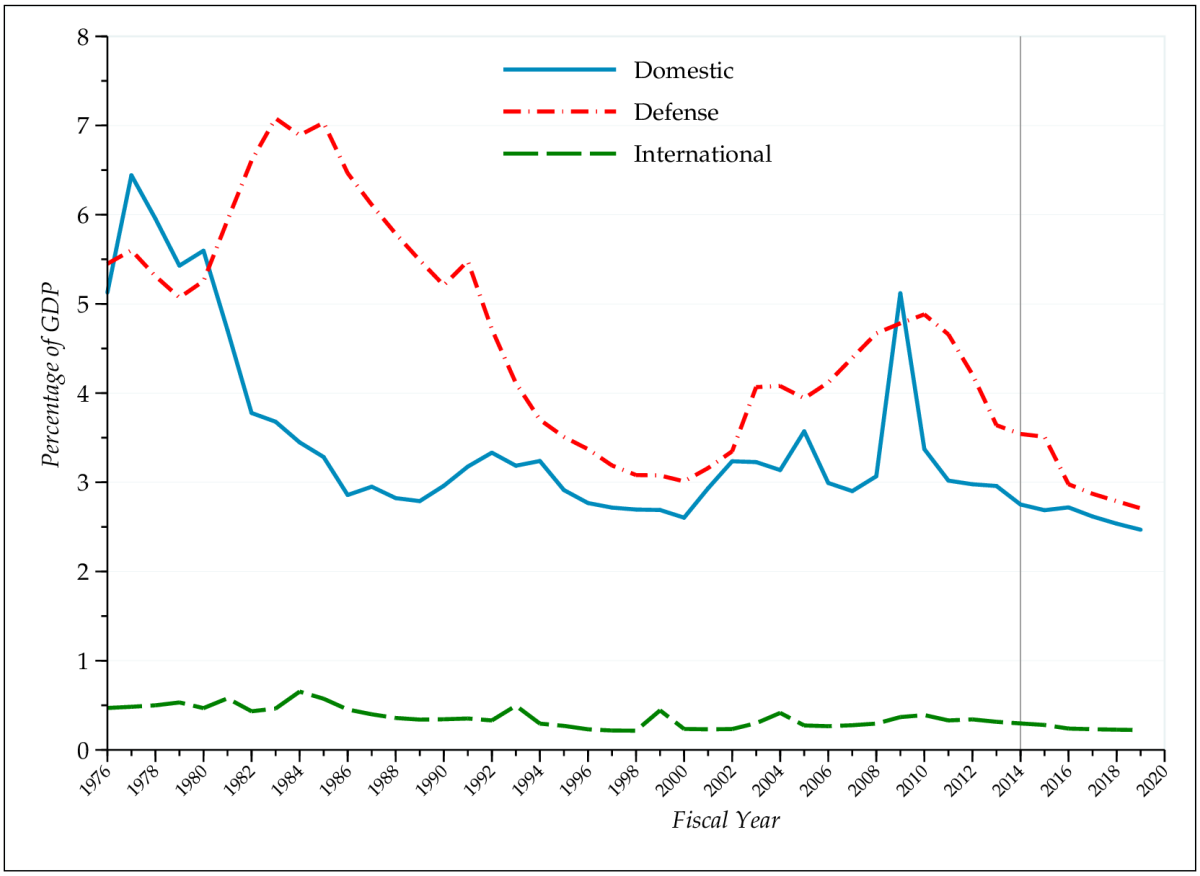
[120] CBO, *The Budget and Economic Outlook: 2014 to 2024*, February 2014, available at http://www.cbo.gov/publication/45010.

[121] For instance, the Budget Enforcement Act of 1990 (P.L. 101-508) set separate caps on defense, domestic, and international spending through 1993, with caps on total spending for later years.

The future trajectory of international funding may depend on how the role of the United States evolves in Iraq, Afghanistan, and neighboring countries. As noted above, President Obama has stated that most U.S. troops would leave Afghanistan by the end of 2014.[122]

Figure 5. Domestic, Defense, and International Discretionary Budget Authority

As % of GDP, FY1976-FY2019



Source: CRS analysis of OMB data from the FY2015 budget submission and BEA estimates of gross domestic product.

Notes: FY2014 values estimated; FY2015-FY2019 values reflect President's budget proposals and OMB GDP projections. Defense is National Defense function 050, International is function 150, and Domestic is all other spending.

Discretionary Security and Non-Security Spending

After September 2011, the categories of security and non-security spending have played an important role in federal budgeting. Unlike the division of discretionary spending into the categories of domestic, international, and defense, which has become routine in budget analyses, several ways of dividing security spending from non-security spending have been used. The George W. Bush and Obama Administrations each created their own division of security and non-security discretionary spending as a way of communicating their budgetary priorities. That division also appeared in some Budget Control Act discretionary spending limits. The Obama and

[122] See CRS Report RL30588, *Afghanistan: Post-Taliban Governance, Security, and U.S. Policy*, by Kenneth Katzman.

Bush Administration budgets have presented summaries of discretionary funding that split out security spending from non-security spending.[123]

The Budget Control Act of 2011 includes two definitions of security spending: an original definition (explained below) and a revised definition corresponding to the national defense budget function (050) and non-defense (all other programs).[124] These BCA security categories set up "firewalls" to ensure that reductions in security spending cannot be used to fund increases in non-security spending, and vice versa. The American Taxpayer Relief Act of 2012 (ATRA) switched FY2013 caps to security/non-security from defense/non-defense.[125]

What Is "Homeland Security" or "Security" Spending?

Any division of spending into security and non-security components would likely present conceptual and practical difficulties.[126] Moreover, the widely used term "homeland security," which comprises some but not all non-defense security spending, does not already readily translate in budgetary categories.[127] **Figure 6** provides a schematic view of the relationship between defense spending (budget function 050) and security spending as defined in the Budget Control Act. That definition nearly coincides with the security definition used by the Obama Administration. The Obama Administration has defined security spending as funding for

- Department of Defense-Military;
- Department of Energy's National Nuclear Security Administration;
- International Affairs (function 150; includes State Department and U.S. AID);[128]
- Department of Homeland Security; and
- Department of Veterans Affairs.[129]

The Budget Control Act of 2011 (BCA), in addition to items on that list, includes the Intelligence Community Management Account, which is far smaller than the other items. The BCA "revised security" category for discretionary spending, as noted above, is national defense (budget function 050) and non-defense (everything else).

[123] For details, see U.S. Office of Management and Budget, *Budget of the U.S. Government, FY2009*, Tables S-2 and S-4, and the "Homeland Security Funding Analysis" chapter in the *Analytic Perspectives* volume. In circular A-11, OMB defines federal homeland security activities as those that "focus on combating and protecting against terrorism, and that occur within the United States and its territories or outside of the United States and its territories if they support domestically-based systems or activities. Such activities include efforts to detect, deter, protect against, and, if needed, respond to terrorist attacks."

[124] BCA limits also include separate cap adjustments for program integrity and disaster assistance.

[125] Caps in ATRA were set at $684 billion for defense and $359 billion for non-defense.

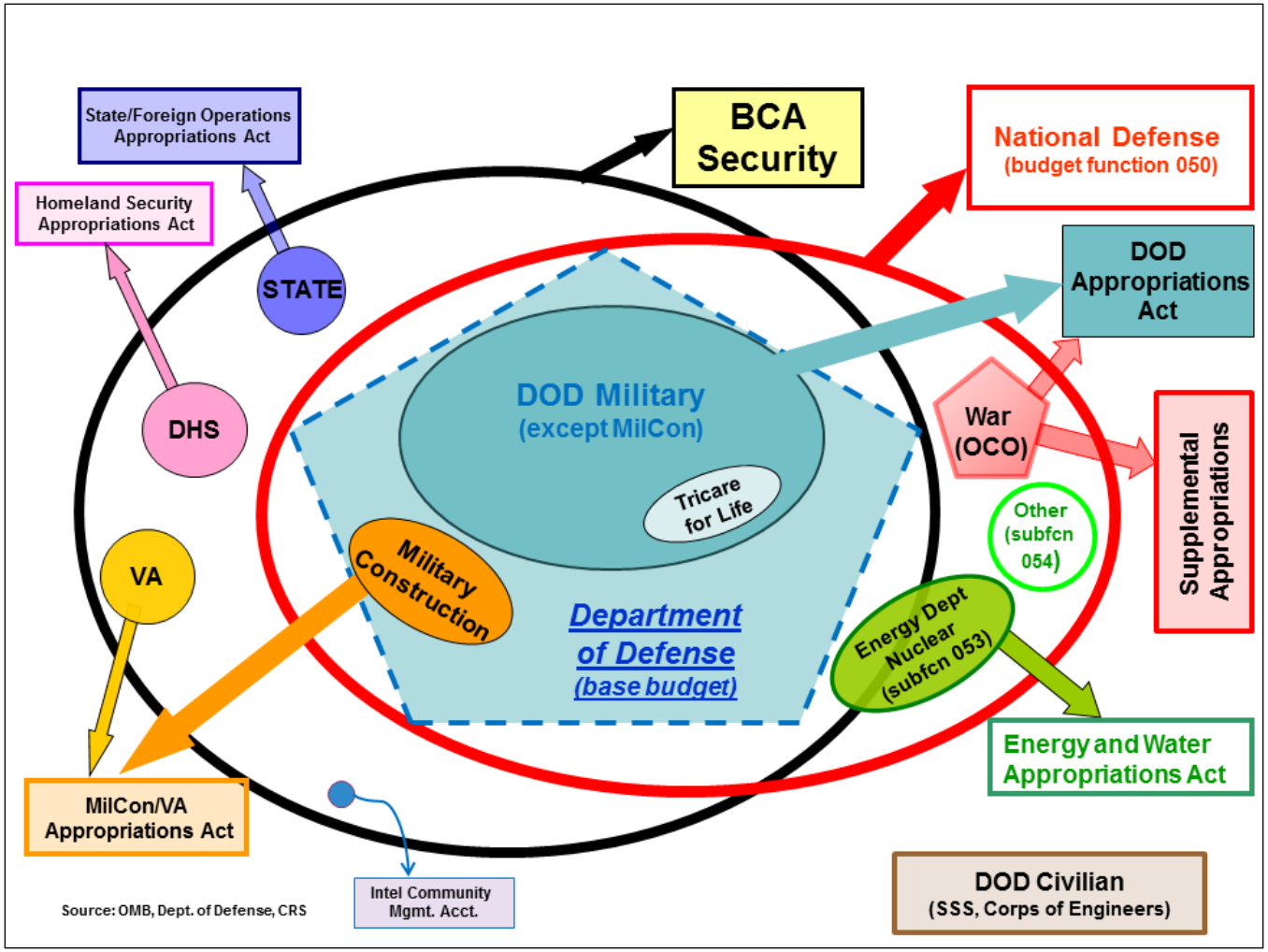
[126] For a discussion of defining security or homeland security, see U.S. Congressional Budget Office, "Federal Funding for Homeland Security: An Update," Economic and Budget Issue Brief, July 20, 2005.

[127] CRS Report R42462, *Defining Homeland Security: Analysis and Congressional Considerations*, by Shawn Reese.

[128] U.S. Agency for International Development.

[129] See notes to U.S. Office of Management and Budget, *Budget of the U.S. Government, FY2013*, Tables S-11.

Figure 6. How Defense and Security Intersect: A Schematic View



Source: OMB, Dept. of Defense, CRS. See text for explanations.

Activities within budget subfunction 053 (Atomic Energy Defense Activities), aside from the National Nuclear Security Administration (NNSA), by this definition are classed as non-security. While the Bush Administration defined parts of the Department of Homeland Security within its "security" classification, the Obama Administration includes all of that department's funding.

The George W. Bush Administration defined security funding as spending on the "Department of Defense, Homeland Security activities Government-wide; and International Affairs."[130] The Obama Administration includes funding for the Department of Veterans Affairs and excludes Justice Department agencies such as the Federal Bureau of Investigation (FBI) under its security rubric, while the Bush Administration's definition included the FBI and other law enforcement bureaus and excluded the Department of Veterans Affairs.

Most homeland security spending, by either definition, takes place in the Department of Defense, the Department of Homeland Security, and the Department of Energy. Many other federal agencies spend at least some portion of their budget on what are arguably homeland security tasks, so that a significant amount of homeland security spending takes place in agencies and programs whose primary focus is not security oriented. Some federal activities, such as Coast Guard patrols and research at the Centers for Disease Control and Prevention, advance interests clearly linked to security objectives as well as those which are not. Moreover, some federal programs tasked with non-security aims in normal times may respond to specific homeland security challenges. These issues complicate budgetary analyses of homeland security spending.

The President's budget submission must report homeland security spending.[131] This definition, drawn more narrowly than "security," can exclude some DOD activities not closely tied to security concerns, such as military bands, while including certain non-DOD activities such as National Institutes of Health research on countermeasures against chemical or biological weapons. OMB's security spending estimates are based on reports from 32 agencies with homeland security responsibilities. Those agencies provide OMB with budget reports that provide a level of detail unavailable in publicly available data.

Trends in "Security" and "Non-Security" Discretionary Spending

Figure 7 shows trends in discretionary spending, divided into defense, non-defense security, and non-security categories in terms of budget authority, while **Figure 8** shows the same categories in terms of outlays. Because budget authority can translate into outlays that stretch over several years, changes in outlays tend to be more gradual. For example, a spike in non-defense security spending for 2005, reflecting disaster spending following Hurricane Katrina and other catastrophic events, appears in the budget authority figure, but not in the outlays figure. Similarly, the spending spike reflecting Recovery Act spending is narrower for BA than for outlays.

Trends in non-defense security spending can also be decomposed to show how its components have changed over time. **Figure 9** shows outlays for non-defense security spending programs since 1976.[132]

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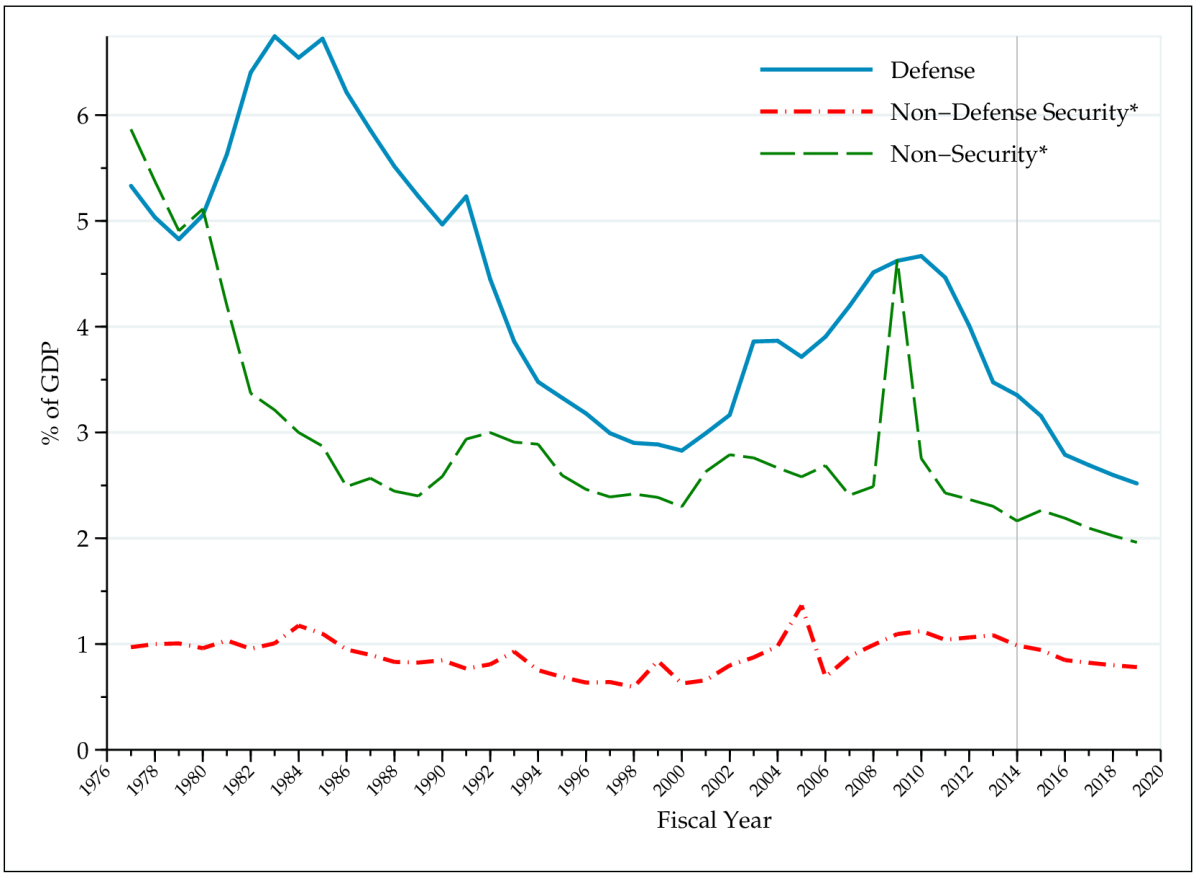
[130] U.S. Office of Management and Budget, *Budget of the U.S. Government, FY2009*, Table S-2.

[131] The Homeland Security Act of 2002 (P.L. 107-296) requires this report, which supersedes a report on anti-terrorism activities mandated by the National Defense Authorization Act of 1998 (P.L. 105-85). An appendix (*Homeland Security Mission Funding by Agency and Budget Account*) is contained in the FY2013 Budget, *Analytical Perspectives* volume, available at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/homeland_supp.pdf.

[132] Funding levels prior to the establishment of Department of Homeland Security (DHS) and National Nuclear Security Administration (NNSA) shown in **Figure 8** reflect imputations calculated by OMB or the author. Congress established the DHS in 2003 (P.L. 107-296), which combined dozens of security-related offices under one agency,

Figure 7. Discretionary Budget Authority by Security Category

FY1976-FY2019, as a Percentage of GDP



Source: CRS analysis of OMB data from the FY2015 budget submission and BEA estimates of gross domestic product.

Notes: The security category reflects BCA original definition, except that war funding (OCO) is included. Defense here includes Dept. of Defense-Military spending. Non-defense security includes Dept. of Energy's National Nuclear Security Admin., International Affairs (function 150), Dept. of Homeland Security and Dept. of Veterans Affairs, and Intelligence Community Management account. FY2014 values estimated; FY2015-FY2019 levels requested by the President. Historical data reflect certain OMB imputations.

Non-defense security programs have been affected by a wide range of policy developments. International program spending fell in the 1980s and 1990s, but rose sharply after the events of September 11, 2001. Spending on federal operations now contained within DHS also increased dramatically after that date. The costs of discretionary veterans' programs also have risen rapidly in the past decade, although more driven by the aging of Korean War and Vietnam War era veterans and expanded access to VA medical care. Only a small part of the increase in VA discretionary costs is due to the costs of treating veterans from the wars in Afghanistan and Iraq.[133]

including the Transportation Security Agency (TSA) to monitor airport security, a new high priority after the 9/11 attacks. DHS began operating on March 1, 2003. The NNSA, which handles nuclear weapon programs within the Energy Department, was established in the FY2000 National Defense Authorization Act (P.L. 106-65, Title XXXII).

[133] Department of Veterans Affairs, "FY2012 Budget Rollout," February 14, 2011.

Figure 8. Discretionary Outlays by Security

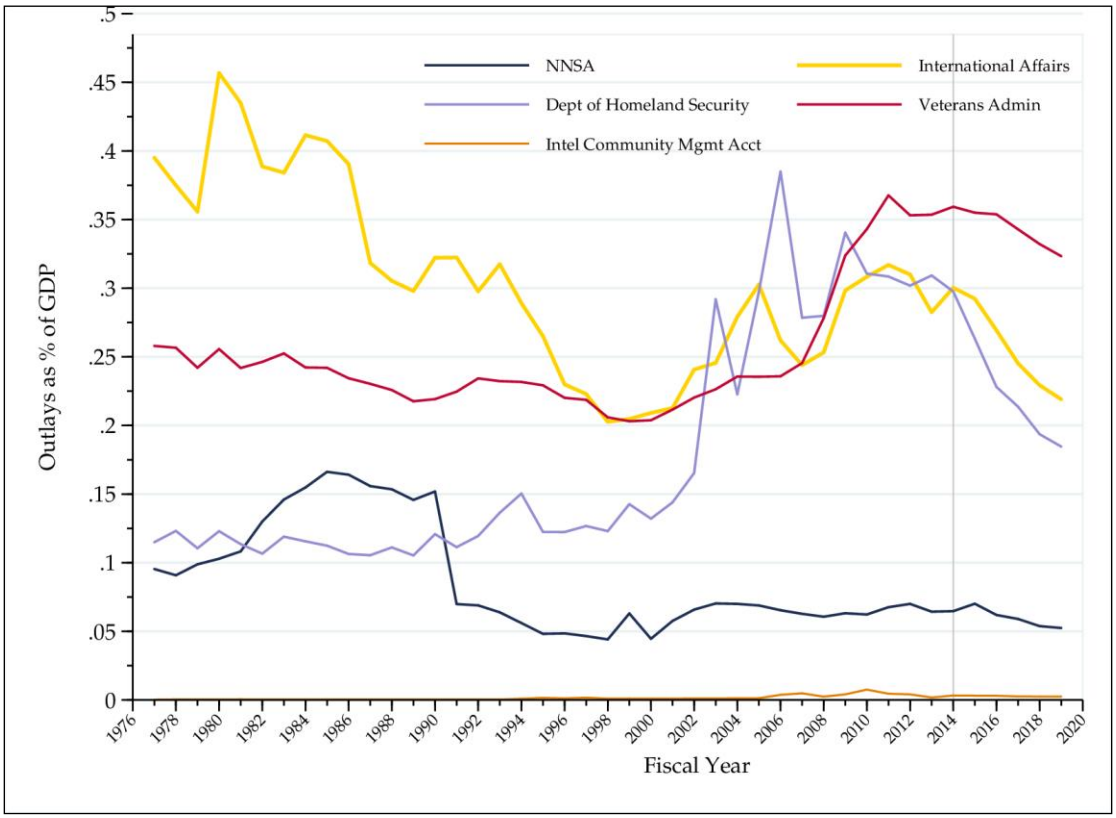
FY1976-FY2019, as a Percentage of GDP

Source: CRS analysis of OMB data from the FY2015 budget submission and BEA estimates of gross domestic product.

Note: The security category reflects BCA original definition, except that war funding (OCO) is included. Defense here includes Dept. of Defense-Military spending. Non-defense security includes Dept. of Energy's National Nuclear Security Admin., International Affairs (function 150), Dept. of Homeland Security and Dept. of Veterans Affairs, and Intelligence Community Management account. FY2014 values estimated; FY2015-FY2019 levels requested by the President. Historical data reflect certain OMB imputations.

Figure 9. Non-Defense Security Outlays by Component

BCA Definition; as a Percentage of GDP, FY1976-FY2019



Source: CRS analysis of OMB data from the FY2015 budget submission and BEA estimates of gross domestic product.

Notes: Dept. of Defense-Military is budget function 051; NNSA is the Dept. of Energy's National Nuclear Security Administration; International Affairs are function 150; DHS is the Dept. of Homeland Security. FY2014 values estimated; FY2015-FY2019 are President's requested levels.

Discretionary Spending by Functional Category

Federal activities are classified among budget functions. Analyzing trends by budget function provides a more detailed view of how federal spending has evolved. **Figure 10** shows average annual changes in discretionary spending for the last three decades and for FY2011-FY2017.[134]

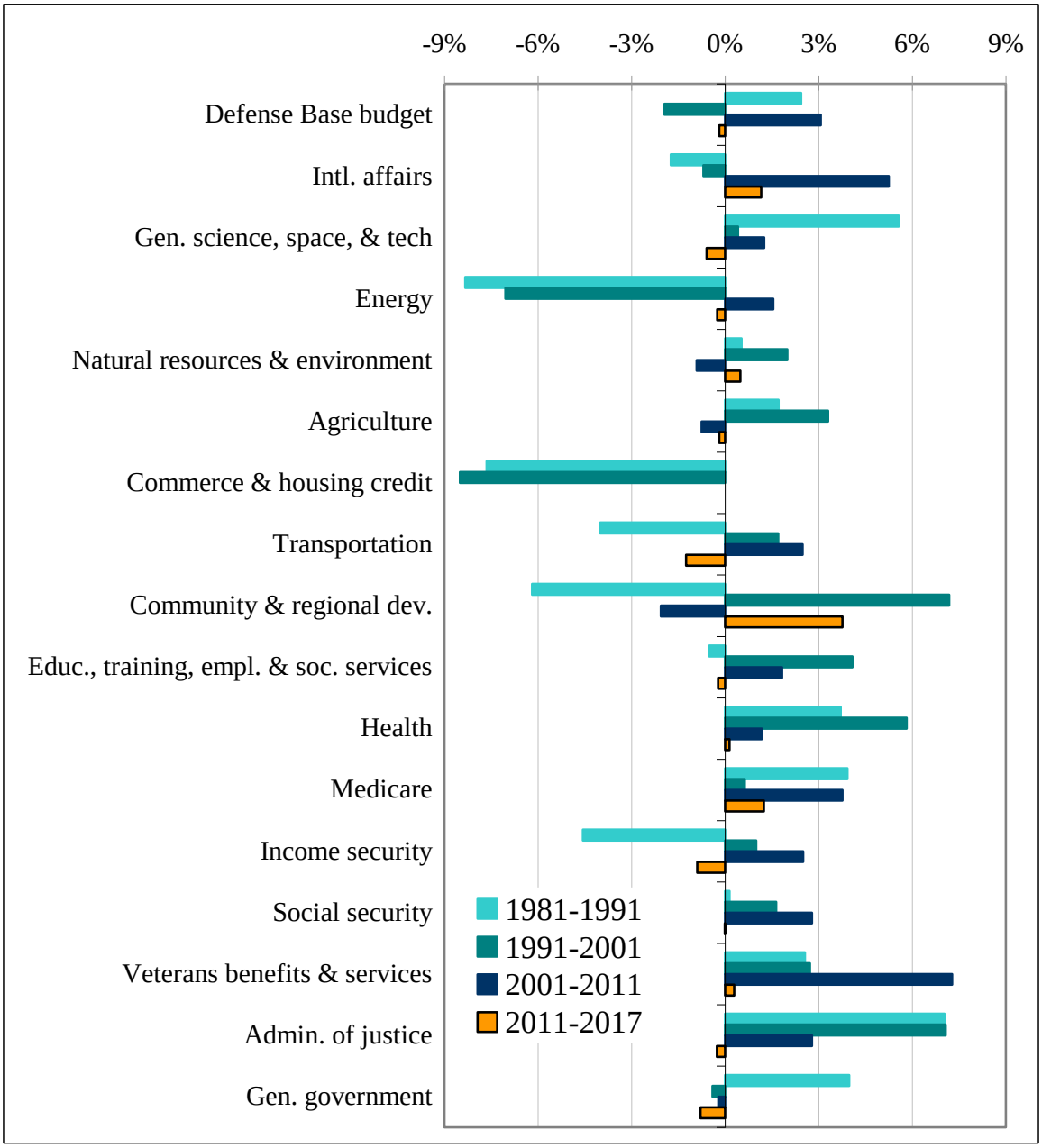
Spending in some policy areas, such as community and regional development, agriculture, natural resources and environment, and general government, has grown very slowly or has been cut. Spending in other areas, such as war costs, veterans' programs, international affairs, and Medicare administration, has expanded rapidly in the last decade.[135] Unless this trend is restrained or reversed, security-related non-defense spending could displace funding for other non-defense programs. Similarly, protecting non-defense programs that have benefited from broad bipartisan support could lead to deeper reductions in less prominent programs.

[134] Spending levels for FY2013-FY2017 reflect the Administration's FY2013 budget proposals.

[135] For a more detailed analysis of spending trends, see CRS Report R41726, *Discretionary Budget Authority by Subfunction: An Overview*, by D. Andrew Austin.

Figure 10. Average Growth Rates for Discretionary BA by Subfunction

Average Annual Percentage Change by Decade and for FY2011-FY2017



Source: CRS calculations based on OMB data and projections from the FY2013 budget submission.

Notes: Values for FY2011-FY2017 incorporate OMB projections that presume the Administration's proposals for FY2013-FY2017 are adopted. The Administration proposes modifications to BCA as part of a package of budgetary changes. All years are fiscal years. The budgetary treatment of federal credit programs changed in 1990, affects comparisons of programs that include loans and loan guarantees. See CRS Report R42632, *Budgetary Treatment of Federal Credit (Direct Loans and Loan Guarantees): Concepts, History, and Issues for Congress*, by Mindy R. Levit. Budget function data were designed to reflect funding for policy objectives across various agencies. For example, the Department of Homeland Security includes programs that fall within many budget functions, including Transportation, Administration of Justice, Community and Regional Development.

Conclusion: Is the Declining Share of Discretionary Spending a Problem?

While discretionary spending, which chiefly funds the operations of federal agencies, accounts for about two-sevenths of federal outlays, it has been at the center of efforts to restrain federal spending. In addition, long-term trends—to a large extent baby-boom demographics and health care costs—have helped tilt federal spending towards mandatory programs. Under current law, discretionary spending is projected to shrink to 23% of federal outlays by FY2024.[136] In that year, discretionary spending is projected at $1.4 trillion (current dollars).

While the federal deficit is projected to fall in FY2014 and FY2015, higher interest costs and mandatory spending are expected to increase fiscal pressures in later years. Federal deficits, according to CBO current-law baseline projections, are projected to rise each year after FY2015, reaching $1.1 trillion in FY2024. Closing the gap between federal spending and receipts through reductions in discretionary spending, therefore, may be difficult.

The shift toward mandatory spending and away from discretionary spending may raise concerns for two reasons. First, as the portion of the federal budget controlled on a year-by-year basis shrinks, making adjustments in spending levels may become more difficult. Mandatory spending, which requires changes in authorizing legislation, is not normally considered on an annual basis. Moreover, existing budget enforcement mechanisms are largely designed to constrain discretionary spending, while measures that can be used to reduce mandatory spending have been more difficult to apply in recent years.

Second, the rise of mandatory programs' share of federal spending reflects an aging population. Policy makers may choose to adapt the structure of the federal budget to reflect the needs of a growing segment of retired or elderly Americans. Such shifts in resource allocation, however, could affect intergenerational equity and the federal government's ability to respond to the needs of future generations.

[136] CBO, *The Budget and Economic Outlook: 2014 to 2024*, February 2014, available at http://www.cbo.gov/publication/45010.

Appendix. Defense and Non-Defense Spending, FY1977-FY2012

Table A-1 shows National Defense (budget function 050) and Non-Defense (all other) spending (BA) in current dollars and in constant FY2012 dollars (i.e., adjusted for inflation). These figures exclude funding for the Iraq and Afghan wars and related activities.

Table A-1. National Defense and Non-Defense Spending, FY1977-FY2012

National Defense without Afghan and Iraq Wars			Non-Defense without Afghan and Iraq Wars		
In Billions of Dollars of Budget Authority			In Billions of Dollars of Budget Authority		
Fiscal Year	In Current $	In $FY2012	Fiscal Year	In Current $	In $FY2012
1977	110.4	340.6	1977	136.5	421.1
1978	117.3	339.3	1978	142.6	412.3
1979	126.9	339.5	1979	149.1	399.0
1980	144.5	355.3	1980	166.7	409.9
1981	180.4	403.8	1981	160.5	359.2
1982	217.2	454.9	1982	138.4	289.9
1983	245.0	491.6	1983	143.3	287.6
1984	265.6	513.9	1984	158.1	305.8
1985	294.9	552.6	1985	161.7	303.1
1986	289.6	530.5	1986	148.3	271.6
1987	288.0	513.7	1987	157.8	281.5
1988	292.5	505.6	1988	160.8	277.9
1989	300.1	499.3	1989	171.0	284.6
1990	303.9	487.8	1990	192.8	309.4
1991	332.2	513.7	1991	213.9	330.7
1992	299.1	450.8	1992	232.3	350.1
1993	276.1	407.2	1993	247.2	364.5
1994	262.2	378.7	1994	250.3	361.5
1995	262.9	371.8	1995	238.5	337.3
1996	265.2	367.9	1996	235.8	327.1
1997	266.2	362.7	1997	245.0	333.7
1998	272.4	366.4	1998	257.2	346.0
1999	288.3	382.8	1999	293.5	389.7
2000	300.8	391.5	2000	283.6	369.2
2001	313.4	398.6	2001	332.1	422.4
2002	346.2	433.1	2002	373.1	466.9
2003	377.6	463.0	2003	390.7	479.1
2004	413.3	494.2	2004	401.1	479.6
2005	397.2	460.1	2005	482.7	559.0
2006	439.7	492.5	2006	435.5	487.8
2007	457.5	497.7	2007	443.9	482.8

National Defense without Afghan and Iraq Wars			Non-Defense without Afghan and Iraq Wars		
In Billions of Dollars of Budget Authority			In Billions of Dollars of Budget Authority		
Fiscal Year	In Current $	In $FY2012	Fiscal Year	In Current $	In $FY2012
2008	506.7	538.8	2008	487.3	518.2
2009	546.7	573.0	2009	790.2	828.2
2010	551.9	573.3	2010	538.0	558.7
2011	552.2	562.2	2011	498.0	507.2
2012	554.3	554.3	2012	489.0	489.0

Sources: OMB and CBO.

Notes: Deflated with OMB's GDP price index. War funding estimates from CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.

Author Information

D. Andrew Austin
Analyst in Economic Policy

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