



Impact on the Federal Budget of Freezing Non-Security Discretionary Spending

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Summary

As economic recovery continues, the focus on the federal budget has shifted, in part, towards deficit reduction. The federal budget deficits over the last several fiscal years, relative to the size of the economy, reached levels not seen since the end of World War II. Deficit levels are projected to remain elevated through FY2012. The budget deficit for FY2012 is estimated to be \$1,480 billion. As concern over the long-term effects of an elevated federal budget deficit grows, the calls for reducing the deficit to more sustainable levels have grown.

The President proposes to freeze non-security discretionary spending for the next five fiscal years (through FY2015) at FY2010 nominal levels (i.e., spending levels will not be adjusted for inflation). If enacted in this form, the President's budget projects that this proposal will save approximately \$406 billion over the next 10 years, relative to current policy.

Under the Adjusted Policy baseline, the deficit is projected to equal 6.9% of GDP in FY2012, falling to 4.5% of GDP in FY2021. If all of the President's proposed policies are implemented, the Administration projects that the deficit will fall from 7.0% of GDP in FY2012 to 3.1% of GDP in FY2021. In other words, the deficit would be 1.4% of GDP lower in FY2021 compared to current policy if all of the President's proposals are enacted. In order to achieve even greater deficit reduction, larger cuts would be needed. To illustrate this, even if non-security discretionary spending was cut to zero and no other policy changes were implemented, the deficit would fall from 4.0% of GDP in FY2012 to 2.5% of GDP in FY2021. This would mean no federal funding for education, transportation, most energy, and numerous other programs. In order to balance the budget, significant additional spending cuts, tax increases, or a combination would still be required.

Freezing non-security discretionary spending can reduce the deficit relative to certain policy alternatives. In other words, whether or not freezing non-security discretionary spending actually lowers the deficit depends on which deficit projections are used as the starting point to measure the impact of policy changes. Depending on which one of the three Administration's baseline scenarios are used as a starting point to measure savings, this proposal may generate lower levels of savings compared to what is described in the President's budget. Achieving savings from this proposal ultimately depends on what policies Congress enacts this year and in each subsequent budget cycle. Congress enacts appropriations every year and would continue to face a decision on legislation restraining non-security discretionary spending in future years.

The proposal to place a five-year freeze on non-security discretionary spending, as analyzed in this report, represents a small reduction in the federal budget deficit. Freezing this spending does not address longer-term budgetary challenges.

This report will be updated as events warrant.

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As economic recovery continues, the focus on the federal budget has shifted, in part, towards deficit reduction. The federal budget deficits over the last several fiscal years, relative to the size of the economy, reached levels not seen since the end of World War II. Deficit levels are projected to remain elevated through FY2012. The budget deficit for FY2012 is estimated to be \$1,480 billion.¹ As concern over the long-term effects of an elevated federal budget deficit grows, the calls for reducing the deficit to more sustainable levels have grown.

In his FY2012 budget proposal, the President made several proposals to immediately curb spending, while acknowledging that additional steps are needed to achieve long-term fiscal stability. The President's budget proposed a five-year freeze on non-security discretionary spending, along with other specific programmatic terminations and reductions. The budget also includes a commitment to continued deficit reduction, with the ultimate objective of enacting policies to achieve a sustainable budget deficit. However, the budget lacked specific policy recommendations on how to reach this goal.

This report examines the impact on the federal budget of the President's proposals, specifically the proposed freeze in non-security discretionary spending and how the freeze might change the fiscal outlook over the 10-year budget window.

The President's Proposals

Non-Security Discretionary Spending Freeze

The President proposes to freeze non-security discretionary spending for the next five fiscal years (through FY2015) at FY2010 nominal levels (i.e., spending levels will not be adjusted for inflation).² If enacted in this form, the President's budget projects that this proposal will save approximately \$406 billion over the next 10 years, relative to current policy.³

Non-security discretionary spending in this proposal is defined as discretionary budget authority outside of defense, the National Nuclear Security Administration, homeland security, veterans affairs, and international affairs.

The freeze in non-security discretionary budget authority does not impact all programs and agencies uniformly. For example, funding is proposed to be eliminated or consolidated in several education programs, while others receive funding increases.⁴ There are proposals to increase government-wide spending for job training and employment programs. Spending increases for research and development funding will be targeted to the National Science Foundation, the

¹ U.S. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, Table 1-4, available at http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf.

² U.S. Department of the Treasury, Treasury Secretary Timothy F. Geithner, written testimony, p. 3, for U.S. Senate Budget Committee, February 17, 2011, available at http://budget.senate.gov/democratic/index.cfm/files/serve?File_id=917627cb-0b31-4cd8-9a7d-932f929edae8.

³ U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2012, Budget Volume*, Table S-2.

⁴ U.S. Office of Management and Budget, *Testimony of Jacob J. Lew, Director of the Office of Management and Budget*, p. 8, before the U.S. Senate Budget Committee, February 15, 2011.

Department of Energy's Office of Science, and the National Institute of Standards and Technology.⁵

At the agency level, the largest cuts in non-security discretionary budget authority are proposed for the Department of Justice (\$3.2 billion), the Department of Agriculture (\$1.8 billion), the Department of Labor (\$1.2 billion), and the Department of Health and Human Services (\$1.2 billion). Those entities receiving the largest increases include the Department of Education (\$4.5 billion), the Department of Energy (\$0.7 billion), and the National Science Foundation (\$0.4 billion).⁶

Other Savings Proposals

The President's budget also includes the FY2012 Terminations, Reductions, and Savings (TRS) budget volume. In the TRS volume, 148 discretionary programs are listed for termination or reduction, yielding savings of \$25 billion in FY2012.⁷ In addition, the President proposes to terminate or reduce spending for 25 mandatory programs, saving \$122 billion over 10 years.

For FY2010, Congress approved nearly 60% of the discretionary spending cuts proposed in that year's Terminations, Reductions, and Savings budget volume.⁸ However, some of the FY2012 terminations and reductions are similar to those proposed but not accepted by Congress for FY2010, which may indicate that it will be harder to gain approval for these cuts, which were already previously rejected.

To meet the Administration's proposal to freeze non-security discretionary spending Congress may need to accept many or all of the proposed terminations and reductions. In addition, some of the savings generated by these proposed terminations and reductions are already accounted for in the non-security discretionary spending freeze.⁹ If Congress accepts all of the proposed cuts, the savings for FY2012 alone would amount to roughly \$31 billion for mandatory and discretionary programs, relative to the FY2010 levels.

⁵ U.S. Department of the Treasury, Treasury Secretary Timothy F. Geithner, written testimony, pp. 4-5, for U.S. Senate Budget Committee, February 17, 2011, available at http://budget.senate.gov/democratic/index.cfm/files/serve?File_id=917627cb-0b31-4cd8-9a7d-932f929edae8.

⁶ The increases for the Department of Energy do not include National Nuclear Security Administration, which is classified as a Security Agency. U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2012, Budget Volume*, Table S-11.

⁷ The \$17 billion in savings for discretionary programs is in terms of budget authority, rather than outlays, relative to FY2010 programmatic levels. Budget authority is required for programs to spend money; however, no funds are actually spent until an outlay occurs. Effectively, this means that the savings generated by these proposed cuts may not reduce the deficit until future fiscal years.

⁸ U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2012, Terminations, Reductions, and Savings*, p. 1 available at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/trs.pdf>.

⁹ *Ibid.*

Trends in Non-Security Discretionary Budget Authority

Table 1 shows the proposed levels of discretionary budget authority from FY2011 through FY2021, broken out by security and non-security discretionary spending. Also included are (1) the percentage increases or decreases relative to the prior year's levels of non-security discretionary budget authority, and (2) non-security discretionary budget authority as a percentage of total discretionary budget authority. The appropriations process remains ongoing for FY2011.

According to these figures in the President's budget, non-security discretionary spending, as measured by budget authority, is estimated to fall by 1.0% from FY2011 to FY2012. Spending will remain flat between FY2013 and FY2015. Between FY2016 and FY2021, non-security discretionary spending is projected to rise 2.4% per year, on average. Over the FY2011 to FY2021 period, non-security discretionary spending is expected to average 32.6% of total discretionary budget authority and approximately 10.6% of total budget authority, representing a relatively small portion of total government spending.¹⁰

¹⁰ Mandatory outlays were added to discretionary budget authority to provide an approximation of total budget authority for the purposes of this calculation. U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2012, Budget Volume*, Tables S-4 and S-10.

Table I. Proposed Discretionary Budget Authority by Fiscal Year

Billions of dollars

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Security	879	846	791	811	828	846	861	878	894	911	929
Non-Security	401	397	397	397	397	406	415	427	438	454	457
Percentage change from prior year in non-security discretionary spending	—	-1.0%	0.0%	0.0%	0.0%	2.3%	2.2%	2.9%	2.6%	3.7%	0.7%
Total discretionary	1,280	1,243	1,188	1,208	1,225	1,252	1,276	1,304	1,332	1,365	1,385
Non-security spending as a percentage of total discretionary spending	31.3%	32.2%	33.4%	32.9%	32.4%	32.4%	32.3%	32.7%	32.9%	33.3%	33.0%

Source: CRS calculations based on U.S. Office of Management and Budget, *Budget of the U.S. Government: Fiscal Year 2012*, Table S-10.

Notes: Totals may not add due to rounding.

Discretionary spending comprises a relatively small portion of total spending. In FY1970, the federal government spent nearly 62% of total outlays on discretionary spending, 31% of total outlays on mandatory programs, and 7% of total outlays on net interest payments. While the composition of spending has fluctuated over time, larger trends show a reversal in total outlays dedicated to mandatory and discretionary spending.¹¹ In the most recently completed fiscal year, FY2010, the federal government spent 39%, 55%, and 6% of total outlays on discretionary spending, mandatory programs, and net interest payments, respectively. The amount of federal funds spent on discretionary programs in FY2010 was nearly equivalent, as a percentage of total outlays, to the amount spent on mandatory spending in the early 1970s. Cutting discretionary programs will generate smaller effects on the overall budget picture compared to reducing other types of spending, all else equal.

Typically, discretionary spending is divided into defense and non-defense categories (rather than security and non-security).¹² Between FY2001 and FY2010, non-defense discretionary budget authority has risen 5.8% per year on average.¹³ Considering the rapid growth in this type of spending over the last decade, it may be challenging to enact the President's proposal to freeze a large portion of this spending through FY2015.

Illustrating the Impact of the President's Proposal to Freeze Non-Security Discretionary Spending

To illustrate the impact of the policies proposed in the FY2011 budget, the Administration computes three budget baselines. The purpose of a baseline is to provide a starting point from which to measure the costs or savings of policy proposals. First, it projected a Budget Enforcement Act (BEA) baseline, using methods that mirror those that CBO uses to project its current-law baseline. This projection assumes, among other things, that discretionary spending remains constant in real (i.e., inflation-adjusted) terms. This methodology for computing the baseline has received some criticism because it does not take into account expiring policies, which are likely to be extended as they have been in past years. This results in a budget outlook that is generally considered more favorable than what is likely to occur. The second set of projections, the Adjusted Policy baseline, assumes that certain policies due to expire will be continued. The President's Budget views the Adjusted Policy baseline as the most realistic projection of the budget deficit and is used as their benchmark to measure the impact of their proposals. The final deficit projection, the Proposed Budget, illustrates the impact if all of the policies proposed by the President were implemented. Generally, the deficit levels in the

¹¹ For more information on spending trends, see CRS Report RL33074, *Mandatory Spending Since 1962*, by D. Andrew Austin and Mindy R. Levit and CRS Report RL34424, *Trends in Discretionary Spending*, by D. Andrew Austin and Mindy R. Levit.

¹² There is no standard definition for security and non-security spending. Both the Bush and Obama Administrations have calculated it differently. For FY2012, the President's *Historical Tables* budget volume, Table 8.1, shows outlays for the non-defense discretionary category at \$610.5 billion, whereas the estimate for non-security discretionary outlays in FY2012 is \$456 billion.

¹³ U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2012, Historical Tables*, Table 5.6.

Proposed Budget scenario fall between the lower BEA baseline and the higher Adjusted Policy figures.¹⁴

The spending controls proposed in the President's FY2012 budget do not directly result in cuts in deficit levels. That is because outlays, not budget authority as the Administration proposes to freeze, are used to calculate the budget deficit and are what would ultimately measure the savings generated by the proposal. Budget authority from a single year can result in outlays in multiple years. Though the proposed freeze in non-security discretionary budget authority extends through FY2015, outlay savings are projected over the entire FY2012-FY2021 period relative to Adjusted Policy.

Table 2 shows the effect on the deficit resulting from the non-security discretionary spending freeze and from the other policy proposals in the President's budget. In FY2012, the proposal to freeze non-discretionary spending results in a small budgetary savings of \$6 billion. However, the other proposals in the President's budget would result in an overall increase in the deficit relative to the Adjusted Policy baseline. Over the FY2012-FY2021 period, the freeze in non-security discretionary spending would achieve budgetary savings of \$41 billion, on average, in each fiscal year. With a cumulative budget deficit of \$9,387 billion over the 10-year period if current policies continue unchanged, the combined \$406 billion in savings generated from the non-security discretionary spending would result in a 4.3% reduction in the deficit.

¹⁴ For further explanation, see CRS Report R41685, *The Federal Budget: Issues for FY2011, FY2012, and Beyond*, by Mindy R. Levit.

Table 2. Budgetary Savings of President’s Proposals by Fiscal Year

Deficit increase (+) or decrease (-) in billions of dollars

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012 - 2021
Budget deficit under “Adjusted Policy”	1,090	846	770	841	938	890	891	960	1,045	1,116	9,387
From freezing non-security discretionary budget authority	-6	-20	-33	-47	-47	-50	-48	-51	-48	-57	-406
From all other proposed policy changes ^a	17	-59	-93	-187	-242	-213	-225	-227	-262	-286	-1,777
Budget deficit under “Proposed Policy”	1,101	768	645	607	649	627	619	681	735	774	7,205

Source: U.S. Office of Management and Budget, *Budget of the U.S. Government: Fiscal Year 2012*, Table S-2.

Notes: The budgetary savings from these proposals are relative to the Administration’s baseline projections of “Adjusted Policy,” which include a permanent extension of the 2001/2003/2010 tax cuts will be extended for middle income taxpayers, that the alternative minimum tax (AMT) will be "patched," effectively adjusting the exemption level for inflation, an extension of the estate tax at 2009 levels, and several other policies. Totals may not add due to rounding.

a. Includes savings related to debt service and indirect interest effects.

To further illustrate the impact on the federal budget deficit of freezing non-security discretionary budget authority, it is useful to analyze the savings from this proposal relative to savings that could be generated if other types of spending cuts are enacted. **Table 3** illustrates the impact that different policy scenarios could have on the budget deficit over the next 10 years. The scenarios and resulting deficit projections shown in the table are (1) the President's Adjusted Policy baseline, (2) the President's Adjusted Policy baseline with non-security discretionary budget authority frozen, (3) the President's Proposed Budget (which includes the freeze in non-security discretionary budget authority as well as all other proposals), (4) CBO's analysis of the President's Proposed Budget, and (5) the President's Adjusted Policy baseline with non-security discretionary spending cut to zero.

Under the Adjusted Policy baseline, the deficit is projected to equal 6.9% of GDP in FY2012, falling to 4.5% of GDP in FY2021. Using the Adjusted Policy baseline as a starting point, enacting only the freeze in non-security discretionary budget authority as proposed by the President would result in a FY2012 deficit of 6.9% of GDP and 4.3% of GDP in FY2021. In contrast, if all of the President's proposed policies are implemented, the Administration projects that the deficit will fall from 7.0% of GDP in FY2012 to 3.1% of GDP in FY2021. In other words, the deficit would be 1.4% of GDP lower in FY2021 compared to current policy if all of the President's proposals are enacted. Under CBO's projections of the Administration's proposed budget, the deficit is projected to fall from 7.4% of GDP in FY2012 to 4.9% of GDP in FY2021.¹⁵ While falling under all of these scenarios during the middle of the 10-year budget window, the budget deficit is expected to begin an upward trajectory in the final fiscal years of this period.

These scenarios indicate that in order to achieve greater deficit reduction, larger cuts would be needed. For purposes of illustrating the levels of spending cuts that would be required to come closer to achieving a more sustainable budget deficit, **Table 3** also shows discretionary spending and deficit levels if non-security discretionary spending is cut to zero.¹⁶ This scenario would mean no federal funding for education, transportation, most energy, and numerous other programs. Using the Adjusted Policy baseline as a starting point, if non-security discretionary spending was cut to zero and no other policy changes were implemented, the deficit would fall from 4.0% of GDP in FY2012 to 2.5% of GDP in FY2021.¹⁷ This scenario illustrates that to achieve a sustainable budget deficit, additional spending cuts, tax increases, or a combination would still be required.

¹⁵ U.S. Congressional Budget Office, *Preliminary Analysis of the President's Budget for 2012*, March 2011, Table 1, available at <http://www.cbo.gov/ftpdocs/121xx/doc12103/2011-03-18-APB-PreliminaryReport.pdf>.

¹⁶ The level of sustainability for the budget deficit cannot be precisely defined. Economists believe that a sustainable budget deficit would be one where the deficit, measured as a percentage of gross domestic product, is lower than the growth rate of the economy. Cumulative budget deficits will cause an increase in the amount of federal spending devoted to net interest costs.

¹⁷ If non-security discretionary spending were cut to zero as described by this scenario, changes in other parts of the budget may occur and are not accounted for here. It also does not take into account interest savings that would result from lower spending levels. This scenario is being used solely to illustrate the magnitude of changes that would be required in isolation.

Table 3. Budget Deficit Effects of Changing Discretionary Spending Levels
FY2012-FY2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Discretionary Spending Levels (outlays, in billions of dollars):										
Adjusted Policy baseline	1,344	1,326	1,339	1,359	1,383	1,410	1,443	1,477	1,512	1,548
Adjusted Policy baseline with non-security discretionary spending frozen	1,338	1,306	1,306	1,312	1,336	1,360	1,395	1,426	1,464	1,491
President's Proposed Budget (including non-security discretionary spending freeze)	1,340	1,243	1,220	1,220	1,237	1,258	1,289	1,314	1,346	1,367
CBO Preliminary analysis of Pres. Proposed Budget (including non-security discretionary spending freeze)	1,362	1,292	1,251	1,245	1,257	1,273	1,292	1,321	1,352	1,374
Adjusted Policy baseline with non-security discretionary cut to zero	881	882	895	910	928	948	970	992	1,015	1,039
Budget Deficit (as a percentage of GDP):										
Adjusted Policy baseline	6.9%	5.1%	4.3%	4.5%	4.7%	4.3%	4.1%	4.2%	4.4%	4.5%
Adjusted Policy baseline with non-security discretionary spending frozen	6.9%	4.9%	4.1%	4.2%	4.5%	4.0%	3.9%	4.0%	4.2%	4.3%
Pres. Proposed Budget (including non-security discretionary spending freeze)	7.0%	4.6%	3.6%	3.2%	3.3%	3.0%	2.9%	3.0%	3.1%	3.1%
CBO Preliminary analysis of Pres. Proposed Budget (including non-security discretionary spending freeze)	7.4%	5.5%	4.4%	4.1%	4.4%	4.3%	4.3%	4.7%	4.8%	4.9%
Adjusted Policy baseline with non-security discretionary cut to zero	4.0%	2.4%	1.8%	2.1%	2.4%	2.1%	1.9%	2.1%	2.3%	2.5%

Source: U.S. Office of Management and Budget, *Budget of the U.S. Government: Fiscal Year 2012*, Tables S-1 and S-2. CRS calculations based on U.S. Office of Management and Budget, *Budget of the U.S. Government: Fiscal Year 2012*, Tables S-2 and S-3 and U.S. Congressional Budget Office, *Preliminary Analysis of the President's Budget for 2012*, Table I.

Notes: In the deficit estimates under the scenarios of the President's Current Policy baseline with non-security discretionary spending frozen and cut to zero, net interest savings are not included. CBO and OMB have different assumptions about economic growth projections.

Does Cutting Non-Security Discretionary Spending Really Lower the Deficit?

Freezing non-security discretionary spending can reduce the deficit relative to certain policy alternatives. In other words, whether or not freezing non-security discretionary spending actually lowers the deficit depends on which deficit projections are used as the starting point to measure the impact of policy changes. As described earlier, the President's budget contains three budget scenarios, the BEA baseline, the Adjusted Policy baseline, and the Proposed Policy baseline. To measure the savings generated by the proposed freeze in non-security discretionary spending, the Administration measured discretionary spending against the Adjusted Policy baseline, which generates total savings of \$406 billion over the FY2012-FY2021 period. Depending on which baseline scenario is used as a starting point, this proposal may generate lower levels of savings compared to what is described in the President's budget. For example, if one considered any growth in discretionary spending to be an increase over current policy, the proposal would yield no savings.

The five-year freeze in non-security discretionary budget authority is based on the FY2010 enacted spending level of \$402 billion.¹⁸ As shown in **Table 1**, non-security discretionary budget authority falls slightly from the FY2010 level in FY2011 and again in FY2012. Between FY2012 and FY2015, spending remains flat at \$397 billion. However, non-security discretionary spending rises again beginning in FY2016, after the freeze expires. While the FY2012 through FY2015 levels are essentially equal to the FY2010 level, this funding freeze is based on elevated non-security discretionary budget authority from the American Recovery and Reinvestment Act (ARRA, P.L. 111-5). CBO's cost estimate showed that most of the discretionary budget authority from ARRA was available in FY2009, with another \$7.1 billion slated to be available in FY2010.¹⁹ The freeze in non-security discretionary spending, based on FY2010 levels, therefore contains at least some funding meant to be one-time spending.

While the Administration wants to limit non-security discretionary spending over the next 10 years, proposed base security discretionary spending levels rise over the next decade, rising from \$719 billion in FY2012 to \$879 billion in FY2021. If the costs of overseas contingency operations (OCO) are added to the base discretionary levels, total discretionary spending is projected to fall from \$1,243 billion in FY2012 to \$1,225 billion in FY2015, before rising again and reaching \$1,385 billion FY2021. The decline in total discretionary budget authority between FY2012 and FY2015 can be attributed to a drop in proposed OCO funding from \$127 billion in FY2012 to a placeholder amount of \$50 billion in each subsequent year.²⁰ The actual enacted amounts for OCO will impact the level of total discretionary budget authority going forward.

Finally, achieving savings from this proposal ultimately depends on what policies Congress enacts this year and in each subsequent budget cycle. Even if Congress does enact the President's proposal to freeze non-security discretionary spending in this year's budget, it is hard to bind

¹⁸ U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2012, Budget Volume*, p. 20 and Table S-10.

¹⁹ U.S. Congressional Budget Office, *Cost Estimate for the Conference Agreement for H.R. 1*, February 13, 2009, available at <http://www.cbo.gov/ftpdocs/99xx/doc9989/hr1conference.pdf>.

²⁰ U.S. Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2012, Budget Volume*, Table S-10.

future Congresses to freeze this spending in later periods. Because Congress enacts appropriations every year, it would continue to face a decision on legislation restraining non-security discretionary spending in future years as well.

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