

CRS Report for Congress

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Discretionary Spending: Prospects and History

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Summary

Federal spending has changed, both in size and composition over the last 40 years. Total federal spending is now a larger percentage of the economy (as measured by gross domestic product — GDP) than it was in 1965 (19.8% of GDP vs 17.2% of GDP). Mandatory spending (generally spending that result from laws other than appropriations acts, such as Social Security and Medicare), has grown substantially, both as a percentage of GDP and as a percentage of total spending to become, today, the largest component of federal spending. Mandatory spending, without significant changes to the programs composing it, will continue growing as a percentage of GDP and as a percentage of total outlays into the future.

Discretionary spending (generally outlays that result from the budget authority provided in appropriations acts, such as defense, education, and transportation), and in particular its defense spending component, has shrunk over the last 40 years. Defense spending in 1965 dominated the budget, making up 43.2% of total spending. Total discretionary spending was 65.8% of total outlays. In 1965, defense spending was 7.4% of GDP and total discretionary spending was 11.3% of GDP. By 2004, defense spending had fallen to 19.8% of total spending and 3.9% of GDP. Total discretionary spending had fallen to 39.1% of total spending and 7.8% of GDP.

Under President Bush's FY2006 budget proposals (February 2005) discretionary spending will continue falling as shares of total spending and of GDP over the next five years (if not longer). This report will not be updated.

The size and nature of federal spending has changed dramatically over the last 40 years.¹ In 1965, measured as percentages of gross domestic product (GDP), total outlays were 17.2% of GDP and discretionary spending was 11.3% of GDP (defense spending was 7.4% of GDP). Mandatory spending was 4.6% of GDP and net interest was 1.3% of GDP. Measured as shares of total outlays, discretionary spending was 65.8% of total spending and defense spending was two-thirds of that, 43.2% of total outlays. Mandatory

¹ Unless otherwise noted, all years referred to in this report are fiscal years.

spending — there were fewer (no Medicare) and generally much smaller programs than today — were 26.9% of total outlays.² Net interest was 7.3% of total outlays.

By 2004, total discretionary spending had fallen to 7.8% (defense spending had fallen to 3.9%), mandatory spending had grown to almost 10.7% of GDP, and net interest was 1.4% of GDP, similar to its level in 1965. As shares of total outlays in 2004, discretionary spending was 39.1% (and of that, defense was 19.8%), mandatory spending had risen to 53.9%, and net interest was 7.0% of total outlays .

Prospects for Discretionary Spending in the President's Budget. The President's fiscal year (FY) 2006 budget proposed limiting growth in discretionary spending, both defense and nondefense, during the five years covered by his budget, (through 2010). The proposal would hold discretionary spending growth (measured by net budget authority rather than outlays) to 2% in 2006 and 3% in 2007. If adopted, these proposals would, according to the budget, produce a shrinkage in total discretionary spending in real terms and as a share of GDP over these years. The President also proposed cutting non-defense, non-homeland security spending by 1% in 2006 and to hold it to no dollar growth in subsequent years. If these proposals were adopted, according to the Administration's projections, non-defense, non-homeland security discretionary spending would fall as a share of GDP, in inflation-adjusted terms, and in spending per capita over the next five years.

The Congressional Budget Office's (CBO) reestimates of the President's proposals (March 2005) showed total discretionary spending (again in budget authority) not growing at all between 2005 and 2010.³ Budget authority for nondefense discretionary spending would fall at an average annual rate of 0.8% in CBO's reestimates of the President's proposals from 2005 through 2010. CBO extended the President's proposals through 2015 by incorporating an inflation adjustment to discretionary spending after 2010 and continuing mandatory spending.

CBO points out that the President's proposals do not include any funding (beyond proposed regular defense spending) for continuing activities in Iraq and Afghanistan after 2005. Continuing that funding at approximately current levels, according to one path estimated by CBO, would raise the deficit by approximately \$70 billion in 2006. Assuming that the funding for these activities is still needed, but taper off over time, CBO estimated that \$285 billion would be needed between 2006 and 2010 and that \$418 billion would be needed for the 10-year period, 2006 through 2015.⁴ If the funding were to occur, it would fall mostly within discretionary spending and most of that would likely be for defense spending. Therefore, the Administration's proposals for the years 2006 through 2010 have likely understated the level of discretionary spending that would probably be needed, if the government is to maintain the ongoing operations in Iraq and Afghanistan.

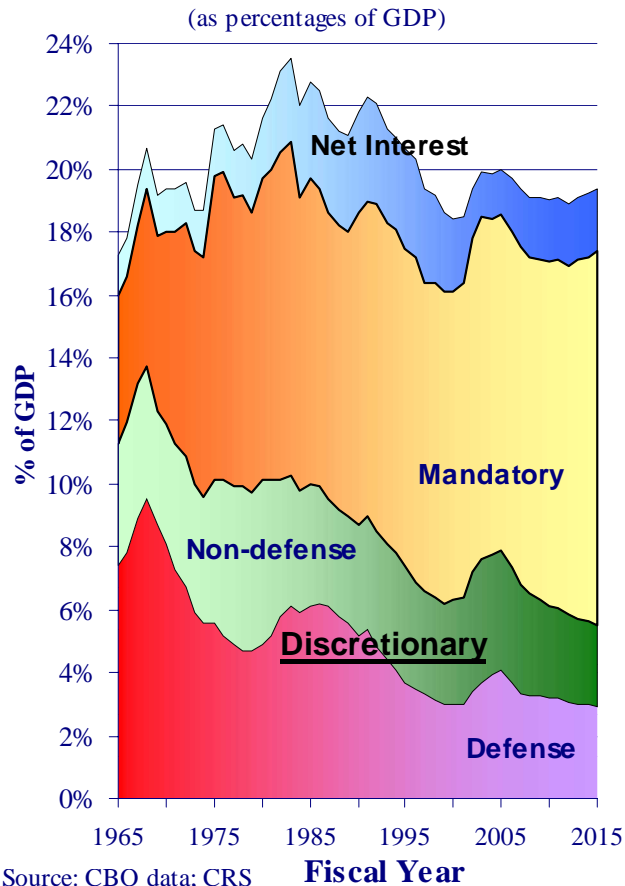
² Social Security produced somewhat over half the outlays of mandatory spending in 1965.

³ CBO. *An Analysis of the President's Budgetary Proposals for Fiscal Year 2006*, March 2005.

⁴ These amounts do not include another \$172 billion in additional net interest payments over 10 years from the bigger federal debt resulting from larger deficits.

Federal Spending Since 1965. Figure 1 provides federal outlays by broad category of spending for the years 1965 through 2015. The data for 1965 through 2004 are actual amounts; the estimated and projected amounts through 2015 are from CBO's estimates of the President's policy proposals from his FY2006 budget. Mandatory

Figure 1. Federal Outlays by Type



spending grew as a percentage of GDP throughout the period and is now, and likely to be in the future, the largest component of federal spending. Net interest has varied over the period, growing with rising interest rates or rapid increases in federal debt (resulting from large deficits) and declining with falling interest rates, budget surpluses (which reduce federal debt), or small deficits. If deficits remain large and federal debt grows faster than GDP, net interest can be expected to grow in the future. Discretionary spending has fallen over the period, and, under the President's proposals (as estimated by CBO) can be expected to continue falling as a share of GDP. Defense discretionary spending had a dramatic fall from 7.4% of GDP in 1965 to 4.3% of GDP in 2004. Non-defense discretionary spending experienced little change over the same period, moving from 3.9% of GDP in 1965 to 3.8% of GDP in 2004. Over the period, non-defense

discretionary spending ranged between 3% and 5% of GDP. CBO's projections of the President's proposals show further reductions in discretionary spending for both defense and non-defense, as shares of GDP to levels not seen previously. Discretionary spending would fall from 7.8% of GDP in 2004 to 6.6% of GDP in 2015. If achieved, it would be a historic low for discretionary spending in the modern era (see **Table 1** on page 6).

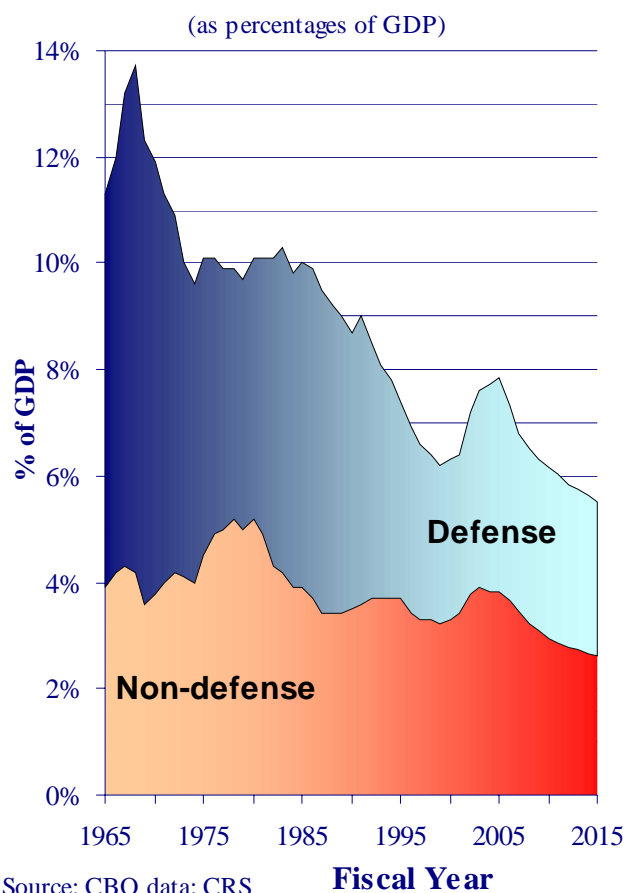
Table 1 contains defense, nondefense, and total discretionary spending in billions of dollars, as a percentage of GDP, and as a percentage of total outlays for the years 1965 through 2015. The data do not include any future spending, after 2005, for ongoing operations in Iraq and Afghanistan. Because the Administration's budget does not include these estimates, neither does CBO's estimates of the President's proposals. This produces the dollar reduction in defense spending for several years after 2005 (see **Table 1**).

The changing value of the dollar over a 40-year period limits the usefulness of measuring spending changes in nominal dollars. Total discretionary spending grew from \$78 billion in 1965 to \$895 billion in 2004, but without some reference point, all the information tells us is that more dollars were spent in 2004 than in 1965. On the other hand, comparing spending over time as a share of the economy (as measured by its

percentage of GDP), provides a more useful comparison: how much of the nation's economic resources did this type of federal spending use in 1965 compared to 2004? Total discretionary spending fell from 11.3% of GDP in 1965 to 7.8% of GDP in 2004. The change reflects a 32% reduction federal discretionary programs' use of the nation's economic resources. Under the President's proposals (as projected by CBO), discretionary spending will exceed \$1 trillion by 2015, but will have fallen to 5.5% of GDP (a reduction of 29% in the nation's economic resources being used by federal discretionary programs), the lowest level for which data are available.⁵

If defense spending is adjusted to include additional spending for Iraq and Afghanistan after 2005, total discretionary spending (CBO estimates) would be larger by \$70 billion in 2006, \$75 billion in 2007, and \$30 billion in 2010. The additional spending raises defense spending by 14.8% in 2006 and by 16.4% in 2007. Total discretionary spending would increase by 7.4% in 2006 and by 8.1% in 2007. The higher spending, without any other changes, would raise defense and total discretionary spending by approximately 0.5% of GDP in 2006, 2007, and 2008, and by lesser amounts (approximately 0.2% of GDP) in subsequent years.

Figure 2. Defense and Non-defense Outlays



Separating discretionary spending into defense and non-defense spending provides information on which part, if either, has driven the changes in total discretionary spending. The data for discretionary spending and its two components, defense and non-defense spending are shown as percentages of GDP in **Figure 2**. As shares of GDP, defense spending has fallen from 7.4% in 1965 to 3.9% in 2004. CBO's projections of the President's policies has the defense share falling to 3.2% of GDP in 2015. Non-defense spending as a percentage of GDP has had much smaller changes over the period than defense spending. (This does not include any additional funding for Iraq or Afghanistan after 2005.) In 1965, non-defense spending was 3.9% of GDP and it was 3.8% of GDP in 2004. CBO's projections of the President's policy proposals would reduce its percentage to 2.6% of GDP in 2015. The shares of GDP

⁵ The Office of Management and Budget (OMB) does not provide this particular data prior to 1962.

in 2015 for both defense and non-defense (if fulfilled) would be their smallest shares during the entire period shown in **Table 1** (on the next page).

Defense spending, in the mid- to late 1960s, was a much larger component of the budget (46.2% of total outlays in 1968) and as a share of the economy (10.5% of GDP in 1968) than it has been since. In the late 1960s, the country was engaged in the Viet Nam War, pushing defense spending up as a share of GDP (and as a share of total outlays). The current war on terror (at least those parts of the war on terror falling within defense spending) has used a much smaller portion of the nation's economic resources (GDP) than were used in the 1960s or in the late 1980s and early 1990s. Defense spending fell as a share of GDP throughout the entire period except for the Reagan defense build-up in the 1980s and the increase in funding after the terror attacks in 2001.

The non-defense spending category covers the largest number of federal activities, but uses the smallest amount of money. These activities range from those provided by the Federal Bureau of Investigation to the National Park Service to the Environmental Protection Agency among many, many more. Its share of GDP varied within a relatively small range between 1965 and 2004, from a high of 5.2% of GDP (in 1978 and 1980) to a low of 3.2% of GDP (in 1999).⁶ The constraints on non-defense spending proposed by the Administration would reduce its share of GDP, its share of total spending, its spending in constant (inflation adjusted) dollars, and its spending per capita.

⁶ In comparison over the 1965 to 2004 period, defense spending ranged from a high of 10.5% of GDP in 1968 to a low of 3.3% of GDP in the years 1999 through 2001. Mandatory spending over the same period ranged from a low of 4.6% of GDP in 1965 and 1966 to a high of 10.9% of GDP in 2003.

Table 1. Federal Discretionary Outlays

(In dollars, percentage of GDP, and percentage of total outlays)

	Defense	Non-defense	Total	Defense	Non-defense	Total	Defense	Non-defense	Total
	\$ in billions			% of GDP			% of total outlays		
1965	\$51	\$27	\$78	7.4%	3.9%	11.3%	43.1%	22.7%	65.8%
1966	59	31	90	7.8	4.2	11.9	43.9	23.1	67.0
1967	72	35	107	8.9	4.3	13.1	45.7	21.9	67.6
1968	82	36	118	9.5	4.2	13.6	46.2	20.1	66.3
1969	83	35	117	8.7	3.6	12.4	45.0	18.8	63.9
1970	82	38	120	8.1	3.8	11.9	41.9	19.6	61.5
1971	79	44	123	7.3	4.0	11.3	37.6	20.7	58.3
1972	79	49	129	6.7	4.2	10.9	34.4	21.3	55.7
1973	77	53	130	5.9	4.1	9.9	31.4	21.7	53.1
1974	81	58	138	5.6	4.0	9.6	30.0	21.3	51.3
1975	88	70	158	5.6	4.5	10.1	26.4	21.2	47.5
1976	90	86	176	5.2	4.9	10.1	24.2	23.1	47.2
1977	98	100	197	4.9	5.0	10.0	23.8	24.3	48.2
1978	105	114	219	4.7	5.2	9.9	22.8	24.9	47.7
1979	117	123	240	4.7	5.0	9.6	23.2	24.4	47.6
1980	135	142	276	4.9	5.2	10.1	22.8	24.0	46.8
1981	158	150	308	5.2	4.9	10.1	23.3	22.1	45.4
1982	186	140	326	5.8	4.3	10.1	24.9	18.8	43.7
1983	210	143	353	6.1	4.2	10.3	26.0	17.7	43.7
1984	228	151	379	5.9	3.9	9.9	26.8	17.8	44.5
1985	253	163	416	6.1	3.9	10.0	26.7	17.2	43.9
1986	274	165	439	6.2	3.7	10.0	27.6	16.6	44.3
1987	283	162	444	6.1	3.4	9.5	28.1	16.1	44.2
1988	291	174	464	5.8	3.4	9.3	27.3	16.3	43.6
1989	304	185	489	5.6	3.4	9.0	26.6	16.2	42.7
1990	300	200	501	5.2	3.5	8.7	23.9	16.0	39.9
1991	320	214	533	5.4	3.6	9.0	24.1	16.1	40.3
1992	303	231	534	4.8	3.7	8.6	21.9	16.7	38.6
1993	292	247	539	4.4	3.7	8.2	20.7	17.5	38.3
1994	282	259	541	4.1	3.7	7.8	19.3	17.7	37.0
1995	274	271	545	3.7	3.7	7.4	18.0	17.9	35.9
1996	266	267	533	3.5	3.4	6.9	17.0	17.1	34.1
1997	272	276	547	3.3	3.3	6.7	17.0	17.2	34.2
1998	270	282	552	3.1	3.3	6.4	16.3	17.1	33.4
1999	276	297	572	3.0	3.2	6.3	16.2	17.4	33.6
2000	295	320	615	3.0	3.3	6.3	16.5	17.9	34.4
2001	306	343	649	3.0	3.4	6.5	16.4	18.4	34.9
2002	349	385	734	3.4	3.8	7.1	17.3	19.2	36.5
2003	405	421	825	3.7	3.9	7.6	18.7	19.5	38.2
2004	454	441	895	3.9	3.8	7.8	19.8	19.3	39.1
2005	495	467	962	4.0	3.8	7.9	20.2	19.1	39.2
2006	472	474	947	3.7	3.7	7.3	18.6	18.6	37.3
2007	457	468	926	3.4	3.4	6.8	17.4	17.8	35.2
2008	468	463	931	3.3	3.2	6.5	17.1	16.9	34.0
2009	486	463	949	3.2	3.1	6.3	16.9	16.1	33.0
2010	503	465	968	3.2	3.0	6.1	16.8	15.5	32.3
2011	522	471	993	3.2	2.9	6.0	16.6	14.9	31.5
2012	526	480	1,006	3.1	2.8	5.8	16.1	14.7	30.8
2013	544	490	1,033	3.0	2.7	5.7	15.8	14.2	30.0
2014	558	500	1,057	3.0	2.7	5.6	15.5	13.8	29.3
2015	572	510	1,083	2.9	2.6	5.5	15.1	13.4	28.5

Sources: OMB, *Budget of the United States Government, Fiscal Year 2006, Historical Tables*, February 2005. CBO, *An Analysis of the President's Policy Proposals for Fiscal Year 2006*, March 2005. CRS calculations.