



# 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.

Federal spending in 2008 accounted for just over a fifth (21.0%) of the U.S. economy, nearly equal to its average share of gross domestic product (GDP) since 1962. (Years denote federal fiscal years.) Discretionary spending accounted for 47.2% of total outlays in 1962 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 percentage of GDP has fallen. The long-term fall in the share of discretionary spending as a portion of total federal spending is largely due to rapid growth of entitlement outlays and slower growth in defense spending relative to other federal spending in past decades. Mandatory spending accounted for about 3% more of GDP than discretionary spending in 2008. Extraordinary federal responses to financial turmoil in 2009 sharply increased mandatory spending and reduced the share of discretionary spending.

Discretionary spending is often divided into defense, domestic discretionary, and international outlays. Trends in those categories may indicate broad national priorities as reflected in federal spending decisions. Defense and domestic discretionary spending compose nearly all of discretionary spending. In 1962, discretionary spending equaled 12.3% of GDP, with defense spending making up 9.0% of GDP. In 2008, total discretionary spending fell to 8.0% of GDP with defense spending totaling 4.3% of GDP. However, over the last decade, military spending has increased sharply. On average, from 1999 to 2008, defense outlays grew 5.5% per year in real terms, while non-defense discretionary outlays grew 3.1% per year in real terms.

Non-defense discretionary outlays and budget authority can also be divided into security and non-security spending. Dividing spending into security and non-security components, however, presents many conceptual and practical difficulties. Some federal activities, such as Coast Guard patrols, advance non-security and security interests. Furthermore, federal programs tasked with non-security aims in normal times may respond to specific homeland security challenges. Non-defense security discretionary budget authority increased sharply after Hurricane Katrina, although changes in outlays have been less dramatic. Non-defense non-security outlays, which have ranged between 3.0% and 3.5% of GDP since the mid-1980s, are projected to reach 4.3% of GDP in 2010, in large part due to economic stimulus measures and other recession-related spending.

The Obama Administration contends that many domestic priorities have been underfunded and has proposed some cuts in defense spending. A fiscal stimulus package enacted February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA, H.R. 1, P.L. 111-5) is projected to increase discretionary outlays by \$308 billion over the period 2009-2019. The current economic and financial turmoil, which has led to several major federal interventions, is projected to increase non-defense spending over the next several fiscal years. Over the long term, projected future growth in entitlement program outlays may put severe pressure on discretionary spending unless policies changes are enacted or federal revenues are increased. This report will be updated as events warrant.

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## What Does Discretionary Spending Include?<sup>1</sup>

Discretionary spending is provided in, and controlled by, annual appropriations acts, which fund many 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.<sup>2</sup> Essentially all spending on federal wages and salaries is discretionary.<sup>3</sup>

Discretionary spending is often contrasted with mandatory, or direct, spending. Mandatory spending includes federal spending on entitlement programs, the Supplemental Nutrition Assistance Program (formerly known as the Food Stamps program), and other spending controlled by laws other than appropriation acts.<sup>4</sup> Spending levels for mandatory programs are generally controlled by eligibility criteria and size of the eligible population.

### Budget Authority and Outlays

The distinction between outlays and budget authority is important to understanding the federal budget and, particularly, discretionary spending. Appropriations legislation, which controls discretionary spending, grants budget authority to accomplish specific ends. Budget authority is what federal agencies can legally spend. 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. Therefore, an outlay is not recorded until the federal government disburses appropriated funds to purchase goods and services.

**Table 1** illustrates the different categories of federal spending (i.e., mandatory and discretionary spending) by contrasting the type of budget authority needed for specific purposes.

Outlay data are used to assess the macroeconomic effects of the federal budgets, while budget analysis of specific federal programs is typically based on budget authority, because that is what Congress controls directly. Congressional appropriations, which grant budget authority for specific purposes, are not always tightly linked to changes in outlays in the following year. While budget authority can be granted for a single year, some appropriations (such as for many military construction projects) provide budget authority for multiple years, or indefinitely. Thus outlays that flow from an appropriated sum might be spread over several fiscal years, implying that budget authority totals will differ from outlay totals for a single fiscal year.<sup>5</sup>

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<sup>1</sup> This report was originally written by Philip Winters, who has retired from CRS.

<sup>2</sup> Annual appropriations acts fall within the jurisdiction of the House and Senate Appropriations Committees.

<sup>3</sup> 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.

<sup>4</sup> For details, see CRS Report RL33074, *Mandatory Spending Since 1962*, by D. Andrew Austin and Mindy R. Levit.

<sup>5</sup> 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 General Accountability Office, *Antideficiency Act Background*, 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 (continued...)

**Table I. Categories of Federal Spending**

	<b>Budget Authority Provided by Law Other than Appropriation Acts</b>	<b>Budget Authority Provided by Appropriation Acts</b>
Entitlement	Medicare Social Security	Appropriated Entitlements (e.g., veterans' compensation, Medicaid, TANF) Food Stamps <sup>a</sup> (with caveats)
Not an Entitlement	Salaries for Members of Congress Mandatory non-entitlements (e.g., Forest Service payments to states)	Discretionary Spending <sup>b</sup> (defense, non-defense domestic discretionary, and international)

**Source:** Compiled by CRS.

- a. The Food Stamps program has been renamed the Supplemental Nutrition Assistance Program (SNAP).
- b. Discretionary spending programs. See discussion in text.

## Trends in Discretionary Spending

The composition of the federal budget has changed dramatically since the early 1960s. Over time, the share of total discretionary spending in federal spending has fallen, while the share of mandatory spending has increased. Discretionary spending accounted for 67.5% of total outlays in 1962, but only 38.0% of total outlays in 2008.<sup>6</sup> Mandatory spending, by contrast, rose from 26.1% of total outlays in 1962 to 53.7% in 2008.

In contrast to the longer term trends, between 1999 and 2008, discretionary spending grew more quickly than mandatory spending. After falling for three decades between the late 1960s and the late 1990s, discretionary spending increased 4.0% a year in real terms on average from 1999 to 2008. Over the same period, the share of discretionary spending as a proportion of federal outlays grew from 33.6% in 1999 to 38.0% in 2008.

The economic recession that began in 2008 reduced incomes and increased unemployment, which in turn increased the number of people eligible for income support programs and outlays on some discretionary programs. Extraordinary federal responses to financial turmoil in 2009, however, increased mandatory spending even more sharply, which reduced the share of discretionary spending in federal outlays.

## How has the Composition of Discretionary Spending Changed?

In 1962, discretionary spending comprised 67.5% of total outlays, with mandatory spending and net interest accounting for 26.1% and 6.5%, respectively. Discretionary spending as a share of total outlays reached its peak in 1963. By 2008, discretionary spending fell to 38.0% of total

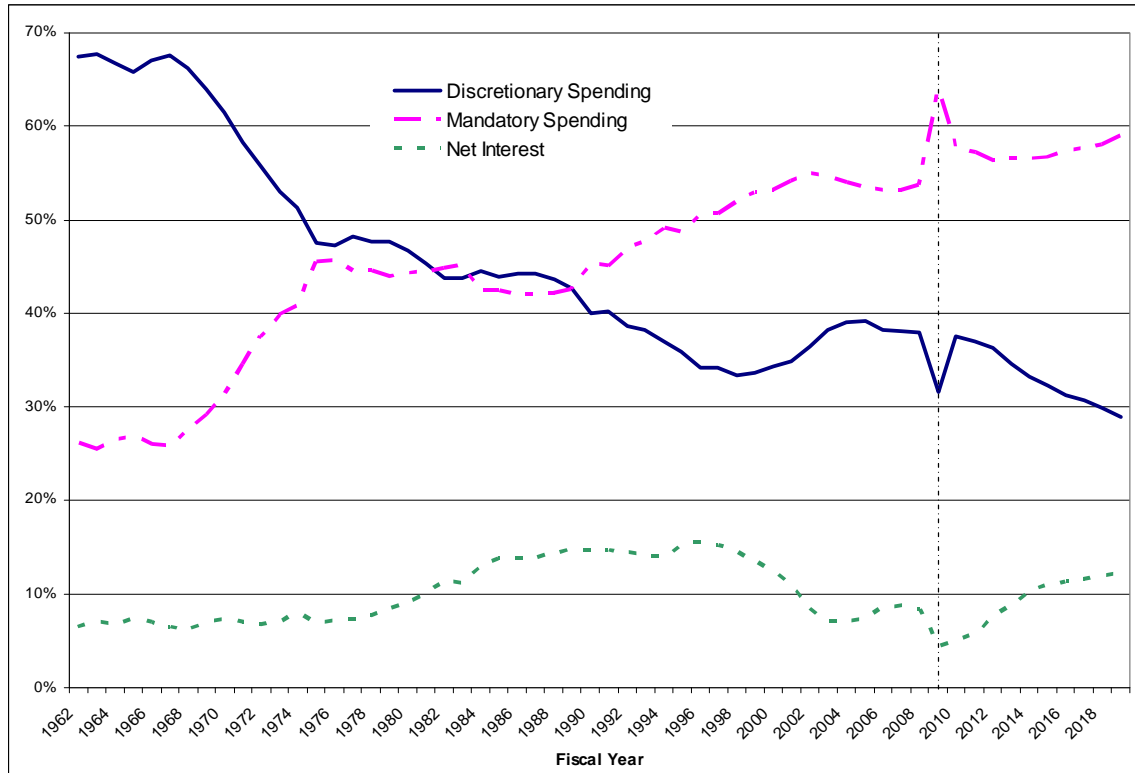
(...continued)

Congressional approval.

<sup>6</sup> Years in this report refer to federal fiscal years unless otherwise noted. Figures for FY1962-FY1968 from U.S. Office of Management and Budget, *Budget for FY2010, Historical Tables*, available at <http://www.whitehouse.gov/omb/budget/Historicals/>. Figures for FY1969 and beyond from the U.S. Congressional Budget Office, *Historical Tables*, available at <https://www.cbo.gov/budget/historical.shtml>.

outlays. Mandatory spending accounted for 53.7% of total outlays, with net interest at 8.3% in 2008. **Figure 1** shows discretionary spending, mandatory spending, and net interest payments in relation to total outlays since 1962.

**Figure 1. Components of Federal Spending**  
As a percentage of total outlays, FY1962-FY2019

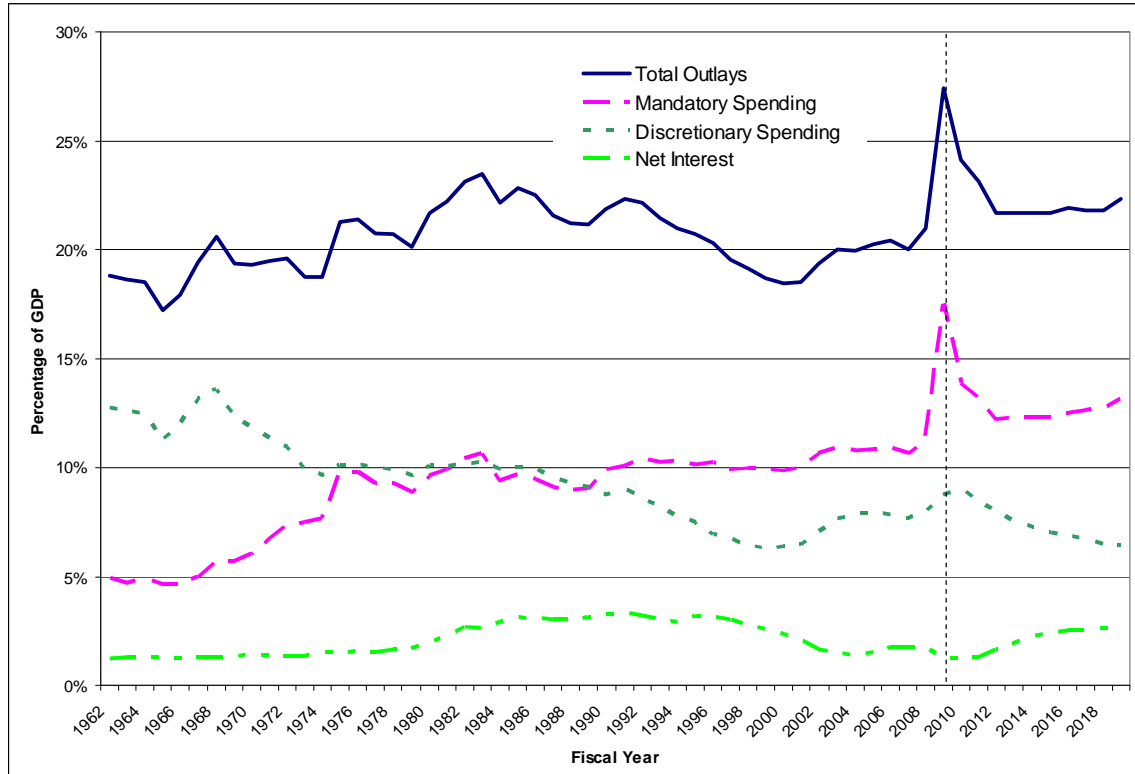


**Source:** Data for FY1962-1968 from OMB, *Budget for Fiscal Year 2010, Historical Tables*, Tables 3.2 and 8.7, available at <http://www.whitehouse.gov/omb/budget/Historicals/>; Data for FY1969-FY2019 from CBO, *Historical Tables*, available at <http://www.cbo.gov/budget/historical.shtml> and CBO Budget Projections data available at <http://www.cbo.gov/doc.cfm?index=10014>. CBO baseline projections to the right of dotted line.

The peak estimated in mandatory spending in 2009 is largely attributable to the state of the economy and enacted federal financial interventions, leading to an analogous spike in overall spending. This also led to a decline in discretionary spending's share of total outlays (from 38.0% in 2008 to 31.7% in 2009), though discretionary spending is estimated to rise in nominal terms. Over the longer term, discretionary spending's share of total outlays is projected to decline further. By 2019, discretionary spending is projected to fall to a historical low of 28.9% of total outlays.

Another way to look at the changing composition of discretionary spending is to examine it as a share of gross domestic product (GDP). Measuring budget components as a share of GDP compares their size to the economy as a whole. **Figure 2** shows components of federal spending as a percentage of GDP since 1962.

**Figure 2. Components of Federal Spending**  
As a percentage of GDP, FY1962-FY2019



**Source:** Data for FY1962-1968 from OMB, *Budget for Fiscal Year 2010, Historical Tables*, Table 8.4, available at <http://www.whitehouse.gov/omb/budget/Historicals/>; Data for FY1969-FY2019 from CBO, *Historical Tables*, available at <http://www.cbo.gov/budget/historical.shtml> and CBO *A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook*, Table 1-2, available at <http://www.cbo.gov/doc.cfm?index=10014&type=1>. CBO baseline projections to the right of dotted line.

While discretionary spending was the largest component of federal spending until the mid 1970s, mandatory spending now accounts for about 3% more of GDP than discretionary spending. Medicare and Medicaid have continued to grow faster than overall federal spending, contributing to the majority of the increase in mandatory spending over this period. Social Security spending, the other large component of mandatory spending, has been relatively stable in the last decade when measured as a share of GDP.

Similar to the trends shown in **Figure 1**, overall spending is estimated to peak in 2009 as a result of the current economic situation and enacted federal financial interventions. However, unlike the decline in discretionary spending as a percentage of total outlays, discretionary spending is estimated to increase as a percentage of GDP as GDP falls in 2009 relative to 2008. Over the longer term, discretionary spending's share of GDP is projected to decline further. By 2019, discretionary spending is projected to fall to a 6.4% of GDP, similar to the levels it reached in the late 1990s and early 2000s.

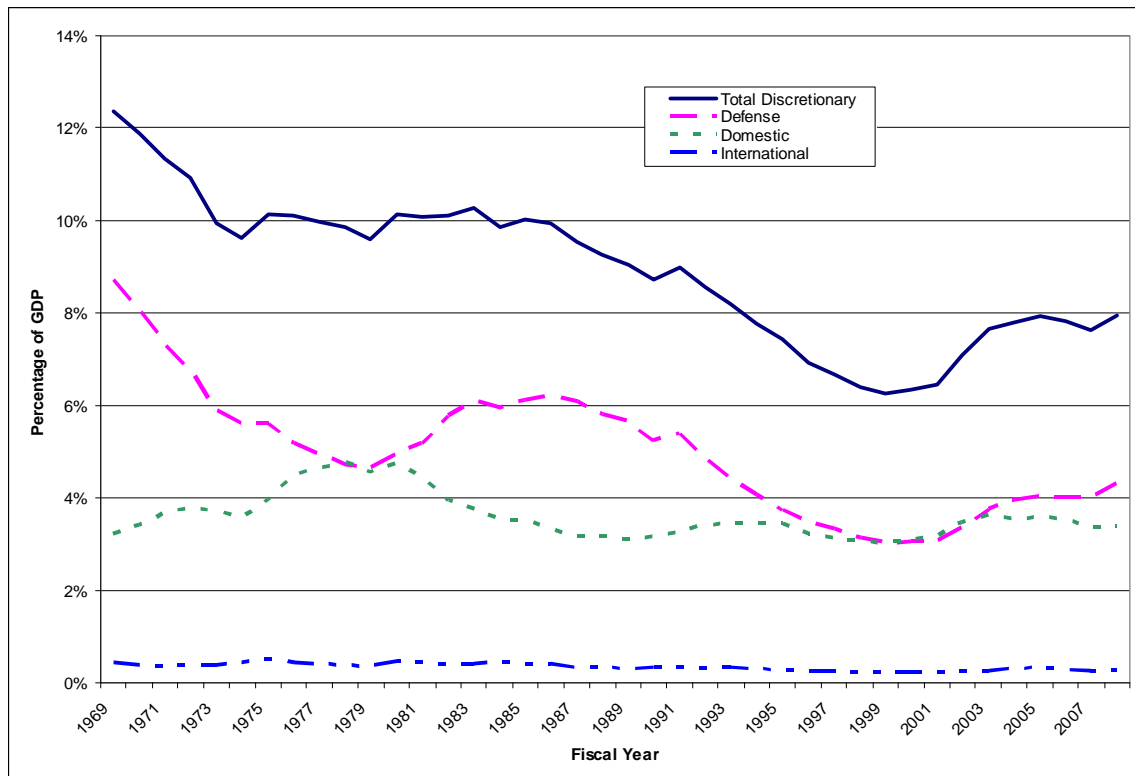
Because of the decline in discretionary spending as a percentage of total outlays and as a percentage of GDP and the resulting increase in the share of mandatory spending over time, controlling the federal budget may have become more difficult for Congress. In other words, because net interest payments 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.

## Discretionary Spending and National Priorities

Discretionary spending can be subdivided into defense, domestic, and international categories. Such divisions may provide a rough indicator of national priorities as reflected in federal spending decisions. **Figure 3** shows these categories of discretionary spending as a share of GDP over the period 1969-2008. Discretionary defense spending as a percentage of GDP fell from 8.7% in 1969 to 4.3% in 2008. Over the same period, domestic and international discretionary spending have changed less dramatically as a percentage of GDP. Domestic discretionary spending increased in the late 1970s but has since fallen, remaining closer to its post-1969 average.

**Figure 3. Discretionary Outlays By Type**  
As a percentage of GDP, FY1969-FY2008



**Source:** CBO, *Historical Tables*, available at <http://www.cbo.gov/budget/historical.shtml>.

Although discretionary spending has increased rapidly in the past half decade, spending in some government departments and agencies has grown very slowly or has been cut, while spending in other areas has expanded rapidly. Funding for defense and emergency and disaster management increased after the events of September 11, 2001, and even more sharply in the wake of Hurricane Katrina. In recent years, disaster funding has receded, allowing non-defense spending as a share of GDP to fall as well.



## Discretionary Defense Spending

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. The Soviet invasion of Afghanistan prompted the Carter Administration, and then the Reagan Administration, to boost military expenditures resulting in an increase in defense spending during the early 1980s. After the Berlin Wall was opened in November 1989 and communist governments in central and eastern Europe collapsed, defense spending as a share of GDP dropped to historically low levels, providing what some called a "peace dividend." Defense spending again rose after the attacks of September 11, 2001, and wars in Afghanistan and Iraq began.

Increased defense spending accounted for 64.6% of the increase in discretionary spending in real terms over the past decade. Discretionary defense spending increased 5.5% per year on average in real terms between 1999 and 2008.<sup>7</sup> Discretionary defense spending, which had fallen to 3.0% of GDP by the late 1990s, rose sharply to 4.0% of GDP in 2005, and reached 4.3% of GDP in 2008. General Mike Mullen, Chairman of the Joint Chiefs of Staff, has said that for future defense spending he considers 4% of GDP "an absolute floor."<sup>8</sup> The trajectory of defense discretionary spending depends in large part on the scale of future operations in Iraq and Afghanistan, as well as on decisions about major procurement programs.

Some analysts have expressed some doubts about the sustainability of current defense budget plans.<sup>9</sup> However, others contend that defense expenditures as a proportion of GDP should be expected to fall over the long term because the cost of defending the nation depends on factors that are largely independent of economic growth. The Administration recently proposed roughly \$17 billion in spending cuts (\$11.5 billion in cuts to discretionary programs) in 2010. Of those cuts, roughly half are attributed to defense spending, including reductions or terminations in 16 programs.<sup>10</sup>

## Discretionary Domestic Spending

Trends in domestic discretionary spending are less dramatic. Domestic 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 domestic discretionary category have approached 1% of GDP since 1962. Most of these programs spent less than 0.5% of GDP during that period.

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<sup>7</sup> Defense discretionary spending includes enacted supplemental requests. OMB, *Budget for Fiscal Year 2010, Historical Tables*, Table 8.2, available at <http://www.whitehouse.gov/omb/budget/Historicals/>.

<sup>8</sup> *New York Times*, October 22, 2007. Transcript available at <http://www.nytimes.com/2007/10/22/washington/22mullen-text.html>.

<sup>9</sup> 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, 111<sup>th</sup> Cong., 1<sup>st</sup> sess., February 4, 2009; Testimony of CRS Specialist in Defense Policy and Budgets Stephen Daggett, in U.S. Congress, House Budget Committee, *Sustainability of Current Defense Plans*, hearings, 111<sup>th</sup> Cong., 1<sup>st</sup> sess., February 4, 2009.

<sup>10</sup> U.S. Office of Management and Budget, *Budget for Fiscal Year 2010, Terminations, Reductions, and Savings*, available at <http://www.whitehouse.gov/omb/budget/fy2010/assets/trs.pdf>.

Domestic discretionary spending, 3.2% of GDP in 1969, rose to a peak of 4.8% in 1978. Domestic non-defense discretionary spending's share of GDP fell during the Reagan Administration, reaching 3.1% of GDP in 1987.<sup>11</sup> Since then it has fluctuated between 3.0% and 3.6% of GDP. Domestic discretionary spending in 2008 accounted for 3.4% of GDP.

## **Discretionary International Spending**

Discretionary spending for international programs since 1969 has averaged 0.3% of GDP, reaching its peak of 0.5% of GDP in 1975. Since that time, international spending has generally trended downward. Between 2001 and 2008, 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.

## **Discretionary Security and Non-Security Spending**

Non-defense discretionary outlays and budget authority can also be divided into security and non-security spending. Some discussions of national spending priorities in recent years have focused on trends in discretionary security and non-security spending. Unlike the division of discretionary spending into the categories of domestic, international, and defense, which has become routine in budget analyses, no standard method of dividing security spending from non-security spending has been universally accepted.

### **What is "Homeland Security" or "Security" Spending?**

Any division of spending into security and non-security components would likely present conceptual and practical difficulties.<sup>12</sup> 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.

Most homeland security spending, according to Administration analyses, 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 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, advance non-security and security interests. 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.

According to law, the President's budget submission must report homeland security spending.<sup>13</sup> In addition, the Bush Administration budgets presented summaries of discretionary funding that split

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<sup>11</sup> For a summary of Reagan-era spending changes, see David Stockman, *The Triumph of Politics* (New York: Harper&Row, 1986), pp. 401-411.

<sup>12</sup> 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.

<sup>13</sup> 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).

out security spending (defined as “Department of Defense, Homeland Security activities Government-wide; and International Affairs) from non-security spending.<sup>14</sup> This definition, drawn more widely than “homeland security,” includes some activities not closely tied to security concerns (such as Army Corps of Engineers navigation projects and military bands), but excludes other spending tied to security activities (such as veterans’ benefits and services). The “security spending” budget concept, however, does not appear in budget documents issued by the Obama Administration.

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 not available in publicly available data. For the purposes of this report, security spending is defined using federal subfunction- and account-level data from the OMB Public Budget Database. **Table A-1** specifies which items are included in this definition of security spending. This definition of security spending has the advantage that it can be applied over a longer period of time, providing historical context for current spending decisions.<sup>15</sup>

### Trends in “Security” and “Non-Security” Discretionary Spending

**Figure 4** shows trends in defense discretionary spending, non-defense security discretionary spending, and non-security discretionary spending since 1976 in terms of budget authority, while **Figure 5** 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. Non-security discretionary spending, which had been about 6% of GDP in the late 1970s, dropped sharply in the early 1980s before stabilizing around 3% of GDP after 1986. Changes in non-defense security discretionary spending have been less dramatic over the same period.

The Obama Administration contends that many domestic priorities have been underfunded and has proposed some cuts in defense spending.<sup>16</sup> Previously, the Bush Administration had said that holding down growth in “non-security” discretionary spending was a major fiscal priority.<sup>17</sup> Non-security discretionary outlays fell from 3.2% of GDP in 2004 to 2.8% of GDP in 2008, after having increased earlier in the decade. Non-defense security discretionary budget authority increased sharply after Hurricane Katrina hit in 2005. Changes in outlays, as shown in **Figure 5**, have been less dramatic, in large part because the recovery in the Gulf Coast has lasted longer than many expected.<sup>18</sup>

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<sup>14</sup> 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.”

<sup>15</sup> OMB historical data from different years are not necessarily fully comparable due to changes in accounting treatment, redefinition of activity areas, changes in the structure of federal agencies, and for other technical reasons.

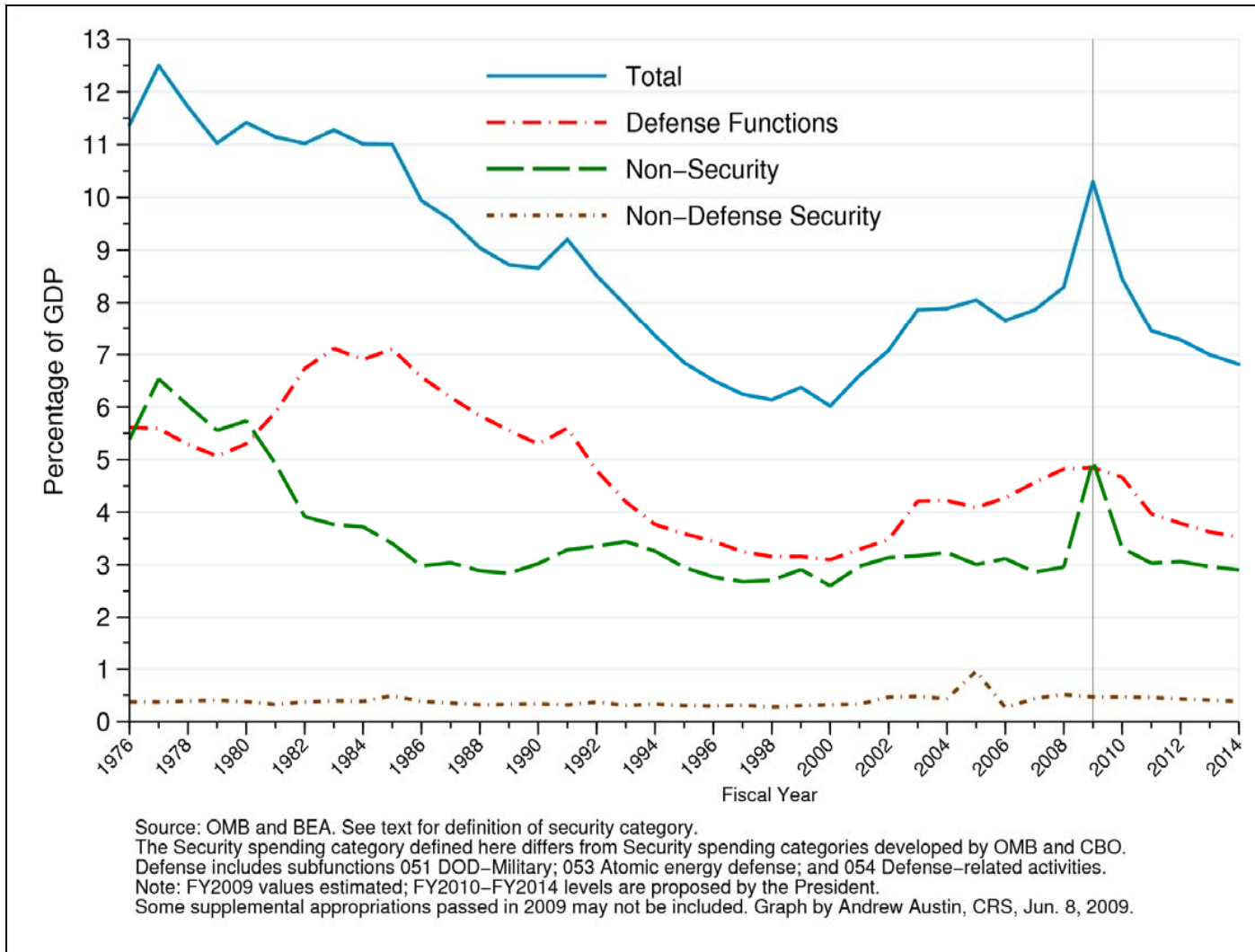
<sup>16</sup> For example, the Administration states that “now is precisely the time for the country to make the long overdue investments that will fundamentally transform our economy so that we can compete and thrive in the decades ahead.” U.S. Office of Management and Budget, *A New Era of Responsibility: Renewing America’s Promise*, February, 2009.

<sup>17</sup> U.S. Office of Management and Budget, *Budget of the U.S. Government, FY2009*, “The Budget Message of the President,” p. 1.

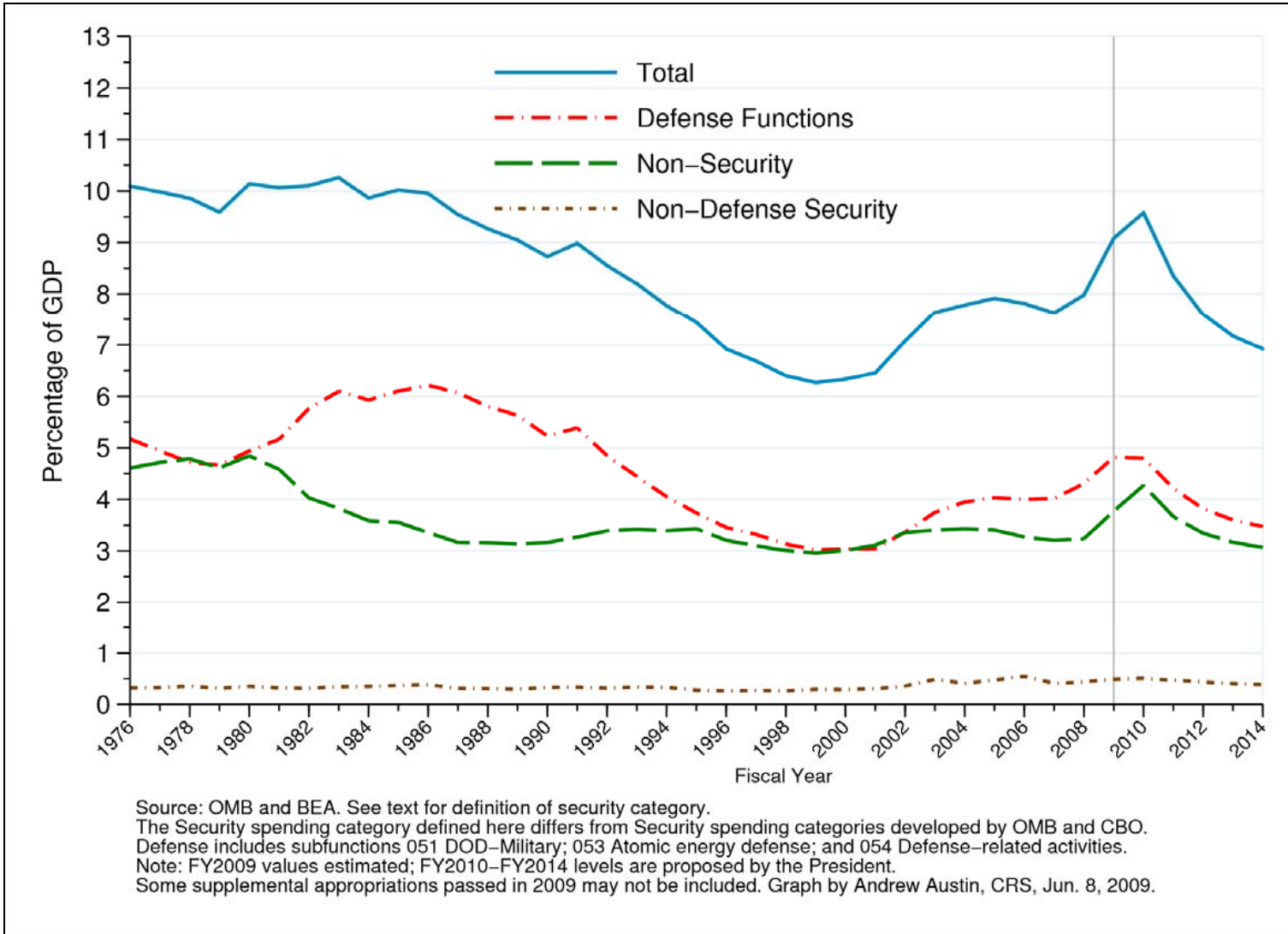
<sup>18</sup> More details on Homeland Security funding can be found in CRS Report RL34482, *Homeland Security Department: FY2009 Appropriations*, coordinated by Jennifer E. Lake and Blas Nuñez-Netoo.

**Figure 4. Discretionary Budget Authority By Type**

As a percentage of GDP, FY1976-2014



**Figure 5. Discretionary Outlays By Type**  
As a percentage of GDP, FY1976-2014



## **Fiscal Stimulus and the FY2009 Budget<sup>19</sup>**

Soon after the 111<sup>th</sup> Congress was sworn in, work began on a major fiscal stimulus package. The resulting measure, the American Recovery and Reinvestment Act of 2009 (ARRA, H.R. 1, P.L. 111-5), was enacted on February 17, 2009. The \$787.2 billion package includes, according to CBO, more than \$300 billion in discretionary spending over the 2009-2019 period. An expected \$35 billion of those funds will be spent in 2009, and a projected \$110 billion will be spent in 2010.<sup>20</sup> ARRA includes funds for discretionary spending on education initiatives, support for state governments, public housing, infrastructure, and health care.

After the Presidents' Day recess, Congress began work on 2009 funding for programs in regular appropriations bills that had not passed in the fall. Most non-defense discretionary spending programs had operated under a continuing resolution that expired March 6, 2009. The House passed an omnibus bill (H.R. 1105) on February 25, 2009, on a 245-178 vote. Passage in the Senate was delayed, requiring a stop-gap measure (H.J.Res. 38, P.L. 111-6) to provide funding until March 11, 2009. The Senate passed the bill on a voice vote on March 10, 2009, and the President signed it the next day, which completed regular 2009 appropriations.

## **The FY2010 Budget and Beyond**

Budgetary priorities may change as the new Administration and Congress confront ongoing financial and economic challenges. Given the current state of the economy, significant increases in discretionary spending, at least over the next several years, are likely.

In response to economic downturn, federal spending has automatically increased as more people have become eligible for income support programs and revenues have decreased as incomes of households and profits of many firms have fallen. These "automatic stabilizers" have a countercyclical effect, although most macroeconomists doubt that they would be themselves sufficient to stave off slow growth for the next few years.

In addition to "automatic stabilizers," the federal government has responded to this financial turmoil with an extraordinary set of measures aimed at housing and credit markets. In February 2008, Congress enacted a \$152 billion package (P.L. 110-185, Economic Stimulus Act of 2008) to stimulate consumption that sent refunds to taxpayers and let firms depreciate their capital more quickly. Later in the year, the Federal Reserve created a panoply of lending facilities to provide financial institutions with loans in exchange for various types of collateral. On October 3, Congress passed the Emergency Economic Stabilization Act of 2008 (EESA; P.L. 110-343), which authorized the Treasury Secretary to use \$700 billion (subject to certain Congressional restrictions and notifications) to intervene in financial markets or to inject capital into key financial institutions as part of a Troubled Assets Relief Program (TARP).

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<sup>19</sup> For more information on budget issues, see CRS Report R40088, *The Federal Budget: Current and Upcoming Issues*, by D. Andrew Austin and Mindy R. Levit.

<sup>20</sup> U.S. Congressional Budget Office, *Cost Estimate For the Conference Agreement For H.R. 1*, February 13, 2009, available at <http://cbo.gov/ftpdocs/99xx/doc9989/hr1conference.pdf>.

The ultimate costs of these responses and their budgetary impact will depend on how the economy performs, how well firms with federal credit guarantees weather future financial shocks, and whether the government receives positive returns on its asset purchases.

New shocks to the financial system and the economy may present Congress with new demands for federal responses. Mandatory spending tied to means-tested social programs has been increasing due to rising unemployment, while federal revenues will likely fall as individuals' incomes drop and corporate profits sink. Funding requests for military operations in Iraq and Afghanistan will likely continue. New policies and requests, if implemented, could affect discretionary spending levels in 2009 and beyond.

## Discretionary Spending in the Long Term

Congress can change, continue, or reverse trends in discretionary spending directly through annual appropriations decisions, or indirectly by modifying certain federal budget procedures, such as reinstating statutory limits on discretionary spending. If discretionary spending were held constant in real terms, as the CBO baseline presumes, then discretionary spending per capita would decrease as population grows and it would shrink as a share of GDP as the economy grows. On average the U.S. population grew 1% a year and per capita GDP grew 2.25% per year from 1962 to 2005.<sup>21</sup> If those trends were to persist, then holding discretionary spending constant in real terms implies per capita discretionary spending would shrink by 1% a year and discretionary spending as a share of the economy would shrink by 3.25% per year.

Due to the current economic downturn, large-scale fiscal stimulus and aggressive spending measures intended to mitigate systematic risks in financial markets may be needed to limit serious damage to the economy. Many economists and policy makers have stated that once economic recovery begins, that serious efforts should be made to address budget deficits and longer term fiscal imbalances.<sup>22</sup>

Over the long run, growth in entitlement spending will present severe fiscal challenges. Recent research on long-term fiscal challenges has focused on continued increases in the per beneficiary cost of health care, as well as the more predictable demographic changes that will occur as the baby boom generation retires. Projections from a variety of sources predict that spending on Medicare and Social Security will increase sharply as a share of GDP in coming decades.<sup>23</sup> CBO projects that Medicare will expand from 5.6% of GDP in 2030 to 14.8% in 2082 and that Social Security will grow from 6.1% of GDP in 2030 to 6.4% of GDP by 2082. Federal Medicaid outlays, 1.6% of GDP in 2008, are projected to reach 17.6% of GDP in 2050.<sup>24</sup>

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<sup>21</sup> These figures based on CRS calculations derived from CBO and Census Bureau data.

<sup>22</sup> The Obama Administration budget submission stressed that "as we come out of this recession, we must return to the path of fiscal responsibility." U.S. Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise*, February, 2009, p. 14; Testimony of Ben S. Bernanke, Chairman of the Federal Reserve Board of Governors, in U.S. Congress, House Committee on the Budget, "Current Economic And Financial Conditions and the Federal Budget," 111<sup>th</sup> Cong., 1<sup>st</sup> sess., June 3, 2009.

<sup>23</sup> See U.S. Congressional Budget Office, *The Long-Term Budget Outlook*, December 2007; point 10 of the United States of America—2006 Article IV Consultation, Concluding Statement of the IMF Mission, May 31, 2006; and CRS Report RL33623, *Long-Term Measures of Fiscal Imbalance*, by D. Andrew Austin.

<sup>24</sup> U.S. Congressional Budget Office, *The Long-Term Budget Outlook: An Update*, December 2007.

Social Security, Medicare, and Medicaid outlays as a proportion of GDP are projected to equal or exceed the present share of federal revenues as a proportion of GDP (17.7% in 2008) sometime after the middle of the 21<sup>st</sup> century. Maintaining current levels of discretionary spending would then require either substantial tax increases or major changes in those entitlement programs.



## Appendix. Definition of “Security” Spending

**Table A-1** lists parts of the federal government whose funding is (for the purposes of this report) defined as security spending. This listing uses OMB function and subfunction codes along with specific account codes to identify agencies and programs that match, at least in large part, the definition of security spending put forth in the President’s FY2009 budget submission. As noted in the text, some activities such as U.S. Coast Guard harbor patrols may serve security and non-security ends. Some agencies, such as the Centers for Disease Control, perform some tasks that are closely associated with security concerns as well as other tasks that are not. Finally, some grant programs designed to support non-security aims have been used to address security concerns such as recovery from the events of September 11, 2001.

**Table A-1. Listing of Items Included in Security Category**

Used in CRS analysis of discretionary spending

	<b>Subfunction code</b>	<b>Within Departments</b>	<b>Bureau or Purpose (within Dept.)</b>	<b>Account</b>	<b>Description</b>
51	Department of Defense-Military	All	All	All	
53	Atomic energy defense activities	All	All	All	
54	Defense-related activities	All	All	All	
152	International security assistance	All	All	All	
153	Conduct of foreign affairs	All	All	All	
401	Ground transportation	Dept. of Transportation	Transportation Security Agency		
			Fed. Motor Carrier Safety Admin.	8274	Border Enforcement Program
402	Air transportation	Dept. of Homeland Security	Transportation Security Agency		
		Dept. of Homeland Security	Security, Enforcement, & Investigations: Transportation Security	508	
403	Water transportation	Dept. of Homeland Security	U.S. Coast Guard	247	Port safety development
		Dept. of Transportation	Maritime Administration	1769	National Defense Tank Vessel Construction Program
451	Community development	Dept. of Homeland Security	All	All	
453	Disaster relief and insurance	Dept. of Homeland Security	All	All	
551	Health care services	Dept. of Homeland Security	All	All	

	<b>Subfunction code</b>	<b>Within Departments</b>	<b>Bureau or Purpose (within Dept.)</b>	<b>Account</b>	<b>Description</b>
552	Health research & training	Dept. of Health and Human Services	Centers for Disease Control and Prevention	943	Disease Control, Research, and Training
751	Federal law enforcement activities	All	All		
754	Criminal Justice assistance	Dept. of Homeland Security	All		
809	Deductions for Offsetting Receipts	Dept. of Homeland Security	All		
804	General property and records management	Dept. of Homeland Security	Federal Protective Service	542	
908	Other interest accounts	Dept. of Homeland Security	General Fund Proprietary Interest Receipts, nec	143500	

**Source:** Created by CRS, January 15, 2009.

**Note:** The Security Spending category defined here will differ from Security spending categories developed by OMB and CBO, which are based on more detailed budget data.

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