

Discretionary Budget Authority by Subfunction: An Overview

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March 29, 2011

Congressional Research Service

7-5700 www.crs.gov R41726

Summary

President Obama's FY2012 budget submission was released on February 14, 2011. This report provides a graphical overview of historical trends in discretionary budget authority (BA) from FY1976 through FY2010, estimates for FY2011 spending, and the levels consistent with the President's proposals for FY2012 through FY2016.

Discussions about the appropriate levels of spending for various policy objectives of the federal government have played an important role in congressional deliberations over funding measures for FY2011, and are expected to play a central role as Congress considers decisions affecting the FY2012 budget. As the 112th Congress considers funding levels for FY2011, FY2012, and beyond, past spending trends may prove useful in framing policy discussions. For example, rapid growth in national defense and other security spending in the past decade has played an important role in fiscal discussions. The sharp increases in federal spending on education, energy, and other areas funded by the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) have been noted in recent budget debates. This report may provide a starting point for discussions about spending trends and federal priorities, but it does not attempt to explain spending patterns in each policy area. Other CRS products, however, can provide insights into those spending trends in specific functional areas.

Functional categories (e.g., national defense, agriculture, etc.) provide a means to compare federal funding for activities within broad policy areas that often cut across several federal agencies. Subfunction categories provide a finer division of funding levels within narrower policy areas. Budget function categories are used within the budget resolution and for other purposes, such as possible program cuts and tax expenditures.

The report includes a series of figures showing discretionary budget authority as a percentage of gross domestic product (GDP), which compares spending levels in each functional category with the size of the U.S. economy. Measuring spending as a percentage of GDP in effect controls for inflation and population increases. A flat line on such graphs indicates that spending in that category is increasing at the same rate as overall economic growth.

Three functions, however, are omitted. These are (1) allowances, which contain items reflecting technical budget adjustments; (2) net interest, which by its nature is not discretionary spending; and (3) undistributed offsetting receipts, which are treated for federal budgetary purposes as negative budget authority.

Spending in this report is measured in terms of discretionary budget authority as a percentage of GDP. 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. Program administration costs for entitlement programs such as Social Security, is generally funded by discretionary spending, while mandatory spending generally funds the benefits provided through those programs. Thus, the figures showing trends in discretionary budget authority presented herein do not reflect the much larger expenditures on program benefits supported by mandatory spending. For some federal agencies, such as the Departments of Veterans Affairs and Transportation, the division of expenditures into discretionary and mandatory categories can be complex. This report will not be updated.

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his report presents figures showing trends in discretionary budget authority as a percentage of GDP by subfunction within each of 17 budget function categories, using data from President Obama's FY2012 budget submission. 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. Discretionary spending in this report is measured in terms of budget authority. Budget authority for an agency has been compared to having funds in a checking account. Funds are available, subject to congressional restrictions, and can be used to enter into obligations such as contracts or hiring personnel. Outlays occur when the U.S. Treasury disburses funds to honor those obligations. Measuring spending as a percentage of GDP in effect controls for inflation and population increases. A flat line on such graphs indicates that spending in that category is increasing at the same rate as overall economic growth.

Discussions about the appropriate levels of spending for various policy objectives of the federal government have played an important role in congressional deliberations over funding measures for FY2011, and are expected to play a central role as Congress considers decisions affecting the FY2012 budget. As the 112th Congress considers funding levels for FY2011, FY2012, and beyond, past spending trends may prove useful in framing policy discussions. For example, rapid growth in national defense and other security spending in the past decade has played an important role in fiscal discussions. The sharp increases in federal spending on education, energy, and other areas funded by The American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5) have also played a significant role in recent budget debates.

This report provides a graphical overview of historical trends in discretionary budget authority from FY1976 through FY2010, estimates for FY2011 spending, and the levels consistent with the President's proposals for FY2012 through FY2016.³ Budget data for FY2011 in the FY2012 budget documents represent annualized levels reflecting funding levels in the continuing resolution (P.L. 111-242) that provided discretionary funding until March 4, 2011.⁴ Subsequent adjustments to funding levels are not reflected in data or figures presented in this report.⁵ Trends in net interest are excluded as federal interest expenditures have been automatically appropriated since 1847. Allowances, which contain items reflecting technical budget adjustments, and undistributed offsetting receipts are also excluded.

Figures in this report are based on the Office of Management and Budget (OMB) Public Budget Database accompanying the FY2012 budget release. ⁶ Table 5.1 in the *Historical Tables* volume of

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¹ The President's FY2012 budget was released on February 14, 2011, and is available at http://www.whitehouse.gov/omb/budget/.

² For a broader analysis of discretionary spending, see CRS Report RL34424, *Trends in Discretionary Spending*, by D. Andrew Austin and Mindy R. Levit.

³ The start of the federal fiscal year was changed from July 1 to October 1 in 1976 to accommodate changes in the congressional budget process. The figures omit data for the Transition Quarter (July 1 to September 30, 1976).

⁴ OMB, FY2012 Budget, *Analytic Perspectives* volume, p. 131.

⁵ For details, see CRS Report RL30343, *Continuing Resolutions: Latest Action and Brief Overview of Recent Practices*, by Sandy Streeter.

⁶ Data in the OMB Public Budget Database reconcile to information presented in the *Historical Tables* volume of the FY2012 budget. The Public Budget Database itself is available here: http://www.whitehouse.gov/omb/budget/ Supplemental. For a further description and important caveats, see the *Public Budget Database User Guide*, available at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/db_guide.pdf.

the FY2012 budget reports budget authority by function and subfunction, but does not provide a breakdown by discretionary and mandatory subcomponents.⁷

OMB is generally regarded as the official custodian of historical federal budget data. While OMB has attempted to make these data consistent, changes in government accounting standards and agency reorganizations, among other changes, may raise difficulties in comparing data from different fiscal years. In addition, OMB data may not reflect certain zero-balance transfers among funds, which may play an important role in the funding of some federal programs.

Background on Functional Categories

Functional categories provide a means to compare federal funding for activities within broad policy areas that often cut across several federal agencies. Because various federal agencies may have closely related or overlapping responsibilities, and because some agencies have responsibilities in diverse policy areas, budget data divided along functional categories can provide a useful view of federal activities in support of specific national purposes.

Superfunction categories, which provide a higher level division of federal activities, are

- National defense,
- Human resources,
- Physical resources,
- Other functions,
- Net interest,
- Allowances, and
- Undistributed offsetting receipts.

Superfunction categories for national defense, net interest, allowances, and undistributed offsetting receipts coincide with function categories.

Budget function categories, grouped by superfunctions, are shown in **Table 1**. Subfunction categories provide a finer division of funding levels within narrower policy areas.

Subsequent figures follow the ordering of functions in **Table 1**.

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⁷ Table 5.1 of the OMB *Historical Tables* is available at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/hist05z1.xls.

⁸ For further background on functional categories, see CRS Report 98-280, *Functional Categories of the Federal Budget*, by Bill Heniff Jr.

Table 1. Budget Function Categories by Superfunction

Superfunction	Code	Function (Subfunction)
National Defense		
	50	National defense
	51	Dept. of Defense-Military
	53	Atomic energy defense activities
	54	Defense-related activities
Human Resources		
	500	Education, training, employment, and social services
	501	Elementary, secondary, and vocational educ.
	502	Higher education
	503	Research and general education aids
	504	Training and employment
	505	Other labor services
	506	Social services
	550	Health
	551	Health care services
	552	Health research and training
	554	Consumer and occupational health and safety
	570	Medicare
	571	Medicare
	600	Income security
	601	Gen. retirement & disab. insurance (exc. Soc. Sec.)
	602	Federal employee retirement and disability
	603	Unemployment compensation
	604	Housing assistance
	605	Food and nutrition assistance
	609	Other income security
	650	Social security
	651	Social security
	700	Veterans benefits and services
	701	Income security for veterans
	702	Veterans education, training, & rehab.
	703	Hospital and medical care for veterans
	704	Veterans housing
	705	Other veterans benefits and services
Physical Resources		
	270	Energy

Superfunction	Code	Function (Subfunction)
	271	Energy supply
	272	Energy conservation
	274	Emergency energy preparedness
	276	Energy information, policy, and regulation
	300	Natural resources and environment
	301	Water resources
	302	Conservation and land mgmt.
	303	Recreational resources
	304	Pollution control and abatement
	306	Other natural resources
	370	Commerce and housing credit
	371	Mortgage credit
	372	Postal service
	373	Deposit insurance
	376	Other advancement of commerce
	400	Transportation
	401	Ground transportation
	402	Air transportation
	403	Water transportation
	407	Other transportation
	450	Community and regional development
	451	Community dev.
	452	Area and regional dev.
	453	Disaster relief and insurance
Other Functions		
	150	International affairs
	151	Intl. dev. and humanitarian assistance
	152	Intl. security assistance
	153	Conduct of foreign affairs
	154	Foreign information & exchange activities
	155	Intl. financial programs
	250	General science, space, and technology
	251	General science and basic research
	252	Space flight, research & supporting activities
	350	Agriculture
	351	Farm income stabilization
	352	Agricultural research and services

Superfunction	Code	Function (Subfunction)
	750	Administration of justice
	75 I	Federal law enforcement activities
	752	Federal litigative and judicial activities
	753	Federal correctional activities
	75 4	Criminal justice assistance
	800	General government
	801	Legislative functions
	802	Executive direction and mgmt.
	803	Central fiscal operations
	804	General property and records mgmt.
	805	Central personnel mgmt.
	806	General purpose fiscal assistance
	808	Other general government
	809	Deductions for offsetting receipts
Net Interest		
	900	Net interest
	901	Interest on Treasury debt securities (gross)
	902	Interest received by on-budget trust funds
	903	Interest received by off-budget trust funds
	908	Other interest
	909	Other Investment and income
Allowances		
	920	Allowances
	925	Future Disaster Costs
	926	Offset to Medicare SGR Costs
	929	Adjustment to reach FY2011 Bud Request
Undistributed Offsetting Receipts		
	950	Undistributed offsetting receipts
	951	Employer share, employee retirement (on-budget)
	952	Employer share, employee retirement (off-budget)
	953	Rents & royalties on the Outer Continental Shelf
	954	Sale of major assets
	959	Other undistributed offsetting receipts

Source: CRS, based on OMB data.

Note: Allowances subfunctions may change from year to year.

Discretionary Spending in the FY2012 Budget

President Obama, in his FY2012 budget, proposed extending a three-year freeze in non-security discretionary spending included in his FY2011 budget submission to five years. The Obama Administration defines security spending as funding for Department of Defense-Military (subfunction 051); the Department of Energy's National Nuclear Security Administration; International Affairs (function 150, which includes State Department and related agencies); the Department of Homeland Security; and the Department of Veterans Affairs. ¹⁰

Discretionary spending, as noted above, 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. Discretionary spending generally funds program administration costs for entitlement programs such as Social Security, while mandatory spending generally funds Social Security benefits. Thus, the figures showing trends in discretionary budget authority presented below do not reflect the much larger expenditures on program benefits supported by mandatory spending. For some departments, such as Veterans Affairs and Transportation, the division of expenditures into discretionary and mandatory categories can be complex.

Trends in funding of health subfunctions are shown in two separate figures. Larger programs (health care services/subfunction 551 and Medicare/function 570/subfunction 571) are shown in **Figure 3**, and smaller programs (health research and training/subfunction 552 and consumer and occupational health and safety/subfunction 554) are shown in **Figure 4**. Veterans' health programs, which fall under the veterans benefits and services function, are also shown in **Figure 4** to make comparisons among those programs easier.

Historical Spending Trends

Federal spending trends in functional areas are affected by changing assessments of national priorities, evolving international challenges, economic conditions, as well as changing social characteristics and demographics of the U.S. population.

Some of the trends and events that have had dramatic effects on federal spending are outlined below. Other CRS products provide background on more specific policy areas.

Cold War, Peace Dividend, and the Global War on Terror

Trends in **Figure 1** reflect shifting national security challenges as well as evolving policy decisions regarding the balance between domestic and defense priorities.

Relations between the United States and its allies on one hand, and the Union of Soviet Socialist Republics (USSR) and its allies on the other was the dominant security concern in the half

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⁹ For details, see CRS Report R41174, *Impact on the Federal Budget of Freezing Non-Security Discretionary Spending*, by Mindy R. Levit.

¹⁰ For a discussion of the definition of security spending, see CRS Report RL34424, *Trends in Discretionary Spending*, by D. Andrew Austin and Mindy R. Levit.

century following the Second World War. In the early 1970s, U.S. involvement in the Vietnam War wound down, while the United States and the USSR moved towards detente, permitting a thaw in cold war relations between the two superpowers and a reduction in defense spending relative to the size of the economy.¹¹

Following intervention by the USSR in Afghanistan in 1979, military spending increased sharply. Defense spending continued to increase until 1986, as concern shifted to domestic priorities and the need to reduce large budget deficits. The collapse in 1989 of most of the Warsaw Pact governments in central and eastern Europe and the 1990-1991 disintegration of the Soviet Union was followed by a reduction in federal defense spending, allowing a "peace dividend" that relaxed fiscal pressures. ¹³

The attacks on the World Trade Center towers in New York City and on the Pentagon on September 11, 2001, were followed by sharp increases in homeland security spending. Defense spending also increased dramatically with the start of the Afghanistan war in October 2001 and the Iraq war in March 2003. While U.S. commitments in Iraq appear to be winding down, the demands of returning troops on Department of Veterans Affairs facilities have grown dramatically.

The Recovery Act

After the financial crisis of 2007-2008 plunged the United States in the deepest economic recession in decades, Congress passed the American Recovery and Reinvestment Act of 2009 (ARRA; P.L. 111-5), often known as the Recovery Act. ARRA includes support for state and local governments in the form of increased infrastructure, Medicaid, school funding, funding for health care IT, extended unemployment benefits, as well as tax cuts and rebates among other provisions. ¹⁵ According to initial CBO estimates, ARRA provisions were expected to total \$787.2 billion in increased spending and reduced taxes over the FY2009-FY2019 period or just over 5% of GDP in 2008, while a more recent CBO estimate put the total at \$814 billion. ¹⁶

The effects of Recovery Act spending can be seen in **Figure 2**, where pronounced increases in education, training, employment, and social services subfunctions can be seen for FY2009. Smaller increases can be seen in **Figure 8**, which shows energy subfunctions, and in **Figure 9**, which shows natural resources and environment subfunctions.

¹¹ For a history of deficit finance and American wars, see Robert D. Hormats, *The Price of Liberty*, (New York: Times Books, 2007). Also see CRS Report RL31176, *Financing Issues and Economic Effects of American Wars*, by Marc Labonte and Mindy R. Levit.

¹² For one view of budgetary politics in the early 1980s, see David Stockman, *The Triumph of Politics*, (New York: Harper & Row, 1986).

¹³ The Warsaw Treaty Organization, established in 1955, included Albania, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, and the Soviet Union.

¹⁴ CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by

Amy Belasco.

15 For more information on the provisions of ARRA, see CRS Report R40537, *American Recovery and Reinvestment*

Act of 2009 (P.L. 111-5): Summary and Legislative History, by Clinton T. Brass et al.

16 For initial estimates, see 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. For a later assessment, see CBO, Budget and Economic Outlook: An Update, August 2010, Box 1-2, available at http://www.cbo.gov/ftpdocs/117xx/doc11705/08-18-Update.pdf.

Negative Budget Authority

Within the federal budget concepts, certain inflows such as offsetting receipts, offsetting collections, some user fees, and "profits" from federal loan programs, are treated as negative budget authority. The federal government uses a modified form of accrual accounting for loan and loan guarantee programs since passage of the Federal Credit Reform Act (FCRA) as well as for certain federal retirement programs. OMB calculates net subsidy rates according to FCRA rules for loan and loan guarantee programs. In some cases, FCRA calculations yield negative net subsidy levels, implying that the federal government appears to make a profit on those loans. FCRA subsidy calculations, however, omit risk adjustments. The true economic cost of federal credit guarantees can be substantially underestimated when risk adjustments are omitted. CBO and OMB include risk adjustments in estimates of the costs associated with the TARP as mandated by the Emergency Economic Stabilization Act of 2008 (EESA; P.L. 110-343).

For example, some Federal Housing Administration mortgage programs have been estimated to yield negative net subsidies, as shown in **Figure 10**.

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¹⁷ See OMB, FY2012 Budget, *Analytic Perspectives*, ch. 12, "Budget Concepts." In particular, pp. 122-129 cover these topics.

¹⁸ CRS Report RL30346, Federal Credit Reform: Implementation of the Changed Budgetary Treatment of Direct Loans and Loan Guarantees, by James M. Bickley.

¹⁹ While the FCRA calculations include estimates of default costs, they do not discount more volatile income flows, as a private firm would.

²⁰ U.S. Congressional Budget Office, *Estimating the Value of Subsidies for Federal Loans and Loan Guarantees*, August 2004, available at http://cbo.gov/doc.cfm?index=5751.

²¹ U.S. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2009 to 2019*, January 7, 2009, pp. 25-26, available at http://www.cbo.gov/ftpdocs/99xx/doc9957/01-07-Outlook.pdf; Testimony of Elizabeth Warren, Chair of the Congressional Oversight Panel, in Congress, Senate Banking Committee, *Pulling Back the TARP: Oversight of the Financial Rescue Program*, hearings, 111th Congress, 1st sess., February 5, 2009, available at http://banking.senate.gov/public/_files/Warrentestimonyfinal2509.pdf.

7.5 -Dept. of Defense-Military 7.0 Atomic energy defense activities 6.5 Defense-related activities 6.0 5.5 Budget Authority as % of GDP 5.0 4.5 4.0 3.5 3.0 2.5 2.0 1.5

Figure I. National Defense (050) Subfunctions

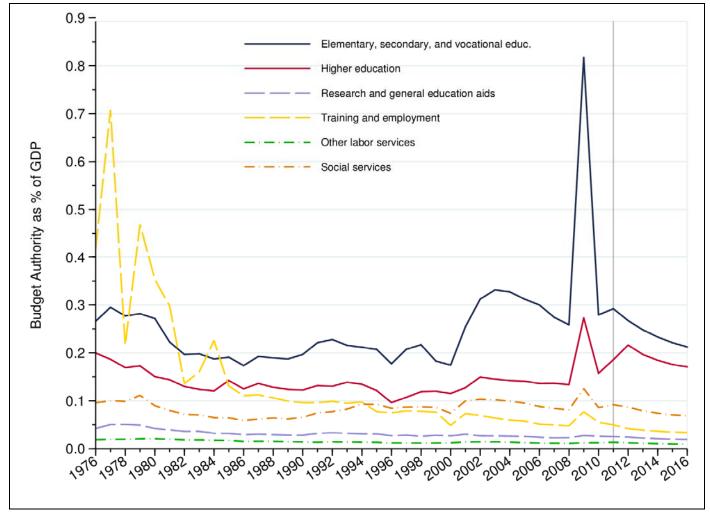
Source: CRS, based on OMB data from the FY2012 Budget submission.

1.0

0.5

Figure 2. Education, Training, Employment, and Social Services (500) Subfunctions

Discretionary Budget Authority as a Percentage of GDP, FY1976-FY2016



Source: CRS, based on OMB data from the FY2012 Budget submission.

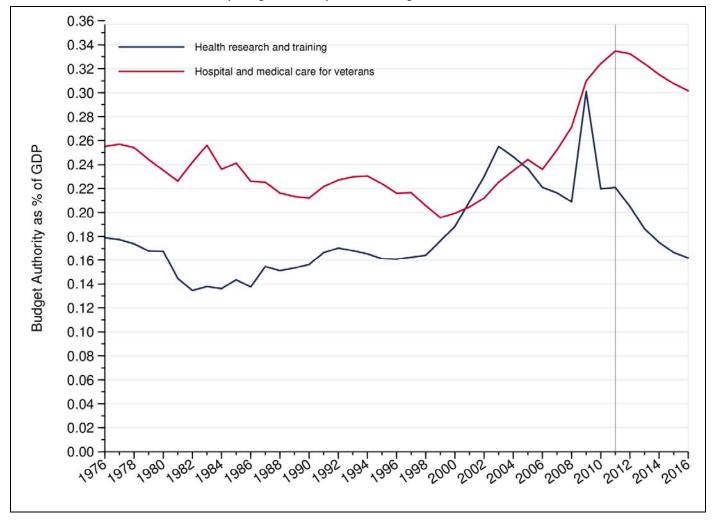
0.28 Health care services 0.26 Medicare 0.24 0.22 Budget Authority as % of GDP 0.20 0.18 0.16 0.14 0.12 0.10 0.08 0.06 0.04 0.02 0.00 -

Figure 3. Health Care Services (Subfunction 551) and Medicare (Subfunction 571)

Source: CRS, based on OMB data from the FY2012 Budget submission.

Notes: FY2011 are annualized levels from P.L. 111-242; FY2012-FY2016 levels projected. Discretionary BA for Medicare funds program administration, and does not generally fund program benefits. See OMB budget documents for further caveats.

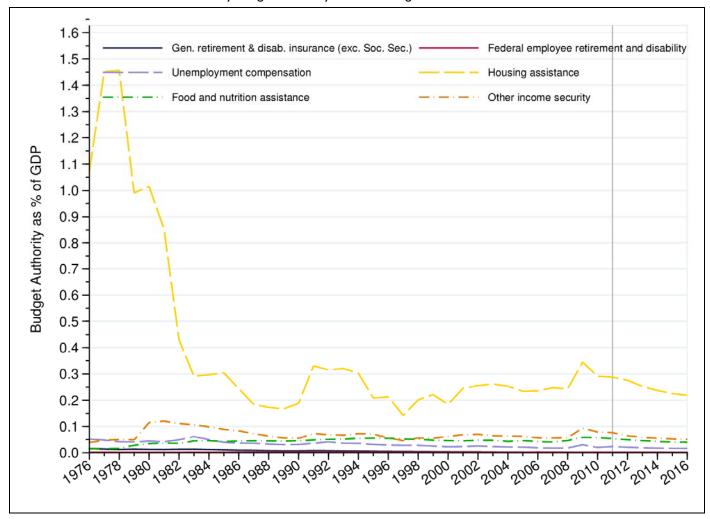
Figure 4. Smaller Health Subfunctions



Source: CRS, based on OMB data from the FY2012 Budget submission.

Notes: Hospital and medical care for veterans (703) presented here for comparison, and also appears in Figure 7. FY2011 are annualized levels from P.L. 111-242; FY2012-FY2016 levels projected. See OMB budget documents for further caveats.

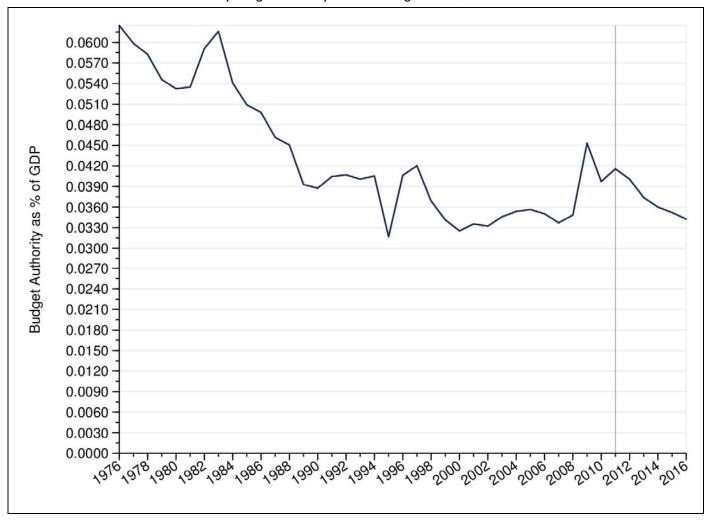
Figure 5. Income Security (600) Subfunctions



Source: CRS, based on OMB data from the FY2012 Budget submission.

Notes: Discretionary funding for income security programs supports program administration; most income security benefits are generally funded by mandatory spending, which is not shown here. FY2011 are annualized levels from P.L. 111-242; FY2012-FY2016 levels projected. See OMB budget documents for further caveats.

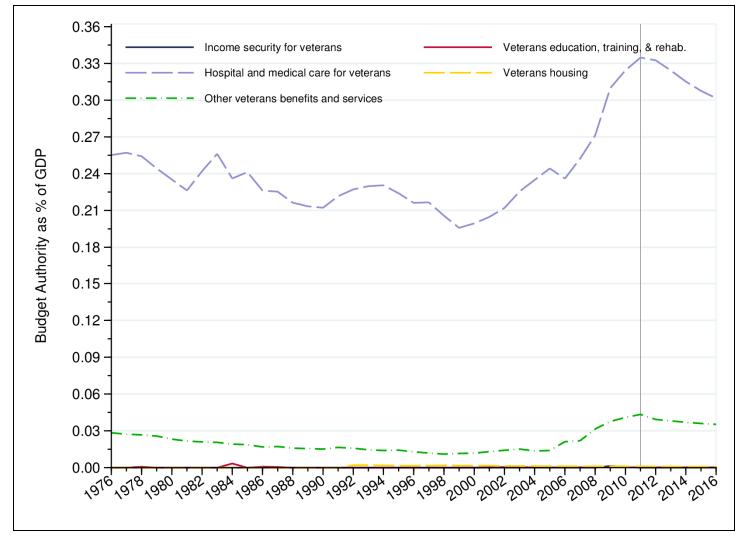
Figure 6. Social Security (650) Subfunction



Source: CRS, based on OMB data from the FY2012 Budget submission.

Notes: Discretionary funding for Social Security supports program administration; Social Security benefits are generally funded by mandatory spending, which is not shown here. FY2011 are annualized levels from P.L. 111-242; FY2012-FY2016 levels projected. See OMB budget documents for further caveats.

Figure 7. Veterans Benefits and Services (700) Subfunctions

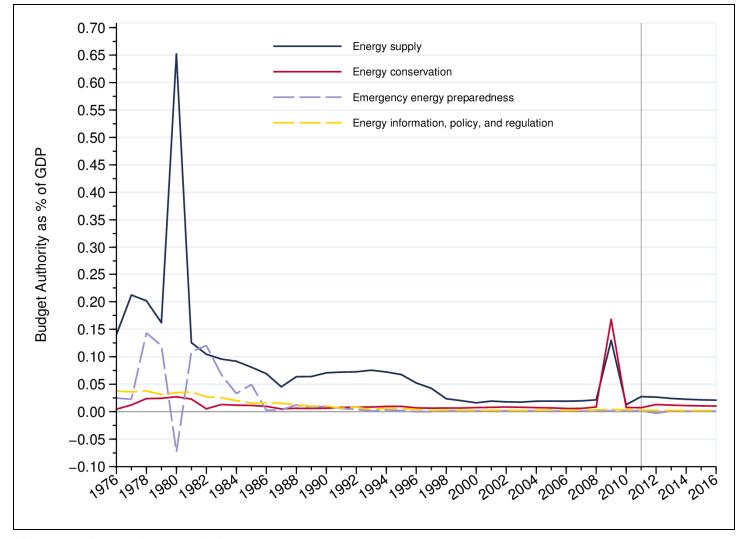


Source: CRS, based on OMB data from the FY2012 Budget submission.

Notes: FY2011 are annualized levels from P.L. 111-242; FY2012-FY2016 levels projected. See OMB budget documents for further caveats. Note that mandatory Veterans Affairs expenditures are not reflected here.

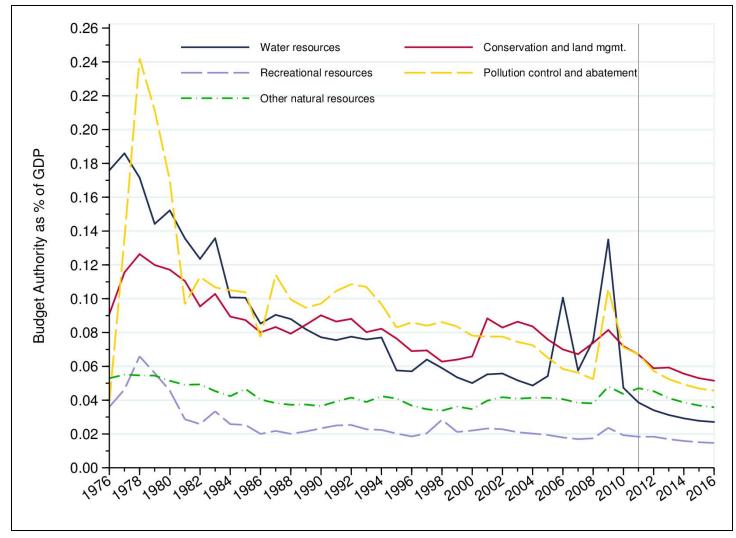
Figure 8. Energy (270) Subfunctions

Discretionary Budget Authority as a Percentage of GDP, FY1976-FY2016



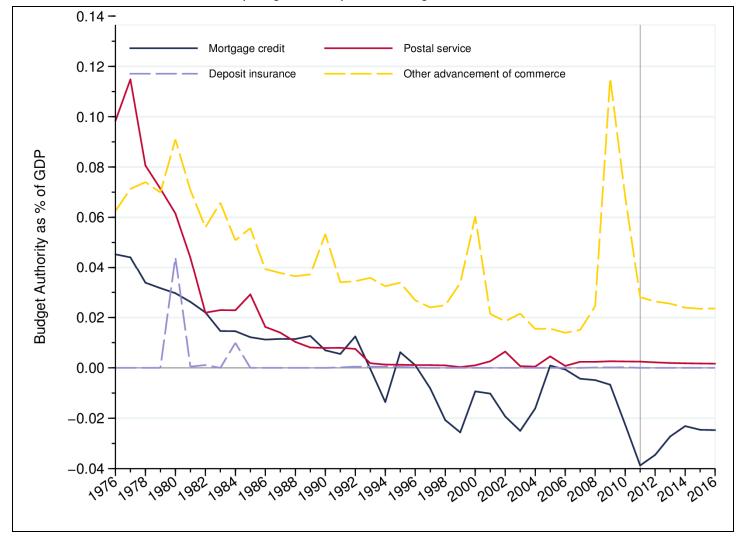
Source: CRS, based on OMB data from the FY2012 Budget submission.

Figure 9. Natural Resources and Environment (300) Subfunctions



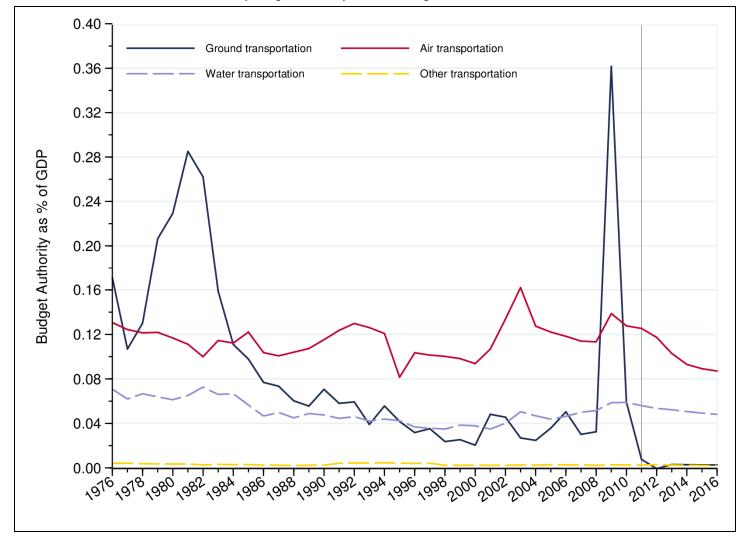
Source: CRS, based on OMB data from the FY2012 Budget submission.

Figure 10. Commerce and Housing Credit Subfunctions



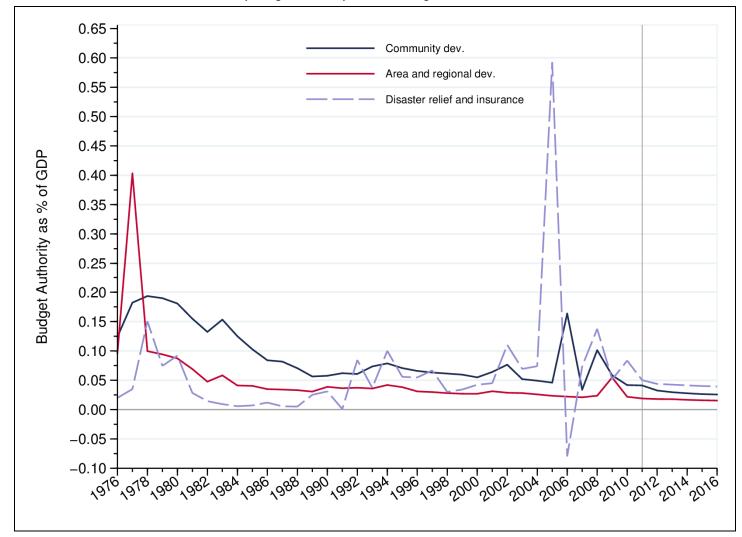
Source: CRS, based on OMB data from FY2012 Budget submission.

Figure 11. Transportation (400) Subfunctions



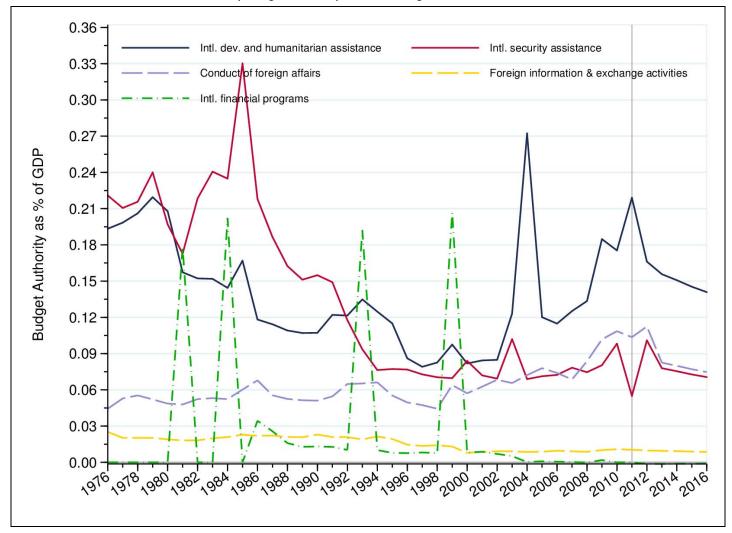
Source: CRS, based on OMB data from FY2012 Budget submission.

Figure 12. Community and Regional Development (450) Subfunctions



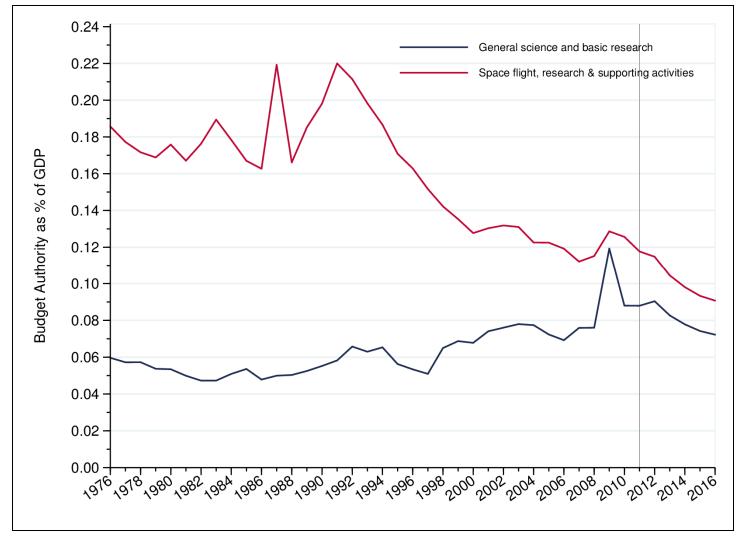
Source: CRS, based on OMB data from FY2012 Budget submission.

Figure 13. International Affairs (150) Subfunctions



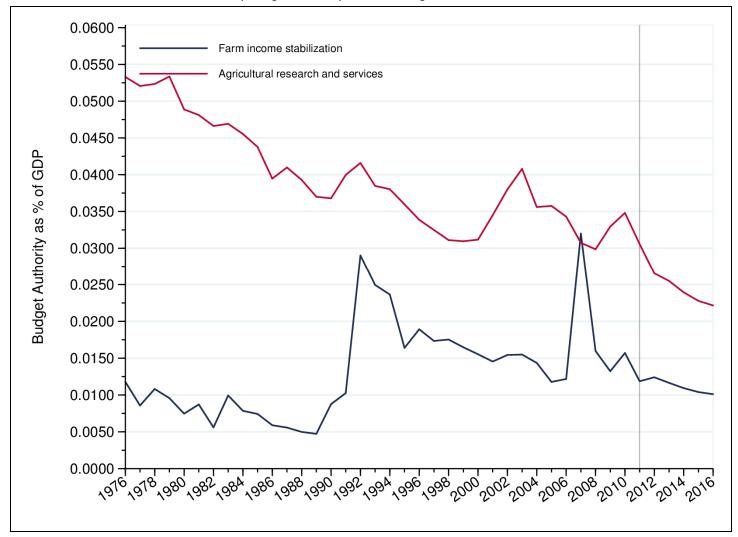
Source: CRS, based on OMB data from the FY2012 Budget submission.

Figure 14. General Science, Space, and Technology (250) Subfunctions



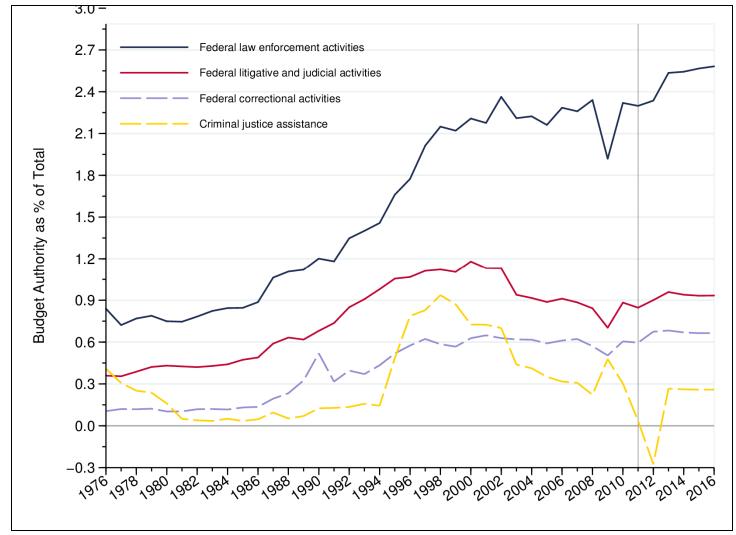
Source: CRS, based on OMB data from the FY2012 Budget submission.

Figure 15.Agriculture (350) Subfunctions



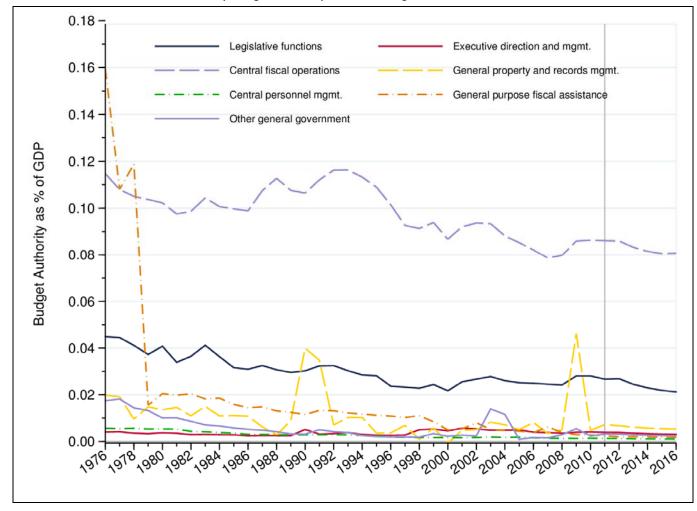
Source: CRS, based on OMB data from the FY2012 Budget submission.

Figure 16.Administration of Justice (750) Subfunctions



Source: CRS, based on OMB data from the FY2012 Budget submission.

Figure 17. General Government (800) Subfunctions
Discretionary Budget Authority as a Percentage of GDP, FY1976-FY2016



Source: CRS, based on OMB data from the FY2012 Budget submission.

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