

Discretionary Budget Authority by Subfunction: An Overview

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Summary

This report provides a graphical overview of historical trends in discretionary budget authority (BA) from FY1976 through FY2014, preliminary estimates for FY2015 spending, and the levels reflecting the President's proposals for FY2016 through FY2020 using data from the FY2016 budget submission released on February 2, 2015. Spending in this report is measured and illustrated in terms of discretionary budget authority as a percentage of gross domestic product (GDP). Measuring spending as a percentage of GDP in effect controls for inflation and population increases. A flat line on such graphs indicates spending that increased at the same rate as overall economic growth. 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.

Spending caps and budget enforcement mechanisms established in the Budget Control Act of 2011 (P.L. 112-25; BCA) strongly affected recent budget cycles. Congress modified BCA caps for FY2013 as part of the fiscal cliff deal and modified caps for FY2014 and FY2015 through the Murray-Ryan agreement (Bipartisan Budget Act of 2013; BBA; H.J.Res. 59; P.L. 113-67). The BCA set discretionary spending caps on defense (budget function 050) and non-defense funding that are lowered to achieve a portion of spending cuts according to a formula in the BCA. The lowering of caps was turned off for FY2014 and FY2015 by the Murray-Ryan agreement. The estimated lowered defense cap for FY2016 is \$523 billion, slightly above the FY2015 cap of \$521.3 billion. The estimated non-defense lowered cap for FY2016 is \$493.0 billion, close to the FY2015 cap of \$492.4 billion. The Obama Administration, in its FY2016 budget submission, proposed raising caps to accommodate higher spending on domestic and military priorities.

As the 114th Congress prepares to consider funding levels for FY2016 and beyond, past spending trends may help frame 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 American Recovery and Reinvestment Act of 2009 (P.L. 111-5; ARRA), a stimulus measure enacted after a sharp economic downturn, funded sharp increases in spending on education, energy, and other areas. Since FY2010, however, base defense discretionary spending has essentially been held flat and non-defense discretionary spending has been reduced significantly. The base defense budget excludes war funding (Overseas Contingency Operations/Global War on Terror). This report provides a starting point for discussions about spending trends. Other CRS products analyze spending trends in specific functional areas.

Discretionary spending is provided and controlled through appropriations acts, which provide budget authority to federal agencies to 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 are generally funded by discretionary spending, while mandatory spending—not shown in figures presented in this report—generally funds the benefits provided through those programs. 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 be updated as events warrant.

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Introduction

This report presents figures showing trends in discretionary budget authority as a percentage of gross domestic product (GDP) by subfunction within each of 17 budget function categories, using data from President Obama's FY2016 budget submission.¹ This report provides a graphical overview of historical trends in discretionary budget authority from FY1977 through FY2014, estimates for FY2015 spending, and the levels consistent with the President's proposals for FY2016 through FY2020.²

Discretionary spending is provided and controlled through appropriations acts. These acts fund many of the activities commonly associated with federal government functions, such as running executive branch agencies, congressional offices and agencies, and international operations of the government.³ 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 Transportation, the division of expenditures into discretionary and mandatory categories can be complex.

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. Spending in this report is shown as a percentage of GDP to control for the effects of inflation, population growth, and growth in per capita income. A flat line on such graphs indicates that spending in that category is increasing at the same rate as overall economic growth.⁴ In general, the revised GDP series showed somewhat higher levels of national income and thus slightly reduced government spending as a share of GDP.

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 in the last several years and are expected to play a central role as Congress considers decisions affecting the FY2016 budget. As the 114th Congress prepares to consider funding levels for

¹ The President's FY2016 budget was released on February 2, 2015, and is available at <http://www.whitehouse.gov/omb/budget/>.

² 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).

³ For a broader analysis of discretionary spending, see CRS Report RL34424, *The Budget Control Act and Trends in Discretionary Spending*, by (name redacted).

⁴ The Bureau of Economic Analysis (BEA) released a major revision to national income accounts in July 2013, which resulted in a slight lowering of the estimated share of federal spending as a share of the overall economy. BEA provided extensive technical information on its revision of national income and product accounts (NIPA), which is available here: <http://bea.gov/national/an1.htm#2013comprehensive>. The revision, according to BEA, included several major improvements to the accounts, including expanded capitalization of intellectual property products and a change to accrual accounting for defined benefit pension plans. The revision covered estimates from 1929 through the first quarter of 2013. For 2002–2012, the revised estimate of average annual economic growth is 1.8%, or 0.2 percentage points higher than previously published estimates. For years 2009–2012, the revised estimate of annual economic growth is 2.4%, or 0.3 percentage points higher than previously published estimates. See Stephanie H. McCulla, Alyssa E. Holdren, and Shelly Smith, "Improved Estimates of the National Income and Product Accounts: Results of the 2013 Comprehensive Revision," *Survey of Current Business*, September 2013, pp. 14–45, available at http://bea.gov/scb/pdf/2013/09%20September/0913_comprehensive_nipa_revision.pdf.

FY2016 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.

Overview of Recent Discretionary Spending

Discretionary spending trends in recent years have been shaped by the Budget Control Act of 2011 (P.L. 112-25; BCA). The BCA reinstated statutory caps on discretionary spending, similar to those that had lapsed in 2002. Those spending caps and associated budget enforcement mechanisms, along with modifications of BCA provisions, framed policy discussions during the last three budget cycles.⁵

Discretionary spending as a share of GDP, if BCA caps remain in place, will decline to levels well below those seen in recent decades. In real dollar terms (i.e., adjusting for inflation but not for growth in population or the economy), discretionary base defense spending would revert to a level slightly above its FY2007 level, while non-defense discretionary spending would revert to a level near its 2003 level.⁶ In later years, BCA caps would allow for modest growth in nominal (i.e., not adjusted for inflation) terms. By contrast, mandatory spending and net interest costs are projected to rise, implying that discretionary spending's share of total federal spending would continue to fall.

Unmodified BCA Caps in Effect for FY2016

BCA caps for each of those budget years were adjusted to lessen the stringency of spending reductions. The Bipartisan Budget Act (BBA; H.J.Res. 59; P.L. 113-67), enacted in December 2013, modified BCA limits for FY2014 and FY2015. The Consolidated Appropriations Act, 2014 (H.R. 3547; P.L. 113-76), enacted on January 17, 2014, provided funding within those limits for the remainder of FY2014. The Consolidated and Further Continuing Appropriations Act, 2015 (H.R. 83; P.L. 113-235), enacted on December 16, 2014, also provided funding within the relevant BCA caps.⁷

BCA caps for FY2016, however, have not been changed.⁸ Absent new legislative modifications, those caps will constrain budgetary decisions for FY2016. The Obama Administration has proposed raising BCA caps to allow more spending for non-defense and defense priorities.⁹

⁵ CRS Report R41965, *The Budget Control Act of 2011*, by (name redacted), (name redacted), and (name redacted).

⁶ For details, see CRS, "The Budget Control Act and Alternate Defense and Non-Defense Spending Paths, FY2012-FY2021," by (name redacted) and (name redacted), November 16, 2012, available from authors. This comparison is made in terms of budget authority. Before passage of ATRA, BCA provisions were slated to bring discretionary base defense spending to its FY2007 level and non-defense spending to near its level in FY2003 or FY2004. Inflation adjustments made using GDP price index.

⁷ CBO, "H.R. 83, the Consolidated and Further Continuing Appropriations Act, 2015, Divisions A-L, as Posted on the Website of the House Committee on Rules on December 9, 2014," December 10, 2014. Spending in the defense category was exactly at its limit (\$521,272 million), but non-defense was an estimated \$280 million below its limit (\$492,356 million). OMB is responsible for the final determination of compliance with BCA caps.

⁸ Some have described role of unmodified BCA caps for FY2016 as a "return to sequestration." For example, see Amaani Lyle, "Greenert Explains Value of Presence, Danger of Cuts," *DoD News*, January 28, 2015, <http://www.defense.gov/news/newsarticle.aspx?id=128065>. Sequestration, strictly speaking, refers to the reduction or (continued...)

Some types of spending are not subject to caps, such as war spending, certain amounts of disaster relief assistance, and program integrity initiatives. In particular, war-designated funding has been seen as a “relief valve” that has taken budgetary pressure off priority military and international programs.¹⁰ Actual discretionary budget authority totals will therefore differ from BCA discretionary caps.¹¹ In addition, scorekeeping adjustments typically lead to differences between scored totals of budget authority used to check conformity to BCA spending limits and other budget totals that do not include those adjustments.

Fiscal Policy Concerns and the Budget

The federal budget, beyond its role in funding government operations and programs, affects the performance of the larger economy. Fiscal policy—the determination of appropriate spending and revenue levels—reflects potential effects on economic stability, economic growth, and unemployment levels.¹² For example, deficit spending during recessions helps counteract the drop in private demand for goods and services. Sharply rising federal deficits and debt levels following the 2007-2009 recession, however, spurred widespread concern about the sustainability of federal finances and calls for greater fiscal constraint.

The BCA was enacted in August 2011, after months of intense negotiations over alternative plans to reduce the deficit and raise the debt limit. Those negotiations were preceded by strong divergences in views of appropriate fiscal policy during the FY2011 budget cycle.¹³ The final FY2011 funding measure, enacted in April 2011, reflected a fiscal compromise that halted the growth of federal spending while protecting most programmatic spending from sharp reductions.

Fiscal policy became a central concern of Congress in the wake of the 2007-2009 Great Recession. Government deficits and debt typically rise after serious financial crises and economic downturns for two main reasons. First, tax revenues typically drop during economic downturns. Second, as recession reduces incomes for many households, spending increases due to the effect of “automatic stabilizers”—that is, programs that provide benefits linked to income levels or unemployment. In addition, Congress passed the American Recovery and Reinvestment Act of 2009 (P.L. 111-5; ARRA), which combined a package of increased federal funding on education, energy, and other areas; greater support for state and local governments; and tax reductions.

(...continued)

cancellation of budgetary resources, usually applied across the board to non-exempted accounts. While non-exempted mandatory accounts are to be sequestered in FY2016, no across-the-board cuts to discretionary spending are required so long as funding remains within lowered BCA caps.

⁹ OMB, *FY2016 Budget of the U.S. Government, Analytical Perspectives*, p. 96.

¹⁰ Marcus Weisgerber, “‘Magic Money’: DoD’s Overseas Contingency Budget Might Dry Up,” *Defense News*, June 29, 2014, <http://archive.defensenews.com/article/20140629/DEFREG02/306290011/-Magic-Money-DoD-s-Overseas-Contingency-Budget-Might-Dry-Up>. Also see CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by (name redacted).

¹¹ More precisely, BCA caps are adjusted upwards to reflect those spending categories.

¹² See Mark Horton and Asmaa El-Ganainy, “Fiscal Policy: Taking and Giving Away,” *Finance & Development*, International Monetary Fund, March 12, 2012, <http://www.imf.org/external/pubs/ft/fandd/basics/fiscpol.htm>.

¹³ CRS Report R41771, *FY2011 Appropriations in Budgetary Context*, by (name redacted) and (name redacted).

Federal Budget Data and Concepts

Figures in this report are based on the Office of Management and Budget (OMB) Public Budget Database accompanying the FY2016 budget release.¹⁴ Table 5.1 in the *Historical Tables* volume of the FY2016 budget reports budget authority by function and subfunction, but does not provide a breakdown by discretionary and mandatory subcomponents.¹⁵

Federal Budget Concepts

Federal budget statistics reflect the structure of federal budget concepts. Unlike some state governments, the federal government's budget is reported on a comprehensive basis: agencies and transactions connected to the federal government are typically included in budget statistics in the absence of "exceptionally persuasive reasons" for exclusion.¹⁶

Second, the federal budget is reported on a modified cash basis. Federal programs are budgeted on a cash basis, except for loan and loan guarantee programs, which are budgeted on an accrual basis.¹⁷ Most businesses use accrual methods, so that obligations are recognized when incurred, rather than when paid. Federal budget statistics using the cash accounting approach therefore do not reflect many long-term obligations. Other ways of estimating long-term federal obligations, however, may provide a more useful guide to future fiscal challenges. The cash accounting approach used for federal non-credit programs avoids thorny issues of estimating the future effects of current policies that could make budget statistics less precise and more vulnerable to subjective judgment.

Office of Management and Budget

OMB is the official custodian of historical federal budget data. While OMB has attempted to make federal budget data consistent, changes in government accounting standards and agency reorganizations, among other changes, may raise difficulties in comparing data from different fiscal years. For example, the Department of Homeland Security (DHS) was created in 2002 from 22 existing federal agencies or entities.¹⁸ OMB used historical budget data for those agencies or entities to calculate retrospective estimates for DHS.

OMB's public budget data generally do not reflect budgetary categories used in the congressional budget process such as emergency-designated funding, the appropriations subcommittee responsible for an account, or distinctions between war and base funding. OMB maintains more detailed budget data for its internal work.

¹⁴ Data in the OMB Public Budget Database reconcile to information presented in the *Historical Tables* volume of the FY2016 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/fy2016/assets/db_guide.pdf.

¹⁵ Table 5.1 of the OMB *Historical Tables* is available at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/hist05z1.xls>.

¹⁶ *Report of the President's Commission on Budget Concepts*, October 1967, p. 25.

¹⁷ The budgetary treatment of federal loan and loan guarantee is explained in more detail on the next page.

¹⁸ Department of Homeland Security, "Creation of the Department of Homeland Security," available at <http://www.dhs.gov/creation-department-homeland-security>.

Budget data in OMB documents may differ from other budget data for various reasons, although differences in historical data are typically small. For example, appropriations budget documents often reflect scorekeeping adjustments. Budget data issued at a later date may include revisions absent from earlier data. In some cases, detailed appropriations data may differ from OMB data, which sometimes do not reflect certain relatively small zero-balance transfers among funds. Differences may also reflect technical differences or different interpretations of federal budget concepts.

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.¹⁹

Provisions in appropriations acts that affect mandatory spending programs, known as CHIMPs (Changes in mandatory programs) can be counted as negative discretionary spending according to federal budgetary scorekeeping guidelines. For example, a sharp downward spike in proposed spending for subfunction 754 (criminal justice assistance), shown in **Figure 17**, reflects a CHIMP affecting the Crime Victims Fund. That CHIMP, however, has had little effect on programmatic spending levels. Similarly, a CHIMP affecting the State Children’s Health Insurance Program (CHIP) explains a dip in subfunction 551 (health care services) shown in **Figure 4**.

Federal Credit Programs

Disbursements for federal loan and loan guarantee programs do not appear directly in federal spending data. The federal government has used a form of accrual accounting for loan and loan guarantee programs since passage of the Federal Credit Reform Act (FCRA; Title V of the Omnibus Budget Reconciliation Act of 1990; P.L. 101-508) as well as for certain federal retirement programs.²⁰ OMB calculates net subsidy rates according to FCRA rules for loan and loan guarantee programs. The net subsidy cost is then reflected in federal spending data.²¹ In general, FCRA adjustments affect mandatory spending more than discretionary spending because the largest sources of federal credit are mandatory programs.²²

In some cases, FCRA calculations yield negative net subsidy levels, implying that the federal government appears to make a profit on those loans.²³ For example, according to estimates computed according to FCRA procedures, federal student loan programs have a negative subsidy.²⁴ FCRA subsidy calculations omit risk adjustments.²⁵ The true economic cost of federal

¹⁹ See OMB, FY2016 Budget, *Analytic Perspectives*, ch. 13, “Offsetting Collections and Offsetting Receipts.” In particular, pp. 205-218 cover these topics.

²⁰ See CRS Report RL30346, *Federal Credit Reform: Implementation of the Changed Budgetary Treatment of Direct Loans and Loan Guarantees*, by (name redacted), available upon request.

²¹ For details, see CRS Report R42632, *Budgetary Treatment of Federal Credit (Direct Loans and Loan Guarantees): Concepts, History, and Issues for Congress*, by (name redacted).

²² See OMB, FY2016 Budget, *Analytic Perspectives*, ch.20, “Credit and Insurance.”

²³ For example, some Federal Housing Administration mortgage programs and some federal student loan programs have been estimated to yield negative net subsidies.

²⁴ CBO estimates put the student loan subsidy rate at 3.6% for subsidized loans, -9.5% for undergraduate unsubsidized loans, and -25.1% for graduate unsubsidized loans. See CBO, “CBO’s April 2014 Baseline Projections for the Student (continued...) ”

credit guarantees can be substantially underestimated when risk adjustments are omitted.²⁶ The changes mandated by FCRA imply that estimates of federal credit program costs before and after FY1991 should be treated with caution.

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.²⁷ 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, and
- Other functions.

Net interest, Allowances, and Undistributed offsetting receipts could also be considered as separate categories. Superfunction categories for national defense, net interest, allowances, and undistributed offsetting receipts coincide with function categories. 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. Allowances in FY2016 include a placeholder amount for immigration reform, adjustments to BCA non-defense caps, future disaster funding costs, an adjustment for certain benefit payments, and war funding (Overseas Contingency Operations/OCO; Global War on Terror/GWOT) for years after FY2016.²⁸

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**.

(...continued)

Loan Program,” April 2014, Table 3, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/44198-2014-04-StudentLoan.pdf>.

²⁵ While the FCRA calculations include estimates of default costs, they do not discount more volatile income flows, as a private firm would.

²⁶ 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>. CBO and OMB included risk adjustments in estimates of the costs associated with the TARP as mandated by the Emergency Economic Stabilization Act of 2008 (P.L. 110-343; EESA). See 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>.

²⁷ For further background on functional categories, see CRS Report 98-280, *Functional Categories of the Federal Budget*, by (name redacted)

²⁸ The allowance for future disaster costs is not included in calculations underlying graphs in order to conform with published data aggregates. Allowances that reflect enforcement of BCA discretionary spending limits are not included, as they are not disaggregated by function. Placeholder amounts are sometimes called “plug” numbers.

Table I. 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 education |
| | 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 & disability 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, & rehabilitation |
| | 703 | Hospital and medical care for veterans |
| | 704 | Veterans housing |
| | 705 | Other veterans benefits and services |
| Physical Resources | 270 | Energy |
| | 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 management |
| | 303 | Recreational resources |
| | 304 | Pollution control and abatement |
| | 306 | Other natural resources |

| Superfunction | Code | Function / Subfunction |
|------------------------|------|--|
| | 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 development |
| | 452 | Area and regional development |
| | 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 |
| | 750 | Administration of justice |
| | 751 | Federal law enforcement activities |
| | 752 | Federal litigative and judicial activities |
| | 753 | Federal correctional activities |
| | 754 | 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 |

| Superfunction | Code | Function / Subfunction |
|--|------|--|
| Allowances | 909 | Other Investment and income |
| | 920 | Allowances |
| | 923 | Immigration Reform |
| | 924 | Adjustment for BCA Cap on Non-Security Spending |
| | 925 | Future Disaster Costs |
| | 928 | Adjustment to Benefit Payment Timing |
| | 929 | Plug for Outyear War Costs |
| 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 often change from one year to the next.

The Obama Administration's FY2016 Budget

The Obama Administration's FY2016 budget proposes raising BCA caps on discretionary spending to allow for additional funding for research, education, and the military, among other priority areas. The Administration's budget plans propose defense funding \$38 billion above existing BCA cap levels and non-defense spending \$37 billion above BCA cap levels.²⁹

The Administration contends that BCA discretionary cap levels currently in place provide insufficient funding for national priorities. On the non-defense side, the Administration proposed increased funding for education, research, support for manufacturing, clean energy and mitigation of climate-related risks, and infrastructure, among other priority areas.³⁰

Defense officials for several years have advocated loosening BCA constraints on the base defense budget.³¹ The defense budget is divided between a base budget for normal operations and a war budget (Overseas Contingency Operations; OCO).³² War costs have decreased since 2010 as combat operations in Iraq and Afghanistan have been wound down, while base budgets were essentially flat in FY2014 and FY2015. The Administration contends that budgetary constraints have led to reduced funding for training, maintenance, and modernization, and that "defense base

²⁹ OMB, *The Budget for FY2016*, Summary Table S-10, fn. 2.

³⁰ OMB, *The Budget for FY2016*, "Investing in America's Future," pp. 15-68.

³¹ Opening statement of Ashton B. Carter, nominee to be Secretary of Defense, in U.S. Congress, Senate Armed Services Committee, hearings, 114th Cong., 1st sess., February 4, 2015, http://www.armed-services.senate.gov/imo/media/doc/Carter_02-04-15.pdf. Also see U.S. Congress, House Armed Services Committee, The Impacts of a Continuing Resolution and Sequestration on Defense, 113th Cong., 1st sess., February 13, 2013, <http://www.gpo.gov/fdsys/pkg/CHRG-113hhrg79491/html/CHRG-113hhrg79491.htm>.

³² The division between base and war budgets has shifted over time. See CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by (name redacted).

budgets at or near the sequestration level would undermine the military's capacity and capability to respond."³³

The Administration's FY2016 budget proposes a phasing out of separate war funding starting in FY2017 and concluding in FY2020.³⁴ Integrating funding for continuing operations in Afghanistan and the Near East into the base defense budget implies some loss of budgetary flexibility, but promotes the effectiveness of budgetary controls. Some budget experts have argued that separate funding for war operations has made oversight and control of defense budgets more difficult. One expert on war finance testified that the use of emergency-designated war funding was used to "circumvent the normal budget process [and] has meant that the executive branch and the Congress have skirted the issue of tradeoffs in the budget."³⁵

The Administration's FY2016 budget proposals regarding discretionary spending resemble its "Opportunity, Growth, and Security Initiative" presented in the FY2015 budget, which would have provided an additional \$56 billion in funding split equally between defense and non-defense spending.³⁶

Historical Spending Trends

Federal spending trends in functional areas are affected by changing assessments of national priorities, evolving international challenges, and 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

The allocation of discretionary spending between defense and non-defense programs is one reflection of changing federal priorities over time. **Figure 1** shows defense and non-defense discretionary funding as a percentage of GDP. **Figure 2** shows subfunctions within the National Defense (050) budget function. The Department of Defense (DOD)-Military subfunction accounts for over 95% of funding within that budget function.

³³ OMB, *The Budget for FY2016*, pp. 44-45.

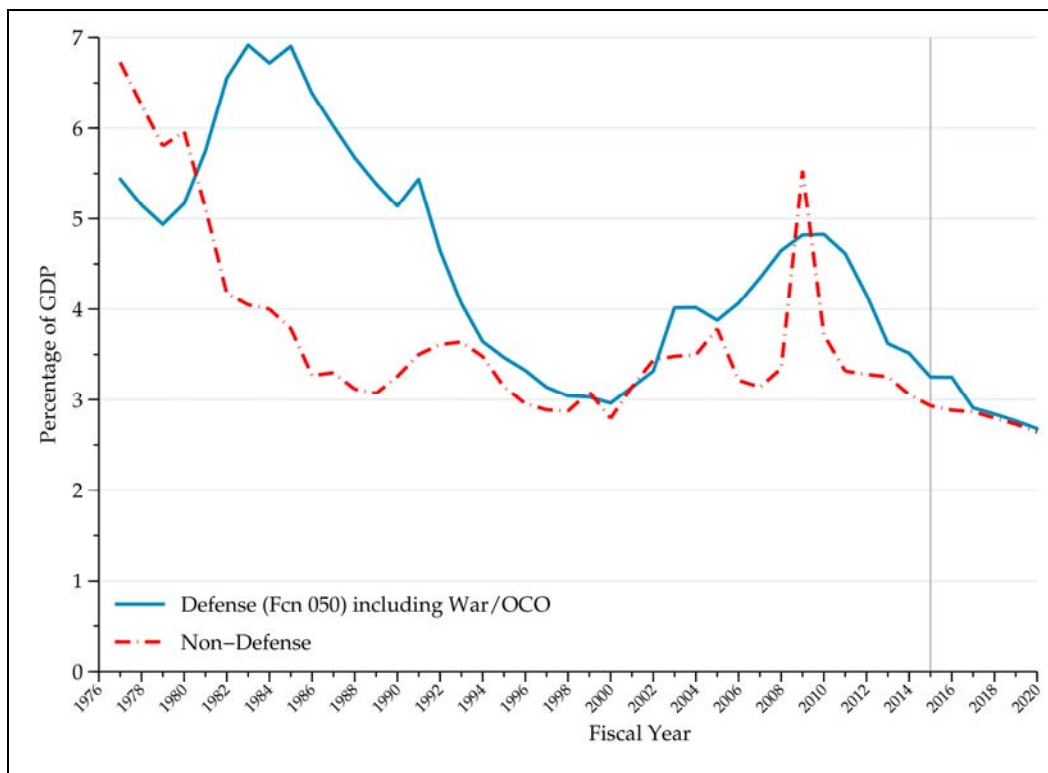
³⁴ OMB, *The Budget for FY2016*, p. 49.

³⁵ Testimony of Robert D. Hormats, Vice Chairman of Goldman Sachs International, Joint Economic Committee, *The Costs of the Iraq War*, hearings, 110th Cong., 2nd sess., February 28, 2008.

³⁶ OMB, *The Budget for FY2016*, Summary Table S-10, fn. 2 states "the 2016 Budget . . . continues the 2015 Budget framework of providing additional investments in both defense and non-defense programs above the baseline levels that include Joint Committee enforcement."

Figure 1. Discretionary Defense and Non-Defense Spending

Budget authority as a percentage of GDP, FY1977-FY2020



Source: CRS, based on OMB data from the FY2016 budget submission.

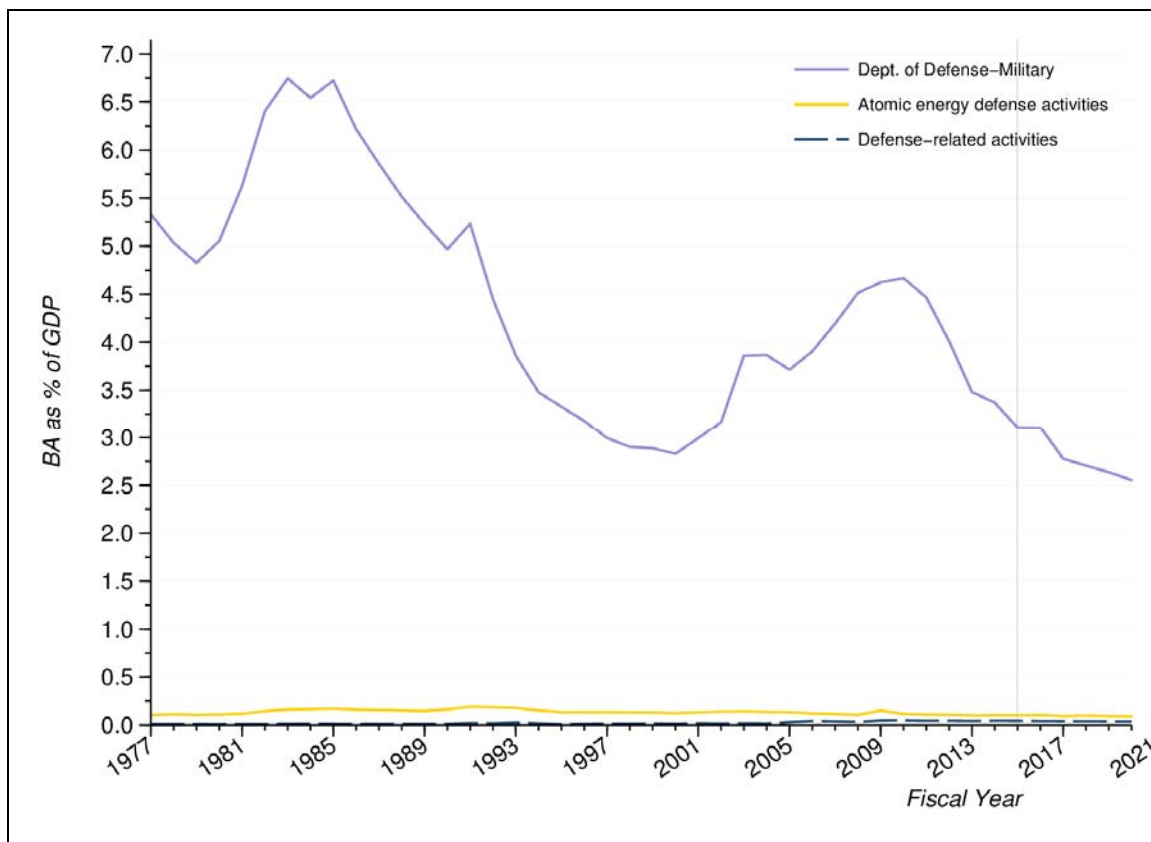
Notes: Defense is defined as funding for the National Defense (050) budget function; non-defense is the remainder. FY1976-FY2014 are historical data; FY2015 is estimated; FY2016-FY2020 reflect the President's FY2016 budget proposals.

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 were the dominant security concern in the half 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.³⁷

³⁷ For a history of deficit finance and American wars, see Robert D. Hormats, *The Price of Liberty*, (New York: Times Books, 2007).

Figure 2. National Defense (050) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020



Source: CRS, based on OMB data from the FY2016 budget submission.

Notes: FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Following intervention by the USSR in Afghanistan in 1979, military spending increased sharply.³⁸ 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.³⁹

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 2003.⁴⁰ U.S. combat troops were withdrawn from Iraq in December 2011,

³⁸ For one view of budgetary politics in the early 1980s, see David Stockman, *The Triumph of Politics*, (New York: Harper & Row, 1986).

³⁹ The Warsaw Treaty Organization, established in 1955, included Albania, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, and the Soviet Union.

⁴⁰ CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by (name redacted). The Afghan and Iraq wars, along with other related activities, are often called the Global War on Terror (continued...)

and President Obama has announced that most U.S. troops would be withdrawn from Afghanistan by the end of 2014.⁴¹ In November 2014, however, the President announced an extension of operations in Afghanistan.⁴²

The Administration has also noted challenges posed by Russia, which annexed the Crimean peninsula and sponsored military operations in eastern Ukraine; by the so-called Islamic State in Syria and the Levant (ISIL); and by cyber attacks—hostile electronic incursions of computer networks.⁴³

Domestic Spending Since 9/11

Domestic spending (i.e., non-defense spending excluding international affairs) rose after the attacks of September 11, 2001, after having fallen for much of the 1990s. Most of that increase in domestic spending occurred in areas related to non-defense security spending, as the federal government overhauled airport security procedures, and then established the Department of Homeland Security. In 2005, hurricanes Katrina and Rita led to a spike in disaster relief spending.⁴⁴ Discretionary funding for veterans' programs more than doubled between FY2000 and FY2010.⁴⁵

Non-security spending also rose to fund new initiatives in education and in other areas. While total non-security spending grew in constant dollar terms, it fell as a share of the overall economy.⁴⁶

The Recovery Act

After the financial crisis of 2007-2008 plunged the United States into the deepest economic recession in decades, Congress passed the American Recovery and Reinvestment Act of 2009 (P.L. 111-5; ARRA), 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, and extended unemployment benefits, as well as tax cuts and rebates among other provisions.⁴⁷ According to initial CBO estimates, ARRA provisions were expected to total \$787.2

(...continued)

(GWOT).

⁴¹ See CRS Report RL30588, *Afghanistan: Post-Taliban Governance, Security, and U.S. Policy*, by (name redacted).

⁴² Mark Mazzetti and Eric Schmitt, "In a Shift, Obama Extends U.S. Role in Afghan Combat," *New York Times*, November 21, 2014.

⁴³ OMB, *The Budget for FY2016*, p. 3 and pp. 44-50.

⁴⁴ See CRS Report R40708, *Disaster Relief Funding and Supplemental Appropriations for Disaster Relief*, by (name redacted) and (name redacted).

⁴⁵ Discretionary BA for veterans' benefits and services was \$20.9 billion in FY2010 and \$53.2 billion in FY2010. See OMB, *FY2016 Budget Historical Tables*, Table 5.6. Also see **Figure 5**.

⁴⁶ The Obama Administration defined security spending in its FY2012 budget 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. The BCA defined security similarly, except that it included all military activities within the Department of Defense excluding war funding (i.e., defined by department rather than by subfunction), and also included the Intelligence Community Management Account.

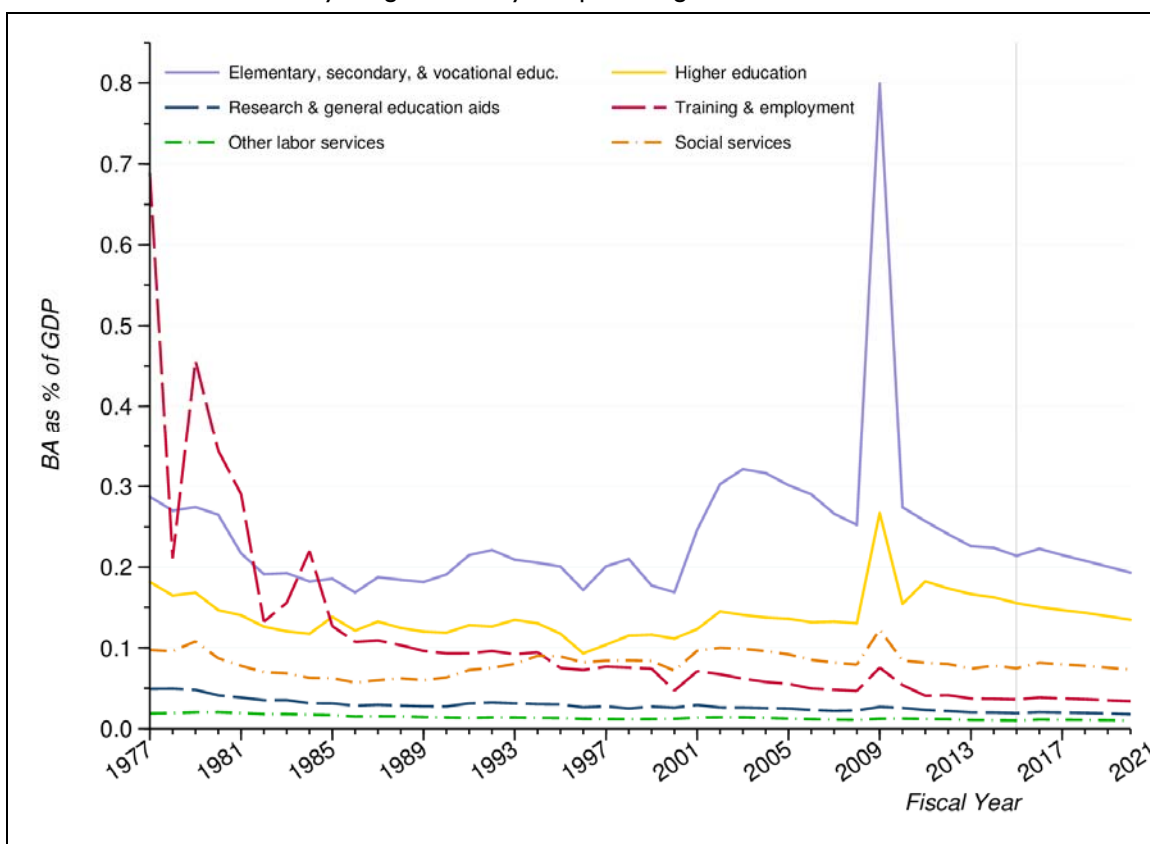
⁴⁷ For more information on the provisions of ARRA, see CRS Report R40537, *American Recovery and Reinvestment* (continued...)

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.⁴⁸

The effects of Recovery Act spending can be seen in **Figure 3**, where pronounced increases in education, training, employment, and social services subfunctions can be seen for FY2009. Smaller increases can be seen in **Figure 9**, which shows energy subfunctions, and in **Figure 10**, which shows natural resources and environment subfunctions.

Figure 3. Education, Training, Employment, and Social Services (500) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020



Source: CRS, based on OMB data from the FY2016 budget submission.

Notes: FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

(...continued)

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

⁴⁸ 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>.

Since 2010, however, total non-defense discretionary spending has declined in real (i.e., inflation-adjusted) terms.⁴⁹ As a share of the economy, non-defense discretionary spending has been declining, as shown in **Figure 9** and in other figures presented below.

Federal Health Programs

Costs of federal health programs continue to play a central role in budgetary discussions. The costs of the largest federal health programs, Medicare and the federal portion of Medicaid costs, are nearly all mandatory. Administrative costs, which account for a small portion of those costs, are nearly all funded as discretionary spending. Federal health research and veterans' health care is mostly funded through discretionary spending, as are certain public health clinics. 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 4**, and smaller programs (health research and training/subfunction 552 and consumer and occupational health and safety/subfunction 554) are shown in **Figure 5**. The National Institutes of Health (NIH) are the largest part of the health research and training subfunction. Veterans' health programs, which fall under the veterans benefits and services function, are also shown in **Figure 8** to make comparisons among those programs easier.

National health care costs, including costs funded through the federal government, have increased less rapidly than expected in recent years. Slower growth in health costs appears to be broadly based, rather than confined to specific sectors.⁵⁰ The reasons for slower health care cost growth, however, are not well understood. The reduced cost growth, according to a CBO analysis, did not seem directly related to the 2007-2009 recession, although weaker labor market conditions may have led to greater acceptance of high deductible plans. Stronger bargaining by insurers or consolidation of providers could also have played a role. While slower health care cost growth may alleviate fiscal pressures on the federal budget, the demographics of the Baby Boom retirement and the expansion of health insurance to previously uninsured persons are likely to present significant challenges to federal fiscal policy in the future.⁵¹

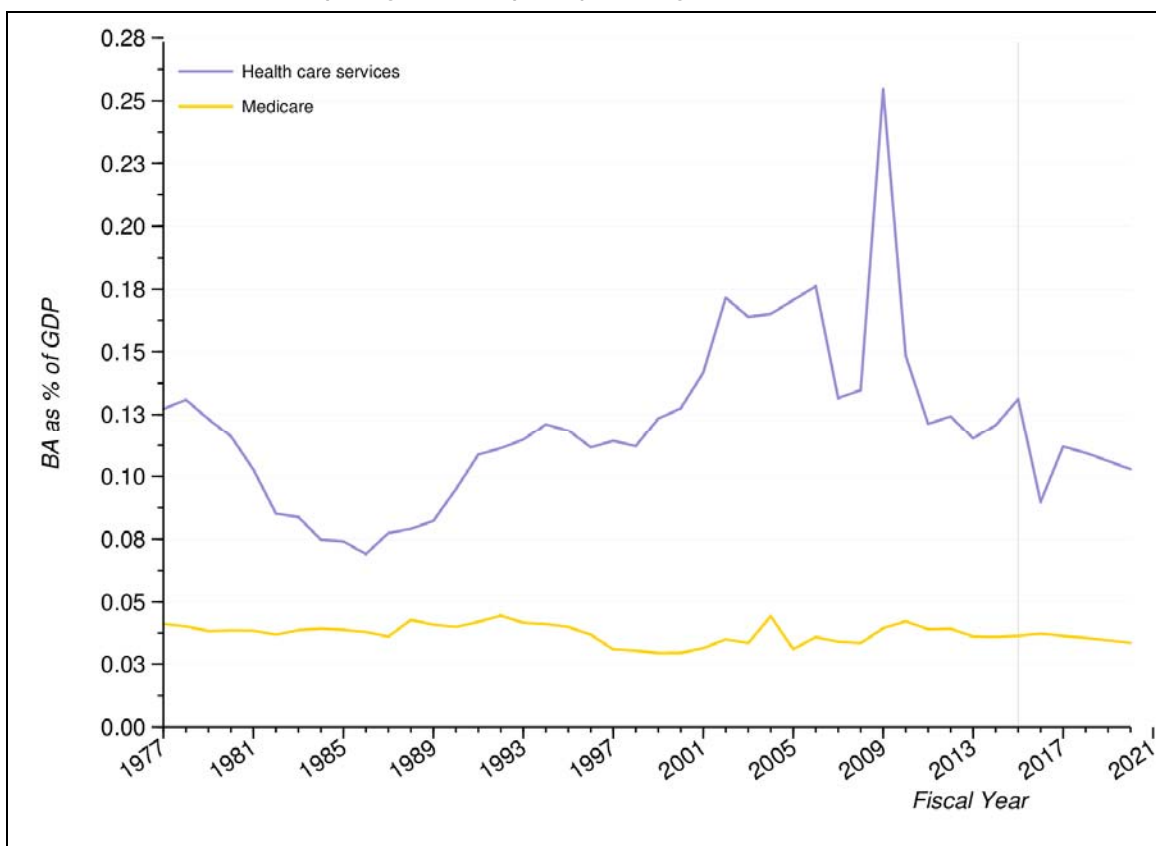
⁴⁹ See OMB, *The Budget for FY2016, Historical Tables*, Table 8.2.

⁵⁰ Amitabh Chandra, Jonathan Holmes, and Jonathan Skinner, "Is This Time Different? The Slowdown in Healthcare Spending" NBER Working Paper, September 10, 2013; Alex Phillips, "Health Care Prices and Inflation," Goldman Sachs Research US Daily, January 21, 2014; CBO, "Why Has Growth in Spending for Fee-for-Service Medicare Slowed?" Working Paper 2013-06, August 22, 2013, available at <http://www.cbo.gov/publication/44513>.

⁵¹ Articles in *Health Affairs*, vol. 32, no. 5, May 2013, provide a range of views regarding health care cost trends and implications for federal budget policy.

Figure 4. Health Care Services (Subfunction 551) and Medicare (Subfunction 571)

Discretionary budget authority as a percentage of GDP, FY1977-FY2020

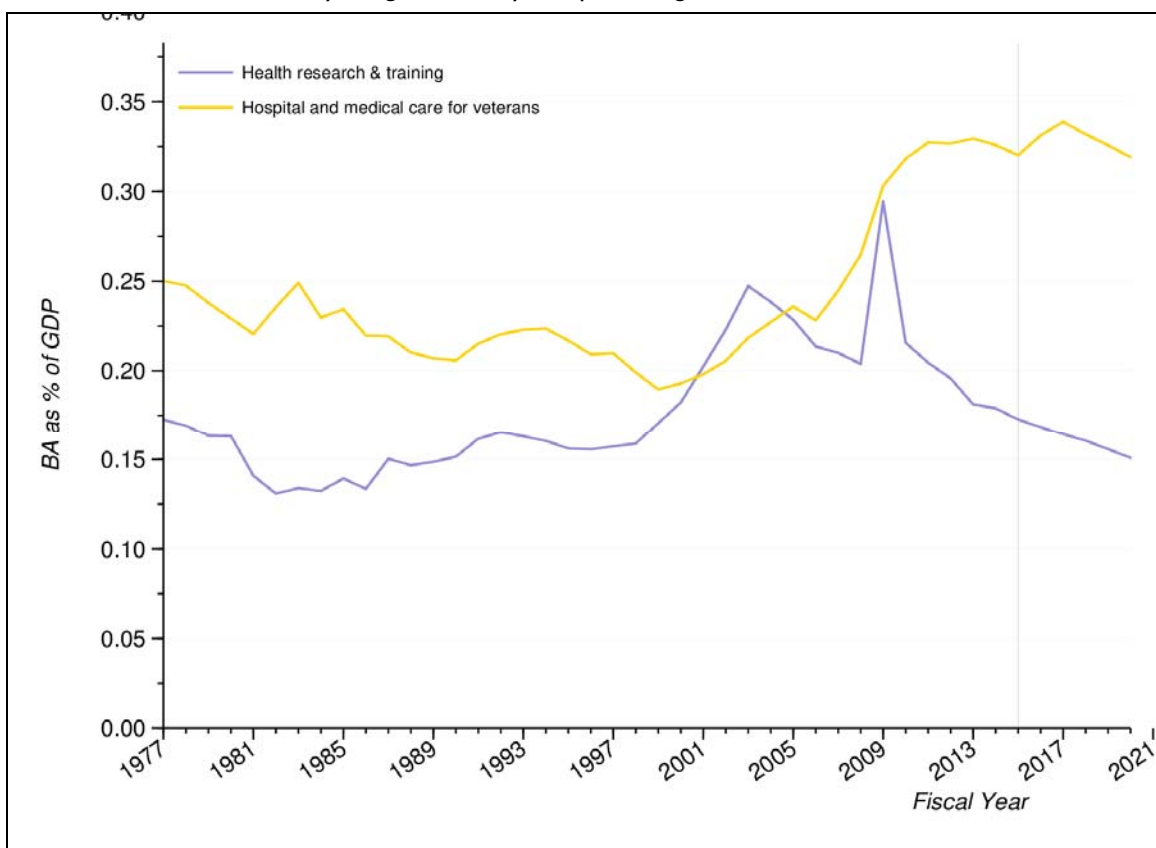


Source: CRS, based on OMB data from the FY2016 budget submission.

Notes: FY2016-FY2020 levels reflect Administration proposals and projections. Discretionary BA for Medicare funds program administration, and does not generally fund program benefits. See OMB budget documents for further caveats. The downward spike in health care services (subfunction 551) for FY2016 reflects a CHIMP (Change in Mandatory Spending) affecting the State Children's Health Insurance Program (CHIP).

Figure 5. Smaller Health Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020

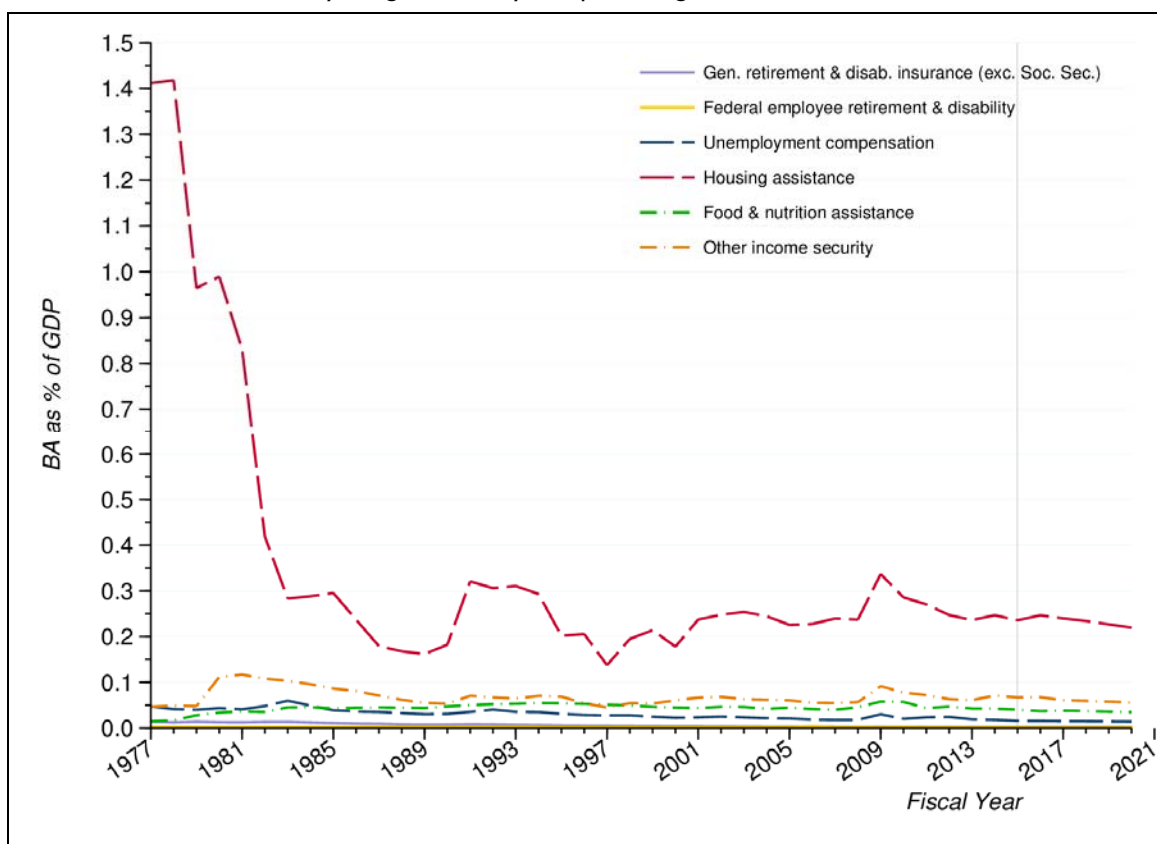


Source: CRS, based on OMB data from the FY2016 budget submission.

Notes: Hospital and medical care for veterans (703) presented here for comparison and also appears in **Figure 9**. FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 6. Income Security (600) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020



Source: CRS, based on OMB data from the FY2016 budget submission.

Notes: Discretionary funding for income security programs mostly supports administrative operations; most income security benefits are generally funded by mandatory spending, which is not shown here. FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 7. Social Security (650) Subfunction

Discretionary budget authority as a percentage of GDP, FY1977-FY2020



Source: CRS, based on OMB data from the FY2016 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. FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 8. Veterans Benefits and Services (700) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020

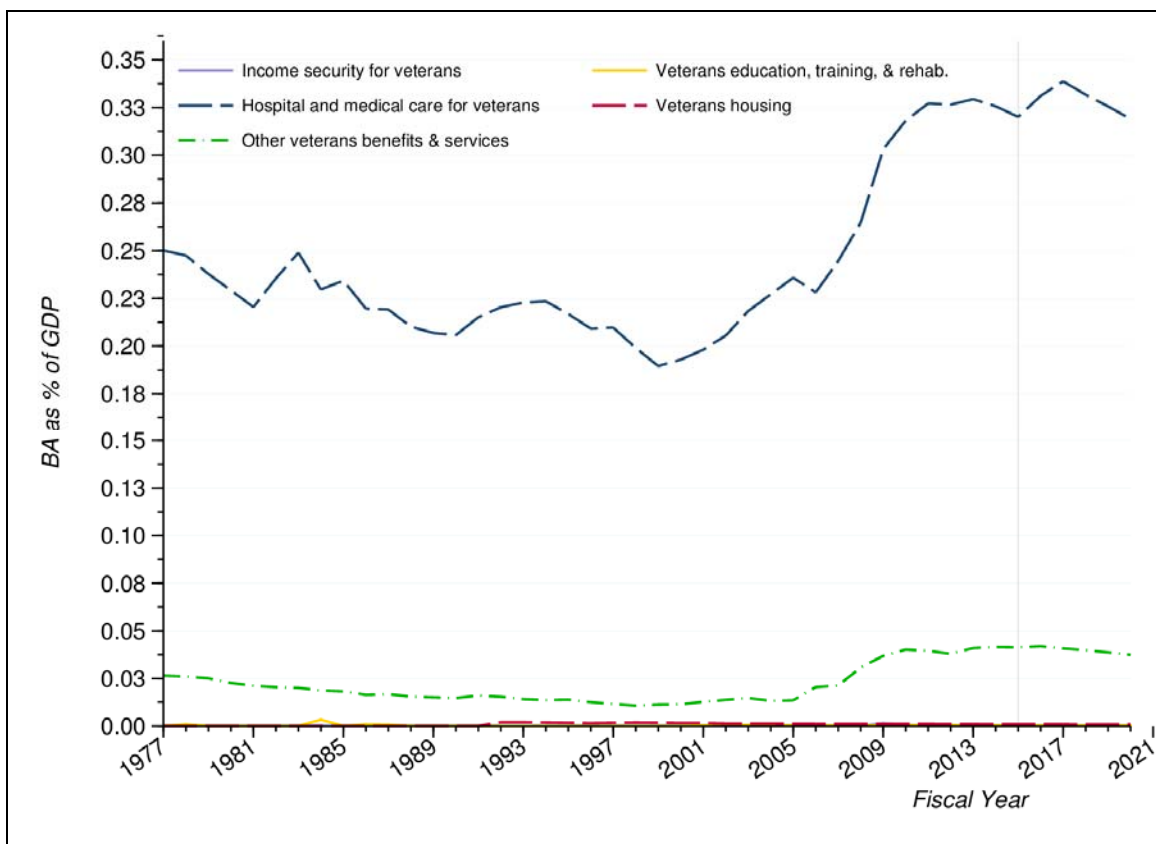
**Source:** CRS, based on OMB data from the FY2016 budget submission.**Notes:** FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats. Note that mandatory Veterans Affairs expenditures, which chiefly support income security programs, are not reflected here.

Figure 9. Energy (270) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020

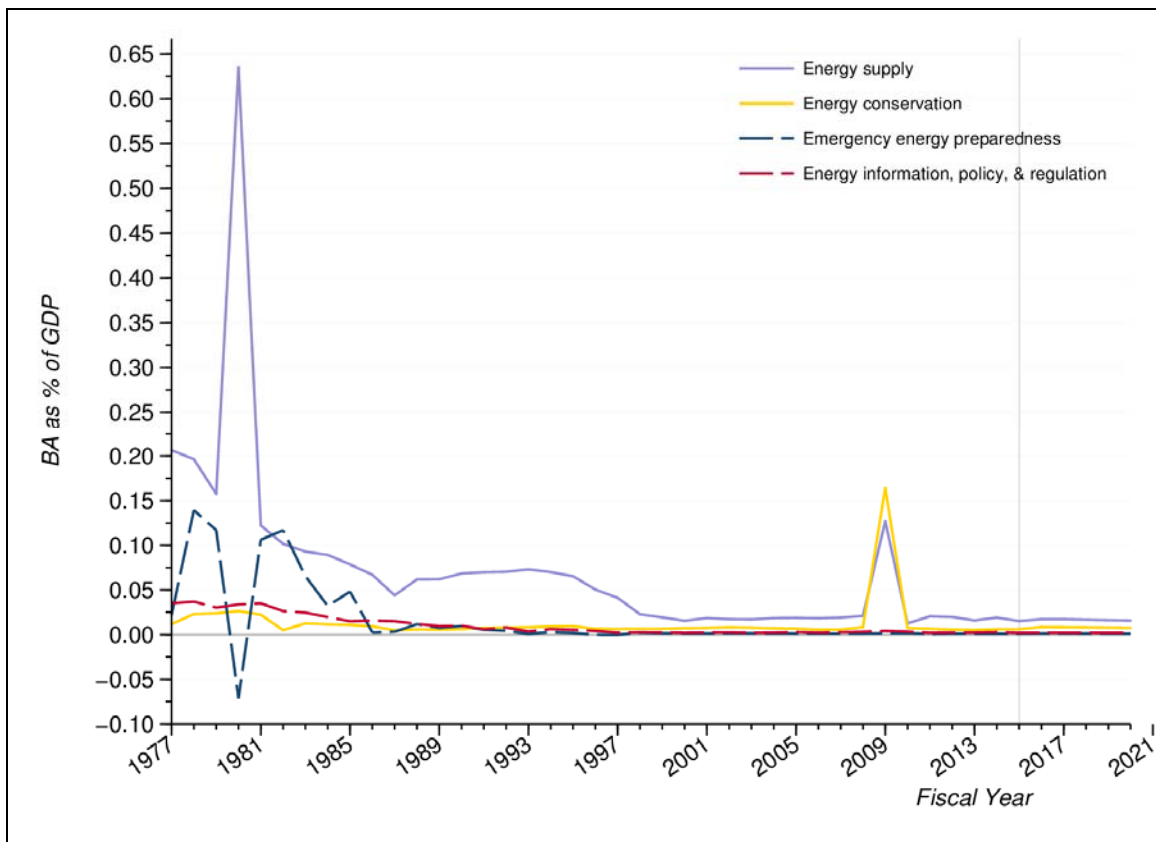
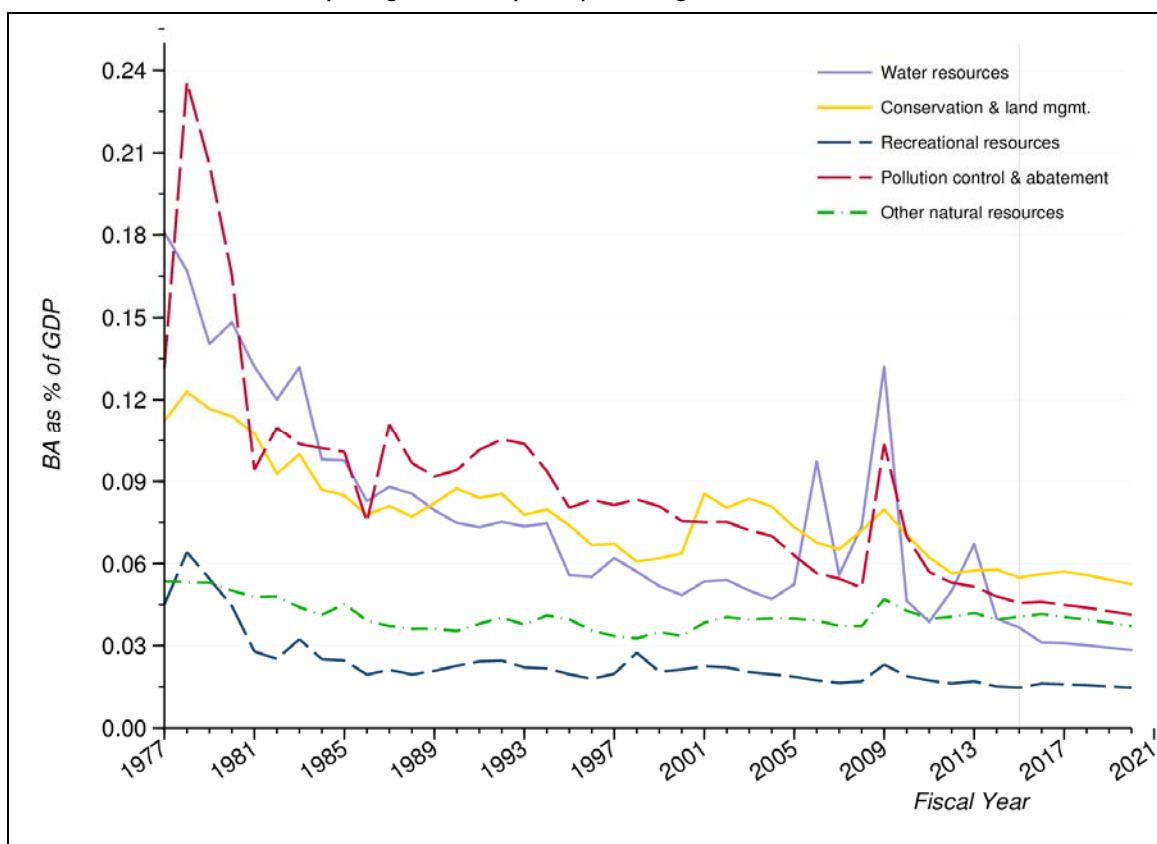
**Source:** CRS, based on OMB data from FY2016 budget submission.**Notes:** FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 10. Natural Resources and Environment (300) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020

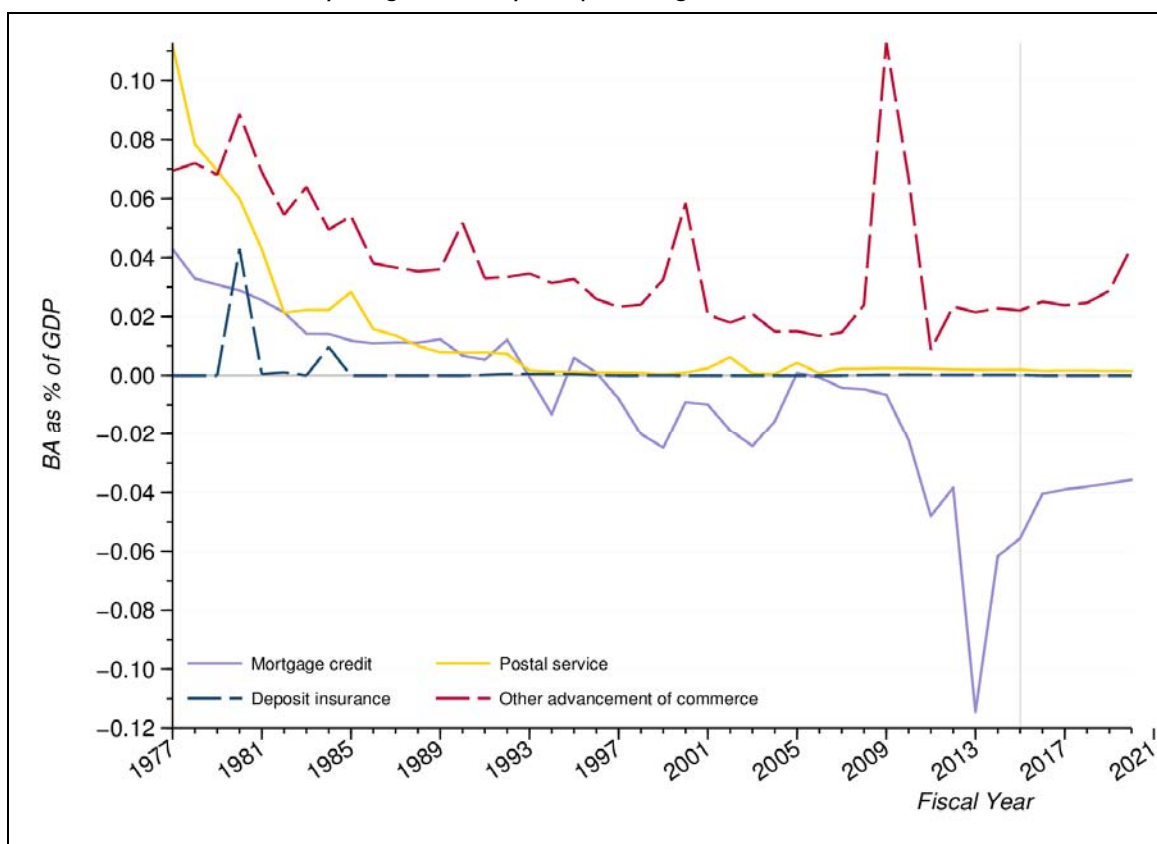


Source: CRS, based on OMB data from FY2016 budget submission.

Notes: FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 11. Commerce and Housing Credit Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020



Source: CRS, based on OMB data from FY2016 budget submission.

Notes: FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 12. Transportation (400) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020

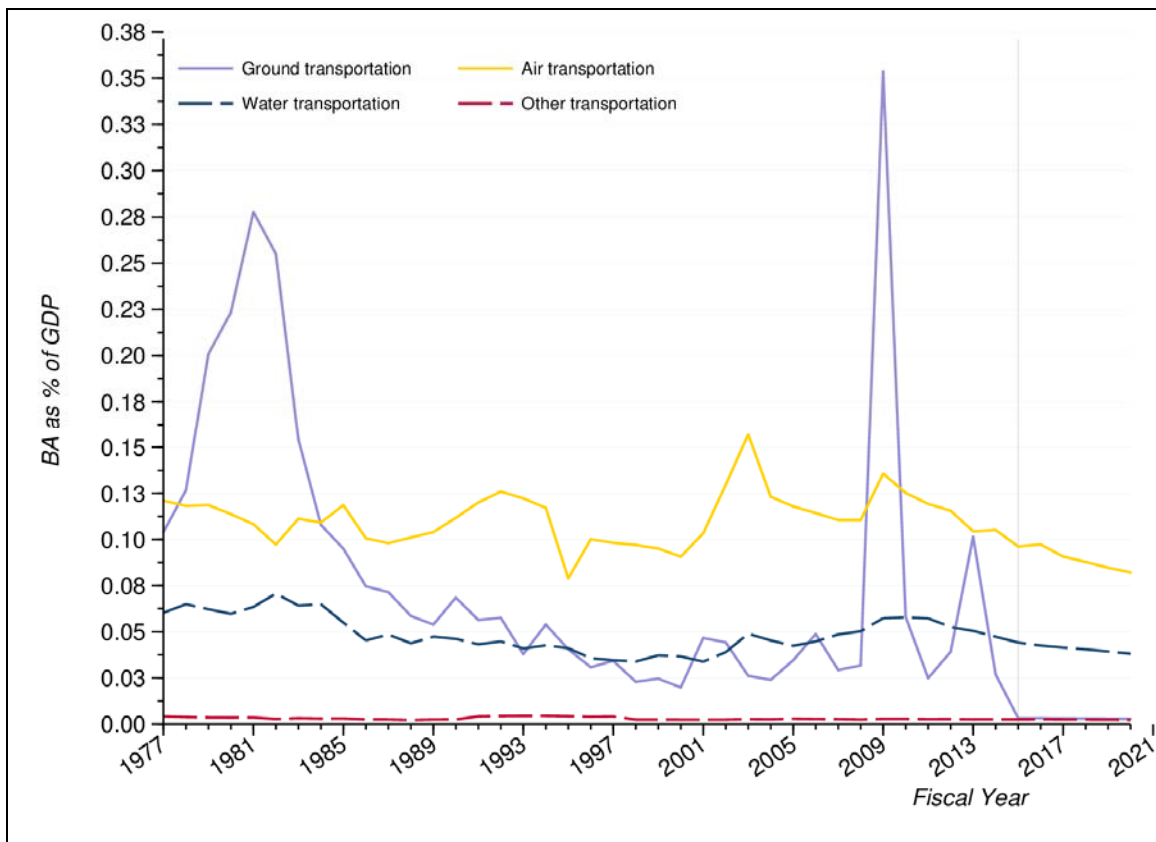
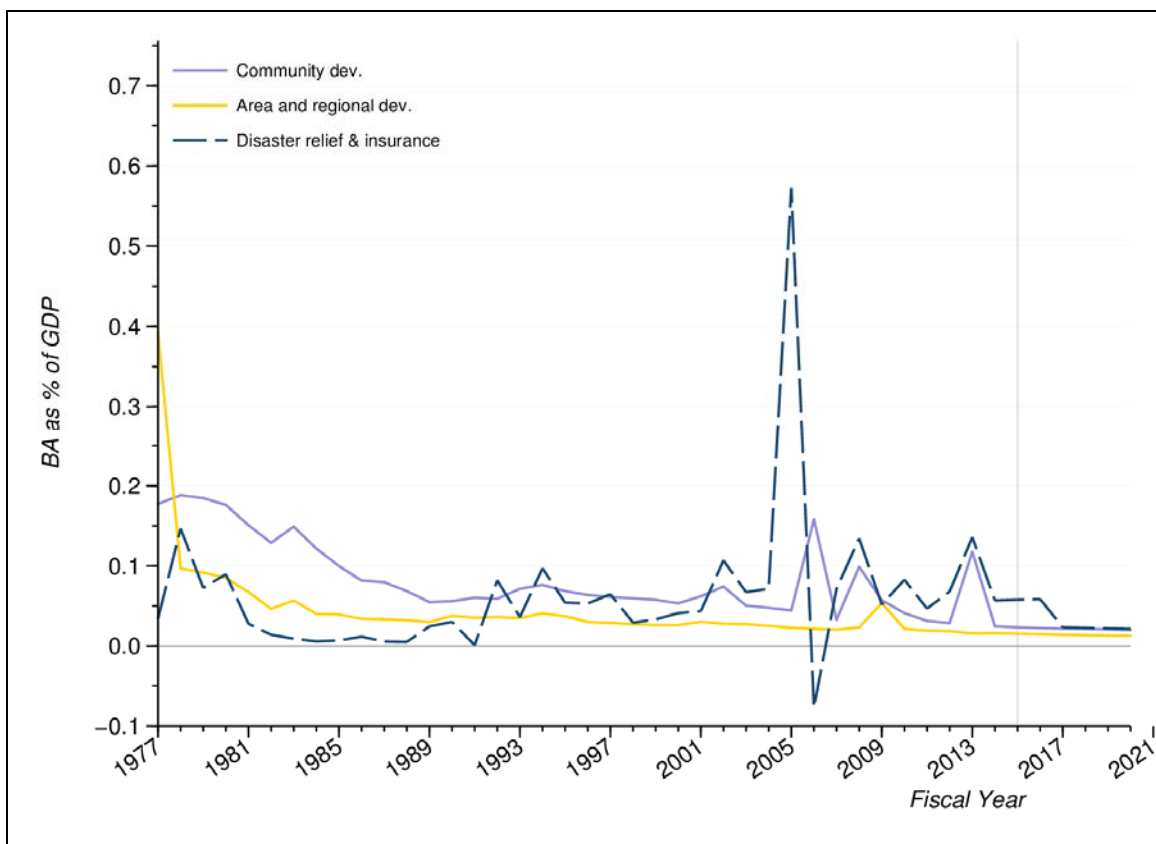
**Source:** CRS, based on OMB data from FY2016 budget submission.**Notes:** FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 13. Community and Regional Development (450) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020



Source: CRS, based on OMB data from FY2016 budget submission.

Notes: FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 14. International Affairs (150) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020

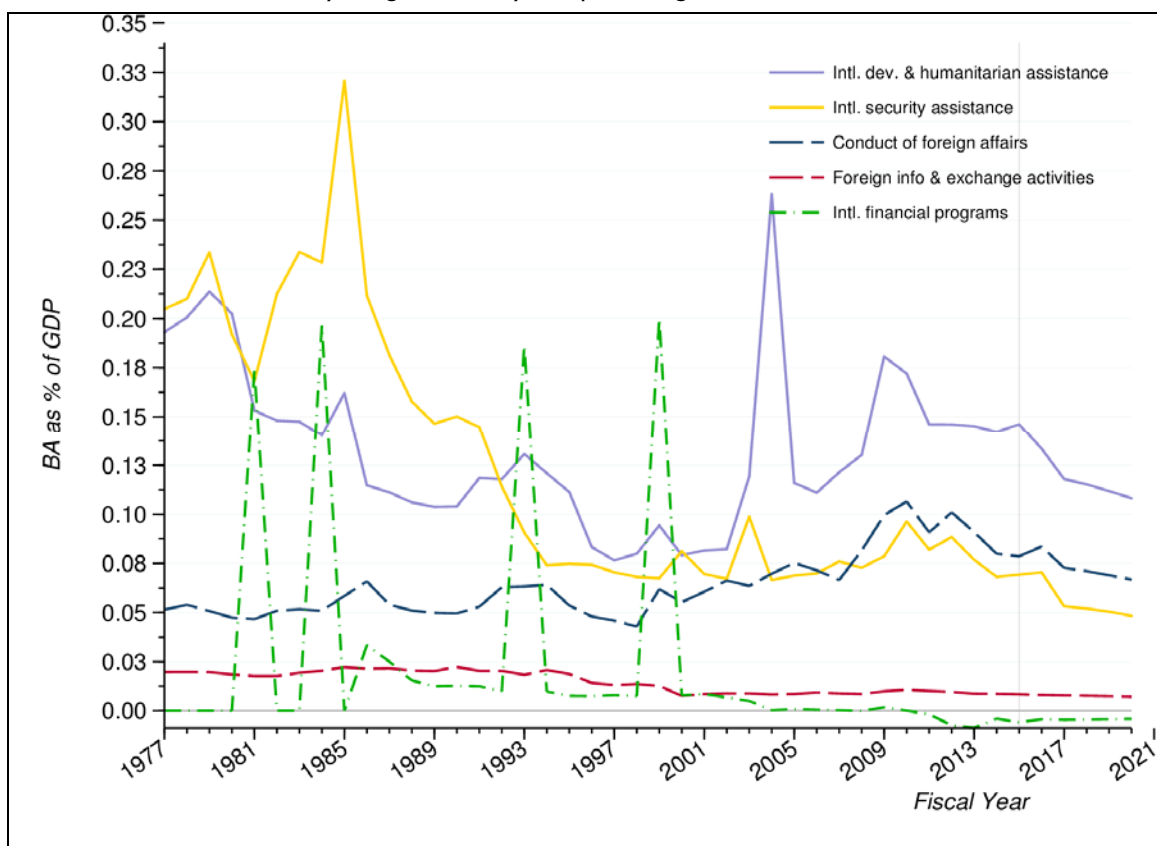
**Source:** CRS, based on OMB data from FY2016 budget submission.**Notes:** FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 15. General Science, Space, and Technology (250) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020

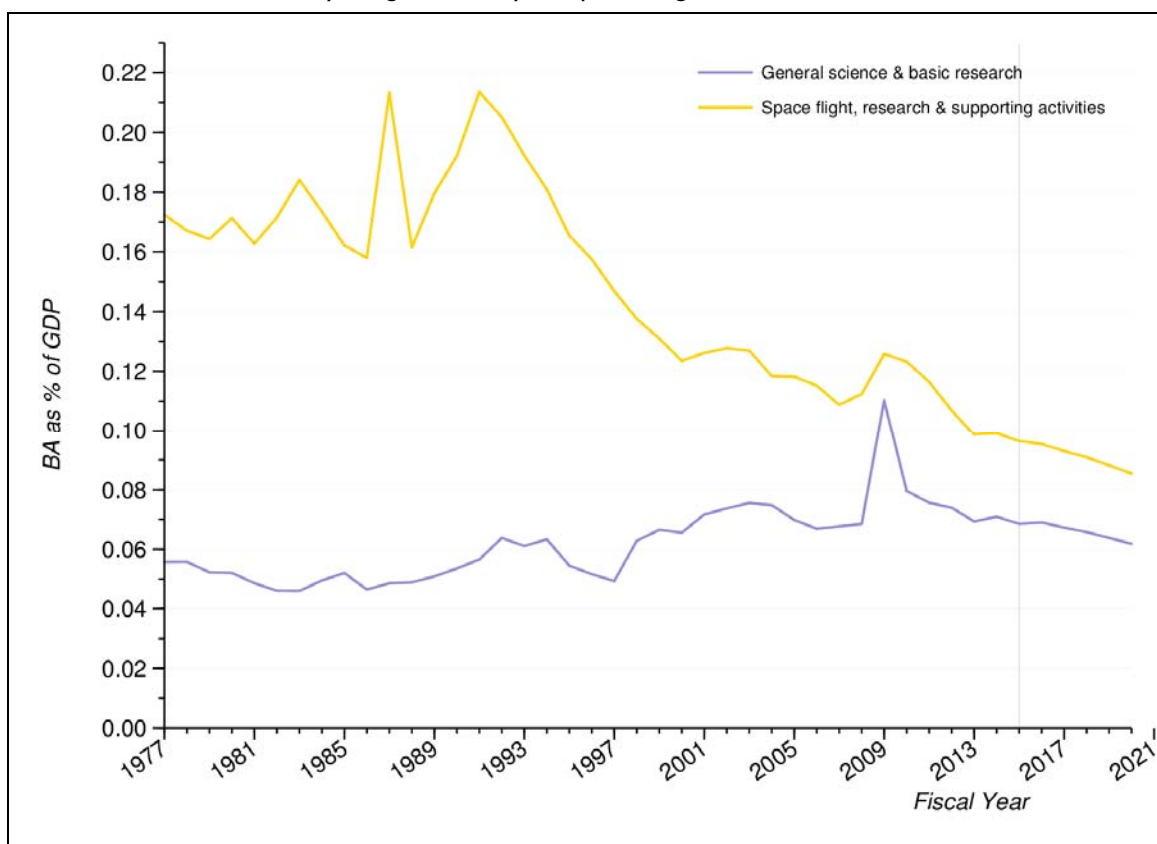
**Source:** CRS, based on OMB data from FY2016 budget submission.**Notes:** FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

Figure 16. Agriculture (350) Subfunctions

Discretionary budget authority as a percentage of GDP, FY1977-FY2020

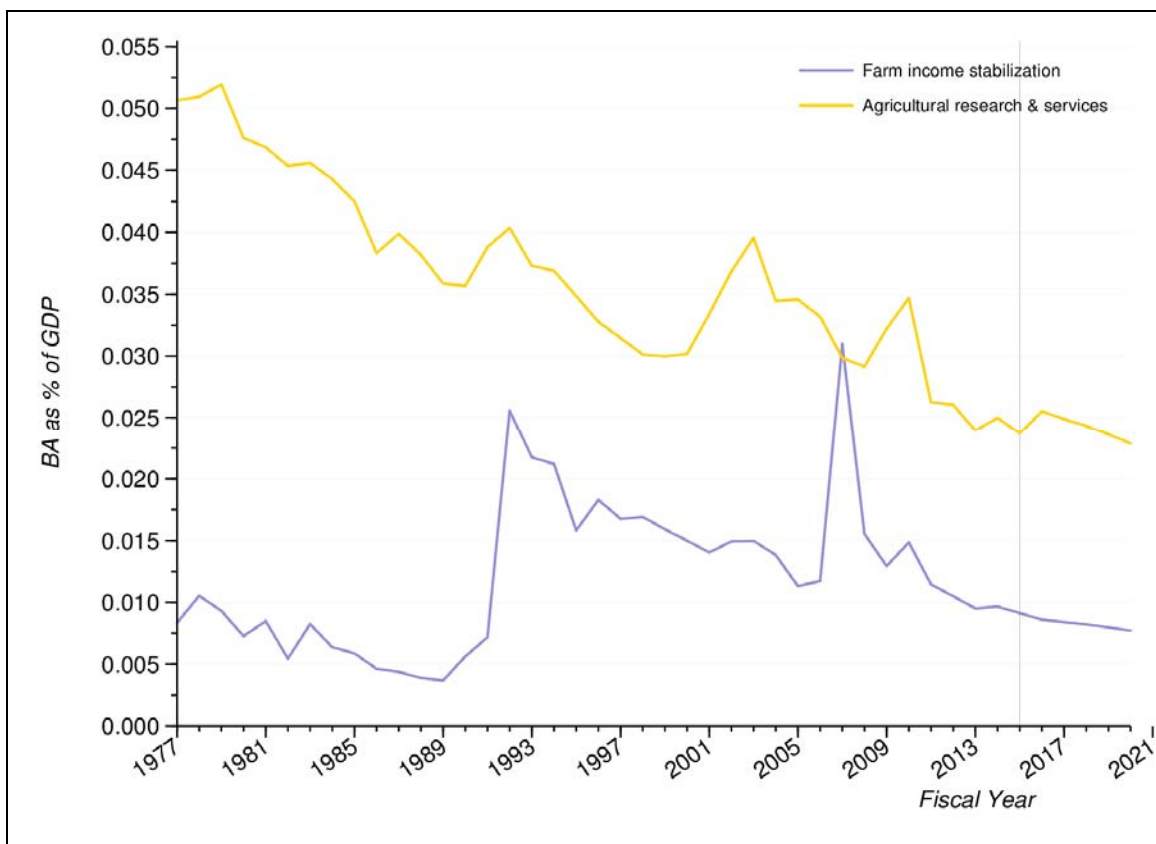
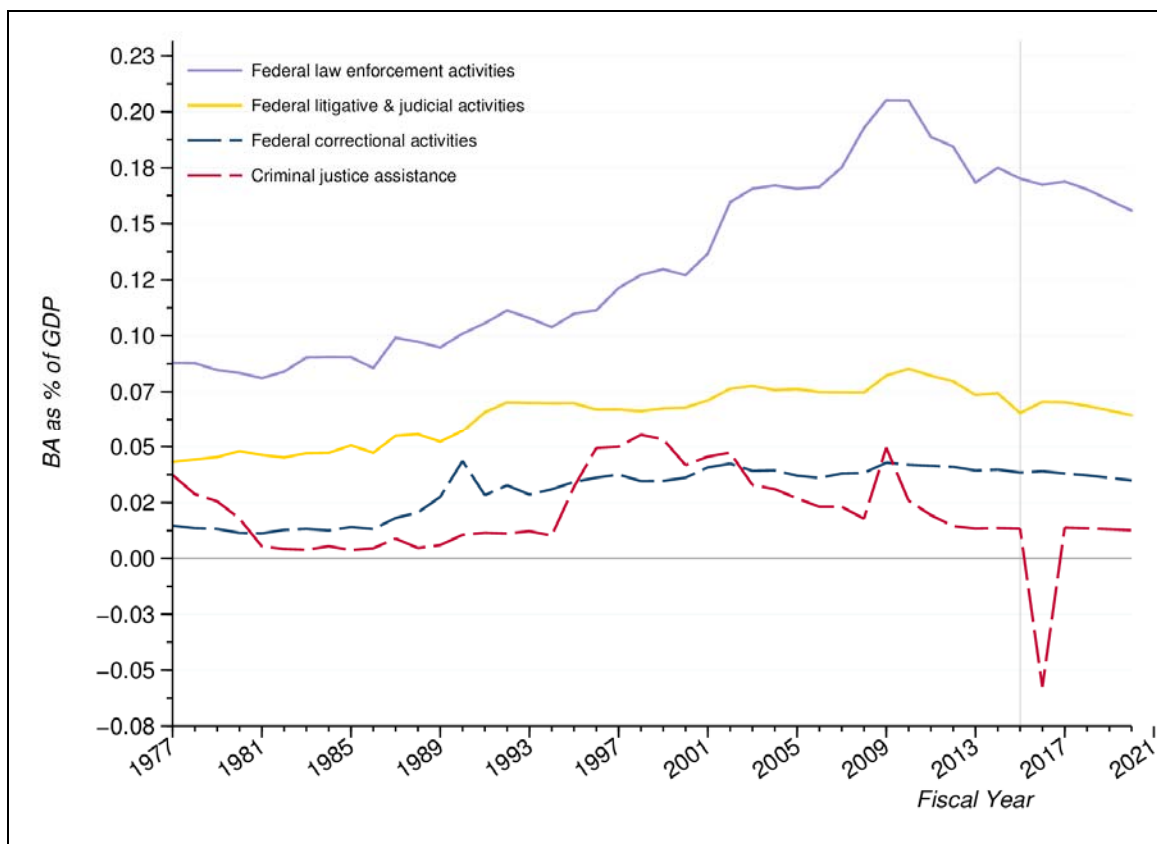
**Source:** CRS, based on OMB data from FY2016 budget submission.**Notes:** FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

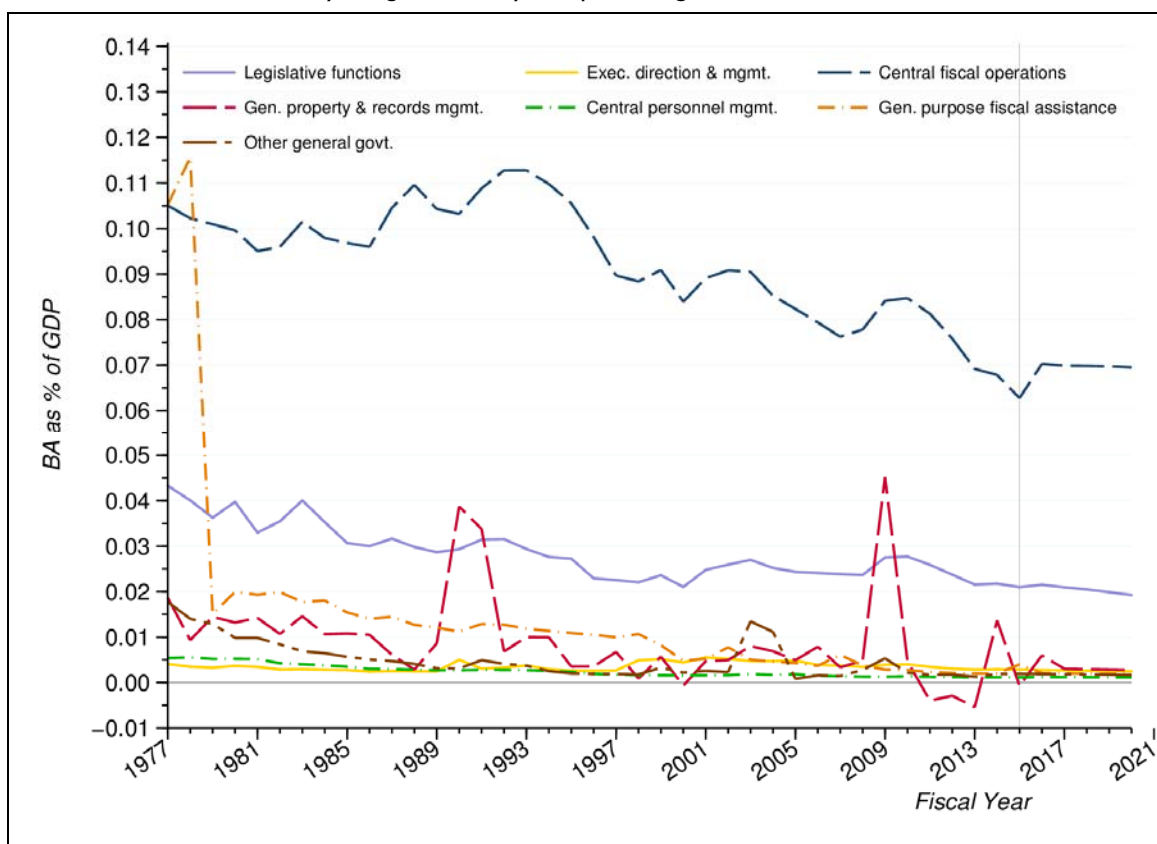
Figure 17. Administration of Justice (750) Subfunctions
 Discretionary budget authority as a percentage of GDP, FY1977-FY2020



Source: CRS, based on OMB data from FY2016 budget submission.

Notes: FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats. The downward spike in proposed spending for subfunction 754 (criminal justice assistance) in FY2016 reflects a CHIMP (change in mandatory spending) affecting the Crime Victims Fund.

Figure 18. General Government (800) Subfunctions
 Discretionary budget authority as a percentage of GDP, FY1977-FY2020



Source: CRS, based on OMB data from FY2016 budget submission.

Notes: FY2016-FY2020 levels reflect Administration proposals and projections. See OMB budget documents for further caveats.

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