BUDGET BULLETIN

A Weekly Bulletin produced when the Senate is in session.

Committee on the Budget Republican Staff

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INFORMED BUDGETEER

IF WE TALK ABOUT 2019, MAYBE NO ONE WILL PAY ATTENTION TO 2010?

With the federal government still trying to figure out how to bring about an effective rescue of the financial and banking system, how to ameliorate the housing market, and how to turn the economy around, budgeteers would be right to expect that the President's 2010 budget request would focus like a laser beam on these unarguably most weighty issues. Instead, aside from the spurious claim that the President's 2010 budget would cut the artificially bloated baseline deficit by $2 trillion and in half by 2013, the year that is featured most prominently in the President and his OMB director's statements is a year that is 10 years away – 2019.

On March 4, 2009, the President said:

> "The budget plan I outlined next week [*sic*; of course he meant the budget plan he outlined last week, on February 26, 2009] includes $2 trillion in deficit reduction. It reduces discretionary spending for non-defense programs as a share of the economy that -- by more than 10 percent over the next decade, to the lowest level in nearly half a century. I want to repeat that. I want to make sure everybody catches this, because I think sometimes the chatter on the cable stations hasn't been clear about this. My budget reduces discretionary spending for non-defense programs as a share of the economy by more than 10 percent over the next decade, and it will take it to the lowest level in nearly half a century."

So regarding a budget request for 2010, rather than focusing on the amount he wants the Congress to appropriate for defense and non-defense activities of the government for ***next year,*** the President is talking about something his budget will "achieve" ***a decade away***.

Let's examine what has been going on with appropriations recently before examining this claim about something far in the future.

Last week, the President signed into law the Omnibus Appropriations bill for 2009 providing full-year funding levels (through September 30, 2009) for the nine appropriation bills that were not enacted by the 110th Congress. According to CBO scoring in the table below, the "regular" funding (not including "emergency" funding) in the Omnibus, combined with the other three bills, makes total 2009 appropriations 8.5 percent higher than the level enacted for 2008.

Enacted Budget Authority ($ billions)

	2008	2009	'08-'09 increase
Defense (050)	499	534	7.0%
Non-defense	434	478	**10.1%**
Total Regular Approps	934	1013	8.5%

Source: CBO

With all the fuss about 9,000 earmarks in the Omnibus, the large increase of 10.1 percent in non-defense programs has gone relatively unnoticed. Drawing even less attention is the even larger increase for 2010 requested in the President's budget.

Budget Authority in the President's Budget ($ billions)

	2009	2010	'09-'10 increase
Defense (050)	534	556	4.1%
Non-defense	517	577	**11.5%**
Total Approps	1052	1133	7.7%

Source: OMB

While the President's budget for 2010 would slow down the rate of growth in defense funding from 7 percent in 2009 to 4.1 percent in 2010, it would accelerate the growth rate in non-defense programs to 11.5 percent. If the President's request is enacted, layering the 11.5 percent growth in 2010 on top of the 8.5 growth in 2009 means that non-defense programs **will have expanded by about 22 percent in just two years**.

A methodological note: Some might wonder why the non-defense figures for 2009 in the second table are different than the non-defense figures for the same year in the first table? The first table (below left) presents the 2008 and 2009 appropriation bills as scored by CBO at the time of enactment.

For the President's 2010 request, CBO has not yet provided a re-estimate. So the second table (below left) instead uses numbers provided in the President's 2010 budget for both 2009 and 2010. This way, one can compare those two years on a consistent basis. The largest difference between OMB's version of the 2009 non-defense figure ($517 billion) and CBO's version ($478 billion) is that OMB proposes to score obligation limitations for transportation programs as discretionary budget authority, which increases 2009 BA by $54 billion compared to CBO scoring.

The 2010 budget request also proposes moving Pell Grants, which heretofore has been a discretionary program (except for a very small mandatory portion that began last year), over to the mandatory side of the budget. OMB's non-defense discretionary figures for 2009 and 2010 reflect the absence of about $17 billion and $24 billion, respectively, from the shift of Pell Grants out of the discretionary totals.

Finally, OMB's 2009 non-defense level of $517 billion is a net figure that includes $10 billion in savings in mandatory programs – which budgeteers call CHIMPs, or Changes in Mandatory Programs – that the Omnibus included to comply with the discretionary allocation in the 2009 budget resolution; this figure is then comparable to the President's net request of $577 billion for 2010, which also reflects savings in mandatory programs that the President proposes be enacted in appropriation bills next year. The following table bridges the CBO and OMB estimates for 2009.

Non-defense Discretionary BA	($ billions) 2009
CBO scoring	478
OMB score oblims as BA	54
OMB move Pell to mand.	-17
Other OMB adjustments	12
Gross OMB "Base" scoring	527
Account for CHIMPs	-10
Net OMB scoring comparable to 2010	517

Still, if some are suspicious of the story these tables tell about the huge increase in non-defense spending, then go back and adjust the 2008 levels (as scored by CBO) for the same puts and takes (transportation obligation limitations=BA and Pell Grants as mandatory) that OMB has made to the discretionary universe for 2009 and 2010. When you do that, the non-defense figure of $434 billion for 2008 rises by about $54 billion for transportation obligation limitations and decreases by about $16 billion for Pell Grants, yielding a net of $472 billion, which still suggests that the President's 2010 budget seeks a 22 percent increase in non-defense discretionary appropriations since 2008.

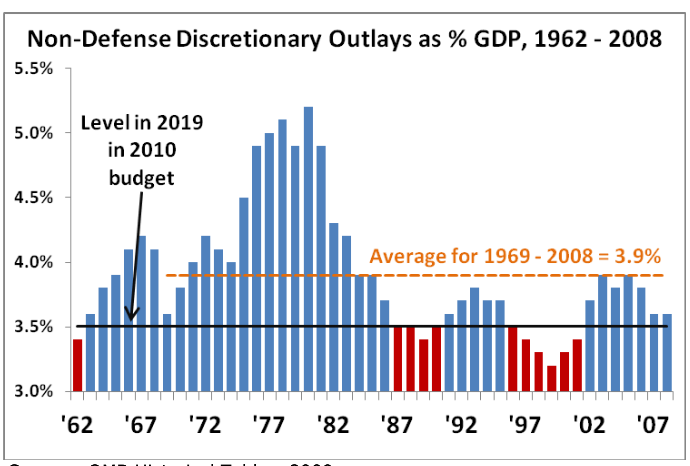
President's Request for Non-Defense Discretionary Appropriations (adjusted for shift of aviation fees from revenues to offsetting collections)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
BA ($ billions)	577	593	624	640	658	672	687	702	717	735
Increase from previous year	11.5%	2.9%	5.2%	2.6%	2.8%	2.1%	2.3%	2.1%	2.2%	2.5%

Source: OMB

So with the non-defense discretionary part of government expanding by nearly one-fourth in just two years, what is in store for this part of the budget after 2010? As shown in the table above, the request seeks a 2.9 percent increase in 2011 over 2010. The President's proposed quadrupling of funding for the energy function in 2012 makes total non-defense BA increase by 5.2 percent that year, before falling to a 2-3 percent increase for each year thereafter.

Should anyone buy that these proposed levels mean anything? The OMB director thinks you should. His written testimony to the House Budget Committee includes the following claims (the *Bulletin's* italicized red-pen analysis follows each errant claim):

> "Contrary to the instant analysis of many pundits, this is a budget that entails substantial spending restraint. Unlike what's occurred in the past, we make sure that we pay for new initiatives. And the budget reduces non-defense discretionary spending – that is, the spending appropriated [*sic; when he says "spending appropriated" he must mean outlays, even though outlays are not appropriated; only budget authority is appropriated*] each year outside of defense -- to its lowest level as a share of GDP since data began to be collected in 1962. Let me underscore this last point. The average level of non-defense discretionary spending [i.e., outlays] between 1969 and 2008 was 3.8 percent of GDP.
>
> *Well, no it wasn't; it really averaged 3.9 percent of GDP from 1969-2008, so the OMB director was pretty close. You can look it up on page 137 of the historical tables, but the Bulletin supplies the information right here for you to examine yourself.*



Source: OMB Historical Tables, 2009
NOTE: The red percentages reflect the years in which the outlay/GDP ratio was lower than or equal to OMB's projected ratio for 2019 in the President's 2010 budget outline, adjusted for comparability to the historical series.

> The director's testimony continues: "In 2009, such spending is estimated to represent 4.1 percent of GDP. The President's budget proposes a gradual reduction of this non-defense discretionary spending as a share of economy. Spending averages 3.6 percent of GDP over the next decade and declines to 3.1 percent by the end of the 10-year budget window."

No, non-defense discretionary outlays really average 3.9 percent over the next decade in the President's 2010 budget request (0.3 percentage points higher than the director alleges). Why? Because the director's figures for nondefense discretionary outlays going forward gimmicks that series in three ways compared to the historical series he is comparing it to. For the 2010-2019 period, his series for non-defense discretionary outlays –

- *leaves out **Pell Grants**, which the President's budget outline moves to the mandatory side, though they appear in the historical tables as discretionary;*
- *leaves out **spending for natural disasters,** ,which has been classified as discretionary in historical data, but going forward OMB has it in its own new category – neither discretionary nor mandatory;*
- *understates **aviation spending by shifting income** (that pays for the activities of the Federal Aviation Administration) from the revenue side of the budget (where it has been in the past) to the spending side of the budget as offsetting collections where it reduces net discretionary outlays.*

So OMB's data series going forward is not consistent with the historical series from the past. Adjusting the nondefense outlays in the budget for these three inconsistencies means that non-defense discretionary outlays instead would average 3.9 percent of GDP over 2010-2019. Further, these adjustments mean that by 2019, non-defense discretionary outlays will be 3.5 percent of GDP, not 3.1 percent as the director claims.

*Comparing the 3.5 percent level for 2019 on an apples-to-apples basis with the data in the historical table yields the following discovery. Rather than being the lowest in 50 years as the Administration breathlessly claims (they say this because their gimmicked 3.1 percent figure for 2019 is less than the 3.2 percent level that occurred in 1999, which is the lowest percentage in the 1962-2008 series), non-defense discretionary outlays under the budget proposal for 2019, at 3.5 percent of GDP, **would be at least as high or higher than they have been in 11 other years since 1962** (see red years in historical series in graph to the left).*

BE SURE TO READ ON TO PART 2 OF THIS BULLETIN IN ISSUE 1B

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111th Congress, 1st Session: No. 1b March 17, 2009

INFORMED BUDGETEER

IF WE TALK ABOUT 2019, MAYBE NO ONE WILL PAY ATTENTION TO 2010 (CONTINUED)

Big deal, right? Whether it's the lowest in 50 years, or in the bottom quintile of years in the last 50 years for non-defense spending, why should anyone really care about 2019? After all, at the very least, this President will have stopped being the President for at least three years before we will know what happened in 2019 and has no hope or means of controlling the actual level of spending in 2019.

Further, OMBs over the years have consistently maintained that the only relevant discretionary number in their annual budget is the one for the budget year (in this case – 2010). Under Administrations of all stripes, OMB has always said to pay no attention to the levels for the outyears, as those appropriation levels will be requested in subsequent budgets. In addition, many who have championed the recent huge increase in non-defense appropriations have also argued over the past eight years that Congress should increase non-defense spending at the rate of growth GDP (instead of the slower rate of inflation), perhaps with a kicker increase to account for population growth.

But this OMB still wants to insist on its curious claim about 2019, as evidenced by the director's March 13th blog posting on the OMB website: "the President's Budget brings non-defense discretionary spending (NDD) down to its lowest level as share of GDP since 1962. This is accomplished by finding places to cut, eliminating redundancies, and wringing efficiencies out of government functions." The passive voice is telling – currently, there is no itemization in the President's budget that provides any evidence of places "cut" (though Pell Grants <u>are</u> moved), redundancies eliminated, or efficiencies wrung out. One is to assume it will magically happen.

The blog posting futilely protests further:

> "Recently, some have charged that we're playing games with this NDD statistic – that we achieve these historical lows largely because we have proposed to convert the Pell Grant program for college students from a "discretionary" program to a "mandatory" one, and thereby exclude it from NDD. These critics claim we are comparing historical NDD levels *with* Pell to our proposed NDD spending *without* Pell. And that would indeed be an unfair comparison if that's what we were doing. But it's not. . . In undertaking our analysis of NDD spending, though, we adjusted the historical Pell numbers so that we were comparing 'apples to apples.' For purposes of historical comparison, we treated Pell as if it had *always* been a mandatory program. In other words, we removed expenditures on Pell for all prior years from our computation of historical NDD numbers so that they did not appear artificially inflated as compared to our Budget's NDD numbers."

So instead of adjusting its budget request to make a fair comparison to actual history, OMB went back and **only partially adjusted history** (!!) to compare to its view of how non-defense discretionary ought to be defined going forward. Interesting approach for a budget advertising itself as the most honest and transparent in history.

For starters, this seems backwards <u>and</u> makes it impossible for interested observers to replicate (since the *Historical Tables* are the only data the rest of the world has to work with, and the President's 2010 budget outline and backup data <u>do</u> provide sufficient information to make the appropriate comparison to the historical data, as the *Bulletin* has done above). But it is worse because it remains an unfair comparison.

The director forgot to drop spending for natural disasters from the historical data and also forgot to reduce past aviation spending by the amount of aviation revenues collected since 1962. Changing the historical data for only Pell Grants is not enough of an adjustment to get a fair, apples-to-apples comparison. Adjusting the President's request to match the historical data yields the adjustments in the following table:

Non-Defense Discretionary Outlays as a % of GDP in President's Budget

	NDD	Pell	Av fee	Disaster	Total
2010	4.5%	0.2%		0.1%	4.8%
2011	4.2%	0.2%	0.05%	0.1%	4.5%
2012	3.8%	0.2%	0.05%	0.1%	4.1%
2013	3.6%	0.2%	0.05%	0.1%	4.0%
2014	3.5%	0.2%	0.04%	0.1%	3.8%
2015	3.4%	0.2%	0.04%	0.1%	3.7%
2016	3.3%	0.2%	0.04%	0.1%	3.7%
2017	3.3%	0.2%	0.04%	0.1%	3.6%
2018	3.2%	0.2%	0.04%	0.1%	3.5%
2019	3.1%	0.2%	0.04%	0.1%	3.5%

Source: SBC Republican Staff based on OMB data

The OMB blog's final protest ("The bottom line is: The President's Budget holds NDD spending to historic lows fair and square.") entirely misses the point. In the only year that really matters, NDD spending goes up by 11.5 percent in the President's budget for 2010. By any measure, that is not an historic low.

TINKER BELL LEGISLATING: IF EVERYONE JUST BELIEVES HARD ENOUGH, MAYBE IT MEANS THE FIREWALLS DIDN'T DIE?

As mentioned above, the largest change (ranging from $54-$63 billion per year) in the President's budget that makes it difficult to compare discretionary budget authority going forward to appropriation levels enacted in the past is the President's proposal to treat obligation limitations for transportation programs in appropriation bills as budget authority (see p. 97 of the President's budget).

The budget document motivates the proposed change as follows: "To more transparently display program resources, the Administration proposes changing the budgetary treatment of transportation programs to show both budget authority and outlays as discretionary. . . The change would not affect outlays or the deficit or surplus—just more transparently convey to the taxpayer the real costs of supporting the transportation infrastructure our Nation needs." Certainly a reasonable proposal.

But immediately, howls of protest arose from the committees who prefer the current byzantine budgetary arrangements. Some press accounts dutifully reported as fact the incorrect claims made by opponents of the President's proposal that it would end or "tear down" firewalls "around highway and transit funding."

That's giving the President's proposal a lot of credit – tearing something down that doesn't even exist. Let's review the history to see why this claim is imaginary.

For decades (both before and after 1998), the following budgetary treatment of transportation has been the status quo: contract authority levels laid out in authorizing bills from the transportation authorizing committees count as mandatory budget authority, and the spending that flows when the Appropriations Committees set obligation limitations (on the contract authority) in appropriation bills counts as discretionary outlays. (The last *Budget Bulletin* explained this complicated jurisdictional maze).

Before 1998, there was no firewall. Sometimes the annual appropriation bill set obligation limitations (oblims) for transportation programs consistent with the levels specified in the authorizing bill. Sometimes the appropriation bill set oblims even higher, sometimes lower. The struggle between the authorizing and appropriation committees for final control over annual transportation spending was waged for most of the 20^{th} century.

But in 1990, Congress enacted the Budget Enforcement Act (BEA), which set spending limits in law for discretionary budget authority and outlays (if Congress enacted appropriation bills that resulted in either limit being exceeded, OMB would enforce the limits by reducing appropriations across-the-board through a sequester). Because of the outlay limitation (remember, transportation contract authority was not counted as discretionary), there was a perception that the Appropriations Committees were suppressing obligation limitations (which weren't counted as anything, but which affected the level of estimated outlays) below the authorized levels so that the appropriation bills would not exceed their discretionary cap.

As a result, in the case of the Highway Trust Fund (HTF), some argued that not all highway taxes were being spent on highways, or at least not being spent fast enough since the trust fund retained significant balances. Proponents of unfettered spending on highways advocated taking all highway spending "off-budget," using the rationale that the only way to make sure that all HTF taxes could be spent on HTF activities would be to take the spending outside the usual budgetary process.

But instead, Congress enacted TEA-21 (the highway/transit authorization bill) in 1998, which established two separate caps on outlays for highways and transit within the same BEA enforcement mechanism as the discretionary BA and outlay caps that had been in place since 1991 and that had been extended through 2002. This meant that, rather than counting against a total outlay cap, highway and transit outlays were each measured independently against their own cap.

Since appropriators could no longer free up room under their total outlay cap by stinting on highway or transit outlays (that is, by stinting on the obligation limitations they set), they faced a choice: either set oblims in the appropriation bills that matched the levels authorized in TEA-21 and allow outlays to result at the capped levels, or continue to stint on highway and transit oblims and leave outlays unspent under those two caps.

The budget resolutions for 2000, 2001, and 2002 (there was no budget resolution for 1999) reinforced the statutory enforcement regime by providing to the Appropriations Committees two outlay allocations for highways and transit that were separate from other discretionary allocations. Because of the separate outlay caps/allocations, there was no way for the appropriators to reallocate any unused highway or transit outlays to other discretionary programs. And of course no one wanted to leave money on the table, so naturally Congress enacted oblims in appropriation bills for 1998-2002 that were consistent with TEA-21.

But when the BEA enforcement regime expired at the end of 2002, it marked the end of the transportation "firewalls" or funding guarantee. Although TEA-21 had set separate highway and transit outlay caps for 2003 as well – one year beyond the expiration of the BEA cap structure they had been a part of – the 2003 "firewalls" were meaningless. Without a statutory enforcement mechanism, the appropriation bills were not limited to an overall discretionary amount, so "carving out" a portion for highways and transit out of an unlimited total was worthless.

Further, there never was a budget resolution for 2003, so Congress never set any allocations for any appropriation bills, much less a separate allocation for highways and transit. And since 2002, no budget resolution has set separate allocations for highways or transit. Starting with 2003, the state of play for setting oblims and their resulting outlays returned to the status quo ante 1998. Appropriators could set oblims that were more than, less than, or the same as the levels authorized in the latest transportation authorization bill, and there was nothing anyone could do about it except vote against the appropriation bill.

Yet some persist in the fiction that transportation firewalls still exist or that funding guarantees still apply. Why? Perhaps because Title VIII of SAFETEA-LU, the transportation authorization that succeeded TEA-21, still employs the same language as TEA-21 and amends the dead letter that is the expired law of BEA discretionary caps and pretends it is extending firewalls for highways and transit from 2004-2009. It continues to label the authorized levels as "Transportation Discretionary Spending Guarantee[s]," even though there is no enforcement or other budget-process mechanism that leaves Congress little choice but to appropriate the authorized levels, as happened from 1998-2002.

And in fact, actual events since 2002 bear out that there is no "Spending Guarantee." Congress has twice (2009 and 2006) enacted lower obligation limitations in appropriation bills than authorized in SAFETEA-LU.

But now, no one can claim (like they did before 1998) that appropriating oblims at levels less than the authorized levels leaves money unspent from the HTF. The HTF has the opposite problem: Congress has been spending more money from the trust fund than it has collected. As a result, Congress decided in September 2008 that it needed to transfer $8 billion from the general fund of the Treasury to allow the HTF to pay its bills. And it is likely that, before the year is out, the HTF will be broke again and that some will seek to transfer more money from the general fund.

So if the President's proposal to treat oblims as BA would not kill the firewalls (because you can't kill something that is already dead), then some wonder why so many are upset with the President's proposal? It is because the contract authority in the transportation authorization bill (which never was a guarantee, since it always exceeded the oblims in the bill) would no longer be counted as budget authority. Those who value the authorization bill fear it would become like any other authorizing bill, with even less effect on ultimate levels of transportation spending than it had before 1998.