



Congressional Budget Office

Testimony

**Statement of
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Discretionary Spending

**before the
Joint Select Committee on Deficit Reduction
U.S. Congress**

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Senator Murray, Congressman Hensarling, and Members of the Committee, thank you for the invitation to testify about discretionary spending in the federal budget.

Discretionary outlays—the part of federal spending that lawmakers generally control through annual appropriation acts—totaled about \$1.35 trillion in 2011, or close to 40 percent of federal outlays.¹ Slightly more than half of that spending was for defense. The remainder went for a wide variety of government programs and activities, with the largest amounts spent for education, training, employment, and social services; transportation; income security (mostly housing and nutrition assistance); veterans' benefits (primarily for health care); health-related research and public health; international affairs; and the administration of justice.

Discretionary outlays declined from about 10 percent of gross domestic product (GDP) during much of the 1970s and 1980s to 6.2 percent in 1999, mostly because defense spending, as a share of GDP, declined over that period. Since then, discretionary outlays have risen relative to the size of the economy, totaling about 9 percent of GDP in 2010 and 2011, in part because of military operations in Afghanistan and Iraq and in part because of the discretionary funding provided by the American Recovery and Reinvestment Act of 2009 (ARRA, Public Law 111-5). The 2010 and 2011 figures were the highest in about 20 years.

However, lawmakers have already taken significant steps to constrain discretionary spending. Budget authority—the authority to incur financial obligations—provided for defense activities in 2011 was \$3 billion (or less than 1 percent) below the amount provided the year before; budget authority for discretionary nondefense programs (plus the obligation limitations that govern spending for certain discretionary transportation programs whose budget authority is not classified as discretionary) was \$39 billion (or 7 percent) below the amount provided in 2010. As a result, total discretionary funding (that is, budget authority plus obligation limitations) in 2011 was the lowest, as a share of GDP, since 2002. Nevertheless, discretionary outlays in 2011 were close to the amounts spent in 2010, the Congressional Budget Office (CBO) estimates, because of spending from funds appropriated in previous years.

In addition, the Budget Control Act of 2011 (P.L. 112-25) instituted statutory caps on discretionary appropriations for each of the fiscal years 2012 through 2021. (By contrast, in most recent years the total amount of annual appropriations—except for those designated as emergency requirements—was governed by annual funding allocations agreed to by the House of Representatives and the Senate but not enacted into law.) The new caps do not constrain spending for the war in Afghanistan or similar activities or for designated emergencies; however, if implemented as written in the act, the caps would keep other appropriations for 2012 and 2013 below the amounts pro-

1. The data presented for 2011 come from Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2011). Although the amount of total spending for 2011 has been reported by the Department of the Treasury, the data available to date do not identify the amounts of discretionary and mandatory outlays.

vided for 2011 and would limit the growth of those appropriations to about 2 percent a year from 2014 to 2021. Compared with allowing nonwar discretionary appropriations to grow at the rate of inflation, the capped amount of discretionary budget authority would be about 4 percent lower in 2012 and 9 percent lower in 2021; as a result, budget deficits would be reduced by \$778 billion between 2012 and 2021, CBO estimates (not counting the savings in interest payments resulting from lower outlays).²

The future path of discretionary spending may be affected by the actions of the Joint Select Committee on Deficit Reduction. Under provisions of the Budget Control Act, legislation originating from this Committee could directly alter the path of such spending, for example, by changing the caps. Alternatively, if legislation originating from this Committee and estimated to produce at least \$1.2 trillion in deficit reduction (including an allowance for interest savings) is not enacted by January 15, 2012, automatic procedures to cut spending will take effect in January 2013. CBO expects that 71 percent of the net savings from the automatic procedures would come from reductions in discretionary appropriations. If those procedures were triggered, appropriations for defense, excluding funding for overseas contingency operations (war-related funding), would be \$110 billion—or 16 percent—lower by 2021 than they would be if they kept up with inflation; funding for nondefense activities would be \$99 billion—or 15 percent—lower.

Moreover, for some programs, a comparison with inflation-adjusted funding understates the magnitude of reductions relative to the cost of maintaining current policies or plans. For example, implementing the Administration's multiyear defense plans would require nonwar defense spending to grow faster than the rate of inflation, and the demands for veterans' health care and Pell grants for higher education have also been growing more quickly than inflation. In contrast, the funding required for war-related activities—in Afghanistan and other countries—will be smaller than the amounts provided in recent years if the number of deployed troops is smaller and the pace of operations is diminished.

Regardless of the constraints placed on discretionary spending through the Budget Control Act or other actions taken by this Congress, subsequent Congresses will make the final decisions about future discretionary appropriations. Those decisions might or might not satisfy the constraints put in place by this Congress. Nevertheless, CBO

2. In its letter to the Honorable John A. Boehner and the Honorable Harry Reid analyzing the impact on the deficit of the Budget Control Act of 2011 (August 1, 2011), CBO estimated that the act's caps on nonwar discretionary budget authority would reduce projected deficits by \$756 billion between 2012 and 2021 compared with CBO's March 2011 baseline adjusted to reflect enactment of full-year appropriations for 2011 (and not counting the savings in interest payments that would result from lower outlays). CBO's most recent baseline, prepared in August, incorporated slightly higher projections of inflation and reflected other technical adjustments; as a result, the caps are now estimated to reduce discretionary outlays by a slightly larger amount compared with what would be spent if appropriations grew at the rate of inflation.

assumes in its baseline projections that discretionary funding subject to the caps in the coming years will be equal to the amounts currently specified in law for those caps. As a result, legislation that reduced the funds available for a particular discretionary activity or achieved savings in undertaking a particular activity would only reduce projected total appropriations if the legislation also lowered the caps; without a reduction in the caps, funding for other discretionary activities would probably fill the gap created by the specific reduction or savings.

Concepts and Definitions Related to Discretionary Spending

Discretionary spending can be categorized and analyzed in a variety of ways. Some of the metrics derive from differences between how much spending authority is provided and how much is disbursed in a given year. Others derive from distinctions between types and purposes of discretionary spending. Still others stem from legislation that has aggregated discretionary spending into specific categories.

Budget Authority and Outlays

Appropriation acts provide authority to federal agencies to incur financial obligations. Such *budget authority* generally takes the form of a direct appropriation of funds from the Treasury or authority to obligate and expend certain collections.

Agencies use their budget authority to make commitments over the course of a fiscal year (and sometimes longer), and the money is spent sometime after the commitment is made. Some appropriations (such as for employees' salaries) are spent quickly, but others (such as for major construction projects) are disbursed over several years. *Outlays* are the amount of money spent each year. In any given year, discretionary outlays include spending from both new budget authority and budget authority provided in previous years. Thus, the Congress specifies the amount of budget authority provided each year, but it does not directly control when outlays occur.

Several transportation programs have an unusual budgetary treatment: Their budget authority is provided in authorizing legislation, rather than in appropriation acts, but their spending is constrained by *obligation limitations* imposed by appropriation bills. Consequently, their budget authority is considered mandatory, but their outlays are discretionary. (The largest of those programs is the Federal-Aid Highway Program, which is funded from the Highway Trust Fund.) As a result, total discretionary outlays in the budget are greater than total discretionary budget authority. In some presentations, the amounts of those obligation limitations are added to discretionary budget authority to produce a measure of the total *funding* provided for discretionary programs.

Categories of Spending: Defense/Nondefense and Security/Nonsecurity

Budget presentations often divide discretionary spending between defense and nondefense activities, where defense spending is defined as the sums that are recorded in budget function 050 (which is labeled “national defense”).³ That budget function includes all of the spending on military activities of the Department of Defense plus spending for the Department of Energy’s atomic energy defense activities and some defense-related activities of other agencies.

The Budget Control Act set caps on discretionary budget authority for 2012 and 2013 using a different set of categories: security and nonsecurity. Under that act, the security category includes most (but not all) funding normally categorized as for national defense, but it also includes discretionary appropriations for the Department of Homeland Security, the Department of Veterans Affairs, and accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Those separate security and nonsecurity caps apply only for fiscal years 2012 and 2013; for each of the fiscal years 2014 through 2021, the Budget Control Act specified a single cap on most discretionary funding. The caps do not encompass funding for the war in Afghanistan or similar activities (overseas contingency operations).⁴

If legislation originating from the Joint Select Committee on Deficit Reduction achieving at least \$1.2 trillion in deficit reduction over the 2012–2021 period is not enacted, the Budget Control Act will trigger further reductions in discretionary spending. The act specifies a set of caps to be used as a starting point for the automatic reductions. Those caps are equal in total to the ones that apply in the absence of the automatic reductions, but they divide the spending differently, separating defense spending (budget function 050) from nondefense spending (although the act continues to apply the terms “security” and “nonsecurity” to describe the two categories).

Baseline Projections

CBO’s baseline projections incorporate the assumption that current law remains in place so that those projections can serve as a benchmark for policymakers to use in considering possible changes to law. Although that current-law concept is generally straightforward for spending under permanent laws (such as that for many entitle-

3. Federal spending is categorized in 20 general-subject categories, or budget functions, so that budget authority and outlays can be presented according to the purposes the spending is intended to serve.

4. The law allows for adjustments to the caps when appropriations are provided for certain purposes. Funding for overseas contingency operations would lead to an increase in the caps, as would other funding designated as an emergency requirement. Furthermore, the law allows for an increase in the caps if additional budget authority is provided for program integrity initiatives aimed at reducing improper benefit payments in the Disability Insurance and Supplemental Security Income programs, Medicare, Medicaid, and the Children’s Health Insurance Program. Finally, the caps would be increased if appropriations were provided for disaster relief, but the adjustments would be limited on the basis of historical averages for such funding.

ment programs), it may be less clear what benchmark should be used in the context of discretionary spending because appropriations are revisited each year.

In the absence of discretionary caps (such as those established by the Budget Control Act), CBO's baseline for discretionary spending has incorporated the assumption that such appropriations grow with inflation from the most recent year's level. That approach for a baseline for discretionary spending was specified in the Balanced Budget and Emergency Deficit Control Act of 1985.⁵ With the imposition of caps on discretionary funding in the Budget Control Act, CBO's August 2011 baseline also incorporates the assumption that total discretionary appropriations—other than those for overseas contingency operations—will equal the caps set in that act. To reduce discretionary spending below that projected in CBO's baseline, legislation would have to lower those caps or restrain discretionary spending not constrained by the caps, such as funding for the war in Afghanistan or for similar activities. Reducing spending for individual discretionary programs without changing the caps would not necessarily change total discretionary funding or result in savings.

CBO's baseline includes a placeholder of \$1.2 trillion in projected deficit reduction between 2012 and 2021 that is assumed to stem either from legislation produced by this Committee or from the automatic cuts that would be triggered if such legislation is not enacted. Because the composition of that additional deficit reduction would depend on the specific provisions of any legislation resulting from the Committee's proposals and the extent of any automatic reductions that would be triggered, CBO did not allocate the \$1.2 trillion between revenues and outlays. Hence, the baseline projections for discretionary spending do not incorporate any such additional reductions.

Funding for Wars

Funding for the wars in Afghanistan and Iraq and for similar activities has often been separated from other types of discretionary appropriations. In the early years of those wars, budget authority was routinely provided through supplemental appropriations and often designated as meeting an emergency requirement. Perhaps as a result of the timing of such appropriations and a perception that such funding was "temporary" in nature, it was treated separately from other appropriations. The caps set by the Budget Control Act of 2011 also treat funding for the wars separately—the caps do not constrain funding for overseas contingency operations (or funding designated as an emergency requirement). Consequently, for its baseline projections, CBO follows the standard procedures specified in law and assumes that budget authority for overseas contingency operations will continue at current levels with adjustments for inflation.

Placing caps on appropriations for overseas contingency operations could result in estimated savings relative to those current-law projections. Such savings, however, might simply reflect policy decisions that have already been made and that would be realized even without such funding constraints. Moreover, if future policymakers

5. Section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 specifies the rules for constructing the baseline (see 2 U.S.C. 907).

believed that national security required appropriations above the capped levels, they would almost certainly provide emergency appropriations that would not, under current law, be counted against the caps.

The baseline projections that CBO published in August were based on appropriations for fiscal year 2011, which totaled \$159 billion for overseas contingency operations. Since then, appropriations for overseas contingency operations have been set for the first part of fiscal year 2012 (through November 18, 2011) at an annual level of \$119 billion, reflecting the planned drawdown of troops in Afghanistan and withdrawal of U.S. forces from Iraq. Reflecting those latest appropriations, the total budget authority that CBO would now project for overseas contingency operations over the 2012–2021 period is about \$440 billion less than the amount shown in CBO’s August baseline. Therefore, if CBO were to make estimates today of savings from any caps on such funding, those estimates would be based on those lower projections.

What Does Discretionary Funding Comprise?

Discretionary funding for 2011 totaled \$1,277 billion: budget authority of \$712 billion for defense and funding totaling \$566 billion for nondefense activities, including \$54 billion in obligation limitations for some transportation programs (see Table 1). Budget authority provided for defense activities in 2011 was \$3 billion (or less than 1 percent) below the amount provided the year before; the sum of discretionary budget authority and obligation limitations for nondefense programs was \$39 billion (or 7 percent) below the amount provided in 2010. Nevertheless, discretionary outlays in 2011 were close to the amounts spent in 2010, CBO estimates, because of spending from funds appropriated in previous years.

No full-year appropriations have been enacted for fiscal year 2012, which began on October 1. However, the Congress has enacted a continuing resolution to provide discretionary funding through November 18, 2011. That continuing resolution provides funding at an annualized level of \$1,216 billion, about 5 percent less than the amount provided for 2011. That amount equals the sum of the security and nonsecurity caps for 2012 established in the Budget Control Act (\$1,043 billion), obligation limitations for transportation programs provided by the continuing resolution (\$54 billion), and funding for overseas contingency operations provided by the continuing resolution (just under \$119 billion).

Funding for National Defense

Three major categories of funding for the Department of Defense (DoD) accounted for 83 percent of the defense appropriation in 2011: funding for operation and maintenance (\$308 billion), military personnel (\$154 billion), and procurement (\$129 billion) (see Figure 1). Operation and maintenance accounts, which constitute the single largest category of defense spending, fund the day-to-day activities of the military, the training of military units, the majority of costs for the military’s health care program,

Table 1.**Discretionary Funding for 2011**

(Billions of dollars)

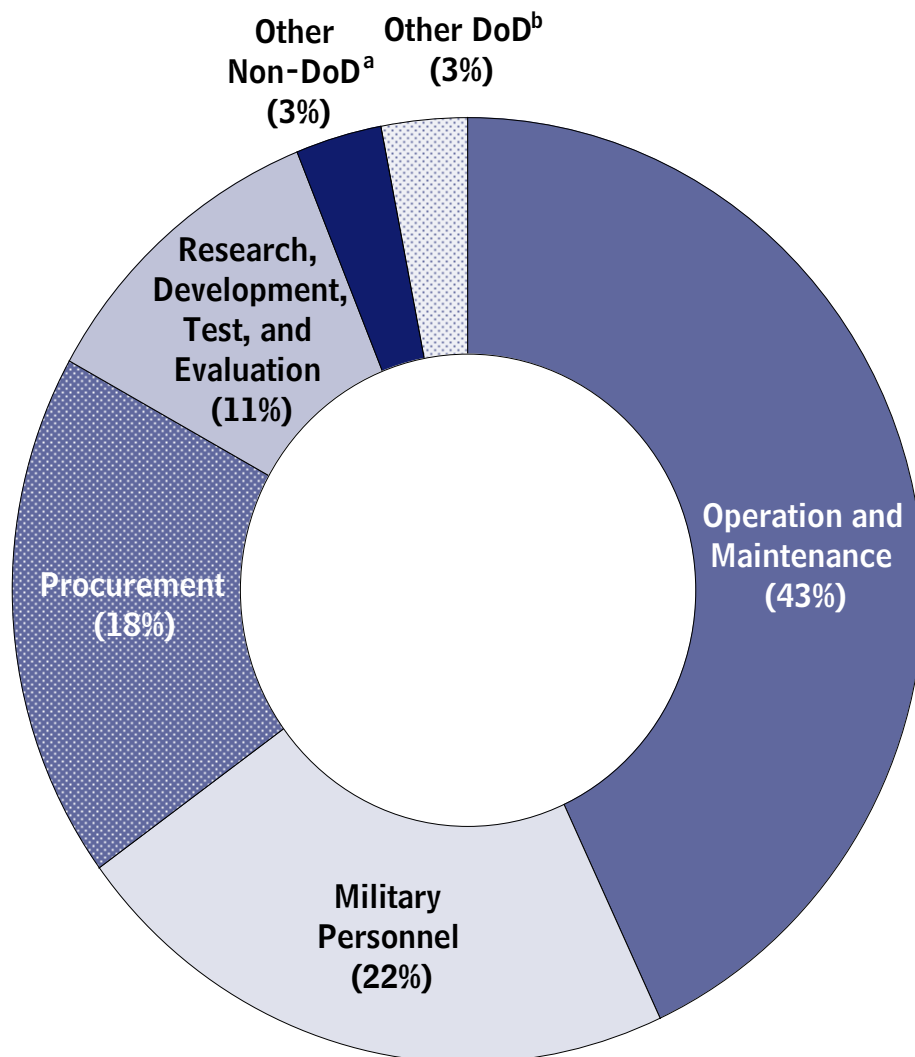
	2011 Funding
Defense ^a	
Operation and maintenance	308
Military personnel	154
Procurement	129
Research, development, test, and evaluation	76
Other Department of Defense	21
Other	23
Subtotal, defense	<u>712</u>
Nondefense	
Education, training, employment, and social services	92
Transportation ^b	85
Income security	63
Veterans' benefits and services	57
Health	55
International affairs	52
Administration of justice	50
Other	
Natural resources and environment	33
General science, space, and technology	30
General government	17
Community and regional development	15
Agriculture	6
Medicare	6
Social Security	6
Energy	4
Commerce and housing credit	-6
Subtotal, other	<u>112</u>
Across-the-board reductions ^c	-1
Subtotal, nondefense	<u>566</u>
Total	<u>1,277</u>

Source: Congressional Budget Office.

- a. Includes funding for overseas contingency operations such as the wars in Afghanistan and Iraq.
- b. Includes \$54 billion in budgetary resources provided by obligation limitations for certain ground and air transportation programs.
- c. Full-year appropriations for 2011 included an across-the-board cut of 0.2 percentage points for all nondefense discretionary accounts.

Figure 1.

Defense Discretionary Funding for 2011



Source: Congressional Budget Office.

Note: Discretionary funding for defense includes funding for overseas contingency operations such as the wars in Afghanistan and Iraq.

- a. Includes spending on some defense-related activities by government entities other than the Department of Defense (DoD).
- b. Includes funding for military construction and family housing.

and compensation for most of DoD's civilian employees. The military personnel accounts fund compensation for uniformed service members, including pay, housing and food allowances, and related activities, such as moving service members and their families to new duty stations. Procurement accounts fund the purchase of new weapon systems and other major equipment and upgrades to existing weapon systems.

Appropriations for research, development, test, and evaluation (\$76 billion), which fund basic and applied research as well as the development and testing of weapon systems, accounted for another 11 percent of total funding for national defense. The rest of the appropriations (about 6 percent) were for military construction, family housing, and other programs in DoD (\$21 billion); the atomic energy defense activities of the Department of Energy (\$17 billion); and various defense-related programs in other departments and agencies (\$7 billion).

Appropriations for the wars in Afghanistan and Iraq and related activities in 2011 were distributed across several of the categories just described and are included in the amounts of funding reported here. Such appropriations totaled \$159 billion in 2011, accounting for about 22 percent of the total funding for national defense.

Funding for Nondefense Activities

Seven broad budget categories, or budget functions, account for about 80 percent of the \$566 billion in resources provided for nondefense discretionary activities in 2011. Education, training, employment, and social services programs together received \$92 billion in funding, claiming 16 percent of total nondefense discretionary funding (see Figure 2).⁶ Nearly \$40 billion of that total funded grants to state and local governments for elementary, secondary, and vocational education, and another \$28 billion supported programs for higher education.

Transportation programs received \$85 billion, or 15 percent, of the total resources, which included \$54 billion in obligation limitations for several surface and air transportation programs. (Although those programs receive mandatory budget authority through authorizing legislation, the annual appropriation acts govern spending because they limit how much of that authority the Department of Transportation can obligate in a given year.) About one-half of all discretionary funding for transportation is for highway programs.

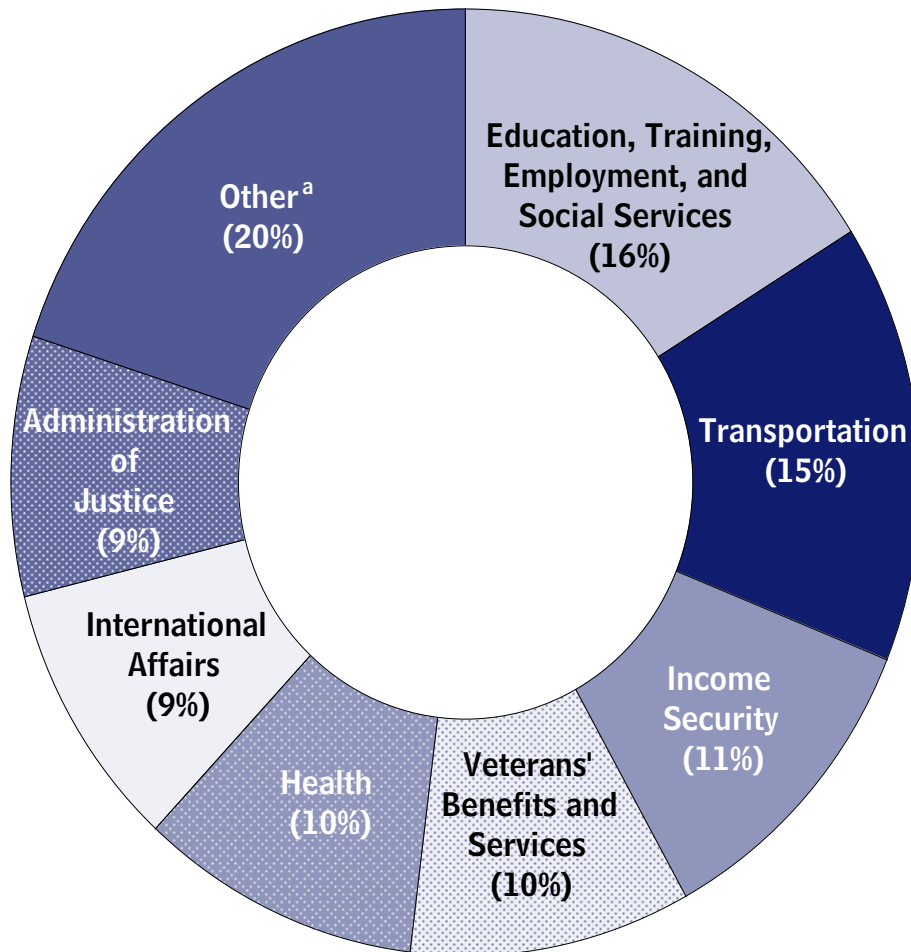
Income security programs (mostly for housing and nutrition assistance) received funding totaling \$63 billion, representing 11 percent of nondefense appropriations.⁷

6. The student loan program and several other programs in that category are not included in that total because their funding is considered mandatory.

7. Other income security programs, such as unemployment compensation, the Supplemental Nutrition Assistance Program (formerly known as Food Stamps), and Temporary Assistance for Needy Families, are not included in the total because they are included in mandatory spending.

Figure 2.

Nondefense Discretionary Funding for 2011



Source: Congressional Budget Office.

Note: Nondefense discretionary funding includes budgetary resources provided by obligation limitations for certain ground and air transportation programs.

- a. Includes funding for natural resources and environment; general science, space, and technology; general government; community and regional development; agriculture; Medicare and Social Security (for administrative activities); energy; and commerce and housing credit.
-

Discretionary appropriations for veterans' benefits (primarily for health care) and for health-related research and public health were \$57 billion and \$55 billion, respectively, each constituting 10 percent of total discretionary funding for nondefense activities. More than half of the discretionary funding for health-related research and public health is devoted to the National Institutes of Health. Finally, international affairs accounted for roughly 9 percent, as did the administration of justice.⁸

About one-third of total nondefense discretionary spending is disbursed in the form of grants to state and local governments. Of those grants, about one-third are devoted to education and training programs and one-quarter to transportation programs, with the remainder going to environmental protection, economic development, law enforcement, and various other purposes.

The funding provided for nondefense discretionary programs in 2011 was \$39 billion lower than it was in 2010. The largest reduction (\$8 billion, including a rescission in 2011 of \$2 billion in unobligated balances) occurred because the decennial census was carried out in 2010 and therefore did not require much spending in 2011; lower amounts for disaster relief and high-speed rail (\$4 billion and \$2.5 billion less, respectively) constituted the next largest reductions. In addition, net gains of the Federal Housing Administration's Mutual Mortgage Insurance Fund are estimated to have risen by \$4.6 billion in 2011. (Those gains, which are calculated on a present-value basis, are recorded as an offset against discretionary appropriations.)

Funding for the Federal Workforce

According to CBO's estimates, the federal government provided about \$200 billion in funding to compensate federal civilian workers in 2011; that amount represents about 15 percent of total discretionary spending. Of that \$200 billion, about \$80 billion (or 11 percent of defense appropriations) was for civilian personnel working in the Department of Defense and on other defense-related activities, and about \$120 billion (or 21 percent of nondefense discretionary funding) was for nondefense personnel; most of those nondefense personnel work in the Departments of Veterans Affairs, Homeland Security, Justice, and the Treasury (including the Internal Revenue Service).

What Have Been the Trends in Discretionary Outlays?

Discretionary outlays declined from about 10 percent of GDP during much of the 1970s and 1980s to 6.2 percent in 1999, mostly because defense spending, as a share of GDP, declined over that period.⁹ Those outlays then began to increase somewhat relative to the size of the economy, reaching 7.0 percent of GDP in 2002 and 7.9 percent in 2008 (see Figure 3). The rise between 2002 and 2008 can be attributed

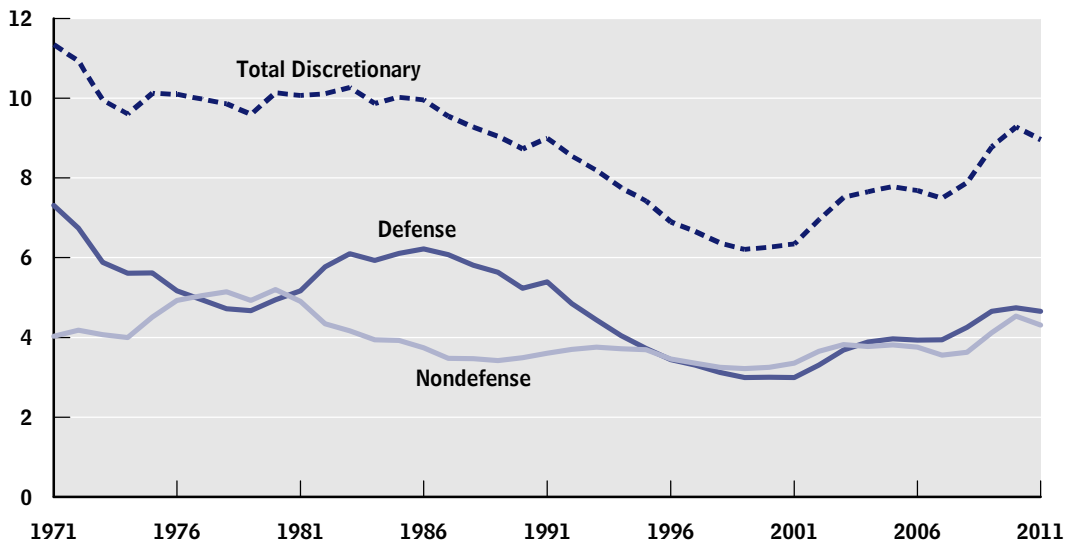
8. Funding for programs that are intended to enhance homeland security is spread across budget functions, including some of those mentioned here, and it is not recorded in a single place in the budget.

9. This discussion is framed in terms of outlays, rather than budget authority, because more long-term historical data are available for outlays.

Figure 3.

Defense, Nondefense, and Total Discretionary Outlays, 1971 to 2011

(Percentage of gross domestic product)



Source: Congressional Budget Office.

to the actions taken in response to the terrorist attacks of September 11, 2001, and subsequent military operations in Afghanistan and Iraq. In 2009 and 2010, discretionary outlays jumped to 8.8 percent and 9.3 percent of GDP, respectively, in part because of \$281 billion in discretionary funding provided by the American Recovery and Reinvestment Act of 2009. The 2010 figure was the highest since 1988 (in part because much of the ARRA funding provided in 2009 was disbursed in 2010). By CBO's estimate, discretionary spending in 2011 was about 9.0 percent of GDP; those outlays stemmed from budgetary resources provided for 2011 and for earlier years, including some from ARRA.

Defense Spending

Trends in discretionary outlays during the past few decades have been heavily influenced by spending on defense. In 1971, defense discretionary outlays accounted for 7.3 percent of GDP; however, that share fell rapidly over the following several years, dropping to 4.7 percent of GDP by 1978. Such spending then rose, reaching 6.2 percent in 1986. From that point, defense outlays resumed their slide, dropping to a low of 3.0 percent of GDP between 1999 and 2001.

In 2002, defense outlays rose back to 3.3 percent of GDP, not only because of operations in Afghanistan and other war-related activities (see Appendix A) but also because of initiatives that were planned before September 11, 2001. Outlays for defense activities continued to climb as military operations began in Iraq, and by 2005, defense outlays equaled 4.0 percent of GDP. Such outlays subsequently

increased further relative to the size of the economy, reaching 4.7 percent of GDP (or \$689 billion) in 2010 and about the same share of GDP in 2011. That level is the highest relative to GDP since 1992 but well below the average for defense spending since World War II.

Nondefense Spending

Outlays for nondefense discretionary programs have averaged about 4 percent of GDP during the past 40 years, with significant variation over time but little apparent trend. Thus, on average, such outlays increased during that period roughly in line with the size and income of the population.

Such outlays rose from 4.0 percent of GDP in 1971 to a high of 5.2 percent of GDP in 1980 before declining. Nondefense outlays as a share of GDP fell through the rest of the 1980s and were relatively stable from 1990 through 2008, ranging between 3.2 percent and 3.8 percent. However, funding from ARRA then helped push that share higher—to 4.5 percent of GDP in 2010. In 2011, nondefense discretionary outlays dropped to 4.3 percent of GDP, CBO estimates, in part because spending of ARRA funds declined.

How Will Discretionary Spending Evolve Over the Next Decade Under Current Law?

CBO's baseline for discretionary funding reflects the caps placed on such budget authority for 2012 through 2021 by the Budget Control Act. Discretionary budget authority subject to the caps will be limited to \$1,043 billion in 2012 and \$1,047 billion in 2013, and increases will be restricted to about 2 percent per year after that, with discretionary budget authority reaching a maximum of \$1,234 billion in 2021.

The baseline also incorporates projections of obligation limitations for certain transportation programs (calculated by adjusting for inflation the \$54 billion provided in 2011). Combining the budget authority subject to the caps with those obligation limitations, CBO projects that such discretionary funding will decline from 7.0 percent of GDP in 2012 to 5.5 percent of GDP in 2021 (see Figure 4).

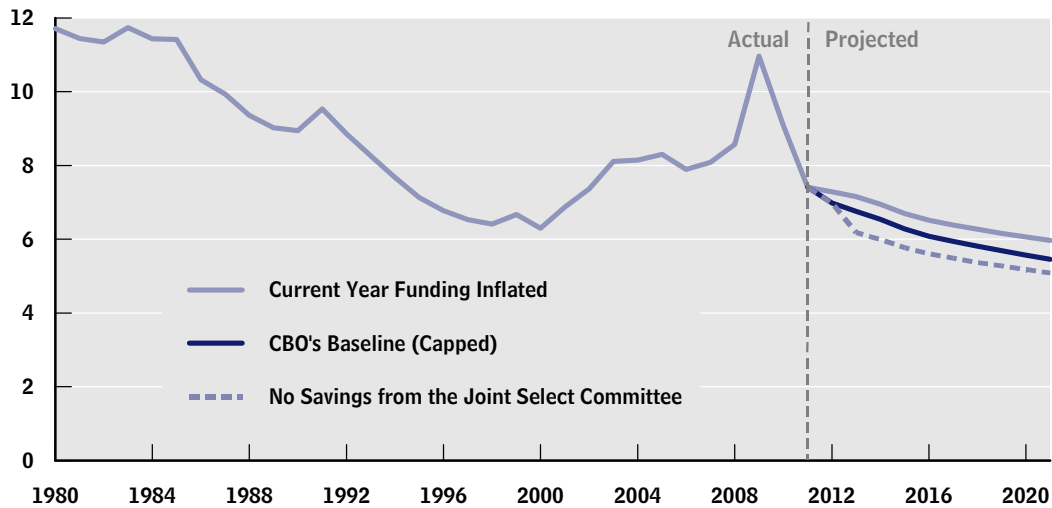
Appropriations of those amounts will mean reductions in the real (inflation-adjusted) resources available for the government's programs. Compared with allowing discretionary appropriations to grow at the rate of inflation, the capped amount of discretionary budget authority is about 4 percent lower in 2012 and 9 percent lower in 2021. Compared with allowing discretionary budget authority to grow at the rate of nominal GDP, the caps are about 6 percent lower in 2012 and about 28 percent lower in 2021.

According to CBO's estimates, if appropriations in the next 10 years are equal to the caps on discretionary spending, implementing those caps will reduce budget deficits by \$778 billion between 2012 and 2021 (not counting the savings in interest payments that will result from lower outlays) compared with what would occur if discretionary budget authority was allowed to grow at the rate of inflation.

Figure 4.

Total Discretionary Funding Excluding War Funding, 1980 to 2021

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: Funding includes budget authority as well as budgetary resources provided by obligation limitations for certain ground and air transportation programs.

The future path of discretionary spending may be affected by the actions of this Committee. Legislation originating from the Committee could directly alter the path of discretionary spending, for example, by changing the caps. Alternatively, if legislation originating from the Committee and estimated to produce at least \$1.2 trillion in deficit reduction (including an allowance for interest savings) is not enacted by January 15, 2012, automatic procedures to cut spending will take effect. According to the law, such procedures would lead to a sequestration (that is, a cancellation) of discretionary resources in 2013 and a reduction in the caps in subsequent years—as well as reductions in mandatory spending.¹⁰ The magnitude of those cuts would depend on any shortfall in the estimated effects of legislation originating from this Committee relative to the trigger point of \$1.2 trillion.

Automatic Enforcement Procedures Under the Budget Control Act

The automatic reductions in spending under the Budget Control Act—if triggered—would take the form of equal cuts (in dollar terms) in funding for defense and non-defense programs from 2013 through 2021. Those reductions would be achieved by lowering the caps on discretionary budget authority specified in the Budget Control Act and by automatically cancelling budgetary resources for some programs and

10. Mandatory spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority.

activities financed by mandatory spending.¹¹ The law exempts a significant portion of mandatory spending from sequestration, however.

CBO has estimated the changes in discretionary and mandatory spending that would occur if the automatic enforcement mechanisms were triggered because no new deficit reduction legislation was enacted (see Table 2). CBO's analysis can only approximate the ultimate results; the Administration's Office of Management and Budget would be responsible for implementing any such automatic reductions on the basis of its own estimates.

Under those circumstances, the automatic enforcement procedures would reduce budgetary resources for defense by \$492 billion between 2013 and 2021. Such annual reductions would be split proportionally between mandatory and discretionary defense spending. Because mandatory spending makes up much less than 1 percent of all defense spending, however, CBO estimates that only about \$150 million would be sequestered from mandatory defense programs over the 2013–2021 period. Consequently, almost all of the required deficit reduction in the defense category would have to be achieved by lowering the caps on future discretionary appropriations for defense activities.

Estimating automatic reductions for nondefense programs is more complicated, particularly because of provisions in the Budget Control Act that limit cuts in most spending for Medicare benefits to 2 percent. CBO estimates that about 90 percent of Medicare spending would be subject to that limit, and another 8 percent of such spending would be exempt from sequestration altogether, leaving just 2 percent of Medicare spending subject to the same sequestration as nonexempt mandatory programs.

The act would require the same total reductions—\$492 billion over the 2013–2021 period—in the budgetary resources for nondefense activities as in those for defense. In calculating the reductions required in the nondefense spending category, the targeted savings would first be allocated proportionally between nonexempt discretionary and mandatory programs. CBO estimates that mandatory spending accounts for roughly 58 percent of all nondefense spending that would be subject to enforcement procedures under the Budget Control Act during those nine years. Of that nonexempt mandatory spending, the vast majority is for Medicare programs and activities that would be subject to the 2 percent limit. In the absence of such a limit, reductions in budgetary resources for Medicare would total \$256 billion between 2013 and 2021, CBO estimates; with the 2 percent ceiling, however, such reductions would total \$123 billion over that period. The other \$133 billion in required reductions that could not be accomplished because of the 2 percent limit would be reallocated

11. Budgetary resources consist of all sources of authority provided to federal agencies that permit them to incur financial obligations, including new budget authority, unobligated balances, direct spending authority, and obligation limitations. For 2013, reductions in discretionary budget authority would take place via sequestration rather than through a reduction in the caps.

Table 2.

CBO's Estimates of Sequestration Amounts for Mandatory Spending and Reductions in Caps on Discretionary Budget Authority

(Billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total, 2013- 2021
Defense^a										
Mandatory sequestration	*	*	*	*	*	*	*	*	*	*
Reduction in the cap on discretionary budget authority ^b	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Total	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Nondefense^a										
Mandatory sequestration										
Medicare spending subject to 2 percent limit	-11	-11	-12	-13	-13	-14	-15	-16	-17	-123
Other nonexempt programs	-3	-3	-4	-4	-3	-3	-3	-3	-3	-30
Additional sequestration applied to other programs because of the 2 percent limit for Medicare ^c	-2	-2	-2	-2	-2	-2	-2	-2	-2	-17
Subtotal	-16	-17	-18	-19	-19	-19	-20	-21	-22	-170
Reduction in the cap on discretionary budget authority^b										
Preliminary reductions	-25	-24	-24	-23	-23	-23	-22	-21	-21	-206
Further reductions because of the 2 percent limit for Medicare	-14	-14	-13	-13	-13	-13	-12	-12	-12	-116
Total	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Memorandum:										
Percentage Cut to Nonexempt Budget Accounts										
Defense	10.0	9.8	9.7	9.5	9.3	9.1	8.9	8.7	8.5	n.a.
Nondefense										
Discretionary	7.8	7.4	7.1	6.8	6.6	6.4	6.1	5.8	5.5	n.a.
Mandatory										
Medicare spending subject to 2 percent limit	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	n.a.
Other	7.8	7.4	7.1	6.8	6.6	6.4	6.1	5.8	5.5	n.a.

Source: Congressional Budget Office.

Notes: * = between -\$500 million and zero; n.a. = not applicable.

Budget authority refers to the authority provided by law to incur financial obligations, which eventually result in outlays.

- a. For the purposes of this table, "defense" refers to all accounts in budget function 050, and "nondefense" refers to all other budget accounts.
- b. For 2013, reductions in discretionary budget authority would take place via sequestration rather than through a reduction in the caps.
- c. Because a portion of Medicare spending cannot be subject to a sequestration of more than 2 percent, the remaining amount of required reductions must be reallocated proportionally among other nonexempt mandatory programs and nondefense discretionary funding.

proportionally among the remaining nonexempt mandatory programs and discretionary programs in the nondefense category.

Altogether, the majority of the savings from the automatic spending reductions would stem from further cuts in discretionary programs beyond those embodied in the Budget Control Act's caps on discretionary budget authority. CBO expects that 71 percent of the net savings from the automatic procedures would come from lowering the caps on discretionary appropriations (and from a sequestration of those appropriations in 2013), 13 percent would come from a net reduction in mandatory spending, and 16 percent would result from lower debt-service costs arising from those other cuts.¹²

Of course, outcomes could be different from the figures in the table. The Congress could enact legislation originating from this Committee that would produce \$1.2 trillion in savings through changes that differ significantly from the automatic reductions that would be required in the absence of such legislation. Or such legislation could yield some savings, but less than \$1.2 trillion, so the automatic procedures would have a smaller impact than CBO has estimated here. Alternatively, this Committee could recommend, and the Congress could enact, legislation saving significantly more than \$1.2 trillion.

Defense Spending

To illustrate the potential impact of the caps on discretionary appropriations set in the Budget Control Act and of the automatic enforcement procedures contained in that act, CBO has projected defense and nondefense appropriations and outlays under several different assumptions. For defense, those projections exclude appropriations and outlays for overseas contingency operations.

Compliance with the caps on discretionary funding could occur through many different combinations of defense and nondefense funding. For example, defense and nondefense appropriations might be cut proportionally relative to the funding that would be necessary to keep pace with inflation. In that case, funding for defense programs apart from overseas contingency operations would drop from \$552 billion in 2011 to \$538 billion in 2012 before rising again and reaching \$637 billion in 2021 (see Table 3). Between 2012 and 2021, such funding would be \$445 billion less than the amount that would occur if the amount of funding for 2011 grew at the rate of inflation. When measured as a share of GDP, funding for defense would decline by about 1 percentage point from 2011 to 2021, or by more than one-fourth (see Figure 5). Funding for defense in 2021 (excluding overseas contingency operations) would represent 2.7 percent of GDP; by comparison, annual funding for defense (excluding overseas contingency operations) has averaged 3.4 percent of GDP during the past decade.

12. For further details, see Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act* (September 2011).

Table 3.**Projections of Discretionary Budget Authority for Defense Programs**

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total	
												2012-	2012-
												2016	2021
Projected Budget Authority													
Funding for 2011 (Excluding overseas contingency operations) Adjusted for Inflation ^a	552	562	574	586	599	614	630	646	664	682	700	2,935	6,256
Potential Paths for Defense Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011 ^b													
All reductions from defense ^c	552	532	531	516	524	531	541	550	560	569	578	2,634	5,432
Proportional reductions	552	538	541	550	560	571	584	597	610	623	637	2,760	5,811
No reductions from defense	552	562	574	586	599	614	630	646	664	682	700	2,935	6,256
If No Savings Result from the Joint Select Committee ^d	552	538	491	501	511	522	535	548	561	575	589	2,565	5,374
Reduction in Budget Authority Relative to the Funding for 2011 Adjusted for Inflation													
Potential Paths for Defense Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011 ^b													
All reductions from defense ^c	0	-30	-43	-70	-76	-82	-89	-96	-104	-113	-122	-301	-825
Proportional reductions	0	-24	-33	-36	-39	-42	-46	-50	-54	-58	-63	-175	-445
No reductions from defense	0	0	0	0	0	0	0	0	0	0	0	0	0
If No Savings Result from the Joint Select Committee ^d	0	-24	-83	-85	-88	-91	-94	-98	-102	-106	-110	-371	-882

Continued

Table 3.

Continued

Projections of Discretionary Budget Authority for Defense Programs

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total		
												2012-	2012-	
												2016	2021	
Memorandum:														
Overseas Contingency Operations ^e														
August 2011 baseline	159	161	164	167	169	172	176	180	183	188	191	834	1,752	
Extrapolation of annualized amount provided in continuing resolution for fiscal year 2012	n.a.	119	121	124	126	129	132	135	139	142	146	619	1,314	

Source: Congressional Budget Office.

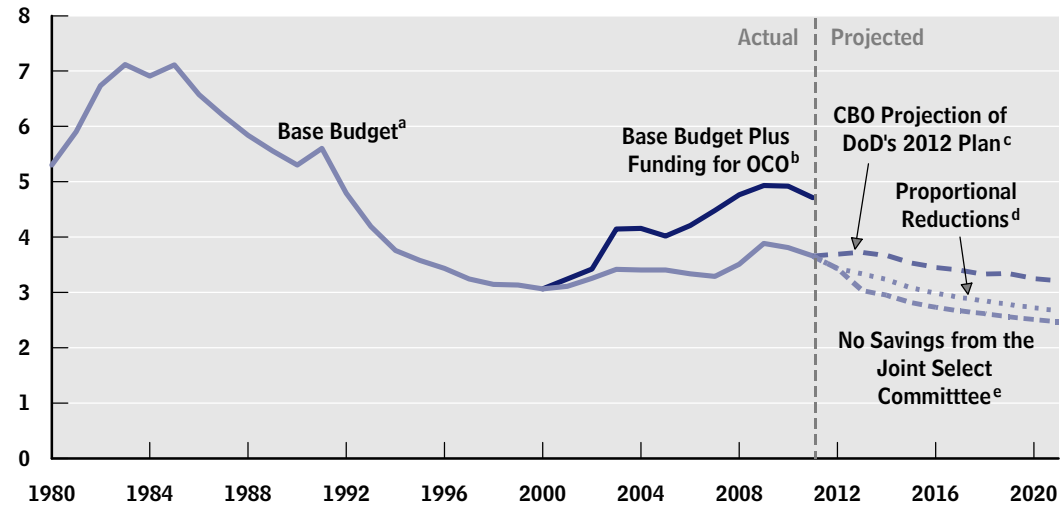
Note: n.a. = not applicable.

- a. These amounts were estimated by assuming that budget authority for fiscal years 2012 to 2021 will be equal to the 2011 appropriation adjusted for inflation.
- b. No caps were in place in 2011. Excludes overseas contingency operations.
- c. In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on “nonsecurity” funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated. Caps for those two years are allocated to “security” and “nonsecurity” spending. The security category comprises discretionary appropriations for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95-0401-0-1-054), and discretionary accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Excludes overseas contingency operations.
- d. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense (budget function 050) and nondefense budget authority. The caps for 2012 set in the Budget Control Act would not be affected by the automatic enforcement procedures. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.
- e. The caps do not constrain appropriations for military operations in Afghanistan (or for similar activities). For its August 2011 baseline, CBO projected future war-related funding by adjusting for inflation the \$159 billion appropriated for 2011. The Continuing Appropriations Act, 2012 (Public Law 112-36) funded such operations through November 18, 2011, at an annual rate of \$119 billion.

Figure 5.

Defense Discretionary Budget Authority, 1980 to 2021

(Percentage of gross domestic product)



Source: Congressional Budget Office.

- The base budget funds the normal activities of the government for national defense, including the development and procurement of weapon systems and day-to-day operations of the military and related civilian workforce. Base-budget data include supplemental and emergency funding unrelated to operations in Afghanistan, Iraq, and the war on terrorism.
- For 2001 to 2011, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data.
- The CBO projection of the Department of Defense's (DoD's) Future Years Defense Plan for 2012 (without funding for overseas contingency operations) incorporates costs that are consistent with DoD's recent experience. It also assumes that the non-DoD portions of defense discretionary funding remain at 2011 levels, adjusted only for inflation.
- Assumes proportional reductions in defense and nondefense discretionary budget authority subject to the caps as set in the Budget Control Act of 2011.
- Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense and nondefense budget authority. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

Alternatively, nearly all reductions in appropriations that would be needed to meet the caps—relative to the funding that would be necessary to keep pace with inflation—could come from defense activities. In that case, budget authority for defense programs apart from overseas contingency operations would drop from \$552 billion in 2011 to \$516 billion in 2014 before beginning to rise again.¹³ By 2021, such funding would total \$578 billion and would equal 2.4 percent of GDP, one-third less than the 3.7 percent of GDP represented by 2011 defense appropriations excluding overseas contingency operations.

As another possibility, defense funding could grow at the rate of inflation, and all reductions needed to meet the caps could come from nondefense programs. In that case, CBO projects, defense appropriations would total \$700 billion, or 2.9 percent of GDP, in 2021—still a decline of more than a fifth from the funding in 2011, when the amounts are measured as a share of GDP.

If none of the specified savings of \$1.2 trillion was obtained through legislation originating with this Committee, the estimated reduction in defense funding in 2013 would require a sequestration of 10.0 percent in discretionary budget authority for defense (see the memorandum in Table 2). The percentage reductions in the caps for later years would be successively slightly smaller, amounting to 8.5 percent in 2021. By 2021, defense budget authority (excluding funding for overseas contingency operations) would be about \$110 billion—or 16 percent—lower than it would be if such appropriations kept up with inflation. During the 2012–2021 period as a whole, defense funding would be \$882 billion less than the amount that would occur if the amount of funding for 2011 grew at the rate of inflation (see Table 3).¹⁴ By 2021, such funding would equal 2.5 percent of GDP. (Discretionary outlays for defense that would result from these different streams of budget authority are presented in Appendix B.)

The caps do not constrain appropriations for the war in Afghanistan or for similar activities, and the automatic enforcement procedures would not affect funding for such purposes.

Nondefense Spending

Alternative ways of keeping discretionary spending within the caps specified in the Budget Control Act would have different implications for nondefense spending as well.

13. In 2012 and 2013, the total amount of nonsecurity funding that would be available within the defense category if 2011 funding was adjusted for inflation is not large enough—even if all such funding was eliminated—to meet the caps on nonsecurity funding; therefore, to adhere to the caps on nonsecurity funding, some reductions would have to come from nondefense programs.

14. That amount is the sum of two components: (1) the estimated amount of the automatic reductions that would apply to defense funding (\$492 billion) and (2) the difference between the defense caps specified in law that are to be used as the basis for such automatic reductions and what funding for defense would be if appropriations after 2011 grew at the rate of inflation (\$390 billion).

If defense and nondefense appropriations were cut proportionally relative to the funding that would be necessary to keep pace with inflation, nondefense budget authority would decrease from \$511 billion in 2011 to \$505 billion in 2012 before rising again and reaching \$597 billion in 2021 (see Table 4). Between 2012 and 2021, budget authority for nondefense purposes would be \$418 billion less than the amount that would be provided if funding grew at the rate of inflation after 2011. Under an assumption that the obligation limitations for certain transportation programs grow over time at the rate of inflation, nondefense funding in 2021 would represent 2.8 percent of GDP; by comparison, such funding has averaged 4.1 percent of GDP during the past decade (see Figure 6).

Alternatively, if all reductions in appropriations—relative to the funding that would be necessary to keep pace with inflation—came from nondefense activities, budget authority for nondefense programs would drop from \$511 billion in 2011 to \$473 billion in 2013 before beginning to rise again. By 2021, budget authority would total \$534 billion. Combining that amount with the projected obligation limitations would result in total nondefense funding equal to 2.5 percent of GDP, a drop of about one-third relative to the 3.8 percent of GDP represented by 2011 nondefense funding.

As another possibility, nondefense funding could grow nearly at the rate of inflation, and almost all reductions needed to meet the caps could come from defense programs.¹⁵ In that case, CBO projects, nondefense budget authority would total \$656 billion in 2021. The resulting funding (including obligation limitations) would equal 3.0 percent of GDP—a decline of nearly a fifth from the funding in 2011, when the amounts are measured as a percentage of GDP.

If no savings were obtained through legislation originating with this Committee, the estimated reduction in nondefense funding in 2013 would require a sequestration of 7.8 percent in discretionary budget authority for nondefense purposes (see the memorandum in Table 2). The percentage reductions in the caps for later years would be successively smaller, amounting to 5.5 percent in 2021. By 2021, nondefense budget authority would be \$99 billion—or 15 percent—lower than it would be if such appropriations kept up with inflation, and total nondefense funding (including obligation limitations) would equal 2.6 percent of GDP. During the 2012–2021 period as a whole, nondefense funding would be \$794 billion less than the amount that would occur if the amount of funding for 2011 grew at the rate of inflation.¹⁶ (Discretionary outlays for nondefense activities that would result from these different streams of budget authority are presented in Appendix B.)

15. In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on non-security funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated.

16. That amount is the sum of two components: (1) the estimated amount of the automatic reductions that would apply to nondefense funding (\$322 billion) and (2) the difference between the non-defense caps specified in law that are to be used as the basis for such automatic reductions and what funding for nondefense activities would be if appropriations after 2011 grew at the rate of inflation (\$473 billion).

Table 4.**Projections of Discretionary Budget Authority for Nondefense Programs**

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total	
												2012-2016	2012-2021
Projected Budget Authority													
Funding for 2011 Adjusted for Inflation ^a	511	528	538	550	562	576	590	606	622	639	656	2,753	5,867
Potential Paths for Nondefense													
Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011 ^b													
All reductions from nondefense	511	481	473	480	487	493	501	510	518	526	534	2,414	5,004
Proportional reductions	511	505	506	516	526	536	547	559	572	585	597	2,589	5,449
No reductions from nondefense ^c	511	511	516	550	562	576	590	606	622	639	656	2,715	5,828
If No Savings Result from the Joint Select Committee ^d	511	505	462	472	483	494	505	518	532	545	557	2,416	5,072
Reduction in Budget Authority Relative to the Funding for 2011 Adjusted for Inflation													
Potential Paths for Nondefense													
Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011 ^b													
All reductions from nondefense	0	-47	-65	-70	-76	-82	-89	-96	-104	-113	-122	-340	-863
Proportional reductions	0	-23	-31	-34	-37	-40	-43	-47	-50	-55	-59	-164	-418
No reductions from nondefense ^c	0	-17	-22	0	0	0	0	0	0	0	0	-38	-38
If No Savings Result from the Joint Select Committee ^d	0	-23	-76	-78	-79	-82	-85	-88	-90	-95	-99	-338	-794

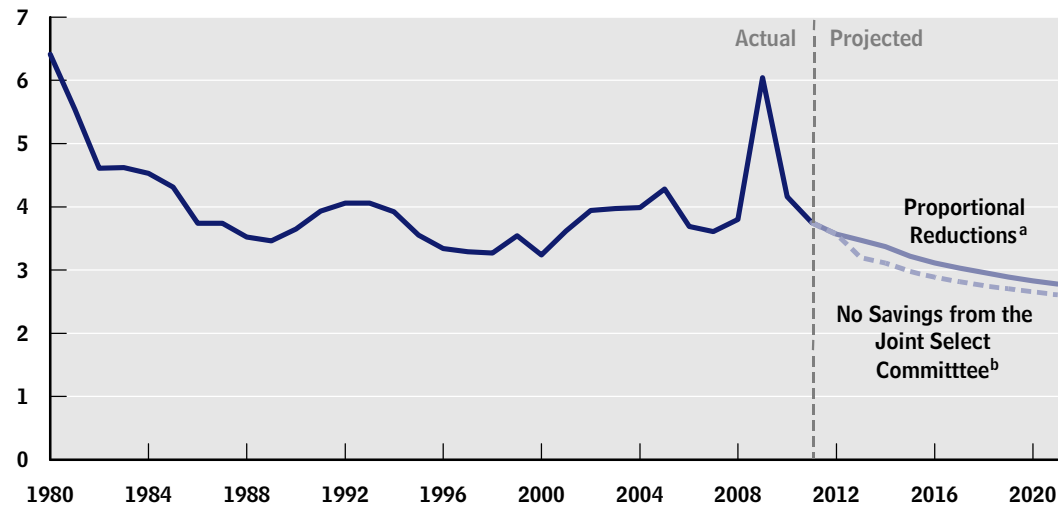
Source: Congressional Budget Office.

- These amounts were estimated by assuming that budget authority for fiscal years 2012 to 2021 will be equal to the 2011 appropriation adjusted for inflation.
- No caps were in place in 2011.
- In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on “nonsecurity” funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated. Caps for those two years are allocated to “security” and “nonsecurity” spending. The security category comprises discretionary appropriations for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95-0401-0-1-054), and discretionary accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Excludes overseas contingency operations.
- Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense (budget function 050) and nondefense budget authority. The caps for 2012 set in the Budget Control Act would not be affected by the automatic enforcement procedures. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

Figure 6.

Nondefense Discretionary Funding, 1980 to 2021

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: Funding includes budget authority as well as budgetary resources provided by obligation limitations for certain ground and air transportation programs.

- Assumes proportional reductions in defense and nondefense discretionary budget authority subject to the caps as set in the Budget Control Act of 2011.
- Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense and nondefense budget authority. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

How Might the Path of Discretionary Spending Be Altered?

Because discretionary spending is determined by the appropriation process each year, it is not always clear what metric should be used when thinking about future needs and measuring the impact of policy changes.

One metric is to assume that current funding grows at the rate of inflation (that is, that it stays the same in real terms). For some programs, however, such an approach understates the cost of maintaining current policies or plans. For example, early in 2011 the Administration put forth a plan to address future defense needs that would require defense spending to grow faster than the rate of inflation. As further examples, the demands for veterans' health care and Pell grants for higher education are growing more quickly than inflation. In addition, current funding for some programs is less than many analysts believe is necessary to address the nation's needs. An example in this category is spending on transportation and other forms of infrastructure.

In contrast, the funding needed for overseas contingency operations, such as the war in Afghanistan, may decline during the coming decade. Indeed, the appropriations currently in place for such operations for fiscal year 2012 are well below the amounts provided in 2011.

Regardless of the constraints placed on discretionary spending through the Budget Control Act, legislation proposed by this Committee, or other actions by this Congress, the amounts of future discretionary appropriations will ultimately be enacted by future lawmakers. The limitations already enacted into law, or others that may be set in the future, might or might not be upheld by subsequent Congresses.

Nevertheless, CBO assumes in its baseline projections that discretionary funding subject to the caps in the coming years will be equal to the amounts specified in current law for those caps. As a result, changes that would reduce the funds necessary to accomplish a particular discretionary activity or that achieved savings in undertaking a particular activity would reduce projected total appropriations only if legislation also lowered the caps; without a reduction in the caps, funding for other discretionary activities would probably fill the gap created by the specific reduction or savings.

Defense Spending

Even if budget authority for defense programs (other than overseas contingency operations) grew at the rate of inflation, that amount of funding would be insufficient to pay for the Future Years Defense Program (FYDP) provided to the Congress in April 2011 by the Department of Defense. CBO has examined the programs and plans contained in that document, which did not include war-related activities, and projected their budgetary impact.¹⁷ According to CBO's calculations, over the period from 2012 to 2021, the funding needed to implement DoD's plan (and finance the small portion of defense spending carried out by other agencies) would exceed by about \$480 billion the amounts projected by assuming that current budget authority increased at the rate of inflation. (The funding needed to implement that plan and keep the non-DoD portion of defense spending growing at the rate of inflation would represent 3.2 percent of GDP in 2021; see Figure 5.) Thus, if the discretionary spending caps were met through proportional reductions in defense and nondefense appropriations relative to the funding that would be necessary to keep pace with inflation, the shortfall in defense appropriations during the 2012–2021 period relative to the amounts needed to implement the FYDP (and keep the non-DoD portion of defense spending growing at the rate of inflation) would be roughly \$925 billion.¹⁸

17. See Congressional Budget Office, *Long-Term Implications of the 2012 Future Years Defense Program* (June 2011).

18. That amount is the sum of the \$480 billion difference just noted and the \$445 billion gap (described on page 17) between what future defense funding would be if it were maintained at the 2011 level with adjustments for inflation and what it would be if proportional reductions were made to comply with the discretionary caps.

In contrast, the funding required for war-related activities—in Afghanistan and other countries—will be smaller than the amounts provided in recent years if the number of deployed troops is smaller and the pace of operations is diminished. Recently, the Congress recognized that the need for such funding has lessened; in the continuing resolution now in place, lawmakers provided appropriations for such purposes at an annualized level of \$119 billion—a drop of about \$40 billion from the \$159 billion provided for 2011. If the current amount, \$119 billion, was provided in future years with adjustments for inflation, the budget authority over the 2012–2021 period would sum to \$1.3 trillion, about \$440 billion less than a projection based on the 2011 appropriation.

If the number of troops deployed continues to decline and if the pace of operations continues to diminish, even less funding may suffice in future years. To illustrate, CBO formulated an alternative budget scenario that assumes a reduction in the deployment of forces abroad for military actions. On the basis of data through June 2011, CBO estimates, the number of U.S. active-duty, reserve, and National Guard personnel deployed for war-related activities in 2011 averaged about 180,000. Under that alternative scenario, the average number of military personnel deployed for war-related purposes would decline over four years: from 130,000 in 2012 to 95,000 in 2013; 65,000 in 2014; and 45,000 in 2015 and thereafter. (Those numbers could represent various allocations among Afghanistan and other countries.) Under that alternative scenario, total discretionary outlays for the period from 2012 through 2021 would be \$700 billion less than the amount based on extending appropriations in the continuing resolution. Of course, the scope of such activities 10 years from now is highly uncertain, and many other scenarios—some costing more and some less—also are possible.

Assessing large, sustained reductions in defense spending would involve considering their effects on military capabilities. Cuts could be targeted toward personnel levels, pay rates, and benefits; training and supplies; day-to-day operating and administrative costs; operation and maintenance of existing weapon systems; procurement of new weapon systems; and research and development related to more-advanced weapon systems. Such reductions in funding could require changes in broad strategic objectives—such as the number of simultaneous conflicts in which the military could engage and their intensity, duration, and overlap—or changes in how the nation seeks to achieve those broad objectives. Trade-offs could involve, for example, the choice between fielding a smaller force with more-capable weapon systems and maintaining the current number of units but forgoing some of the upgrades to their weapon systems. A smaller force might not be able to handle as many conflicts at the same time, but it could be structured to maximize its flexibility to fight a variety of opponents with different capabilities or in different parts of the world. Conversely, a larger force would be better able to sustain longer-term counterinsurgency or peacekeeping operations.¹⁹

19. See Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options* (March 2011).

Nondefense Spending

Even if budget authority for nondefense programs grew at the rate of inflation, that amount of funding would be insufficient to continue some current policies over the 2012–2021 period. For example, the cost of veterans’ health benefits—under an assumption that current enrollment rules remain unchanged—is projected to rise more rapidly than inflation and thus to exceed the budget authority calculated simply by extrapolating the current year’s appropriations at the projected rate of inflation. CBO has estimated that this gap will total \$70 billion over the 2012–2021 period.²⁰ Similarly, maintaining current award amounts for Pell grants would require funding above what would be shown in a projection based on inflating 2011 appropriations.

Moreover, many analysts believe that current funding for some programs is insufficient to meet the nation’s future needs. For example, many analysts believe that current national spending on infrastructure is inadequate to provide enough roads, bridges, and other capital assets to maintain the current level of highway services or to fund all of the projects whose benefits exceed their costs. Projections from the Federal Highway Administration (FHWA) suggest that maintaining the current level of services from highway infrastructure would require increasing federal capital spending on highways from \$43 billion in 2010 to \$57 billion per year (in 2010 dollars), assuming that the federal government and state and local governments continue to pay their historical shares of such costs. In addition, if the FHWA’s assessment is accurate, undertaking all highway infrastructure investment for which benefits equal or exceed their costs would require \$94 billion per year (in 2010 dollars), more than twice the spending in 2010.²¹ Analyses of other types of infrastructure—such as aviation, mass transit systems, water supply, and wastewater treatment—reach qualitatively similar conclusions about the need to increase funding to maintain current services or meet growing demand for such services.²²

However, if spending on certain programs is allowed to grow faster than inflation, then less room under the caps will be available for other nondefense discretionary activities. Cuts in nondefense discretionary spending could affect a broad range of activities, and decisions about particular programs have impacts that would need to be weighed against the effects of alternative decisions. Many programs—especially in the areas of education and transportation—involve financing from federal, state, and local governments. Reducing federal support for such activities would force other levels of government to make decisions about decreasing the scope of the activities, increasing their own funding, or some combination of the two.

20. See Congressional Budget Office, *Potential Costs of Veterans’ Health Care* (October 2010).

21. See Statement of Joseph Kile, Assistant Director, Congressional Budget Office, before the Senate Committee on Finance, *The Highway Trust Fund and Paying for Highways* (May 17, 2011).

22. See Congressional Budget Office, *Public Spending on Transportation and Water Infrastructure* (November 2010) and *Issues and Options in Infrastructure Investment* (May 2008).

Lowering pay rates for federal civilian employees could hamper efforts to recruit and retain workers (particularly in some occupations), which could reduce the overall skill level of the federal workforce over time. Having fewer federal workers would probably lower the levels of service that federal agencies provide to the public, unless cuts in the agencies' workforces were accompanied by actions to enhance productivity. Charging users—such as drivers, air travelers, and users of waterways—for services they receive from federal programs would allow those programs to operate more efficiently and reduce the amount of government spending needed to maintain or improve service, but such charges would impose added burdens on users compared with current arrangements.²³

Federal income support payments and education grants to low-income households could be reduced or provided to fewer households, which would mean less assistance for people who may value those benefits highly. A variety of federal activities could simply be curtailed—ranging from research by the National Institutes of Health to export promotion by the Department of Commerce—but curtailing those activities could have costs as well.

23. See Congressional Budget Office, *Alternative Approaches to Funding Highways* (March 2011).

Appendix A:

Funding for Operations in Iraq and Afghanistan and for Related Activities

Since September 2001, lawmakers have provided almost \$1.3 trillion in budget authority for operations in Afghanistan and Iraq and related activities (see the table). That amount includes funding for military and diplomatic operations in Afghanistan, Iraq, and certain other regions; for some veterans' benefits and services; and for related activities of the Department of Justice. Appropriations specifically designated for those purposes averaged about \$100 billion a year from 2003 through 2006, rose to \$170 billion in 2007 and \$187 billion in 2008, and then declined to an average of \$159 billion over the 2009–2011 period. The Continuing Appropriations Act, 2012 (Public Law 112-36) provides funding for war-related activities in the current fiscal year through November 18, 2011, at an annual rate of \$119 billion.

Funding through the end of fiscal year 2011 for military operations and other defense activities totaled \$1.1 trillion, most of which went to the Department of Defense (DoD). Lawmakers also provided \$66 billion to train and equip indigenous security forces in Afghanistan and Iraq.¹ In addition, they have made \$52 billion available for diplomatic operations and aid to Afghanistan, Iraq, and other countries assisting the United States in those efforts.

DoD reports that in fiscal year 2011, obligations for operations in Afghanistan and Iraq and for related activities averaged \$11.6 billion per month (through July, the last month for which data are available). That monthly average is almost \$1 billion less than the amount reported for 2010. Obligations were lower in the first half of the year, while the department operated with funding from a series of continuing resolutions, but increased to over \$13 billion in May after the enactment of a regular appropriation, and to \$19 billion in July. Operation Enduring Freedom (in and around Afghanistan) accounted for 67 percent of those obligations in 2011—up from 51 percent in 2010 and 34 percent in 2009. Operation New Dawn (formerly Operation Iraqi Freedom) accounted for 33 percent of those obligations, down from 49 percent in 2010 and 65 percent in 2009. Additional security missions that have taken place in the United States since the terrorist attacks of September 11, 2001—such as combat air patrols over Washington, D.C., and New York City, known as Operation Noble Eagle—accounted for less than 1 percent of obligations in 2011.

1. That \$66 billion includes \$5 billion provided for Iraqi security forces in 2004 in an appropriation for the State Department's Iraq Relief and Reconstruction Fund.

Table A-1.**Estimated Appropriations Provided for U.S. Operations in Iraq and Afghanistan and for Other War-Related Activities, 2001 to 2011**

(Billions of dollars of budget authority)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2001- 2011
Military Operations and Other Defense Activities ^a												
Iraq	0	0	51	70	50	85	113	133	90	59	42	693
Afghanistan	0	12	12	13	8	12	24	29	38	87	98	332
Other ^b	14	5	18	5	11	13	15	13	13	5	6	117
Subtotal	14	18	80	88	69	110	152	175	140	151	146	1,142
Indigenous Security Forces ^c												
Iraq	0	0	0	5	6	3	6	3	1	1	2	26
Afghanistan	*	0	0	0	1	2	7	3	6	9	12	40
Subtotal	*	0	0	5	7	5	13	6	7	10	13	66
Diplomatic Operations and Foreign Aid ^d												
Iraq	0	0	3	15	1	3	3	3	2	2	0	32
Afghanistan	0	*	1	2	1	*	1	1	5	2	0	13
Other	*	1	5	*	*	*	*	*	1	*	0	8
Subtotal	*	2	8	17	3	3	4	5	7	4	0	52
Other Services and Activities ^e												
Iraq	0	0	*	0	*	*	1	1	*	0	0	2
Afghanistan	0	0	0	0	*	*	*	*	*	0	0	*
Other	0	0	0	0	*	*	*	*	*	0	0	1
Subtotal	0	0	*	0	*	*	1	2	*	0	0	3
Total Budget Authority	14	19	88	110	79	118	170	187	154	165	159	1,263

Source: Congressional Budget Office.

Notes: The Continuing Appropriations Act, 2012 (Public Law 112-36) provided funding in budget function 050 (National Defense) for war-related operations through November 18, 2011, at an annual rate of \$119 billion, similar to the amount requested for such operations by the President for the current year. The President also requested about \$9 billion for diplomatic operations and foreign aid related to overseas contingency operations. (Such spending would be recorded in budget function 150, International Affairs.) P.L. 112-36 did not specify funding for those purposes. Final appropriations for fiscal year 2012 could be greater or less than the amount provided to date. Funding for fiscal year 2012 is not included in this table.

* = between zero and \$500 million.

Continued

Estimated Appropriations Provided for U.S. Operations in Iraq and Afghanistan and for Other War-Related Activities, 2001 to 2011

(Notes, continued)

- a. CBO estimated funding provided for operations in Afghanistan and Iraq by allocating funds on the basis of information in budget justification materials from the Department of Defense and in monthly reports on its obligations. Some allocations for prior years have been adjusted on the basis of more recent information.
 - b. Includes Operation Noble Eagle (homeland security missions, such as combat air patrols, in the United States), the restructuring of Army and Marine Corps units, classified activities other than those funded by appropriations for the Iraq Freedom Fund, efforts to increase the size of the Army and Marine Corps, and other operations. (For fiscal years 2005 through 2011, funding for Operation Noble Eagle has been intermingled with regular appropriations for the Department of Defense; that funding is not included in this table.)
 - c. Funding for indigenous security forces is used to train and equip local military and police units in Afghanistan and Iraq. That funding was appropriated in accounts for diplomatic operations and foreign aid (budget function 150) in 2004, and in accounts for defense (budget function 050) starting in 2005.
 - d. Beginning in 2010, most funding for diplomatic operations in, and foreign aid to, countries helping the United States fight terrorism has been in regular appropriations, and cannot be separated from appropriations for activities unrelated to those operations.
 - e. Includes funding for some veterans' benefits and services, as well as certain activities of the Department of Justice. Excludes about \$12 billion in spending by the Department of Veterans Affairs (VA) for the incremental costs for medical care, disability compensation, and survivor benefits for veterans of operations in Afghanistan and Iraq and the war on terrorism. That amount is CBO's estimate of spending from regular appropriations for the Department of Veterans Affairs and was not explicitly appropriated for war-related expenses.
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Because most appropriations for operations in Afghanistan and Iraq and for related activities appear in the same budget accounts as appropriations for DoD's other functions, it is impossible to determine precisely how much has been spent on those activities. The Congressional Budget Office (CBO) estimates that the \$1.2 trillion appropriated for military operations, other defense activities, and indigenous security forces in those two countries resulted in outlays of just over \$1 trillion through 2011; about \$160 billion of that occurred in 2011. Of the \$52 billion appropriated for international affairs activities related to the war efforts, about \$50 billion was spent through 2011, CBO estimates, including \$5 billion in 2011. In total, outlays for all of those activities amounted to about \$165 billion last year.

Appendix B: Projections of Discretionary Outlays

This testimony has focused on discretionary funding rather than on outlays because the Congress specifies the amount of funding provided each year but it does not directly control when outlays occur. In addition, enactment of the Budget Control Act of 2011 in August instituted statutory caps on discretionary budget authority for each of the fiscal years 2012 through 2021. If legislation originating from this Committee producing at least \$1.2 trillion in deficit reduction (including an allowance for interest savings) is not enacted by January 15, 2012, automatic procedures would further reduce discretionary appropriations starting in 2013.

Discretionary funding could follow a variety of paths over the next decade, and the outlays stemming from such funding decisions will affect the deficit (which is computed as the difference between revenues and outlays). To more easily make historical comparisons (historical data are typically expressed in terms of outlays), CBO has estimated the effect on outlays of a range of potential changes to both defense funding (Table B-1) and nondefense funding (Table B-2). (For a further discussion of the various scenarios shown in the tables, see pages 17 to 24.)

Table B-1.**Projections of Discretionary Outlays for Defense Programs**

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total	
												2012-	2012-
												2016	2021
Projected Outlays													
Funding for 2011 (Excluding overseas contingency operations) Adjusted for Inflation ^a	542	546	562	575	589	607	618	629	651	668	686	2,880	6,132
Potential Paths for Defense Outlays													
Resulting from the Caps as													
Set in the Budget Control Act of 2011 ^b													
All reductions from defense ^c	542	527	528	520	522	531	535	539	553	562	571	2,628	5,388
Proportional reductions	542	531	536	543	553	567	575	582	600	613	626	2,730	5,726
No reductions from defense	542	546	562	575	589	607	618	629	651	668	686	2,880	6,132
If No Savings Result from the Joint Select Committee ^d	542	531	505	501	507	520	526	534	552	565	579	2,564	5,320
Reduction in Outlays Relative to the Outlays from Adjusting 2011 Funding for Inflation													
Potential Paths for Defense Discretionary Outlays													
Resulting from the Caps as													
Set in the Budget Control Act of 2011 ^b													
All reductions from defense ^c	0	-19	-34	-55	-68	-76	-84	-91	-98	-106	-115	-252	-744
Proportional reductions	0	-15	-26	-32	-36	-40	-43	-47	-51	-55	-60	-150	-407
No reductions from defense	0	0	0	0	0	0	0	0	0	0	0	0	0
If No Savings Result from the Joint Select Committee ^d	0	-15	-57	-74	-82	-87	-92	-95	-99	-103	-107	-316	-812

Continued

Table B-1.

Continued

Projections of Discretionary Outlays for Defense Programs

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total		
												2012-	2012-	
												2016	2021	
Memorandum:														
Overseas Contingency Operations ^e														
August 2011 baseline	161	163	165	166	167	170	172	174	179	182	186	830	1,723	
Extrapolation of annualized amount provided in continuing resolution for fiscal year 2012	161	148	136	129	126	127	130	132	135	139	142	666	1,345	

Source: Congressional Budget Office.

- a. These amounts were estimated by assuming that budget authority for fiscal years 2012 to 2021 will be equal to the 2011 appropriation adjusted for inflation.
- b. No caps were in place in 2011. Excludes overseas contingency operations.
- c. In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on “nonsecurity” funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated. Caps for those two years are allocated to “security” and “nonsecurity” spending. The security category comprises discretionary appropriations for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95-0401-0-1-054), and discretionary accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Excludes overseas contingency operations.
- d. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense (budget function 050) and nondefense budget authority. The caps for 2012 set in the Budget Control Act would not be affected by the automatic enforcement procedures. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.
- e. The caps do not constrain appropriations for military operations in Afghanistan (or for similar activities). For its August 2011 baseline, CBO projected future war-related funding by adjusting for inflation the \$159 billion appropriated for 2011. The Continuing Appropriations Act, 2012 (Public Law 112-36) funded such operations through November 18, 2011, at an annual rate of \$119 billion.

Table B-2.**Projections of Discretionary Outlays for Nondefense Programs**

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total	
												2012-2016	2012-2021
Projected Outlays													
Funding for 2011 Adjusted for Inflation ^a	646	631	621	621	625	632	643	657	672	689	707	3,130	6,498
Potential Paths for Nondefense													
Discretionary Outlays Resulting from the Caps as Set in the Budget Control Act of 2011 ^b													
All reductions from nondefense ^c	646	604	571	559	555	555	560	566	574	583	592	2,845	5,720
Proportional reductions	646	619	598	592	592	595	603	613	625	639	652	2,995	6,127
No reductions from nondefense	646	622	605	615	623	632	643	657	672	689	707	3,096	6,464
If No Savings Result from the Joint Select Committee ^d	646	619	575	555	551	555	562	572	585	599	612	2,855	5,783
Reduction in Outlays Relative to the Outlays from Adjusting 2011 Funding for Inflation													
Potential Paths for Nondefense													
Discretionary Outlays Resulting from the Caps as Set in the Budget Control Act of 2011 ^b													
All reductions from nondefense	0	-27	-49	-62	-70	-77	-84	-91	-98	-106	-115	-285	-778
Proportional reductions	0	-12	-23	-29	-33	-37	-40	-43	-47	-51	-55	-135	-371
No reductions from nondefense ^c	0	-8	-16	-6	-2	-1	*	0	0	0	0	-33	-33
If No Savings Result from the Joint Select Committee ^d	0	-12	-46	-66	-74	-78	-82	-84	-87	-91	-95	-275	-714

Source: Congressional Budget Office.

Note: * = between -\$500 million and zero.

- These amounts were estimated by assuming that budget authority for fiscal years 2012 to 2021 will be equal to the 2011 appropriation adjusted for inflation.
- No caps were in place in 2011.
- In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on "nonsecurity" funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated. Caps for those two years are allocated to "security" and "nonsecurity" spending. The security category comprises discretionary appropriations for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95-0401-0-1-054), and discretionary accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Excludes overseas contingency operations.
- Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense (budget function 050) and nondefense budget authority. The caps for 2012 set in the Budget Control Act would not be affected by the automatic enforcement procedures. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

