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FABRICATED SAVINGS THE ADMINISTRATION’S FALSE CLAIM OF DISCRETIONARY SPENDING RESTRAINT

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Despite claims of fiscal responsibility and honesty in budgeting, the President’s budget in fact uses various maneuvers to mask what it truly will produce: an explosion in spending, deficits, and debt. Many of the “savings” in the budget are illusory, reflecting only bookkeeping and accounting changes that make spending appear to be less than it is.

This paper analyzes one set of such ploys: the administration’s claim of outyear discretionary spending restraint. All of the data used in this analysis come from the President’s 2010 budget submission or from Office of Management and Budget [OMB] historical tables.

THE ADMINISTRATION’S CLAIM

Appearing before the House Budget Committee on 3 March 2009, OMB Director Orszag used nondefense discretionary spending in an attempt to highlight spending restraint in the President’s budget.

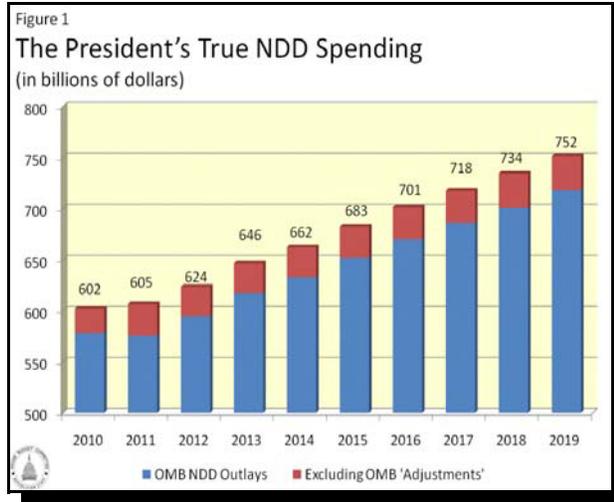
“The [2010] budget includes significant spending constraints and puts the Nation on a path to reducing nondefense discretionary spending as a share of GDP [gross domestic product],” Director Orszag said. “The average level of NDD [nondefense discretionary] spending between 1969 and 2008 was 3.8 percent of GDP. In contrast, the President’s budget proposes a gradual reduction in NDD spending as a share of the economy. Such spending averages 3.6 percent of GDP from 2010 to 2019 and declines to 3.1 percent by the end of the budget window – the lowest since the government began collecting the data in 1962.”

But this picture of outyear spending restraint is seriously misleading, at a minimum, because of several budgetary sleights-of-hand by the administration. These include the following:

- **Reclassification of Revenue.** In one artifice, the budget reclassifies certain Federal Aviation Administration [FAA] excise taxes as *offsetting collections* – which are counted as “negative spending” – and books \$103 billion in FAA savings during 2010-19 as a result. In fact the budget actually spends *more* on the FAA because the offsetting collection generates more revenue than the excise tax. The “savings” are simply the result of an accounting change masking the true size of discretionary spending that would actually occur under the President’s budget.

- New Entitlements.** The President’s budget also claims restraint by moving several annually appropriated programs to mandatory spending – shifting the programs from one category of spending to another and calling it discretionary “savings.” One example is Pell Grant funding (\$116 billion over 10 years), which is converted to an entitlement. Another is a mechanism triggering automatic increases in funding for the Low Income Home Energy Assistance Program [LIHEAP] (\$4.3 billion over 10 years). This is another case of using a change in budgetary accounting to mask discretionary program expansions.

If these accounting changes were not applied, and the spending continued in the discretionary portion of the President’s budget, nondefense discretionary spending would be significantly higher than the administration suggests. Actual NDD levels, absent the accounting changes, would be \$18 billion higher in 2009 and \$24 billion higher in 2010, and would rise to \$34 billion higher in 2019. In cumulative amounts, outlays are \$158 billion greater over the 2009-14 period, and \$319 billion more for 2009-19. (See Figure 1. Details of these calculations are shown in Table 1 attached at the end of this document.)



- Large, ‘Temporary’ Spending Hikes.** The President’s budget assumes huge fiscal year 2010 spending increases in numerous Federal agencies that evaporate in subsequent years. While it promises a dramatic slowdown in discretionary spending in the outyears, there is no mechanism in the budget to achieve these savings. Some examples:

 - *The Environmental Protection Agency [EPA].* After getting a 92-percent increase in the “stimulus,” the EPA receives a 33.9-percent 2010 increase in the budget. In 2011, the EPA’s increase drops to 0.7 percent. These increases do not include the huge bureaucracy the EPA will need to administer the President’s cap-and-trade program.
 - *The Department of Housing and Urban Development [HUD].* HUD receives an 18.3-percent increase in 2010, followed by a 0.3-percent boost in 2011.
 - *The National Aeronautics and Space Administration [NASA].* The agency gets a 5-percent increase in 2010, followed by a 0.3-percent cut in 2011.

It is unlikely that such spending restraint will actually materialize: spending increases in Washington are never temporary. (A full account of the administration’s proposed nondefense discretionary spending, by department and agency, is attached at the end of this document.)

THE ABSENCE OF SPENDING CAPS

While the President's budget displays discretionary spending for 10 years, the appropriations process that provides discretionary spending is repeated on an annual basis. The President's budget requests appropriations for fiscal year 2010, and Congress this year will act only on fiscal year 2010 appropriations bills. Discretionary spending for fiscal years 2011 and beyond will be proposed in subsequent budgets. The discretionary levels for fiscal years 2011-19 are not binding and, as noted above, there is no mechanism to assure they will be met.

This was not the case in the 1990s, when there were statutory caps on discretionary spending. Those caps no longer exist, and the administration has not proposed to reinstate them. A year from now, when the President's fiscal year 2011 budget is due, it will likely increase spending to much higher levels than shown in the current blueprint; no one will recall these promised savings and there will be no means to enforce them.

CONTEXT AS ILLUSION

The framework in which Director Orszag presented the budget also is significant: the apparent decline in the President's nondefense discretionary spending is partly due to faster economic growth under the administration's projections. The budget projects notably robust growth in real GDP in 2010 and beyond – reaching as high as 4.6 percent in 2012. This rate of growth outpaces the President's spending increases, giving the illusion that spending is declining.

**by Stephen Sepp
Budget Review**

This document was prepared by the Republican staff of the Committee on the Budget, U.S. House of Representatives. It has not been approved by the full committee and may not reflect the views of individual committee members.

Table 1: President's True Nondefense Discretionary Spending
(outlays in billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
OMB Base Nondefense Discretionary Outlays ^a	550	578	576	595	617	633	652	670	686	701	718
Adjustments											
Add Pell Grants	19	24	20	18	18	18	19	19	19	20	20
Add LIHEAP	—	.03	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Add Aviation Fees	—	—	10	10	11	11	11	12	12	13	13
Adjusted OMB Nondefense Discretionary Outlays	568	602	605	624	646	662	683	701	718	734	752

Source: Office of Management and Budget

^a Figures exclude "stimulus," emergency spending, and funding for overseas contingency operations.

Table 2: The President's Discretionary Spending
(outlays in billions of dollars)

Base Discretionary Policy by Agency	2009		2009-10		2010		2011	
	Estimate	Stimulus	Request	\$ Change	% Change	2011	\$ Change	% Change
Cabinet Departments:								
Agriculture	23.9	6.9	26.0	2.0	8.5%	27.2	1.2	4.8%
Commerce	9.3	7.9	13.8	4.5	48.2%	8.1	-5.7	-41.4%
Defense (DOD, excluding overseas operations)	513.3	7.4	533.7	20.3	4.0%	541.8	8.1	1.5%
Education	41.4	81.1	46.7	5.3	12.9%	53.6	6.9	14.8%
Energy	26.4	38.7	26.3	-0.1	-0.5%	26.3	0.1	0.2%
Health and Human Services	80.1	22.4	78.7	-1.5	-1.8%	83.7	5.1	6.4%
Homeland Security	42.2	2.8	42.7	0.5	1.3%	42.4	-0.4	-0.8%
Housing and Urban Development	40.1	13.6	47.5	7.3	18.3%	47.6	0.1	0.3%
Interior	11.3	3.0	12.0	0.7	6.5%	12.3	0.3	2.2%
Justice	25.5	4.0	23.9	-1.6	-6.2%	27.7	3.8	16.0%
Labor	12.7	4.8	13.3	0.5	4.1%	13.4	0.2	1.5%
State and Other International Programs	36.7	0.6	51.7	15.0	40.9%	56.0	4.3	8.4%
Transportation	70.5	48.1	72.5	2.0	2.8%	64.2	-8.3	-11.4%
<i>Budget Authority</i>	16.7	48.1	18.1	1.5	8.7%	9.1	-9.0	-49.8%
<i>Obligation Limitations</i>	53.8	---	54.3	0.5	1.0%	55.1	0.7	1.4%
Treasury	12.7	0.3	13.3	0.7	5.5%	13.7	0.3	2.6%
Veterans Affairs	47.6	1.4	52.5	4.9	10.3%	53.7	1.2	2.2%
Major Agencies:								
Corps of Engineers	5.3	4.6	5.1	-0.2	-3.6%	5.2	0.0	0.8%
Environmental Protection Agency	7.8	7.2	10.5	2.7	33.9%	10.6	0.1	0.7%
General Services Administration	0.7	5.9	0.6	-0.0	-4.4%	0.7	0.1	8.0%
National Aeronautics and Space Administration	17.8	1.0	18.7	0.9	5.0%	18.6	-0.1	-0.3%
National Science Foundation	6.9	3.0	7.0	0.2	2.8%	7.2	0.2	2.9%
Small Business Administration	0.7	0.7	0.7	0.0	5.6%	0.8	0.1	15.5%
Social Security Administration	8.8	1.1	9.7	0.9	10.6%	10.5	0.8	8.2%
Corporation for National and Community Service	0.9	0.2	1.1	0.3	30.0%	1.3	0.2	13.9%
Infrastructure Bank	---	---	5.0	5.0	---	5.0	---	---
Other:								
Climate Policy (Clean Energy Technologies)	---	---	---	---	---	---	---	---
Other Agencies	19.1	0.2	19.8	0.7	3.5%	18.8	-1.0	-5.0%
Total: Base Discretionary	1,061.6	267.0	1,132.8	71.2	6.7%	1,150.3	17.6	1.6%

Source: Office of Management and Budget, Table S-7 of the administration budget submission.