



# Trends in Discretionary Spending

**D. Andrew Austin**

Analyst in Economic Policy

**Mindy R. Levit**

Analyst in Public Finance

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## Summary

Discretionary spending is provided and controlled through appropriations acts, which fund many of the activities commonly associated with such federal government functions as running executive branch agencies, congressional offices and agencies, and international operations of the government. Essentially all spending on federal wages and salaries is discretionary.

Federal spending in 2009 accounted for just under a quarter (24.7%) of the U.S. economy, as measured by gross domestic product (GDP). Federal spending since 1962 has averaged about a fifth of GDP. (Years denote federal fiscal years unless noted otherwise.) Discretionary spending accounted for 35.2% of total outlays in 2009, as extraordinary federal responses to financial turmoil sharply increased mandatory spending (59.5% of outlays in 2009), reducing discretionary spending's share of total spending.

In 1962, discretionary spending accounted for 47.2% of total outlays and was the largest component of federal spending until the mid-1970s. Since then, discretionary spending as a share of federal outlays and as a percentage of GDP has fallen. The long-term fall in the share of discretionary spending as a portion of total federal spending is largely due to rapid growth of entitlement outlays and slower growth in defense spending relative to other federal spending in past decades.

Discretionary spending is often divided into defense, domestic discretionary, and international outlays. Trends in those categories may indicate broad national priorities as reflected in federal spending decisions. Defense and domestic discretionary spending compose nearly all of discretionary spending. In 1962, discretionary spending equaled 12.3% of GDP, with defense spending making up 9.0% of GDP. In 2010, estimated total discretionary spending will fall to 9.6% of GDP with defense spending totaling 4.9% of GDP. Military spending has increased sharply over the last decade. On average, from 2000 to 2010, defense outlays grew 6.8% per year in real terms, whereas non-defense discretionary outlays grew 5.6% per year in real terms.

Non-defense discretionary outlays and budget authority can also be divided into security and non-security spending. Dividing spending into security and non-security components, however, presents many conceptual and practical difficulties. Some federal activities, such as Coast Guard patrols, advance non-security and security interests. Furthermore, federal programs tasked with non-security aims in normal times may respond to specific homeland security challenges. Non-defense security discretionary budget authority increased sharply after Hurricane Katrina, although changes in outlays were less dramatic. Non-defense non-security outlays, which have ranged between 3.0% and 3.5% of GDP since the mid-1980s, are estimated to reach 4.2% of GDP in 2010, in large part due to economic stimulus measures and other recession-related spending.

The Obama Administration in its recent budget submission called for a three-year freeze on non-security discretionary spending. Weak economic conditions have depressed federal revenues and may continue to increase government social safety-net expenditures. Some contend that additional stimulus measures are needed to reduce high unemployment levels, while others have called for imposing greater budgetary stringency. Over the long term, projected future growth in entitlement program outlays may put severe pressure on discretionary spending unless policy changes are enacted or federal revenues are increased. This report will be updated as events warrant.

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## What Does Discretionary Spending Include?<sup>1</sup>

Discretionary spending is provided in, and controlled by, annual appropriations acts, which fund many of the routine activities commonly associated with such federal government functions as running executive branch agencies, congressional offices and agencies, and international operations of the government.<sup>2</sup> Essentially all spending on federal wages and salaries is discretionary.<sup>3</sup>

Discretionary spending is often contrasted with mandatory, or direct, spending. Mandatory spending includes federal spending on entitlement programs, the Supplemental Nutrition Assistance Program (formerly known as the Food Stamps program), and other spending controlled by laws other than appropriation acts.<sup>4</sup> Spending levels for mandatory programs are generally controlled by eligibility criteria and size of the eligible population.

### Budget Authority and Outlays

The distinction between outlays and budget authority is important to understanding the federal budget and, particularly, discretionary spending. Appropriations legislation, which controls discretionary spending, grants budget authority to accomplish specific ends. Budget authority is what federal agencies can legally spend. Budget authority has been compared to funds deposited into a checking account, which then can be used for specified federal purposes. Outlays are disbursed federal funds. Therefore, an outlay is not recorded until the federal government disburses appropriated funds to purchase goods and services.

**Table 1** illustrates the different categories of federal spending (i.e., mandatory and discretionary spending) by contrasting the type of budget authority needed for specific purposes.

Outlay data are used to assess the macroeconomic effects of the federal budgets, whereas budget analysis of specific federal programs is typically based on budget authority, because that is what Congress controls directly. Congressional appropriations, which grant budget authority for specific purposes, are not always tightly linked to changes in outlays in the following year. While budget authority can be granted for a single year, some appropriations (such as for many military construction projects) provide budget authority for multiple years, or indefinitely. Thus outlays that flow from an appropriated sum might be spread over several fiscal years, implying that budget authority totals will differ from outlay totals for a single fiscal year.<sup>5</sup>

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<sup>1</sup> This report was originally written by Philip Winters, who has retired from CRS.

<sup>2</sup> Annual appropriations acts fall within the jurisdiction of the House and Senate Appropriations Committees.

<sup>3</sup> Exceptions exist. For example, salaries for Members of Congress, the President, and federal judges are classified as mandatory spending, as are essentially all federal retirement and disability costs. Direct spending is controlled by committees with legislative jurisdiction.

<sup>4</sup> For details, see CRS Report RL33074, *Mandatory Spending Since 1962*, by D. Andrew Austin and Mindy R. Levit.

<sup>5</sup> While federal officials often have some discretion to choose how quickly appropriated funds are spent, they face constraints imposed by legislation designed to protect Congress's power of the purse. According to the Anti-Deficiency Act, a federal official cannot spend government money beyond what is available through appropriations or a fund by law. See General Accountability Office, *Antideficiency Act Background*, available at <http://www.gao.gov/ada/antideficiency.htm> for code citations and explanations. The Congressional Budget Act and Impoundment Control Act of 1974 (P.L. 93-344) limits the ability of federal officials to withhold or delay spending of appropriated funds without (continued...)

Table I. Categories of Federal Spending

	Budget Authority Provided by Law Other than Appropriation Acts	Budget Authority Provided by Appropriation Acts
Entitlement	Medicare Social Security	Appropriated Entitlements (e.g., veterans' compensation, Medicaid, TANF <sup>a</sup> ) SNAP <sup>b</sup> (with caveats)
Not an Entitlement	Salaries for Members of Congress Mandatory non-entitlements (e.g., Forest Service payments to states)	Discretionary Spending <sup>c</sup> (defense, non-defense domestic discretionary, and international)

**Source:** Compiled by CRS.

- a. Temporary Assistance for Needy Families.
- b. The Supplemental Nutrition Assistance Program (SNAP) was formerly known as the Food Stamps program.
- c. Discretionary spending programs. See discussion in text.

## Trends in Discretionary Spending

The composition of the federal budget has changed dramatically since the early 1960s. Over time, the share of total discretionary spending in federal spending has fallen, whereas the share of mandatory spending has increased. Discretionary spending accounted for 67.5% of total outlays in 1962, but only 35.2% of total outlays in 2009.<sup>6</sup> Mandatory spending, by contrast, rose from 26.1% of total outlays in 1962 to 59.5% in 2009.

In contrast to the longer term trends, between 2000 and 2010, discretionary spending grew more quickly than mandatory spending. After falling for three decades between the late 1960s and the late 1990s as a share of the economy, discretionary spending increased 6.2% a year in real terms on average from 2000 to 2010.<sup>7</sup> Over the same period, the share of discretionary spending as a proportion of federal outlays grew from 34.4% in 2000 to 35.2% in 2009.

The economic recession that began in late 2007 reduced incomes and increased unemployment, which in turn increased the number of people eligible for income support programs and outlays on some discretionary programs. Extraordinary federal responses to financial turmoil in 2008 and 2009, however, increased mandatory spending even more sharply, which reduced the share of discretionary spending in federal outlays. More normal financial conditions and renewed economic growth in the second half of calendar year 2009 may help decrease spending on some mandatory programs and stem decreases in Medicare and Social Security payroll tax revenues.

(...continued)

Congressional approval.

<sup>6</sup> Years in this report refer to federal fiscal years unless otherwise noted. Figures for FY1962-FY1968 from U.S. Office of Management and Budget, *Budget for FY2011, Historical Tables*, available at <http://www.whitehouse.gov/omb/budget/Historicals/>. Figures for FY1969 and beyond from the U.S. Congressional Budget Office, *Historical Tables*, available at <https://www.cbo.gov/budget/historical.shtml>.

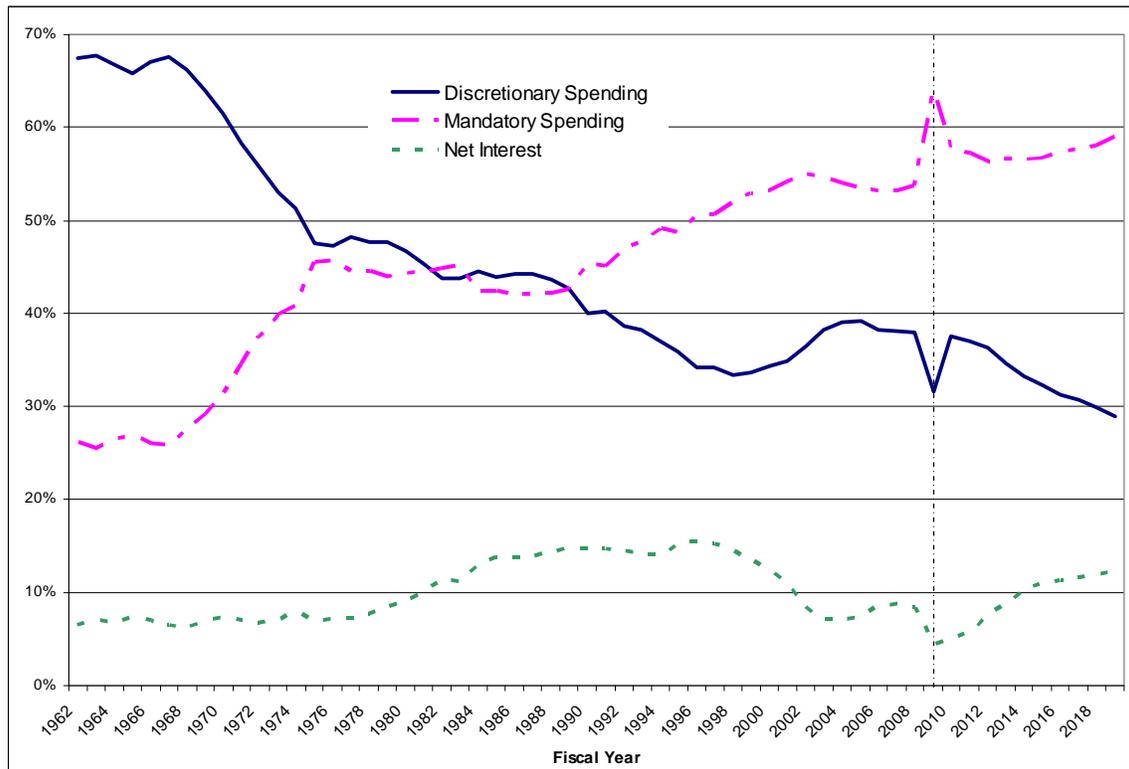
<sup>7</sup> Estimated FY2010 outlays include a proposed \$41.1 billion supplemental appropriation.

## How Has the Composition of Discretionary Spending Changed?

In 1962, discretionary spending comprised 67.5% of total outlays, with mandatory spending and net interest accounting for 26.1% and 6.5%, respectively. Discretionary spending as a share of total outlays reached its peak in 1963. By 2009, discretionary spending fell to 35.2% of total outlays. Mandatory spending accounted for 57.7% of total outlays, with net interest at 4.5% in 2009.<sup>8</sup> **Figure 1** shows discretionary spending, mandatory spending, and net interest payments in relation to total outlays since 1962.

**Figure 1. Components of Federal Spending**

As a percentage of total outlays, FY1962-FY2019



**Source:** Data for FY1962-1968 from OMB, *Budget for Fiscal Year 2010, Historical Tables*, Tables 3.2 and 8.7, available at <http://www.whitehouse.gov/omb/budget/Historicals/>; Data for FY1969-FY2019 from CBO, *Historical Tables*, available at <http://www.cbo.gov/budget/historical.shtml> and CBO Budget Projections data available at <http://www.cbo.gov/doc.cfm?index=10014>. CBO baseline projections to the right of dotted line.

The peak estimated in mandatory spending in 2009 is largely attributable to the state of the economy and enacted federal financial interventions, leading to an analogous spike in overall spending. This also led to a decline in discretionary spending's share of total outlays (from 38.0% in 2008 to 35.2% in 2009), though discretionary spending is estimated to rise in nominal terms. Over the longer term, discretionary spending's share of total outlays is projected to decline further. By 2020, according to CBO baseline projections, that assume projected discretionary

<sup>8</sup> Mandatory spending without offsetting receipts was 57.7% of total outlays in 2009. With offsetting receipts, the figure was 53.2%.

outlays hold steady in real terms, discretionary spending will fall to a historical low of 28.9% of total outlays.

Trends in discretionary spending as a share of gross domestic product (GDP) provides another perspective on how the composition of federal outlays has changed. Measuring budget components as a share of GDP compares their size to the economy as a whole, and implicitly incorporates inflation and population growth. **Figure 2** shows components of federal spending as a percentage of GDP since 1962.

While discretionary spending was the largest component of federal spending until the mid-1970s, mandatory spending in 2009 accounted for nearly three-fifths of total federal spending. In 2009, mandatory spending accounted for about 6% more of GDP than discretionary spending, although that gap is expected to narrow to 3.9% in 2010.

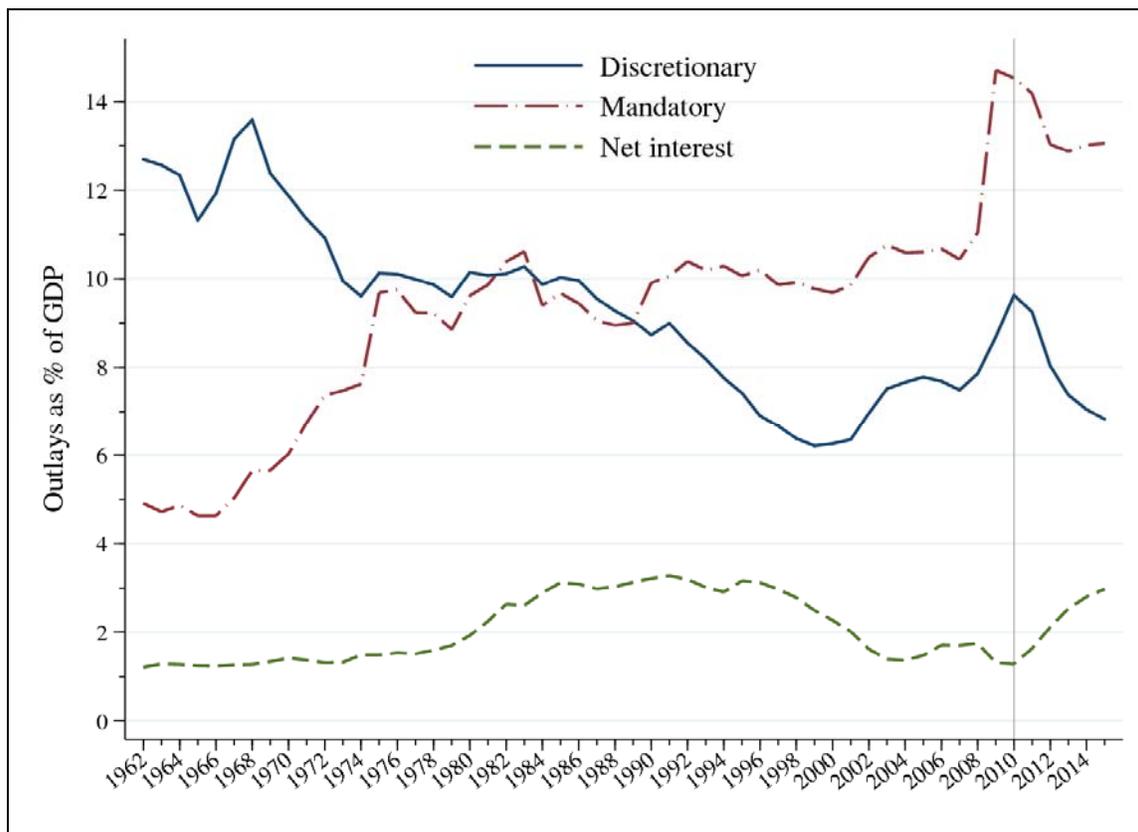
Medicare and Medicaid have continued to grow faster than overall federal spending, contributing to the majority of the increase in mandatory spending over this period. Social Security spending, the other large component of mandatory spending, has been relatively stable in the last decade when measured as a share of GDP.

Total federal spending as a share of GDP is estimated to have peaked in 2009 as a result of the current economic situation and enacted federal financial interventions. While discretionary spending declined as a percentage of total outlays in 2009, it rose as a percentage of GDP because the economy shrank in 2008 and early 2009. Over the longer term, discretionary spending's share of GDP is projected to decline further. By 2020, discretionary spending is projected to fall to 6.7% of GDP, similar to the levels it reached in the late 1990s and early 2000s.

Because of the decline in discretionary spending as a percentage of total outlays and as a percentage of GDP and the resulting increase in the share of mandatory spending over time, controlling the federal budget may have become more difficult for Congress. In other words, because net interest payments and mandatory spending are set automatically, less money is available to allocate to other government agencies and programs unless revenues rise or Congress modifies eligibility requirements and benefits of mandatory spending programs.

**Figure 2. Components of Federal Spending**

As a percentage of GDP, FY1962-FY2015



**Source:** OMB (February 2010 budget submission) and CRS calculations.

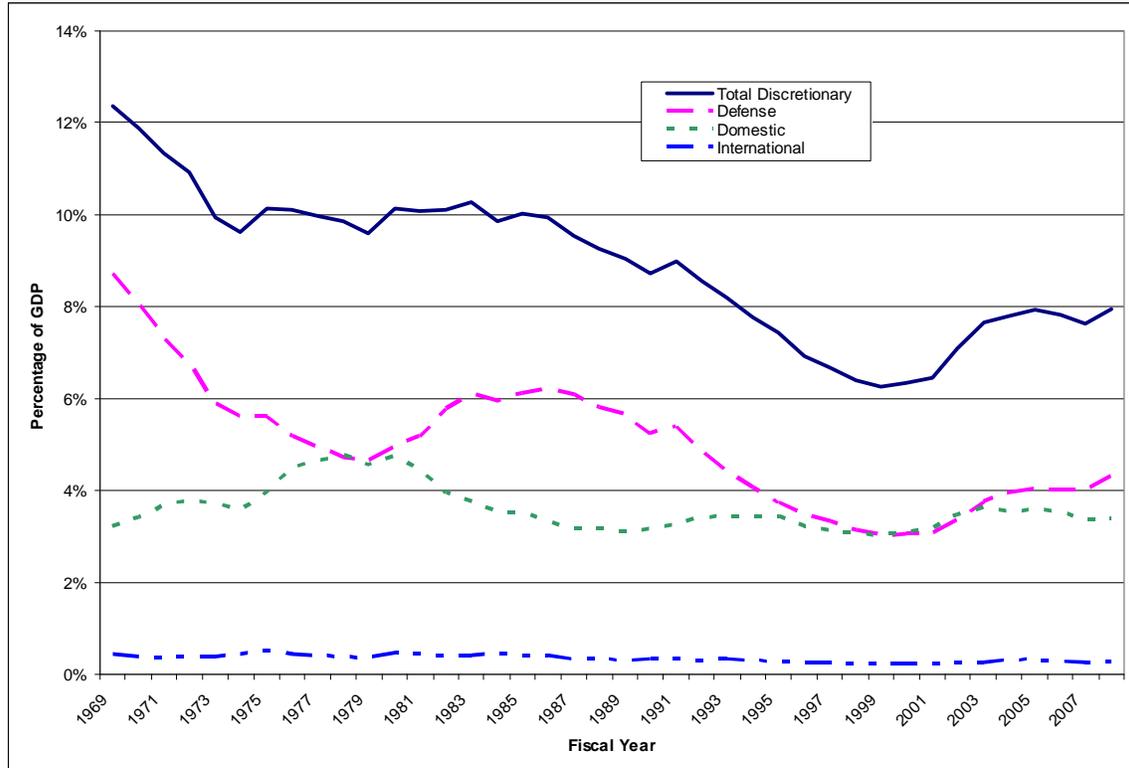
**Notes:** FY2010 values estimated; FY2011-FY2015 are President's proposed levels.

## Discretionary Spending and National Priorities

Discretionary spending can be subdivided into defense, domestic, and international categories. Such divisions may provide a rough indicator of national priorities as reflected in federal spending decisions. **Figure 3** shows these categories of discretionary spending as a share of GDP over the period 1969-2009. Discretionary defense spending as a percentage of GDP fell from 8.7% in 1969 to 3.0% in 2000, and then rose to 4.9% of GDP in 2010. Over the same period, domestic and international discretionary spending have changed less dramatically as a percentage of GDP. Domestic discretionary spending increased in the late 1970s but fell in subsequent decades as a share of the economy, remaining closer to its post-1969 average.

Although discretionary spending has increased rapidly in the past half decade, spending in some government departments and agencies has grown very slowly or has been cut, while spending in other areas has expanded rapidly. Funding for defense and emergency and disaster management increased after the events of September 11, 2001, and even more sharply in the wake of Hurricane Katrina. In recent years, disaster funding has receded, allowing non-defense discretionary spending as a share of GDP to fall until federal responses to the economic recession pushed spending back up.

**Figure 3. Discretionary Outlays by Type**  
As a percentage of GDP, FY1969-FY2008



Source: CBO, *Historical Tables*, available at <http://www.cbo.gov/budget/historical.shtml>.

## Discretionary Defense Spending

Defense spending increased sharply in the mid-1960s as the United States' involvement in Vietnam deepened. After large-scale withdrawals of American troops from Vietnam began in 1969, defense spending as a share of GDP fell for the next decade. The Soviet invasion of Afghanistan prompted the Carter Administration, and then the Reagan Administration, to boost military expenditures resulting in an increase in defense spending during the early 1980s. After the Berlin Wall was opened in November 1989 and communist governments in central and eastern Europe collapsed, defense spending as a share of GDP dropped to historically low levels, providing what some called a "peace dividend." Defense spending again rose after the attacks of September 11, 2001, and wars in Afghanistan and Iraq began.

Increased defense spending accounted for 53% of the increase in discretionary spending in real terms over the past decade. Discretionary defense spending increased 6.8% per year on average in real terms between 2000 and 2010.<sup>9</sup> Discretionary defense spending, which had fallen to 3.0% of GDP by the late 1990s, rose sharply to 4.0% of GDP in 2005, and is estimated to reach 4.9% of GDP in 2010 and 2011. General Mike Mullen, Chairman of the Joint Chiefs of Staff, has said that

<sup>9</sup> Defense discretionary spending includes enacted supplemental requests. OMB, *Budget for Fiscal Year 2011, Historical Tables*, Table 8.2, available at <http://www.whitehouse.gov/omb/budget/Historicals/>. 2010 spending includes proposed \$41.1 billion supplemental appropriation.

he considered 4% of GDP “an absolute floor” for future defense spending.<sup>10</sup> The trajectory of defense discretionary spending depends in large part on the scale of future operations in Iraq and Afghanistan, as well as on decisions about major procurement programs.

Some analysts have expressed some doubts about the sustainability of current defense budget plans.<sup>11</sup> However, others contend that defense expenditures as a proportion of GDP should be expected to fall over the long term because the cost of defending the nation depends on factors that are largely independent of economic growth.

## **Discretionary Domestic Spending**

Trends in domestic discretionary spending are less dramatic. Domestic spending supports the largest number of federal agencies and programs, including science and technology research, natural resources, energy, education, and numerous others. None of the individual programs within the domestic discretionary category have approached 1% of GDP since 1962. Most of these programs spent less than 0.5% of GDP during that period.

Domestic discretionary spending, 3.2% of GDP in 1969, rose to a peak of 4.8% in 1978. Domestic non-defense discretionary spending’s share of GDP fell during the Reagan Administration, reaching 3.1% of GDP in 1987.<sup>12</sup> Since then it has fluctuated between 3.0% and 3.6% of GDP. Domestic discretionary spending in 2009 accounted for 4.1% of GDP.

## **Discretionary International Spending**

Discretionary spending for international programs since 1969 has averaged 0.3% of GDP, reaching its peak of 0.5% of GDP in 1975. Since that time, international spending has generally trended downward. Between 2001 and 2010, spending on international programs rose from 0.2% of GDP to 0.3% of GDP. The majority of the funding in this category in recent times has been devoted to diplomatic missions, foreign aid, and international finance.

## **Discretionary Security and Non-Security Spending**

Non-defense discretionary outlays and budget authority can also be divided into security and non-security spending. Some discussions of national spending priorities in recent years have focused on trends in discretionary security and non-security spending. Unlike the division of discretionary spending into the categories of domestic, international, and defense, which has become routine in budget analyses, no standard method of dividing security spending from non-security spending has been universally accepted.

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<sup>10</sup> *New York Times*, October 22, 2007. Transcript available at <http://www.nytimes.com/2007/10/22/washington/22mullen-text.html>.

<sup>11</sup> Testimony of CBO Assistant Director J. Michael Gilmore, in U.S. Congress, House Budget Committee, *The 2009 Future Years Defense Program: Implications and Alternatives*, hearings, 111<sup>th</sup> Cong., 1<sup>st</sup> sess., February 4, 2009; Testimony of CRS Specialist in Defense Policy and Budgets Stephen Daggett, in U.S. Congress, House Budget Committee, *Sustainability of Current Defense Plans*, hearings, 111<sup>th</sup> Cong., 1<sup>st</sup> sess., February 4, 2009.

<sup>12</sup> For a summary of Reagan-era spending changes, see David Stockman, *The Triumph of Politics* (New York: Harper&Row, 1986), pp. 401-411.

## What is “Homeland Security” or “Security” Spending?

Any division of spending into security and non-security components would likely present conceptual and practical difficulties.<sup>13</sup> Moreover, the widely used term “homeland security,” which comprises some but not all non-defense security spending, does not already readily translate in budgetary categories.

Most homeland security spending, according to Administration analyses, takes place in the Department of Defense, the Department of Homeland Security, and the Department of Energy. Many other federal agencies spend at least some portion of their budget on homeland security tasks, so that a significant amount of homeland security spending takes place in agencies and programs whose primary focus is not security oriented. Some federal activities, such as Coast Guard patrols and research at the Centers for Disease Control, advance non-security and security interests. Moreover, some federal programs tasked with non-security aims in normal times may respond to specific homeland security challenges. These issues complicate budgetary analyses of homeland security spending.

The President’s budget submission must report homeland security spending.<sup>14</sup> In addition, the Obama and Bush Administration budgets have presented summaries of discretionary funding that split out security spending (defined as “Department of Defense, Homeland Security activities Government-wide; and International Affairs) from non-security spending.<sup>15</sup> This definition, drawn more widely than “homeland security,” includes some activities not closely tied to security concerns (such as Army Corps of Engineers navigation projects and military bands), but excludes other spending tied to security activities (such as veterans’ benefits and services).

OMB’s security spending estimates are based on reports from 32 agencies with homeland security responsibilities. Those agencies provide OMB with budget reports that provide a level of detail not available in publicly available data. For the purposes of this report, security spending is defined using federal subfunction- and account-level data from the OMB Public Budget Database. **Table A-1** specifies which items are included in this definition of security spending. This definition of security spending has the advantage that it can be applied over a longer period of time, providing historical context for current spending decisions.<sup>16</sup>

## Trends in “Security” and “Non-Security” Discretionary Spending

**Figure 4** shows trends in defense discretionary spending, non-defense security discretionary spending, and non-security discretionary spending since 1976 in terms of budget authority,

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<sup>13</sup> For a discussion of defining security or homeland security, see U.S. Congressional Budget Office, “Federal Funding for Homeland Security: An Update,” Economic and Budget Issue Brief, July 20, 2005.

<sup>14</sup> The Homeland Security Act of 2002 (P.L. 107-296) requires this report, which supersedes a report on anti-terrorism activities mandated by the National Defense Authorization Act of 1998 (P.L. 105-85).

<sup>15</sup> For details, see U.S. Office of Management and Budget, *Budget of the U.S. Government, FY2009*, Tables S-2 and S-4, and the “Homeland Security Funding Analysis” chapter in the *Analytic Perspectives* volume. In circular A-11, OMB defines federal homeland security activities as those that “focus on combating and protecting against terrorism, and that occur within the United States and its territories, or outside of the United States and its territories if they support domestically-based systems or activities. Such activities include efforts to detect, deter, protect against, and, if needed, respond to terrorist attacks.”

<sup>16</sup> OMB historical data from different years are not necessarily fully comparable due to changes in accounting treatment, redefinition of activity areas, changes in the structure of federal agencies, and for other technical reasons.

whereas **Figure 5** shows the same categories in terms of outlays. Because budget authority can translate into outlays that stretch over several years, changes in outlays tend to be more gradual. Non-security discretionary spending, which had been about 6% of GDP in the late 1970s, dropped sharply in the early 1980s before stabilizing around 3% of GDP after 1986. Changes in non-defense security discretionary spending have been less dramatic. **Table 2** shows average real growth rates for security and non-security components of discretionary spending.

**Table 2. Average Real Growth in Discretionary Spending**

Time Period	Total	Non-Security	Defense	Non-Defense Security	GDP
FY2005-FY2010	5.45%	5.94%	5.34%	2.70%	3.28%
FY2000-FY2010	6.20%	5.40%	6.79%	7.86%	4.06%
FY1990-FY2010	3.04%	4.04%	2.18%	4.73%	4.79%

**Source:** OMB, CRS calculations.

**Notes:** Defense is Defense-Military function (050). See **Appendix** for definition of security spending. FY2010 outlays include proposed \$41.1 billion supplemental appropriation.

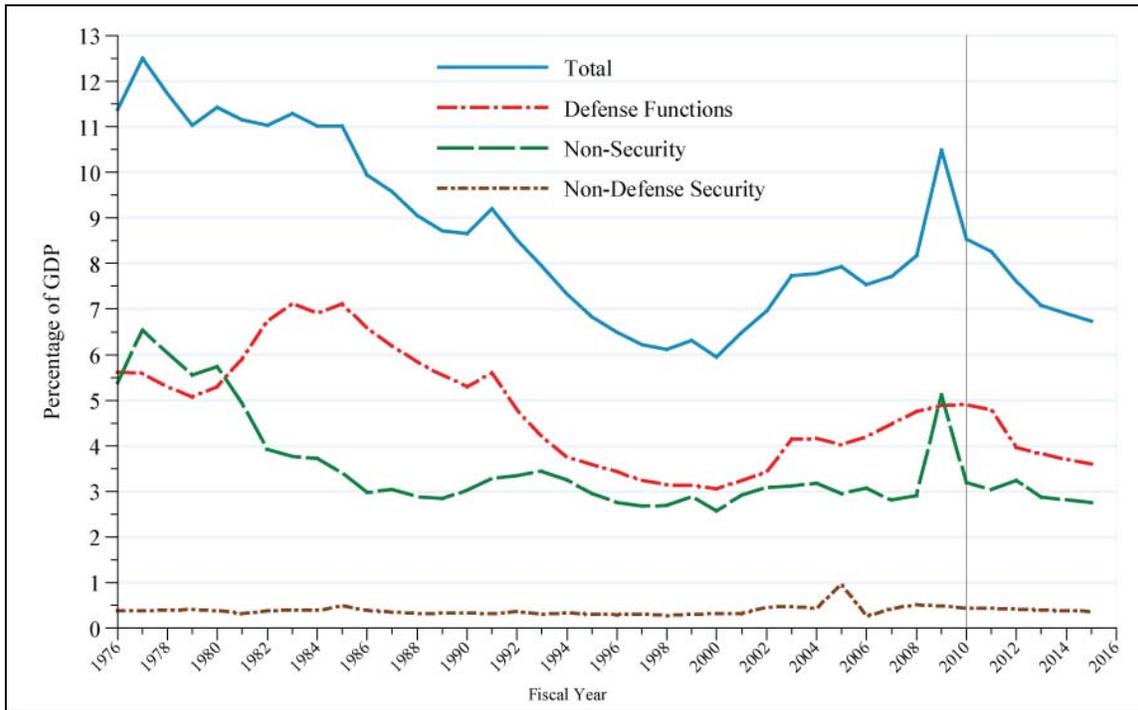
The Obama Administration in its first budget submission contended that many domestic priorities had been underfunded and proposed several cuts in defense spending, many of which Congress adopted.<sup>17</sup> The Obama Administration in its FY2011 submission, however, called for a three-year freeze on discretionary non-security spending. Previously, the Bush Administration had said that holding down growth in “non-security” discretionary spending was a major fiscal priority.<sup>18</sup> Non-security discretionary outlays rose from 3.1% of GDP in 2007 to 4.2% of GDP in 2010, after having increased earlier in the decade. Non-defense security discretionary budget authority increased sharply after Hurricane Katrina hit in 2005. Changes in outlays, as shown in **Figure 5**, were less dramatic, in large part because the Gulf Coast recovery lasted longer than expected.<sup>19</sup>

<sup>17</sup> For example, the Administration states that “now is precisely the time for the country to make the long overdue investments that will fundamentally transform our economy so that we can compete and thrive in the decades ahead.” U.S. Office of Management and Budget, *A New Era of Responsibility: Renewing America’s Promise*, February, 2009.

<sup>18</sup> U.S. Office of Management and Budget, *Budget of the U.S. Government, FY2009*, “The Budget Message of the President,” p. 1.

<sup>19</sup> More details on Homeland Security funding can be found in CRS Report RL34482, *Homeland Security Department: FY2009 Appropriations*, coordinated by Jennifer E. Lake.

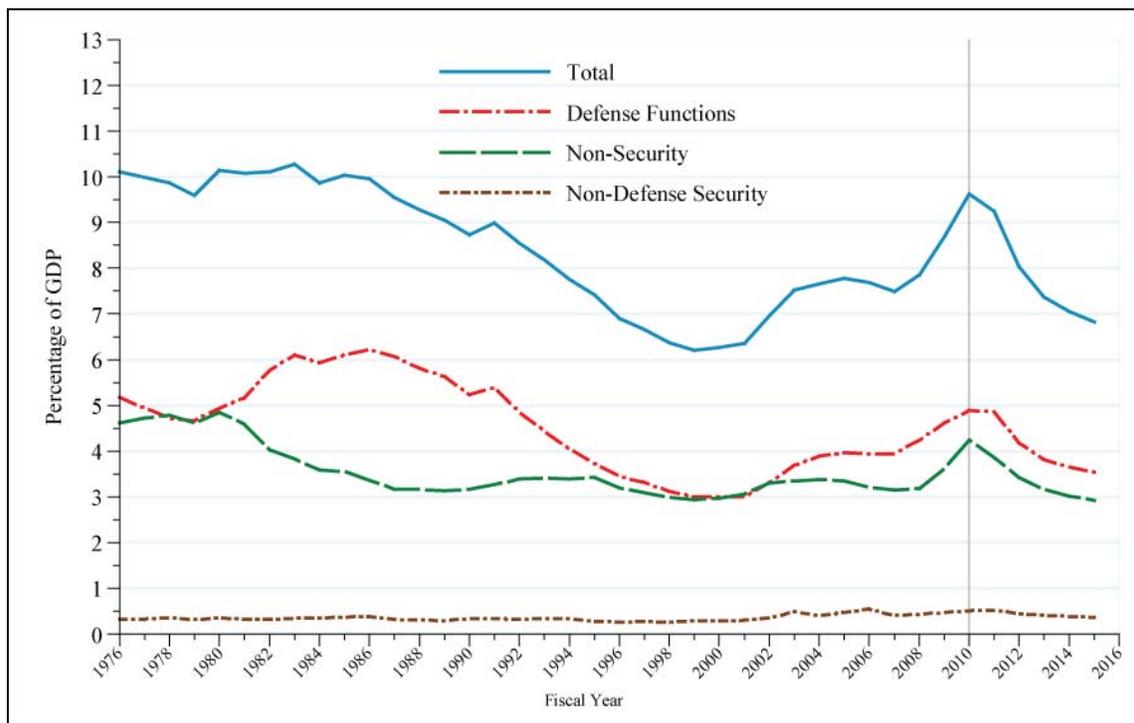
**Figure 4. Discretionary Budget Authority by Type**  
As a percentage of GDP, FY1976-2015



**Source:** OMB and BEA. See text for definition of security category. The Security spending category defined here differs from Security spending categories developed by OMB and CBO. Defense includes subfunctions 051DOD-Military, 053 Atomic energy defense, and 054 Defense-related activities.

**Notes:** FY2010 values estimated; FY2011-FY2015 levels are proposed by the President. Some supplemental appropriations passed in 2010 may not be included.

**Figure 5. Discretionary Outlays by Type**  
As a percentage of GDP, FY1976-2015



**Source:** OMB and BEA. See text for definition of security category. The Security spending category defined here differs from Security spending categories developed by OMB and CBO. Defense includes subfunctions 051DOD-Military, 053 Atomic energy defense, and 054 Defense-related activities.

**Notes:** FY2010 values estimated; FY2011-FY2015 levels are proposed by the President. Some supplemental appropriations passed in 2010 may not be included.

## Fiscal Stimulus and the Budget<sup>20</sup>

Congress in early 2009 responded to weak economic conditions and dramatic job losses that sharply increased unemployment rates by passing a major fiscal stimulus package. The resulting measure, the American Recovery and Reinvestment Act of 2009 (ARRA; H.R. 1, P.L. 111-5), enacted on February 17, 2009, included stimulus spending and tax cuts estimated at the time to total \$787.2 billion. ARRA includes funds for discretionary spending on education initiatives, support for state governments, public housing, infrastructure, and health care. CBO more recently estimated the total budgetary effect of ARRA at \$862 billion between 2009 and 2019.<sup>21</sup>

<sup>20</sup> For more information on budget issues, see CRS Report R40088, *The Federal Budget: Current and Upcoming Issues*, by D. Andrew Austin and Mindy R. Levit.

<sup>21</sup> U.S. Congressional Budget Office, *Budget and Economic Outlook: Fiscal Years 2010 to 2010*, January 2010, Appendix A, available at [http://www.cbo.gov/ftpdocs/108xx/doc10871/BudgetOutlook2010\\_Jan.cfm](http://www.cbo.gov/ftpdocs/108xx/doc10871/BudgetOutlook2010_Jan.cfm).

## **The FY2011 Budget and Beyond**

Budgetary priorities may change as the Obama Administration and Congress confront ongoing financial and economic challenges. In response to economic downturn, federal spending has automatically increased as more people have become eligible for income support programs and revenues have decreased as incomes of households and profits of many firms have fallen. These “automatic stabilizers” have a countercyclical effect, although most macroeconomists doubt that they would be themselves sufficient to stave off slow growth for the next few years.

In addition to “automatic stabilizers,” the federal government has responded to this financial turmoil with an extraordinary set of measures aimed at housing and credit markets. In February 2008, Congress enacted a \$152 billion package (P.L. 110-185, Economic Stimulus Act of 2008) to stimulate consumption that sent refunds to taxpayers and let firms depreciate their capital more quickly. Later in the year, the Federal Reserve created a panoply of lending facilities to provide financial institutions with loans in exchange for various types of collateral. On October 3, Congress passed the Emergency Economic Stabilization Act of 2008 (EESA; P.L. 110-343), which authorized the Treasury Secretary to use \$700 billion (subject to certain Congressional restrictions and notifications) to intervene in financial markets or to inject capital into key financial institutions as part of a Troubled Asset Relief Program (TARP).

The ultimate costs of these responses and their budgetary impact will depend on how the economy performs, how well firms with federal credit guarantees weather future financial shocks, and whether the government receives positive returns on its asset purchases.

New shocks to the financial system and the economy may present Congress with new demands for federal responses. Many state governments continue to face significant budget challenges, residential and commercial real estate markets remain depressed in many parts of the country, and many households are struggling with high debt levels and an uncertain labor market. Mandatory spending tied to means-tested social programs has been increasing due to persistent unemployment, while federal revenues will likely fall as individuals’ incomes drop and corporate profits sink. Funding requests for military operations in Iraq and Afghanistan will likely continue. New policies and requests, if implemented, could affect discretionary spending levels in 2011 and beyond.

## **Discretionary Spending in the Long Term**

Congress can change, continue, or reverse trends in discretionary spending directly through annual appropriations decisions, or indirectly by modifying certain federal budget procedures, such as reinstating statutory limits on discretionary spending. If discretionary spending were held constant in real terms, as the CBO baseline presumes, then discretionary spending per capita would decrease as population grows and it would shrink as a share of GDP as the economy grows. On average the U.S. population grew 1% a year and per capita GDP grew 2.25% per year from 1962 to 2005.<sup>22</sup> If those trends were to persist, then holding discretionary spending constant in real terms implies per capita discretionary spending would shrink by 1% a year and discretionary spending as a share of the economy would shrink by 3.25% per year.

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<sup>22</sup> These figures based on CRS calculations derived from CBO and Census Bureau data.

Over the long run, growth in entitlement spending will present severe fiscal challenges. Recent research on long-term fiscal challenges has focused on continued increases in the per beneficiary cost of health care, as well as the more predictable demographic changes that will occur as the baby boom generation retires. Projections from a variety of sources predict that spending on Medicare and Social Security will increase sharply as a share of GDP in coming decades.<sup>23</sup> CBO projects that Medicare will expand from 4.0% of GDP in 2020 to 9.0% in 2050 and to 13.5% in 2080. Social Security are projected to grow from 5.3% of GDP in 2020 to 6.0% of GDP by 2035. Federal Medicaid outlays, 1.8% of GDP in 2008, are projected to reach 3.2% of GDP in 2050.<sup>24</sup>

Social Security, Medicare, and Medicaid outlays as a proportion of GDP are projected to equal or exceed the present share of federal revenues as a proportion of GDP (17.7% in 2008) sometime before the middle of the 21<sup>st</sup> century. Maintaining current levels of discretionary spending would then require either substantial tax increases or major changes in those entitlement programs.

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<sup>23</sup> See U.S. Congressional Budget Office, *Budget and Economic Outlook: Fiscal Years 2010 to 2010*, January 2010, pp. 20-21.

<sup>24</sup> U.S. Congressional Budget Office, *The Long-Term Budget Outlook*, June 2009, available at <http://www.cbo.gov/doc.cfm?index=10297>.

## Appendix. Definition of “Security” Spending

**Table A-1** lists parts of the federal government whose funding is (for the purposes of this report) defined as security spending. This listing uses OMB function and subfunction codes along with specific account codes to identify agencies and programs that match, at least in large part, the definition of security spending put forth in the President’s FY2011 budget submission.<sup>25</sup> As noted in the text, some activities such as U.S. Coast Guard harbor patrols may serve security and non-security ends. Some agencies, such as the Centers for Disease Control, perform some tasks that are closely associated with security concerns as well as other tasks that are not. Finally, some grant programs designed to support non-security aims have been used to address security concerns such as recovery from the events of September 11, 2001.

**Table A-1. Listing of Items Included in Security Category**

Used in CRS analysis of discretionary spending

	Subfunction code	Within Departments	Bureau or Purpose (within Dept.)	Account	Description
51	Department of Defense-Military	All	All	All	
53	Atomic energy defense activities	All	All	All	
54	Defense-related activities	All	All	All	
152	International security assistance	All	All	All	
153	Conduct of foreign affairs	All	All	All	
401	Ground transportation	Dept. of Transportation	Transportation Security Agency		
			Fed. Motor Carrier Safety Admin.	8274	Border Enforcement Program
402	Air transportation	Dept. of Homeland Security	Transportation Security Agency		
		Dept. of Homeland Security	Security, Enforcement, & Investigations: Transportation Security	508	
403	Water transportation	Dept. of Homeland Security	U.S. Coast Guard	247	Port safety development
		Dept. of Transportation	Maritime Administration	1769	National Defense Tank Vessel Construction Program
451	Community development	Dept. of Homeland Security	All	All	
453	Disaster relief and insurance	Dept. of Homeland Security	All	All	

<sup>25</sup> Office of Management and Budget, *Budget of the U.S. Government, Analytic Perspectives*, ch. 23, “Homeland Security Funding Analysis.”

	<b>Subfunction code</b>	<b>Within Departments</b>	<b>Bureau or Purpose (within Dept.)</b>	<b>Account</b>	<b>Description</b>
551	Health care services	Dept. of Homeland Security	All	All	
552	Health research & training	Dept. of Health and Human Services	Centers for Disease Control and Prevention	943	Disease Control, Research, and Training
751	Federal law enforcement activities	All	All		
754	Criminal Justice assistance	Dept. of Homeland Security	All		
809	Deductions for Offsetting Receipts	Dept. of Homeland Security	All		
804	General property and records management	Dept. of Homeland Security	Federal Protective Service	542	
908	Other interest accounts	Dept. of Homeland Security	General Fund Proprietary Interest Receipts, nec	143500	

**Source:** Created by CRS, January 15, 2009.

**Note:** The Security Spending category defined here will differ from Security spending categories developed by OMB and CBO, which are based on more detailed budget data.

## Author Contact Information

D. Andrew Austin  
Analyst in Economic Policy  
aaustin@crs.loc.gov, 7-6552

Mindy R. Levit  
Analyst in Public Finance  
mlevit@crs.loc.gov, 7-7792