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United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

B-283728

September 30, 1999

The Honorable John M. Spratt, Jr.
Ranking Minority Member
Committee on the Budget
House of Representatives

Subject: Budget Issues: Comparison of Discretionary Outlays Under Alternative Spending Paths

Dear Mr. Spratt:

You asked us to illustrate defense, nondefense, and total discretionary spending under a number of alternative assumptions for the current budget projection period—fiscal years 1999 through 2009. On September 7, 1999, we briefed your staff on this analysis. The enclosure contains the illustrations you requested.

As you know, we do not develop cost estimates for legislation or the congressional budget resolution. Nor do we prepare economic or budget forecasts. Therefore, to respond to your request, we used budget outlay projections prepared by the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB);² we did not audit these data. As agreed with your staff, we presented, in various figures, five discretionary spending paths: (1) the CBO estimates for the congressional budget resolution for fiscal year 2000,³ (2) the CBO baseline assuming that discretionary spending complies with the statutory caps through 2002 and grows with inflation thereafter (“CBO capped baseline”), (3) an alternative CBO baseline assuming that discretionary spending grows with inflation after 1999 and with no projection for emergencies (“CBO inflated baseline”), (4) the OMB Mid-Session Review estimate of discretionary spending under the President’s budget without the

¹The Economic and Budget Outlook: An Update, CBO, July 1, 1999; Statement of CBO Director Dan L. Crippen on the Mid-Session Review of the Fiscal Year 2000 Budget prepared for the Senate Committee on the Budget, July 21, 1999; and Sequestration Update Report for Fiscal Year 2000, CBO, August 15, 1999.

²Mid-Session Review of the Budget: Fiscal Year 2000, June 28, 1999, unpublished Mid-Session Review data updated by OMB as of September 1999, and OMB Sequestration Update Report to the President and Congress for Fiscal Year 2000, August 25, 1999.

³Concurrent Resolution on the Budget for Fiscal Year 2000, H. Con. Res. 68, adopted on April 15, 1999.

Social Security and Medicare reforms proposed (“OMB Mid-Session Review path”)⁴, and (5) the OMB baseline assuming that discretionary spending complies with the statutory caps through 2002 and grows with inflation thereafter (“OMB capped baseline”). For the congressional budget resolution and the OMB Mid-Session Review path, we also break down the defense and nondefense spending. As agreed with your staff, the nondefense category excludes separate categories for violent crime reduction, highway, and mass transit spending.⁵

Figure 1 shows the allocation of defense and nondefense spending consistent with total discretionary outlays under the congressional budget resolution. Over the period shown, defense discretionary spending grows through 2004, levels off through 2007, and then gradually increases in 2008 and 2009. In contrast, nondefense discretionary outlays would fall sharply through 2002, increase in 2003, and then level off for the rest of the period.

As requested by your staff, figure 2 shows what would happen to nondefense discretionary spending over the next 10 years if defense spending grows with inflation and total discretionary spending is consistent with the congressional budget resolution.⁶ Under this scenario, nondefense discretionary spending would fall through 2002, increase in 2003, level out for 2 years, and then steadily fall throughout the rest of the period.

Figure 3 shows the allocation of defense and nondefense spending under the OMB Mid-Session Review path without the Social Security and Medicare proposals. Defense discretionary spending drops in 2000 and then grows over the rest of the period. In contrast, nondefense discretionary outlays would increase slightly in 2000, then drop through 2002, increase in 2003, level off through 2007, and then increase again in 2008 and 2009.

Figure 4 compares, in terms of nominal dollars, the paths for defense and nondefense discretionary spending under the congressional budget resolution (also shown in figure 1) with the OMB Mid-Session Review path (also shown in figure 3). In both paths defense discretionary spending is greater than nondefense discretionary spending from 2001 through 2009. Defense spending under the OMB Mid-Session Review path largely mirrors the congressional budget resolution defense spending through 2004. From 2004 through 2009 defense spending under the OMB Mid-Session Review path is greater than under the congressional budget resolution. Nondefense

⁴The President’s budget also included other policy proposals for mandatory spending and revenue offsets to finance discretionary spending. For this reason, the OMB Mid-Session Review path without the Social Security and Medicare proposals is higher than the OMB capped baseline.

⁵These other spending categories account for 5.6 percent of total discretionary spending under the congressional budget resolution and 5.5 percent under the OMB Mid-Session Review path. As a result, through 2002, defense and nondefense spending do not equal the discretionary spending totals under the two paths.

⁶CBO and OMB economic projections assumed the Consumer Price Index inflation rate would be 2.5 percent in the out years.

spending under the OMB Mid-Session Review path is greater than under the congressional budget resolution throughout most of the period.

We also compared alternative discretionary spending paths in a way that seeks to illustrate real rather than nominal outlays. As agreed with your staff, we derived this analysis assuming that the CBO inflated baseline without emergencies projected represented no real growth over the 1999 level of resources. Figure 5 compares, in terms of outlays associated with constant real resources, total discretionary spending anticipated under the congressional budget resolution and under the OMB Mid-Session Review path with three baselines—CBO inflated, CBO capped, and OMB capped. By definition the CBO inflated baseline with no emergencies projected shows constant real resources throughout the period.⁷ The CBO and OMB capped baselines show declining spending through 2002 when the statutory budget caps expire and then represent a steady—albeit lower than the CBO inflated baseline—level of resources.⁸ The congressional budget resolution follows the CBO capped baseline through the expiration of the statutory caps, is higher in 2003 and 2004, but then represents a decline in real resources. The OMB Mid-Session Review path parallels—but is higher than—the CBO and OMB capped baselines. Throughout the period, the OMB Mid-Session Review path represents a lower level of resources than the CBO inflated baseline.

Figure 6 compares defense and nondefense discretionary spending under the congressional budget resolution and the OMB Mid-Session Review path in terms of outlays associated with constant real resources. Under the congressional budget resolution, defense spending after 1999 exceeds nondefense spending, but both defense and nondefense discretionary spending fall in real terms over the period. While it is higher than under the congressional budget resolution, nondefense spending under the OMB Mid-Session Review path also falls in real terms over the period. Defense spending under the OMB Mid-Session Review path is fairly similar to that of the congressional budget resolution from 2000 until 2004, after which point defense spending under the OMB Mid-Session Review path grows in real terms.

We will send copies of this letter to Representative John Kasich, the Chairman of your committee; Senators Pete Domenici and Frank Lautenberg, in their respective capacities as Chairman and Ranking Member of the Senate Committee on the Budget; and the Honorable Jacob Lew, Director, Office of Management and Budget. Copies will be made available to others on request.

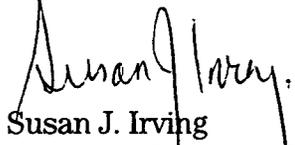
⁷The deflator was calculated as the percentage change in the CBO inflated baseline relative to total discretionary spending in 1999.

⁸According to OMB, the OMB capped baseline differs from the CBO capped baseline largely because OMB includes anticipated end-of-year adjustments in the statutory caps.

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Please contact me at (202) 512-9142 if you or your staff have any questions concerning this letter. This letter was prepared under the direction of Christine E. Bonham. Other key contributors were MaryLynn Sergent and Toni J. Wehman.

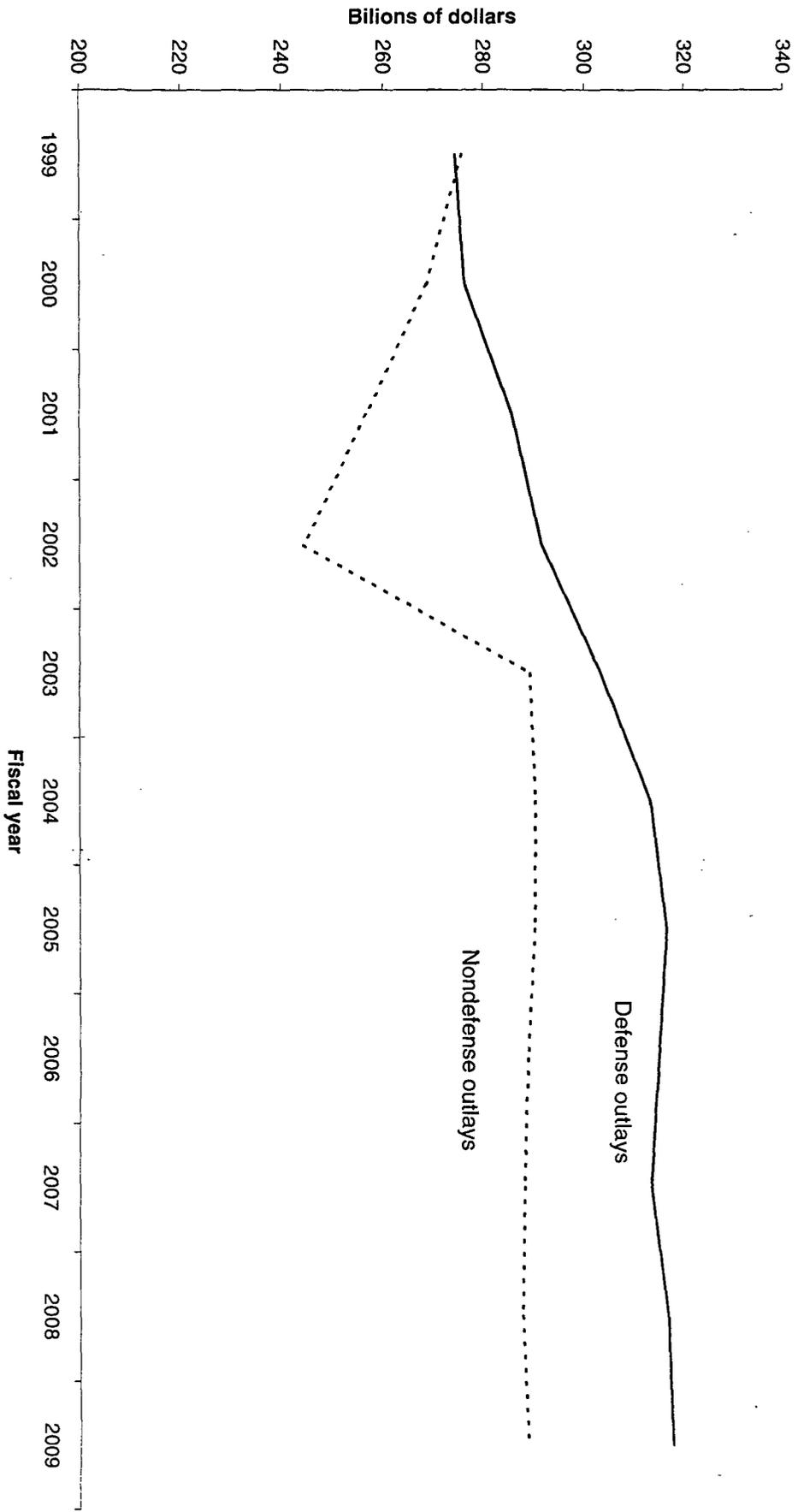
Sincerely yours,

A handwritten signature in cursive script that reads "Susan J. Irving".

Susan J. Irving
Associate Director, Budget Issues

Enclosure

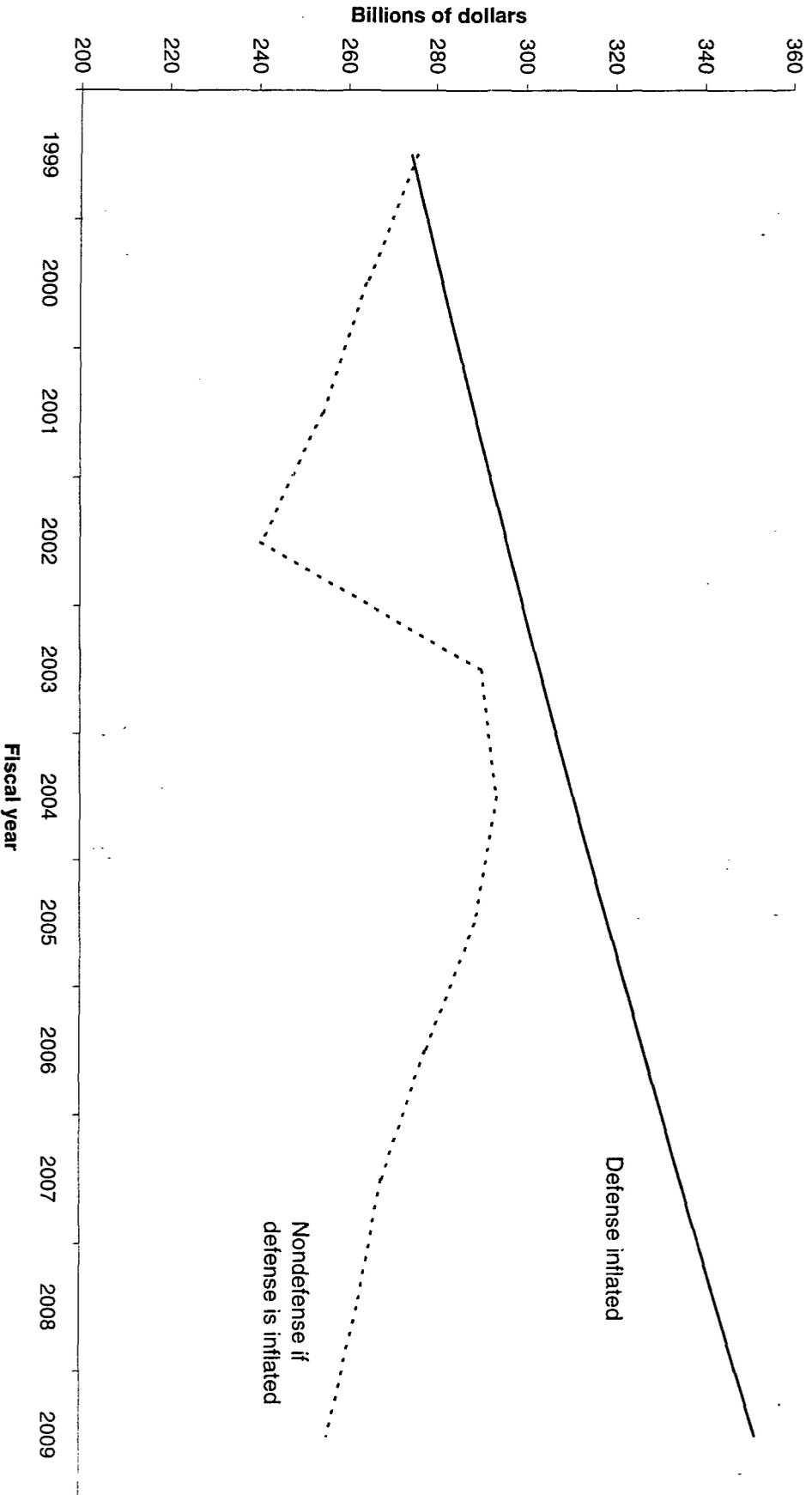
Figure 1: Defense and Nondense Discretionary Outlays Under the Congressional Budget Resolution



Note: The nondense category excludes separate violent crime reduction, highway, and mass transit categories through 2002. As a result, through 2002, defense and nondense spending are consistent with, but do not equal, the discretionary spending total under the congressional budget resolution.

Source: GAO analysis of CBO and OMB budget projections.

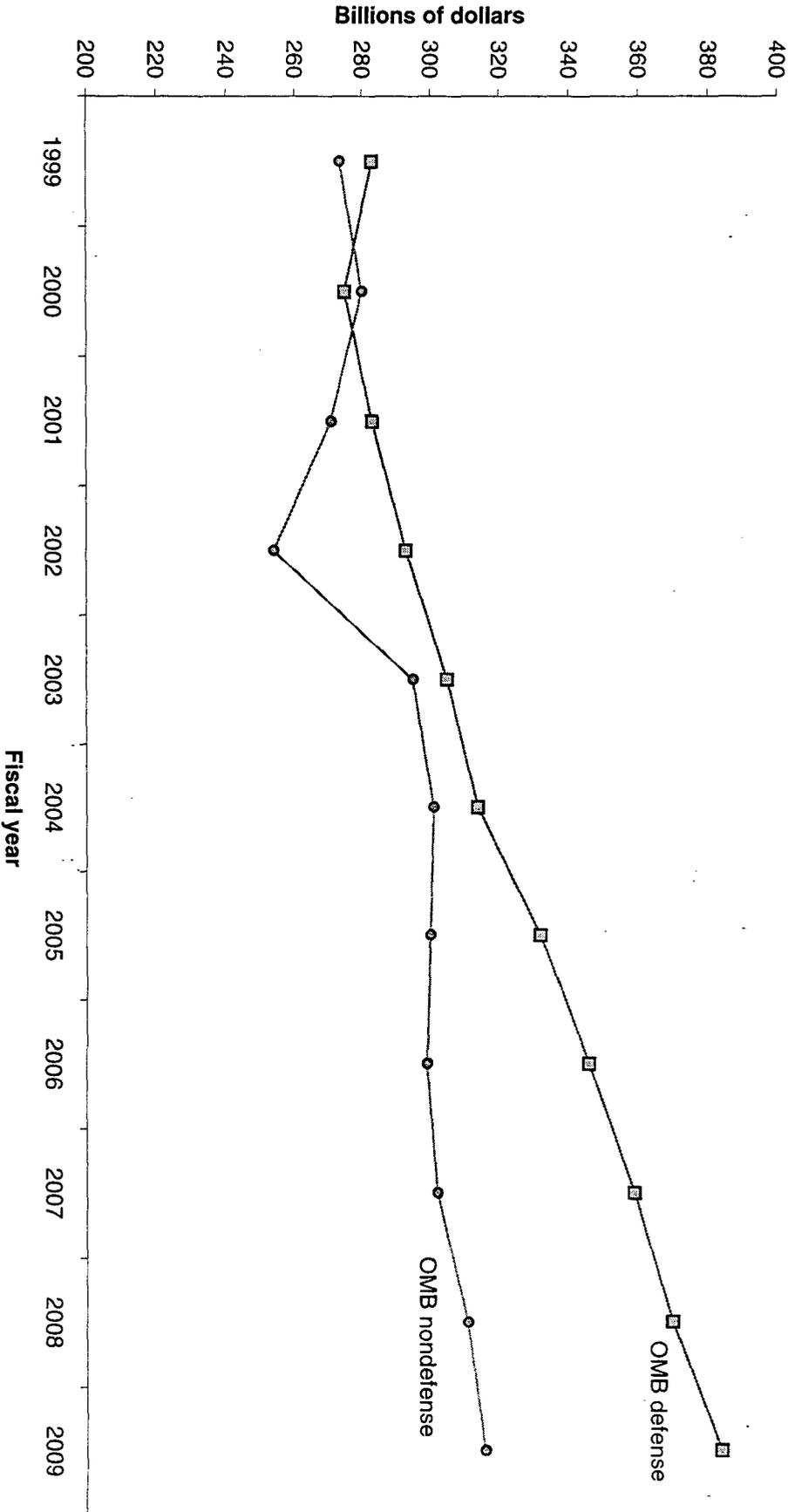
Figure 2: Defense Spending Growing With Inflation Under Congressional Budget Resolution Totals



Note: 1999 defense spending level grows at the rate of inflation--2.5 percent per CBO and OMB's July 1999 economic projections. Nondense spending is the residual assuming total discretionary spending is consistent with the congressional budget resolution.

Source: GAO analysis of CBO and OMB budget projections.

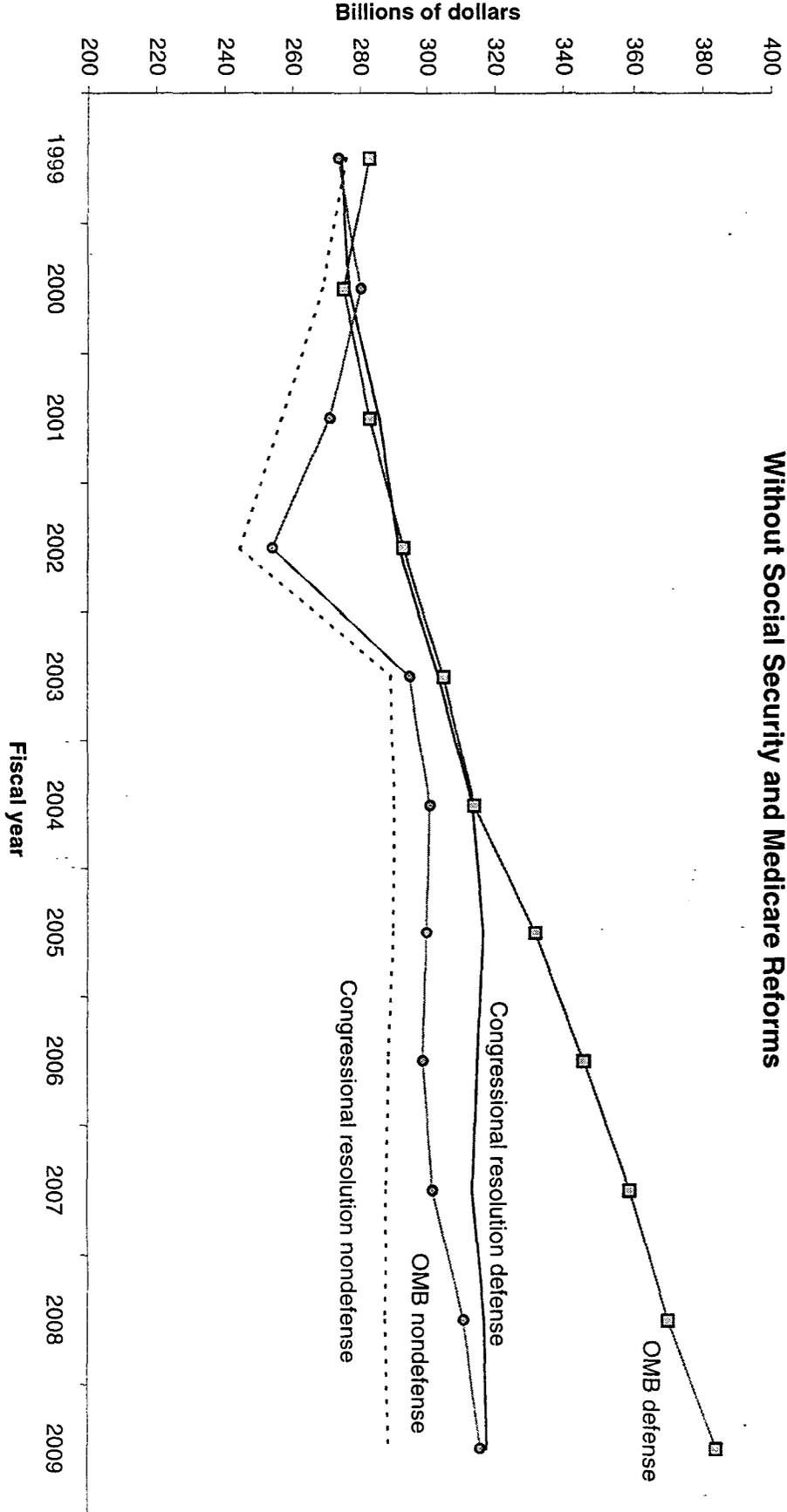
Figure 3: Defense and Nondefense Outlays Under the OMB Mid-Session Review Path Without Social Security and Medicare Reforms



Note: The nondense category excludes separate violent crime reduction, highway, and mass transit categories through 2002. As a result, through 2002, defense and nondense spending are consistent with, but do not equal, the discretionary spending total under OMB's Mid-Session Review path without Social Security and Medicare Reform, as updated by OMB, September 1999.

Source: GAO analysis of CBO and OMB budget projections.

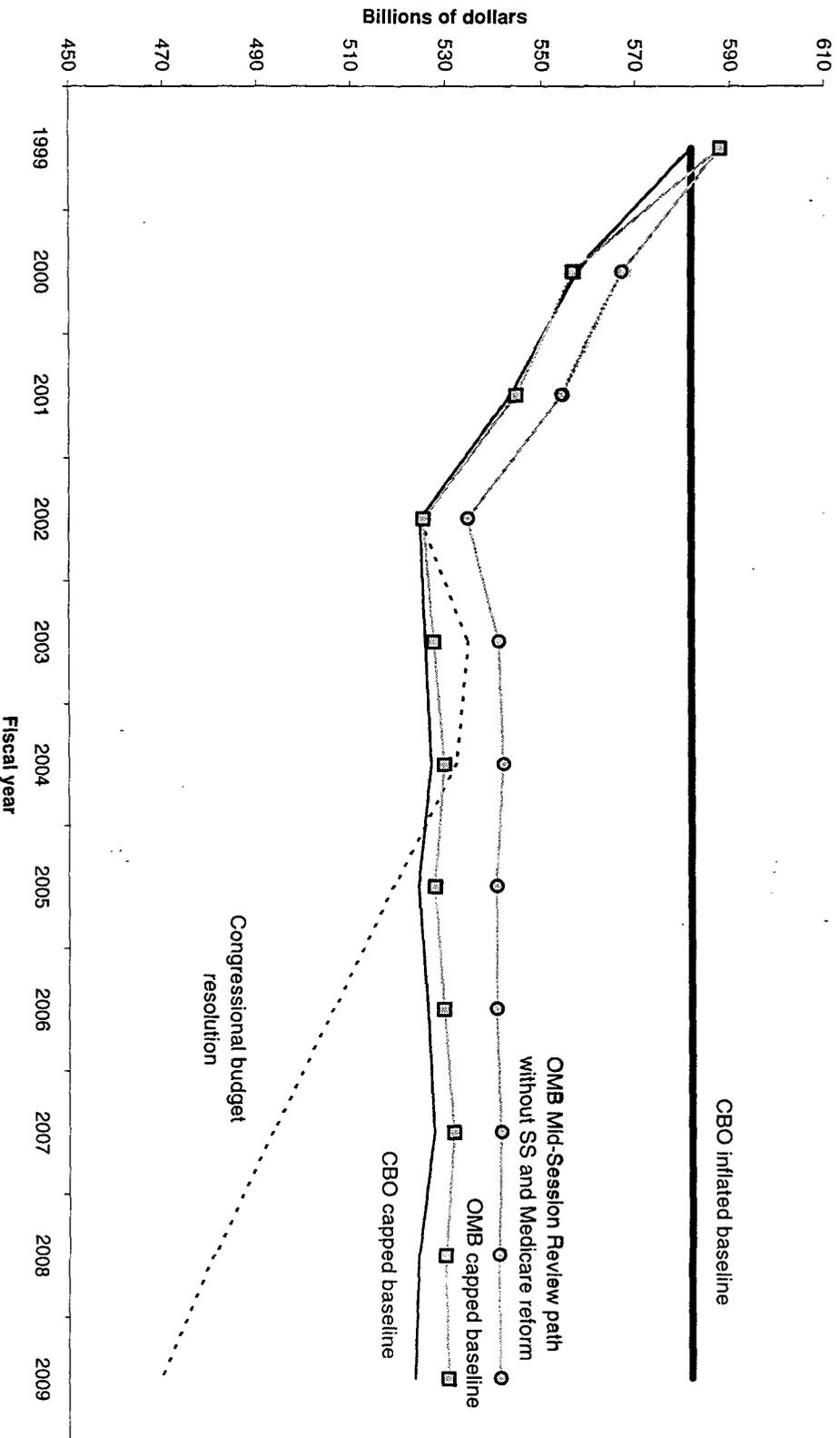
Figure 4: Defense and Nondense Outlays Under the Congressional Budget Resolution and OMB Mid-Session Review Path Without Social Security and Medicare Reforms



Note: The nondense category excludes separate violent crime reduction, highway, and mass transit categories through 2002. As a result, through 2002, the defense and nondense spending are consistent, but do not equal, the discretionary spending totals for the congressional budget resolution and OMB's Mid-Session Review path.

Source: GAO analysis of CBO and OMB budget projections.

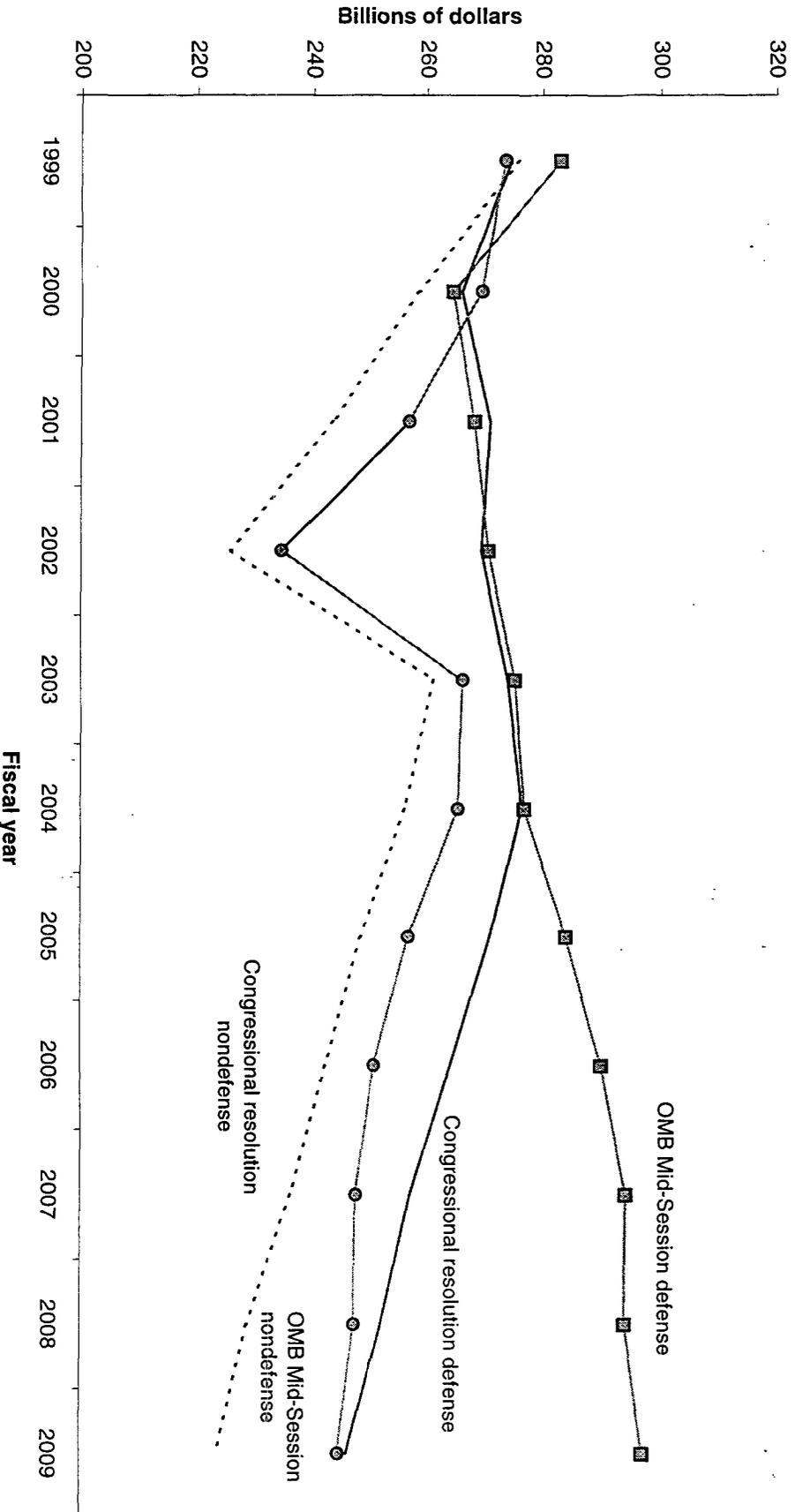
Figure 5: Total Discretionary Spending Under the Congressional Budget Resolution and OMB Mid-Session Review Path Without Social Security and Medicare Reforms Compared to Three Budget Baselines in Terms of Outlays Associated With Constant Real Resources



Note: Outlays associated with constant real resources assuming that the CBO inflated baseline without emergencies projected represents no real growth over 1999 spending levels.

Source: GAO analysis of CBO and OMB budget projections.

Figure 6: Alternate View of Defense and Nondefense Spending Under the Congressional Budget Resolution and OMB Mid-Session Review Path Without Social Security and Medicare Reforms in Terms of Outlays Associated With Constant Real Resources



Notes: Outlays associated with constant real resources assume that the CBO inflated baseline without emergencies projected represents no real growth over 1999 spending levels. The nondefense category excludes separate violent crime reduction, highway, and mass transit categories through 2002; as a result, defense and nondefense spending do not equal the discretionary spending totals.

Source: GAO analysis of CBO and OMB budget projections.

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