Policy Memorandum

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MAJOR BUDGET PROPOSALS PIT PUBLIC INVESTMENT AGAINST VITAL SERVICES

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The current budget debate has generated various plans to bring revenues and spending into alignment, including proposals by the president, congressional caucuses, individual legislators, and outside groups. The majority of these plans focus disproportionately on the non-security discretionary ("domestic discretionary," or NSD) budget, that portion of the overall budget that not only delivers the primary source of investment in our nation's future, but also provides vital services to people in need, protects Americans from corporate abuses and environmental degradation, and keeps the government itself operating. Despite its important functions, the domestic discretionary budget represents only 15% of the total budget, and accounts for only 14% of the inflation-adjusted increase in federal outlays over the last decade.

It is instructive to compare these plans to slash the domestic discretionary budget, yet varying assumptions and categorizations make this comparison difficult. This analysis makes the necessary adjustments for a true apples-to-apples comparison of the plans while providing historical context on the NSD budget.

The analysis also incorporates newly released public investment data from the Office of Management and Budget. Previously, the data only disaggregated public investments by category—physical capital investment, education and training, and R&D—and subcategory—highways, health, veterans, etc. By detailing public investment down to the account level, the new data provide a clear understanding of how cuts to broad budget categories such as NSD might affect these vital investments.

This analysis examines President Obama's 2012 budget proposal, the president's April framework, the Bowles-Simpson debt commission's plan, and House Budget Committee Chairman Paul Ryan's budget resolution. The major findings of this analysis are summarized below:

- Each of the proposals cuts the NSD budget as a share of GDP to its lowest level in over half a century.
- Under the proposals, the NSD budget in 2021 would range from 1.5% of GDP (Ryan) to 2.2% of GDP (President Obama's 2012 budget request)— below the previous low of 2.6% in 1962; far below the historical average of 3.3%; and well below its averages during both the Reagan (3.4%) and Clinton (3.0%) presidencies.
- Over half of the NSD budget is composed of public investment (for example, education, infrastructure, and R&D), so these proposed cuts make it practically impossible to maintain our investment levels—let

alone begin to close our substantial public investment shortfall—without cutting at the rest of the NSD budget by at least 70 percent.

The non-security discretionary budget

Historically, the discretionary portion of the federal budget (annually appropriated funds) has been broken into two sections: defense and non-defense discretionary spending. Defense discretionary spending covers funding for the Department of Defense, while non-defense discretionary spending covers funding for all other non-mandatory programs. Recently, however, this categorization has changed. In response to 9/11, Congress dramatically expanded homeland security spending. The wars in Iraq and Afghanistan have produced many more veterans qualifying for veterans' benefits. To acknowledge this rise in non-defense security spending, policymakers are increasingly making the budgetary distinction fall between security spending and non-security discretionary spending.

The security category as defined by both the Obama administration and outside groups such as the Bowles-Simpson fiscal commission includes the departments of Defense, Homeland Security, and Veterans Affairs; the National Nuclear Security Administration (officially part of the Department of Energy, though it is responsible for the nation's nuclear weapon arsenal) and the International Affairs budget function (this includes, for example, foreign aid to Israel and Egypt that is intended to bolster our regional security). It is appropriate to group these programs together, as they all have a single purpose: to keep America safe.

The rest of the discretionary budget includes the nation's investment in education, transportation infrastructure, housing, health, children, and many more areas. This non-security investment seeks to protect our

TABLE 1

Share of total non-security discretionary budget, by category

Category	2007-10 average
Education	16.3%
Transportation	15.3
Health research, training, and services	11.9
Housing assistance	9.4
Justice, law enforcement, and corrections	7.6
Child care and education, nutrition assistance, home heating assistance, income security for blind, disabled, and aged	7.6
Natural resources, pollution control & abatement, and defense environmental clean-up	7.2
Other	4.5
Space	3.9
General government operations	3.8
Research (non-health)	3.0
Community and regional development	2.9
Workforce development	2.0
Dams, levees, and flood control	1.7
Agriculture	1.5
Energy	1.3
Total	100.0

SOURCE: Author's analysis of Office of Management and Budget data (OMB 2011a).

environment from dangerous pollutants that can harm both our health and our children's health. It helps shield Americans from the corporate abuses of Wall Street, and it keeps our food safe and our children's toys free from harmful chemicals and metals. For a full breakdown of the NSD category, see **Table 1.**

Historical trend of the non-security discretionary budget

The last fifty years of the non-security discretionary budget can be characterized by four time periods. From the early 1960s to the late 1970s, the NSD budget rose from less than 2.6% of GDP to about 4.5% of GDP, mostly due to increased investments in ground transportation (nearly all of which went to highway investment), training and employment, pollution control and abatement, and housing assistance (see **Figure A**).

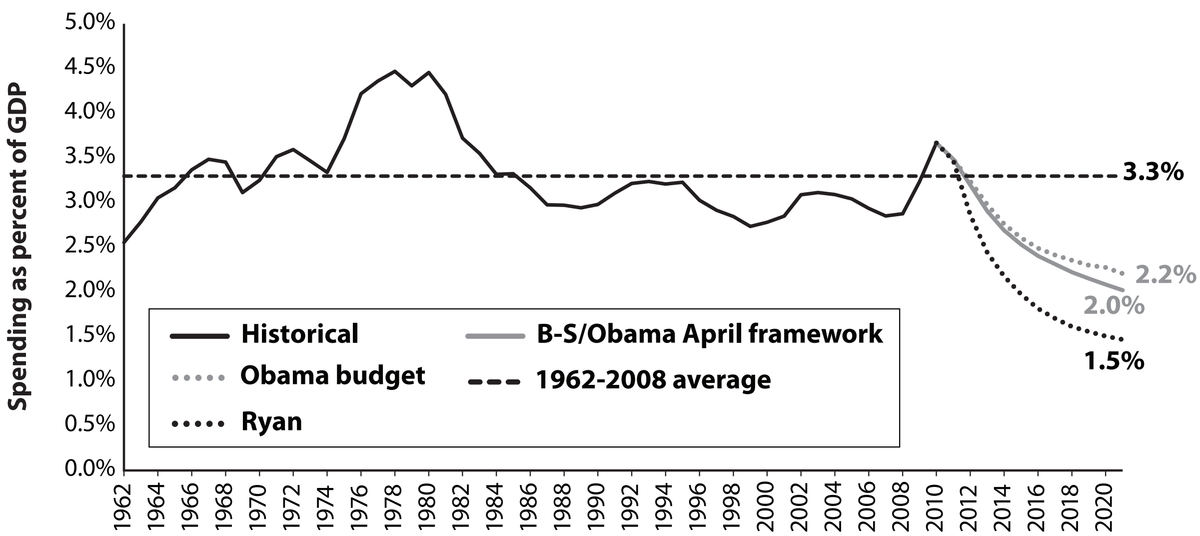
From 1980 to 1989, the NSD budget was cut by over one-third, from 4.5% to 2.9% of GDP, with the most severe cuts made to training and employment, community development, ground transportation, pollution control and abatement, and energy supply.

Between 1989 and 2008 the NSD budget remained relatively constant, never rising above its 1995 high of 3.2% of GDP or falling below its 1999 low of 2.7% of GDP. It averaged 3.0% of GDP during this 20-year period and ended exactly where it started, at 2.9% of GDP. But the composition of the NSD budget changed, with education (mostly K-12), health care services, health research and training, and ground transportation investments rising as a share of the budget and defense-related atomic energy environmental activities (technically part of the NSD budget despite being associated with security activities), space activities, and training and employment spending falling.

Between 2008 and 2010, the NSD budget rose to 3.7% of GDP, largely as a result of the 2009 American Recovery and Reinvestment Act (Recovery Act). Though nearly every category of NSD spending increased during this period, education increased not only in dollar terms but substantially as a share of the total NSD budget (though much of the increase was intended as general budget relief for state and local governments

FIGURE A

Historical and projected non-security discretionary budget as a share of GDP, 1962-2021



SOURCE: Author's analysis of OMB Public Budget Database, CBO March 2011 Budget and Economic Outlook, the President's FY 2011 budget, the Bowles-Simpson Fiscal Commission report, the President's April framework, and Paul Ryan's *Path to Prosperity*.

rather than additional education investment). Nearly every other category's share of the NSD budget fell slightly or remained relatively unchanged.

The 2011 NSD budget is 3.5% of GDP, only a tenth of a percent higher than the average level during the Reagan Administration and also only slightly above the entire 50-year historical average of 3.3%.

NSD spending under four budget proposals

But these heightened levels are temporary, and are projected to quickly fall. Over the next 10 years, just keeping the NSD budget at pace with inflation (rather than economic growth, which is nearly always higher) would result in the level of NSD spending falling to 2.3% of GDP by 2021.[1] This would be the lowest level in over half a century and about one-third below its previous low of 2.6% in 1962.

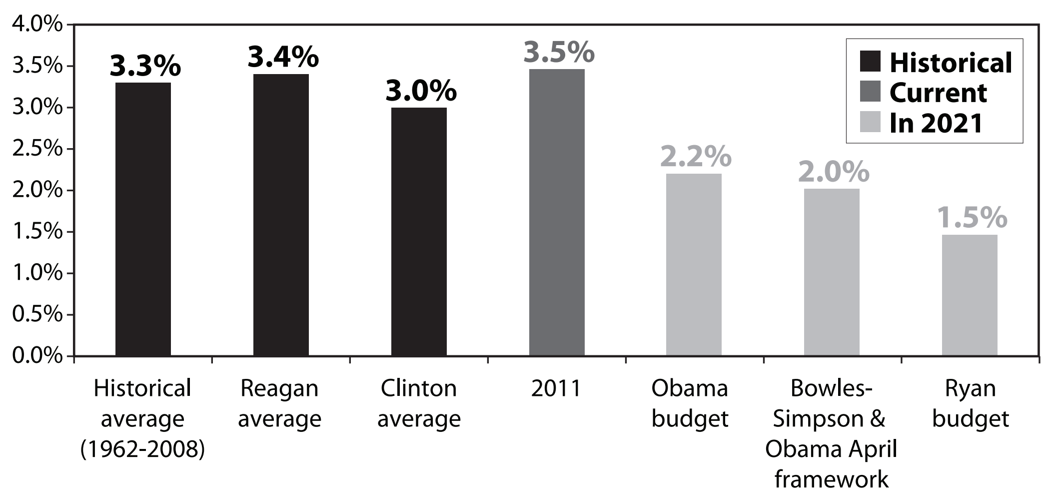
Keep in mind that 1962 was before the entire Great Society and before modern environmental regulation; back then the federal government's role in funding education, law enforcement, and keeping families off the street was minimal. In short, an NSD budget level that falls short of its 1962 level would cripple basic government functions and fail the needs of a growing population.

Yet the budget plans by House Budget Committee Chairman Paul Ryan, the Bowles-Simpson debt commission, and President Obama as outlined in his April speech all propose to slash NSD to an even lower level than that reached in 1962. As shown in Figure A, the Bowles-Simpson plan and the president's April plan both propose to cut the NSD budget down to 2.0% of GDP in 2021, while Chairman Ryan proposes to cut it down to 1.5% of GDP. Not even President Obama's 2012 budget request proposes allowing the NSD budget to keep up with inflation (the CBO baseline), with funding in 2021 at 2.2% of GDP—still lower than it has been in over half a century. And all of these plans propose NSD levels far below the averages during both the Reagan (3.4%) and Clinton (3.0%) presidencies (Figures A and **B**).

The cuts proposed under these plans will be even more difficult and painful than the topline numbers suggest. Public investments—such as education, infrastructure, and R&D—are vital to the nation's long-term

FIGURE B

Non-security discretionary budget, as a share of GDP, historical vs. under future spending plans



SOURCE: Author's analysis of OMB Public Budget Database, CBO March 2011 Budget and Economic Outlook, the President's FY 2011 budget, the Bowles-Simpson Fiscal Commission report, the President's April framework, and Paul Ryan's *Path to Prosperity*.

economic growth and global competitiveness. Yet public investments are extremely low, currently near their lowest level in 60 years (Pollack 2011), leading to a lagging and inadequate education system, crumbling infrastructure, and absence of innovation. Accordingly, support for safeguarding public investment has grown, as evident in the Bowles-Simpson commission plan, which proposed protecting public investment spending, and the president's 2012 budget, which would proposed expanding public investment.

Yet an analysis of account-level data provided by the Office of Management and Budget reveals this to be a near impossibility because public investments represent over half of the non-security discretionary budget. Furthermore, the NSD portion of public investment represents nearly 90% of total federal non-defense public investment. In other words, it would be practically impossible to cut the non-security discretionary budget to the levels proposed in the various plans without either significantly cutting public investments or nearly eliminating everything else.

TABLE 2

Percent cut to NSD share of GDP in 2021, relative to 2011 level

	Total NSD cut in 2021	Cut to non-public investments if public investments are held constant as a share of GDP
NSD limited to inflation growth	-32.9%	-66.3%
Obama FY12 budget	-36.3	-73.2
Bowles-Simpson & Obama April framework	-41.7	-84.0
Ryan budget	-57.6	-116.2

SOURCE: Author's analysis of OMB account-level public investment data (OMB 2011b), Office of Management and Budget data (OMB 2011a), Congressional Budget Office data (CBO 2011), the Bowles-Simpson Fiscal Commission recommendations (Fiscal Commission 2011), the President's April framework (The White House 2011), and Chairman Ryan's 2012 Budget Resolution (Ryan 2011).

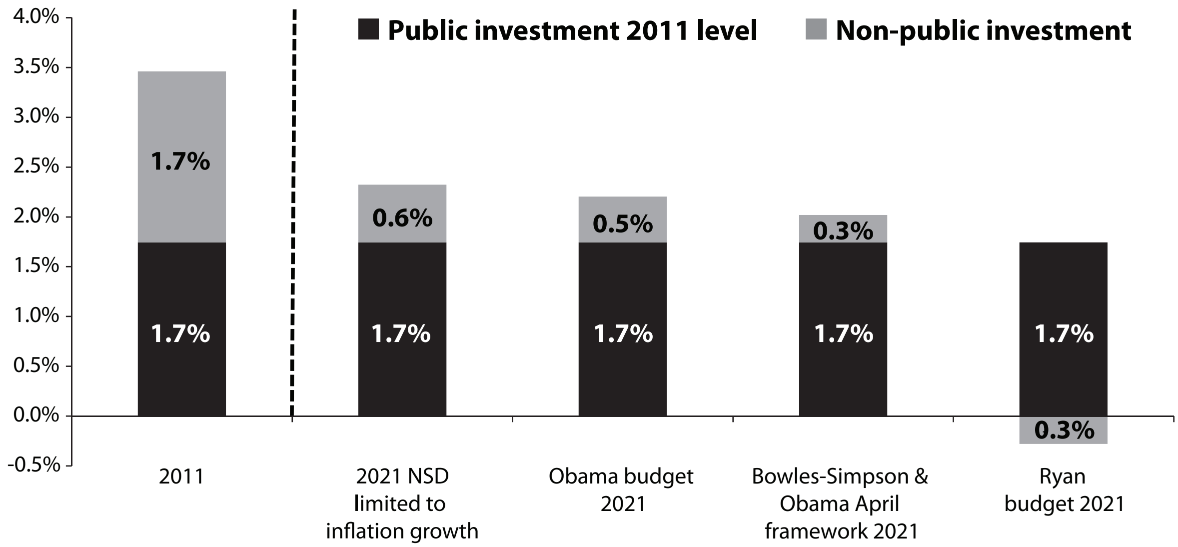
In fact, as **Table 2** and **Figure C** show, cutting the non-security discretionary budget to the levels proposed is practically impossible. Both the Bowles-Simpson proposal and the president's April framework propose a 42% cut to the NSD budget as a share of GDP, but exempting public investments from cuts would mean a cut of nearly 85% to everything else. By proposing a 58% reduction of NSD budget as a share of GDP, Chairman Ryan's budget actually brings the total NSD budget below the current public investment level, meaning that one could wipe out all non-public investments in the NSD budget (which includes, ironically, Paul Ryan's salary and office budget) and *still* have to cut further.

Methodology

To make the comparisons outlined in this policy memorandum, it was necessary to make some adjustments to the various plans' projected funding levels. First, the president and the Bowles-Simpson commission budgets both moved the Highway Trust Fund into the mandatory budget. In order to make an apples-to-apples comparison, this spending was moved back into the discretionary budget. Second, the Ryan budget classifies the international function as non-security—rather than security—so for the purposes of comparison this spending was moved back into his non-security budget (this required combining budget authority with outlays, though given the relatively small dollar amounts and long time frame this shouldn't significantly alter the final levels). Both the data on NSD spending limited to inflation growth (CBO 2011) and the Bowles-Simpson plan (Fiscal Commission 2011) are unpublished, and was provided to EPI by former Bowles-Simpson commission staff.

FIGURE C

Reductions to the non-public investment portion of the NSD budget if public investment levels are maintained under various plans



SOURCE: Author's analysis of OMB account-level public investment data, OMB Public Budget Database, CBO March 2011 Budget and Economic Outlook, the President's FY 2011 budget, the Bowles-Simpson Fiscal Commission report, the President's April frame work, and Paul Ryan's *Path to Prosperity*.

The public investment analysis was done by matching up account-level data provided to EPI by the Office of Management and Budget (OMB 2011b) to the full Public Budget Database (OMB 2011a). This was necessary because neither the original account-level data nor the official published data series make distinctions between discretionary/mandatory or security/non-security. For accounts with both mandatory and discretionary portions, it was assumed that the public investment was split in proportion to the total outlays in that given year.

At the most basic level, public investment expenditures are those whose benefits accrue in the future and for an extended period of time (e.g. a bridge, or education). These future benefits are conferred by enhancing the nation's stock of physical capital, human capital, or knowledge capital. It is these types of capital that can then be used over an extended period of time to boost productivity and economic growth. The OMB defines public investment as expenditures on physical capital, education and training, and research and development. While in some respects OMB's definition is broad—for example, some of the grants to state and local governments classified as investment may end up being used for non-investment purposes—it excludes social investments like childhood immunization, the benefits of which, as with the other public investments considered, do accrue over a long period.

Conclusion

Deficit reduction isn't easy. Too many proposals, including those discussed here, at times treat it as an easy exercise in arithmetic, rather than a difficult exercise in competing priorities. The deep cuts to the NSD budget proposed under each plan, are a perfect example of this tendency. The NSD budget is difficult to define and even more difficult to shape into a digestible talking point, making it a prime target for proposed cuts because the consequences—and the populations affected—are obscured.

But there *would* be consequences to these cuts, and severe ones. This analysis shows that public investment—one of the budget spending categories most important to long-run economic growth and global competitiveness—constitutes over half of the NSD budget. These budget scenarios propose cutting anywhere from 37% to 58% from the NSD budget as a share of GDP. Each one would make it practically impossible (and in the Ryan plan's case, mathematically impossible) to raise public investment up to the level required to narrow our massive investment shortfall. Even holding the funding constant as a share of the economy would require nearly eliminating (or in Ryan's plan, more than eliminating) all non-investment spending in the NSD budget.

The numbers in these plans may add up, but to what? Crumbling roads and bridges, a second-class education system, a dirty and hazardous environment, lax consumer protections, and a government that can't function. Proposing drastic savings from the NSD budget may be politically painless, but real pain will be inflicted on our country should these proposals be put into effect.

Endnotes

1. The CBO inflation adjustment is based on the GDP price index and the employee cost index for wages and salaries, as specified by the 1985 Balanced Budget and Emergency Deficit Control Act, rather than CPI-U.

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