



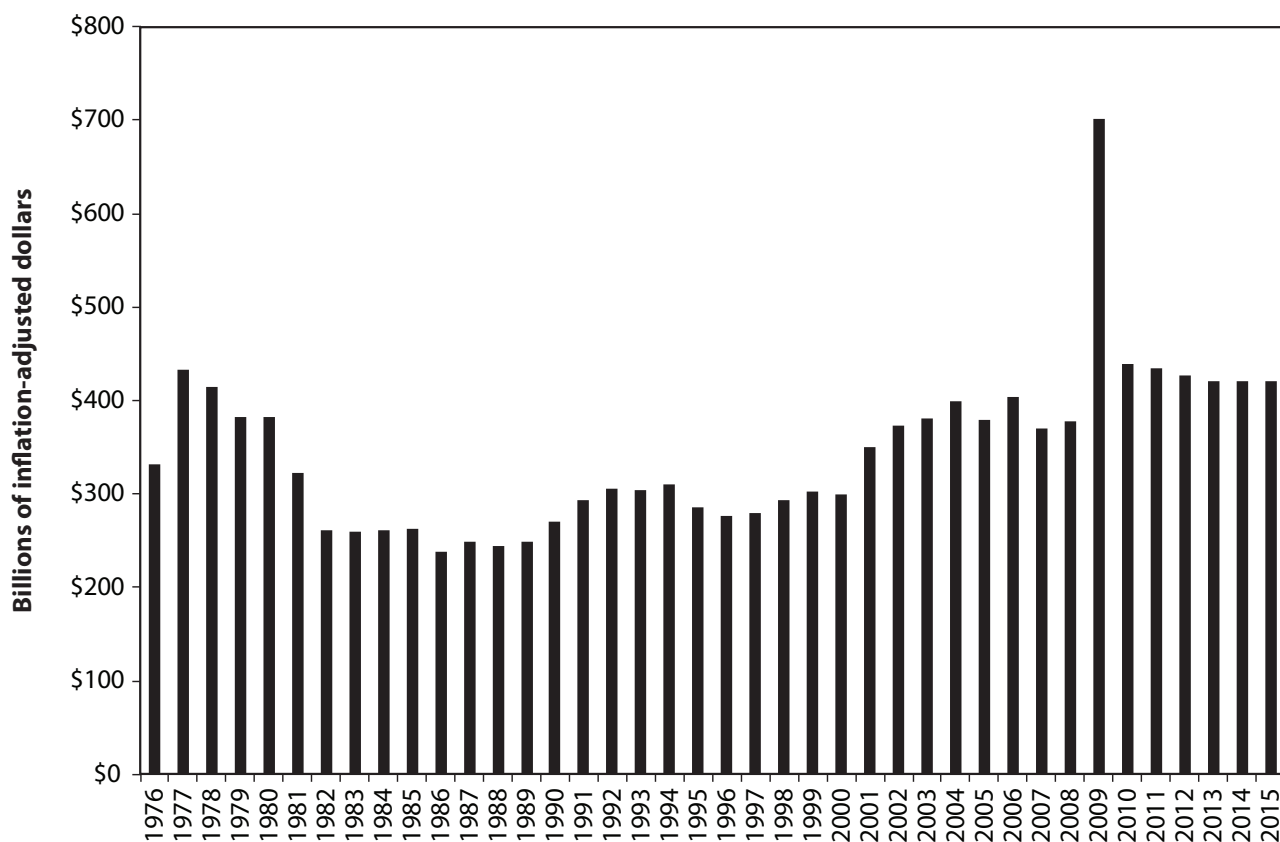
A FIRST LOOK AT THE BUDGET FREEZE

BY JOHN S. IRONS

President Obama recently announced a proposed three-year freeze in non-security discretionary spending. The impact of this proposal, if enacted by Congress, would be to reduce the real value of spending in this category over the next three years. Assuming the budget grows at the same rate as inflation after that, by 2015 spending would be nearly \$20 billion lower in that year relative to a budget plan that grows only with inflation. This would leave non-security spending at historically low levels relative to the economy.

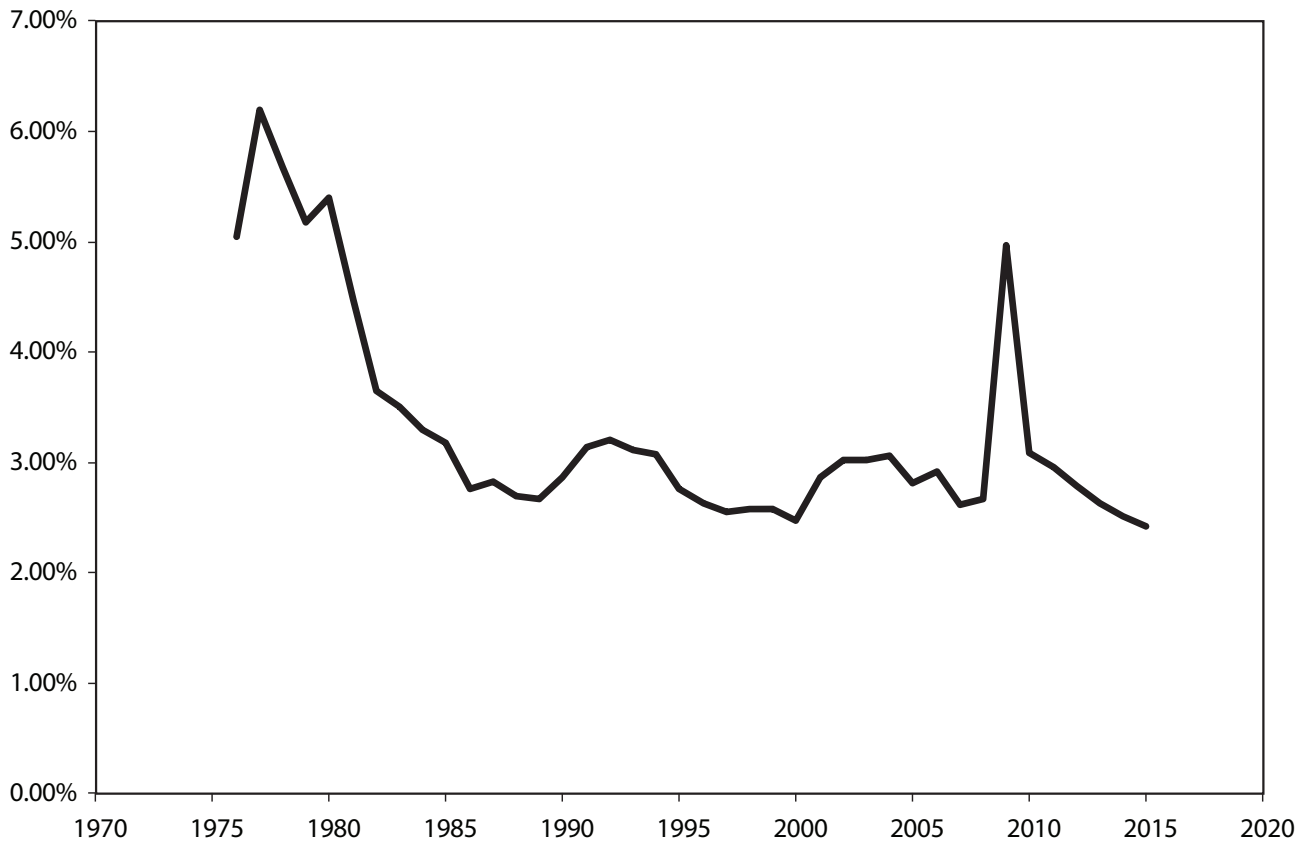
Contrary to rhetoric that portrays discretionary spending as “out-of-control,” projected spending on non-security programs is within historical norms. In absolute dollars, budget authority is near the top-end of the 35-year range; however, as a share of the economy, this part of the budget has shrunk to historic lows.

**For the most recent analysis of President Obama’s budget, read the report
Understanding the President’s FY 2011 Budget (EPI Issue Brief #273.)**

FIGURE A**Discretionary budget authority levels
(including freeze from 2011 to 2013), 1976-2015**

SOURCE: OMB, 2010 Budget, Historical Tables at <http://www.whitehouse.gov/omb/budget/Historicals/> and OMB, Mid-session Review at <http://www.whitehouse.gov/omb/budget/MSR/>.

Figure A shows the historical trends in budget allocations for non-security spending.¹ In inflation-adjusted dollars, spending in this category has generally ranged between \$250 and \$450 billion over the past 35 years. There was a temporary spike in 2009 as a result of the American Recovery and Reinvestment Act, which was implemented to combat the recession. The administration's proposal would freeze annual budget authority at approximately \$450 billion, or 3.1% of 2010 gross domestic product (GDP) through 2013.

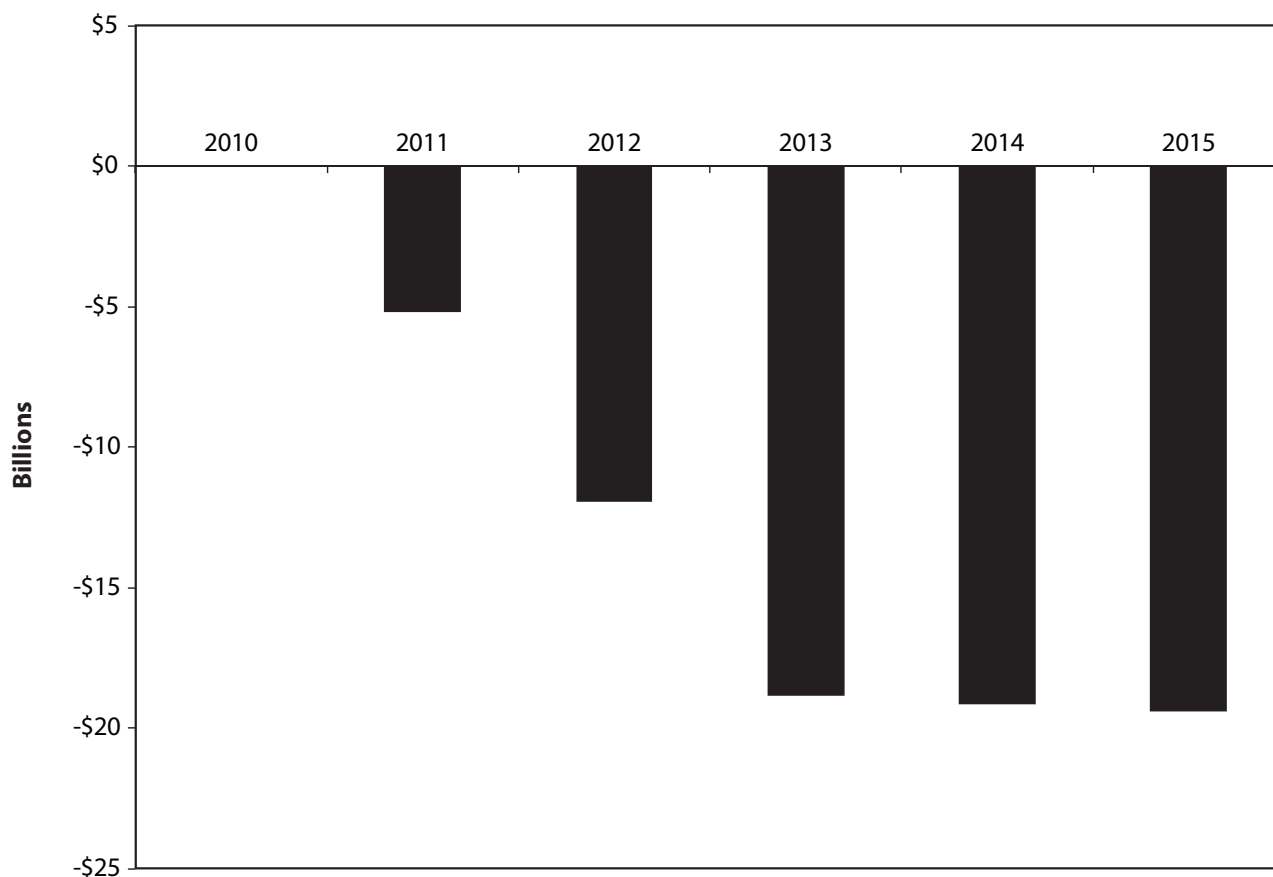
FIGURE B**Trend in discretionary budget authority
(including freeze from 2011 to 2013) as a share of GDP, 1976-2015**

SOURCE: OMB, 2010 Budget, Historical Tables at <http://www.whitehouse.gov/omb/budget/Historicals/> and OMB, Mid-session Review at <http://www.whitehouse.gov/omb/budget/MSR/>.

Figure B shows the evolution of this spending over the same time-period as a share of the economy. The 1980s saw a dramatic decline in non-security spending of more than 50% from the late 1970s. Since then, the level has fluctuated with gains in the early 1990s, a dip in the mid-to-late 1990s, and then a slight uptick in the early part of the decade. Looking forward, if the freeze is put into effect, non-security spending would reach the lowest level in recent history at 2.4% of GDP.

FIGURE C

Spending changes relative to inflation-only baseline



SOURCE: OMB, 2010 Budget, Historical Tables at <http://www.whitehouse.gov/omb/budget/Historicals/> and OMB, Mid-session Review at <http://www.whitehouse.gov/omb/budget/MSR/>.

Relative to a scenario in which non-security spending is allowed to grow only with inflation,² budget authority would be about \$20 billion lower in 2015 under the freeze scenario. **Figure C** shows how the reductions would compound over time.

A freeze on the total level of discretionary spending as announced by the President is preferable to a uniform cut applied to all agencies and programs because it allows policy makers some discretion to allocate reductions across programs. However, a broad-based ceiling is still a blunt tool to achieve spending reductions. A better approach would be to evaluate programs on a case-by-case basis and make targeted reductions where appropriate.

Endnotes

1. The figures include total budget authority in all agencies except the Departments of Defense, Veterans Affairs, State, and Homeland Security. This figure assumes a freeze in nominal terms at \$447 billion for fiscal years 2011-2013, and a growth at the rate of inflation thereafter.
2. Annual inflation is assumed to be 1.5% over the next five years.