OVERVIEW: DISCRETIONARY OUTLAYS, SECURITY AND NON-SECURITY

HEARING

BEFORE THE

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ON DEFICIT REDUCTION
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WEDNESDAY, OCTOBER 26, 2011

UNITED STATES CONGRESS,
JOINT SELECT COMMITTEE
ON DEFICIT REDUCTION,
Washington, DC.

The committee met, pursuant to call, at 10:05 a.m., in Room SH–216, Hart Senate Office Building, Hon. Patty Murray [co-chairman of the committee] presiding.

Present: Senator Murray, Representative Hensarling, Senator Baucus, Representative Becerra, Representative Camp, Representative Clyburn, Senator Kerry, Senator Kyl, Senator Portman, Senator Toomey, Representative Upton, and Representative Van Hollen.

OPENING STATEMENT OF HON. PATTY MURRAY, A U.S. SENATOR FROM WASHINGTON, CO-CHAIRMAN, JOINT SELECT COMMITTEE ON DEFICIT REDUCTION

Chairman MURRAY. This committee will come to order.

Before we begin, let me just remind all our guests that the manifestation of approval or disapproval, including the use of signs or placards, is a violation of the rules, which do govern this committee. So I want to thank all of our guests in advance for their cooperation in maintaining order and decorum.

First of all, thank you to my co-chair, Representative Hensarling, all of my fellow committee members, and Dr. Elmendorf for joining us here today, as well as the members of the public here in person or watching us at home.

This committee has been working very hard over the last few weeks to come together around a balanced and bipartisan plan to reduce the deficit and rein in the debt. We have heard from our colleagues. We have heard from the standing House and Senate committees, from groups around the country, and close to 185,000 members of the public through our Web site, *http://www.deficitreduction.gov*.

We continue our work now today with a hearing on "Discretionary Outlays, Security and Non-Security." And I am glad we are talking about this today because it is important for us to understand how these policies fit into our overall deficit and debt.

Nondefense discretionary spending represents less than one-fifth of total Federal spending. Listening to the debates here in D.C. over the last few months, you would think this small piece of pie was a whole lot bigger. As I expect, we will hear more about that from Dr. Elmendorf today.

Congress has gone to this relatively small pot with cuts and spending caps again and again while leaving many other pieces of the budget essentially untouched, including the law that created this joint committee, which cut roughly $800 billion in discretionary spending. And all the focus on this one area is especially striking, given that we are spending about the same on nondefense discretionary programs in 2011 as we did in 2001. Meanwhile, mandatory programs increased, defense spending increased, and revenues plummeted.

So as this committee works together on a bipartisan plan to reduce the deficit, we need to keep in mind the cuts that have already been made, the role discretionary spending plays in our overall deficit and debt problem, and the impact irresponsible slashing could have on our economic recovery and middle-class families across the country. As we all know, these aren't just numbers on a page. They affect real people in real ways.

When food assistance for women and infants is cut, that means greater challenges for struggling families. When infrastructure investments are shelved, that means fewer jobs and more crumbling bridges and roads. And when research, education, and student loans are slashed, that means fewer opportunities for our businesses and the next generation of workers, which is really no savings at all since we end up paying for it in the future.

So while we should certainly examine every piece of the budget to see where we can responsibly make additional cuts, it doesn't make sense to simply keep going after one small part of the budget that disproportionately affects middle-class families and the most vulnerable Americans. There has to be balance.

Today, Dr. Elmendorf will be discussing discretionary security spending, which has grown significantly in the years since 9/11. This is an area where the stakes for our Nation are high. From both a national security as well as a budgetary perspective, we have to get this right.

As many of my colleagues have noted over the past few weeks, it is an area that would be hit especially hard if this committee doesn't come to a deal, and we move to sequestration. So I am looking forward to a robust conversation today with Dr. Elmendorf about these critical pieces of our Federal budget.

And before I turn it over to my co-chair, I just want to say that over the last few weeks, this committee has been working very hard to find common ground and a path toward a balanced and bipartisan plan that can pass through this committee, through Congress, and get signed into law. We aren't there yet, but I am confident that we are making progress. And I am hopeful that we are moving quickly enough to meet our rapidly approaching deadline.

As I said from the start, if this committee is going to work—and I believe that it must—we all need to be willing to make some tough decisions and real compromises. I am willing to do that, and I know many of my colleagues are as well.

Every day, we hear more and more about the effects of failure that would be on our Nation's long-term fiscal health and creditworthiness. Over the next few weeks, it is going to be up to all of us to demonstrate to the American people that we can deliver the kind of results that they expect and that they deserve.

[The prepared statement of Chairman Murray appears in the appendix.]

With that, I would like to recognize my co-chair, Representative Hensarling, for his opening statement.

STATEMENT OF HON. JEB HENSARLING, A U.S. REPRESENTATIVE FROM TEXAS, CO-CHAIRMAN, JOINT SELECT COMMITTEE ON DEFICIT REDUCTION

Co-Chair HENSARLING. Well, I thank the co-chair for yielding, and I want to thank her again for her leadership on this committee and the spirit of negotiation that she brings.

There is no such thing as an unimportant hearing when it comes to dealing with our Nation's structural debt crisis. And certainly, within our Nation's discretionary budget are contained many challenges and, frankly, many important priorities that have to be debated and negotiated.

Not the least of which is what many of us view as the number-one function of our Federal Government, and that is to protect us from all enemies, foreign and domestic, and specifically, our National defense budget, which continues to shrink as a percentage of our economy, shrink as a percentage of our budget, as we continue to live in a dangerous world.

When I look at the totality of our discretionary budget, I do, again, find some common ground with my co-chair. And again, although there is no such thing as an unimportant hearing or unimportant section of the budget, in many respects, today we may be debating the pennies, nickels, and dimes in a debt crisis that is demanding half dollars and dollar bills.

There has been huge run-ups in our discretionary spending since the President has come to office. This is not the forum to debate the policies, but I think the numbers speak for themselves.

Without the stimulus program, the Commerce Department has increased from '08 to '10 102.9 percent. Without the stimulus, EPA has increased 35.7 percent. Subtracting the stimulus, Housing and Urban Development increased 22.2 percent. State Department without the stimulus, up 132.2 percent, and the list goes on.

Again, it is not at this forum to debate these particular policies, but it is important to note the numbers that when these particular budgets are growing, the family budget, which pays for the Federal budget, has, unfortunately, contracted. And it is the family budget that has to pay for the Federal budget.

As an order of magnitude, we know that the discretionary spending of our Nation is roughly 40 percent and shrinking. Our entitlement spending is roughly 60 percent of the budget and growing. We know outside of interest payments on our National debt that our mandatory spending is principally driven by our healthcare and retirement programs that are simultaneously starting to disserve their beneficiaries and driving the Nation broke as they grow at 5 and 6 and 7 percent a year, where, unfortunately, our Nation, over the last few years, have actually seen negative economic growth.

So, to put this in even a larger context, under the Budget Control Act, we collectively have a goal, a goal of $1.5 trillion in deficit reduction. But we have a duty, a duty to provide recommendations in legislative language that will significantly improve the short-term and long-term fiscal imbalance of the Federal Government.

Thus, the challenge before us remains that we must find quality healthcare solutions, quality retirement security solutions for our Nation at a cost that does not compromise our National security, does not compromise job growth and our economy, and does not mortgage our children's future.

Everything else we do, including dealing with the discretionary budget, will be helpful. Nothing else will solve the structural debt crisis or allow this committee to meet its statutory duty, only these reforms. And so, prudent stewardship of our discretionary budget is going to be helpful. It alone cannot solve the crisis. It continues, though, to be an important matter.

I look forward to hearing from our witness, and with that, I will yield back, Madam Chairman.

[The prepared statement of Co-Chair Hensarling appears in the appendix.]

Chairman MURRAY. Thank you very much.

With that, I will turn it over to Director Elmendorf for your opening statement. And we all appreciate your taking the time out of what we have given you as a very busy life, to take time to come today and answer our questions. So thank you very much, Dr. Elmendorf. Turn it over to you.

STATEMENT OF DOUGLAS ELMENDORF, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Dr. ELMENDORF. Thank you, Senator Murray, Congressman Hensarling. I and the other folks at CBO are happy to be trying to help this committee in its very challenging task.

To all the members of the committee, my comments today will focus on four questions that are addressed in the written testimony. First, what does discretionary spending comprise? Second, what has been the historical trend in discretionary spending? Third, how will discretionary spending evolve over the next decade under current law? And fourth, how might the path of discretionary spending be altered?

Before digging into that substance, though, let me briefly clarify some of the terms I will use. When I talk about discretionary funding, I am adding together the budget authority that is appropriated for those programs and the so-called obligation limitations that govern spending for certain transportation programs. Those two types of funding provide agencies with the authority to spend money. When the funds are actually disbursed, they become outlays.

Also, through the testimony, I will focus on defense and nondefense discretionary spending, rather than security and non-security spending. Defense spending is a traditional category that includes all of the spending on military activities of the Department of Defense, plus spending for the Department of Energy's atomic energy defense activities and some defense-related activities of other agencies. Nondefense spending is everything else in the discretionary category.

The Budget Control Act sets caps on discretionary spending for 2012 and 2013 using different categories, security and non-security, where security includes most, but not all of defense and also includes appropriations for the Department of Homeland Security, the Department of Veterans Affairs, and the international affairs budget category.

However, in 2014 and beyond, the Budget Control Act specifies a single cap on discretionary funding. There is an entirely different set of caps in the law that would come into play if legislation from this committee does not generate sufficient deficit reduction. In that case, the further cuts in spending that would be required are based on the traditional defense and nondefense categories. Although to make the situation truly confusing, the act labels those security and non-security as well. We thought it would be most useful for this testimony to focus on the familiar defense and nondefense categories.

Let me now turn to the first substantive question, which is what discretionary spending comprises. In fiscal year 2011, total funding for discretionary programs was about $1.3 trillion, of which more than half went to defense and less than half went to nondefense programs. If you turn now to the second page of the handouts in front of you, you will see a big donut that is labeled "Defense Discretionary Funding for 2011."

Of total defense funding for 2011, 43 percent, the biggest piece on the right of the donut, went to operation and maintenance, which pays for the day-to-day activities of the military, the training of military units, the majority of costs for the military's healthcare program, and compensation for most of DoD's civilian employees. Another 22 percent of defense funding went to compensation of military personnel, including pay and housing and food allowances.

Procurement, representing 18 percent, funds the purchase and upgrade of weapons systems. Appropriations for the wars in Afghanistan and Iraq and related activities accounted for about a quarter of total defense funding. They were distributed across the categories shown here, are included in the amounts reported.

If you turn to the next page of the handout, it shows a comparable picture for nondefense discretionary funding for 2011. Seven broad categories accounted for about 80 percent of the total. Education, training, employment, and social services programs together claimed 16 percent. Transportation programs received 15 percent of the total, with about half of that going to highway programs.

Income security programs, mostly for housing and nutrition assistance, represented 11 percent. That amount does not include unemployment compensation, food stamps, or temporary aid to needy families because they are all part of mandatory spending.

Discretionary appropriations for veterans benefits, primarily for the Veterans Health Administration, were 10 percent of total nondefense discretionary funding last year. Health was another 10 percent, with about half of that amount devoted to the National Institutes of Health.

International affairs and the administration of justice were each about 9 percent, and a collection of smaller categories makes up the remaining 20 percent.

Looking at nondefense discretionary spending as a whole, about one-third is disbursed in grants to State and local governments. Of those grants, about a third are devoted to education and training programs and a quarter to transportation programs, with the remainder going to environmental protection, law enforcement, economic development, and various other purposes.

Let me now turn to the second question in the testimony, which is the historical trend in discretionary spending. This is depicted in the next page of the handout.

Discretionary spending declined noticeably as a share of GDP from the early 1970s to 2000, mostly because defense spending declined relative to GDP from about 8 percent in 1970 to a low of 3 percent between 1999 and 2001. Defense spending then climbed again.

Outlays for nondefense discretionary programs have averaged about 4 percent of GDP during the past 40 years, with considerable variation, as you can see, but no evident trend. Thus, on average, such outlays increased during that period roughly in line with the size and income of the population.

Nondefense discretionary outlays were elevated in the past few years in part, as has been noted, because of funding from the 2009 Recovery Act.

Altogether, discretionary spending amounted to about 9 percent of GDP in the past 2 years, higher than the 6 percent in 2000, but lower than the 11 to 12 percent of the early 1970s.

The third question addressed in the testimony is how discretionary spending will evolve over the next decade under current law. To illustrate the potential impact of the caps on discretionary appropriations set in the Budget Control Act and the automatic enforcement procedures contained in that act, we projected appropriations under several different assumptions, including the three listed on the next page of the handout.

I apologize for those who don't have the handout. I think that members of the committee should have it in front of them. For other people, I am referring to figures and tables that are in the written testimony, and there are a couple of slides that are words also from the written testimony. Nothing I am saying is new and is not in that testimony.

The largest numbers that we looked at, about $12 trillion over the next decade, would come from extrapolating funding for 2011, adjusted for inflation. That is the way CBO constructed its baseline projections in recent years before the caps in the Budget Control Act.

The next set of numbers I will talk about assumes that funding is equal to the new caps set in law, about $11.3 trillion over the decade. For illustrative purposes, I will focus in a moment on the scenario under which the caps are met through proportional reductions in defense and nondefense spending. But many other combinations are possible, and the written testimony offers a range of possibilities.

And the third and smallest numbers I will talk about, totaling $10.4 trillion, incorporate the sequestration and reduction in caps that we estimate would occur if no savings resulted from the work of this committee.

The next page of the handout is Table 3 from the written testimony and deals with defense spending. I will focus on just the two rows of numbers near the bottom highlighted in blue.

I want to emphasize that the caps on defense spending do not constrain appropriations for the war in Afghanistan or for similar activities. And the automatic enforcement procedures would not affect funding for such purposes either. So what you are seeing here are numbers for the base defense budget.

The upper of those two blue rows shows the reduction in defense spending moving from the path where the amount of funding in 2011 has grown with the rate of inflation to a path of proportional reductions in defense and nondefense spending funding to meet the caps. Between 2012 and 2021, such reductions would total $445 billion, the number shown at the far right end of the blue bar, or about 7 percent.

The lower of the two blue rows shows the larger reductions in defense funding and moving from the path where the amount of funding jumped off 2011 and grew with the rate of inflation to the path that would occur if this committee's work resulted in no savings. Between 2012 and 2021, the cumulative reductions on this path would total $882 billion, or 14 percent. In 2021 alone, defense funding, excluding war funding, would be $110 billion, or 16 percent, lower than it would be if such appropriations kept pace with inflation.

If you skip the next page of that handout, which is a continuation of the table, the figure beyond that shows defense spending as a share of GDP. The light blue line on the left-hand side shows the history of funding for the base defense budget. The middle line on the right with the short dots shows our projection, assuming proportional cuts in defense and nondefense spending to meet the caps. The lowest line shows our projection if the maximum automatic reductions are triggered.

Under those two assumptions, in 2021, funding for defense, excluding war funding, would represent 2.7 or 2.5 percent of GDP, compared with an average of 3.4 percent during the past decade.

The next page of the handout is Table 4 from the written testimony and deals with nondefense spending. Again, I will focus on just the two rows of numbers highlighted in blue.

The upper of the two blue rows shows the reduction in nondefense funding again and moving from the path where 2011 funding grew with the rate of inflation down to the path that would result if the caps were met through proportional reductions on the defense and nondefense sides. Between 2012 and 2021, such reductions would total $418 billion, or 7 percent.

The lower of the two blue rows again shows the larger reductions in this time nondefense funding moving from this inflation-adjusted path to the path if no savings result from the work of this committee. Between 2012 and 2021, the cumulative reductions would total $794 billion. In 2021 alone, nondefense budget authority would be $99 billion, or 15 percent, lower than it would be if such appropriations kept pace with inflation.

The next page of the handout shows nondefense funding as a share of GDP, again Figure 6 from the written testimony. The line on the left side shows the history of such funding. You can see that nondefense discretionary funding spiked upward in 2009 but then fell back sharply in the past couple of years to roughly its average share of GDP during the preceding decade.

The upper line on the right shows our projection, assuming proportional cuts in defense and nondefense funding to meet the caps. The lower line shows our projection if the maximum automatic cuts are triggered. Under those two assumptions, in 2021, nondefense funding would represent 2.8 or 2.6 percent of GDP, compared with an average of 4.1 percent during the past decade.

The fourth and last question addressed in the testimony is how the path of discretionary spending might be altered. Let me make two quick points, which are summarized on the last page of the handout.

First, for some programs, reductions may be particularly challenging because funding increases that are greater than the rate of inflation would be necessary to maintain current policies or plans. For example, implementing the administration's multiyear defense plans would require nearly $500 billion more defense funding over the coming decade than would occur if current funding increased at the rate of inflation.

Other examples where an inflation-adjusted extrapolation of current funding would be insufficient to fund current policies include veterans healthcare and Pell grants for higher education. Moreover, some observers believe that current policies in some areas are insufficient to meet the Nation's future needs.

For example, many analysts believe that current national spending on infrastructure is inadequate to provide enough roads, bridges, and other capital assets to maintain the current level of services or to fund all the projects for which benefits exceed costs. Of course, if spending on certain programs is allowed to grow faster than inflation, then even less room under the caps will be available for other discretionary activities.

Secondly, CBO assumes in its baseline projections that funding subject to the caps will be equal to the amounts currently specified in law for those caps. That means that legislation that reduced the funds available for a particular discretionary activity or that achieve savings in undertaking a particular activity would only reduce projected total appropriations if the legislation also lowered the caps. Without a reduction in the caps, funding for other discretionary activities would probably fill the gap created by any specific reduction or savings.

I hope this information is helpful to you, and I am happy to answer any questions that you have.

Thank you.

[The prepared statement of Dr. Elmendorf appears in the appendix.]

Chairman MURRAY. Thank you very much, Dr. Elmendorf. And again, thank you for being here today and taking our questions.

As you know, this committee is working very hard together to try and find a balanced plan to reduce our deficit and rein in our debt. It is not an easy task. We all believe it is necessary.

Over the past 10 years, domestic discretionary spending has remained essentially flat after adjusting for inflation, and this spending has remained stagnant despite the growing need to have investments to spur job creation and assistance for those in our country who have been hit the hardest because of this recession.

In your testimony, you mentioned that discretionary outlays during the past decade increased primarily due to the increase in security spending after 9/11. So let me start by asking you a few questions about the impact of past and potential cuts to discretionary spending on our overall budget picture.

Would you agree that with the negotiations on the fiscal year 2011 appropriations bills and discretionary spending caps in the recent Budget Control Act, that Congress has already made significant efforts to reduce discretionary spending?

Dr. ELMENDORF. Yes, Senator. The current path of discretionary spending under existing law is a good deal lower than it would have been without the actions you described.

Chairman MURRAY. And isn't it the case that even if we completely eliminated discretionary funding—everything from NIH to elementary and secondary education, military base construction, national parks, processing Social Security checks—all of it, we would still face deficits of hundreds of billions of dollars because we have not addressed entitlements and revenues?

Dr. ELMENDORF. I have not done that precise calculation, Senator, but you are most definitely right that discretionary spending is, and as Congressman Hensarling also noted, a shrinking share of Federal outlays over time. And entitlement programs, mandatory spending is a growing share of Federal outlays, in some cases growing rather rapidly.

And without addressing that path of spending, it would be extremely difficult to put the budget on a sustainable path.

Chairman MURRAY. Okay. Well, given the discretionary spending cuts that Congress has already made, can you talk about what the economic impact or effect of further efforts to cut discretionary spending, both in fiscal year 2012 budget process and in this committee's final product?

Dr. ELMENDORF. So, over time, cuts in discretionary spending reduce in general the services that the American public receives, services in protection against foreign enemies, services in the highways they can use or the national parks they can visit, or other sorts of programs.

Those cutbacks have a variety of human costs. They can also have economic costs depending on the nature of the cutback. Even infrastructure spending, for example, where many analysts think that the country should probably spend more, some sorts of projects could have a very high economic return. Other projects could have a very low economic return. So the nature of the economic effects depends very much on the particular changes in policy.

In addition, in the short term, given the large gap between our economy's potential to produce output and the level of goods and services being demanded and being produced, cutbacks in Government spending or we believe increases in taxes in the near term would reduce the level of economic activity and employment relative to what would otherwise happen. I view that as really a separate sort of effect from more of the medium-term or longer-term effects, where the effects, as I said, vary a good deal depending on the nature of the program being cut.

Chairman MURRAY. Okay. Well, all of us on this committee know that we need to address the large, long-term drivers of our unbalanced Federal budget. But I also really believe that we have to take steps to strengthen that economic recovery and address the jobs crisis that we are seeing today.

Now according to CBO's rule of thumb regarding economic growth and its relationship to budget projections, CBO states, and I quote, "Stronger economic growth improves the budget's bottom line. Weaker growth worsens it."

Now CBO's projections for economic growth are now weaker for 2011 and 2012 than CBO projected just earlier this year. Correct?

Dr. ELMENDORF. Yes, that is right. We have not written formal projections. But if we would do a forecast today, yes, it would be weaker than we wrote in August.

Chairman MURRAY. Okay. Well, nearly all of the economists are telling us that growth continues to suffer from a significant weakness in demand, and many are warning against pursuing overly aggressive measures of austerity in the short term. And I wanted to ask you, do you agree that a lack of demand is one of the key factors holding back our economic recovery?

Dr. ELMENDORF. Yes. I think it is a widespread view among analysts that lack of demand for goods and services is the key factor holding back the recovery. The further question, of course, is the source of that lack of demand.

Chairman MURRAY. Okay. So how does a reduction in Government spending generally affect demand on the economy and during an economic downturn?

Dr. ELMENDORF. Reduction in Government spending will generally reduce the demand for goods and services, either because the Government is buying less itself or because it is providing lower transfers to individuals to purchase goods themselves.

Chairman MURRAY. Does tax increases or spending cuts have a larger impact in reducing that demand and the economic growth?

Dr. ELMENDORF. Depends on the specific tax increase or spending cut that you have in mind, Senator. Certain forms of Government spending, we think, have a large bang for the buck in terms of effects on demands. Others have lower effects. Certain kinds of tax increases would restrain demand by more than other kinds of tax increases. It depends on the nature of the spending or tax change, often on the recipient of the spending or the payer of the tax.

Chairman MURRAY. Okay. Thank you very much. I appreciate it.

Representative Hensarling?

Dr. ELMENDORF. Thank you, Senator.

Co-Chair HENSARLING. Thank you.

And Dr. Elmendorf, again, on behalf of the entirety of this committee, I want to thank you and thank your staff. We know that you are sorting through a number of homework assignments, if you will, from various and sundry members here. And again, we want to thank you with the diligence and professionalism you bring to that task.

Dr. ELMENDORF. Thank you, Congressman.

Co-Chair HENSARLING. Again, when I look at the statutory duty, as opposed to the statutory goal for this committee, our duty is to, frankly, offer recommendations in statutory language to address both the short-term and long-term imbalance.

With respect to the short-term imbalance, is it not true that the stimulus bill with interest amounts to over $1 trillion of spending, which accounts for a large temporary growth in our discretionary budget?

Dr. ELMENDORF. Yes. Although, as you know, Congressman, only a part of the Recovery Act was about discretionary spending. There were also increases in mandatory spending and reductions in taxes. In total, we put it a little over $800 billion, and including interest, I think you are right, about $1 trillion.

And it did lead to a bulge in discretionary funding and then to an attenuated bulge in outlays because not all the money got spent right away.

Co-Chair HENSARLING. I don't know if you have at your fingertips numbers with respect to agency growth? I had quoted a few, and now that I look down, apparently the source is your office. So I hope I am quoting your office correctly.

Dr. ELMENDORF. I don't have those at hand, Congressman. But if they are numbers from us, then you can certainly trust them. [Laughter.]

Co-Chair HENSARLING. So I can trust them. Well, then I trust that when you add in the stimulus, the Commerce Department has grown 219 percent from '08 to '10. That with the stimulus, EPA has grown 130.8 percent. The Energy Department has grown 170.7 percent with the stimulus. Education has grown 180.6 percent, at a time when the economy has actually seen negative economic growth, and family paychecks have shrunk.

And unfortunately, again, this is not the forum in which to debate the stimulus, but I think it has to be noted when we are talking about areas of the budget where savings could be had, at least the American people certainly deserve the facts.

I want to follow up on, to some extent, a point that my co-chairman was making, and I believe I have this right. Correct me if I am wrong. Under your alternative fiscal scenario, which essentially is a current policy baseline, I believe it is at 2024 that all Federal revenues will simply be used to fund the mandatory portion of the budget, which is essentially our entitlement and interest. Is that correct?

Dr. ELMENDORF. I am sorry. Again, Congressman, you have a better hand around our facts than I have. But the qualitative point you are making is certainly right that mandatory spending just dominates the Government budget in an increasing way, in a rapidly increasing way over time.

Co-Chair HENSARLING. This actually came up in our earlier hearing with you, and I think I have this correct. Under your alternative fiscal scenario, you assume a growing revenue base, do you not? Do you not assume revenues increasing to their historic level of roughly 18, 18.5 percent of GDP?

Dr. ELMENDORF. Yes, that is right.

Co-Chair HENSARLING. And don't you also assume, in your alternative fiscal scenario, the tax increases that are contained within the Patient Protection and Affordable Care Act? Do you recall if those are assumed in your fiscal——

Dr. ELMENDORF. So what we do, as you know, in our extended baseline scenario, we try to follow current law. The alternative fiscal scenario is meant to track more closely what many people think of as current policy.

What we do for revenues in that scenario is simply to hold them at the historical average share beyond 2021 without trying to specify ourselves what combination of specific tax policies the Congress might enact to hold revenues at that level. So there is no specific answer to whether any given tax is in or out of that alternative scenario beyond 2021. We have just set revenue at the historical average to provide information for the Congress of what might happen if that sort of policy or set of policies were continued.

Co-Chair HENSARLING. I have a question about the overseas contingency operation, the OCO funding. I believe that you have recently readjusted your baseline, but we all know that the President announced that our military engagement in Iraq will end this year. And the President plans to completely reverse the surge in Afghanistan, I believe, by this time next year.

But I still think you are showing a pretty hefty sum in the overseas contingency operation line item. So can you explain to us the assumptions underlying this OCO number?

Dr. ELMENDORF. Yes, Congressman. What CBO does for any part of discretionary spending that is not capped under law is to take the latest funding that has been provided by the Congress and to extrapolate that over the decade to grow with inflation.

So when we estimated the effects of the caps under the Budget Control Act at the end of July and in early August, we compared those caps not with the latest baseline projections we published in March, but with the later level of funding that the Congress had enacted at the end of March as part of the deal to get through the rest of the fiscal year.

So, similarly now, although our latest baseline projection was published in August, we would focus in estimating any caps that one might impose on overseas contingency operations on the difference between those caps and the level that is the latest level that has been appropriated by the Congress. And that latest level is about $119 billion on an annual basis.

If one extrapolates that $119 billion with growth for inflation, one ends up with about $1.3 trillion over the coming decade. And for that, as for other complements of discretionary spending, we don't make an evaluation about how those numbers compare with the likely demand for funds or with any particular evaluation of the appropriateness of the spending. It is a mechanical extrapolation.

If you thought we would spend less than that over time, then one could——

Co-Chair HENSARLING. If I could, Dr. Elmendorf, I see I am already over my time. But I guess it is fair to say that under your protocols and your rules, the President's recent announcement that this money is essentially not going to be spent anyway does not come into your calculation?

Dr. ELMENDORF. Not until the Congress enacted a different level of appropriations, Congressman.

Co-Chair HENSARLING. Thank you. Thank you.

Chairman MURRAY. Thank you very much. Can I just ask how closely has that extrapolation tracked over the last 5 years?

Dr. ELMENDORF. Well, the written testimony shows the pattern of funding the Congress has provided. For the past several years, the annual funding was on the order of $160 billion. So this new level is about $40 billion below the level that has prevailed in fiscal years 2009, 2010, and 2011.

Chairman MURRAY. Okay. Thank you.

We will now move to each of our committee members for 6 minutes, and we will begin with Representative Becerra.

Representative BECERRA. Dr. Elmendorf, thank you very much for being here, and thank you for the work you are helping us do over these last several weeks and, hopefully, over the next few weeks as well.

Let me just try to dispose of one question real quickly. One of our major problems is the drop in revenues we have seen over the last several years, and we are trying to tackle the issue of how to best increase those revenues.

One of the ways you do that is through economic growth. If folks are back at work, unemployment rates go down. That means you are paying less in unemployment benefits, which is an outflow of money, and you are also increasing your revenues because people are paying taxes again.

My understanding is that if you increase the level of employment by a certain amount, you will see a commensurate decrease in the level of deficits and, of course, a commensurate increase in the GDP. Can you give us a real quick synopsis of what happens if we put people back to work?

Dr. ELMENDORF. So the stronger the economy is, as you say, Congressman, the more the Federal Government and other governments collect in revenue and the less it pays out in benefits of certain sorts. The biggest response is on the revenue side.

If one is looking for a rule of thumb, people often say that the Federal Government's effective tax rate on the margin for an extra dollar earned is to collect about 25 cents of that in Federal revenue. So an extra dollar of GDP might induce another 25 cents or so of extra revenue. That is, of course, a very, very rough rule of thumb, and the actual number would depend very much on the way in which the economy improved and who received the income and how it was taxed and so on.

Representative BECERRA. So the more you put those 15 million Americans back to work, each of them earning even if it is only an average American salary, that is thousands of dollars per worker. That effect of a quarter of that dollar that each one of those workers earns could be revenue to the Government, which would help us decrease these deficits?

Dr. ELMENDORF. That is right, Congressman. It depends, of course, on what policies one invokes to move the economy back closer toward full employment.

Representative BECERRA. And that is where we invite you part of this 12-person panel to help us with those answers.

Let me move on to another question with regard to discretionary spending. My understanding is that your projections, and you showed us through some of these charts, are what you think might happen if the reductions in some of these outlays and in the investments would occur both in defense and nondefense over the next 10 years as a result of the caps and then, if we are not able to come to some agreement, as a result of the triggers in sequestration.

My understanding is under the caps, there are firewalls which separate the savings that we would extract from defense from nondefense, but that those firewalls exist for only 2 years. Your projections go out for 10 years. So are you saying that the savings that you show in defense are guaranteed, or that is what we presume if the projections continue forward, that half of the savings will come from defense and half of the savings in the caps will come from nondefense?

Dr. ELMENDORF. So what the Budget Control Act does is to establish separate caps on security and non-security funding for fiscal years 2012 and 2013, and security funding is both defense funding and some other pieces of funding as well. But you are right. Beyond those first 2 years, there is no cap on overall funding.

What we looked at in the written testimony was three alternatives—one in which the reduction from the inflated former baseline with inflated amounts, one in which that was taken up almost entirely through cuts in defense spending; one in which it was absorbed almost entirely through cuts in nondefense funding; and one where it was met through a combination, proportional cuts in defense and nondefense funding. I presented the middle of those here for simplicity. But we looked at the range because, in fact, it will be up to future Congresses to decide.

Representative BECERRA. And that is the point I was hoping you would make is that it really depends on what Congress does where we will see the savings occur?

Dr. ELMENDORF. Yes. Absolutely.

Representative BECERRA. Another quick question. Total up all discretionary spending, whether it is for Pentagon, whether it is for education, environmental protection, clean water, clean air, food safety inspection, total that up. How does it compare to the amount that we spend through the tax code through what are known as tax expenditures, the tax earmarks?

Dr. ELMENDORF. We haven't published an estimate of that, Congressman. I have seen estimates that the sum of tax expenditures is about $1 trillion a year. As I mentioned, the total funding for discretionary purposes last year is about $1.3 trillion.

Representative BECERRA. So we spend almost as much through the tax code for certain constituencies as we spend through the entire appropriations and allocations process through the regular budgetary process. That is the type of spending that we are not talking about today, the tax expenditures. But you did discuss it some the last time you were here.

Dr. ELMENDORF. Yes. Yes.

Representative BECERRA. Appreciate that very much.

Final question. I want to thank you for the report you just issued on the distribution of income in America and comparison over the years. You, I think, highlighted some pretty startling numbers about the disparity in income and wealth in America today where the top 10 percent, 20 percent of Americans, and actually, the top 1 percent of Americans, have really seen a concentration of wealth go in their direction, as opposed to essentially the very middle of America.

Can you give us a quick synopsis of what you found?

Dr. ELMENDORF. So we have found, as other researchers have found, Congressman, very pronounced widening of the income distribution in this country, with reductions in the share of national income going to the bottom four quintiles over the 1979 to 2007 period. And a very large increase, roughly a doubling, in the share of national income going to the top 1 percent of the population.

Representative BECERRA. Thank you. And I see that my time is about to expire. So I thank you very much for all your assistance.

Dr. ELMENDORF. Thank you, Congressman.

Representative BECERRA. Yield back.

Chairman MURRAY. Thank you.

Senator Kyl?

Senator KYL. Thank you, Dr. Elmendorf.

Let me read to you an email that was sent to interested Hill staff by the Associate Director for Legislative Affairs at the Congressional Budget Office on October 17th. The subject of the email is "HHS CLASS Announcement on CBO's Baseline."

"On Friday, the Secretary of HHS announced that the department does not plan to implement the CLASS Act long-term care insurance program under current law. Therefore, in its next baseline budget projections, which will be issued in January, CBO will assume that the program will not be implemented unless there are changes in law or other actions by the administration that would supersede Friday's announcement.

"Furthermore, following longstanding procedures, CBO takes new administrative actions into account when analyzing legislation being considered by the Congress, even if it has not published new baseline projections. Beginning immediately, therefore, legislation to repeal the CLASS provisions in current law would be estimated as having no budgetary impact."

Now this says that your longstanding policy is to take new administrative actions into account. And as you testified in response to Representative Hensarling's question, this would suggest that you wouldn't necessarily wait for Congress to act.

The President is commander-in-chief. His troop announcement that Representative Hensarling talked about is tantamount, in effect, to a Congressional action. He has the ability to withdraw the troops down.

What is the difference between his announcement that we will have no presence in Iraq after Christmas and his previous decision and announcement that we would withdraw in stages the troops from Afghanistan over the ensuing year, what is the difference between that announcement and the CLASS Act announcement in terms of CBO baseline decisions?

Dr. ELMENDORF. I think the difference, Senator, is a difference between the treatment of mandatory spending and discretionary spending, laid out at least by 1985 in the Balanced Budget and Emergency Deficit Control Act and followed since then by CBO in conjunction with the Budget Committees.

For mandatory spending, and the CLASS Act falls in this category, a program where Congress has established certain rules, parameters within which administrative actions can be taken, we are always trying to provide our latest estimate of the effects of that set of authorizations on the Federal budget. And if there is news in the form of a very distinct announcement that some program has been abandoned, then we adjust the scoring base for those mandatory programs.

But for discretionary spending, our projections don't respond to particular sets of programs or objectives because the Congress can choose every year how much to provide for certain purposes. So——

Senator KYL. But if I could interrupt, this is a distinction without a difference. The President is the commander-in-chief. He is the person that deploys troops, not Congress. So are you saying that that difference requires you to wait until Congress acts, even though the commander-in-chief has already made his announcement and begun the program for withdrawal?

Dr. ELMENDORF. Yes, Senator——

Senator KYL. They have—in theater, they are making plans as we speak on how they are going to withdraw the troops from Iraq.

Dr. ELMENDORF. But, Senator, with respect, I think it is a distinction with a difference. We are not equipped to project what defense funding the President will request in the future or what funding the Congress will enact in the future.

Senator KYL. So are you——

Dr. ELMENDORF. This news from the administration is a factor that will presumably affect the funding they request and the funding Congress enacts, but not necessarily in a one-to-one way that we could analyze.

Senator KYL. So this memorandum that was sent should have distinguished between mandatory and discretionary spending when it talks about CBO's policy. "CBO will assume the program will not be implemented unless there are changes in law by the administration that would supersede the announcement. Following longstanding procedures, it takes new administrative actions into account."

So they should have distinguished between mandatory and discretionary. Is that what you are saying?

Dr. ELMENDORF. I think you are right, Senator. I should have put that word in. But just to emphasize, the things I am describing on both the discretionary and mandatory side are procedures that go back at least a quarter century.

Senator KYL. So then with regard to the so-called OCO savings that the President included in his alleged budgetary savings, it all depends upon whether the defense appropriations legislation is passed or when that legislation is passed as to whether you would change your baseline? Is that correct?

Dr. ELMENDORF. Yes. So Congress enacts a different level of appropriations at any point, then anything we would do after that point would respond to that new level of enacted appropriations.

Senator KYL. Thank you.

So if we are able to get the appropriations bills completed before the December 23rd deadline for this committee to act, much of the alleged OCO savings would no longer be available because of an adjustment in your baseline projections. Would that be correct?

Dr. ELMENDORF. Well, I don't know, Senator. It depends what level appropriations you enacted.

Senator KYL. To the extent they are lower than the previous year's, would it not cut that amount from your baseline?

Dr. ELMENDORF. To the extent that they are lower than the $119 billion that has already been enacted for this fiscal year——

Senator KYL. Correct.

Dr. ELMENDORF [continuing]. That is a good deal lower than the $159 billion from the last fiscal year. If, in fact, the Congress decided to enact appropriations for the rest of this fiscal year that were below $119 billion for overseas contingency operations, then that would bring down our projection of those and the base against which we would estimate further reductions, importantly.

Senator KYL. Thank you very much.

Dr. ELMENDORF. Thank you.

Chairman MURRAY. Senator Baucus?

Senator BAUCUS. Thank you, Madam Co-Chair.

I would like to just focus a little bit on defense spending. Is it true that our current level of defense spending, including OCO—otherwise known as overseas contingency operation, otherwise known as war funding—is higher now in historic terms compared with any other time in American history except for World War II?

That is, is the current level of defense spending, including war funding, greater now than during the Korean War?

Dr. ELMENDORF. Yes, I believe that is true, Senator.

Senator BAUCUS. Okay.

Dr. ELMENDORF. As I showed in my testimony, as a share of GDP, that spending is——

Senator BAUCUS. No, I am not talking about—no, no. I am not talking about share of GDP.

Dr. ELMENDORF. In dollars——

Senator BAUCUS. Dollars.

Dr. ELMENDORF. Dollars adjusted for inflation?

Senator BAUCUS. Dollars. Dollars. Dollars adjusted for inflation.

Dr. ELMENDORF. Yes. So, in dollars adjusted for inflation, DoD spending was about $240 billion during the Korean War, and in 2011, it is nearly $700 billion.

Senator BAUCUS. Okay. So the same would be true for the Vietnam War? That is, we are spending more dollars——

Dr. ELMENDORF. Yes.

Senator BAUCUS [continuing]. Than we did in Vietnam, adjusted for inflation?

Dr. ELMENDORF. Yes, Senator.

Senator BAUCUS. Adjusted for inflation. Thank you.

And more than we ever did during the Reagan administration, adjusted for inflation?

Dr. ELMENDORF. Yes, Senator.

Senator BAUCUS. And more than the Cold War average?

Dr. ELMENDORF. Yes, Senator.

Senator BAUCUS. Which is the highest since World War II. Is that correct?

Dr. ELMENDORF. So by our—I think during the Reagan administration, yes, that was higher than in the Vietnam War or Korean War.

Senator BAUCUS. Okay. We have already touched on this, but I just want to nail this down. The Budget Control Act, as you mentioned, had two separate caps—for what is it, 2012——

Dr. ELMENDORF. 2012 and 2013.

Senator BAUCUS [continuing]. And 2013, but no separate caps for security and non-security thereafter?

Dr. ELMENDORF. Yes, Senator.

Senator BAUCUS. Which means that the Appropriations Committees of the Congress could decide to spend more on security than is allowed under the caps in the first 2 years?

Dr. ELMENDORF. Yes. It can pick any allocation under those total caps that it chooses.

Senator BAUCUS. Anything they want to do under those total caps?

Dr. ELMENDORF. Yes. Now if this committee doesn't achieve any additional savings, then the enforcement procedures establish separate caps for defense and nondefense discretionary spending.

Senator BAUCUS. Okay.

Dr. ELMENDORF. But under the basic caps, you are right, Senator.

Senator BAUCUS. Okay. So there are basic caps. There are base caps in the act. Are there any caps on war spending?

Dr. ELMENDORF. No, Senator. The caps do not constrain war spending.

Senator BAUCUS. There are no caps on war spending?

Dr. ELMENDORF. No. I think, technically, the caps would be adjusted upward by any amount of spending that was designated by the Congress for overseas contingency operation.

Senator BAUCUS. That is a technical point. The main point is there are specific caps for security and non-security at least for 2 years, then no caps in the act for subsequent years, and no caps whatsoever on OCO.

Dr. ELMENDORF. That is correct, Senator.

Senator BAUCUS. Nothing.

Dr. ELMENDORF. Yes.

Senator BAUCUS. Okay. No caps on OCO.

Now has the Appropriations Committee sometimes gone to OCO to spend dollars that are really arguably not war funding because that is a kind of an extra pot of money to use? It is there, and there are no caps on it. Has that ever happened?

Dr. ELMENDORF. Senator, I can't speak to the motivations or thought process of the Appropriations Committee. Certainly, there will be inevitably some ambiguity in any effort to allocate costs, and what costs are truly attributable to these wars and what costs are not will be a matter of judgment. And——

Senator BAUCUS. Okay. Didn't the Senate Appropriations Committee propose—maybe they actually did—to move $9.9 billion of base programs requested by the President to this account?

Dr. ELMENDORF. I think over the past few years, Senator, there have been some movement of money that used to be designated as OCO into base budgets, and I think some movement in the other direction as well. I am afraid I don't have an overall assessment of the numbers involved.

Senator BAUCUS. What about there are reports that—and this obviously double-checked—$100 million was taken out of OCO for migration and refugee assistance for places like Kenya and Pakistan?

Dr. ELMENDORF. I am sorry, Senator. I don't know.

Senator BAUCUS. But we do know that there is no limit on the OCO account. And let me ask, how is it defined? What are the definitions of what constitutes and does not constitute appropriate spending out of the war account?

Dr. ELMENDORF. So, in our presentations, we follow the labeling provided by the Congress, and it is up to you and your colleagues to decide what you support under various categories.

Senator BAUCUS. But it just kind of sounds like it is what Congress wants to do.

Dr. ELMENDORF. That is our—yes, Senator.

Senator BAUCUS. And that sometimes happens around here. But you are saying there are no scoring rules under the Budget Control Act that would restrict the migration of base defense spending to OCO in the future?

Dr. ELMENDORF. I think that it is up to the Congress, as I said, to designate what it views as related to those operations and what it views as part of spending that would happen anyway.

Senator BAUCUS. And if this committee were to say dollars could not be spent on a certain program, my understanding is that that would not be scored by your office?

Dr. ELMENDORF. Again, a certain discretionary program—Senator Kyl has taught me to be very careful about that. Changes to mandatory programs, of course, we would do estimates of. But changes in individual discretionary programs, we would not take account of because we are relying on the overall level of the caps.

Senator BAUCUS. Correct. Correct.

Dr. ELMENDORF. And the squeezing of one particular program without a change in the cap level——

Senator BAUCUS. Right.

Dr. ELMENDORF [continuing]. We think would be filled by other——

Senator BAUCUS. What if this committee were to establish caps? Would that be scored? What if there were a cap on OCO?

Dr. ELMENDORF. If the committee established caps on OCO that were below the level of funding that is based on the extrapolation with increases for inflation from the latest enacted appropriations, then we would estimate savings from that.

Senator BAUCUS. And you are suggesting about one-point—what did you say?

Dr. ELMENDORF. About $1.3 trillion.

Senator BAUCUS. About $1.3 trillion.

Dr. ELMENDORF. Yes.

Senator BAUCUS. Uncapped?

Dr. ELMENDORF. Yes. And that is just the—it is not magic. That is the $119 billion, the most recently enacted, extrapolated with inflation.

Senator BAUCUS. Extrapolated forward with no caps?

Dr. ELMENDORF. Yes.

Senator BAUCUS. Okay. But if we were to set a cap, then that would be scored?

Dr. ELMENDORF. We would estimate the effects. Yes, Senator.

Senator BAUCUS. Thank you.

Chairman MURRAY. Thank you, Senator Baucus.

Representative Upton?

Representative UPTON. Thank you, Madam Chair.

And again, Dr. Elmendorf, we appreciate your participating today. And I just want to take us back to a question from earlier days, and that is, as this committee works to try and get an agreement, a solution, what is the real date that you want us to give you the information that your worker bees can turn out a reasonable number for us?

Dr. ELMENDORF. So, as you know, Congressman, our legions of skilled analysts are working very hard for this committee already.

Representative UPTON. Have they had time off until now?

Dr. ELMENDORF. No, Congressman, I am afraid not. We have a terrifically hard-working group, as you know.

As I said the last time I was here, if you have a set of proposals that would make changes across a range of mandatory spending programs, then that would require us some weeks to work with legislative counsel and the staff of this committee in refining the legislative language to accomplish the objectives that you are setting out to accomplish and then for us to produce a cost estimate.

And backing up from Thanksgiving, that left us looking at the beginning of November, which we are very aware, as you are, Congressman, is not very far away.

Representative UPTON. Thank you.

What is the deficit as a share of GDP today?

Dr. ELMENDORF. The deficit in fiscal year 2011 just completed was about 8.5 percent of GDP.

Representative UPTON. And if this committee fails and we end up with a sequester, and we do the numbers that you suggested here in your testimony for both defense and nondefense. So that defense we would end up with a sequester of, in essence, of $882 billion in savings over the 10 years and a number of almost the same, $794 billion, in nondefense over that same 10 years, and nothing on the entitlement side or nothing on the mandatory side—just those two—where would we go in terms of the debt as a percentage of GDP 10 years down the road?

Dr. ELMENDORF. So, Congressman, let me be clear. These numbers at the bottom of these tables are a comparison of the sequestered cap path to the inflated——

Representative UPTON. Right. Right.

Dr. ELMENDORF [continuing]. Extrapolation. It is not the amount of the sequester or the enforced budget portion itself. Remind you, our baseline projections for August incorporated the $1.2 trillion that is under current law to be achieved either through the actions of this committee or through these enforcement procedures.

So whether the committee hits $1.2 trillion or hits the last—the remainder is filled in to the enforcement, as long as you don't save more than $1.2 trillion, you are putting yourself back to our baseline projection from the summer. Under that projection, allowing for the expiring provisions of the tax code to expire and Medicare payments to doctors to be cut very sharply and the other features of current law, deficits, by the end of the decade, are 1.5 percent or so of GDP, and debt is actually declining relative to GDP.

But that hinges absolutely critically on revenues rising above their historical average share of GDP, as it would under current law, and discretionary spending falling well below its average share of GDP in order, essentially, to make room for the great increase in Social Security and the major healthcare programs.

Representative UPTON. I didn't know if you saw the GAO report that was released earlier this week as related to if this committee fails that—or I want to say that $1 trillion in savings is not sufficient, is the words that they used, for stability, and they predicted, in essence, I believe, a credit downgrade. Have you had a chance to look at that report?

Dr. ELMENDORF. I have glanced at it, Congressman.

Representative UPTON. Do you have any comments? I know it just came out this week.

Dr. ELMENDORF. One technical point, which is that they offer two scenarios. One of which is close to our alternative scenario based on current policy. The other of which they view as closer to current law.

Nonetheless, what they do in that scenario is to limit the increase in tax revenue as a share of GDP that would actually happen under current law. Our extended baseline scenario incorporates the rising revenues relative to the GDP that would persist and go on beyond this next decade.

So both of their scenarios look worse than our better scenario. It is just a difference in policy assumption about tax revenue—tax policy. But we certainly agree very much with the underlying point of the analysis that under current policies, the U.S. Government is on an unsustainable fiscal path and that the magnitude of changes that will be needed from current policies is very large.

As I said the last time I testified here, if one wanted to consider extending the expiring tax provisions and limiting the reach of the alternative minimum tax and adjusting Medicare's payments to doctors, the deficit over the coming decade becomes $8.5 trillion rather than the $3.5 trillion under current law. And debt would be rising relative to GDP to levels that we have almost never seen in this country.

Representative UPTON. Thank you.

Chairman MURRAY. Representative Clyburn?

Representative CLYBURN. Thank you very much, Madam Chair.

And Dr. Elmendorf, thank you very much for being here again today.

You may recall that at the first hearing I discussed a little bit of the growing wealth gap that exists. I did that with some references to unemployment numbers.

Now your recent report indicates that over the last 28 years—in my estimation, that is a generation. Over the last generation, we have seen an increase in income of upper 1 percent households in America of 275 percent. During that same time, we have seen an increase in the top 20 percent of 65 percent. But of the bottom 20 percent, only 18 percent.

Now over that same period of time, for the 60 percent of the middle, we have seen income has grown only 40 percent. That indicates to me that the middle income is shrinking relative to the rest of the country.

Now if we were to extrapolate that out, as you talked about, I would assume that we are where we are because of—well, let me put it this way. To the extent that Government policy has allowed this gap to exist, if we continue current policy, then it is fair to say that we are going to experience that kind of continued widening of the wealth gap in America, in the United States.

Dr. ELMENDORF. So, Congressman, one of the issues that we wrestle with in our projections is the evolution of the income distribution. The study that we did, as you know, ends with data from 2007.

Representative CLYBURN. Right.

Dr. ELMENDORF. What has happened during the past few years of the recession and financial crisis is not clear. Although if you look in our study, some past recessions have shown some narrowing of the income gap, particularly because higher income people collect a relatively larger share of their income from capital income, which tends to be more cyclical.

So just where things precisely stand today, I am not sure. Our projections do incorporate some ongoing widening of the income distribution, but whether is it is on the—whether the events of the last 30 or so years will continue at that pace, we don't know, and I don't think our projection calls for a continued widening to that extent.

But neither do we see forces at hand that would cause that to be reversed in coming years.

Representative CLYBURN. So we don't see anything that could possibly shrink that either?

Dr. ELMENDORF. No, again, except for the effects of this recession, which we don't have data for. But looking from here on, we don't see those underlying factors reversing.

Representative CLYBURN. I would assume then that this—I have seen a whole lot in the media in recent days about who is, in fact, paying the taxes in the country. I am assuming, as my dad used to tell me, "Don't argue about taxes, son, because if you really owe them, that means you made something."

So I am assuming that these people are not paying because they don't owe anything. They don't owe anything because they have not made anything. So that is just an assumption on my part.

But let me look at this economic ladder that we talk about a lot. If we are going to see a shrinkage in that gap, it would seem to me that we need to start looking at how do you prepare people to assume tax-paying responsibilities in our society? And we do that by investing in their education, to the extent that things like Pell grant, Head Start, Title I for disadvantaged people, all of these things are designed to prepare people to earn income and, therefore, pay taxes and not be on the Government dole, as we like to say down South.

Am I to believe that if we dramatically reduce that investment, then we will dramatically reduce people's abilities to assume these responsibilities and to become taxpayers?

Dr. ELMENDORF. You are raising important, but difficult questions, Congressman. People's ability to earn income comes, as you know, from a whole variety of forces on their lives. Federal Government policy is one of those forces. And if Federal policy were changed in a way that provided significantly less support for people in obtaining educations or getting skills, that could well affect their income in the future.

But I don't have a way of quantifying that. It depends very much on the specific programs. There is very large research literature and a lot of experimentation in the world about training programs, for example. And some seem to work well, and some seem to work badly. And the ones that work well are difficult sometimes to expand to a larger scale.

So just what role particular Government programs play, again, is a much-studied question, and we do some work in that area. But there isn't a very good general answer to how important that is as a factor relative to other factors influencing people's ability to earn income, as you say, and then, through that, to pay taxes.

Representative CLYBURN. Well, thank you very much, Dr. Elmendorf. This time goes real fast here.

Dr. ELMENDORF. Thank you, Congressman.

Representative CLYBURN. My time has expired.

Chairman MURRAY. Senator Portman?

Senator PORTMAN. Thank you, Co-Chair.

And thank you, Director Elmendorf, for being with us again and for all the hard work that you and your team are doing in responding to our many inquiries. Because I said that, I expect mine to be prioritized. Kidding, guys. [Laughter.]

Dr. ELMENDORF. We prioritize everybody first, Senator.

Senator PORTMAN. Thank you, yes. Especially the committee, I hope, because we do have a short period of time here, and we have a lot of work yet to do.

You talked a little about jobs and the economy earlier, and my colleague Congressman Clyburn just raised this issue, the importance of jobs, which is, after all, one way you get people paying taxes is to be sure they have the opportunity to earn enough money to pay those taxes. And you had said that you believe that demand was the key issue, and the source of that lack of demand was the tough question.

And I would just ask you if you could comment on the unsustainable fiscal path that you have outlined repeatedly, including again today, and the fact that, as you said, we are increasing the debt by anywhere from $3.5 trillion to $9 trillion over the coming decade, depending on whether you use the current law or current policy baseline. Reminding us that our commitment here is to reach $1.5 trillion and $1.2 trillion to avoid sequester. That, of course, isn't even close to the increase we are likely to see from the current $14.5 trillion debt.

What impact does that have? I am sure you have looked at the Rogoff and Reinhart study and others who have commented on the impact of this unsustainable fiscal situation on our current economy.

Dr. ELMENDORF. So I think the unsustainable path matters in the short run in various ways. Partly, the borrowing the Government has done and anticipation of Government borrowing can crowd out private investment to some extent. At the moment, with private investment weak anyway, the magnitude of that crowding out is less clear. In fact, we see Treasury interest rates, as you know, being very low at the moment.

But there can be crowding out of investment. I think beyond that, the uncertainty about fiscal policy is probably weighing on households and businesses. They can recognize that there will have to be, as a matter of arithmetic, changes in taxes and/or spending relative to current policy, but they don't know what those changes will be. And I think that sort of uncertainty is naturally an inhibiting factor in decisions, particularly commitments of money over time to invest in factories and equipment, to invest by hiring people, for households to invest in housing and durable goods.

That uncertainty is a piece, I think, of broader uncertainty about Government policies. There are a lot of different policies that are, I think, up in the air in a way. And that policy uncertainty, of course, is a piece of a much broader uncertainty about the state of the economy and the income that households think they will have in the future and the demand for the goods and services that businesses think they will have in the future.

Senator PORTMAN. Well, I appreciate that. And as an economist, I appreciate your giving us really a sense of the importance of our task because it is not just about cutting spending, is it? It is about the economy and jobs. And although we are not called the jobs committee, what we do will affect that sense of certainty and predictability going forward.

Dr. ELMENDORF. Yes.

Senator PORTMAN. And again, not in the substantial ways that we would hope, all of us, but it will make a difference and take us in the right direction. The alternative, of course, has been talked about today as well, which is if we don't do our work, what impact that could have, even make our prospects for economic growth more negative.

Let me use some figures here that you may not trust because they are from the Office of Management and Budget. And you said earlier that you trusted the CBO figures, but I think they are consistent with yours. And let me start by saying I totally agree with what you said earlier. Mandatory spending dominates the Federal—or mandatory spending dominates the Federal spending. That was your quote a few minutes ago.

Co-Chairs Murray and Hensarling have also made that same point in various ways from a little different perspective, and I totally agree with that. I think if this committee doesn't get at the issue, which is the biggest part of our budget, over 50 percent of the budget—60 percent, if you include interest on the debt—and the fastest-growing part of our budget has gone from roughly 25 percent of our budget in the 1960s to over 50 percent today.

If we don't get at that, the largest part and the fastest-growing part of the budget, we will, of course, not have accomplished our goal. But having said that, let me give you some statistics on the discretionary side, since that is the topic of our hearing today. I will give you some numbers from 1990 until today.

Nondefense discretionary has risen during that time by 95 percent, which, by the way, is nearly double the 52 percent growth in defense spending. So if you took 52 percent growth in defense spending from 1990 until today, 95 percent on nondefense. Now admittedly, the defense spending is not as high because the increases we have seen have been more recent, from 2001, which reflected an increase from the cuts in the 1990s on defense. So if you use just the last decade, defense would be higher.

But let us look then at 2001 to 2011 on the nondefense side. Outlays on the education side, discretionary spending up 116 percent in the last 10 years. International spending up 102 percent. Veterans spending up 100 percent. Community and regional development spending up 71 percent. Health research and regulation spending up 56 percent, and so on.

So I just think we need to keep both of these things in mind. One, that if we don't deal with the spending issues, it is tough to get this economy going. And second, we have seen some substantial increases in the discretionary spending, understanding that the BCA has now put those spending levels under more constraints. Do you agree with those numbers?

Dr. ELMENDORF. I don't know those—have this back of the hand, Senator. But I would not argue with your numbers.

Senator PORTMAN. Well, again, thank you for all your help to help us achieve the goal we have all talked about today, and we look forward to working with you going forward.

Dr. ELMENDORF. Thank you, Senator.

Chairman MURRAY. Senator Kerry?

Senator KERRY. Dr. Elmendorf, thank you very much for being here. Thank you for the terrific work you and your team are doing. We appreciate it.

It is my understanding that CBO keeps regular estimates on the number of jobs that have been created by the American Recovery and Reinvestment Act. Is that correct?

Dr. ELMENDORF. Yes, Senator. We are required to publish estimates once a quarter.

Senator KERRY. Right. And so, just quickly, because I don't want to spend much on time, is it not correct that without the policies of the American Recovery and Reinvestment Act that GDP would be lower and unemployment would be higher?

Dr. ELMENDORF. Yes, Senator.

Senator KERRY. So it has had a positive impact on GDP and on reducing unemployment?

Dr. ELMENDORF. Those are our estimates, Senator. Yes.

Senator KERRY. Now, with respect to our work here in the committee, I talked to you last time you were here about "going big," about a $4 trillion total target if you include the money already cut, $3 trillion if you don't. It is my understanding that you already have in your baseline an accounting for $1.2 trillion in deficit reduction by this committee. Is that accurate?

Dr. ELMENDORF. Yes.

Senator KERRY. So if all we do in this committee is $1.2 trillion, we, in effect, are not reducing the deficit below the current levels or rates?

Dr. ELMENDORF. That is right. That is because of these automatic enforcement procedures. If you don't take explicit action, there is a backup plan, which is the further cuts in spending that I have outlined here.

Senator KERRY. Now with respect to the bigger deal, so to speak, would you tell the committee or share with the committee your perception of assuming you had a $3 trillion reduction, which included something along the ratios we have all heard about either in Rivlin-Domenici or in Simpson-Bowles or Gang of Six, somewhere in the vicinity of 3-to-1 or 2-to-1 of cuts to revenue, and assuming that the revenue were to come exclusively from the highest-end people, that 275 percent increase in income, can you make a judgment as to what the impact would be on the marketplace and perceptions of deficit reduction or job growth that come from the $3 trillion versus just achieving the $1.2 trillion goal?

Dr. ELMENDORF. So just looking at the aggregate deficit reduction, I think it is clear that larger reductions coming from the work of this committee would have a positive effect on current spending and on current output and employment. And conversely, that a failure of this committee to reach agreement or for Congress to enact an agreement reached by the committee would have a negative effect on confidence and, thus, on spending.

Senator KERRY. And if we do simply $1.2 trillion or $1.5 trillion, which is the target goal, and that is all we do, isn't it a fact that we are going to be back here in about a year or 2 or 3, at maximum, dealing with the very same issues that are on the plate now about the unsustainability of our budget?

Dr. ELMENDORF. Yes, Senator. And I think that is certainly right.

Senator KERRY. So in terms of the duty that Co-Chair Hensarling has talked about to provide language to significantly reduce, the most important message to the marketplace, I am told, comes if you achieve a $4 trillion total, which is the only way to begin to stabilize the debt. Is that not accurate?

Dr. ELMENDORF. Yes, the amount that is needed depends, very importantly, on how you view the expiring tax provisions and some other provisions of current law that would take us away from current policies to which people have become accustomed. If one extends all or a large share of the expiring tax provisions over the next few years, then the gap between spending and revenues over the coming decade becomes much larger, and much more other action is needed in order to achieve any given objective for the path of debt relative to the size of the——

Senator KERRY. Well, can you share with the committee what would have a greater negative impact on growth—the failure of the committee to come up with more than $1.2 trillion or $1.5 trillion and the marketplace signals that would send about the continued fiscal plight of the country, or an ability to come up with a $3 trillion or $4 trillion level that had that 3-to-1, 2-to-1 ratio that I talked about with any revenue coming either from closing tax loopholes or exclusively from that high-end 275 percent increase income earner?

Which would have the greater negative impact on our economy—finding some revenue from those folks and getting a deal, or having no deal and not having that revenue?

Dr. ELMENDORF. I am afraid, Senator, I can't analyze the sort of policy proposals you are describing in my head.

Senator KERRY. Well, can you analyze——

Dr. ELMENDORF. And we have not done an analysis of any of the packages you have described.

Senator KERRY. But you can analyze—I mean, you have told us that if we fail to come up with anything that deals with the unsustainability, we are sending a bad message to the marketplace, aren't we?

Dr. ELMENDORF. Yes. Again, I think in terms of the amount of deficit reduction, the more that this committee can achieve over some period of time, the better that would be for current confidence. But I can't weigh that off against the effects of sort of a hypothetical combination of specific spending and tax changes.

Senator KERRY. Well, leave the hypothetical out. Can you tell us what, for instance, the expiration of the top end of the Bush tax cut, if it went from 35 to 39.6 and it was part of a $4 trillion deal, would that have a negative impact on growth in our economy?

Dr. ELMENDORF. So we actually did last fall, for the Senate Budget Committee, provide estimates of the effects on the economy of different ways of extending the expiring tax provisions, and extending them had the negative effect of reducing deficits, the positive effect of keeping marginal tax rates lower and, thus, encouraging work and saving.

In our estimates, the negative effects of the extra debt was larger than the positive effects of lowering marginal tax rates for those particular policies we looked, again, over the medium and longer term. But that is why the answer really depends on the specifics of the policies.

Senator KERRY. Thank you very much. I appreciate it.

Chairman MURRAY. Representative Camp?

Representative CAMP. Well, thank you, Co-Chair.

Mr. Elmendorf, is there anything in the Budget Control Act that would prevent the Congress from changing how the sequester would affect defense spending?

Dr. ELMENDORF. I mean, the Congress could enact a change in law that could override the Budget Control Act.

Representative CAMP. So there is nothing in the Budget Control Act that would prevent that?

Dr. ELMENDORF. No. I mean, in general, as you know, any Congress can reverse the actions of a previous Congress.

Representative CAMP. I appreciate your response to a question by Senator Murray that you believe that your projections on GDP growth are too generous and that you believe actually they would be lower, which would mean actually our deficit is worse than you have projected in the past. But under your projections, you are assuming a 30 percent cut to physicians in Medicare, are you not?

Dr. ELMENDORF. Yes.

Representative CAMP. And you are assuming that taxes go up $3.8 trillion, that everybody's taxes go up, certainly would have a detrimental effect on the economy. And you are assuming that there is a cut in discretionary spending.

So, as you project that and in answer to Mr. Upton's question that deficits are going to decline as a percentage of our GDP, it is based on all of these assumptions, which, frankly, would impact that number particularly in one way. I would just have to say——

Dr. ELMENDORF. As you know, Congressman, it is not our assumptions. We are following current law in that way.

Representative CAMP. But these are assumptions you baked into your proposals, into your testimony today. I am just trying to point that out.

And under either of your long-term fiscal projections, spending on entitlements or mandatory health programs, Social Security, et cetera, will increase between 15 and 17 percent of GDP, of our gross domestic product. And net interest costs will increase to between 4 and 9 percent. And under either of those scenarios, that crowds out discretionary spending, even if assuming the highest levels of revenue this country has even seen.

So I guess my question is under even the best of assumptions, the rosiest of assumptions, total discretionary spending under that sort of long-term scenario was about 1 percent of GDP versus the 9.3 percent it is today. And I guess I would say to you, your response to that suggestion or those calculations, do they sound correct to you?

Dr. ELMENDORF. So, again, I don't have our long-term numbers at hand. We extrapolate—for our projections over the long term also, we extrapolate discretionary spending according to some simple rule of thumb. What the Congress ultimately did when it reached an unsustainable point, we can't predict.

Representative CAMP. Well, presuming my question then that if, under the rosiest of assumptions, given those long-term CBO projections that discretionary spending is just 1 percent of GDP, has that ever occurred in recent history?

Dr. ELMENDORF. Well, I mean, I don't know about the 18th century. But, no, it has not occurred in recent history.

Representative CAMP. In recent history. Relatively recent history.

Dr. ELMENDORF. No.

Representative CAMP. So we have never been at that level?

Dr. ELMENDORF. No.

Representative CAMP. And I think the question is could we operate a functioning Government at just 1 percent of discretionary spending of GDP?

Dr. ELMENDORF. Nothing like the Government that we are now accustomed to in either defense or nondefense programs.

Representative CAMP. And again, with your testimony that mandatory spending, as you said, dominates the Government budget I think was your quote. You also said it is a growing share of spending. It is growing rapidly. Doesn't this illustrate that as part of what we are trying to do, the need to rein in mandatory spending is obviously one of the priorities that we need to address?

Dr. ELMENDORF. Again, it is up to the committee to choose what changes in policy it wants, but certainly, a growth in mandatory spending, particularly for healthcare and also in Social Security, is the feature of the budget that makes the past unrepeatable. It is the change under current policies because of the aging of the population and the rising costs of healthcare that push up that spending in such a substantial way that require us as a country and you as our elected leaders to make choices to make the future different in some way from the past.

And whether that is through changes in those programs or changes in tax revenues or changes in other Government programs is up to you, as you know.

Representative CAMP. Thank you.

I yield back, Madam Chair.

[Disturbance in hearing room.]

Chairman MURRAY. The committee will be in order, please. The chair wishes to remind all of our guests that——

[Disturbance in hearing room.]

Chairman MURRAY. I would request that the Capitol Police restore order.

The committee shall recess until we are in order. [Recess.]

Chairman MURRAY. Thank you very much.

Representative, you can continue.

Representative CAMP. No, I had yielded back, Madam Chair.

Chairman MURRAY. All right. We will turn to Representative Van Hollen.

Representative VAN HOLLEN. Thank you, Madam Chairman.

Thank you, Dr. Elmendorf, for your testimony.

Just to be clear, if the Congress was to take action to repeal the defense portion of the sequester, all things being equal, that would make the deficit worse. Correct?

Dr. ELMENDORF. Yes.

Representative VAN HOLLEN. Thank you.

Let me just go back to I think sort of an overall theme here, which is that as a share of GDP, under current law, nondefense discretionary spending is shrinking dramatically over the next 10 years. Is that not the case?

Dr. ELMENDORF. Yes, that is right, Congressman.

Representative VAN HOLLEN. And in fact, it goes to below 3 percent in your chart, Figure 6, which as a percent of the economy is about the lowest level since the Eisenhower administration.

Now there have been many questions that relate to the level of nondefense discretionary spending during the 2007–2008 period, which was a component of the Recovery Act. Just to be clear, in your response to Senator Kerry's question, I think you indicated very clearly that that spending as part of the overall Affordable Care Act actually helped prevent the economy from getting worse. Correct?

Dr. ELMENDORF. I think you mean the Recovery Act—

Representative VAN HOLLEN. Correct.

Dr. ELMENDORF [continuing]. In 2009 and 2010 and this year.

Representative VAN HOLLEN. That is right.

Dr. ELMENDORF. And we believe that cuts in taxes and increases in Government spending through that act increased output and employment relative to what would have occurred otherwise.

Representative VAN HOLLEN. That is right. And as we look forward in this committee, and I received a letter from you. I think the calculation of the Congressional Budget Office is that about a little over one-third of the current deficit that we face is a result of the fact that the economy is not at full employment. Is that right?

Dr. ELMENDORF. That sounds right. Yes, Congressman.

Representative VAN HOLLEN. So even though we have prevented things from getting a lot worse more quickly, clearly, we have a long way to go, and I wanted to follow up on a remark you made with respect to infrastructure spending where you said, "Many analysts think that the country should spend more in the area of infrastructure."

CBO, I know, has looked at infrastructure investments. Do you believe that that is an effective way to try and boost job growth, especially given the fact that we have over 14 percent unemployment in the construction sector?

Dr. ELMENDORF. Yes, Congressman. We think a variety of Government spending programs, if increased, or Government tax revenues, if reduced, would spur economic activity in the next few years.

Representative VAN HOLLEN. And I know CBO has also analyzed different forms of investment to see which would be more effective. There a lot of folks out there who are unemployed through no fault of their own and who are continuing to look for work. As I looked at your analyses, one of the most effective ways to boost consumer demand, which, of course, is a big soft spot, would be to extend support for people who are out of work through no fault of their own. Is that right?

Dr. ELMENDORF. Yes, Congressman.

Representative VAN HOLLEN. Thank you.

And another issue that is looming on the horizon is as of the beginning of next year, the current payroll tax holiday, which is in effect for all working Americans, will lapse unless the Congress takes action. And if that were to lapse and that would mean that working people had less disposable income, especially at this point in time, that would also dampen demand in the economy, would it not?

Dr. ELMENDORF. Yes, Congressman.

Representative VAN HOLLEN. And all that dampening of demand would mean less economic growth and fewer jobs, would it not?

Dr. ELMENDORF. Yes.

Representative VAN HOLLEN. Thank you.

A lot of ground has, obviously, been covered here. I would just want to pick up on the question, comment really that our Congressman Upton made, and I think we are all very aware of the fact that the clock is ticking here. And in my view, we have to accomplish an awful lot in a very short period of time, especially given your constraints.

And I really hope that this committee is able to complete its mission and come up with a package that serves two purposes. One is to try and get the economy moving again and put people back to work, and you have described some ways that that could be done in response to questions. And as you have also indicated, that can also help reduce the deficit over a period of time because the sooner you get people back to work, the more the economy gets back into gear, the more revenue that will come in.

Secondly, we need to act to put in place a long-term, credible, deficit reduction plan that does that in a steady way without harming current jobs and economic growth, and we need to do it, I believe, in a balanced way, like every other bipartisan group that has looked at this challenge recently. And so, I hope we can complete that mission.

As you have indicated in your testimony today and before, in that long-term picture, there are two big components. One is there is no doubt we have to get a grip on the increasing costs, as a result of the baby boom retirement, rising healthcare, no doubt about it. And there are smart ways to do it, and then there are ways that I think would impose a lot of unnecessary pain on Americans.

But we need to reform the healthcare system so that we focus more on the value of care than the volume of care, more on quality than on quantity, and then we have to deal with the revenue issue. And we all know that in the past decade when folks at the very top were paying a little more, the economy performed just fine. Twenty million jobs were created. The economy was booming. And so, it seems to me that this is a time for shared responsibility to address our country's needs, and I think your testimony made that very clear.

So thank you, Dr. Elmendorf.

Thank you. Thank you, Madam Chairman and Mr. Chairman.

Dr. ELMENDORF. Thank you, Congressman.

Chairman MURRAY. Senator Toomey?

Senator TOOMEY. Thank you, Madam chairman.

And thank you, Dr. Elmendorf.

A couple of quick follow-ups here. First, I know it is your view that the recent huge increase in spending and the corresponding big deficits have generated more economic growth and more job creation than we would have had in the absence of those things. But surely you would agree that that essentially asks for a comparison to a counterfactual, and as such, it is completely impossible to prove?

Dr. ELMENDORF. Yes. That is right, Senator.

Senator TOOMEY. Okay. I would just urge us to consider that there is another theory here, which is that Government can't really create demand on balance. It can substitute public demand for private demand, but that it is illusory to think that the Government can simply step in and make up for what is perceived to be a shortfall of private sector demand.

And by the way, I would suggest that there are governments, such as Greece and Italy and Portugal and Spain, who have created a lot of demand domestically through their excessive spending, and it is not working out so well for them.

I wanted to follow up on something. I might have misunderstood this, but I thought I heard someone suggest that nondefense discretionary spending has been essentially flat for about the last decade. And I think we have touched on this in various ways, but I just want to be very clear. In fact, by any reasonable measure, nondefense discretionary spending has grown dramatically, I would say.

The numbers I have are in 2000, we spent about $284 billion in nondefense discretionary spending. In 2010, we spent $550 billion. We have had a slight reduction in 2011. But this is growing, obviously, in nominal terms. It is growing in inflation-adjusted terms. It is growing faster than inflation plus population growth. It is growing faster than GDP, in fact. Isn't that true?

Dr. ELMENDORF. I think that is correct about outlays, Senator, and I do show that in one of the figures. The issue, though, worth pointing to is that funding, meaning the new budget authority the Congress is providing for nondefense discretionary purposes, is actually now back down already in fiscal year 2011 as a share of GDP to roughly what it was over the preceding few decades. And you can see that in Figure 6 of the testimony.

Now you are right as in terms of nominal dollars or in terms of real inflation-adjusted dollars, it is certainly up.

Senator TOOMEY. Right.

Dr. ELMENDORF. And as a share of GDP, though, there is a sharp distinction between the level of outlays in 2011, which depended on previous year's funding, and the level of funding in 2011, which is the jumping off point for future discussions of appropriations.

Senator TOOMEY. My point is over this 10-year period, we have seen huge growth in nondefense discretionary spending.

The last point I would just like to ask is I think it is your view, but I would like to ask, is it your view that if we were to pursue revenue-neutral tax reform that would have the effect of broadening the base on which taxes are applied and lowering marginal rates, that it is true both with respect to such corporate reform or individual reform that that would have a pro-growth effect on the economy, which, of course, in turn generates more income for the Government?

Dr. ELMENDORF. Yes, that is right. Again, the amount would depend on the specifics of the proposal.

Senator TOOMEY. Absolutely. But to the extent that we pursued that, we would be generating economic growth, therefore jobs and revenue for the Treasury?

Dr. ELMENDORF. Yes, Senator.

Senator TOOMEY. Great. Thanks very much.

Chairman MURRAY. Dr. Elmendorf, thank you very much for coming today and testifying.

And I want to thank all of our members for being short and concise. We have a lot of work to do and a shrinking amount of time to finish it with.

Dr. Elmendorf, thank you to you and your entire team for the tremendous amount of work that we are putting forward to you, and appreciate all of that.

I do want Members to know that they have 3 business days to submit questions for the record, and I hope the witnesses can respond very quickly to that. So Members should submit their questions by the close of business on Friday, October 28th.

Chairman MURRAY. I would also like to inform everyone that we are going to have another hearing on November 1st. The topic will be "An Overview of Previous Debt Proposals." We will be hearing from former Senator Simpson, Erskine Bowles, Alice Rivlin, and former Senator Pete Domenici.

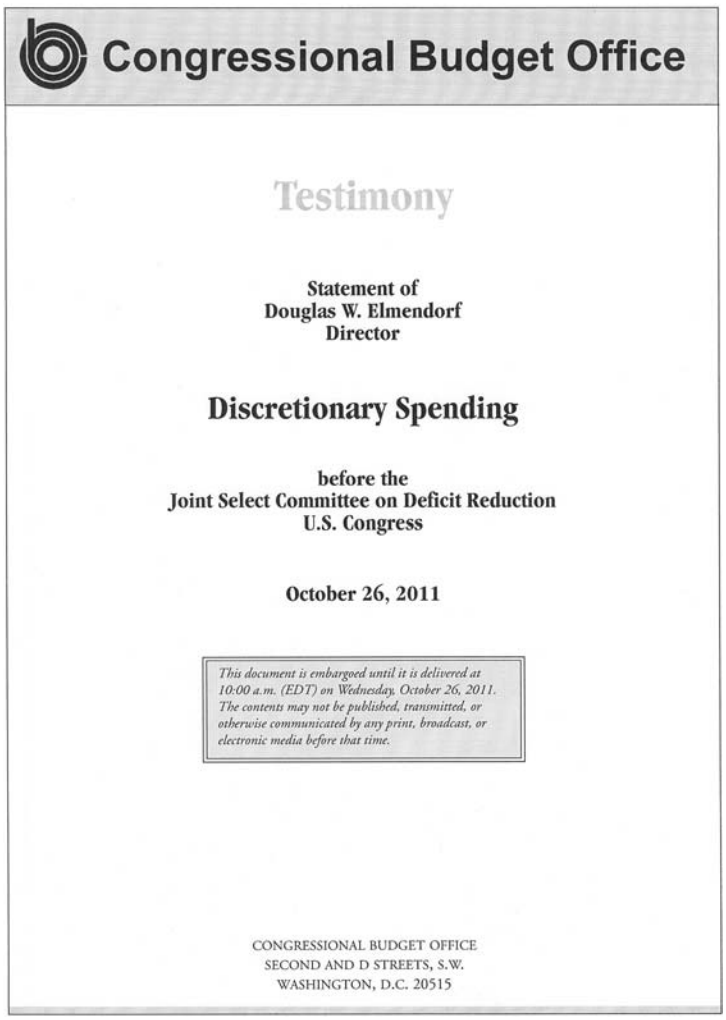
Without objection, this joint committee stands adjourned.

Dr. ELMENDORF. Thank you, Senator.

[Whereupon, at 11:45 a.m., the committee was adjourned.]

APPENDIX

Additional Material Submitted for the Record



Congressional Budget Office

Testimony

Statement of
Douglas W. Elmendorf
Director

Discretionary Spending

before the
Joint Select Committee on Deficit Reduction
U.S. Congress

October 26, 2011

This document is embargoed until it is delivered at 10:00 a.m. (EDT) on Wednesday, October 26, 2011. The contents may not be published, transmitted, or otherwise communicated by any print, broadcast, or electronic media before that time.

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Senator Murray, Congressman Hensarling, and Members of the Committee, thank you for the invitation to testify about discretionary spending in the federal budget.

Discretionary outlays—the part of federal spending that lawmakers generally control through annual appropriation acts—totaled about $1.35 trillion in 2011, or close to 40 percent of federal outlays.[1] Slightly more than half of that spending was for defense. The remainder went for a wide variety of government programs and activities, with the largest amounts spent for education, training, employment, and social services; transportation; income security (mostly housing and nutrition assistance); veterans' benefits (primarily for health care); health-related research and public health; international affairs; and the administration of justice.

Discretionary outlays declined from about 10 percent of gross domestic product (GDP) during much of the 1970s and 1980s to 6.2 percent in 1999, mostly because defense spending, as a share of GDP, declined over that period. Since then, discretionary outlays have risen relative to the size of the economy, totaling about 9 percent of GDP in 2010 and 2011, in part because of military operations in Afghanistan and Iraq and in part because of the discretionary funding provided by the American Recovery and Reinvestment Act of 2009 (ARRA, Public Law 111-5). The 2010 and 2011 figures were the highest in about 20 years.

However, lawmakers have already taken significant steps to constrain discretionary spending. Budget authority—the authority to incur financial obligations—provided for defense activities in 2011 was $3 billion (or less than 1 percent) below the amount provided the year before; budget authority for discretionary nondefense programs (plus the obligation limitations that govern spending for certain discretionary transportation programs whose budget authority is not classified as discretionary) was $39 billion (or 7 percent) below the amount provided in 2010. As a result, total discretionary funding (that is, budget authority plus obligation limitations) in 2011 was the lowest, as a share of GDP, since 2002. Nevertheless, discretionary outlays in 2011 were close to the amounts spent in 2010, the Congressional Budget Office (CBO) estimates, because of spending from funds appropriated in previous years.

In addition, the Budget Control Act of 2011 (P.L. 112-25) instituted statutory caps on discretionary appropriations for each of the fiscal years 2012 through 2021. (By contrast, in most recent years the total amount of annual appropriations—except for those designated as emergency requirements—was governed by annual funding allocations agreed to by the House of Representatives and the Senate but not enacted into law.) The new caps do not constrain spending for the war in Afghanistan or similar activities or for designated emergencies; however, if implemented as written in the act, the caps would keep other appropriations for 2012 and 2013 below the amounts pro-

1. The data presented for 2011 come from Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2011). Although the amount of total spending for 2011 has been reported by the Department of the Treasury, the data available to date do not identify the amounts of discretionary and mandatory outlays.

vided for 2011 and would limit the growth of those appropriations to about 2 percent a year from 2014 to 2021. Compared with allowing nonwar discretionary appropriations to grow at the rate of inflation, the capped amount of discretionary budget authority would be about 4 percent lower in 2012 and 9 percent lower in 2021; as a result, budget deficits would be reduced by $778 billion between 2012 and 2021, CBO estimates (not counting the savings in interest payments resulting from lower outlays).[2]

The future path of discretionary spending may be affected by the actions of the Joint Select Committee on Deficit Reduction. Under provisions of the Budget Control Act, legislation originating from this Committee could directly alter the path of such spending, for example, by changing the caps. Alternatively, if legislation originating from this Committee and estimated to produce at least $1.2 trillion in deficit reduction (including an allowance for interest savings) is not enacted by January 15, 2012, automatic procedures to cut spending will take effect in January 2013. CBO expects that 71 percent of the net savings from the automatic procedures would come from reductions in discretionary appropriations. If those procedures were triggered, appropriations for defense, excluding funding for overseas contingency operations (war-related funding), would be $110 billion—or 16 percent—lower by 2021 than they would be if they kept up with inflation; funding for nondefense activities would be $99 billion—or 15 percent—lower.

Moreover, for some programs, a comparison with inflation-adjusted funding understates the magnitude of reductions relative to the cost of maintaining current policies or plans. For example, implementing the Administration's multiyear defense plans would require nonwar defense spending to grow faster than the rate of inflation, and the demands for veterans' health care and Pell grants for higher education have also been growing more quickly than inflation. In contrast, the funding required for war-related activities—in Afghanistan and other countries—will be smaller than the amounts provided in recent years if the number of deployed troops is smaller and the pace of operations is diminished.

Regardless of the constraints placed on discretionary spending through the Budget Control Act or other actions taken by this Congress, subsequent Congresses will make the final decisions about future discretionary appropriations. Those decisions might or might not satisfy the constraints put in place by this Congress. Nevertheless, CBO

2. In its letter to the Honorable John A. Boehner and the Honorable Harry Reid analyzing the impact on the deficit of the Budget Control Act of 2011 (August 1, 2011), CBO estimated that the act's caps on nonwar discretionary budget authority would reduce projected deficits by $756 billion between 2012 and 2021 compared with CBO's March 2011 baseline adjusted to reflect enactment of full-year appropriations for 2011 (and not counting the savings in interest payments that would result from lower outlays). CBO's most recent baseline, prepared in August, incorporated slightly higher projections of inflation and reflected other technical adjustments; as a result, the caps are now estimated to reduce discretionary outlays by a slightly larger amount compared with what would be spent if appropriations grew at the rate of inflation.

assumes in its baseline projections that discretionary funding subject to the caps in the coming years will be equal to the amounts currently specified in law for those caps. As a result, legislation that reduced the funds available for a particular discretionary activity or achieved savings in undertaking a particular activity would only reduce projected total appropriations if the legislation also lowered the caps; without a reduction in the caps, funding for other discretionary activities would probably fill the gap created by the specific reduction or savings.

Concepts and Definitions Related to Discretionary Spending

Discretionary spending can be categorized and analyzed in a variety of ways. Some of the metrics derive from differences between how much spending authority is provided and how much is disbursed in a given year. Others derive from distinctions between types and purposes of discretionary spending. Still others stem from legislation that has aggregated discretionary spending into specific categories.

Budget Authority and Outlays

Appropriation acts provide authority to federal agencies to incur financial obligations. Such *budget authority* generally takes the form of a direct appropriation of funds from the Treasury or authority to obligate and expend certain collections.

Agencies use their budget authority to make commitments over the course of a fiscal year (and sometimes longer), and the money is spent sometime after the commitment is made. Some appropriations (such as for employees' salaries) are spent quickly, but others (such as for major construction projects) are disbursed over several years. *Outlays* are the amount of money spent each year. In any given year, discretionary outlays include spending from both new budget authority and budget authority provided in previous years. Thus, the Congress specifies the amount of budget authority provided each year, but it does not directly control when outlays occur.

Several transportation programs have an unusual budgetary treatment: Their budget authority is provided in authorizing legislation, rather than in appropriation acts, but their spending is constrained by *obligation limitations* imposed by appropriation bills. Consequently, their budget authority is considered mandatory, but their outlays are discretionary. (The largest of those programs is the Federal-Aid Highway Program, which is funded from the Highway Trust Fund.) As a result, total discretionary outlays in the budget are greater than total discretionary budget authority. In some presentations, the amounts of those obligation limitations are added to discretionary budget authority to produce a measure of the total *funding* provided for discretionary programs.

Categories of Spending: Defense/Nondefense and Security/Nonsecurity

Budget presentations often divide discretionary spending between defense and nondefense activities, where defense spending is defined as the sums that are recorded in budget function 050 (which is labeled "national defense").[3] That budget function includes all of the spending on military activities of the Department of Defense plus spending for the Department of Energy's atomic energy defense activities and some defense-related activities of other agencies.

The Budget Control Act set caps on discretionary budget authority for 2012 and 2013 using a different set of categories: security and nonsecurity. Under that act, the security category includes most (but not all) funding normally categorized as for national defense, but it also includes discretionary appropriations for the Department of Homeland Security, the Department of Veterans Affairs, and accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Those separate security and nonsecurity caps apply only for fiscal years 2012 and 2013; for each of the fiscal years 2014 through 2021, the Budget Control Act specified a single cap on most discretionary funding. The caps do not encompass funding for the war in Afghanistan or similar activities (overseas contingency operations).[4]

If legislation originating from the Joint Select Committee on Deficit Reduction achieving at least $1.2 trillion in deficit reduction over the 2012–2021 period is not enacted, the Budget Control Act will trigger further reductions in discretionary spending. The act specifies a set of caps to be used as a starting point for the automatic reductions. Those caps are equal in total to the ones that apply in the absence of the automatic reductions, but they divide the spending differently, separating defense spending (budget function 050) from nondefense spending (although the act continues to apply the terms "security" and "nonsecurity" to describe the two categories).

Baseline Projections

CBO's baseline projections incorporate the assumption that current law remains in place so that those projections can serve as a benchmark for policymakers to use in considering possible changes to law. Although that current-law concept is generally straightforward for spending under permanent laws (such as that for many entitle-

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3. Federal spending is categorized in 20 general-subject categories, or budget functions, so that budget authority and outlays can be presented according to the purposes the spending is intended to serve.

4. The law allows for adjustments to the caps when appropriations are provided for certain purposes. Funding for overseas contingency operations would lead to an increase in the caps, as would other funding designated as an emergency requirement. Furthermore, the law allows for an increase in the caps if additional budget authority is provided for program integrity initiatives aimed at reducing improper benefit payments in the Disability Insurance and Supplemental Security Income programs, Medicare, Medicaid, and the Children's Health Insurance Program. Finally, the caps would be increased if appropriations were provided for disaster relief, but the adjustments would be limited on the basis of historical averages for such funding.

ment programs), it may be less clear what benchmark should be used in the context of discretionary spending because appropriations are revisited each year.

In the absence of discretionary caps (such as those established by the Budget Control Act), CBO's baseline for discretionary spending has incorporated the assumption that such appropriations grow with inflation from the most recent year's level. That approach for a baseline for discretionary spending was specified in the Balanced Budget and Emergency Deficit Control Act of 1985.[5] With the imposition of caps on discretionary funding in the Budget Control Act, CBO's August 2011 baseline also incorporates the assumption that total discretionary appropriations—other than those for overseas contingency operations—will equal the caps set in that act. To reduce discretionary spending below that projected in CBO's baseline, legislation would have to lower those caps or restrain discretionary spending not constrained by the caps, such as funding for the war in Afghanistan or for similar activities. Reducing spending for individual discretionary programs without changing the caps would not necessarily change total discretionary funding or result in savings.

CBO's baseline includes a placeholder of $1.2 trillion in projected deficit reduction between 2012 and 2021 that is assumed to stem either from legislation produced by this Committee or from the automatic cuts that would be triggered if such legislation is not enacted. Because the composition of that additional deficit reduction would depend on the specific provisions of any legislation resulting from the Committee's proposals and the extent of any automatic reductions that would be triggered, CBO did not allocate the $1.2 trillion between revenues and outlays. Hence, the baseline projections for discretionary spending do not incorporate any such additional reductions.

Funding for Wars

Funding for the wars in Afghanistan and Iraq and for similar activities has often been separated from other types of discretionary appropriations. In the early years of those wars, budget authority was routinely provided through supplemental appropriations and often designated as meeting an emergency requirement. Perhaps as a result of the timing of such appropriations and a perception that such funding was "temporary" in nature, it was treated separately from other appropriations. The caps set by the Budget Control Act of 2011 also treat funding for the wars separately—the caps do not constrain funding for overseas contingency operations (or funding designated as an emergency requirement). Consequently, for its baseline projections, CBO follows the standard procedures specified in law and assumes that budget authority for overseas contingency operations will continue at current levels with adjustments for inflation.

Placing caps on appropriations for overseas contingency operations could result in estimated savings relative to those current-law projections. Such savings, however, might simply reflect policy decisions that have already been made and that would be realized even without such funding constraints. Moreover, if future policymakers

5. Section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 specifies the rules for constructing the baseline (see 2 U.S.C. 907).

believed that national security required appropriations above the capped levels, they would almost certainly provide emergency appropriations that would not, under current law, be counted against the caps.

The baseline projections that CBO published in August were based on appropriations for fiscal year 2011, which totaled $159 billion for overseas contingency operations. Since then, appropriations for overseas contingency operations have been set for the first part of fiscal year 2012 (through November 18, 2011) at an annual level of $119 billion, reflecting the planned drawdown of troops in Afghanistan and withdrawal of U.S. forces from Iraq. Reflecting those latest appropriations, the total budget authority that CBO would now project for overseas contingency operations over the 2012–2021 period is about $440 billion less than the amount shown in CBO's August baseline. Therefore, if CBO were to make estimates today of savings from any caps on such funding, those estimates would be based on those lower projections.

What Does Discretionary Funding Comprise?

Discretionary funding for 2011 totaled $1,277 billion: budget authority of $712 billion for defense and funding totaling $566 billion for nondefense activities, including $54 billion in obligation limitations for some transportation programs (see Table 1). Budget authority provided for defense activities in 2011 was $3 billion (or less than 1 percent) below the amount provided the year before; the sum of discretionary budget authority and obligation limitations for nondefense programs was $39 billion (or 7 percent) below the amount provided in 2010. Nevertheless, discretionary outlays in 2011 were close to the amounts spent in 2010, CBO estimates, because of spending from funds appropriated in previous years.

No full-year appropriations have been enacted for fiscal year 2012, which began on October 1. However, the Congress has enacted a continuing resolution to provide discretionary funding through November 18, 2011. That continuing resolution provides funding at an annualized level of $1,216 billion, about 5 percent less than the amount provided for 2011. That amount equals the sum of the security and nonsecurity caps for 2012 established in the Budget Control Act ($1,043 billion), obligation limitations for transportation programs provided by the continuing resolution ($54 billion), and funding for overseas contingency operations provided by the continuing resolution (just under $119 billion).

Funding for National Defense

Three major categories of funding for the Department of Defense (DoD) accounted for 83 percent of the defense appropriation in 2011: funding for operation and maintenance ($308 billion), military personnel ($154 billion), and procurement ($129 billion) (see Figure 1). Operation and maintenance accounts, which constitute the single largest category of defense spending, fund the day-to-day activities of the military, the training of military units, the majority of costs for the military's health care program,

Table 1.

Discretionary Funding for 2011

(Billions of dollars)

	2011 Funding
Defense[a]	
Operation and maintenance	308
Military personnel	154
Procurement	129
Research, development, test, and evaluation	76
Other Department of Defense	21
Other	23
Subtotal, defense	712
Nondefense	
Education, training, employment, and social services	92
Transportation[b]	85
Income security	63
Veterans' benefits and services	57
Health	55
International affairs	52
Administration of justice	50
Other	
Natural resources and environment	33
General science, space, and technology	30
General government	17
Community and regional development	15
Agriculture	6
Medicare	6
Social Security	6
Energy	4
Commerce and housing credit	-6
Subtotal, other	112
Across-the-board reductions[c]	-1
Subtotal, nondefense	566
Total	**1,277**

Source: Congressional Budget Office.

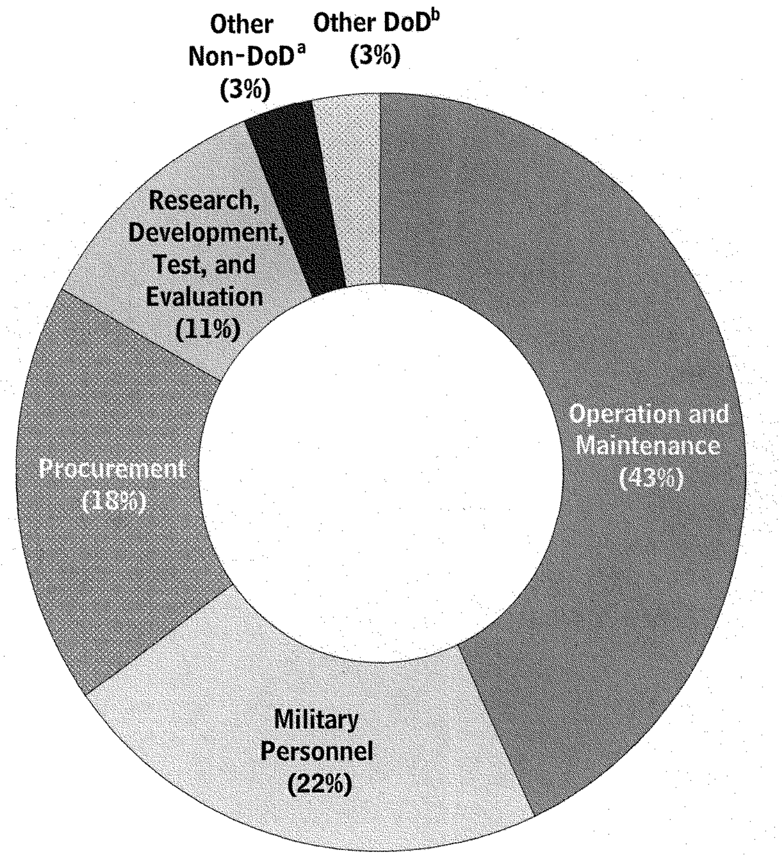
a. Includes funding for overseas contingency operations such as the wars in Afghanistan and Iraq.

b. Includes $54 billion in budgetary resources provided by obligation limitations for certain ground and air transportation programs.

c. Full-year appropriations for 2011 included an across-the-board cut of 0.2 percentage points for all nondefense discretionary accounts.

Figure 1.

Defense Discretionary Funding for 2011



Source: Congressional Budget Office.

Note: Discretionary funding for defense includes funding for overseas contingency operations such as the wars in Afghanistan and Iraq.

a. Includes spending on some defense-related activities by government entities other than the Department of Defense (DoD).

b. Includes funding for military construction and family housing.

and compensation for most of DoD's civilian employees. The military personnel accounts fund compensation for uniformed service members, including pay, housing and food allowances, and related activities, such as moving service members and their families to new duty stations. Procurement accounts fund the purchase of new weapon systems and other major equipment and upgrades to existing weapon systems.

Appropriations for research, development, test, and evaluation ($76 billion), which fund basic and applied research as well as the development and testing of weapon systems, accounted for another 11 percent of total funding for national defense. The rest of the appropriations (about 6 percent) were for military construction, family housing, and other programs in DoD ($21 billion); the atomic energy defense activities of the Department of Energy ($17 billion); and various defense-related programs in other departments and agencies ($7 billion).

Appropriations for the wars in Afghanistan and Iraq and related activities in 2011 were distributed across several of the categories just described and are included in the amounts of funding reported here. Such appropriations totaled $159 billion in 2011, accounting for about 22 percent of the total funding for national defense.

Funding for Nondefense Activities

Seven broad budget categories, or budget functions, account for about 80 percent of the $566 billion in resources provided for nondefense discretionary activities in 2011. Education, training, employment, and social services programs together received $92 billion in funding, claiming 16 percent of total nondefense discretionary funding (see Figure 2).[6] Nearly $40 billion of that total funded grants to state and local governments for elementary, secondary, and vocational education, and another $28 billion supported programs for higher education.

Transportation programs received $85 billion, or 15 percent, of the total resources, which included $54 billion in obligation limitations for several surface and air transportation programs. (Although those programs receive mandatory budget authority through authorizing legislation, the annual appropriation acts govern spending because they limit how much of that authority the Department of Transportation can obligate in a given year.) About one-half of all discretionary funding for transportation is for highway programs.

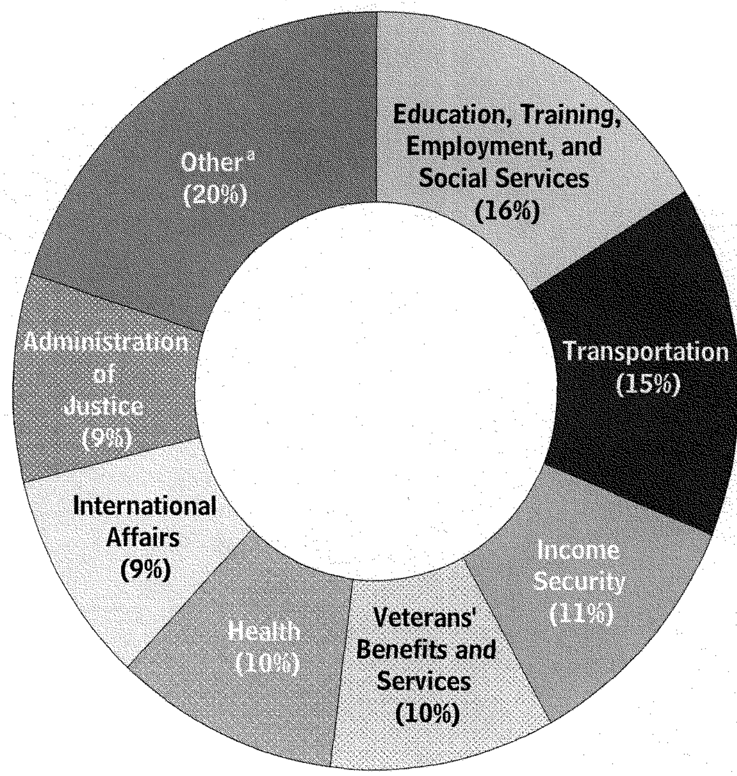
Income security programs (mostly for housing and nutrition assistance) received funding totaling $63 billion, representing 11 percent of nondefense appropriations.[7]

6. The student loan program and several other programs in that category are not included in that total because their funding is considered mandatory.

7. Other income security programs, such as unemployment compensation, the Supplemental Nutrition Assistance Program (formerly known as Food Stamps), and Temporary Assistance for Needy Families, are not included in the total because they are included in mandatory spending.

Figure 2.

Nondefense Discretionary Funding for 2011



Source: Congressional Budget Office.

Note: Nondefense discretionary funding includes budgetary resources provided by obligation limitations for certain ground and air transportation programs.

a. Includes funding for natural resources and environment; general science, space, and technology; general government; community and regional development; agriculture; Medicare and Social Security (for administrative activities); energy; and commerce and housing credit.

Discretionary appropriations for veterans' benefits (primarily for health care) and for health-related research and public health were $57 billion and $55 billion, respectively, each constituting 10 percent of total discretionary funding for nondefense activities. More than half of the discretionary funding for health-related research and public health is devoted to the National Institutes of Health. Finally, international affairs accounted for roughly 9 percent, as did the administration of justice.[8]

About one-third of total nondefense discretionary spending is disbursed in the form of grants to state and local governments. Of those grants, about one-third are devoted to education and training programs and one-quarter to transportation programs, with the remainder going to environmental protection, economic development, law enforcement, and various other purposes.

The funding provided for nondefense discretionary programs in 2011 was $39 billion lower than it was in 2010. The largest reduction ($8 billion, including a rescission in 2011 of $2 billion in unobligated balances) occurred because the decennial census was carried out in 2010 and therefore did not require much spending in 2011; lower amounts for disaster relief and high-speed rail ($4 billion and $2.5 billion less, respectively) constituted the next largest reductions. In addition, net gains of the Federal Housing Administration's Mutual Mortgage Insurance Fund are estimated to have risen by $4.6 billion in 2011. (Those gains, which are calculated on a present-value basis, are recorded as an offset against discretionary appropriations.)

Funding for the Federal Workforce

According to CBO's estimates, the federal government provided about $200 billion in funding to compensate federal civilian workers in 2011; that amount represents about 15 percent of total discretionary spending. Of that $200 billion, about $80 billion (or 11 percent of defense appropriations) was for civilian personnel working in the Department of Defense and on other defense-related activities, and about $120 billion (or 21 percent of nondefense discretionary funding) was for nondefense personnel; most of those nondefense personnel work in the Departments of Veterans Affairs, Homeland Security, Justice, and the Treasury (including the Internal Revenue Service).

What Have Been the Trends in Discretionary Outlays?

Discretionary outlays declined from about 10 percent of GDP during much of the 1970s and 1980s to 6.2 percent in 1999, mostly because defense spending, as a share of GDP, declined over that period.[9] Those outlays then began to increase somewhat relative to the size of the economy, reaching 7.0 percent of GDP in 2002 and 7.9 percent in 2008 (see Figure 3). The rise between 2002 and 2008 can be attributed

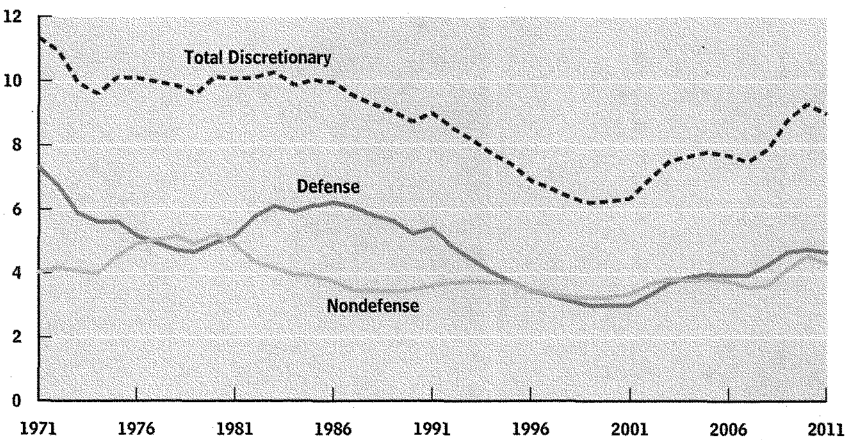
8. Funding for programs that are intended to enhance homeland security is spread across budget functions, including some of those mentioned here, and it is not recorded in a single place in the budget.

9. This discussion is framed in terms of outlays, rather than budget authority, because more long-term historical data are available for outlays.

Figure 3.

Defense, Nondefense, and Total Discretionary Outlays, 1971 to 2011

(Percentage of gross domestic product)



Source: Congressional Budget Office.

to the actions taken in response to the terrorist attacks of September 11, 2001, and subsequent military operations in Afghanistan and Iraq. In 2009 and 2010, discretionary outlays jumped to 8.8 percent and 9.3 percent of GDP, respectively, in part because of $281 billion in discretionary funding provided by the American Recovery and Reinvestment Act of 2009. The 2010 figure was the highest since 1988 (in part because much of the ARRA funding provided in 2009 was disbursed in 2010). By CBO's estimate, discretionary spending in 2011 was about 9.0 percent of GDP; those outlays stemmed from budgetary resources provided for 2011 and for earlier years, including some from ARRA.

Defense Spending

Trends in discretionary outlays during the past few decades have been heavily influenced by spending on defense. In 1971, defense discretionary outlays accounted for 7.3 percent of GDP; however, that share fell rapidly over the following several years, dropping to 4.7 percent of GDP by 1978. Such spending then rose, reaching 6.2 percent in 1986. From that point, defense outlays resumed their slide, dropping to a low of 3.0 percent of GDP between 1999 and 2001.

In 2002, defense outlays rose back to 3.3 percent of GDP, not only because of operations in Afghanistan and other war-related activities (see Appendix A) but also because of initiatives that were planned before September 11, 2001. Outlays for defense activities continued to climb as military operations began in Iraq, and by 2005, defense outlays equaled 4.0 percent of GDP. Such outlays subsequently increased further relative to the size of the economy, reaching 4.7 percent of GDP (or $689 billion) in 2010 and about the same share of GDP in 2011. That level is the highest relative to GDP since 1992 but well below the average for defense spending since World War II.

Nondefense Spending

Outlays for nondefense discretionary programs have averaged about 4 percent of GDP during the past 40 years, with significant variation over time but little apparent trend. Thus, on average, such outlays increased during that period roughly in line with the size and income of the population.

Such outlays rose from 4.0 percent of GDP in 1971 to a high of 5.2 percent of GDP in 1980 before declining. Nondefense outlays as a share of GDP fell through the rest of the 1980s and were relatively stable from 1990 through 2008, ranging between 3.2 percent and 3.8 percent. However, funding from ARRA then helped push that share higher—to 4.5 percent of GDP in 2010. In 2011, nondefense discretionary outlays dropped to 4.3 percent of GDP, CBO estimates, in part because spending of ARRA funds declined.

How Will Discretionary Spending Evolve Over the Next Decade Under Current Law?

CBO's baseline for discretionary funding reflects the caps placed on such budget authority for 2012 through 2021 by the Budget Control Act. Discretionary budget authority subject to the caps will be limited to $1,043 billion in 2012 and $1,047 billion in 2013, and increases will be restricted to about 2 percent per year after that, with discretionary budget authority reaching a maximum of $1,234 billion in 2021.

The baseline also incorporates projections of obligation limitations for certain transportation programs (calculated by adjusting for inflation the $54 billion provided in 2011). Combining the budget authority subject to the caps with those obligation limitations, CBO projects that such discretionary funding will decline from 7.0 percent of GDP in 2012 to 5.5 percent of GDP in 2021 (see Figure 4).

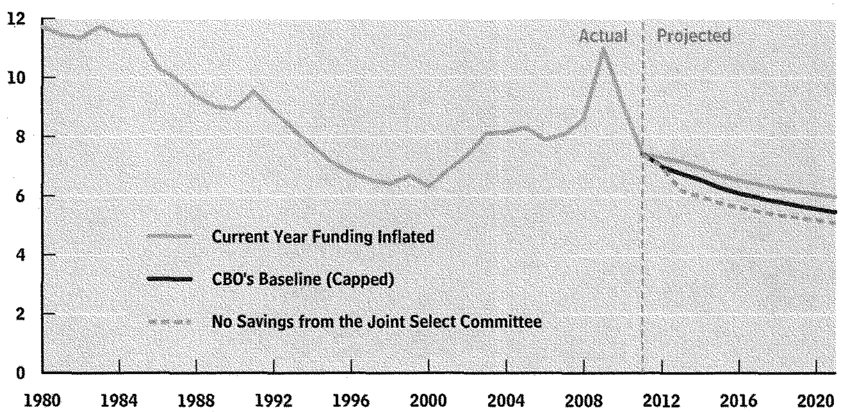
Appropriations of those amounts will mean reductions in the real (inflation-adjusted) resources available for the government's programs. Compared with allowing discretionary appropriations to grow at the rate of inflation, the capped amount of discretionary budget authority is about 4 percent lower in 2012 and 9 percent lower in 2021. Compared with allowing discretionary budget authority to grow at the rate of nominal GDP, the caps are about 6 percent lower in 2012 and about 28 percent lower in 2021.

According to CBO's estimates, if appropriations in the next 10 years are equal to the caps on discretionary spending, implementing those caps will reduce budget deficits by $778 billion between 2012 and 2021 (not counting the savings in interest payments that will result from lower outlays) compared with what would occur if discretionary budget authority was allowed to grow at the rate of inflation.

Figure 4.

Total Discretionary Funding Excluding War Funding, 1980 to 2021

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: Funding includes budget authority as well as budgetary resources provided by obligation limitations for certain ground and air transportation programs.

The future path of discretionary spending may be affected by the actions of this Committee. Legislation originating from the Committee could directly alter the path of discretionary spending, for example, by changing the caps. Alternatively, if legislation originating from the Committee and estimated to produce at least $1.2 trillion in deficit reduction (including an allowance for interest savings) is not enacted by January 15, 2012, automatic procedures to cut spending will take effect. According to the law, such procedures would lead to a sequestration (that is, a cancellation) of discretionary resources in 2013 and a reduction in the caps in subsequent years—as well as reductions in mandatory spending.[10] The magnitude of those cuts would depend on any shortfall in the estimated effects of legislation originating from this Committee relative to the trigger point of $1.2 trillion.

Automatic Enforcement Procedures Under the Budget Control Act

The automatic reductions in spending under the Budget Control Act—if triggered—would take the form of equal cuts (in dollar terms) in funding for defense and nondefense programs from 2013 through 2021. Those reductions would be achieved by lowering the caps on discretionary budget authority specified in the Budget Control Act and by automatically cancelling budgetary resources for some programs and

10. Mandatory spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority.

activities financed by mandatory spending.[11] The law exempts a significant portion of mandatory spending from sequestration, however.

CBO has estimated the changes in discretionary and mandatory spending that would occur if the automatic enforcement mechanisms were triggered because no new deficit reduction legislation was enacted (see Table 2). CBO's analysis can only approximate the ultimate results; the Administration's Office of Management and Budget would be responsible for implementing any such automatic reductions on the basis of its own estimates.

Under those circumstances, the automatic enforcement procedures would reduce budgetary resources for defense by $492 billion between 2013 and 2021. Such annual reductions would be split proportionally between mandatory and discretionary defense spending. Because mandatory spending makes up much less than 1 percent of all defense spending, however, CBO estimates that only about $150 million would be sequestered from mandatory defense programs over the 2013–2021 period. Consequently, almost all of the required deficit reduction in the defense category would have to be achieved by lowering the caps on future discretionary appropriations for defense activities.

Estimating automatic reductions for nondefense programs is more complicated, particularly because of provisions in the Budget Control Act that limit cuts in most spending for Medicare benefits to 2 percent. CBO estimates that about 90 percent of Medicare spending would be subject to that limit, and another 8 percent of such spending would be exempt from sequestration altogether, leaving just 2 percent of Medicare spending subject to the same sequestration as nonexempt mandatory programs.

The act would require the same total reductions—$492 billion over the 2013–2021 period—in the budgetary resources for nondefense activities as in those for defense. In calculating the reductions required in the nondefense spending category, the targeted savings would first be allocated proportionally between nonexempt discretionary and mandatory programs. CBO estimates that mandatory spending accounts for roughly 58 percent of all nondefense spending that would be subject to enforcement procedures under the Budget Control Act during those nine years. Of that nonexempt mandatory spending, the vast majority is for Medicare programs and activities that would be subject to the 2 percent limit. In the absence of such a limit, reductions in budgetary resources for Medicare would total $256 billion between 2013 and 2021, CBO estimates; with the 2 percent ceiling, however, such reductions would total $123 billion over that period. The other $133 billion in required reductions that could not be accomplished because of the 2 percent limit would be reallocated

11. Budgetary resources consist of all sources of authority provided to federal agencies that permit them to incur financial obligations, including new budget authority, unobligated balances, direct spending authority, and obligation limitations. For 2013, reductions in discretionary budget authority would take place via sequestration rather than through a reduction in the caps.

Table 2.

CBO's Estimates of Sequestration Amounts for Mandatory Spending and Reductions in Caps on Discretionary Budget Authority

(Billions of dollars)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total, 2013-2021
Defense[a]										
Mandatory sequestration	*	*	*	*	*	*	*	*	*	*
Reduction in the cap on discretionary budget authority[b]	-55	-55	-55	-55	-55	-55	-55	-55	-55	-492
Total	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-492**
Nondefense[a]										
Mandatory sequestration										
Medicare spending subject to 2 percent limit	-11	-11	-12	-13	-13	-14	-15	-16	-17	-123
Other nonexempt programs	-3	-3	-4	-4	-3	-3	-3	-3	-3	-30
Additional sequestration applied to other programs because of the 2 percent limit for Medicare[c]	-2	-2	-2	-2	-2	-2	-2	-2	-2	-17
Subtotal	-16	-17	-18	-19	-19	-19	-20	-21	-22	-170
Reduction in the cap on discretionary budget authority[b]										
Preliminary reductions	-25	-24	-24	-23	-23	-23	-22	-21	-21	-206
Further reductions because of the 2 percent limit for Medicare	-14	-14	-13	-13	-13	-13	-12	-12	-12	-116
Total	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-55**	**-492**
Memorandum:										
Percentage Cut to Nonexempt Budget Accounts										
Defense	10.0	9.8	9.7	9.5	9.3	9.1	8.9	8.7	8.5	n.a.
Nondefense										
Discretionary	7.8	7.4	7.1	6.8	6.6	6.4	6.1	5.8	5.5	n.a.
Mandatory										
Medicare spending subject to 2 percent limit	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	n.a.
Other	7.8	7.4	7.1	6.8	6.6	6.4	6.1	5.8	5.5	n.a.

Source: *Congressional Budget Office.*

Notes: * = between -$500 million and zero; n.a. = not applicable.

Budget authority refers to the authority provided by law to incur financial obligations, which eventually result in outlays.

a. For the purposes of this table, "defense" refers to all accounts in budget function 050, and "nondefense" refers to all other budget accounts.

b. For 2013, reductions in discretionary budget authority would take place via sequestration rather than through a reduction in the caps.

c. Because a portion of Medicare spending cannot be subject to a sequestration of more than 2 percent, the remaining amount of required reductions must be reallocated proportionally among other nonexempt mandatory programs and nondefense discretionary funding.

proportionally among the remaining nonexempt mandatory programs and discretionary programs in the nondefense category.

Altogether, the majority of the savings from the automatic spending reductions would stem from further cuts in discretionary programs beyond those embodied in the Budget Control Act's caps on discretionary budget authority. CBO expects that 71 percent of the net savings from the automatic procedures would come from lowering the caps on discretionary appropriations (and from a sequestration of those appropriations in 2013), 13 percent would come from a net reduction in mandatory spending, and 16 percent would result from lower debt-service costs arising from those other cuts.[12]

Of course, outcomes could be different from the figures in the table. The Congress could enact legislation originating from this Committee that would produce $1.2 trillion in savings through changes that differ significantly from the automatic reductions that would be required in the absence of such legislation. Or such legislation could yield some savings, but less than $1.2 trillion, so the automatic procedures would have a smaller impact than CBO has estimated here. Alternatively, this Committee could recommend, and the Congress could enact, legislation saving significantly more than $1.2 trillion.

Defense Spending

To illustrate the potential impact of the caps on discretionary appropriations set in the Budget Control Act and of the automatic enforcement procedures contained in that act, CBO has projected defense and nondefense appropriations and outlays under several different assumptions. For defense, those projections exclude appropriations and outlays for overseas contingency operations.

Compliance with the caps on discretionary funding could occur through many different combinations of defense and nondefense funding. For example, defense and nondefense appropriations might be cut proportionally relative to the funding that would be necessary to keep pace with inflation. In that case, funding for defense programs apart from overseas contingency operations would drop from $552 billion in 2011 to $538 billion in 2012 before rising again and reaching $637 billion in 2021 (see Table 3). Between 2012 and 2021, such funding would be $445 billion less than the amount that would occur if the amount of funding for 2011 grew at the rate of inflation. When measured as a share of GDP, funding for defense would decline by about 1 percentage point from 2011 to 2021, or by more than one-fourth (see Figure 5). Funding for defense in 2021 (excluding overseas contingency operations) would represent 2.7 percent of GDP; by comparison, annual funding for defense (excluding overseas contingency operations) has averaged 3.4 percent of GDP during the past decade.

12. For further details, see Congressional Budget Office, *Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act* (September 2011).

Table 3.

Projections of Discretionary Budget Authority for Defense Programs

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2012-2016	Total 2012-2021
	Projected Budget Authority												
Funding for 2011 (Excluding overseas contingency operations) Adjusted for Inflation[a]	552	562	574	586	599	614	630	646	664	682	700	2,935	6,256
Potential Paths for Defense Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011[b]													
All reductions from defense[c]	552	532	531	516	524	531	541	550	560	569	578	2,634	5,432
Proportional reductions	552	538	541	550	560	571	584	597	610	623	637	2,760	5,811
No reductions from defense	552	562	574	586	599	614	630	646	664	682	700	2,935	6,256
If No Savings Result from the Joint Select Committee[d]	552	538	491	501	511	522	535	548	561	575	589	2,565	5,374
	Reduction in Budget Authority Relative to the Funding for 2011 Adjusted for Inflation												
Potential Paths for Defense Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011[b]													
All reductions from defense[c]	0	-30	-43	-70	-76	-82	-89	-96	-104	-113	-122	-301	-825
Proportional reductions	0	-24	-33	-36	-39	-42	-46	-50	-54	-58	-63	-175	-445
No reductions from defense	0	0	0	0	0	0	0	0	0	0	0	0	0
If No Savings Result from the Joint Select Committee[d]	0	-24	-83	-85	-88	-91	-94	-98	-102	-106	-110	-371	-882

Continued

Table 3. Continued

Projections of Discretionary Budget Authority for Defense Programs

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2012-2016	Total 2012-2021
Memorandum:													
Overseas Contingency Operations[e]													
August 2011 baseline	159	161	164	167	169	172	176	180	183	188	191	834	1,752
Extrapolation of annualized amount provided in continuing resolution for fiscal year 2012	n.a.	119	121	124	126	129	132	135	139	142	146	619	1,314

Source: Congressional Budget Office.

Note: n.a. = not applicable.

a. These amounts were estimated by assuming that budget authority for fiscal years 2012 to 2021 will be equal to the 2011 appropriation adjusted for inflation.

b. No caps were in place in 2011. Excludes overseas contingency operations.

c. In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on "nonsecurity" funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated. Caps for those two years are allocated to "security" and "nonsecurity" spending. The security category comprises discretionary appropriations for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95-0401-0-1-054), and discretionary accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Excludes overseas contingency operations.

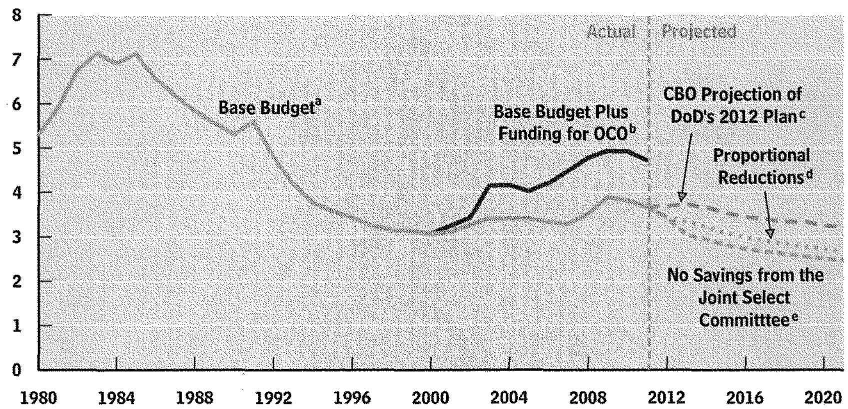
d. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense (budget function 050) and nondefense budget authority. The caps for 2012 set in the Budget Control Act would not be affected by the automatic enforcement procedures. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

e. The caps do not constrain appropriations for military operations in Afghanistan (or for similar activities). For its August 2011 baseline, CBO projected future war-related funding by adjusting for inflation the $159 billion appropriated for 2011. The Continuing Appropriations Act, 2012 (Public Law 112-36) funded such operations through November 18, 2011, at an annual rate of $119 billion.

Figure 5.

Defense Discretionary Budget Authority, 1980 to 2021

(Percentage of gross domestic product)



Source: Congressional Budget Office.

a. The base budget funds the normal activities of the government for national defense, including the development and procurement of weapon systems and day-to-day operations of the military and related civilian workforce. Base-budget data include supplemental and emergency funding unrelated to operations in Afghanistan, Iraq, and the war on terrorism.

b. For 2001 to 2011, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data.

c. The CBO projection of the Department of Defense's (DoD's) Future Years Defense Plan for 2012 (without funding for overseas contingency operations) incorporates costs that are consistent with DoD's recent experience. It also assumes that the non-DoD portions of defense discretionary funding remain at 2011 levels, adjusted only for inflation.

d. Assumes proportional reductions in defense and nondefense discretionary budget authority subject to the caps as set in the *Budget Control Act* of 2011.

e. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense and nondefense budget authority. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

Alternatively, nearly all reductions in appropriations that would be needed to meet the caps—relative to the funding that would be necessary to keep pace with inflation—could come from defense activities. In that case, budget authority for defense programs apart from overseas contingency operations would drop from $552 billion in 2011 to $516 billion in 2014 before beginning to rise again.[13] By 2021, such funding would total $578 billion and would equal 2.4 percent of GDP, one-third less than the 3.7 percent of GDP represented by 2011 defense appropriations excluding overseas contingency operations.

As another possibility, defense funding could grow at the rate of inflation, and all reductions needed to meet the caps could come from nondefense programs. In that case, CBO projects, defense appropriations would total $700 billion, or 2.9 percent of GDP, in 2021—still a decline of more than a fifth from the funding in 2011, when the amounts are measured as a share of GDP.

If none of the specified savings of $1.2 trillion was obtained through legislation originating with this Committee, the estimated reduction in defense funding in 2013 would require a sequestration of 10.0 percent in discretionary budget authority for defense (see the memorandum in Table 2). The percentage reductions in the caps for later years would be successively slightly smaller, amounting to 8.5 percent in 2021. By 2021, defense budget authority (excluding funding for overseas contingency operations) would be about $110 billion—or 16 percent—lower than it would be if such appropriations kept up with inflation. During the 2012–2021 period as a whole, defense funding would be $882 billion less than the amount that would occur if the amount of funding for 2011 grew at the rate of inflation (see Table 3).[14] By 2021, such funding would equal 2.5 percent of GDP. (Discretionary outlays for defense that would result from these different streams of budget authority are presented in Appendix B.)

The caps do not constrain appropriations for the war in Afghanistan or for similar activities, and the automatic enforcement procedures would not affect funding for such purposes.

Nondefense Spending

Alternative ways of keeping discretionary spending within the caps specified in the Budget Control Act would have different implications for nondefense spending as well.

13. In 2012 and 2013, the total amount of nonsecurity funding that would be available within the defense category if 2011 funding was adjusted for inflation is not large enough—even if all such funding was eliminated—to meet the caps on nonsecurity funding; therefore, to adhere to the caps on nonsecurity funding, some reductions would have to come from nondefense programs.

14. That amount is the sum of two components: (1) the estimated amount of the automatic reductions that would apply to defense funding ($492 billion) and (2) the difference between the defense caps specified in law that are to be used as the basis for such automatic reductions and what funding for defense would be if appropriations after 2011 grew at the rate of inflation ($390 billion).

If defense and nondefense appropriations were cut proportionally relative to the funding that would be necessary to keep pace with inflation, nondefense budget auhority would decrease from $511 billion in 2011 to $505 billion in 2012 before rising again and reaching $597 billion in 2021 (see Table 4). Between 2012 and 2021, budget authority for nondefense purposes would be $418 billion less than the amount that would be provided if funding grew at the rate of inflation after 2011. Under an assumption that the obligation limitations for certain transportation programs grow over time at the rate of inflation, nondefense funding in 2021 would represent 2.8 percent of GDP; by comparison, such funding has averaged 4.1 percent of GDP during the past decade (see Figure 6).

Alternatively, if all reductions in appropriations—relative to the funding that would be necessary to keep pace with inflation—came from nondefense activities, budget authority for nondefense programs would drop from $511 billion in 2011 to $473 billion in 2013 before beginning to rise again. By 2021, budget authority would total $534 billion. Combining that amount with the projected obligation limitations would result in total nondefense funding equal to 2.5 percent of GDP, a drop of about one-third relative to the 3.8 percent of GDP represented by 2011 nondefense funding.

As another possibility, nondefense funding could grow nearly at the rate of inflation, and almost all reductions needed to meet the caps could come from defense programs.[15] In that case, CBO projects, nondefense budget authority would total $656 billion in 2021. The resulting funding (including obligation limitations) would equal 3.0 percent of GDP—a decline of nearly a fifth from the funding in 2011, when the amounts are measured as a percentage of GDP.

If no savings were obtained through legislation originating with this Committee, the estimated reduction in nondefense funding in 2013 would require a sequestration of 7.8 percent in discretionary budget authority for nondefense purposes (see the memorandum in Table 2). The percentage reductions in the caps for later years would be successively smaller, amounting to 5.5 percent in 2021. By 2021, nondefense budget authority would be $99 billion—or 15 percent—lower than it would be if such appropriations kept up with inflation, and total nondefense funding (including obligation limitations) would equal 2.6 percent of GDP. During the 2012–2021 period as a whole, nondefense funding would be $794 billion less than the amount that would occur if the amount of funding for 2011 grew at the rate of inflation.[16] (Discretionary outlays for nondefense activities that would result from these different streams of budget authority are presented in Appendix B.)

15. In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on nonsecurity funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated.

16. That amount is the sum of two components: (1) the estimated amount of the automatic reductions that would apply to nondefense funding ($322 billion) and (2) the difference between the nondefense caps specified in law that are to be used as the basis for such automatic reductions and what funding for nondefense activities would be if appropriations after 2011 grew at the rate of inflation ($473 billion).

Table 4.

Projections of Discretionary Budget Authority for Nondefense Programs

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2012-2016	Total 2012-2021
	Projected Budget Authority												
Funding for 2011 Adjusted for Inflation[a]	511	528	538	550	562	576	590	606	622	639	656	2,753	5,867
Potential Paths for Nondefense Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011[b]													
All reductions from nondefense	511	481	473	480	487	493	501	510	518	526	534	2,414	5,004
Proportional reductions	511	505	506	516	526	536	547	559	572	585	597	2,589	5,449
No reductions from nondefense[c]	511	511	516	550	562	576	590	606	622	639	656	2,715	5,828
If No Savings Result from the Joint Select Committee[d]	511	505	462	472	483	494	505	518	532	545	557	2,416	5,072
	Reduction in Budget Authority Relative to the Funding for 2011 Adjusted for Inflation												
Potential Paths for Nondefense Discretionary Budget Authority Subject to the Caps as Set in the Budget Control Act of 2011[b]													
All reductions from nondefense	0	-47	-65	-70	-76	-82	-89	-96	-104	-113	-122	-340	-863
Proportional reductions	0	-23	-31	-34	-37	-40	-43	-47	-50	-55	-59	-164	-418
No reductions from nondefense[c]	0	-17	-22	0	0	0	0	0	0	0	0	-38	-38
If No Savings Result from the Joint Select Committee[d]	0	-23	-76	-78	-79	-82	-85	-88	-90	-95	-99	-338	-794

Source: Congressional Budget Office.

a. These amounts were estimated by assuming that budget authority for fiscal years 2012 to 2021 will be equal to the 2011 appropriation adjusted for inflation.

b. No caps were in place in 2011.

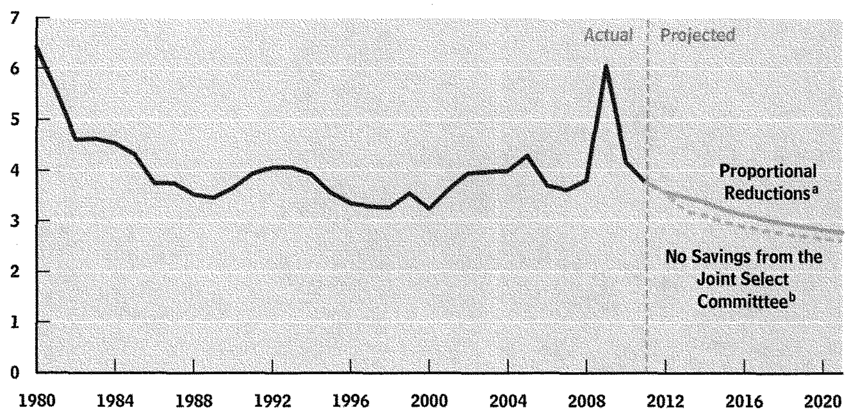
c. In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on "nonsecurity" funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated. Caps for those two years are allocated to "security" and "nonsecurity" spending. The security category comprises discretionary appropriations for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95-0401-0-1-054), and discretionary accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Excludes overseas contingency operations.

d. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense (budget function 050) and nondefense budget authority. The caps for 2012 set in the Budget Control Act would not be affected by the automatic enforcement procedures. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

Figure 6.

Nondefense Discretionary Funding, 1980 to 2021

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Note: Funding includes budget authority as well as budgetary resources provided by obligation limitations for certain ground and air transportation programs.

a. Assumes proportional reductions in defense and nondefense discretionary budget authority subject to the caps as set in the Budget Control Act of 2011.

b. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense and nondefense budget authority. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

How Might the Path of Discretionary Spending Be Altered?

Because discretionary spending is determined by the appropriation process each year, it is not always clear what metric should be used when thinking about future needs and measuring the impact of policy changes.

One metric is to assume that current funding grows at the rate of inflation (that is, that it stays the same in real terms). For some programs, however, such an approach understates the cost of maintaining current policies or plans. For example, early in 2011 the Administration put forth a plan to address future defense needs that would require defense spending to grow faster than the rate of inflation. As further examples, the demands for veterans' health care and Pell grants for higher education are growing more quickly than inflation. In addition, current funding for some programs is less than many analysts believe is necessary to address the nation's needs. An example in this category is spending on transportation and other forms of infrastructure.

In contrast, the funding needed for overseas contingency operations, such as the war in Afghanistan, may decline during the coming decade. Indeed, the appropriations currently in place for such operations for fiscal year 2012 are well below the amounts provided in 2011.

Regardless of the constraints placed on discretionary spending through the Budget Control Act, legislation proposed by this Committee, or other actions by this Congress, the amounts of future discretionary appropriations will ultimately be enacted by future lawmakers. The limitations already enacted into law, or others that may be set in the future, might or might not be upheld by subsequent Congresses.

Nevertheless, CBO assumes in its baseline projections that discretionary funding subject to the caps in the coming years will be equal to the amounts specified in current law for those caps. As a result, changes that would reduce the funds necessary to accomplish a particular discretionary activity or that achieved savings in undertaking a particular activity would reduce projected total appropriations only if legislation also lowered the caps; without a reduction in the caps, funding for other discretionary activities would probably fill the gap created by the specific reduction or savings.

Defense Spending

Even if budget authority for defense programs (other than overseas contingency operations) grew at the rate of inflation, that amount of funding would be insufficient to pay for the Future Years Defense Program (FYDP) provided to the Congress in April 2011 by the Department of Defense. CBO has examined the programs and plans contained in that document, which did not include war-related activities, and projected their budgetary impact.[17] According to CBO's calculations, over the period from 2012 to 2021, the funding needed to implement DoD's plan (and finance the small portion of defense spending carried out by other agencies) would exceed by about $480 billion the amounts projected by assuming that current budget authority increased at the rate of inflation. (The funding needed to implement that plan and keep the non-DoD portion of defense spending growing at the rate of inflation would represent 3.2 percent of GDP in 2021; see Figure 5.) Thus, if the discretionary spending caps were met through proportional reductions in defense and nondefense appropriations relative to the funding that would be necessary to keep pace with inflation, the shortfall in defense appropriations during the 2012–2021 period relative to the amounts needed to implement the FYDP (and keep the non-DoD portion of defense spending growing at the rate of inflation) would be roughly $925 billion.[18]

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17. See Congressional Budget Office, *Long-Term Implications of the 2012 Future Years Defense Program* (June 2011).

18. That amount is the sum of the $480 billion difference just noted and the $445 billion gap (described on page 17) between what future defense funding would be if it were maintained at the 2011 level with adjustments for inflation and what it would be if proportional reductions were made to comply with the discretionary caps.

In contrast, the funding required for war-related activities—in Afghanistan and other countries—will be smaller than the amounts provided in recent years if the number of deployed troops is smaller and the pace of operations is diminished. Recently, the Congress recognized that the need for such funding has lessened; in the continuing resolution now in place, lawmakers provided appropriations for such purposes at an annualized level of $119 billion—a drop of about $40 billion from the $159 billion provided for 2011. If the current amount, $119 billion, was provided in future years with adjustments for inflation, the budget authority over the 2012–2021 period would sum to $1.3 trillion, about $440 billion less than a projection based on the 2011 appropriation.

If the number of troops deployed continues to decline and if the pace of operations continues to diminish, even less funding may suffice in future years. To illustrate, CBO formulated an alternative budget scenario that assumes a reduction in the deployment of forces abroad for military actions. On the basis of data through June 2011, CBO estimates, the number of U.S. active-duty, reserve, and National Guard personnel deployed for war-related activities in 2011 averaged about 180,000. Under that alternative scenario, the average number of military personnel deployed for war-related purposes would decline over four years: from 130,000 in 2012 to 95,000 in 2013; 65,000 in 2014; and 45,000 in 2015 and thereafter. (Those numbers could represent various allocations among Afghanistan and other countries.) Under that alternative scenario, total discretionary outlays for the period from 2012 through 2021 would be $700 billion less than the amount based on extending appropriations in the continuing resolution. Of course, the scope of such activities 10 years from now is highly uncertain, and many other scenarios—some costing more and some less—also are possible.

Assessing large, sustained reductions in defense spending would involve considering their effects on military capabilities. Cuts could be targeted toward personnel levels, pay rates, and benefits; training and supplies; day-to-day operating and administrative costs; operation and maintenance of existing weapon systems; procurement of new weapon systems; and research and development related to more-advanced weapon systems. Such reductions in funding could require changes in broad strategic objectives—such as the number of simultaneous conflicts in which the military could engage and their intensity, duration, and overlap—or changes in how the nation seeks to achieve those broad objectives. Trade-offs could involve, for example, the choice between fielding a smaller force with more-capable weapon systems and maintaining the current number of units but forgoing some of the upgrades to their weapon systems. A smaller force might not be able to handle as many conflicts at the same time, but it could be structured to maximize its flexibility to fight a variety of opponents with different capabilities or in different parts of the world. Conversely, a larger force would be better able to sustain longer-term counterinsurgency or peacekeeping operations.[19]

19. See Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options* (March 2011).

Nondefense Spending

Even if budget authority for nondefense programs grew at the rate of inflation, that amount of funding would be insufficient to continue some current policies over the 2012–2021 period. For example, the cost of veterans' health benefits—under an assumption that current enrollment rules remain unchanged—is projected to rise more rapidly than inflation and thus to exceed the budget authority calculated simply by extrapolating the current year's appropriations at the projected rate of inflation. CBO has estimated that this gap will total $70 billion over the 2012-2021 period.[20] Similarly, maintaining current award amounts for Pell grants would require funding above what would be shown in a projection based on inflating 2011 appropriations.

Moreover, many analysts believe that current funding for some programs is insufficient to meet the nation's future needs. For example, many analysts believe that current national spending on infrastructure is inadequate to provide enough roads, bridges, and other capital assets to maintain the current level of highway services or to fund all of the projects whose benefits exceed their costs. Projections from the Federal Highway Administration (FHWA) suggest that maintaining the current level of services from highway infrastructure would require increasing federal capital spending on highways from $43 billion in 2010 to $57 billion per year (in 2010 dollars), assuming that the federal government and state and local governments continue to pay their historical shares of such costs. In addition, if the FHWA's assessment is accurate, undertaking all highway infrastructure investment for which benefits equal or exceed their costs would require $94 billion per year (in 2010 dollars), more than twice the spending in 2010.[21] Analyses of other types of infrastructure—such as aviation, mass transit systems, water supply, and wastewater treatment—reach qualitatively similar conclusions about the need to increase funding to maintain current services or meet growing demand for such services.[22]

However, if spending on certain programs is allowed to grow faster than inflation, then less room under the caps will be available for other nondefense discretionary activities. Cuts in nondefense discretionary spending could affect a broad range of activities, and decisions about particular programs have impacts that would need to be weighed against the effects of alternative decisions. Many programs—especially in the areas of education and transportation—involve financing from federal, state, and local governments. Reducing federal support for such activities would force other levels of government to make decisions about decreasing the scope of the activities, increasing their own funding, or some combination of the two.

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20. See Congressional Budget Office, *Potential Costs of Veterans' Health Care* (October 2010).

21. See Statement of Joseph Kile, Assistant Director, Congressional Budget Office, before the Senate Committee on Finance, *The Highway Trust Fund and Paying for Highways* (May 17, 2011).

22. See Congressional Budget Office, *Public Spending on Transportation and Water Infrastructure* (November 2010) and *Issues and Options in Infrastructure Investment* (May 2008).

Lowering pay rates for federal civilian employees could hamper efforts to recruit and retain workers (particularly in some occupations), which could reduce the overall skill level of the federal workforce over time. Having fewer federal workers would probably lower the levels of service that federal agencies provide to the public, unless cuts in the agencies' workforces were accompanied by actions to enhance productivity. Charging users—such as drivers, air travelers, and users of waterways—for services they receive from federal programs would allow those programs to operate more efficiently and reduce the amount of government spending needed to maintain or improve service, but such charges would impose added burdens on users compared with current arrangements.[23]

Federal income support payments and education grants to low-income households could be reduced or provided to fewer households, which would mean less assistance for people who may value those benefits highly. A variety of federal activities could simply be curtailed—ranging from research by the National Institutes of Health to export promotion by the Department of Commerce—but curtailing those activities could have costs as well.

23. See Congressional Budget Office, *Alternative Approaches to Funding Highways* (March 2011).

Appendix A: Funding for Operations in Iraq and Afghanistan and for Related Activities

Since September 2001, lawmakers have provided almost $1.3 trillion in budget authority for operations in Afghanistan and Iraq and related activities (see the table). That amount includes funding for military and diplomatic operations in Afghanistan, Iraq, and certain other regions; for some veterans' benefits and services; and for related activities of the Department of Justice. Appropriations specifically designated for those purposes averaged about $100 billion a year from 2003 through 2006, rose to $170 billion in 2007 and $187 billion in 2008, and then declined to an average of $159 billion over the 2009–2011 period. The Continuing Appropriations Act, 2012 (Public Law 112-36) provides funding for war-related activities in the current fiscal year through November 18, 2011, at an annual rate of $119 billion.

Funding through the end of fiscal year 2011 for military operations and other defense activities totaled $1.1 trillion, most of which went to the Department of Defense (DoD). Lawmakers also provided $66 billion to train and equip indigenous security forces in Afghanistan and Iraq.[1] In addition, they have made $52 billion available for diplomatic operations and aid to Afghanistan, Iraq, and other countries assisting the United States in those efforts.

DoD reports that in fiscal year 2011, obligations for operations in Afghanistan and Iraq and for related activities averaged $11.6 billion per month (through July, the last month for which data are available). That monthly average is almost $1 billion less than the amount reported for 2010. Obligations were lower in the first half of the year, while the department operated with funding from a series of continuing resolutions, but increased to over $13 billion in May after the enactment of a regular appropriation, and to $19 billion in July. Operation Enduring Freedom (in and around Afghanistan) accounted for 67 percent of those obligations in 2011—up from 51 percent in 2010 and 34 percent in 2009. Operation New Dawn (formerly Operation Iraqi Freedom) accounted for 33 percent of those obligations, down from 49 percent in 2010 and 65 percent in 2009. Additional security missions that have taken place in the United States since the terrorist attacks of September 11, 2001—such as combat air patrols over Washington, D.C., and New York City, known as Operation Noble Eagle—accounted for less than 1 percent of obligations in 2011.

1. That $66 billion includes $5 billion provided for Iraqi security forces in 2004 in an appropriation for the State Department's Iraq Relief and Reconstruction Fund.

Table A-1.

Estimated Appropriations Provided for U.S. Operations in Iraq and Afghanistan and for Other War-Related Activities, 2001 to 2011

(Billions of dollars of budget authority)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total, 2001-2011
Military Operations and Other Defense Activities[a]												
Iraq	0	0	51	70	50	85	113	133	90	59	42	693
Afghanistan	0	12	12	13	8	12	24	29	38	87	98	332
Other[b]	14	5	18	5	11	13	15	13	13	5	6	117
Subtotal	14	18	80	88	69	110	152	175	140	151	146	1,142
Indigenous Security Forces[c]												
Iraq	0	0	0	5	6	3	6	3	1	1	2	26
Afghanistan	*	0	0	0	1	2	7	3	6	9	12	40
Subtotal	*	0	0	5	7	5	13	6	7	10	13	66
Diplomatic Operations and Foreign Aid[d]												
Iraq	0	0	3	15	1	3	3	3	2	2	0	32
Afghanistan	0	*	1	2	1	*	1	1	5	2	0	13
Other	*	1	5	*	*	*	*	*	1	*	0	8
Subtotal	*	2	8	17	3	3	4	5	7	4	0	52
Other Services and Activities[e]												
Iraq	0	0	*	0	*	*	1	1	*	0	0	2
Afghanistan	0	0	0	0	*	*	*	*	*	0	0	*
Other	0	0	0	0	*	*	*	*	*	0	0	1
Subtotal	0	0	*	0	*	*	1	2	*	0	0	3
Total Budget Authority	**14**	**19**	**88**	**110**	**79**	**118**	**170**	**187**	**154**	**165**	**159**	**1,263**

Source: Congressional Budget Office.

Notes: The Continuing Appropriations Act, 2012 (Public Law 112-36) provided funding in budget function 050 (National Defense) for war-related operations through November 18, 2011, at an annual rate of $119 billion, similar to the amount requested for such operations by the President for the current year. The President also requested about $9 billion for diplomatic operations and foreign aid related to overseas contingency operations. (Such spending would be recorded in budget function 150, International Affairs.) P.L. 112-36 did not specify funding for those purposes. Final appropriations for fiscal year 2012 could be greater or less than the amount provided to date. Funding for fiscal year 2012 is not included in this table.

* = between zero and $500 million.

Continued

Table A-1. **Continued**

Estimated Appropriations Provided for U.S. Operations in Iraq and Afghanistan and for Other War-Related Activities, 2001 to 2011

(Notes, continued)

a. CBO estimated funding provided for operations in Afghanistan and Iraq by allocating funds on the basis of information in budget justification materials from the Department of Defense and in monthly reports on its obligations. Some allocations for prior years have been adjusted on the basis of more recent information.

b. Includes Operation Noble Eagle (homeland security missions, such as combat air patrols, in the United States), the restructuring of Army and Marine Corps units, classified activities other than those funded by appropriations for the Iraq Freedom Fund, efforts to increase the size of the Army and Marine Corps, and other operations. (For fiscal years 2005 through 2011, funding for Operation Noble Eagle has been intermingled with regular appropriations for the Department of Defense; that funding is not included in this table.)

c. Funding for indigenous security forces is used to train and equip local military and police units in Afghanistan and Iraq. That funding was appropriated in accounts for diplomatic operations and foreign aid (budget function 150) in 2004, and in accounts for defense (budget function 050) starting in 2005.

d. Beginning in 2010, most funding for diplomatic operations in, and foreign aid to, countries helping the United States fight terrorism has been in regular appropriations, and cannot be separated from appropriations for activities unrelated to those operations.

e. Includes funding for some veterans' benefits and services, as well as certain activities of the Department of Justice. Excludes about $12 billion in spending by the Department of Veterans Affairs (VA) for the incremental costs for medical care, disability compensation, and survivor benefits for veterans of operations in Afghanistan and Iraq and the war on terrorism. That amount is CBO's estimate of spending from regular appropriations for the Department of Veterans Affairs and was not explicitly appropriated for war-related expenses.

Because most appropriations for operations in Afghanistan and Iraq and for related activities appear in the same budget accounts as appropriations for DoD's other functions, it is impossible to determine precisely how much has been spent on those activities. The Congressional Budget Office (CBO) estimates that the $1.2 trillion appropriated for military operations, other defense activities, and indigenous security forces in those two countries resulted in outlays of just over $1 trillion through 2011; about $160 billion of that occurred in 2011. Of the $52 billion appropriated for international affairs activities related to the war efforts, about $50 billion was spent through 2011, CBO estimates, including $5 billion in 2011. In total, outlays for all of those activities amounted to about $165 billion last year.

Appendix B:
Projections of Discretionary Outlays

This testimony has focused on discretionary funding rather than on outlays because the Congress specifies the amount of funding provided each year but it does not directly control when outlays occur. In addition, enactment of the Budget Control Act of 2011 in August instituted statutory caps on discretionary budget authority for each of the fiscal years 2012 through 2021. If legislation originating from this Committee producing at least $1.2 trillion in deficit reduction (including an allowance for interest savings) is not enacted by January 15, 2012, automatic procedures would further reduce discretionary appropriations starting in 2013.

Discretionary funding could follow a variety of paths over the next decade, and the outlays stemming from such funding decisions will affect the deficit (which is computed as the difference between revenues and outlays). To more easily make historical comparisons (historical data are typically expressed in terms of outlays), CBO has estimated the effect on outlays of a range of potential changes to both defense funding (Table B-1) and nondefense funding (Table B-2). (For a further discussion of the various scenarios shown in the tables, see pages 17 to 24.)

Table B-1.

Projections of Discretionary Outlays for Defense Programs

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2012-2016	Total 2012-2021
	Projected Outlays												
Funding for 2011 (Excluding overseas contingency operations) Adjusted for Inflation[a]	542	546	562	575	589	607	618	629	651	668	686	2,880	6,132
Potential Paths for Defense Outlays Resulting from the Caps as Set in the Budget Control Act of 2011[b]													
All reductions from defense[c]	542	527	528	520	522	531	535	539	553	562	571	2,628	5,388
Proportional reductions	542	531	536	543	553	567	575	582	600	613	626	2,730	5,726
No reductions from defense	542	546	562	575	589	607	618	629	651	668	686	2,880	6,132
If No Savings Result from the Joint Select Committee[d]	542	531	505	501	507	520	526	534	552	565	579	2,564	5,320
	Reduction in Outlays Relative to the Outlays from Adjusting 2011 Funding for Inflation												
Potential Paths for Defense Discretionary Outlays Resulting from the Caps as Set in the Budget Control Act of 2011[b]													
All reductions from defense[c]	0	-19	-34	-55	-68	-76	-84	-91	-98	-106	-115	-252	-744
Proportional reductions	0	-15	-26	-32	-36	-40	-43	-47	-51	-55	-60	-150	-407
No reductions from defense	0	0	0	0	0	0	0	0	0	0	0	0	0
If No Savings Result from the Joint Select Committee[d]	0	-15	-57	-74	-82	-87	-92	-95	-99	-103	-107	-316	-812

Continued

Table B-1. Continued

Projections of Discretionary Outlays for Defense Programs

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2012-2016	Total 2012-2021
Memorandum:													
Overseas Contingency Operations[e]													
August 2011 baseline	161	163	165	166	167	170	172	174	179	182	186	830	1,723
Extrapolation of annualized amount provided in continuing resolution for fiscal year 2012	161	148	136	129	126	127	130	132	135	139	142	666	1,345

Source: Congressional Budget Office.

a. These amounts were estimated by assuming that budget authority for fiscal years 2012 to 2021 will be equal to the 2011 appropriation adjusted for inflation.

b. No caps were in place in 2011. Excludes overseas contingency operations.

c. In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on "nonsecurity" funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated. Caps for those two years are allocated to "security" and "nonsecurity" spending. The security category comprises discretionary appropriations for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95-0401-0-1-054), and discretionary accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Excludes overseas contingency operations.

d. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense (budget function 050) and nondefense budget authority. The caps for 2012 set in the Budget Control Act would not be affected by the automatic enforcement procedures. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

e. The caps do not constrain appropriations for military operations in Afghanistan (or for similar activities). For its August 2011 baseline, CBO projected future war-related funding by adjusting for inflation the $159 billion appropriated for 2011. The Continuing Appropriations Act, 2012 (Public Law 112-36) funded such operations through November 18, 2011, at an annual rate of $119 billion.

Table B-2.

Projections of Discretionary Outlays for Nondefense Programs

(Billions of dollars)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2012-2016	Total 2012-2021
						Projected Outlays							
Funding for 2011 Adjusted for Inflation[a]	646	631	621	621	625	632	643	657	672	689	707	3,130	6,498
Potential Paths for Nondefense Discretionary Outlays Resulting from the Caps as Set in the Budget Control Act of 2011[b]													
All reductions from nondefense[c]	646	604	571	559	555	555	560	566	574	583	592	2,845	5,720
Proportional reductions	646	619	598	592	592	595	603	613	625	639	652	2,995	6,127
No reductions from nondefense	646	622	605	615	623	632	643	657	672	689	707	3,096	6,464
If No Savings Result from the Joint Select Committee[d]	646	619	575	555	551	555	562	572	585	599	612	2,855	5,783
	Reduction in Outlays Relative to the Outlays from Adjusting 2011 Funding for Inflation												
Potential Paths for Nondefense Discretionary Outlays Resulting from the Caps as Set in the Budget Control Act of 2011[b]													
All reductions from nondefense	0	-27	-49	-62	-70	-77	-84	-91	-98	-106	-115	-285	-778
Proportional reductions	0	-12	-23	-29	-33	-37	-40	-43	-47	-51	-55	-135	-371
No reductions from nondefense[c]	0	-8	-16	-6	-2	-1	*	0	0	0	0	-33	-33
If No Savings Result from the Joint Select Committee[d]	0	-12	-46	-66	-74	-78	-82	-84	-87	-91	-95	-275	-714

Source: Congressional Budget Office.

Note: * = between -$500 million and zero.

a. These amounts were estimated by assuming that budget authority for fiscal years 2012 to 2021 will be equal to the 2011 appropriation adjusted for inflation.

b. No caps were in place in 2011.

c. In 2012 and 2013, reductions in defense funding would not be sufficient to meet the caps on "nonsecurity" funding; therefore, some reductions would have to come from nondefense programs even if all available defense funding classified as nonsecurity was eliminated. Caps for those two years are allocated to "security" and "nonsecurity" spending. The security category comprises discretionary appropriations for the Department of Defense, the Department of Homeland Security, the Department of Veterans Affairs, the National Nuclear Security Administration, the intelligence community management account (95-0401-0-1-054), and discretionary accounts in budget function 150 (international affairs). The nonsecurity category comprises all discretionary appropriations not included in the security category. Excludes overseas contingency operations.

d. Assumes that the automatic enforcement procedures delineated in the Budget Control Act would take effect and, therefore, that caps for each year from 2013 through 2021 would be reset to cover defense (budget function 050) and nondefense budget authority. The caps for 2012 set in the Budget Control Act would not be affected by the automatic enforcement procedures. Because no adjustment to the caps for 2012 would be made if the automatic enforcement procedures take effect, CBO has assumed that the reductions in 2012 would be proportional.

Representative Jeb Hensarling
Co-Chair, Joint Select Committee on Deficit Reduction

"I thank the co-chair for yielding, and want to thank her again for her leadership on this committee and the spirit of negotiation that she brings.

"There is no such thing as an un-important hearing when it comes to dealing with our nation's structural debt crisis, and certainly within our nation's discretionary budget are contained many challenges and, frankly, many important priorities that have to be debated and negotiated. Not the least of which is what many view as the number one function of our federal government, and that is to protect us from all enemies foreign and domestic, and specifically our national defense budget which continues to shrink as a percentage of our economy, shrink as a percentage of our budget, as we continue to live in a dangerous world.

"When I look at the totality of our discretionary budget, I do again find some common ground with my co-chair. And again, although there is no such thing as an unimportant hearing or unimportant section of the budget, in many respects today we may be debating the 'pennies, nickels and dimes' in a debt crisis that is demanding 'half dollars and dollar bills.' There have been huge run-ups in our discretionary spending since the president has come to office. This is not the forum to debate the policies but I think the numbers speak for themselves: without the stimulus program the Commerce Department has increased from '08 to '10, 102.9 percent; without the stimulus, EPA has increased 35.7 percent; subtracting the stimulus, Housing and Urban Development has increased 22.2 percent; the State Department without the stimulus, up 132.2 percent, and the list goes on. Again, it is not at this forum to debate these particular polices, but it is important to note the numbers—that when these particular budgets are growing, the family budget which pays for federal budget has unfortunately contracted, and it is the family budget that has to pay for the federal budget.

"As an order of magnitude, we know that the discretionary spending of our nation is roughly 40 percent and shrinking, our entitlement spending is roughly 60 percent of the budget and growing. We know outside of interest payments on our national debt that our mandatory spending is principally driven by our health care and retirement programs, which are simultaneously starting to disserve their beneficiaries and driving the nation broke as they grow at 5 and 6 and 7 percent a year where unfortunately our nation, over the last few years, has actually seen negative economic growth."

"So to put this in even a larger context, under the Budget Control Act, we collectively have a goal—a goal of $1.5 trillion in deficit reduction, but we have a duty—a duty to provide recommendations in legislative language that will significantly improve the short-term and long-term fiscal imbalance of the federal government. Thus the challenge before us remains, that we must find quality health care solutions, quality retirement security solutions, for our nation at a cost that does not compromise our national security, does not compromise job growth and our economy, and does not mortgage our children's future.

"Everything else we do, including dealing with the discretionary budget, will be helpful. Nothing else will solve the structural debt crisis or allow this committee to meet its statutory duty; only these reforms. And so prudent stewardship of our discretionary budget is going to be helpful. It alone cannot solve the crisis. It continues, though, to be an important matter. I look forward to hearing from our witness, and with that I will yield back, Madam Chair."

Senator Patty Murray
Co-Chair, Joint Select Committee on Deficit Reduction

"The Committee will come to order. First, I want to thank my co-chair Representative Hensarling, my fellow committee members, and Dr. Elmendorf for joining us today—as well as the members of the public here in person or watching at home.

"This committee has been working hard over the last few weeks to come together around a balanced and bipartisan plan to reduce the deficit and rein in the debt.

"We have received input from: our colleagues, standing House and Senate Committees, groups from around the country, and close to 185,000 members of the public through our website, deficitreduction.gov. And we continue our work today with a hearing on "Discretionary Outlays, Security and Non-Security."

"I am glad we are talking about this today, because it's important for us to understand how these pieces fit into our overall deficit and debt.

"Non-defense discretionary spending represents less than one-fifth of total federal spending. But listening to the debates here in D.C. over the last few months—you would think this small piece of the pie was a whole lot bigger.

"As I expect we'll hear more about from Dr. Elmendorf today, Congress has gone back to this relatively small pot with cuts and spending caps again and again—while leaving many other pieces of the budget essentially untouched. Including the law that created this Joint Committee, which cut roughly $800 billion in discretionary spending.

"And all the focus on this one area is especially striking given that we are spending roughly the same on non-defense discretionary programs in 2011 as we did in 2001—while mandatory programs have increased, defense spending has increased, and revenues have plummeted.

"So as this committee works together toward a bipartisan plan to reduce the deficit, we need to keep in mind the cuts that have already been made, the role discretionary spending plays in our overall deficit and debt problem, and the impact irresponsible slashing could have on our economic recovery and middle class families across the country.

"Because as we all know—these aren't just numbers on a page. They affect real people, in real ways.

"When food assistance for women and infants is cut—that means greater challenges for struggling families.

"When infrastructure investments are shelved—that means fewer jobs and more crumbling roads.

"And when research, education, and student loans are slashed—that means fewer opportunities for our businesses and the next generation of workers. Which is really no savings at all—since we end up paying for it in the future.

"So while we should certainly examine every piece of the budget to see where we can responsibly make additional cuts—it doesn't make sense to simply keep slashing at one small part of the budget that disproportionally affects middle class families and the most vulnerable Americans.

"There needs to be balance.

"Today, Dr. Elmendorf will also be discussing discretionary security spending, which has grown significantly in the years since 9/11.

"This is an area where the stakes for our nation are high. From both a national security as well as a budgetary perspective—we need to get this right. And as many of my colleagues have noted over the past few weeks, it's an area that would be hit especially hard if this Committee doesn't come to a deal and we move to sequestration.

"So I'm looking forward to a robust conversation today with my colleagues and Dr. Elmendorf about these critical pieces of our federal budget.

"Before I turn it over to my co-chair, I just want to say that over the last few weeks this committee has been working hard to find common ground and a path toward a balanced and bipartisan plan that can pass through Congress and get signed into law.

"We aren't there yet, but I'm confident we are making progress. And I'm hopeful we are moving quickly enough to meet our rapidly-approaching deadline.

"As I have said from the start, if this committee is going to work—and I believe it must—we all need to be willing to make some tough decisions and real compromises. I am willing to do that. And I know many of my colleagues are as well.

"Every day we hear more and more about what the effects of failure would be on our nation's long-term fiscal health and creditworthiness. And over the next few weeks, it is going to be up to all of us to demonstrate to the American people that we can deliver the kind of results they expect and deserve.

"I would now like to recognize my co-chair, Representative Hensarling, for his opening statement."

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