

Are the Spending Caps Sustainable? Domestic and Defense Budgets This Year and Beyond

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Introductory remarks (prepared for delivery)
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The history and plumbing of all this is complicated and packed with acronyms -- BCA, BBA, OCO -- and Washington jargon -- sequestration, CHIMPS, etc. But here are the basics: When the next fiscal year begins on October 1st, lawmakers have to pass new appropriations bills or extend existing appropriations through a continuing resolution to avoid a government shutdown. The 2011 Budget Control Act and the failure of the congressional "supercommittee" resulted in legal limits -- signed into law by the president -- on annually appropriated domestic spending for future years; Congress and the president altered these caps for FY years 2013 and 2014 with in the Ryan-Murray Bipartisan Budget Act (BBA) but left them in place for FY 2015 and years following. Either Congress passes appropriations bills that fit under the caps or an across-the-board spending cut -- the dreaded sequester -- kicks in.

Now it's important to remember that we're talking about caps that apply only about annually appropriated spending here, roughly \$1 trillion a year that funds everything from the salaries of park rangers to grants to state and local governments to new Air Force fighter jets. That's less than a third over the overall federal budget this year. This doesn't count benefit programs such as Social Security, Medicare, Medicaid and interest on the debt, which aren't subject to the caps. And, because nothing is ever simple in Washington, the caps don't apply to the cost of troops in Afghanistan and (now that a few are back there) in Iraq. We'll hear more about this escape hatch for the Pentagon from Bob Hale and Michael O'Hanlon, our defense experts.

Our focus today is the ceilings that the law sets on annually appropriated domestic and defense spending through 2021. For FY 2016, the fiscal year that begins Oct 1 of this year, the caps are about \$2 billion higher than for the current fiscal year, about \$17 billion or roughly 2% of what it would take to keep up with inflation and \$44 billion or roughly 4% less than if spending increased at the same pace as GDP. Some people -- most of them Republicans -- think that's just great; they'd prefer a smaller government. Other people -- mostly but not exclusively Democrats -- think this is nuts; they point out that almost everything that is an investment in the future ... infrastructure, education, NIH, R&D -- is being squeezed by the caps. Some of the panel up here find it very hard to say whether Congress is spending too much or too little without knowing more about exactly what is being funded.

The caps have had an effect. They have constrained federal spending, played a role in the shrinking of the budget deficit and contributed to a premature tightening of federal/state/local fiscal policy in 2012, 2013 and 2014 before the economy had recovery from the Great Recession.

But that's the past. There's no question that the caps will be tougher and tougher for Congress to live with over time. Although the caps written into law will increase by about 2.4% a year from 2016 to 2021, roughly enough to compensate for inflation, that's won't keep up with population growth or the growth of the economy or public demands for various programs. If the caps hold and current trends continue, CBO projects that 85% of the total projected increase in annual spending over the coming decade will go for Social Security, major health care programs and net interest...which are unconstrained by caps and, for the most part, on auto-pilot s The remaining slice of federal spending – that 15% -- covers the defense budget, the department of homeland security, the paychecks for all federal employees, most grants to state and local government, and anything that anyone considers an investment in future generations (physical infrastructure, R&D, NIH etc. Measured against the size of the economy, that is as a % of GDP, this everything-else category is on track to reach the lowest level since 1940, the earliest year for which there are comparable data. Of course, in setting the caps, Congress made no decisions about priorities, about which programs should get more money and which should get less...all that was put off

With all that's going on in the world – the security threats here and abroad and angst about the struggles of the middle class – Congress may decide that the caps on sounded OK in 2011, but prove too tight to live with. Without getting too mired in the parliamentary detail, our goal here today is to take a close look at both the economics and politics of these caps on annually appropriated spending, why they matter and what Congress is likely to do about them.