Peter G. Peterson Foundation
Our America. Our Future.

Top Five Takeaways – Consolidated Appropriations Act of 2014

January 17, 2014

The Congress has passed a $1.1 trillion appropriations bill that eliminates the threat of a near-term government shutdown and funds the discretionary activities of the federal government for the remainder of fiscal year (FY) 2014, which ends September 30th. The President is expected to sign the bill this weekend. Although this spending bill, along with the Bipartisan Budget Act of 2013, ends the cycle of lurching from crisis to crisis, it does not address the long-term fiscal challenges facing our nation.

Below are five top takeaways from the Consolidated Appropriations Act of 2014:

1. DISCRETIONARY SPENDING IS AT A 10-YEAR LOW, ADJUSTING FOR INFLATION.

The legislation follows the successful negotiations led by Senator Patty Murray and Representative Paul Ryan that resulted in the enactment of the Bipartisan Budget Act of 2013 in December. That agreement increased discretionary spending limits by $45 billion in FY 2014 and by $19 billion in FY 2015. Despite the increase, discretionary spending in 2014 will still be reduced to a 10-year low, after adjusting for inflation.

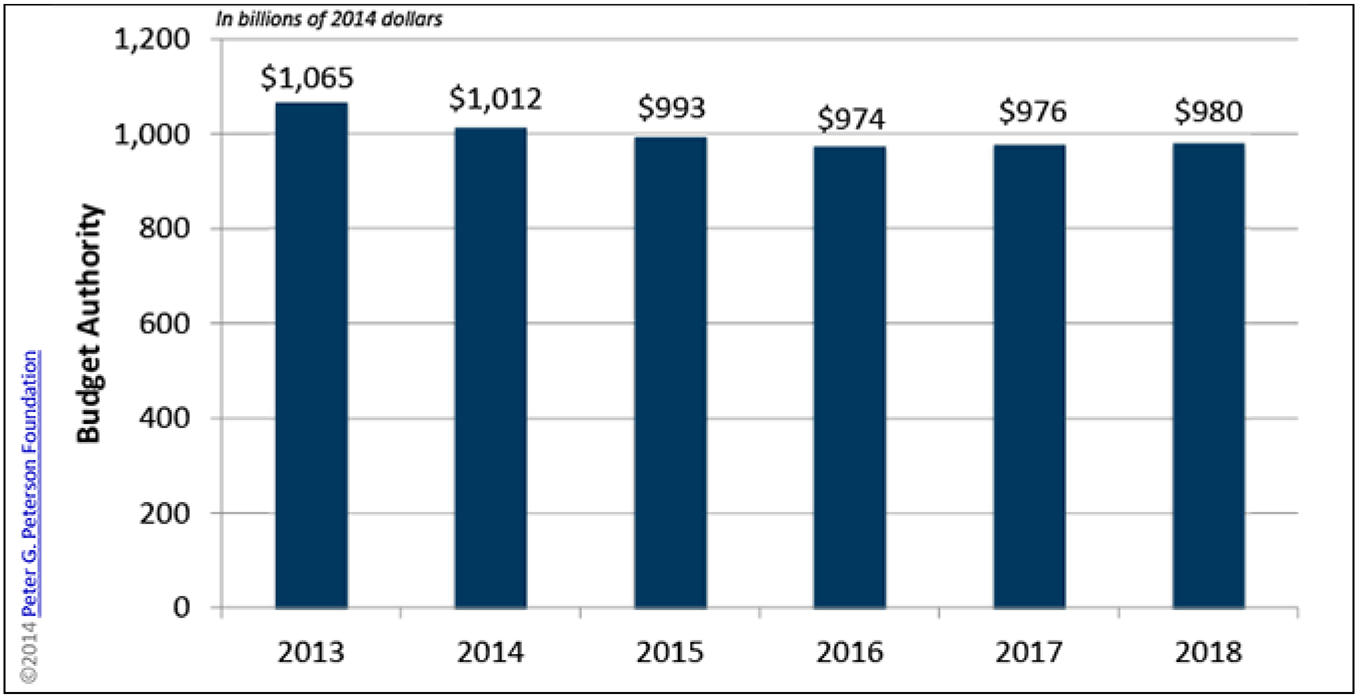
Real (inflation-adjusted) discretionary budget authority in 2014 will be at a 10-year low

SOURCE: The Office and Management and Budget, *Budget of the United States Government, Fiscal Year 2014*, and the Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2012, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013, and *Sequestration Update Report*, August 2013.
NOTE: OCO = overseas contingency operations. BA = budget authority. Disaster relief and program integrity are included in other budget authority.

2. DISCRETIONARY SPENDING IS SCHEDULED TO STAY LOW THROUGH 2021.

Moreover, because of statutory caps in place through 2021, real (inflation-adjusted) discretionary spending will grow only very modestly over the foreseeable future. Regular appropriations are capped at $1,012 billion in FY 2014, and then are projected to drop below $1 trillion through 2018 after adjusting for inflation.

Regular (capped) appropriations will decline and then stay relatively flat in inflation-adjusted dollars



SOURCE: Office and Management and Budget (OMB), *Budget of the United States Government, Fiscal Year 2014*, April 2013; House and Senate Budget Committees, *Summary of the Bipartisan Budget Act of 2013*, December 2013; and Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2013 to 2023*, February 2013, and *Sequestration Update Report*, August 2013. Calculations by PGPF.
NOTE: Statutory caps are in place through 2021. However, OMB deflators are only available through 2018.

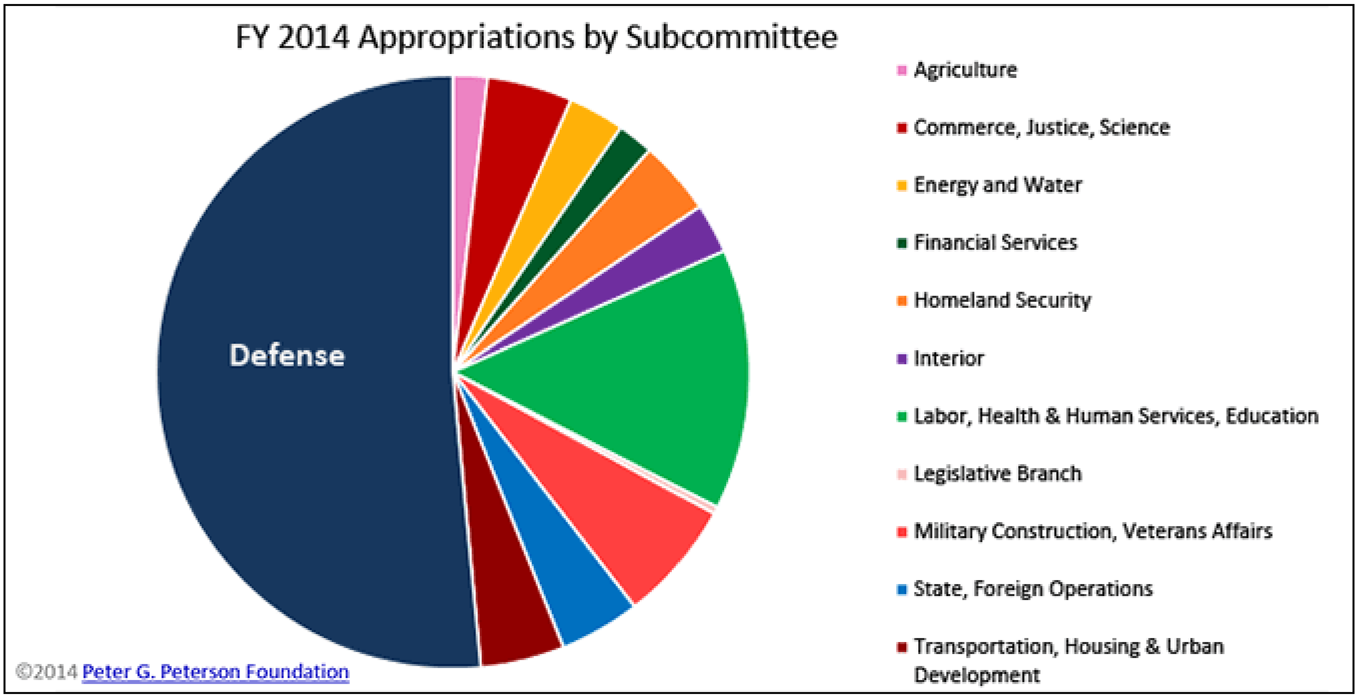
---

3. DEFENSE MAKES UP MORE THAN HALF OF ALL DISCRETIONARY SPENDING.

The bill allocates funds between defense and non-defense activities. Slightly more than half of the discretionary funds — $520.5 billion — will go to defense programs, while non-defense programs, which include the operations and activities of domestic agencies, receive $491.9 billion.

A dozen separate appropriations subcommittees are responsible for dividing up discretionary spending among federal agencies and programs. The Department of Defense receives the largest share of the total funds. Other discretionary programs and activities funded by the appropriations bill address various important programs, such as: programs to safeguard food, medical drugs and devices, the environment, and travel and transportation; investments in physical infrastructure; housing; education; research and development; federal law enforcement; veterans' programs; the State Department and foreign assistance; national parks; and the basic operations of the government.

Discretionary spending funds a wide range of government programs



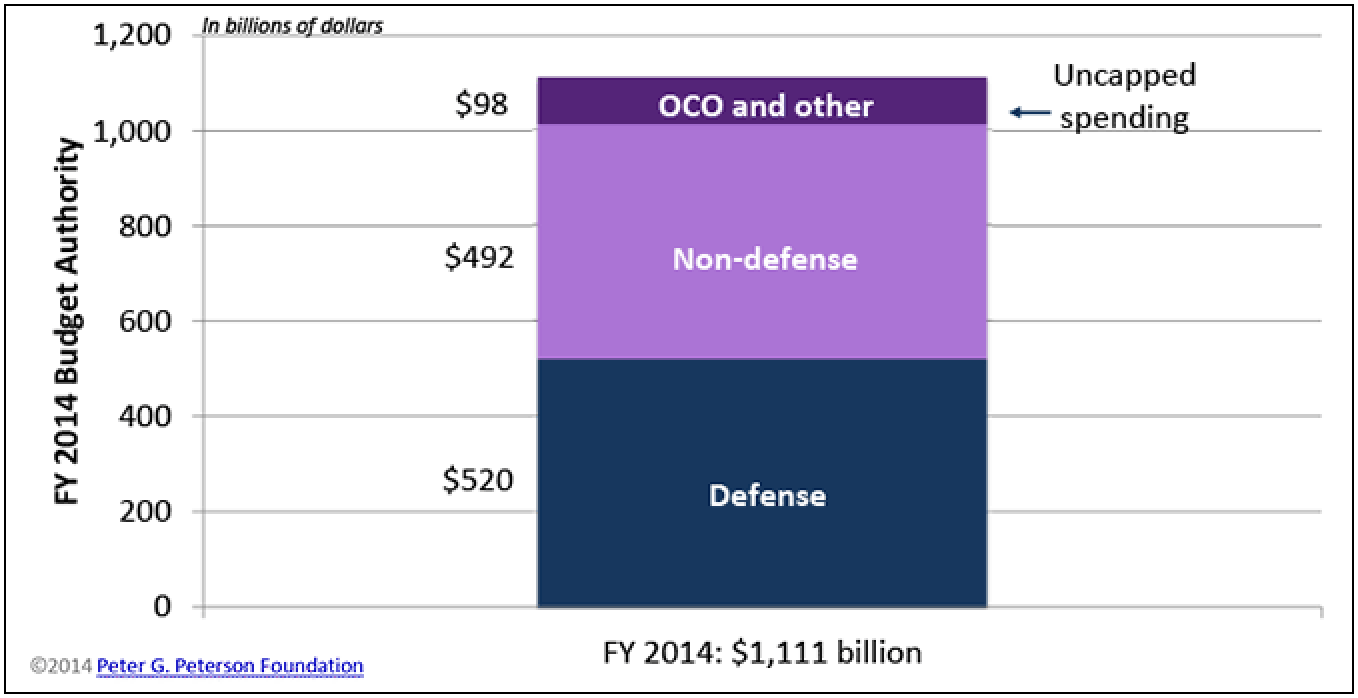
SOURCE: Congressional Budget Office, *H.R. 3547, Consolidated Appropriations Act*, January 2014. Compiled by PGPF.

---

4. NEARLY 10 PERCENT OF SPENDING – ALMORST $100 BILLION – IS UNCAPPED.

While the bill adheres to the 2014 caps on discretionary spending, which were adjusted upwards by the December agreement, it also provides additional funds for "emergencies" that are exempt from those caps, including funding for overseas contingency operations (primarily Afghanistan and Syria), disasters, and a few other programs. In 2014, these non-capped activities account for less than 10 percent of total discretionary funding. However, over time as the caps become tighter, lawmakers may provide for additional funding using these "emergency" measures.

FY 2014 appropriations includes almost $100 billion in uncapped spending



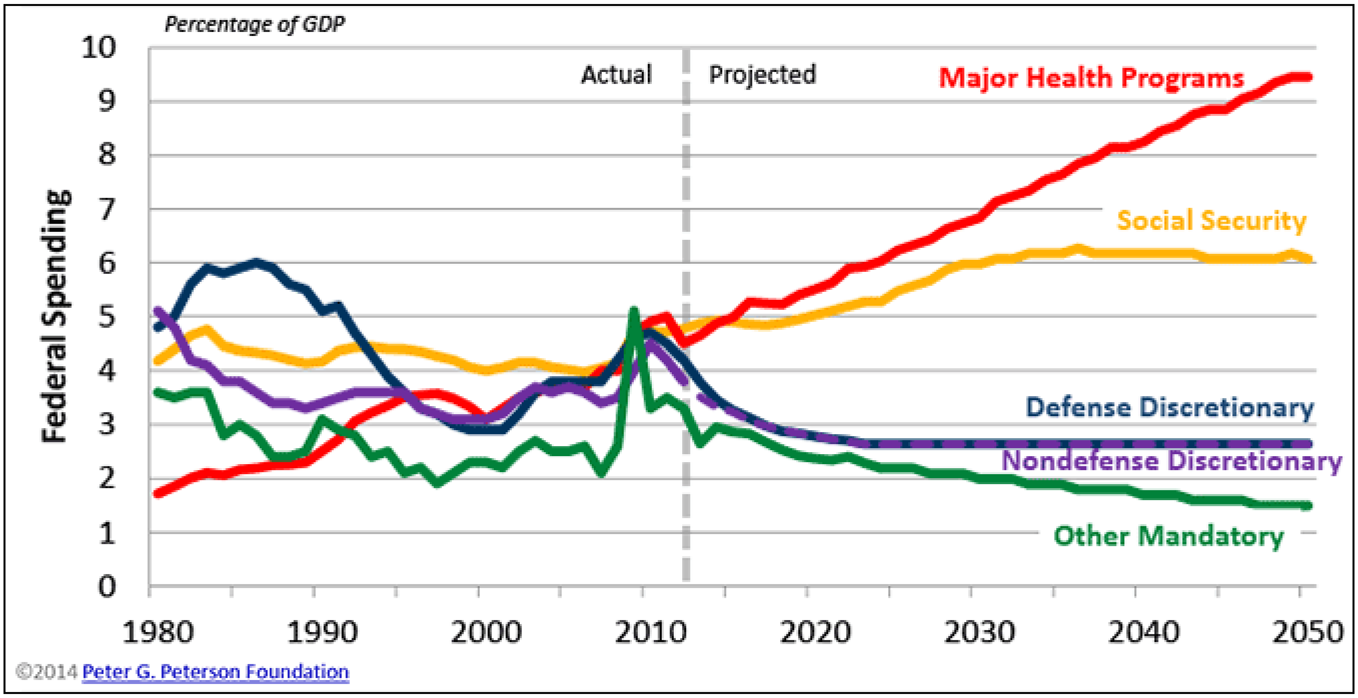
SOURCE: The U.S. House of Representatives Committee on Appropriations and the Congressional Budget Office, *H.R. 3547, Consolidated Appropriations Act, 2014*. Compiled by PGPF.
NOTE: Budget authority for overseas contingency operations (OCO) totals $91.9 billion. Other uncapped spending budget authority totals $6.5 billion and includes funds for disaster relief and program integrity.

5. THIS BILL DOES NOT ADDRESS THE FUNDAMENTAL DRIVERS OF OUR LONG-TERM DEBT: DISCRETIONARY SPENDING ISN'T THE REAL PROBLEM.

The Bipartisan Budget Act of 2013 and the Consolidated Appropriations Act of 2014 represent a return to a more orderly legislative process, which is a good step forward. However, neither piece of legislation deals with the serious long-term fiscal challenges facing our nation. Despite passage of these bills, our federal government still faces a persistent and growing mismatch between spending and revenues in the long run.

Our long-term fiscal challenges do not stem from excessive growth in discretionary spending, which has been the focus of fiscal policy in recent years. The primary drivers of a long-term debt are the federal government's entitlement programs, which are projected to grow substantially in the coming decades.

Discretionary spending is not a major driver of the projected federal spending growth over the long term



SOURCE: Congressional Budget Office, *Historical Budget Data*, August 2013, and Peter G. Peterson Foundation projections based on data from the Congressional Budget Office, *Long Term Budget Outlook*, September 2013. Compiled by PGPF.
NOTE: All projections use CBO's extended baseline scenario.

Within the next month, the FY 2015 budget debate will begin. The new budget debate offers an opportunity to make significant progress on the nation's long-term fiscal challenges. To provide a sound economy for our nation, policymakers should work together to close the long-term gap between spending and revenues, preserve important public investments for the future, and put the budget on a sustainable long-term path.