

# CBO TESTIMONY

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Statement of  
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before the  
Committee on the Budget  
United States Senate

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## NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EDT), Tuesday, July 16, 1991.



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Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss the constraints on discretionary spending in 1994 and 1995. My testimony will provide an overview of the limits on defense, international, and domestic discretionary spending. Later this morning, Robert Hale, Assistant Director for National Security at the Congressional Budget Office, will examine the defense issues in more detail.

#### THE DISCRETIONARY CAPS FOR 1991-1995

The Budget Enforcement Act of 1990 established limits or caps for discretionary budget authority and outlays for fiscal years 1991 through 1995. For **1991, 1992,** and 1993, each of three categories of discretionary **spending--defense,** international, and domestic-has a separate limit. For 1994 and 1995, the law limits discretionary spending as a whole. Fitting within the caps in 1994 and 1995 will not be easy.

The caps for fiscal year 1991 required that discretionary defense budget authority be reduced by 8 percent in real terms below the 1990 appropriations level, and that international budget authority be reduced by 5 percent. Domestic discretionary budget authority in 1991 was permitted to increase by 7 percent above the inflation-adjusted 1990

level (or by 3 percent, if the renewal of expiring subsidized housing contracts is excluded from the comparison). These figures, and all those in my statement, exclude Operation Desert Storm and other emergency appropriations.

In 1992 and 1993, the discretionary spending limits in the Budget Enforcement Act require substantial further reductions only in the defense category. The limits on budget authority for international and domestic discretionary spending in those years exceed the 1991 appropriations, after adjusting them for inflation, by small amounts. The limits on outlays for domestic discretionary spending are slightly below what would be required to maintain the 1991 program level, according to Congressional Budget Office estimates, but the Congressional budget resolution for fiscal year 1992 largely finesses this problem by assuming the lower estimates of outlays by the Office of Management and Budget.

The situation will be much tougher, however, in 1994 and 1995. The limit on total discretionary budget authority in 1993, as assumed in the budget resolution, is \$521.7 billion. The 1994 limit--\$518.1 billion--is below the 1993 amount in nominal dollars, and the 1995 limit--\$525.0 billion--is only slightly higher. These amounts represent real reductions of 4½ percent and 7½ percent, respectively, compared with the 1993 appropriations limit.

## TWOSCENARIOSFORMEETINGTHE 1994 AND 1995 CAPS

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A major issue facing the Congress and the newly elected President in early 1993 will be deciding how to divide the shrinking discretionary appropriations pie. Tables 1 and 2 detail two scenarios that illustrate the available choices, assuming that the limits are not relaxed.

- o The first scenario is to accept the **President's** requested defense budget, and to make real cuts of close to 10 percent in international and domestic discretionary spending.
- o The second scenario is to reduce defense spending even more than is called for in the **President's** 1992 budget request, while maintaining nondefense spending at the 1993 inflation-adjusted levels.

My statement focuses on the required reductions in budget authority, which are shown in Table 1. The required cuts in outlays, shown in Table 2, are similar in both dollar and percentage terms to the reductions in budget authority.

Scenario 1 assumes that defense spending authority in 1994 and 1995 is set at the amounts in the President's current budget request. These defense figures, which are similar to the so-called "**Nunn numbers**" that were much discussed at last year's budget summit, represent reductions in real purchasing power of about 3 percent a year over the

1992-1995 period. By 1995, real defense spending in the President's request is about 22 percent below the 1990 rate.

Even with defense discretionary spending authority at the levels the President requested, nondefense discretionary spending would have to be pared significantly in order to meet the caps. International and domestic discretionary spending would have to be cut by almost 7 percent in 1994, and by an additional 3 percent in 1995, for a total real reduction of nearly 10 percent. Compared with 1990, however, domestic discretionary spending in 1995 would be only about 3 percent lower.

Scenario 2 assumes that nondefense discretionary spending is held at the 1993 level, adjusted for **inflation**, in 1994 and 1995 and that all reductions needed to comply with the discretionary spending limits are made in defense spending. In this case, defense budget authority would have to shrink to \$279.0 billion in 1994 (\$16.5 billion, or 6 percent, below the President's request of \$295.5 billion) and to \$274.1 billion in 1995 (\$24.4 billion, or 8 percent, below the request of \$298.5 billion). All in all, real defense spending in 1995 would then be more than 28 percent lower than it was in 1990, while real domestic discretionary spending would be 7 percent higher.

Robert **Hale's** testimony will examine the changes in the **Administration's** defense proposals that would be needed to accommodate scenario 2. As I have just noted, scenario 2 requires that defense budget

authority be reduced by a total of \$41 billion below the **Administration's** proposed levels in 1994 and 1995. In his testimony, Hale concludes that this reduction in budget authority would probably not be large enough to achieve the required reductions in outlays. To achieve the reductions in outlays in 1994 and 1995 while avoiding severe cuts in military personnel or **investment**, reductions in defense appropriations would have to begin in **1993**. Moreover, the total reduction in budget authority would have to exceed \$41 billion and might approach \$70 billion over the 1993-1995 period.

Holding domestic discretionary spending to the levels in scenario 1 would pose **difficulties** similar to those facing defense in scenario 2. In order to make room for its defense proposal and to achieve its recommended levels of domestic discretionary outlays in 1994 and 1995, the Administration proposes to hold domestic discretionary budget authority \$6 billion below the cap in **1993**. Also, the levels of domestic discretionary budget authority in scenario 1 are below those contemplated in the President's budget for 1994 and 1995. And the President's budget request does not accommodate all the pressures for increased domestic spending that the Comptroller General will be discussing later this morning.

## CONCLUSION

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These two scenarios, of course, do not exhaust the possibilities. The Congress could choose an intermediate course, making reductions both in the President's defense request and also in real nondefense appropriations. Alternatively, defense spending could be even higher than in scenario 1, or nondefense spending could be even higher than in scenario 2, with correspondingly greater cuts made in the other category. Nor must international and domestic discretionary spending receive the same treatment. The two alternatives presented here, however, provide a good illustration of the choices that lie ahead and demonstrate that the appropriations caps for 1994 and 1995 will be quite tight.

TABLE 1. MEETING THE DISCRETIONARY BUDGET AUTHORITY CAPS IN FISCAL YEARS 1994 AND 1995 (In billions of dollars)

Spending Category	1993 Cap	Scenario 1: Assume President's Defense <b>Request</b>		Scenario 2: Assume Nondefense at <b>Baseline</b>	
		1994	1995	1994	1995
Defense					
Assumed spending	291.5	295.5	298.5	279.0	274.1
Baseline		303.9	316.9	303.9	316.9
Cuts required					
In dollars		-8.4	-18.4	-24.9	<b>-42.8</b>
<b>As a percentage</b>		-2.7	-5.8	-8.2	-13.5
International					
Assumed spending	22.9	22.2	22.3	23.8	24.7
Baseline		23.8	24.7	23.8	24.7
Cuts required					
In dollars		-1.6	-2.4	0	0
As a percentage		-6.9	-9.7	0	0
Domestic					
Assumed spending	207.4	200.4	204.3	215.3	226.2
Baseline		215.3	226.2	215.3	226.2
Cuts required					
In dollars		-14.9	-21.9	0	0
<b>As a percentage</b>		-6.9	-9.7	0	0
Total Discretionary					
Cap	521.7	518.1	525.0	518.1	525.0
Baseline		543.0	567.8	543.0	567.8
Cuts required					
In dollars		-24.9	<b>-42.8</b>	-24.9	<b>-42.8</b>
As a percentage		-4.6	-7.5	-4.6	-7.5

SOURCE: Congressional Budget Office.

NOTES: The caps shown are those the budget resolution assumes.

The baseline projections for 1994 and 1995 are based on 1993 appropriations that are assumed to be equal to the 1993 caps.

The CBO reestimate of the President's defense request assumes no change in pay dates or in accounting for the accrued cost of military retirement.



TABLE 2. MEETING THE DISCRETIONARY OUTLAY CAPS IN FISCAL YEARS 1994 AND 1995 (In billions of dollars)

Spending Category	1993 Cap	Scenario 1: Assume President's Defense Request		Scenario 2: Assume Nondefense at Baseline	
		1994	1995	1994	1995
<b>Defense</b>					
Assumed spending	292.5	290.4	291.9	276.5	270.3
Baseline		299.2	309.7	299.2	309.7
Cuts required					
In dollars		-8.8	-17.8	-22.7	-39.4
As a percentage		-2.9	-5.7	-7.6	-12.7
<b>International</b>					
Assumed spending	20.6	21.0	21.3	22.2	23.2
Baseline		22.2	23.2	22.2	23.2
Cuts required					
In dollars		-1.2	-1.8	0	0
As a percentage		-5.3	-8.0	0	0
<b>Domestic</b>					
Assumed spending	224.5	226.2	229.7	239.0	249.6
Baseline		239.0	249.6	239.0	249.6
Cuts required					
In dollars		-12.8	-19.8	0	0
As a percentage		-5.3	-8.0	0	0
<b>Total Discretionary</b>					
Cap	537.7	537.6	543.0	537.6	543.0
Baseline		560.4	582.5	560.4	582.5
Cuts required					
In dollars		-22.7	-39.4	-22.7	-39.4
As a percentage		-4.1	-6.8	-4.1	-6.8

SOURCE: Congressional Budget Office.

NOTES: The caps shown are those the budget resolution assumes.

The baseline projections for 1994 and 1995 are based on 1993 appropriations that are assumed to be equal to the 1993 caps.

The CBO reestimate of the President's defense request assumes no change in pay dates or in accounting for the accrued cost of military retirement.