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Testimony

Statement of
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Direct Spending and Defense Programs

before the
Subcommittee on Military Personnel
Committee on Armed Services
U.S. House of Representatives

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Chairwoman Davis, Congressman Wilson, and Members of the Subcommittee, I appreciate the invitation to appear before you today to discuss the budgetary treatment of direct spending programs (as well as discretionary spending). My statement is based on the Congressional Budget Office's (CBO's) understanding of the laws and rules used to enforce the budget and the agency's experience with cost estimates that involve direct spending. However, CBO is neither expert in, nor responsible for, the procedures for enforcing the Congressional budget resolution and the rules of the House of Representatives; that expertise and responsibility lie with the Committee on the Budget and the Committee on Rules.

Many policy proposals that would result in additional spending on entitlement programs, such as the Military Retirement program, encounter difficulties during the legislative process because they would increase direct spending. In contrast, authorizations of discretionary appropriations (for instance, most of the provisions in the annual defense authorization act) require future appropriation legislation to implement; they are not subject to the same constraints, nor can they be used to offset additional entitlement spending. In my testimony, I hope to clarify these issues.

Direct Spending

Direct spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority.[1] Unlike annual appropriation acts, which generally set specific amounts that can be obligated for each program in a particular year, the laws governing direct spending often specify benefit formulas and eligibility criteria that determine spending year after year without further action by the Congress. Synonymous with mandatory spending, direct spending includes expenditures for the three largest entitlement programs: Social Security, Medicare, and Medicaid.[2] Military Retirement is another mandatory program; therefore, any change in spending for that program caused by an authorization bill would affect direct spending. Numerous other programs, including many that are not entitlements, are funded through direct spending authority.

For 2010, CBO estimates that total federal spending, under an assumption that current laws and policies remain unchanged, will be about $3.5 trillion (see Table 1). Of that amount, about $1.4 trillion (40 percent) will be discretionary spending—that is, spending derived from annual appropriation acts. The remaining 60 percent will be direct spending for either mandatory programs or interest on the debt held by the public.

1. Budget authority is the authority provided by law to incur financial obligations that will result in immediate or future outlays of federal government funds. Budget authority may be provided in an appropriation act (for discretionary spending) or an authorization act (for direct spending).

2. An entitlement is a legal obligation of the federal government to make payments to a person, group of people, business, unit of government, or similar entity that meets the eligibility criteria set in law and for which the budget authority is not provided in advance in an appropriation act. Spending for entitlement programs is controlled through those programs' eligibility criteria and benefit or payment rules.

Table 1.

CBO's March 2010 Projections of Spending Under the Assumptions for Its Baseline

(Billions of dollars)

	Outlays, by Fiscal Year										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mandatory Spending											
Social Security	702	728	761	799	837	880	929	984	1,043	1,107	1,174
Medicare	531	574	579	637	711	739	800	836	874	970	1,046
Medicaid	277	263	264	275	291	311	335	360	386	414	444
Other spending	633	686	582	568	565	572	595	604	606	634	647
Offsetting receipts	-181	-194	-205	-216	-227	-235	-247	-262	-275	-290	-307
Subtotal	1,961	2,058	1,982	2,063	2,177	2,267	2,412	2,523	2,633	2,834	3,005
Discretionary Spending											
Defense	689	701	695	706	716	730	749	761	773	795	813
Nondefense	677	672	649	639	639	643	652	664	676	689	704
Subtotal	1,367	1,373	1,344	1,345	1,356	1,372	1,401	1,425	1,449	1,484	1,517
Net Interest	209	238	282	337	399	461	517	572	625	677	728
Total	**3,537**	**3,668**	**3,608**	**3,746**	**3,931**	**4,100**	**4,330**	**4,520**	**4,707**	**4,996**	**5,250**

Source: Congressional Budget Office.

Direct Spending and Budget Enforcement

Proposed changes to direct spending programs receive special scrutiny under various budget enforcement rules. The House has a "pay-as-you go" rule specifying that any legislation that would increase direct spending or decrease revenues over certain time periods is subject to a point of order unless such costs are offset by other provisions in the legislation that decrease direct spending or increase revenues by a corresponding amount. In addition, the Congress recently enacted the Statutory Pay-As-You-Go Act of 2010, which establishes a procedure (called sequestration) for automatically reducing mandatory spending when legislation, on a cumulative basis, would increase direct spending or reduce revenues.[3]

There can be exceptions to the application of the House pay-as-you-go rule or the implications of the new statutory pay-as-you-go process. For example, the Congress can designate direct spending as an "emergency requirement," thereby allowing legislation providing such spending to be considered and enacted without being subject to the pay-as-you-go requirements. Those exceptions and procedures for considering

3. Under the Statutory Pay-As-You-Go Act of 2010 (title I of Public Law 111-139), estimated changes in the deficit from direct spending and revenues are recorded on 5-year and 10-year "scorecards" by the Office of Management and Budget. If either scorecard reflects a net cost in the budget year at the end of a Congressional session, that agency is required to order a sequestration of certain direct spending.

legislation in the House (or the Senate) can change from year to year—for example, when the House adopts its rules at the beginning of each Congress or pursuant to provisions incorporated in annual budget resolutions.

Although CBO provides cost estimates for various legislative initiatives and determines whether proposed legislation would result in direct spending, it is the House and Senate Budget Committees and the Parliamentarians who interpret and enforce the budget rules.

The Budget Process and Spending Allocations

The Congressional budget cycle typically begins each year when the House and Senate Budget Committees formulate and the Congress adopts an annual budget resolution, which establishes a blueprint for federal spending and revenues for the coming "budget year" and several subsequent years; the budget resolution for fiscal year 2010 also covered fiscal years 2011 through 2014. Spending levels specified in the budget resolution are divided among the various committees of jurisdiction. For example, all discretionary spending assumed in the budget resolution is allocated to the House and Senate Committees on Appropriations, while direct spending components, with some exceptions, are allocated to authorizing committees. If a committee approves a bill that would increase spending above its allocation, it runs the risk that such legislation will face procedural hurdles for House and Senate consideration, including being subject to a point of order during floor consideration.

Most spending related to national defense (totaling about $700 billion in fiscal year 2010) is discretionary and therefore is allocated annually to the appropriations committees. Spending for mandatory programs related to defense is mostly under the jurisdiction of the House and Senate Committees on Armed Services (the HASC and the SASC). Such direct spending under the jurisdiction of the HASC totals about $136 billion for 2010[4]—equal to the amount in CBO's March 2009 baseline (which assumes that current law for such mandatory programs continues unchanged). The amounts used for budget enforcement purposes for fiscal year 2011 will be set by the House when it considers a new budget resolution for that year.

Mandatory spending allocated to the HASC is concentrated in several accounts. Over half is related to contributions to the Military Retirement Trust Fund and the Department of Defense's Medicare-Eligible Retiree Health Care Fund (MERHCF), which, among other things, funds the TRICARE for Life health care program (see Table 2). Those contributions, which CBO estimates will total $73 billion in 2010, are intragovernmental transfers; that is, they are payments from one budget account to another. Therefore, for every dollar disbursed from the budget account that shows the

4. H. Rept. 111-89, Conference Report to Accompany S. Con. Res. 13, Concurrent Resolution on the Budget for Fiscal Year 2010, p. 146 (Allocations of Spending Authority to House Committees Other Than Appropriations).

Table 2.

Mandatory Spending in CBO's March 2010 Baseline Under the Jurisdiction of the House Committee on Armed Services

(Billions of dollars)

	Outlays, by Fiscal Year									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Mandatory Trust Fund Contributions[a]	76	79	82	84	88	91	94	98	101	105
Benefits Paid from the Military Retirement Fund	51	52	53	54	55	56	58	59	61	63
Benefits Paid from the MERHCF[b]	9	9	10	11	12	12	13	14	16	17
Other	3	3	2	2	2	2	2	2	2	2
Total	**139**	**143**	**147**	**152**	**156**	**162**	**168**	**174**	**180**	**187**

Source: Congressional Budget Office.

Note: The figures in this table, based on CBO's March 2010 baseline, are slightly different from the House Armed Services Committee's allocations in S. Con. Res. 13, the Concurrent Resolution on the Budget for Fiscal Year 2010, which was based on CBO's March 2009 baseline.

a. The Mandatory Trust Fund Contributions represent intragovernmental transfers that are offset by receipts recorded in other parts of the federal budget. As a result, those payments have no net effect on federal spending

b. The Department of Defense's Medicare-Eligible Retiree Health Care Fund (MERHCF) includes the department's TRICARE for Life program.

payments to those funds, a dollar of receipts is recorded elsewhere in the federal budget. As a result, those intragovernmental payments have no net effect on federal spending. Another $60 billion is for the benefit payments from the Military Retirement Fund and the MERHCF, and about $3 billion is for other programs, which provide for, among other things, the spending of contributions from overseas allies for the operation of overseas bases, benefits and compensation for personnel who worked in the production and testing of atomic weapons, and education benefits for certain reserve personnel.

Options When Legislation Would Affect Direct Spending

When a bill or amendment would increase direct spending (as is often the case with proposals that would increase military retirement benefits or health care benefits for retirees), the authorizing committee working on such legislation has several avenues available to offset those costs. However, each of those options has its own set of obstacles.

The authorizing committee proposing an increase in direct spending can find an offset within the direct spending programs under its jurisdiction, but doing so can be difficult for a number of reasons. In the case of the HASC, for example, proposals to expand payments for concurrent receipt of retirement and disability pay or for survivor benefits would often result in direct spending in the billions of dollars over the 10-year budget window. Although the HASC has about $136 billion in spending for 2010 under its jurisdiction, it is difficult to find offsets within those funds that will not affect other benefits for military retirees. Almost half of the spending in the committee's jurisdiction consists of trust fund contributions, which are intragovernmental transactions; any reductions in them would cause corresponding losses of offsetting receipts and, therefore, would provide no net savings. The accounts providing benefit payments from the Military Retirement Fund and the MERHCF are the only places under the HASC's jurisdiction where sizable offsets could be found. Most other programs under the committee's jurisdiction are too small to provide the needed savings or cannot be changed without affecting other benefits (such as benefits for disabled atomic energy workers).

Another option would be to increase federal revenues through changes in tax policy. The difficulty with this option is that the HASC does not have jurisdiction over changes to the tax code because such changes are within the purview of the House Committee on Ways and Means and the Senate Committee on Finance.

Another possibility would be to increase federal receipts through the sale of federal assets. The HASC has frequently used that method to offset direct spending in the annual National Defense Authorization Act (NDAA), but identifying such assets can be difficult and may not produce receipts in sufficient amounts to offset the cost of the desired change in benefits. For instance, section 1412 of the National Defense Authorization Act for Fiscal Year 2010 (Public Law 111-84) authorized the sale of cobalt currently stockpiled by the Department of Defense; according to CBO's estimates, those sales will produce receipts of about $10 million over the 2010–2011 period.

During the committee's consideration of the NDAA, there are often proposals that seek to offset increases in direct spending with reductions in discretionary authorizations found elsewhere in the bill. However, such authorizations provide guidelines for future appropriation action but do not result in spending by the federal government until appropriations are provided in the annual Department of Defense Appropriations Act, a separate piece of legislation. Consequently, reductions to the amounts authorized in the NDAA for discretionary appropriations cannot be used to offset increases in direct spending proposed in other parts of the bill for the purposes of enforcing the Congressional budget resolution or pay-as-you-go procedures. For example, reducing the number of warships or fighter aircraft authorized for purchase by the NDAA would not result in savings that could be used to offset direct spending proposed in the bill, because the funding source of those weapons would be a subsequent appropriation act, not the NDAA.

The options discussed above for offsetting the cost when a bill or amendment would increase direct spending represent some of the more common strategies, but other options may be available. In addition, authorizing committees sometimes work directly with the Committee on Appropriations to identify ways to reallocate existing funding or to develop priorities for new funding. As one type of such coordination, the committees could identify existing discretionary funding that could be rescinded in an authorizing bill in order to cover the cost of some new desired spending. In the Congressional budget process, the budgetary impact of such a rescission is credited to the committee that takes the action—in this example, the authorizing committee—even though the affected spending was originally categorized as discretionary.

The House Committee on the Budget is the official scorekeeper for the House of Representatives and the entity responsible for enforcement of the Congressional budget resolution within the House. Questions about spending jurisdiction, budget enforcement procedures, or options for dealing with legislation that would increase direct spending should be addressed to that committee.