Federal Budgeting After September 11th: A Whole New Ballgame, or Is It Déjà Vu All Over Again?

PHILIP G. JOYCE

Federal budgeting has undergone some profound changes since the tragic events of September 11th, 2001. Large surpluses that existed prior to September 11th and were forecast to continue have been replaced by equally large and intractable deficits. The consensus around a macro-level norm for federal budgeting has completely broken down. In other ways, the federal budget process has not changed at all. Despite the emphasis on defense and homeland security, domestic discretionary spending is still continuing unabated, as it has since the late 1980s. Further, the federal government continues to have chronic difficulty adopting its budget in a timely fashion.

Budgeting—as a process of allocating scarce societal resources—is always about dueling priorities. The country has been reminded of this since September 11th, 2001, but it is hardly a new phenomenon. In particular, the competition between domestic government and national defense has surfaced (in different ways) in every decade since World War II.

Consider the following presidential statement about federal budget policy:[1]

> faced with a costly war abroad and urgent requirements at home, we have to set priorities. And "priority" is but another word for "choice." We cannot do everything we wish to do. And so we must choose carefully among the many competing demands on our resources.

Although these words sound like they could have come from President Bush's most recent budget proposal, they were actually uttered by President Lyndon Johnson in his transmittal of the fiscal year 1969 budget almost 35 years ago. Budgeting is inherently about competition among different uses of funding. This was true in 1968. It was true on September 10, 2001. It still is true today. It is fashionable to think that the world of federal budgeting—as the world outside of budgeting—is a lot different since September

Philip Joyce is Professor of Public Policy and Public Administration at The George Washington University, 805 21st St. NW, Room 601, Washington, DC. He can be reached at *pgjoyce@gwu.edu*.

1. Allen Schick, *Congress and Money: Budgeting, Spending and Taxing* (Washington, DC: Urban Institute Press, 1980), 26.

11th. Many things have changed since those terrorist attacks, in particular our sense of collective security as a nation. And the federal budget, which had been dominated by large surpluses, is now projected to be in deficit for the foreseeable future.

In this paper, I will argue that the current federal budget environment has certainly been affected in fundamental ways by the events of September 11th, 2001, and the nation's response to them. But in many other ways, the changes that have occurred in the budget outlook and budget process have little to do with these events, and federal budgeting is much the same after these terrorist acts as it was before them. In doing so, the paper will make three broad points:

- The overall budget outlook has worsened considerably since fiscal year 2001. While part of that has been affected by September 11th, the majority of this deterioration results from other factors, such as the weakened economy and the various Bush tax cuts. The federal budget environment has nonetheless been fundamentally affected by the response to the threat posed by international terrorism. The political process has lost its consensus on a goal for overall fiscal policy, at the same time that priorities are shifting toward more resources for defense and homeland security. Further, President Bush has not made the establishment of a budget constraint a high priority for his administration. Quite aside from the question of overall priority setting, the country is wrestling, as it always does during wartime, with the question of how much authority to give the president. This question is complicated by the open-ended nature of the current "war," since any grant of power to the president is as likely to be permanent as temporary.
- While fundamental shifts have occurred, in many ways the budget process has not changed at all. The recent increase in defense spending has not come through decreases in domestic spending, which has (at least in aggregate) been fundamentally unaffected by efforts to reduce the deficit since the mid-1980s. Further, the federal government continues to have difficulty completing budget work prior to the beginning of the fiscal year; this does not seem to have been made better or worse by the events of September 11th. Finally, the federal government's means of dealing with emergency spending was the same in the aftermath of the attacks as for other, more routine emergencies—the passage of supplemental appropriations creating a net increase in federal spending.
- The failure of Congress to agree on a budget resolution for three recent fiscal years—1999, 2003, and 2005—suggests that the budget process may be at a crisis point, and this crisis may be exacerbated by the uncertainty associated with the cost and the duration of the war on terrorism. If a consensus is not reached on a goal for fiscal policy, the Budget Committees and the budget resolution are in danger of becoming irrelevant. Now, as always, policymakers must resolve what they want the budget process to do, and must craft a set of budget rules that fulfill those aims.

HOW HAS FEDERAL BUDGETING CHANGED SINCE SEPTEMBER 11TH?

The federal budget environment has changed in some fundamental ways since September 11th. First, the overall budget outlook has become a lot worse since September 2001. While some of this can be credited to the country's response to the threat of terrorism (including the wars in Afghanistan and Iraq), much of the deterioration of the budget outlook is due to other factors. Second, there is a notable loss of consensus around any overall goal for federal fiscal policy. Third, Congress has been quicker to defer to presidential budget priorities in the wake of national and homeland security concerns.

The Return of Large Federal Deficits

Comparing the current Office of Management and Budget (OMB) and Congressional Budget Office (CBO) estimates to budget estimates made when the Bush administration took office in January 2001, the outlook could not be more different. Both the CBO and OMB agree that the budget outlook is strikingly different in 2004 than it was a scant $3\frac{1}{2}$ years earlier. CBO, which in January 2001 had estimated $5.6 trillion in cumulative surpluses between fiscal years 2002 and 2011, projected that, by the time of its fiscal year 2005 midyear estimates, large future deficits had replaced the expected surpluses. In particular, the projected cumulative surplus estimate of $2.3 trillion between 2003 and 2007 has been reduced to cumulative deficits of $1.75 trillion, a staggering $4 trillion deterioration. OMB did not produce 10-year numbers in the president's fiscal year 2005 mid-session review, but its 5-year estimates are strikingly similar to CBO's. CBO and OMB agreed that the budget will remain in deficit through at least 2009; CBO actually projects deficits through 2014, the end point of its September 2004 forecast (OMB did not forecast beyond 2009).

It is important to note that these baseline estimates of future deficits do not take into account future changes in policy that seem increasingly likely. For example, the estimates assume that future discretionary spending grows with inflation, when it has been growing far in excess of inflation since fiscal year 2000; assuming that it grows at the rate of projected Gross Domestic Product (GDP) growth (still lower than recent growth rates) would by itself add $1.4 trillion to future deficits. They do not assume the reform of the Alternative Minimum Tax, which CBO estimates could add approximately $400 billion to 10-year deficits. And perhaps most importantly, current law assumes expiration of many provisions of President Bush's tax cuts as well as other tax provisions scheduled to expire; if all of these tax cuts are extended, the 10-year increase in the deficit would be $2.2 trillion.[2]

The deterioration in estimates between these two times results from multiple factors. The economy weakened throughout the period. This had the particularly deleterious

2. Congressional Budget Office, *The Budget and Economic Outlook, An Update: Fiscal Years 2005–2014* (September 2004), 16–17.

TABLE 1
Comparing Budget Projections in 2001 and 2004

	FY01	FY02	FY03	FY04	FY05	FY02–11	FY03–07
CBO January 2001	281	313	359	397	433	5,610	2,267
CBO September 2004	127	– 158	– 375	– 422	– 348	– 3,037	– 1,751
Difference	– 154	– 471	– 734	– 815	– 781	– 8,647	– 4,018
OMB Baseline February 2001	284	283	334	387	440	5,644	2,263
OMB July 2004	127	– 158	– 375	– 444	– 292	NA	– 1,562
Difference	– 154	– 441	– 709	– 831	– 732	NA	– 3,825
CBO Less OMB, 2004	0	0	– 0	22	– 56	NA	– 189
Exhibit: Baseline Revenues, July/September 2004							
CBO September 2004	1,991	1,853	1,782	1,871	2,094	23,387	10,432
OMB July 2004	1,991	1,853	1,782	1,875	2,108	NA	10,414
CBO Less OMB, 2004	0	0	0	– 4	– 14	NA	18

Sources: Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002–2011* (January 2001); Congressional Budget Office, *The Budget and Economic Outlook*: *Fiscal Years 2005–2014* (January 2004); Congressional Budget Office, *The Budget and Economic Outlook: An Update* (September 2004); Office of Management and Budget, *A Blueprint for New Beginnings* (March 2001); Office of Management and Budget, *Midsession Review of the Budget, Fiscal Year 2005* (July 2004).
FY, fiscal year; CBO, Congressional Budget Office; OMB, Office of Management and Budget; NA, not applicable.

effect of depressing federal revenues, which fell in nominal terms each year between fiscal years 2001 and 2003. Part of this short-term decrease in federal revenues is attributable to the Bush administration's tax cut, but much of it resulted from the weak economy. The decline in earnings by the wealthiest Americans is the single biggest factor for the short-term reduction in revenues. Conversely, the rise of the stock market and top executive compensation was the biggest cause of the unprecedented sustained growth in federal revenues between fiscal years 1993 and 2000, when federal revenues grew by an average of 8.4 percent annually (Table 1).[3] But over 10 years, the Bush tax cut plays a more significant role in the deterioration of the outlook. Further, certain technical changes in forecasts for programs such as Medicare and Medicaid have increased deficit projections. Finally, of course, federal spending has increased, both in response to the terrorist attacks and to prosecute wars in Afghanistan (which was directly in response to the terrorist attacks) and Iraq (which the administration has argued is part of a preemptive war on international terrorism. While no more recent estimate is available, CBOs January 2002 report indicated that, out of the 10-year reduction (at that point estimated at a mere $4 trillion) in cumulative surpluses since January 2001:[4]

3. Calculated from data in Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2004–2013* (January 2003).

4. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2003–2012* (January 2002).

- Approximately 32 percent resulted from the first tax cut;
- Approximately 24 percent resulted from the deterioration of the economy;
- Approximately 16 percent resulted from "technical" changes;
- Approximately 14 percent resulted from increased discretionary appropriations, many of which were in response to the war on terrorism; and
- Another 14 percent occurred because of increased debt service costs associated with reduced surpluses resulting from these other factors.

The point, of course, is that even assuming that all of the increases in discretionary appropriations are in response to the terrorist attacks (they are not), and that the economy worsened only because of the attacks (it did not, as the economy was in recession for at least a half a year before the attacks) not more than 40 percent of the short-term change in the budget outlook at that point resulted from the aftermath of September 11th. With increased defense and homeland security spending since 2002, clearly the percentages associated with September 11th policy changes would increase. But this would not change the overall conclusion that much of this change would have occurred even if the planes had never hit the World Trade Center or the Pentagon.

The Loss of Budgetary Consensus

As significant as the change in the budget forecast has been, perhaps a more significant change has occurred in the overall environment for priority setting. In short, the major change that has occurred in the budget environment—at least hastened by September 11th, if not caused by it—is that the nation and its political leaders have lost any sense of consensus around a macro-budgetary goal or target. From 1985 to 1998, budget nirvana was defined as the achievement of an overall balanced budget. After 1998 (and continuing until approximately 9 AM eastern time on September 11, 2001), this target was replaced by a consensus that the budget should be balanced excluding the surpluses in the Social Security trust funds. Now, however, there is no consensus, and the lack of agreement means that the budget process is operating without a notional budget constraint.

When the Congressional Budget and Impoundment Control Act of 1974 (the Budget Act) established a Congressional budget process, that process was self-consciously neutral as to budget outcomes. The budget resolution (intended to establish a framework for annual budgeting) could sanction deficits, or surpluses, or overall budgetary balance. The budget might allow for relatively high levels of spending, or relatively low levels. In other words, the Budget Act gave the Congress a process, but did not presuppose a particular budget outcome.[5]

All of that changed after the mid-1980s. Beginning with the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm–Rudman–Hollings) the norm of the balanced budget was elevated and became, in a sense, the sine qua non of federal budg-

5. Schick, 72–74.

eting. While the Gramm–Rudman process itself was a failure, its lasting legacy was the establishment of the balanced budget as the overall goal of fiscal policy. Subsequent more successful fiscal policy prescriptions—budget summits coupled with procedural limits such as discretionary caps and pay-as-you-go (PAYGO) codified in the Budget Enforcement Act of 1990—were all aimed at achieving this single fiscal policy goal. This goal was never formally endorsed as sensible by most economists and budget experts, who viewed as perfectly appropriate the running of deficits during times of economic hardship or other distress. But it was a powerful force influencing the actions of policymakers, virtually none of whom questioned the appropriateness of the goal.[6]

By the late 1990s, a series of legislative actions coupled with unprecedented economic growth led to the achievement of this heretofore elusive goal. Almost without warning, budgetary balance was achieved in fiscal year 1998, a full four years before the Congress and President Clinton had predicted when they passed the Balanced Budget Act of 1997, the last of the three multiyear deficit reduction bills passed during the 1990s.[7] The achievement of this goal left in its wake an inevitable question—"what's next?" If budgetary balance had been achieved, what was the new goal of fiscal policy to be?[8]

A response to this question emerged late in the Clinton administration, and continued in the context of the 2000 presidential campaign. Faced with competing demands for more spending, tax cuts, and running surpluses (otherwise known as "paying down the debt"), Democrats and Republicans essentially agreed on the outline of a new macro-budget policy. The budget was to remain balanced, *excluding the surpluses in the Social Security trust funds*. In budgetspeak, this meant running unified budget surpluses equivalent to these trust fund surpluses. This approach likely had its genesis in President Clinton's call to "save Social Security first." While once again there was no particular economic significance to this specific goal, the political popularity of Social Security made this a very powerful norm for politicians to embrace.

President Bush took office in 2001 pledging to abide with this agreement. In fact, while no one knew whether (and how large) a tax cut would be enacted, and no one knew whether (and how large) a Medicare prescription drug benefit might be enacted, *everyone* knew that neither party wanted to be the one that was seen to be raiding Social Security. Therefore, tax cuts and increased spending had to fit within an overall budget constraint that still preserved a surplus large enough to protect Congress and President Bush from charges of "spending the Social Security surplus." CBO and OMB projections of the

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6. See Philip G. Joyce, "Congressional Budget Reform: The Unanticipated Consequences for Federal Policymaking," *Public Administration Review* 56, no. 4 (July/August 1996): 320–321.

7. I make no attempt here to discern how much each of the three bills—the Omnibus Budget Reconciliation Act of 1990, the Omnibus Budget Reconciliation Act of 1993, and the Balanced Budget Act of 1997—contributed to deficit reduction. It is worth noting, however, that the 1997 action was coupled with a tax cut; therefore, the effect of these actions would have to be considered simultaneously.

8. Philip G. Joyce and Roy T. Meyers, "Budgeting During the Clinton Presidency," *Public Budgeting & Finance* 21, no. 1 (Spring 2001): 1–21.

effect of the tax cut issued in the summer of 2001 were watched closely to determine whether this magic line had been crossed.[9]

September 11th changed all that in a hurry. While there was some indication even prior to that point that the tax cuts and the economic downturn were putting the stated goal in jeopardy, the rapid agreement between the president and Congress to provide $40 billion of immediate assistance blew the lid off of the so-called ''lockbox'' protecting Social Security. Essentially, and understandably, fiscal discipline took a back seat to other concerns. While some members of Congress still wanted to abide by the earlier agreement (essentially arguing that other spending should be cut to pay for the spending increase), it would not have been possible to get a majority of either the House or the Senate in support of the specific cuts necessary to enforce such a position.

The immediate cost of responding to September 11th was dwarfed by the continuing cost of providing for improvements in ''homeland security'' and the wars in Afghanistan and Iraq. The most high-profile homeland security event was the creation of the Department of Homeland Security (DHS), but improvements in transportation security and other security expenditures had predated the creation of this department. The CBO estimated in June of 2004 that Department of Defense expenses related to the three wars (Afghanistan, Iraq, and domestic terrorism prevention) would account for $141.5 billion between fiscal years 2002 and 2004.[10] In a separate estimate, CBO noted that the $41 billion in homeland security spending for 2004 was roughly double the cost of those activities prior to September 11th.[11]

Providing for long-term security for the country and its citizens, while simultaneously cutting their taxes in the name of ''economic stimulus,'' trumped budgetary balance as the primary goal of fiscal policy. In such an environment of ''crisis,'' spending is much more acceptable, and budgetary constraints are less clear.[12] By the time the president's fiscal year 2003 budget was submitted, it was clear to virtually everyone that budgetary balance (either in the unified budget or excluding the trust funds) was unattainable. At the same time, the specific budget constraints that had existed since 1990—the discretionary spending caps and PAYGO—were also allowed to expire at the conclusion of fiscal year 2002.

In particular, the events of September 11th have created an environment where spending on national and homeland security is considered much more important than it was prior to that date, and budgets since fiscal year 2002 have been crafted consistent with this shift. The defense budget, which had been declining throughout the 1990s, has shifted dramatically upward since 2000. In fact, if the CBOs September 2004 estimate for

9. Stan Collender, ''Budget Battles: No More Lockbox,'' *Government Executive*, September 18, 2001, http://www.govexec.com/dailyfed/0901/091801bb.htm

10. Congressional Budget Office, Letter to the Honorable Kent Conrad (D-ND), June 25, 2004.

11. Congressional Budget Office, *Federal Funding for Homeland Security*, Economic and Budget Issue Brief, April 30, 2004.

12. Stan Collender, ''Deficit Deafness,'' *Government Executive*, November 28, 2001, http://www.govexec.com/dailyfed/1101/112801bb.htm

fiscal year 2004 defense spending holds, defense outlays will have increased by $157 billion, or 53 percent, since fiscal year 2000 (see Table 2).[13] To be fair, the Bush administration desired more defense spending even prior to September 11th; it would be incorrect to associate all of this increase to the war on terrorism. But after the terrorist attacks (and with the wars in Afghanistan and Iraq), it was virtually certain that the president would get a defense budget more or less at the level that he wanted.

The shift in priorities has certainly not been lost on federal agencies, who have almost certainly shifted their budget strategies toward arguing for resources on the basis of security rather than for other reasons. This is a time-honored budget strategy. Aaron Wildavsky, in his classic book *The Politics of the Budget Process*, discussed the use of such "crisis strategies" in the budget process:[14]

> [N]ational defense . . . is ideal for crisis strategies. The temptation to say that almost anything one can think of has implications for national defense is overwhelming and few agencies have been able to resist it. The National Labor Relations Board in 1952 was no exception: "I recognize that every agency of the government will come before you and say, 'Well, we may not nominally be a defense agency, but what we do is essential to the war effort.' In spite of that, I am going to make that statement."

This was, to emphasize, *written more than 20 years ago about a strategy in use more than 50 years ago*. Once national defense is expanded to include "homeland security," there are seemingly few limits to the ability of agencies to tie new spending proposals to current budget priorities.

It is perfectly understandable—indeed appropriate—indeed unavoidable—for the federal government to have abandoned the norm of the balanced budget and spent more money on national and homeland security in the immediate aftermath of the terrorist attacks. In the long run, however, the absence of any macrobudgetary norm has an effect on the budget environment that is hard to overstate. It creates an environment where no one knows how much is enough—or too much—spending. And nobody knows—or everybody knows, but nobody agrees—when the deficit is too large or the surplus too small.

This loss of an overall norm would not be as significant were the annual budget resolution being used as an effective tool of priority setting. This, in fact, is what the budget resolution was designed to do. Each year the Congress could consider the President's budget and determine the path of fiscal policy for the next year or the next several years. However—as will be discussed further below—the budget resolution has become impotent at precisely the same time that the macrobudgetary consensus has been lost. The fiscal year 2003 budget process represented only the second time in the history of the Congressional Budget Act (but also the second time in five years) that Congress failed to

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13. Office of Management and Budget, *Midsession Review, Budget of the United States Government: Fiscal Year 2003* (July 2002).

14. Aaron Wildavsky, *The Politics of the Budget Process*, 4th ed. (Boston: Little, Brown and Company, 1984), 121–122.

enact a budget resolution. It is also the first process since fiscal year 1990 to be conducted without the legislative limitations imposed by the Budget Enforcement Act. Congress was able, largely because of unified government, to enact a budget resolution for fiscal year 2004. But in 2005, even with unified government, Congress did not enact a budget resolution. This means that there has been no budget resolution for three of the past seven years.

For those who view budgeting as the allocation of scarce resources, the lack of an effective overall budget constraint is an alarming development.[15] And until a new paradigm is established—whether it is a return to balanced budgets to a certain point, or a reconstitution of the BEA caps and PAYGO, or some other consensus—federal budgeting is likely to continue to be a rather haphazard, open-ended process.

Presidential–Congressional Relations

The absence of an overall budget target also has implications for Presidential–Congressional relations. The lack of a consensus on an overall level of discretionary spending could provoke more veto fights on appropriation bills. Continued debates about the desirability of further tax cuts are likely to exacerbate problems between the branches. Further, President Bush, who views the 2001 and 2003 tax cuts as the centerpiece of his economic policies (and of his reelection campaign), does not necessarily have an incentive to pursue a consensus on an overall budgetary target. Agreeing that the budget should be balanced by some fixed point in the future, for example, as the bipartisan Committee for a Responsible Federal Budget has recommended, would increase the pressure to scale back, or at least fail to extend, the president's tax cuts.[16]

Further, it would not overstate reality to state that all presidents believe that they should be given more budgetary power over spending all the time. They are most likely to be successful, however, during times of economic or national security crisis. Presidents Johnson and Nixon argued for such increased budgetary flexibility during the Vietnam War. President George H.W. Bush did so during the Persian Gulf War. And President George W. Bush would like greater budgetary control now.

The current controversy has played out primarily in two places. First, should the president be given more power in the budget process because of the three wars—in Afghanistan, against Iraq, and on terrorism? For example, President Bush has argued that he should be given increased capacity to transfer funds between line items without the assent of Congress. Further, he has argued that the Congressional budget resolution

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15. For specific evidence of this alarm, see an August 1, 2002 memorandum entitled, "Budget Issue Update—Summer Recess—The Year of the Budget Nightmare," from the Committee for a Responsible Federal Budget, which argues for a budget strategy aimed at achieving balance in the unified budget by fiscal year 2005: "Budget rules are important because without them the budget situation will likely deteriorate further and make it harder to deal with the serious challenges that will arise as the baby boom generation retires."

16. Committee for a Responsible Federal Budget, "Budget Issue Update."

be converted to a joint resolution (requiring the president's signature). In the interest of space, I will not debate the desirability of these specific reforms, except to say that each of them would transfer budgetary power to the president.[17]

The potential for giving the president more power, of course, leads to inevitable debates concerning whether—or under what circumstances—the president should be given expanded budgetary control. Most would agree that a temporary grant of additional budgetary power to the president is an appropriate response during wartime. But we must ask whether the war on terrorism fits the traditional definition of "war," given its open-ended nature. It is one thing to give a president more power during a defined and declared war—World War II, for example. What the nation is currently facing is an ongoing war with no specific fixed enemy or timetable, and a very ambitious objective. Further, it is a defensive war as much designed to prevent future acts of terrorism, as it is to punish the perpetrators of past acts.

For this reason, some members of Congress are appropriately quite reluctant to grant the president any open-ended power at the expense of the legislative branch. It is likely that we face a long-term struggle against terrorism that may not end in one year, or five years, or anytime in the foreseeable future. For that reason, it is important for the president and Congress to determine how power—including budgetary power—will be shared during that period.

WHAT HAS STAYED THE SAME SINCE SEPTEMBER 11TH?

While some significant changes in the overall budget outlook have been influenced by September 11th, various other aspects of the federal budget process have been relatively unchanged in the aftermath of the terrorist attacks. Three of them seem most relevant to our discussion today:

- Nondefense discretionary spending, which was largely unaffected by the overall efforts to reduce the deficit during the 1990s, seems likely to continue to increase in aggregate after the attacks. Within this area of spending, however, there may be shifts toward "homeland security" concerns and away from other spending.
- The federal government continues, as it has in recent history, to have a difficult time meeting statutory budget deadlines. This seems unlikely to change unless there are specific political incentives to do so.
- The federal government handled the budgetary fallout from the terrorist attacks and the prosecution of the wars in Iraq and Afghanistan in the same manner that it has budgeted for lesser emergencies—through the passage of supplemental appropriations. While the attacks were an extremely unpredictable manifestation of an emergency, the budgetary response of the federal government was largely the same as with other emergencies.

17. For a more detailed review of issues surrounding these reforms, see Louis Fisher, *Presidential Spending Power* (Princeton, NJ: Princeton University Press, 1975), 75–122; and Roy T. Meyers, "The Budget Resolution Should Be a Law," *Public Budgeting & Finance* 10, no. 3 (Fall 1990): 103–112.

The Sanctity of Nondefense Discretionary Spending

Nondefense discretionary spending has increased steadily since 1980. In fact, there have been only four years since 1980 where the increase in the nondefense discretionary part of the budget has been less than 2 percent—three of these were in the 1980s and are associated with Reagan-era cutbacks (1982, 1986, and 1987) and the fourth was fiscal year 1996, primarily caused by the long government shutdowns during the first fiscal year after the Republican takeover of Congress. Table 2 indicates that the average annual growth in nondefense spending has increased from the 1980s (3.1 percent) to the 1990s (5 percent) to the 2000s (8.0 percent so far). Contrast this with defense spending, which *decreased* by an average of 0.4 percent in nominal terms in the 1990s, sandwiched between average *increases* of 9.6 percent and 10.5 percent, respectively, in the 1980s and thus far between fiscal year 2000 and the projected level in fiscal year 2004.

During the 1990s, when overall discretionary spending increased at a rate slower than inflation (1.9 percent) these reductions in real spending were achieved almost solely through cuts in the defense budget. Now that defense spending is increasing again, it is unlikely that nondefense spending will be reduced in aggregate terms. While the growth in nondefense spending has not kept pace with defense increases since 2000, it has still grown at more than double the rate of inflation.[18] There is, therefore, no historical precedent (at least since 1987) that would support the view that defense spending increases will be offset by nondefense spending cuts. Realistically, any increase in defense will continue to represent a net increase in federal spending.

Further, thus far this analysis has only covered nondefense *discretionary* spending. Mandatory spending—virtually none of which is defense related—maintained an almost constant share of 11 to 12 percent of GDP between 1980 and 2004. Nondefense discretionary spending, on the other hand, actually declined fairly substantially—from 5.2 to 3.4 percent—from 1980 to 1989, but has stayed fairly constant since then, actually increasing as a percentage of GDP to 3.8 percent in 2002, and 3.9 percent in 2003.[19]

Of course,

> the fact that aggregate domestic spending is increasing does not tell us anything about the composition of that spending. At least in the short run, agencies that can argue that their activities contribute to national defense of homeland security (see above) are likely to be advantaged in the budget process. Clearly some agencies are having a more difficult time being heard because their missions do not touch on homeland and national security. It is too early to tell, however, just how great a shift may occur, or to what extent agencies may be able to use a "crisis" strategy successfully to gain more resources.

18. In CBOs analysis of homeland security spending, it identifies a marginal increase of $20 billion in homeland security spending since 2000. Even backing out this increase, domestic discretionary spending has grown by more than 7 percent annually over the last five years. See Congressional Budget Office, *Federal Funding for Homeland Security*.

19. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2005–2014* (January 2004), 136.

TABLE 2
Discretionary Outlays, by Category, FY80–FY03

Fiscal year	Defense	% Change	Nondefense	% Change	Total	% Change
1980	134.6	NA	141.7	NA	276.3	NA
1981	158	17.4	149.9	5.8	307.9	11.4
1982	185.9	17.7	140	– 6.6	326	5.9
1983	209.9	12.9	143.4	2.4	353.3	8.4
1984	228	8.6	151.4	5.6	379.4	7.4
1985	253.1	11.0	162.7	7.5	415.8	9.6
1986	273.8	8.2	164.7	1.2	438.5	5.5
1987	282.5	3.2	161.7	– 1.8	444.2	1.3
1988	290.9	3.0	173.5	7.3	464.4	4.5
1989	304	4.5	184.8	6.5	488.8	5.3
1990	300.1	– 1.3	200.5	8.5	500.6	2.4
1991	319.7	6.5	213.6	6.5	533.3	6.5
1992	302.6	– 5.3	231.3	8.3	533.8	0.1
1993	292.4	– 3.4	247	6.8	539.4	1.0
1994	282.3	– 3.5	259.1	4.9	541.4	0.4
1995	273.6	– 3.1	271.3	4.7	544.9	0.6
1996	266	– 2.8	266.7	– 1.7	532.7	– 2.2
1997	271.7	2.1	275.6	3.3	547.2	2.7
1998	270.2	– 0.6	281.9	2.3	552.1	0.9
1999	275.5	2.0	296.5	5.2	572	3.6
2000	295	7.1	319.9	7.9	614.8	7.5
2001	306.1	3.8	343.3	7.3	649.3	5.6
2002	349	14.0	385	12.2	734	13.1
2003	405	16.0	421	9.4	825	12.4
2004[a]	452	11.6	436	3.6	888	7.6
Average 1980–1989 (%)		9.6		3.1		6.6
Average 1990–1999 (%)		– 0.4		5.0		1.9
Average 2000–2004 (%)		10.5		8.0		9.2

[a]Estimated.
Sources: Calculated from Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2005–2014* (January 2004), 136, Table F-7. Estimates for 2004 taken from Congressional Budget Office, *The Budget and Economic Outlook, An Update: Fiscal Years 2005–2014* (September 2004).
FY, fiscal year.

Untimely Budget Adoption

The federal appropriations process is chronically late. In the 29 fiscal years since the Budget Act became law (through 2005), only three of them—fiscal years 1977, 1989, and 1995—have seen all appropriation bills enacted prior to the start of the fiscal year. Further, in eight of these years—and as recently as fiscal year 2003—not a single appropriation bill became law on time (in six other years, only one bill became law prior to the fiscal year's start). According to the Congressional Research Service, on average over the 26 years from 1977 to 2002, only 3 of 13 appropriation bills have met the deadline.[20]

One theory advanced immediately after September 11th held that the sense of shared crisis brought about by the terrorist attacks would lead to a spirit of bipartisanship that would contribute to a greater likelihood of meeting budget deadlines. But this did not occur in any year between fiscal years 2002 and 2005. In each of these years, a significant number of appropriation bills waited until after the start of the fiscal year to become law. Congress and the president have felt some imperative to enact defense and homeland security appropriations in a timely manner. Since the president has largely gotten what he wanted in those bills, however, they have been largely free of controversy, at least with regard to budget totals.

Roy Meyers, in a 1997 article on the topic, offered several possible explanations for the problem of late appropriations:[21]

- The beginning of the fiscal year is not a real deadline, at least not one with real consequences. Ironically, the Budget Act pushed the fiscal year back from July 1 to October 1 to make the budget more likely to be enacted on time. The truth is that only a deadline that creates incentives for Congress to act will be effective. If a majority of Congress feels a need to get out of Washington to campaign for reelection, for example, that is a real deadline; October 1 is just another day.
- The appropriations process involves many detailed and controversial decisions. Bills typically include a great many earmarks and directives to agencies, and these take time to craft. Further, bills are routinely saddled with "riders" concerning issues that have little to do with taxing and spending, but make the bills very difficult to get passed (and even harder, in some years, to get signed).
- Most appropriations processes since the Budget Act took effect occurred against the backdrop of divided government. The same party has controlled the White House, the House, and the Senate for only 9 out of the 29 fiscal years between 1977 and 2005. Reaching agreement in this environment is not impossible, but it has proved to be time consuming.

The first two of these factors were not affected—positively or negatively—in the post-September 11th budget environment. As for the third, Congress is now in the hands of the same party as the president, but this has not led to more timely appropriations. History suggests that there is no reason to expect the situation to improve. In fact, it

20. Sandy Streeter, "Continuing Appropriations Act: Brief Overview of Recent Practices," *CRS Report for Congress* (Washington, DC: Congressional Research Service, January 11, 2002), 6.

21. Roy Meyers, "Late Appropriations and Government Shutdowns: Frequency, Causes, Consequences, and Remedies," *Public Budgeting & Finance* 17, no. 3 (Fall 1997): 25–38.

seems possible—indeed likely—that the lack of political consensus on an overall goal for the budget process will make the budget more difficult to enact in a timely manner.

Budgeting for Emergencies

In essence, the way the federal government has dealt with budgeting for the war on terrorism and the war on Iraq is no different than the way it has dealt with budgeting for other emergencies, such as natural disasters, in the past 15 or more years. September 11th was less predictable than a hurricane or flood, but the fundamental approach to budgeting for its aftermath is the same. The difference after September 11th was in the size (in a monetary sense) of the disasters.

Historically, Congress and the president have understated the budgetary effects of disasters before the fact but enacted large supplemental appropriations later, often using the "emergency" safety valve created by the Budget Enforcement Act. In fact, between fiscal years 1991 and 1998, over $100 billion of "emergency" appropriations were provided for in supplemental appropriations. Excluding funds for the Persian Gulf War, 60 percent of these funds went to agencies engaged in disaster assistance.[22] This method has been followed even in cases where there is a long history of disaster funding, such as for hurricanes or floods. Some have argued for changing the way that disasters are funded by, for example, requiring them to be budgeted at average levels in the regular appropriations process.

Very few people, of course, anticipated the type of terrorist attack that occurred in September 2001. Further, it is probably unrealistic to expect our method of budgeting for disasters, be they domestic or international, to change. And the new reality that we face suggests that the "wars" we are fighting have costs that cannot be anticipated with even the certainty associated with the funding of a transportation project. So Congress and the president probably will continue to engage in a process of large annual supplementals for the foreseeable future.[23] The wars in Afghanistan and Iraq have been funded largely through the enactment of large supplementals, such as the $87.5 billion bill passed in November 2003 to finance the continuing war in Iraq.[24] Some have criticized the administration for failing to disclose the costs of the war in a timely fashion, arguing that the use of supplementals is in part a budget strategy, rather than a necessity. Further, Congress has continued to use these additional bills to fund "normal" disasters, such as hurricanes or floods.

The downside of such an approach is that, without any specific timetable, this *may* signal a fundamental shift in budgeting, where an increasing portion of the budget is

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22. Amy Donahue and Philip Joyce, "A Framework for Analyzing Emergency Management with an Application to Federal Budgeting," *Public Administration Review* 61, no. 6 (November/December 2001): 728–740.

23. G. William Hoagland, "Priorities and Challenges in a Nation at War," speech before the American Association for Budget and Program Analysis, May 2, 2002.

24. Peter Cohn, "Senators Back Iraq Supplemental, Turn to Other Spending Bills," *Congress Daily*, November 4, 2003, http://www.govexec.com/dailyfed/1103/110403cdam1.htm, accessed September 8, 2004.

unpredictable even on an annual basis. A reasonable response to the question, "When will the war on terrorism be over?" may be "Not in our lifetime." This is particularly true because the "war" on terrorism includes keeping the country safe from terrorism. If the war has no end in sight, and if it is budgeted for on a continuing basis through large supplemental appropriations, this approach calls into question the effectiveness of any annual budget constraint. In other words, if the president and Congress know that the budget enacted every year is not the real budget, but only 95–98 percent of that budget, then the enacted budget—and any deficit or surplus target associated with it—becomes a fiction. This may be all right—even inevitable—for one or two years, but if it becomes systematized, it compromises the effectiveness of the budget as an instrument of fiscal policy.

CONCLUSION—WHAT DOES THE FUTURE HOLD FOR FEDERAL BUDGETING?

Crystal balls are notoriously hazy where the federal budget process is concerned. But the main issues likely to occupy the nation's budgeting in the aftermath of September 11th have to do with the need for a new budgeting consensus, on the one hand, and the allocation of resources and the budget procedures that will be most appropriate in light of these fiscal goals, on the other.

Current CBO projections indicate that the budget will not return to equilibrium before at least fiscal year 2015. The likelihood of the budget becoming balanced even within that timeframe without any additional policy actions seems remote, however. These baseline estimates do not include the likely extension of the Bush tax cut, a fix for the AMT, or a realistic estimate of national security or homeland security demands. Instead of a temporary imbalance, the country may be facing a new structural deficit that will rival the one experienced in the late 1980s and early 1990s.

The budget, therefore, is unlikely to reach equilibrium on its own. Absent a macrobudgetary consensus, the budget process as it currently exists is in danger of collapse. This is not, in my opinion, primarily the fault of the budget process. It is certainly not the fault of the Budget Committees. In order to understand why, consider a 1993 CBO report that outlined a series of precepts about the budget process based on the experience of Gramm–Rudman–Hollings and the Budget Enforcement Act.[25] Two of those conclusions continue to seem particularly relevant today.

First, the report argued that the budget process was good at enforcing compliance with budgetary actions that had been agreed upon, but was not good at forcing those actions to be taken. In the current environment, this means that we cannot expect the Budget Committees and the current budget process to arrive at particular budget outcomes (such as a balanced budget) if political leaders (the president and Congress as a whole) have not reached a consensus that this is a desirable result to be achieved.

25. Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1994–1998* (1993), 83–93.

Second, the budget process must include enough flexibility to allow for unanticipated events, or any fiscal path that has been agreed upon will collapse. Some kind of a budgetary safety valve is necessary so that the nation can pursue priorities viewed as most important within the existing budget process. Again, in the current context, this means that we need to arrive at an agreed-upon path for taxing and spending (particularly for national security and homeland security) while allowing for greater-than-anticipated spending for unplanned-for events.

The trick, much more difficult than usual in the current environment, is to arrive at a meaningful consensus on goals in an environment of great uncertainly about future budgetary requirements. Past experience suggests that such a consensus is unlikely to be reached without leadership from the president. Fisher argued—in 1990, during our last apparently intractable deficit crisis—that it is unrealistic to expect Congress to lead in cases—such as reducing the deficit—which involve inflicting substantial pain on the citizenry.[26] Such presidential leadership was exhibited by the first President Bush in 1990 and by President Clinton in 1993. President George W. Bush has proved willing to lead when it comes to building consensus for war, or for tax cuts, but there is no evidence of this when it comes to fiscal discipline. Only if a consensus develops in the country that the deficit is a problem—as occurred in the context of the 1992 presidential campaign, largely because of the threat that Democrats and Republicans perceived because of Ross Perot's showing—should we expect President Bush to embrace deficit reduction as a top priority.

But whether a consensus is difficult to achieve or not, the bottom line is that the only way to reestablish a meaningful budget process is for the nation to confront the hard job of determining what the desired fiscal path looks like in the post-September 11th world. The budget process will need to confront four difficult questions in order to resolve this problem: (1) What fiscal goals do we want to achieve? (2) What is the expected funding path for national and homeland security over the next three to five years? (3) What is the desired path for other spending, given expected spending on security issues? and (4) What kind of budget process do we want to enforce that consensus?

In the current chaotic environment, it may seem like a lot to expect such a consensus to develop, and a meaningful budget process to reemerge. But take heart. As former Senate Budget Committee Staff Director Bill Hoagland pointed out in a 2002 speech, at times in our history a lack of discipline has led to budget discipline.[27] This was certainly true after World War I, when a concern for economy and efficiency led to the Budget and Accounting Act. It was certainly true in the early 1970s, when what Schick has called the "Seven Year Budget War" led to the Budget Act of 1974.[28] And it was true in 1990, when

26. Louis Fisher, "Federal Budget Doldrums: The Vacuum in Presidential Leadership," *Public Administration Review* 50, no. 6 (November/December 1990): 693–700.

27. Hoagland, "Priorities and Challenges in a Nation at War."

28. Schick, 17–49.

continued large deficits coupled with the failure of the Gramm–Rudman process gave us the Budget Enforcement Act.[29]

So there is hope, but there is also great risk. The stakes are quite high. They potentially include the health and productivity of the U.S. economy if the nation is unable to avoid a continued structural deficit. They certainly include the ability of the country to combat terrorism while still attending to domestic concerns. And finally, the credibility of the Congressional budget process as a means of effectively setting overall fiscal policy and providing a framework for priority setting is in jeopardy.

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29. Philip G. Joyce and Robert D. Reischauer, "Deficit Budgeting: The Federal Budget Process and Budget Reform," *Harvard Journal on Legislation* 29, no. 2 (Summer 1992): 429–454.