

The Daily Dish

Discretionary Spending

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Eakinomics confesses a bias against paying much attention to discretionary spending. After all, over the next 10 years the Congressional Budget Office (CBO) projects that the federal government will spend roughly $85 trillion and only $21 trillion will be annual discretionary spending decisions. The vast majority will be mandatory spending, with Social Security and Medicare alone accounting for $51 trillion – more than one-half of non-interest spending. Dealing with the dire fiscal outlook means dealing with entitlements. Period.

But over the next several months, the focus will be on discretionary spending. The current continuing resolution (CR) funding the government will expire on December 20 and press accounts indicate that Congress is contemplating a new CR lasting until next March before finally settling the appropriations for fiscal year 2025 (which began October 1). During the debate over these bills, there will be lots of discussion of the need to control spending – and pushback on the need to not starve essential federal programs. What, exactly, has been the track record of Congress on this front?

Take a gander at the graph (below), which shows the growth of discretionary spending since 1970. Specifically, the data are the five-year moving average (annual) growth rate of defense (blue), non-defense (orange), and total (green) discretionary spending.

What do we learn? First, and hardly surprising, spending goes up and not down. There is only one period (roughly 2013 to 2017) where total discretionary spending falls for the sustained five-year period. The only other time it got close to falling was zero growth over the five years ending in 1996.

The second lesson is that all the growth rates tend to be lower now. This is consistent with the sustained growth of the entitlement programs, which have crowded out annual appropriations spending and diminished the role of discretionary spending. Indeed, in recent years, the five-year average has often been below the growth rate of the nominal

gross domestic product, leading to declines as a share of the economy.

The final lesson is that defense and non-defense spending tend to wax and wane together instead of one prospering at the expense of the other. Indeed, the one notable exception is the massive defense spending and military buildup that broke the Soviet Union, followed by a sustained slide from the mid-1980s to the mid-1990s. In recent years, the political détente on spending was achieved by having equal increments of defense and non-defense spending, which reinforces the historic norm.

What will happen in fiscal 2025? Will Congress rein in the rapid recent growth in spending? Or will its free-spending reflexes kick in one more time?

