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FY 2024 Appropriations: Budget Gimmicks Masquerading as Spending Cuts

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KEY TAKEAWAYS

The Fiscal Responsibility Act (FRA) features potential "budgetary adjustments" that could raise FY 2024 spending limits $42 billion above the FY 2023 level.

The FRA could involve classifying what would normally be standard non-defense discretionary spending as an "emergency" and thus not be subject to caps.

After accounting for adjustments, discretionary spending in the FRA would never fall below FY 2023 levels.

Reducing federal spending and addressing the surging national debt has been the central debate of the 118th Congress. In the wake of an inflation-fueling $7.5 trillion deficit spending spree that began at the onset of the COVID-19 pandemic,[1] conservatives have pushed for meaningful deficit reduction as a first step toward preventing catastrophic levels of debt and reining in the out-of-control federal bureaucracy. However, this year's appropriations process demonstrates that Congress is still intent on maintaining excessive spending levels.

The Fiscal [Ir]Responsibility Act

The House passed the strong Limit, Save, Grow (LSG) Act in April, which used discretionary spending caps as its primary means of deficit reduction.[2] This

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included reducing discretionary spending limits—formally designated as budget authority (BA). In particular, the LSG would have reduced base discretionary BA for fiscal year (FY) 2024 to match what had been the FY 2022 level of $1.471 trillion and increased the spending limit by 1 percent annually from there. This would undo the damage caused by the bloated FY 2023 omnibus package, which provided a record base BA of $1.602 trillion.[3] While future Congresses could override the caps and nullify most of the savings, it was still a huge improvement over the relentless spending increases of recent years.

Regrettably, bipartisan negotiations resulted in the watered-down Fiscal Responsibility Act (FRA), which had higher spending caps than the LSG, including $1.59 trillion for FY 2024.[4] Worse, the FRA agreement—which includes details that are not yet public—features potential "budgetary adjustments" that could make at least $54 billion in additional spending available within the caps.[5] These gimmicks, some of which are discussed below, could functionally raise FY 2024 spending limits above $1.644 trillion, $42 billion above the FY 2023 level.

However, due to the particulars of Congressional Budget Office (CBO) scoring rules that assume annual discretionary growth, the $42 billion in extra FY 2024 funding could turn into $470 billion in new discretionary budget authority over the next decade. Accordingly, the mechanisms appropriators use to make use of these funds should be carefully watched in upcoming appropriations bills.

House conservatives pushed back against the higher spending levels, leading to the House Appropriations Committee Chair Kay Granger to announce that the committee would limit FY 2024 spending bills to FY 2022 levels.[6] However, the bills would rely on rescissions of $115 billion to keep real FY 2024 spending at $1.59 trillion or higher, placing it closer to the FRA spending level than what was included in LSG.[7] This represents an unprecedented expansion of rescissions as a budgetary tool to add spending within appropriations caps.

How Real Rescissions, Fake Savings, and Recategorizings Affect Spending Caps

Discretionary spending is based on BA, and spending caps are a limitation on BA. When the federal government uses BA on an expenditure, it becomes an outlay (OT). The difference between total OT and tax revenue each year determines whether the federal government runs a deficit.[8] BA can be thought of as the limit on a credit card, whereas OT represents actual spending done on the card.

However, not all BA gets fully utilized. In fact, some programs have substantial BA but lead to relatively little OT. This can be the result of programs created for a perceived short-term need that the public did not utilize or from ongoing programs with exaggerated BA that can be used as budget gimmicks.

Appropriations legislation can rescind (cut) BA from previously enacted legislation and repurpose it toward discretionary programs without the new BA counting toward spending caps. For the purposes of this report, there are two relevant types of rescissions.

The first type are rescissions from one-time spending provisions, such as those in the American Rescue Plan Act of 2021 and the Inflation Reduction Act of 2022 (IRA). While both laws included tax provisions and changes to benefit programs, they also contained spending that functioned as supplemental appropriations packages for left-wing causes.[9] Rescinding BA from sources such as these can be an improvement on the status quo, because it adds responsible spending cuts to the framework of the FRA.

The House Appropriations Committee is heavily utilizing this type of rescission in its FY 2024 legislation, primarily from the IRA. Examples include an $11.1 billion cut to the State Department's Greenhouse Gas Reduction Fund and a $3.2 billion cut to carbon reduction initiatives for federal buildings. These programs would have negligible environmental benefits compared to their enormous costs, making the cuts judicious. However, using these savings to prevent cuts to existing discretionary spending preserves a variety of programs and bureaucracies that are increasingly captured by the political left.[10] It would be better to dedicate the savings to deficit reduction.

The second type of rescissions are cuts or limits to spending accounts that have excessive BA and in some cases primarily exist as a way for appropriators to play games with spending levels. In layman's terms, these rescissions are fake spending cuts, as they produce little to no reduction in OT. When such BA is repurposed in the appropriations process, it leads to an increase in OT and, accordingly, an increase in deficits. The process uses the fiscal discipline of some programs to offset, on paper, the fiscal irresponsibility of others. This is closer to money laundering than it is to budgeting.

A prominent example of phony cuts relates to the Department of Justice's Crime Victims Fund (CVF). The CVF receives deposits from fines and other assessments levied against those found guilty of federal offenses. In theory, the fund is authorized to spend its entire balance on grants meant to assist the victims of crime. However, for many years the CVF's spending was lower than its revenue, resulting in a carryover balance from year to year.[11]

This meant it had excess BA, which appropriators turned into a funding source for other programs.[12] Both the House and Senate Appropriations Committees use the CVF in FY 2024 appropriations, which was part of the FRA agreement.

The use of gimmicks such as the CVF was a recurring feature of the appropriations process during the Budget Control Act era, inflating spending caps by billions per year in exchange for a fraction of that amount in realized savings.[13] This continued even after the Budget Control Act expired, with appropriations for FY 2022 and FY 2023 each containing $15 billion of such gimmicks.[14]

These false savings are an important feature in the FRA's spending levels—only at an even larger scale than was seen during the 2010s. Perhaps the most egregious example is the FRA's creation of a "nonrecurring expenses fund" within the Department of Commerce with $11 billion per year in BA over two years for "programs related to Government efficiencies." However, because there was no attempt to describe what that meant in the legislation, the CBO scored this provision as causing just $0.1 billion in OT, signaling that this is empty BA. Both the House and Senate Appropriations Committees use the Commerce fund in FY 2024 appropriations to offset regular BA, which will increase the federal deficit.[15]

The side deal surrounding the FRA is said to include tens of billions of dollars in funds that would be recategorized to make room within spending caps. This could involve classifying what would normally be standard non-defense discretionary spending as an "emergency" and thus not subject to caps.[16] Any such maneuvers would be another attempt to hide the true amount of federal spending from the public and should not be tolerated. There is also the possibility of rescinding unspent pandemic-related BA, though by now any remaining pandemic authorizations are unlikely to be spent, meaning this would potentially be yet another source of false savings.

A potential area of overlap between the FRA and the House Appropriations Committee's legitimate rescissions is a $10 billion cut from IRS funding that was included in the IRA. This funding, dedicated to "enforcement," was meant to substantially bolster the IRS workforce and dramatically increase the volume of tax audits to generate higher revenue. The IRS-on-steroids approach is premised on a badly flawed understanding of the so-called tax gap, and a full rescission (beyond the $10 billion haircut) is warranted.[17] The House Appropriations Committee is leaning into this, rescinding $67 billion across several FY 2024 bills from the IRA's allotment to the IRS. However, as with other potential rescissions to the IRA, it would be preferable to dedicate savings to deficit reduction rather than repurposing it toward other spending.

The effect of rescissions and other adjustments on appropriated spending is apparent when comparing the amount of OT between the FY 2023 omnibus allocation and the separate allocations for FY 2024 set by the House and Senate Appropriations Committees. This is because budgetary gimmicks that hide discretionary BA levels do not hide discretionary OT.

The FY 2023 omnibus allocation contained $1.757 trillion in projected OT.[18] The House Appropriations Committee's allocation for FY 2024 also contains $1.757 trillion in projected OT.[19] This means it would not reduce discretionary OT from the FY 2023 level at all despite the $131 billion reduction in base BA. (It is unknown at this time how much the House rescissions would reduce OT from previously enacted bills such as the IRA).

As an even more shocking contrast, the Senate Appropriations Committee's FY 2024 allocation calls for $1.813 trillion in OT, a $56 billion increase from the year before.[20] That means the Senate would increase total OT even after including claimed savings from the FRA, which further highlights the inadequacy of the FRA.

Finally, it is increasingly urgent for Members of Congress to demand that the CBO publish its detailed analysis of appropriations legislation once a bill has been approved at the subcommittee level. This analysis is provided to the Appropriations and Budget committees but is typically not shared with other Members of Congress and is never provided to the public. The CBO's analysis provides key details about rescissions and gimmicks, such as when there is a substantial gap between BA and OT, the exact value of an undefined ("all unobligated balances") rescission, and the presence of other budgetary gimmicks obscured within the legislative text. Public policy analysis of appropriations legislation cannot be comprehensive without publication of the CBO's analysis.

Real Spending Cuts versus Cuts to Growth

While adjustments to appropriated spending cannot bring the federal budget to balance (or even to long-term sustainability), changes in one year can have a drastic impact on expectations for years to come.

Each year the CBO produces updates to its budget outlook, commonly known as the baseline. This involves using projections about spending, tax revenue, interest rates, and economic conditions to predict what will happen to federal finances over the years to come. In general, the CBO baseline assumes that Congress will continue to enact policies along the lines of what it passed most recently. This means that baseline projections for discretionary spending are primarily based on the previous year's

appropriations—both for the total amount and for individual spending accounts—and then those figures are extrapolated through the rest of the 10-year budget window.

There is another important assumption in the discretionary baseline: that, all else being equal, spending will increase every year. For example, a single dollar of overall base discretionary BA in FY 2023 will be automatically turned into $11.67 of discretionary BA through the following 10-year window of FY 2024–FY 2033.[21] Of that amount, $1.67 would reflect the CBO's assumption of roughly 2.6 percent annual growth across the budget window.

This works in favor of those who want to increase or maintain high levels of federal spending, as demonstrated by the most recent CBO baseline projection. While FY 2023 appropriations contained roughly $1.6 trillion in BA, the baseline projects roughly $19 trillion in total base discretionary spending for FY 2024–FY 2033. More than 14 percent of the baseline, or a total of $2.7 trillion in discretionary BA over the next decade, is purely a result of this growth bias in the CBO's scoring rules.[22]

The FRA's claim to deficit reduction rests entirely on the assumption of spending growth. After accounting for adjustments, discretionary spending in the FRA would never fall below FY 2023 levels.[23] However, because the FRA's spending caps are below baseline assumptions, its proponents tout over $1 trillion in deficit reduction despite a relative lack of firm spending cuts. This means that at least $1.7 trillion in projected growth (63 percent) would still be in the baseline along with no cuts to current discretionary spending levels. In contrast, the LSG plan would have set spending caps below the FY 2023 level for several years and dramatically reduced assumed growth rates from roughly 2.6 percent annually to 1 percent. As such, the LSG would have meant absolute spending cuts in addition to substantial reductions from the baseline.[24]

Another important factor to consider regarding the impact of discretionary spending caps is that Congress typically passes appropriations legislation every year and that spending caps set in previous years are not binding. For instance, caps imposed by the Budget Control Act were steadily replaced by higher caps over time through a series of bipartisan deals, undercutting a significant amount of potential deficit reduction.[25]

These scoring mechanics and oddities highlight a glaring abuse of the rescissions that are being discussed: Rescissions to one-time spending preserve discretionary spending over a 10-year baseline. Under CBO scoring rules, a dollar cut to a mandatory fund (such as the ones referenced earlier in this report) would show up as a dollar-for-dollar cut to the baseline.

However, taking that one-time cut of a dollar and applying it to FY 2024 discretionary BA would shield $11.67 in baseline BA over the following decade.

This brings the gimmickry of the FRA into stark relief. On a dollar-for-dollar basis, Congress can transform a mixture of cuts to one-time spending and "cuts" that will not meaningfully reduce OT into over $11 in real BA in the baseline over a decade. Much as the "Inflation Reduction Act" will not reduce inflation, the "Fiscal Responsibility Act" enables continued fiscal irresponsibility.

Washington's Endless Deficit Spending Threatens the American Dream

On June 15, 2023, the gross federal debt eclipsed the $32 trillion threshold.[26] Even worse, unfunded liabilities for Social Security and Medicare exceed a combined $75 trillion over the coming decades, which will cause structural deficits of over $2 trillion per year by FY 2030.[27]

The economic effects of growing debt and recklessly high deficits are already hammering the American public. Excessive deficit spending during the pandemic was a significant factor behind the wave of inflation that began in 2021. The resulting interest rate hikes implemented by the Federal Reserve to combat inflation have caused havoc in the mortgage market while also increasing the cost of paying interest on the national debt.[28] In this context, deficit reduction is both a way to prevent economically catastrophic levels of debt and taxation in the long term and a short-term necessity to stabilize the economy.

Legislators have numerous policy options available to reduce the deficit. For example, The Heritage Foundation's Budget Blueprint plan provides over $12 trillion in potential deficit reduction over 10 years, with savings compounded over time through enhanced economic growth and lower interest costs. This is possible by targeting wasteful spending, corporate welfare, unnecessary handouts to state and local governments, economically disruptive subsidies, and so-called safety net programs that incentivize broken homes.[29]

Regrettably, rather than reviewing the sprawling mess that Congress has allowed the federal government to become and determining a path toward fiscal sustainability, leadership in both parties has repeatedly chosen to lean on budget gimmicks when deficit reduction becomes a public priority.

It is not too late for elected officials to make the right choices. A first step can be rejecting the many budget gimmicks included in FY 2024 appropriations bills, making necessary cuts and eliminations across the federal

government, and using rescissions to reduce the deficit rather than cushion agencies and bureaucrats.

The appendix to this report provides details on known rescissions contained in House appropriations legislation.

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Appendix: Rescissions and Gimmicks in FY 2024 House Appropriations Legislation

Agriculture: at least $5.255 billion in rescissions.

- $505 million rescission from food assistance (school lunches) in the 2008 Farm Bill;
- $500 million rescission from renewables in Section 22002 of the IRA;
- $500 million rescission from supplemental nutrition in the Child Nutrition Act;
- $3.25 billion rescission from rural energy cooperatives in Section 22004 of the IRA;
- $500 million rescission from agriculture funding in Section 1001 of the American Rescue Plan Act; and
- Unknown value rescission (up to $3.1 billion) from farm loans in Section 22006 of the IRA.

Commerce, Justice, Science: at least $22.025 billion in rescissions.

- $22.025 billion rescission from the IRS expansion in Section 10301 of the IRA; and
- Crime Victims Fund gimmick of unknown BA value.

Energy: at least $5.7 billion in rescissions.

- Rescission of $15 billion in loan principal (unknown BA impact, likely much smaller) from an energy innovation program in the FY 2023 omnibus; and
- $5.7 billion rescission from Sections 50131, 50122, and 50123 of the IRA.

Financial Services: $13.376 billion in rescissions, constituting a majority of the bill's funding.[30]

- $10.166 billion rescission from IRS expansions in Section 10301 of the IRA; and
- $3.21 billion rescission from federal buildings carbon reduction programs in Sections 60502, 60503, and 60504 of the IRA.

Homeland Security: $312 million in rescissions.

- $312 million rescission from Homeland Security "sustainability" in Section 70001 of the IRA.

Interior, Environmental Protection Agency: at least $9.118 billion in rescissions.

- $9.118 billion in rescissions from Sections 134 and 138 of the Clean Air Act; and
- Full rescission (unknown value) from Sections 50224, 60401, and 60402 of the IRA.

Labor, Health and Human Services, Education: $32.37 billion in rescissions.

- $1 billion rescission from "non-recurring expenses fund" in FY 2008 appropriations;
- $10.353 billion in rescissions from education programs in FY 2023 appropriations;
- $243 million rescission from the National Service Trust;
- $11 billion "rescission" from the Department of Commerce, part of the FRA agreement; and
- $9.774 billion rescission from IRS expansion in Section 10301 of the IRA.

State: $11.135 billion in rescissions.

- $11.135 billion rescission from the Environmental Protection Agency's Greenhouse Gas Reduction Fund in Section 60103 of the IRA.

Transportation, Housing and Urban Development: $25.035 billion in rescissions.

- $25.035 billion rescission from IRS expansion in Section 10301 of the IRA.

Endnotes

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