Government Budgets

Long-term Trends and Drivers and Their Implications for Emergency Management

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Overview

Government budgets are currently experiencing significant constraints. Although there is a significant amount of uncertainty associated with long-term budgetary projections, a number of key trends and drivers will contribute to government budgets constraints for the foreseeable future. The national and global economy, projected deficits at all levels of government, increasing health care costs, and the costs of retirement benefits will likely impact emergency management directly and indirectly at all levels of government for years to come. This paper attempts to explore some of these key trends and their potential implications on the future emergency management environment.

This document contains preliminary research conducted on behalf of the Strategic Foresight Initiative (SFI) on the Government Budgets driver. This research is intended to serve as a discussion point for further discussions, and does not represent a forecast by the Federal Emergency Management Agency (FEMA). This paper is a starting point for conversations around a highly complex topic, and SFI encourages feedback about this paper from the emergency management community.

SFI is a collaborative effort of the emergency management community that is being facilitated by FEMA. SFI was launched so the emergency management community can seek to understand how the world is changing, and how those changes may affect the future of emergency management. It will do so by encouraging members of the community to think about how the world may look over the next 15 years, and what steps the community should begin taking to thrive in that world. Participants in SFI include emergency managers at the Federal, state, and local level, subject matter experts on relevant topics, and other stakeholders.

Anybody who would like more information about SFI should contact the team at FEMA-OPPA-SFI@fema.gov.

Key Trends and Drivers

Since facing a financial crisis in 2007, the U.S economy has been in a weakened state. Federal deficits are currently largely being driven by these weak economic conditions.[1] The most recent projections from the Congressional Budget Office (CBO) suggest that the economy will not fully recover until the end of FY 2014,[2] and some experts suggest that economic problems in the United States could persist for a much longer period.[3] [4] Additionally, since the fate of the U.S. economy is closely linked to the global economy's fate, global economic health serves could affect U.S. government budgets. Unfortunately, economic projections reveal worldwide problems that may cause recovery delays and reduced growth prospects in advanced economies.[5]

At the Federal level, experts project that the Federal government will experience significant budgetary challenges in both the short and long term. Near-term deficits are due, in part, to decreased revenues resulting from the current economic climate, as well as measures designed to remedy those economic problems (such as unemployment insurance payments). As a result of these reduced revenues, the President's Budget anticipates a deficit of more than $1 trillion for FY 2011 and deficits of more than $700 billion for the following four fiscal years.[6] In the long term, the Congressional Budget Office (CBO) projects that spending on Medicare, Medicaid, and Social Security will exert significant pressure on the Federal budget, particularly after 2020.[7] CBO adds that the government will have to raise taxes or decrease spending in the future in order to prevent deficits and debt from "substantially harm[ing] the economy."[8]

Along with Federal budgetary challenges, experts have raised concerns about persistent state and local budget problems as well.[9] Costs covering former and current state and local employees' health insurance, Medicaid costs, and pension fund asset losses are anticipated to drive significant deficits at the state and local level.[10] Such losses have led, and may continue to lead, to massive state and local budget cuts. In fact, the Center for Budget and Policy Priorities (CBPP) reported that 46 states and the District of Columbia enacted some form of cuts to state services between FY 2008 and FY 2010.[11] CBPP further projects that state budget deficits will persist into FY 2012 and beyond,[12] leading to municipal budget shortfalls of $56 to $83 billion between 2010 and 2012.[13] Some states and municipalities already are reacting to these deficits, as they have cut their public workforces by 300,000 to 400,000 employees.[14] Moreover, even when the global economy recovers, municipal budgets are not expected to improve until at least two years later.[15] The Government Accountability Office projects that to balance their budgets for the long term, state and local governments would need to reduce spending or increase taxes by an amount equivalent to approximately one-eighth of their current expenditures.[16]

Implications for Emergency Management

The budget trends outlined above suggest that government budgets at all levels will face significant pressures in the coming years, requiring governments to pursue some combination of spending cuts and tax increases to avoid economically harmful debt levels.[17] As a result of these budget pressures, a significant number of emergency management programs have already experienced budget freezes or reductions, according to a report from the U.S. Council of the International Association of Emergency Managers.[18] Trends in Federal homeland security spending suggest that Federal spending on emergency management will also stay flat, or shrink somewhat. The President's FY 2011 Budget projected that the growth of overall homeland security spending would be slower than the projected growth of the economy between FY 2011 and FY 2015.[19]

Federal budget struggles could present new state budget challenges in the near future as well. To avoid reducing spending or increasing taxes, some states have relied on Federal budgetary assistance. [20] However, the Federal assistance may not exist as it previously has, necessitating budget cuts or tax increases. For example, to cope with tightening Federal budgets, some think tanks have suggested cutting Federal homeland security grants (including emergency management) and justice programs to states.[21] [22] Such cuts would require state and local governments to increase their funding for these programs or to reduce their program-related activities and investments. These cuts could also compel state and local governments to explore sharing emergency management and homeland security resources or expanding private sector partnerships.[23]

Tight budgets and a sluggish economy are likely to also reduce communities' resilience to disasters. Community resilience stems not just from activities traditionally linked to emergency management, but also communities' financial means, educational attainment, infrastructure, social capital, and environmental conditions.[24] A number of states have already cut public health, education, and elderly services or disabled spending, and budget pressures are likely to guide states to continue reducing spending on these programs.[25] In addition, above average unemployment will continue to undermine individuals' resilience to disasters due to pressures on personal finances.

An Alternative Outlook

It would not be unprecedented for budget outlooks to change significantly. In 1992, the CBO projected that deficits would increase over the course of the 1990s,[26] while in 2001 the CBO projected that government surpluses would grow over the next decade.[27] In the event of a similar turnaround in projections, emergency management and homeland security funding would likely be unaffected, or perhaps benefit from largess related to less constrained budgets.

Even in the absence of a complete turnaround for budget outlooks, it is possible that emergency management and resilience funding may not be negatively affected. For example, in October 2010 the Obama Administration proposed establishing a National Infrastructure Bank and spending $50 billion to build infrastructure.[28] The Federal government may increase resilience-related spending on other programs if it is seen as helping the economy.

Correlation to Other Drivers

- **Critical Infrastructure**: A relationship between critical infrastructure's status and government budgets' health will likely exist. Federal spending on infrastructure as a percentage of the Federal budget has remained relatively steady since the 1980s at approximately 3 percent, and spending on infrastructure by Federal, state, and local governments as a percentage of the Nation's GDP has remained steady as well.[29] Thus, as overall spending increases or decreases, infrastructure spending is likely to follow the same trend.

- **Evolving Terrorist Threat**: A successful terrorist attack could lead to a drastic increase in emergency management funding, or mandated homeland security activities. Federal funding on disaster relief exploded after September 11, rising from an average of $2.7 billion between 1991 and 2000 to an average of $11.4 billion between 2001 and 2009 (excluding FY 2006, when the government appropriated a great deal of relief funding for the region affected by Hurricane Katrina). [30] Alternatively, if the terrorist threat is perceived to be receding, funding for funding for homeland security and emergency management may decrease. Base Federal budget requests for emergency management (excluding supplemental appropriations in the wake of disasters) ranged from $500 million and $800 million before September 11. [31]

- **U.S. Demographic Shifts**: Two primary drivers of long-term budget pressures are costs associated with Social Security and Medicare.[32] As the country's population ages, these two programs' costs are projected to increase,[33] [34] resulting in further budgetary pressures. Unless these programs' benefits are reduced, spending on other programs will need to decrease or taxes will need to increase to avoid causing economic hardship.[35]

Conclusions & Questions

- **Despite being asked to perform additional responsibilities in the future, public budgets for emergency management are likely to remain flat or be reduced.** Will funding be cut from salaries, training, acquisitions, exercises, or support contracts? What will be the effect on emergency management if funding is reduced in one or more of those areas? Will the number of public-private partnerships be increased?

- **Government employees are likely to retire or leave the public sector if salaries and benefits are reduced, and training funding will probably be scarcer.** How will the community change as experienced emergency managers are replaced with younger employees? How will readiness for disasters be affected if emergency managers have less experience and access to less training?

- **Federal homeland security grants, which provide funding for training, preparedness efforts, mitigation efforts, and hiring first responders, may be reduced in the long run.** How will reduced Federal support affect state and local emergency management agencies? Will expectations change regarding what level of government should be funding certain activities?

- **The changing budget situation may change what is perceived as the role of government.** Will challenging budget situations force the Federal government to adopt more responsibilities, or push more responsibilities to state and local governments? Will governments seek to privatize emergency management services in order to gain savings? Will smaller budgets lead to the consolidation of emergency management and first response functions?

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