Order Code RL33074

CRS Report for Congress

Mandatory Spending Since 1962

Updated February 13, 2008

D. Andrew Austin
Analyst in Government Finance
Government and Finance Division

Prepared for Members and
Committees of Congress

Congressional
Research
Service

Mandatory Spending Since 1962

Summary

Mandatory spending encompasses federal government spending on entitlement programs and food stamps as well as other budget outlays controlled by laws other than appropriation acts. Entitlement programs constitute the bulk of mandatory spending. More specifically, mandatory spending programs include Social Security, Medicare, temporary assistance to needy families (TANF), supplemental security income (SSI), unemployment insurance, veterans benefits, federal employee retirement and disability, food stamps, and the earned income tax credit. Mandatory spending accounts for over half of total federal spending and almost a ninth of gross domestic product (GDP).

The composition of mandatory spending has changed significantly over the past 40 years. In 1962, before Medicare, Medicaid, and SSI, mandatory spending was less than 30% of all federal spending, and Social Security accounted for half of mandatory spending. By FY2008, mandatory spending comprises 54% of total federal spending, with net interest payments accounting for an additional 8.1%. Medicare and Medicaid grew from almost nothing in 1965 to about 4.2% of GDP in FY2008. Similarly, Social Security grew from 2.5% of GDP in 1962 to 4.3% in FY2008. SSI expenditures have remained between 0.2% and 0.3% of GDP.

Social Security accounts for over a fifth of federal spending. Medicare and the federal share of Medicaid, the fastest growing components of mandatory spending, together also account for over a fifth of federal spending. Those three programs, therefore, comprise over 40% of federal spending.

For the last six years federal spending has outrun federal revenues. In the long term, projections suggest that if current policies remain unchanged, the United States faces a major fiscal imbalance, largely due to costs associated with the impending retirement of the large baby boom generation and rising health care costs. Social Security is projected to grow from 4.3% of GDP in FY2008 to 6.4% of GDP by 2082. Over the next 75 years, growth in Medicare and Medicaid is projected to be the largest contributor to the long-term fiscal shortfall. Rising health care costs, along with an aging U.S. population, will put severe pressure on the federal budget over this period. Medicare and the federal portion of Medicaid spending is projected to expand from 4.2% of GDP in FY2008 to 18.5% in 2082 according to a CBO extended baseline projection.

With discretionary spending as a percentage of GDP reduced to historic lows, any significant reductions in federal spending may well need to come from mandatory spending. Since Social Security, Medicare, and Medicaid account for most of the long-term increases in federal spending, these programs are likely to be considered for possible reductions. Focusing budget cuts on these three key programs, however, could compromise their goals: the economic security of the elderly and the poor. Fundamental reform may be proposed to eliminate the long-term fiscal strains while preserving the goals of these programs.

This report will be updated annually.

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Mandatory Spending Since 1962[1]

Mandatory spending, which includes popular entitlement programs such as Social Security and Medicare, comprises the majority of federal outlays. Mandatory spending, while not defined in legislation, is synonymous with direct spending, defined in the Budget Enforcement Act (BEA) of 1990 (P.L.101-508) as spending allocated via budget authority provided by law other than appropriation acts, entitlement authority, and the food stamp program. Other mandatory spending programs include federal employee retirement and disability, unemployment insurance, deposit insurance, veterans benefits, food stamps and child nutrition programs, aid to families with dependent children (AFDC)/temporary assistance to needy families (TANF), housing assistance, and the refundable portion of the earned income tax credit (EITC). Mandatory spending also includes many smaller budgetary items, such as salaries of Members of Congress.

This report reviews trends in mandatory spending since 1962. Congressional Budget Office (CBO) baseline projections of mandatory spending, which extend to 2018, are discussed, as well as extended baseline projections through 2082 used to explore long-term consequences of current budgetary policy.[2] The report examines mandatory spending's growth relative to total federal spending and to the size of the U.S. economy, and looks at how the composition of mandatory spending has changed over time.

Mandatory spending now accounts for a larger share of federal spending than discretionary spending, which is allocated through the appropriations process. **Table 1** presents components of projected mandatory spending in 2008 and CBO baseline projections for mandatory spending in FY2018. The vast majority of mandatory spending is comprised of entitlement spending.

On the other hand, not all mandatory spending goes for entitlements. For example, the Forest Service makes certain payments to states, which are mandatory but are not entitlements.[3] Some agencies gained authority to sign contracts or create obligations in other ways, which GAO has termed "backdoor" spending authority.[4] To the extent that the BEA and other budget legislation have not constrained that budget authority, those obligations become part of mandatory spending.

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[1] Thomas Hungerford wrote an earlier version of this report.

[2] Years in this report refer to federal fiscal years unless otherwise noted.

[3] For a discussion of procedural issues, see CRS Report RS20129, *Entitlements and Appropriated Entitlements in the Federal Budget Process*, by Bill Heniff, Jr.

[4] U.S. General Accounting Office, *Budget Issues: Inventory of Accounts With Spending Authority and Permanent Appropriations*, GAO/AIMD-96-79, May 31, 1996.

Table 1. Mandatory Spending in Detail

Category	FY2008 (Preliminary) $Billions	FY2008 % of Mandatory Spending[a]	FY2008 % of GDP	FY2018 (Baseline Projection) $Billions	FY2018 % of Mandatory Spending[a]	FY2018 % of GDP
Social Security	611.1	39.4%	4.3%	1092.2	38.1%	4.7%
Medicare [b]	453.9	29.3%	3.2%	879.2	35.7%	4.4%
Medicaid	207.5	13.4%	1.5%	444.9	15.4%	1.9%
Income Support	**220.9**	**14.3%**	**1.6%**	257.3	**9.8%**	**1.2%**
SSI	41.2	2.7%	0.3%	53.1	2.3%	0.3%
EITC and child tax credits	55.9	3.6%	0.4%	41.4	1.5%	0.2%
Unemployment comp.	39.4	2.5%	0.3%	56.0	2.2%	0.3%
Food Stamps	38.4	2.5%	0.3%	49.2	1.7%	0.2%
Family support	24.3	1.6%	0.2%	25.4	1.0%	0.1%
Child nutrition	14.8	1.0%	0.1%	22.8	0.8%	0.1%
Foster care	6.8	0.4%	0.0%	9.4	0.4%	0.04%
Other Retirement&Disability	**169.4**	**10.9%**	**1.2%**	232.6	**8.7%**	**1.1%**
Federal civilian	75.0	4.8%	0.5%	111.4	4.0%	0.5%
Military	46.0	3.0%	0.3%	60.8	2.2%	0.3%
Veterans	39.7	2.6%	0.3%	49.4	2.0%	0.2%
Other	8.7	0.6%	0.1%	11.0	0.5%	0.1%
Other Programs	**73.0**	**4.7%**	**0.5%**	85.1	**2.6%**	**0.3%**
Commodity Credit Corp.	7.4	0.5%	0.1%	8.3	0.4%	0.05%
TRICARE For Life	7.8	0.5%	0.1%	14.5	0.6%	0.1%
Student loans	3.2	0.2%	0.0%	2.2	0.1%	0.01%
Universal Service Fund	7.8	0.5%	0.1%	9.4	0.4%	0.04%
State Children's Health	7.3	0.5%	0.1%	5.1	0.2%	0.02%
Social services	5.1	0.3%	0.0%	5.6	0.2%	0.02%
Other	34.4	2.2%	0.2%	39.9	0.7%	0.1%
Offsetting Receipts	**-186.0**	**-12.0%**	**-1.3%**	-285.2	**-10.3%**	**-1.3%**
Medicare	-69.4	-4.5%	-0.5%	-139.3	-5.4%	-0.7%
Employer's share of employee retirement	-51.2	-3.3%	-0.4%	-85.9	-2.7%	-0.3%
Other	-65.5	-4.2%	-0.5%	-60.0	-2.2%	-0.3%
Total Mandatory Spending	**1549.9**	**100%**	**10.9%**	2706.0	**100%**	**12.2%**
Medicare Spending Net of Offsetting Receipts	323.0	22.8%	2.5%	771.0	30.3%	3.7%
Net Interest	234.067		1.6%	259.031		1.2%

Source: CBO report "*The Budget and Economic Outlook*," Jan. 2008, Table 3-3. See source for notes. Some items do not sum to totals due to rounding.

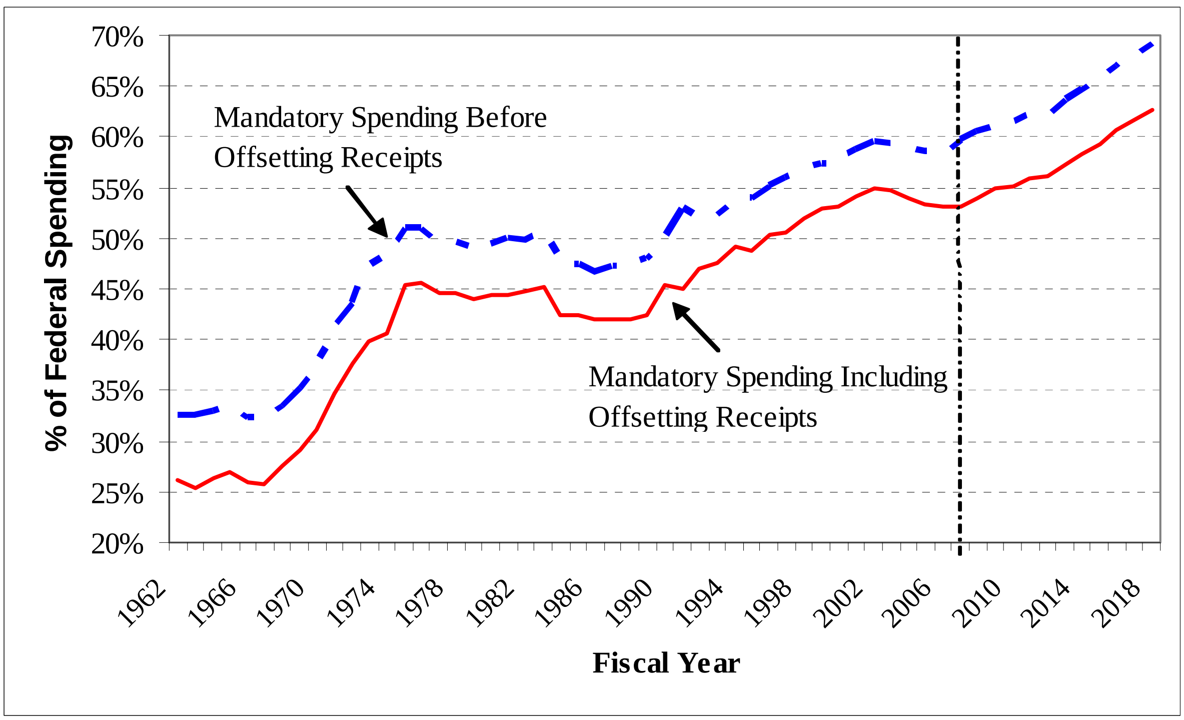
a. Denominator includes offsetting receipts.

b. Excludes offsetting receipts.

Mandatory spending, minuscule before the Great Depression, grew over time with enactment of the Social Security Act of 1935 (P.L. 74-271) and a generation later with the Medicare Act of 1965 (P.L. 89-97).[5] In the mid-1970s, growth of mandatory spending as a share of total federal spending slowed. Since then mandatory spending has increased its share in federal spending at a gradual pace. In FY2008, mandatory spending — totaling 10.9% of gross domestic product (GDP) — overshadows discretionary spending's 7.7% share of GDP. In addition, federal net interest payments, also mandated by law, account for 1.6% of GDP. In other words, mandatory spending makes up more than half of all federal spending, expected to account for 20.2% of GDP in FY2008. CBO projects that mandatory spending will continue to account for over half of all federal spending in the coming decade.

Discretionary spending as a share of total federal expenditures has declined for several reasons. First, since World War II defense spending generally has taken a smaller share of the federal budget, despite recent increases in military spending. Second, budget limits or "caps" in the 1990s held down discretionary spending. Consequently, discretionary spending fell as a proportion of total federal spending. Third, mandatory spending has generally grown faster than discretionary spending.

Figure 1. Mandatory Spending and Offsetting Receipts As a Percentage of Total Federal Spending



Source: CBO historical tables. CBO treats some offsetting receipts, especially regarding Medicare, differently than OMB. CBO baseline projections to the right of dotted line.

Some fees and payments collected by the federal government are not counted as revenue, but as offsetting receipts. Market-like charges, such as Medicare Part A

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[5] Officially titled "Social Security Amendments of 1965."

deductibles and Medicare Part B premiums, are considered offsetting receipts. Some intragovernmental transfers, such as agency rents paid to the General Services Administration (GSA), are also counted as offsetting receipts by the recipient agency. Payments by Medicare beneficiaries and the federal government's tax and pension contributions in its role as an employer comprise the largest component of offsetting receipts within the mandatory spending category.

Mandatory spending plays a major role in larger fiscal trends. During the 1950s and 1960s, federal deficits were relatively small and (except for two years) below 2% of GDP. While the FY2007 deficit was 1.2% of GDP, future deficits are projected to increase sharply as the baby boom generation starts to retire. Continued growth of entitlement spending, especially for health care, plays a major role in the projected imbalance between federal revenues and spending. The Administration and Congress will eventually need to address these fiscal imbalances.

Knowledgeable observers have warned of the dangers of the long-term fiscal imbalance.[6] Restoring fiscal balance will involve spending cuts or tax increases or some combination of the two.

Components of Mandatory Spending Since 1962

Figure 2 shows the major components of mandatory spending since 1962 and CBO baseline projections for these components to 2018, both expressed as a percentage of total federal spending. Mandatory spending comprised about a quarter of total federal spending in 1962, or nearly a third if offsetting receipts are excluded. Beginning in 1968, mandatory spending started growing relative to total federal spending and by 1975 accounted for about 45% of total spending (or about half before offsetting receipts). After a decade-and-a-half lull, in which mandatory spending remained a fairly steady proportion of total spending, it started to grow again after 1990. Today, mandatory spending accounts for 53.2% of total spending (or nearly 60% before offsetting receipts). Mandatory spending, according to CBO current-law projections, will grow to nearly 70% of total spending in 2018 (or about 63% before offsetting receipts).

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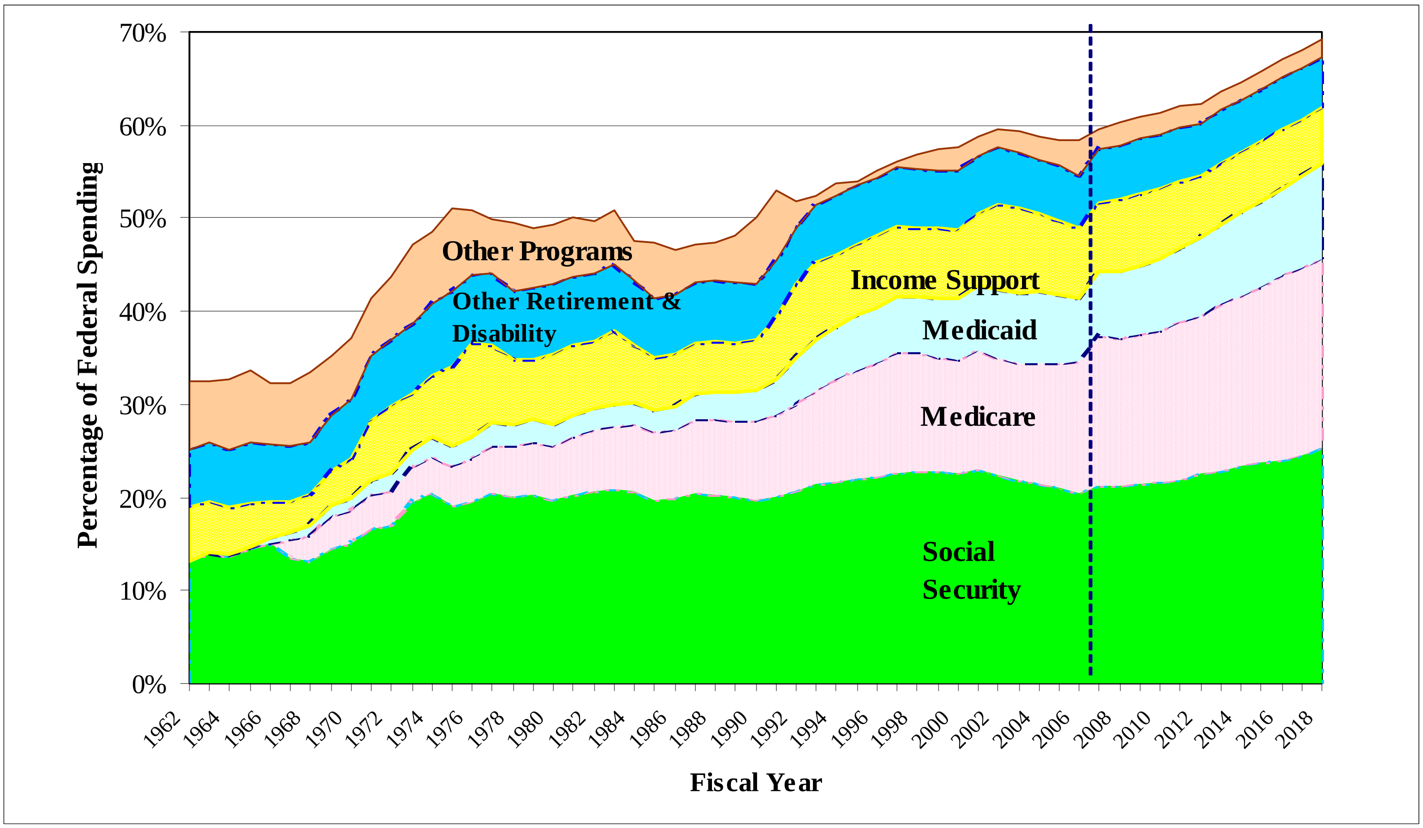
[6] See CBO, *The Budget and Economic Outlook: An Update*, Aug. 2007; Testimony of Comptroller General David M. Walker, U.S. Congress, House Committee on Government Reform, Subcommittee on Government Management, Finance, and Accountability, Fiscal Year 2005 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management is Crucial to Addressing Our Nation's Financial Condition and Long-term Fiscal Imbalance, 109th Cong., 2nd sess., Mar. 1, 2006; Alan Greenspan, "Reflections on Central Banking," remarks by Chairman Alan Greenspan at a symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, WY, Aug. 26, 2005; Alan J. Auerbach, William G. Gale, and Peter R. Orszag, "New Estimates of the Budget Outlook: Plus Ça Change, Plus C'est la Même Chose," *Issues in Economic Policy*, no.3, 2006; point 10 of the United States of America — 2006 Article IV Consultation, Concluding Statement of the IMF Mission, May 31, 2006, available at [http://www.imf.org/external/np/ms/2006/053106.htm]; CRS Report RL33623, *Long-Term Measures of Fiscal Imbalance,* by D. Andrew Austin.

In 1962, Social Security accounted for 50% of mandatory spending.[7] Before the 1965 Medicare Act, indigent health care programs, which were later folded into Medicaid, accounted for less than 0.5% of mandatory spending. Since enactment of the 1965 Medicare Act, the Medicare and Medicaid programs have comprised a growing share of mandatory spending. Medicare and Medicaid spending grew from 15.5% of mandatory spending in 1970 to 42.7% in 2008. Social Security outlays in 2008 were 39.4% of mandatory spending and income support programs accounted for 14.3% of mandatory spending.[8]

Figure 2. Mandatory Spending Before Offsetting Receipts As a Percentage of Federal Spending



Source: CBO and OMB. CBO baseline projections depicted to the right of the vertical dotted line. Offsetting receipts are excluded.

The composition of mandatory spending has changed dramatically over the past 40 years and is projected to continue changing over the next 10 years. The CBO baseline projects continued increases in health spending. Medicare is expected to account for 35.7% and Medicaid is expected to account for 15.4% of mandatory spending in 2018. Social Security's share of outlays is projected to fall to 38% of mandatory spending in 2018.

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[7] This and subsequent calculations subtract offsetting receipts from mandatory spending, and so are comparable to those in **Table 1**. In FY2008, offsetting receipts were -10.7% of mandatory spending before subtraction of offsetting receipts.

[8] FY2008 figures are preliminary.

By law, CBO baseline projections assume that discretionary spending will increase at the rate of inflation over the projection period.[9] In the past, non-defense discretionary spending, roughly speaking, has grown at the same pace as overall economic growth. The CBO baseline, intended as a neutral starting point for the estimation of budgetary effects of legislative changes, is not a "best guess" of the likely future trajectory of the economy. If discretionary spending grew as fast as overall economic growth, rather than at the rate of inflation as in the CBO baseline projections, mandatory spending would account for 7.7% of federal spending in 2018, rather than the 6.1% in the CBO baseline projections.[10]

Mandatory Spending and the Economy

Calculating mandatory spending as a share of GDP shows what proportion of total economic resources are devoted to these programs. **Figure 3,** which shows the evolution of mandatory spending and its components relative to GDP since 1962, reflects the same trends that appear in **Figure 1**.

Mandatory spending grew rapidly in relation to the economy until the late 1970s. In the 1980s, Medicare, Medicaid, and Social Security continued to grow, while other components of mandatory spending fluctuated with the business cycle. During recessions, GDP falls and spending automatically increases on unemployment insurance and some means-tested programs such as food stamps. In the 1990s, mandatory spending including offsetting receipts (about 1% of GDP) remained around 10% of the economy.

Social Security spending grew relative to the economy from 2.5% of GDP in 1965 to its peak of 4.9% of GDP in 1983. Since then, Social Security has fluctuated between 4.3% and 4.6% of GDP. CBO projects Social Security spending will increase from 4.3% in 2008 to 4.7% of GDP in 2018. Both Medicare and Medicaid have grown faster than the overall economy, and continued growth is expected. According to CBO current-law projections, they will total 6.3% of GDP in 2018.

The business cycle affects spending on income support programs, making its growth volatile compared to Social Security and Medicare. In the 1960s, income support programs accounted for about 1% of GDP or less. In the wake of the 1974-1976 recession and the introduction of the Supplemental Security Income program in 1974, income support spending increased to over 2% of GDP. In recent years, income support spending has hovered around 1.5% of GDP and is projected to decline gradually to 1.2% of GDP in 2018.

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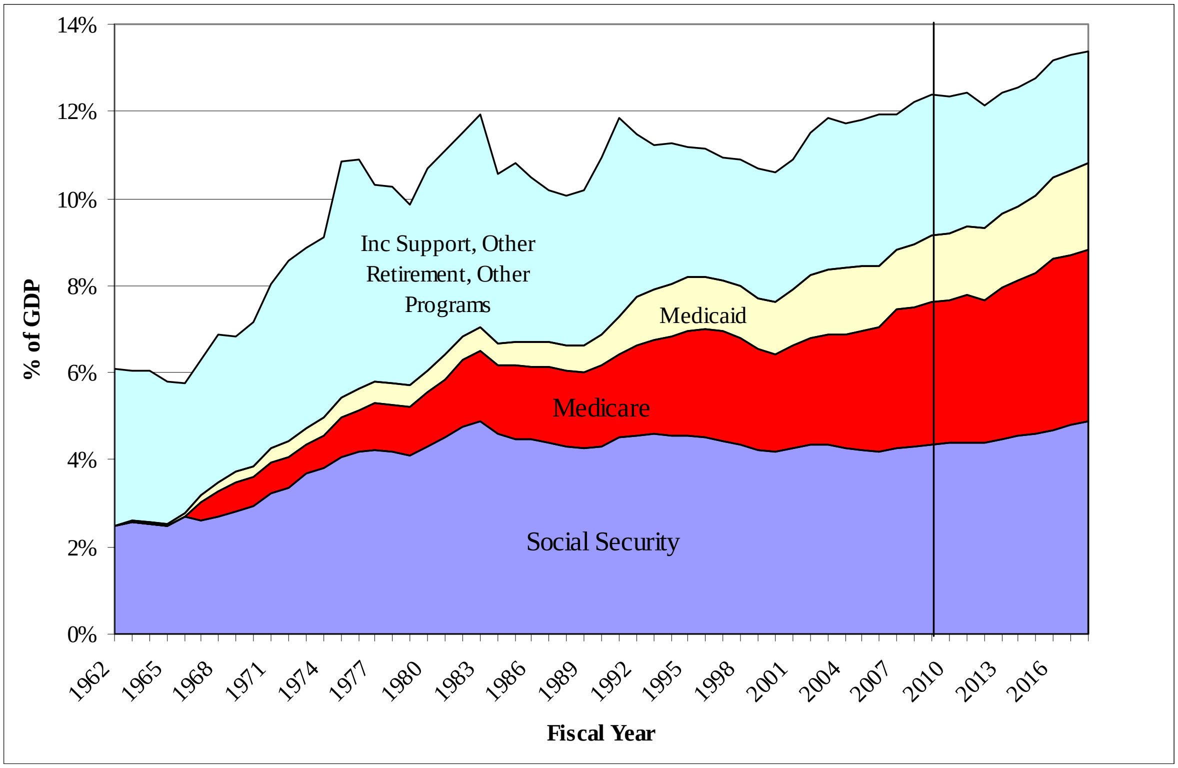
[9] CBO baseline projections start with Congress's most recent budgetary decisions and then assume that no policy changes will be made over the projection period. For entitlement programs the CBO baseline assumes current laws continue unchanged.

[10] This calculation uses CBO's current estimate of FY2008 discretionary spending of $1,089 billion. If additional supplemental appropriations for FY2008 are enacted, that number would increase, as would subset projections of future discretionary spending.

Figure 3. Mandatory Spending Before Offsetting Receipts As a Percentage of GDP



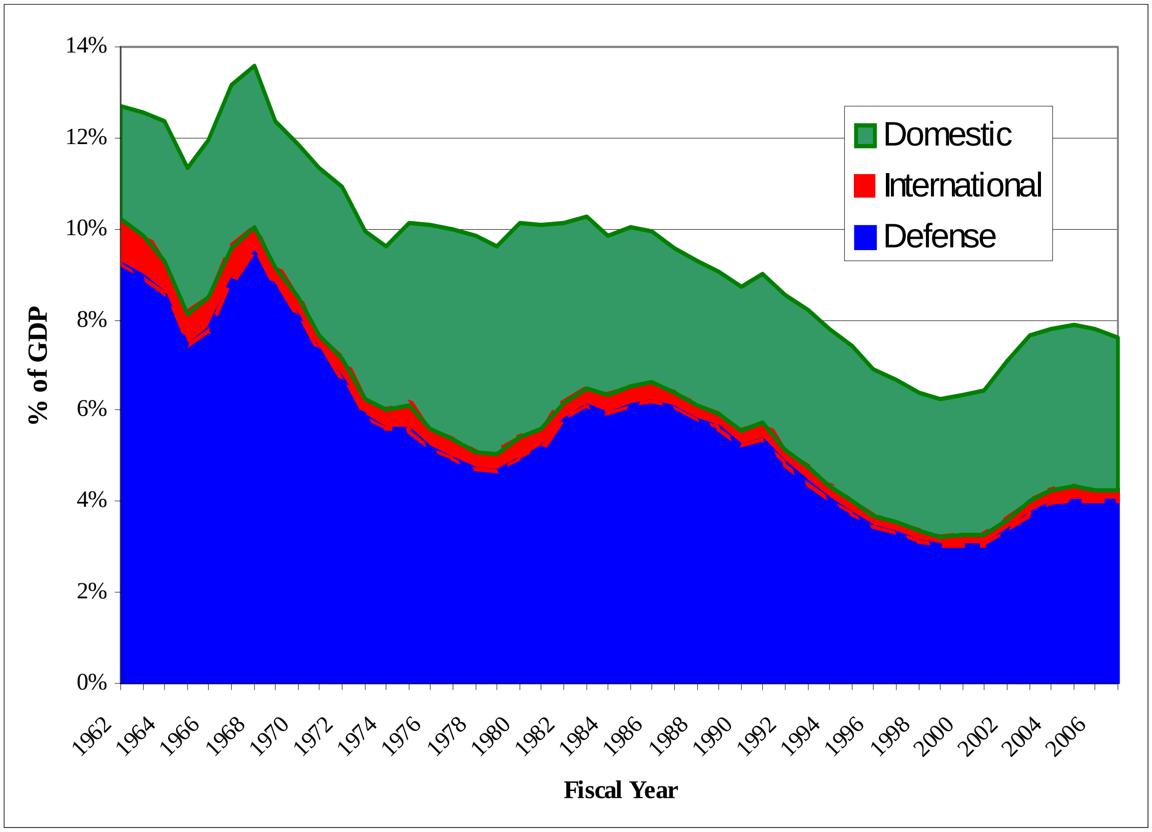
Source: CBO and OMB. CBO baseline projections depicted to the right of the vertical dotted line. Offsetting receipts are excluded.

Explanations of Increases in Mandatory Spending

Mandatory spending has increased in relation to total federal spending and GDP for four reasons. First, since the height of the Vietnam War in the late 1960s, defense expenditures as a share of GDP have trended downwards, despite temporary increases during the late 1970s and early 1980s. Even with recent increases in defense spending due to military action in Afghanistan and Iraq, defense spending, which accounted for 4% of GDP in 2005, took up less than half the share of the economy that it did in the late 1960s. These trends are shown in **Figure 4**.

Second, domestic discretionary spending has been relatively stable as a share of GDP compared to mandatory spending, which has grown more quickly. Domestic discretionary spending, which was about 2.5% of GDP in the early 1960s, rose to about 4.5% in the mid-1970s, partly due to expansion of spending programs and partly because of the severity of the 1974-1975 recession. In the 1980s, domestic discretionary spending as a share of GDP declined, and budget limits or “caps” helped restrict growth in discretionary spending in the 1990s. Despite a slight increase in the last half dozen years, it has remained about 3.5% of GDP — the same share as in the late 1960s and early 1970s. The international component of discretionary spending, just under 1% of GDP in 1962, has declined to 0.3% of GDP in recent years.

Figure 4. Discretionary Spending As a Percentage of GDP



Source: CBO Historical Statistics. FY2008 data exclude supplemental funding enacted after the FY2008 Consolidated Omnibus Act (P.L. 110-161).

Third, the number of beneficiaries of entitlement programs has grown. The Medicare Act of 1965 created a health benefit program for most retirees and greatly expanded federal financial support for indigent health care through the Medicaid program. Other programs, such as SSI and the earned income tax credit, were introduced in the 1970s. The aging of the population and increased longevity of the elderly over the past 40 years increased spending for Social Security and Medicare.

Fourth, health care costs per capita increased far faster than the economy as a whole. New medical technologies transformed health care in the past generation, leading to increased costs and a more intensive style of medical practice. Third-party reimbursement of health care costs by public and private insurance programs provided consumers and medical providers with few incentives to control costs until the 1980s. Health care cost growth was slowed by the introduction of Medicare's prospective payment system for hospitals in 1983 and the expanding market share of Health Maintenance Organizations (HMOs) in the mid-1980s. Attempts to control costs after the 1980s, however, were only temporarily or partially successful in slowing the rate of increase in health care spending.

The growth of social welfare spending slowed in many advanced industrialized countries in the 1980s, partly because of the election of more ideologically conservative governments and partly due to the financial pressures of aging populations.[11]

Mandatory Spending Beyond 2018

CBO baseline projections, which extend 10 years forward, do not reflect the full force of the tremendous pressures the impending retirement of the large baby boom generation will exert on the federal budget. The oldest baby boomers reach age 65 in 2011, and most will not reach age 65 until after 2015. Extended baseline projections suggest that Social Security spending could amount to 6.4% of GDP by 2080 — an increase of 2% of GDP from its 2008 level. Medicare and Medicaid spending, both programs growing even faster than Social Security spending in large part due to rising health care costs, is projected to reach 18.5% of GDP by 2082. Long-term CBO projections using an alternative set of assumptions show Medicare and Medicaid growing to 19.3% of GDP by 2080.[12] By contrast, total federal spending currently runs at about 20% of GDP.

Most fiscal experts assert that avoiding the accumulation of large, unsustainable debts will require cuts in entitlement benefits, large increases in federal revenues, a significant reduction in discretionary spending, or some combination thereof. Because federal deficits and debts have adverse economic consequences, including lower economic growth, the longer such adjustments are delayed, the more difficult those adjustments will be.

Conclusions

Mandatory spending has taken up an increasingly large share of federal spending over the past half century. By the end of the next decade, according to CBO baseline projections, mandatory spending will account for three out of every five dollars of federal spending. Mandatory spending has grown relative to the economy, even as the size of total federal spending relative to the overall economy has remained roughly constant.

Major entitlement programs play a larger and larger part within the category of mandatory spending. In 1962, when Medicare and Medicaid did not exist, Social Security accounted for slightly more than 50% of all mandatory spending. Today, Social Security accounts for slightly less than 40% of mandatory spending. Medicare and Medicaid, since their inception, have continued to take up an increasingly large portion of mandatory spending. Together those two programs' outlays now exceed

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[11] Peter H. Lindert, *Growing Public: Social Spending and Economics Growth Since the 18th Century*," (New York: Cambridge Univ. Press, 2004, p. 27-28).

[12] CBO, *The Long-Term Budget Outlook*, Dec. 2007.

Social Security spending, and CBO current-law projection indicate they could make up nearly half of mandatory spending in 2018.

Reducing the federal deficit by significant amounts on the spending side without reducing mandatory spending, and in particular entitlements, would be difficult. Social Security, Medicare, and Medicaid account for over three-quarters of mandatory spending and just under two-fifths of total federal outlays. Focusing budget cuts on the big three programs, however, could adversely affect the elderly or the poor. Limiting budget reductions to income support programs, such as temporary assistance to needy families (TANF), SSI, and food stamps, would not reduce the federal deficit by much as these programs account for about one-seventh of mandatory spending.

Most of the increases in federal spending have been occurring in Medicare and Medicaid. Furthermore, over the next 75 years, the growth in Medicare is projected to be the largest contributor to the large long-term fiscal shortfall.[13] Fundamental reform of the health programs may be needed to eliminate long-term fiscal strains while preserving the goals of these programs.

[13] See CRS Report RS22232, *The Government's Long-term Fiscal Shortfall: How Much Is Attributable to Social Security?* by Marc Labonte.