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Mandatory Spending Since 1962

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Summary

Federal spending is often divided into three categories: discretionary spending, mandatory spending, and net interest. Mandatory spending includes federal government spending on entitlement programs and Food Stamps as well as other budget outlays controlled by laws other than appropriation acts. Entitlement programs such as Social Security and Medicare make up the bulk of mandatory spending. Other mandatory spending programs include Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), unemployment insurance, some veterans' benefits, federal employee retirement and disability, Food Stamps, and the earned income tax credit (EITC). Discretionary spending is provided and controlled through appropriations acts.

Mandatory spending accounts for over half of total federal spending and almost a ninth of gross domestic product (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 account for over a fifth of federal spending. Those three programs, therefore, make up over 40% of federal spending.

The composition of mandatory spending has changed significantly over the past 40 years. In 1962, before the 1965 creation of Medicare and Medicaid, mandatory spending was less than 30% of all federal spending. At that time, Social Security accounted for about half of all mandatory spending. By 2008, mandatory spending composed 54% of total federal spending. Medicare and Medicaid grew from almost nothing in 1965 to about 4.6% of GDP in 2008. Similarly, Social Security grew from 2.5% of GDP in 1962 to 4.3% in 2008. SSI outlays have remained between 0.2% and 0.3% of GDP.

Federal spending has outrun federal revenues for the last six years. In the long term, projections suggest that if current policies remain unchanged, the United States faces a major fiscal imbalance, largely due to rising health care costs and impending Baby Boomer retirements. Over the next 75 years, growth in Medicare and Medicaid is projected to be the largest contributor to the long-term fiscal shortfall. Medicare and the federal portion of Medicaid spending is projected to expand from 4.6% of GDP in 2008 to 18.5% in 2082 according to a Congressional Budget Office (CBO) extended baseline projection. Social Security is projected to grow from 4.3% of GDP in 2008 to 6.4% of GDP by 2082. Thus, funding health care costs while the U.S. population ages promises to strain federal budgets in coming decades.

Because discretionary spending is now at a historic low as a proportion of total federal outlays, some budget experts contend that any significant reductions in federal spending must include cuts in entitlement spending. Other budget and social policy experts contend that cuts in entitlement spending could compromise their goals: the economic security of the elderly and the poor. Proposals for fundamental reform may strive to ease long-term fiscal strains while preserving the social protection goals of these programs. This report will be updated annually.

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Overview

Mandatory spending includes federal government spending on entitlement programs and Food Stamps as well as other budget outlays controlled by laws other than appropriation acts. Entitlement programs such as Social Security and Medicare make up the bulk of mandatory spending. Congress sets eligibility requirements and benefits for entitlement programs, rather than appropriating a fixed sum each year. Therefore, if the eligibility requirements are met for a specific mandatory program, outlays are made automatically. Other mandatory spending programs include Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), unemployment insurance, certain veterans' benefits, federal employee retirement and disability, Food Stamps, and the earned income tax credit (EITC). Mandatory spending also includes many smaller budgetary items, such as salaries of Members of Congress, the President, and federal judges.

In FY2008, mandatory spending—totaling 11.2% of gross domestic product (GDP)—overshadowed discretionary spending's 7.9% share of GDP. In addition, federal net interest payments accounted for 1.7% of GDP. That is, over half of all federal spending in FY2008 (total federal spending represented 20.9% of GDP) was spent on mandatory programs. The Congressional Budget Office (CBO) projects that mandatory spending will continue to account for over half of all federal outlays in the coming decade. Mandatory spending, according to CBO current-law projections, will be about 60% of total spending in 2018.

The federal government spends more on mandatory items than on discretionary items. Mandatory spending was 54% of federal spending in 2008. Discretionary spending in 2008 totaled just under 40% and net interest payments accounted for the remaining portion of spending. Social Security, Medicare, and the federal share of Medicaid alone composed over 40% of all federal spending. Social Security outlays in 2008 were 38.6% of mandatory spending and income support programs accounted for 14.4% of mandatory spending.

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. The total federal deficit jumped from 1.2% of GDP in FY2007 to 3.2% of GDP in FY2008, in large part due to financial turmoil and a recession. During economic downturns, government revenues fall and expenditures rise as more people become eligible for mandatory programs such as unemployment insurance and income support programs, causing deficits to increase or surpluses to shrink. These effects, known as "automatic stabilizers," provide a countercyclical fiscal stimulus in the short run without the need for new legislative action.

This report reviews trends in mandatory spending since 1962. CBO baseline projections of mandatory spending, which extend to 2018, as well as extended baseline projections through 2082 are used to consider the long-term consequences of current mandatory spending policies.[1] The report looks at mandatory spending and how it has grown over time relative to total federal spending and to the size of the U.S. economy.

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

What Does Mandatory Spending Include?

Mandatory spending is controlled by laws other than appropriations acts. Such laws usually specify an obligation on the part of the federal government to spend funds for certain purposes. In most cases, the authorizing law requires, in the form of an eligibility criteria and a benefit formula, payment to an individual or entity (e.g., a state). Mandatory spending typically is provided in permanent or multi-year appropriations contained in the authorizing law, and therefore, the funding becomes available automatically each year, without legislative action by Congress. In contrast, discretionary spending is provided and controlled through the annual appropriations process.[2] Net interest payments, which are automatically authorized, are often reported as a separate category.

A portion of entitlement spending, such as for Medicaid and certain veterans' programs, is funded in annual appropriations acts. Such entitlement spending is referred to as appropriated entitlements. The level of spending for appropriated entitlements, like other entitlements, is based on the benefit and eligibility criteria established in law. The amount of budget authority provided in appropriations acts for these specific programs is based on meeting projected spending levels. Since the authorizing legislation effectively determines the amount of budget authority required, the Budget Enforcement Act (BEA) of 1990 (P.L. 101-508) classified appropriated entitlement spending as mandatory.[3]

Not all mandatory spending funds entitlement programs. For example, the Forest Service makes some payments to states that are mandatory, but are not entitlements. Some agencies gained authority to sign contracts or create obligations in other ways, which GAO has termed "backdoor" spending authority.[4] Those obligations become part of mandatory spending unless limited by the BEA or other budget legislation. As noted above, salaries of Members of Congress, the President, and federal judges are also deemed mandatory.

Mandatory spending is offset by certain fees and payments, which are counted as offsetting receipts rather than as revenue. Market-like charges, such as Medicare Part A 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.

Table 1 presents components of projected mandatory spending in 2008 and CBO baseline projections for mandatory spending in FY2018.

[2] For more information on discretionary spending trends, see the Appendix.

[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 (Estimated)			FY2018 (Baseline Projection)		
	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP
Social Security	612	38.6%	4.3%	1,114	40.2%	5.0%
Medicare[b]	454	28.6%	3.2%	889	32.1%	4.0%
Medicaid	202	12.8%	1.4%	449	16.2%	2.0%
Income Security	**228**	**14.4%**	**1.6%**	**268**	**9.7%**	**1.2%**
SSI	41	2.6%	0.3%	55	2.0%	0.2%
EITC and child tax credits	58	3.6%	0.4%	45	1.6%	0.2%
Unemployment comp.	44	2.8%	0.3%	56	2.0%	0.3%
Food Stamps	39	2.4%	0.3%	54	2.0%	0.2%
Family support	25	1.6%	0.2%	26	0.9%	0.1%
Child nutrition	15	0.9%	0.1%	23	0.8%	0.1%
Foster care	7	0.4%	0.0%	9	0.3%	0.0%
Civilian and Military Retirement	**130**	**8.2%**	**0.9%**	**187**	**6.8%**	**0.8%**
Federal civilian	75	4.7%	0.5%	114	4.1%	0.5%
Military	46	2.9%	0.3%	62	2.3%	0.3%
Other	9	0.6%	0.1%	11	0.4%	0.0%
Veterans	**45**	**2.8%**	**0.3%**	**66**	**2.4%**	**0.3%**
Income Security	41	2.6%	0.3%	53	1.9%	0.2%
Other	3	0.2%	0.0%	13	0.5%	0.1%
Other Programs	**116**	7.3%	0.8%	82	2.9%	0.4%
Agriculture	14	0.9%	0.1%	15	0.5%	0.1%
TRICARE For Life	8	0.5%	0.1%	15	0.5%	0.1%
Student loans	4	0.3%	0.0%	3	0.1%	0.0%
SCHIP	7	0.4%	0.0%	5	0.2%	0.0%
Social services	5	0.3%	0.0%	6	0.2%	0.0%
Refundable income tax rebates	38	2.4%	0.3%	0	0.0%	0.0%
Deposit insurance	14	0.9%	0.1%	-5	-0.2%	0.0%
Other	24	1.6%	0.2%	43	1.5%	0.2%
Offsetting Receipts	**-201**	**-12.7%**	**-1.4%**	**-285**	**-10.3%**	**-1.3%**
Medicare	-69	-4.3%	-0.5%	-128	-4.6%	-0.6%
Employer's share of employee retirement	-52	-3.3%	-0.4%	-80	-2.9%	-0.4%
Other	-81	-5.1%	-0.6%	-78	-2.8%	-0.3%

Category	FY2008 (Estimated)			FY2018 (Baseline Projection)		
	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP
Total Mandatory Spending	**1,586**	100%	11.2%	**2,770**	100%	12.5%
Medicare Spending Net of Offsetting Receipts	385	24.3%	2.70%	761	27.50%	3.4%
Net Interest	244	15.4%	1.7%	396	14.3%	1.8%

Source: CBO report "*The Budget and Economic Outlook: An Update*," Sept. 2008, Table 1-4. 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 Trends Over Time

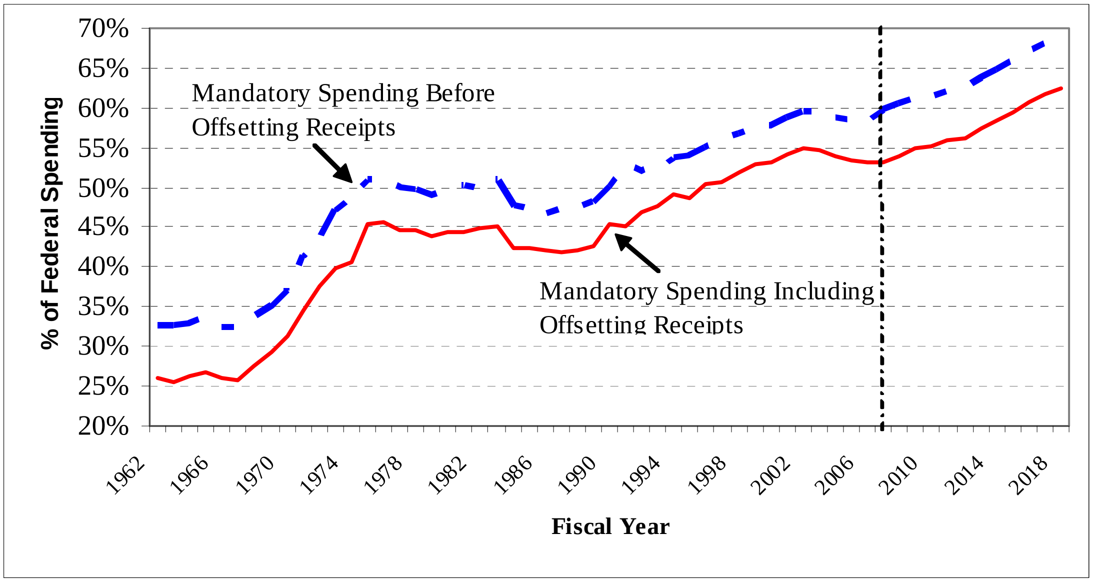
Mandatory spending has taken up a larger and larger share of the federal budget over time. Mandatory spending, minuscule before the Great Depression, grew over time with enactment of the Social Security Act of 1935 (P.L. 74-271) and a generation later with the Medicare Act of 1965 (P.L. 89-97).[5] In 1962, three years before the creation of Medicare and Medicaid, less than 30% of all federal spending was mandatory. At that time, Social Security accounted for about half of all mandatory spending.[6] In the mid-1970s, growth of mandatory spending as a share of total federal spending slowed. Since then, mandatory spending has increased its share of federal spending at a gradual pace.

Figure 1 shows mandatory spending since 1962 and CBO baseline projections for these components to 2018, both expressed as a percentage of total federal spending. Mandatory spending was about a quarter of total federal spending in 1962 (nearly a third if offsetting receipts are excluded). In 1968, mandatory spending began growing relative to total federal spending and by 1975 accounted for about 45% of total spending (about half before offsetting receipts). From the mid-1980s through 1990, mandatory spending's share in total spending remained relatively steady, before starting to grow again after 1990. In 2008, mandatory spending accounted for 53.7% of total spending (or 60% before offsetting receipts).

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

[6] This and subsequent calculations subtract offsetting receipts from mandatory spending, and so are comparable to those in Table 1. In FY2008, offsetting receipts were 11.2% of mandatory spending before subtraction of offsetting receipts.

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.

Mandatory spending plays a major role in larger fiscal trends. During the 1950s and 1960s, federal deficits were relatively small and below 2% of GDP (except for two years). While the FY2007 deficit was 1.2% of GDP, the FY2008 deficit was 3.2% in large part due to financial turmoil and a recession. During economic downturns, government revenues fall and expenditures rise as more people qualify for unemployment insurance and income support programs, causing deficits to increase or surpluses to shrink. These effects, known as "automatic stabilizers," provide a countercyclical stimulus in the short run without the need for new legislative action.

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

Changes in the Composition of Mandatory Spending

The composition of mandatory spending has changed dramatically over the past 40 years and, according to CBO baseline projections, will to continue to change over the decade. **Figure 2** shows how major components of mandatory spending have evolved since 1962.

Persistent increases in health care spending have been a particularly important driver of mandatory spending trends. Indigent health care programs, before the 1965 Medicare Act folded them into Medicaid, accounted for less than 0.5% of mandatory spending. Since enactment of the 1965 Medicare Act, the Medicare and Medicaid programs have composed a growing share of mandatory spending. Medicare and Medicaid spending grew from 15.5% of mandatory spending in 1970 to 41.4% in 2008. CBO baseline projections show further increases in federal health spending will cause the Medicaid and Medicare share of mandatory spending to continue to rise. As an example, by 2018, based on CBO baseline projections, Medicare is projected to account for 32.1% of mandatory spending and Medicaid is projected to account for an additional 16.2%.

In contrast to growing per capita health care spending, Social Security's share of outlays is projected to remain essentially flat as a share of mandatory spending, from 39% in FY2008 to 40% in FY2018.

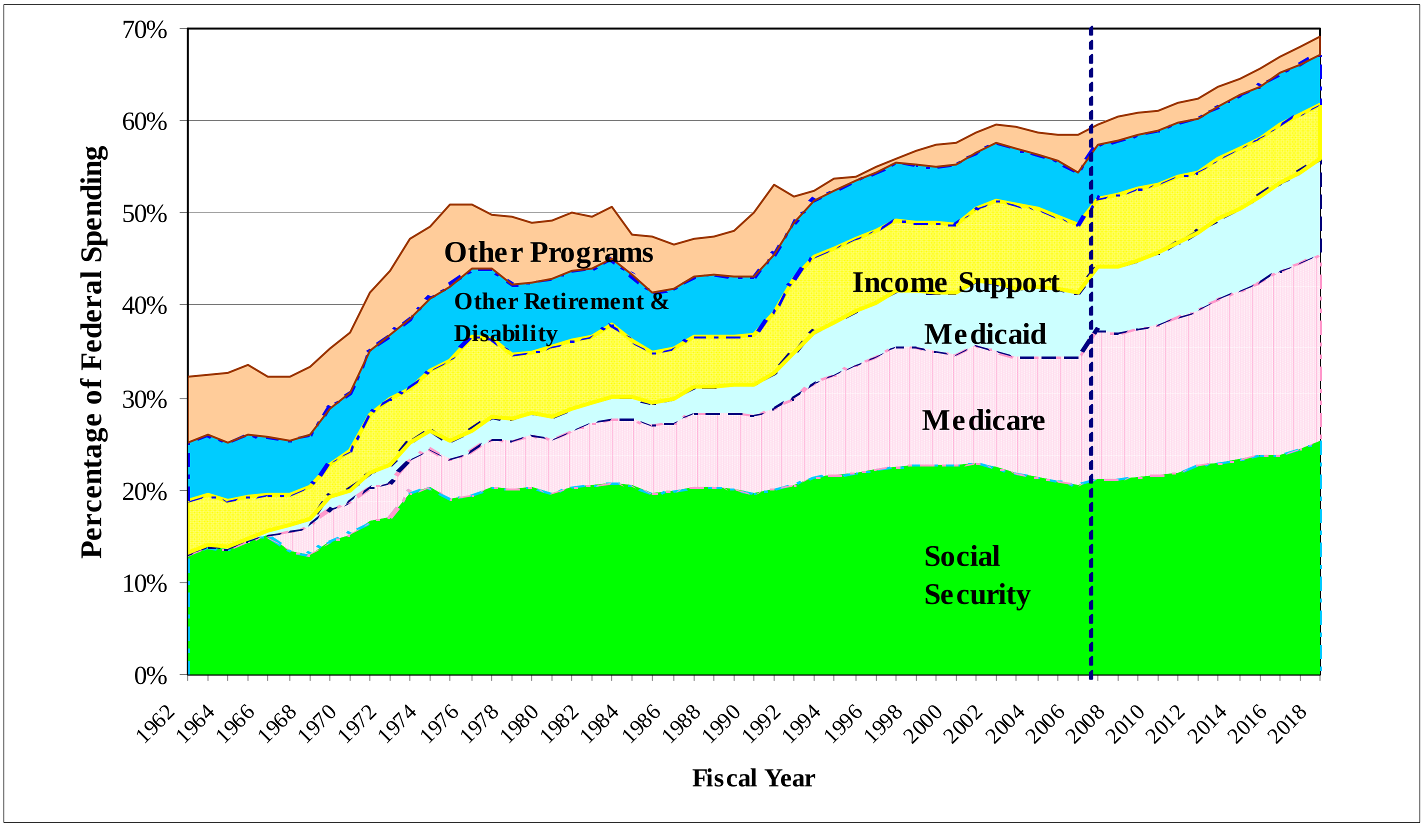
The CBO baseline, intended as a neutral starting point for the estimation of budgetary effects of legislative changes, is not a "best guess" of the likely future trajectory of the economy. CBO baseline projections, according to most budget experts, may tend to understate the growth of discretionary spending as a share of total federal spending, and therefore may overstate the future growth of mandatory spending.[7] CBO baseline projections assume that discretionary spending will increase at the rate of inflation over the projection period.[8] In the past, non-defense discretionary spending has grown roughly as fast as overall economic growth. If discretionary spending grew as fast as overall economic growth, rather than at the rate of inflation as in the CBO baseline projections, discretionary spending would account for 7.9% of federal spending in 2018, rather than the 6.8% in the CBO baseline projections.[9]

[7] 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 mandatory programs, the CBO baseline assumes current laws continue unchanged.

[8] While some budget enforcement legislation constraining the computation of CBO baseline estimates has expired, CBO has continued to follow those legislative guidelines.

[9] This calculation uses CBO's current estimate of FY2008 discretionary spending of $1,089 billion.

Figure 2. Components of Mandatory Spending 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.

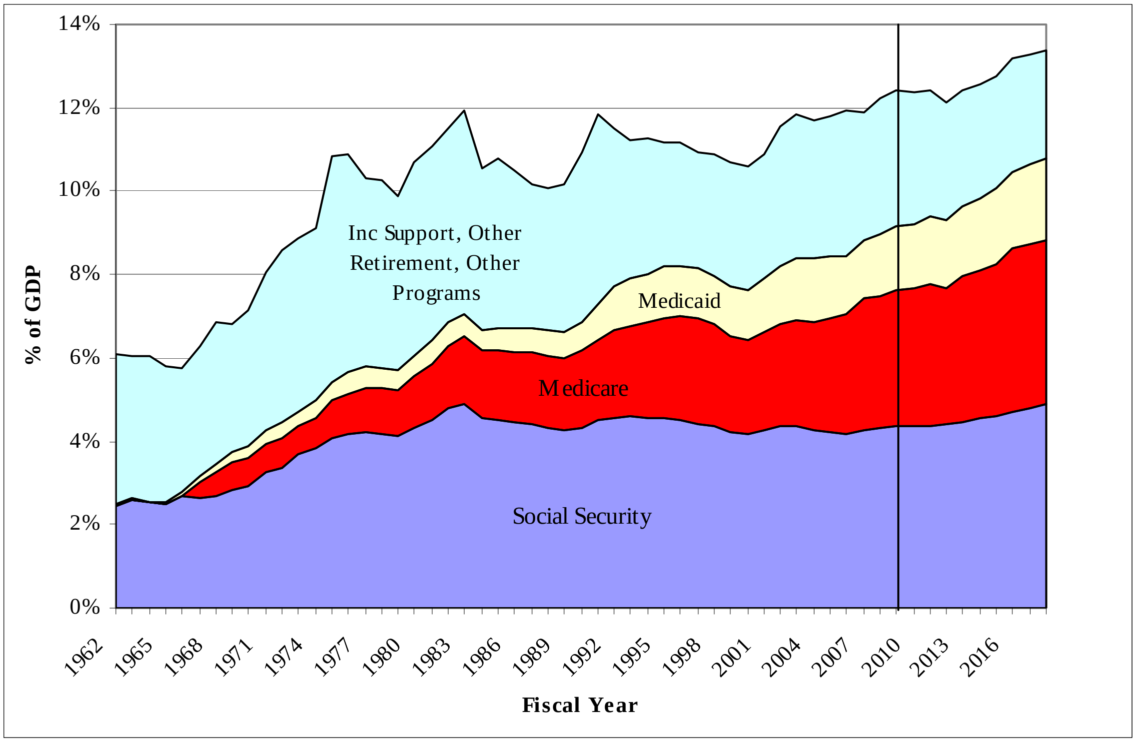
Continued growth of entitlement spending, especially for health care, plays a major role in the projected future imbalance between federal revenues and spending. Deficits in the next decade are projected to rise sharply due to higher health care costs and Baby Boomer retirements. The Administration and Congress will eventually need to address these fiscal imbalances. Many experts have warned of the dangers of the long-term fiscal imbalance.[10]

Mandatory Spending and the Economy

Calculating mandatory spending as a percentage of GDP shows what share 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**.

[10] See CBO, *The Budget and Economic Outlook: An Update*, Sept. 2008, p. 22; 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.

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 line. Offsetting receipts are excluded.

Mandatory spending, relative to the economy, grew rapidly in the late 1960s and 1970s. In the 1980s, Medicare, Medicaid, and Social Security continued to grow, while other components of mandatory spending fluctuated with the business cycle. In the 1990s, mandatory spending including offsetting receipts (about 1% of GDP) remained around 10% of the economy.

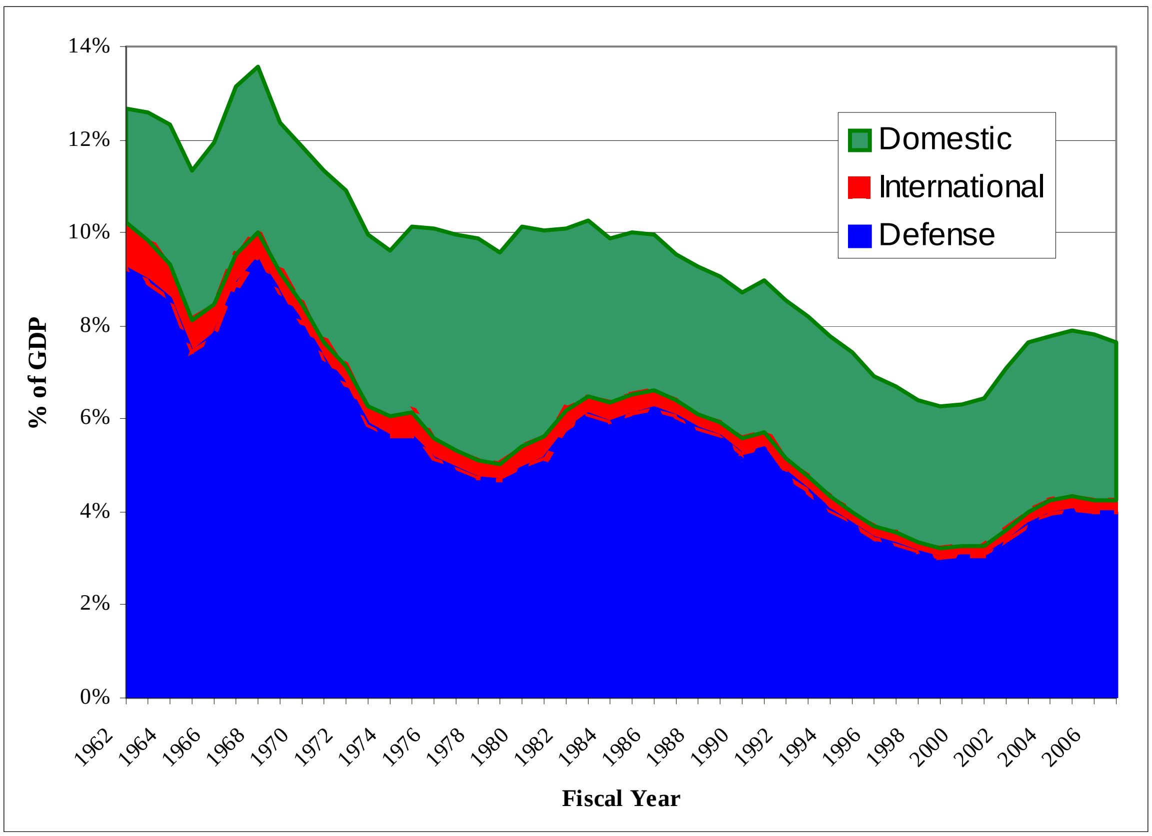
Social Security spending grew relative to the economy from 2.5% of GDP in 1965 to its peak of 4.9% of GDP in 1983. Since then, Social Security has fluctuated between 4.3% and 4.6% of GDP. CBO projects Social Security spending will increase from 4.6% in 2008 to 5.0% of GDP in 2018. Both Medicare and Medicaid have grown faster than the overall economy, and continued growth is expected. According to CBO current-law projections, they will total 6.0% of GDP in 2018.

During recessions, GDP falls and spending automatically increases on unemployment insurance and some means-tested programs such as Food Stamps. Spending on income support programs, therefore, has been more volatile than Social Security and Medicare spending because income support spending is more closely tied to economic fluctuations. In the 1960s, income support programs accounted for about 1% of GDP or less. In the wake of the 1974-1976 recession and the 1974 creation of the Supplemental Security Income (SSI) program, income support spending rose to over 2% of GDP. In recent years, income support spending has hovered around 1.5% of GDP and has been projected to decline gradually to 1.2% of GDP in 2018.

Why Has Mandatory Spending Risen?

Mandatory spending has increased in relation to total federal spending and GDP for four reasons. First, discretionary spending, defined as non-entitlement spending that is provided through appropriations acts, has fallen relative to mandatory spending. Defense expenditures once dominated domestic discretionary spending but now accounts for a relatively smaller share of federal spending. Defense discretionary expenditures as a share of GDP have trended downwards since the height of the Vietnam War in the late 1960s, 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 in discretionary spending are shown in **Figure 4**.

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).

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, about 2.5% of GDP in the early 1960s, rose to about 4.5% of GDP in the mid-1970s, partly due to expansion of social spending and partly because of the severity of the 1974-1975 recession. In the 1980s, domestic discretionary spending as a share of GDP fell, and budget limits or “caps” helped restrict growth in discretionary spending in the 1990s. Due to slight increases in the last half dozen years, domestic discretionary spending is just over 3.5% of GDP—its approximate share for 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.[11]

Third, the number of beneficiaries of entitlement programs has grown as the average age of population has risen. The Medicare Act of 1965 extended health benefits 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 (EITC) introduced in the 1970s, also increased the number of beneficiaries. Moreover, as life expectancy has increased, the proportion of the population older than 85 has also increased, which has helped increase Social Security and Medicare spending.

Fourth, health care costs per capita have grown far faster than the overall economy. 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, such as the Balanced Budget Act of 1997 (P.L. 105-33), have been only temporarily or partially successful in slowing the rate of increase in health care spending.

Mandatory Spending Beyond 2018

CBO baseline projections, which extend 10 years forward, do not reflect the full force of the 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, 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 in 2008 was 20.9% 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 mix of those policies. 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.

Conclusion

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

[11] For more information about the trends in discretionary spending, see the Appendix.

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

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, before Medicare and Medicaid were created, Social Security accounted for just over half of all mandatory spending. Today, Social Security accounts for slightly less than 40% of mandatory spending. Medicare and Medicaid, since their inception, have taken up an increasingly large share of mandatory spending. Together those two programs' outlays now exceed Social Security spending, and CBO current-law projections indicate they could make up nearly half of mandatory spending in 2018.

Reducing the federal deficit significantly by cutting spending 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 for 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 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.

Appendix. Discretionary Spending

Discretionary spending by the federal government is defined as non-entitlement spending that is provided through appropriations acts. This type of spending funds many of the activities commonly associated with federal government functions, such as running executive branch agencies, congressional offices and agencies, and international operations of the government. Essentially all spending on federal wages and salaries is discretionary.[14]

Discretionary spending is often contrasted with mandatory, or direct, spending, which the Budget Enforcement Act (BEA) of 1990 (P.L. 101-508) defines as (1) budget authority provided by law other than appropriation acts; (2) entitlement authority; and (3) the Food Stamp program. Thus, while spending for some entitlement programs, such as Medicaid and some veterans' programs, is controlled through appropriations acts, such outlays fall within the category of mandatory spending in Congressional Budget Office (CBO) summaries.[15] **Table 1** illustrates these budget categories.[16]

Table A-1. Categories of Federal Spending

	Budget Authority Provided by Law *Other* than Appropriation Acts	**Budget Authority Provided by Appropriation Acts**
Entitlement	—Medicare —Social Security	—Appropriated Entitlements (e.g., veterans' compensation, Medicaid, TANF) —Food Stamps (with caveats)
Not an Entitlement	—Mandatory non-entitlements (e.g., Forest Service payments to states)	—Discretionary Spending[a] (defense, non-defense domestic discretionary, and international)

a. Discretionary spending programs. See discussion in text.

In FY2008, federal spending accounted for just over a fifth (20.9%) of the U.S. economy, nearly equal to its average share of gross domestic product (GDP) since FY1962. Discretionary spending accounted for 12.7% of GDP in FY1962, falling to 7.9% of GDP in FY2008. Over time, discretionary spending has fallen as a percentage of GDP due to its slower growth rate relative to the overall economy. In addition, rapid growth of entitlement outlays relative to other federal spending is another major cause of the long-term fall in discretionary spending's share of GDP.

In contrast to the longer term trends in discretionary spending, discretionary outlays over the last decade rose as a proportion of GDP from 6.3% in FY1999 to an estimated 7.9% in FY2008. This growth represents a 5% per year average increase in real terms. Defense outlays largely contributed to this increase, growing at 8% per year in real terms, while non-defense discretionary

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[14] Salaries for Members of Congress, the President, and federal judges as well as federal retirement and disability costs are classified as mandatory spending.

[15] For more information, see CRS Report RS20129, *Entitlements and Appropriated Entitlements in the Federal Budget Process*, by Bill Heniff Jr.

[16] The Office of Management and Budget (OMB) uses a slightly different classification of discretionary and mandatory spending.

outlays grew 2.5% per year in real terms. Between FY1999 to FY2008, defense outlays grew from 3.0% to 4.3% of GDP while non-defense outlays grew from 3.0% to 3.7% of GDP.

As the recent expansion in discretionary spending illustrates, outlays in some government departments and agencies have grown very slowly or have been cut, while spending in other areas has expanded rapidly. Defense spending rose after the attacks of September 11, 2001, and the start of wars in Afghanistan and in Iraq. Funding for defense and emergency and disaster management increased sharply in the wake of hurricane Katrina, boosting overall discretionary spending further. In recent years, disaster funding has dropped sharply, allowing non-defense spending as a share of GDP to fall as well. The trajectory of future discretionary spending, especially as it relates to defense spending, depends in large part on the scale of future operations in Iraq and Afghanistan.

Discretionary spending is likely to rise over the next several fiscal years due to the current economic turmoil and resulting federal interventions to stimulate the economy. Budget estimates of federal spending and revenues for FY2009 and beyond, issued in summer 2008, were rendered largely obsolete by recent economic issues and resulting legislation enacted to reduce the impact of the housing and credit crises. New shocks to the financial system and the economy may present Congress with new demands for federal responses, which will likely affect discretionary spending levels in FY2009.

Over the longer term, projected future growth in entitlement program outlays may put severe pressure on discretionary spending unless policy changes are enacted or federal revenues are increased. Recent research on long-term fiscal challenges has focused on continued increases in the per beneficiary cost of health care, as well as the more predictable demographic changes that will occur as the Baby Boom generation retires. Projections from a variety of sources predict that spending on Medicare and Social Security will increase sharply as a share of GDP in coming decades.[17]

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[17] See CBO, *"The Long-Term Budget Outlook,"* December 2007; point 10 of the United States of America—2006 Article IV Consultation, Concluding Statement of the IMF Mission, May 31, 2006; and CRS Report RL33623, *Long-Term Measures of Fiscal Imbalance*, by D. Andrew Austin.