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 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, Supplemental Nutrition Assistance Program (SNAP), and the earned income tax credit (EITC). Discretionary spending is provided and controlled through appropriations acts.

In 2009, mandatory spending accounted for over half of total federal spending and almost a seventh of gross domestic product (GDP). Social Security accounted for nearly a fifth of federal spending. Medicare and the federal share of Medicaid, the fastest growing components of mandatory spending, together accounted for over a fifth of federal spending. Those three programs, therefore, made 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 13% of total federal spending or about half of all mandatory spending. By 2009, mandatory spending composed 60% of total federal spending, or roughly 15% of GDP. Medicare and Medicaid totaled about 14% of total federal spending or 3.5% of GDP in 2009. Social Security exceeded 19% of total federal spending or 4.8% of GDP in 2009.

Federal spending has outrun federal revenues for the last eight fiscal 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. Federal mandatory spending on health care is projected to expand from 5.3% of GDP in 2009 to 17.9% in 2084 according to a Congressional Budget Office (CBO) extended baseline projection. Social Security is projected to grow from 4.8% of GDP in 2009 to 6.3% of GDP by 2084.

In an effort to reform the private insurance market and expand health insurance coverage to the uninsured as federal spending on health care increases, the Patient Protection and Affordable Care Act (PPACA; P.L. 111-148) and the Health Care and Education Reconciliation Act of 2010 (HCERA; P.L. 111-152) were signed into law on March 23 and March 30, 2010, respectively. Among other provisions, this legislation established a mandate for most U.S. residents to obtain health insurance, set up insurance exchanges, expanded Medicaid, and imposed various tax code changes. As a result of this legislation, mandatory federal outlays for health programs are projected to increase. Revenue increases are projected to offset the additional mandatory outlays.

Because discretionary spending is a smaller proportion of total federal outlays compared to mandatory spending, 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 as needed.

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Overview

Mandatory spending includes federal government spending on entitlement programs 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. 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, Supplemental Nutrition Assistance Program (SNAP), and the earned income tax credit (EITC).[1] Mandatory spending also includes many smaller budgetary items, such as salaries of Members of Congress, the President, and federal judges.

In 2009, mandatory spending—totaling 14.7% of gross domestic product (GDP)—overshadowed discretionary spending's 8.7% share of GDP.[2] In addition, federal net interest payments accounted for 1.3% of GDP. Nearly 60% of all federal spending in 2009 (total federal spending represented 24.7% of GDP) was spent on mandatory programs. Social Security, Medicare, and the federal share of Medicaid alone composed over 40% of all federal spending.

Due to the current economic conditions and subsequent federal financial interventions, mandatory spending was higher than its historical levels (as a percentage of GDP) in 2009. After falling in 2010 relative to 2009 levels, mandatory spending is projected to increase in 2011. Between 2012 and 2013, mandatory spending is projected to fall. However, the Congressional Budget Office (CBO) projects that mandatory spending will continue to account for an ever-increasing share of GDP throughout the rest of the decade. Mandatory spending, according to CBO current-law projections, will be about 13.6% of GDP in 2020.

Mandatory spending plays a major role in larger fiscal trends. During economic downturns, government revenues fall and expenditures rise as more people become eligible for mandatory programs such as unemployment insurance and Income Security 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 and accounted for 10.0% of total federal spending in 2009.

This report looks at mandatory spending and how it has grown over time relative to total federal spending and the size of the U.S. economy. It also analyzes future mandatory spending levels and how they are projected to impact the federal budget.

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

[1] The Food Stamps program has been renamed the Supplemental Nutrition Assistance Program (SNAP).

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

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.[3] Net interest payments, which are automatically authorized, are often reported as a separate category.

Some 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.[4]

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.[5] 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.

Figure 1 shows mandatory outlays in FY2009 by major program area and **Table 1** displays August 2010 CBO baseline projections for mandatory spending. The area of each rectangle in **Figure 1** is proportional to outlays for a given program. Non-Medicare offsetting receipts and inflows from federal higher education programs, chiefly student loan programs, are shown separately.

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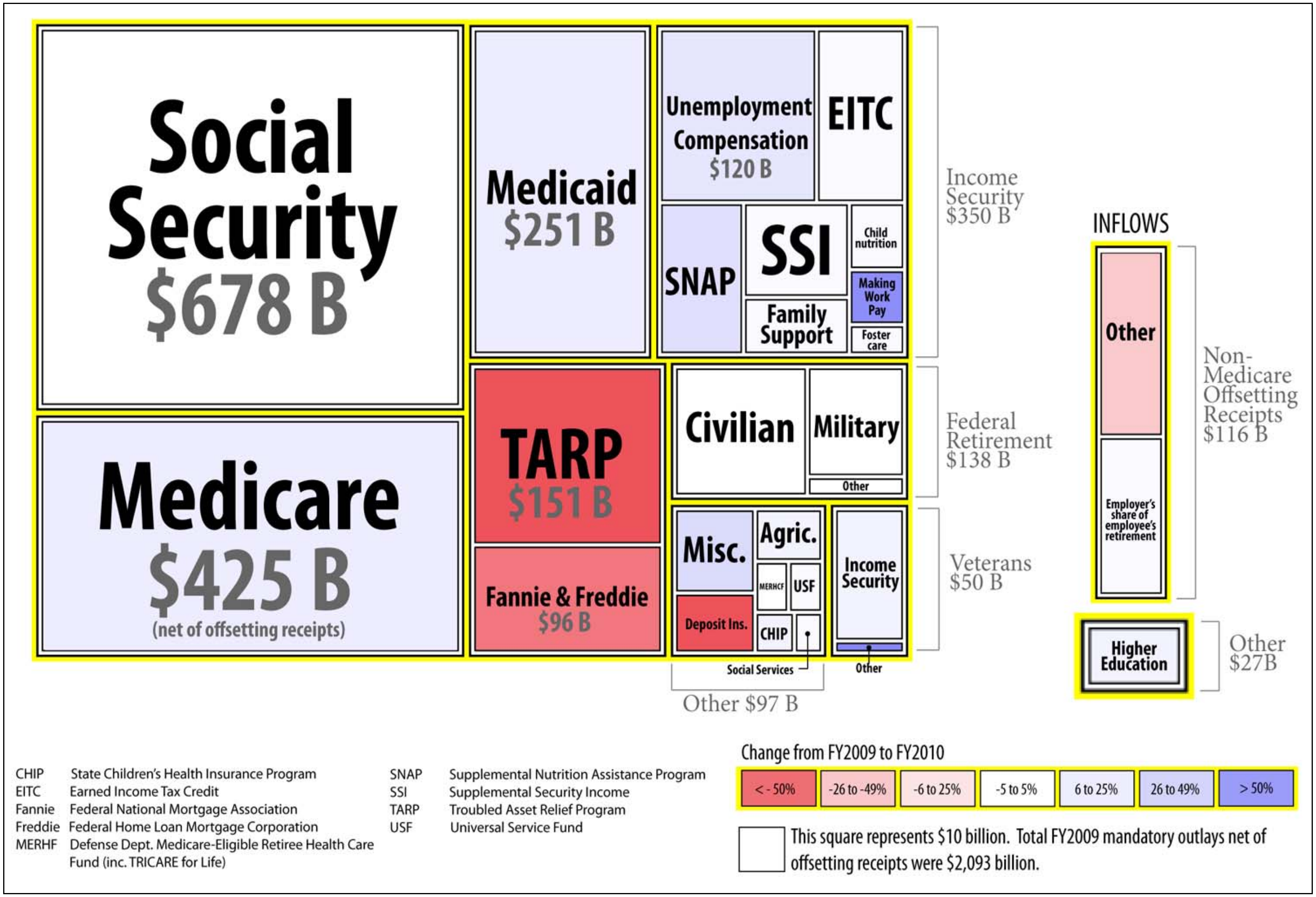
[3] For more information on discretionary spending trends, see CRS Report RL34424, *Trends in Discretionary Spending*, by D. Andrew Austin and Mindy R. Levit.

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

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

Figure 1. Mandatory Outlays in FY2009



Source: CBO, *Budget and Economic Outlook: An Update*, August 2010, available at http://www.cbo.gov/ftpdocs/117xx/doc11705/BudgetProjections.xls.

Table 1. Mandatory Outlays, FY2009-FY2020

August 2010 CBO Baseline Projections

	Actual 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Social Security	678	701	726	753	789	831	878	931	989	1,052	1,119	1,191
Medicare	499	519	560	563	611	645	677	733	763	797	869	929
Medicare offsetting receipts[a]	-74	-71	-78	-84	-89	-95	-100	-107	-113	-121	-131	-141
Medicaid	251	273	276	263	279	324	369	416	450	476	508	542
Health insurance subsidies & exchanges			2	2	2	15	34	57	71	81	87	91
Other New Health Programs	1	1	8	10	6	18	23	22	26	29	33	36
Income Security	350	435	365	280	276	268	267	278	278	277	288	293
SNAP	56	70	75	76	74	69	66	66	66	65	65	64
Unemployment compensation	120	160	93	65	55	49	48	51	53	55	57	60
Supplemental Security Income	45	47	53	46	52	53	54	61	58	54	61	63
Earned income and child tax credits	67	77	75	42	43	44	44	45	44	45	45	45
Family support[b]	26	27	26	25	25	25	25	25	25	25	25	25
Child nutrition	16	17	18	19	20	21	22	23	24	25	26	27
Foster care	7	7	7	7	8	8	8	8	9	9	9	10
Making Work Pay[c]	13	29	17	0	0	0	0	0	0	0	0	0
Civilian and Military Retirement	138	140	142	146	150	155	161	167	173	179	186	192
Federal civilian[d]	80	82	84	87	90	93	96	100	104	108	112	116
Military	50	51	51	52	53	54	55	57	59	60	62	64
Other	8	7	7	7	8	9	9	10	11	11	12	12
Veterans	50	58	74	61	68	70	72	80	76	73	80	83
Income security	46	49	64	51	57	58	59	66	62	58	65	66
Other	4	9	10	11	12	12	13	14	14	15	16	16
Financial Interventions	**247**	**-65**	**20**	**14**	**10**	**8**	**4**	**4**	**4**	**4**	**4**	**4**
Troubled Asset Relief Program	151	-106	7	6	5	4	0	0	0	0	0	0

	Actual 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fannie Mae and Freddie Mac	96	41	14	9	5	4	4	4	4	4	4	4
Other Programs	**69**	**43**	**102**	**84**	**62**	**64**	**70**	**76**	**78**	**77**	**82**	**86**
Higher education	-27	-16	-10	-2	-9	-3	2	6	8	9	9	9
Agriculture	16	17	18	12	17	16	15	16	16	16	16	16
Universal Service Fund	8	9	9	9	9	9	9	9	9	10	10	10
Social services	5	5	5	5	5	5	5	5	5	5	6	6
Deposit insurance	23	-27	15	-1	-13	-15	-15	-14	-11	-12	-8	-7
MERHCF	8	8	9	9	10	11	11	12	13	14	15	16
Children's Health Insurance Program	8	8	9	9	8	9	9	10	9	6	6	6
Other	28	39	47	43	35	32	32	32	30	29	29	30
Non-Medicare Offsetting Receipts	**-116**	**-108**	**-112**	**-122**	**-129**	**-132**	**-137**	**-142**	**-150**	**-157**	**-161**	**-166**
Employers' share of employee retirement	-56	-61	-63	-63	-65	-67	-69	-72	-75	-79	-82	-85
Other	-60	-46	-50	-59	-64	-65	-68	-70	-75	-78	-79	-81
Total Mandatory Outlays	2,093	1,925	2,085	1,971	2,035	2,172	2,316	2,515	2,646	2,766	2,964	3,141

Source: CBO, *Budget and Economic Outlook: An Update*, August 2010, available at http://www.cbo.gov/ftpdocs/117xx/doc11705/BudgetProjections.xls.

Notes: Totals shown in bold. Items may not sum to totals due to rounding.

a. Includes Medicare premiums and amounts paid by states from savings on Medicaid prescription drug costs.

b. Includes Temporary Assistance for Needy Families and various programs that involve payments to states for child support enforcement and family support, child care entitlements, and research to benefit children.

c. Includes outlays for the first-time homebuyer credit, the American Opportunity credit, acceleration of research and experimentation credits used in lieu of bonus depreciation, and payments made when the credit for the alternative minimum tax exceeds a taxpayer's liability.

d. Includes Civil Service, Foreign Service, Coast Guard, and other, smaller retirement programs as well as annuitants' health benefits.

Federal student loan programs, like other federal loan and loan guarantee programs, are scored under terms of the Federal Credit Reform Act of 1990 (FCRA; P.L. 101-508). Net subsidy costs for those programs are calculated as a net present value of loan and loan guarantee costs.[6] A net present value is an estimated current value of a cash flow. Troubled Asset Relief Program (TARP) costs are also calculated on a net present value basis, but unlike other federal programs, calculations include risk adjustments. FY2009 and FY2010 costs for the mortgage giants Fannie Mae and Freddie Mac, which were deprivatized in September 2008, reflect cash transfers from the U.S. Treasury. Projections for later years reflect CBO's subsidy cost estimates, adjusted for market risk, of new loans and guarantees to Fannie Mae and Freddie Mac.

Mandatory spending is partially offset by certain fees and payments, which are counted as offsetting receipts, which are generally counted as negative budget authority. Market-like charges, such as Medicare Part A deductibles and Medicare Part B premiums, are considered offsetting receipts. Some intragovernmental transfers, such as rents agencies pay 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.

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).[7] 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 13% of total federal spending or about half of all mandatory spending.[8] In the mid-1970s, growth of mandatory spending as a share of total federal spending slowed. During part of the 1980s, mandatory spending declined as a share of total federal spending. Since then, mandatory spending has increased its share of federal spending at a gradual pace.

Figure 2 shows historical trends in mandatory spending between 1962 and 2009 and CBO's baseline projections for these components to 2020, expressed as a percentage of total federal spending. 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.[9] 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 may overstate the future growth of mandatory spending.[10]

[6] CRS Report RL30346, *Federal Credit Reform: Implementation of the Changed Budgetary Treatment of Direct Loans and Loan Guarantees*, by James M. Bickley.

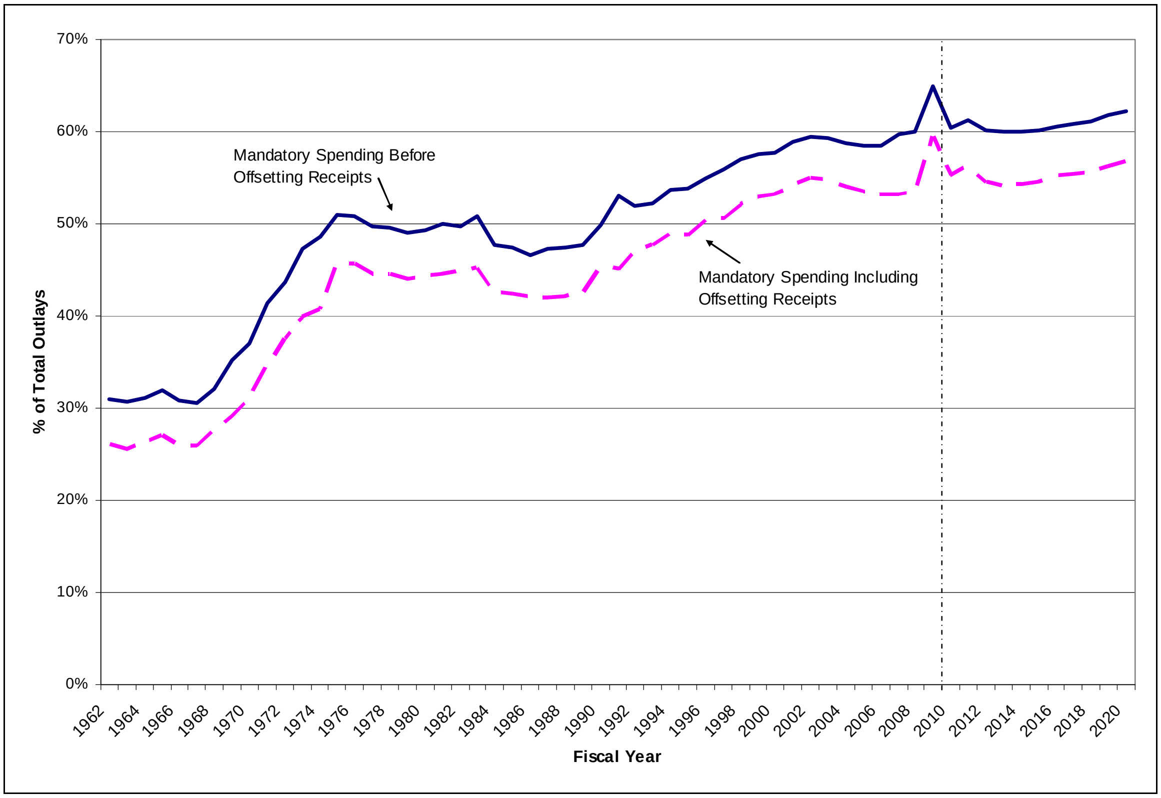
[7] Officially titled "Social Security Amendments of 1965."

[8] Offsetting receipts are not taken into account for the cost of individual programs in this and subsequent calculations in order to provide comparability to the figures in **Table 2**. In 2009, offsetting receipts totaled $190 billion or 8% of total spending on mandatory programs.

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

[10] 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. In the baseline, CBO assumes current laws continue unchanged for (continued...)

Figure 2. Mandatory Spending and Offsetting Receipts As a Percentage of Total Outlays (FY1962-FY2020)



Source: Data for FY1962-1968 from OMB, *Budget for Fiscal Year 2011*, *Historical Tables*, Tables 1.3 and 8.5, available at: http://www.whitehouse.gov/omb/budget/fy2011/assets/hist.pdf; Data for FY1969-FY2020 from CBO, *Historical Tables*, available at: http://www.cbo.gov/ftpdocs/108xx/doc10871/Historicaltables2010Jan_forweb.XLS and CBO Budget Projections data available at: http://www.cbo.gov/ftpdocs/117xx/doc11705/BudgetProjections.xls. CBO treats some offsetting receipts, especially regarding Medicare, differently than OMB. CBO baseline projections to the right of dotted line.

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 2009, mandatory spending accounted for nearly 60% of total spending (or 65% before offsetting receipts). The spike between 2008 and 2009 was largely due to increased outlays related to federal financial interventions and the economic downturn. After falling in 2010 relative to 2009 levels, mandatory spending is projected to increase in 2011 before falling again in 2012 and 2013 as the economy recovers. The upward trajectory resumes thereafter largely due to rising health care costs and demographic effects. **Table 2** presents components of mandatory spending in 2009 and 2010 (estimated) and CBO baseline projections for mandatory spending in 2020.

(...continued)

mandatory programs, while discretionary spending is assumed to increase at the rate of inflation over the projection period. However, in the past, non-defense discretionary spending has grown roughly as fast as overall economic growth, a growth rate greater than inflation.

Table 2. Mandatory Program Spending As a Percentage of Total Mandatory Outlays and GDP

Category[a]	FY2009 $Billions	FY2009 % of Mandatory Spending[a]	FY2009 % of GDP	FY2010 (Estimated) $Billions	FY2010 (Estimated) % of Mandatory Spending[a]	FY2010 (Estimated) % of GDP	FY2020 (CBO Baseline Projections) $Billions	FY2020 (CBO Baseline Projections) % of Mandatory Spending[a]	FY2020 (CBO Baseline Projections) % of GDP
Social Security	678	29.7%	4.8%	701	33.3%	4.8%	1,170	34.6%	5.1%
Medicare	499	21.9%	3.5%	519	24.6%	3.5%	1,038	27.0%	4.0%
Medicaid	251	11.0%	1.8%	273	13.0%	1.9%	458	15.7%	2.3%
Other Health Programs	17	0.7%	0.1%	18	0.8%	0.1%	149	4.3%	0.6%
Health Insurance Subsidies, Exchanges, and Related Spending	0	0.0%	0.0%	0	0.0%	0.0%	91	2.6%	0.4%
MERHCF[b]	8	0.4%	0.1%	8	0.4%	0.1%	16	0.5%	0.1%
Children's Health Insurance Program	8	0.3%	0.1%	8	0.4%	0.1%	6	0.2%	0.0%
Other	1	0.0%	0.0%	1	0.1%	0.0%	36	1.1%	0.2%
Income Security	350	15.3%	2.5%	435	20.7%	3.0%	293	8.5%	1.3%
SSI	45	2.0%	0.3%	47	2.3%	0.3%	63	1.8%	0.3%
EITC and child tax credits	67	2.9%	0.5%	77	3.7%	0.5%	45	1.3%	0.2%
Unemployment comp.	120	5.3%	0.8%	160	7.6%	1.1%	60	1.7%	0.3%
SNAP (Food Stamps)	56	2.4%	0.4%	70	3.3%	0.5%	64	1.9%	0.3%
Family support[c]	26	1.2%	0.2%	27	1.3%	0.2%	25	0.7%	0.1%
Child nutrition	16	0.7%	0.1%	17	0.8%	0.1%	27	0.8%	0.1%
Foster care	7	0.3%	0.0%	7	0.3%	0.0%	10	0.3%	0.0%
Making Work Pay and Other Tax Credits[d]	13	0.6%	0.1%	29	1.4%	0.2%	*	0.3%	0.0%
Civilian and Military Retirement	138	6.1%	1.0%	140	6.6%	1.0%	192	5.6%	0.8%
Federal civilian	80	3.5%	0.6%	82	3.9%	0.6%	116	3.4%	0.5%
Military	50	2.2%	0.4%	51	2.4%	0.3%	64	1.9%	0.3%
Other	8	0.4%	0.1%	7	0.3%	0.0%	12	0.4%	0.1%

Category[a]	FY2009			FY2010 (Estimated)			FY2020 (CBO Baseline Projections)		
	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP
Veterans	50	2.2%	0.3%	58	2.8%	0.4%	83	2.4%	0.4%
Income Security	46	2.0%	0.3%	49	2.3%	0.3%	66	1.9%	0.3%
Other	4	0.2%	0.0%	9	0.4%	0.1%	16	0.5%	0.1%
Other Programs	300	13.2%	2.1%	-38	-1.8%	-0.3%	68	2.0%	0.3%
GSEs	96	4.2%	0.7%	41	1.9%	0.3%	4	0.1%	0.0%
TARP [e]	151	6.6%	1.1%	-106	-5.0%	-0.7%	*	0.0%	0.0%
Agriculture	16	0.7%	0.1%	17	0.8%	0.1%	16	0.5%	0.1%
Higher Education[f]	-27	-1.2%	-0.2%	-16	-0.8%	-0.1%	9	0.3%	0.0%
Universal Service Fund	8	0.4%	0.1%	9	0.4%	0.1%	10	0.3%	0.0%
Social services	5	0.2%	0.0%	5	0.2%	0.0%	6	0.2%	0.0%
Deposit insurance[g]	23	1.0%	0.2%	-27	-1.3%	-0.2%	-7	-0.2%	-0.0%
Other	28	1.2%	0.2%	39	1.9%	0.3%	30	0.9%	0.1%
Mandatory Spending Excluding Offsetting Receipts	2,283	100%	16.0%	2,104	100%	14.3%	3,447	100%	14.9%
Offsetting Receipts	-190		-1.3%	-179		-1.2%	-306		-1.3%
Medicare	-74		-0.5%	-71		-0.5%	-141		-0.6%
Employer's share of employee retirement	-56		-0.4%	-61		-0.4%	-85		-0.4%
Other	-60		-0.4%	-46		-0.3%	-81		-0.3%
Total Mandatory Spending	2,093		14.7%	1,925		13.1%	3,141		13.6%
Medicare Spending Net of Offsetting Receipts	425		3.0%	447		3.0%	788		3.4%

Source: CBO, *The Budget and Economic Outlook: An Update*, August 2010, Budget Projections, available at http://www.cbo.gov/ftpdocs/117xx/doc11705/BudgetProjections.pdf.

Notes: Indicates that an outlay level is between -$500 million and $500 million. Some items do not sum to totals due to rounding. See source for other notes.

a. Excludes offsetting receipts.

b. MERHCF is the Department of Defense Medicare-Eligible Retiree Health Care Fund, including TRICARE For Life.

c. Includes Temporary Assistance for Needy Families and various programs that involve payments to states for child support enforcement and family support, child care entitlements, and research to benefit children.

d. Includes outlays for the first-time homebuyer credit, the American Opportunity credit, acceleration of research and experimentation credits used in lieu of bonus depreciation, and payments made when the credit for the alternative minimum tax exceeds a taxpayer's liability.

e. A negative outlay level for TARP in FY2010 is recorded to reflect changes in economic and market conditions that have lowered CBO's estimates of the cost of the TARP program over its lifetime. CBO now estimates the net cost of TARP over its lifetime to be $67 billion. With actual outlays of $151 billion in FY2009, the CBO baseline now reflects negative net TARP outlays for the FY2010-FY2020 period of $84 billion (negative net outlays of $106 billion in FY2010 and positive outlays of $22 billion between FY2011-FY2020). The negative outlay in 2010 does not reflect TARP spending undertaken in 2010.

f. The estimated mandatory outlays for higher education reflect student loan and aid programs. As a result of revenues (i.e., proceeds from borrowers) exceeding the expenses (i.e., payments to lenders), the actual outlay level in FY2009 for these programs was negative. Between FY2010 and FY2014 negative outlays are again projected, but as the economy recovers, positive outlays are expected for FY2015-FY2020.

g. Net costs for deposit insurance are recorded on a cash basis. Positive outlays for FY2009 reflect payments made by the government to cover losses for failing banks. Projected negative outlays for FY2010 and FY2011 indicate federal revenue from insurance premiums and asset sales are anticipated to exceed any expenditures related to failing banks.

In 2009, total mandatory spending increased by 31% in dollar terms over 2008, primarily due to the economic downturn and federal financial interventions, including assistance provided in the Troubled Asset Relief Program (TARP) and aid to the GSEs (Fannie Mae and Freddie Mac). The majority of the impact of the enacted federal financial intervention programs on mandatory spending occurred in 2009 for TARP and between 2009 and 2013 for the GSE assistance.[11] Outlays for income security programs, like unemployment compensation and SNAP, also increased in 2009 and are expected to continue at elevated levels through 2011. By 2012, outlays for the these programs are projected to return to close to their 2008 levels (as a percentage of GDP) as the economic recovery continues, lessening the reliance on these "automatic stabilizers." However, mandatory spending as a whole is projected to remain on an upward trajectory primarily due to greater levels of spending for Medicare and Medicaid.

Changes in 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 3** shows how major components of mandatory spending as a percentage of total federal spending have evolved since 1970.

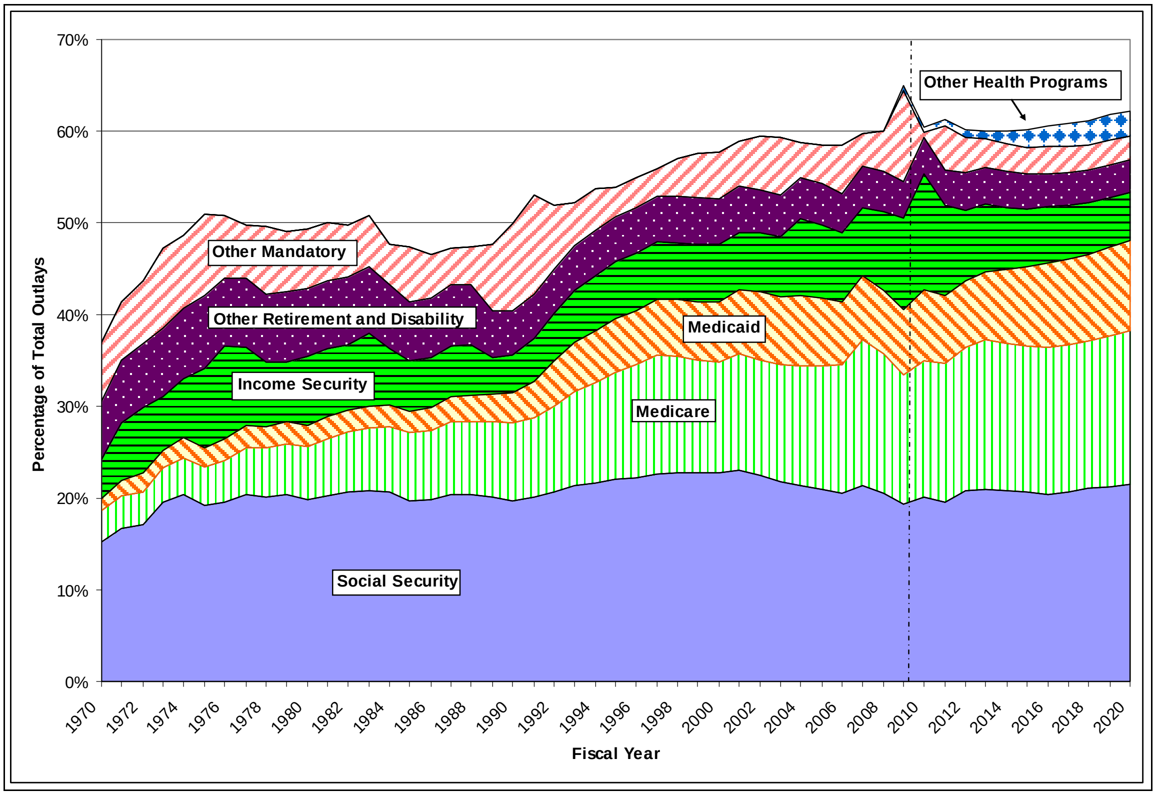
Social Security's share of outlays is projected to remain essentially flat as a share of federal spending, ranging between 20% and 21% of total federal spending, throughout the decade. As the economic recovery continues, outlays for income security programs are projected to fall from 10.0% of total federal spending in 2009 to 5.3% by 2020.[12] Spending on other mandatory programs is also projected to decline significantly as outlays related to the TARP and GSE assistance decline. Other mandatory spending rose from 4.3% of total federal spending in 2008 to 10.0% in 2009. By 2020, spending in this category is projected to fall to 2.7% of total federal spending.

Persistent increases in health care spending have been a particularly important driver of mandatory spending trends. 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 4.9% of total federal outlays in 1970 to 21.3% in 2009. CBO baseline projections show further increases in federal health spending will cause the Medicaid and Medicare share of total spending to continue to rise. By 2020, based on CBO baseline projections, Medicare and Medicaid are projected to account for 26.5% of total federal spending.

[11] For more information on federal financial assistance provided by TARP and to the GSEs, see CRS Report R41073, *Government Interventions in Response to Financial Turmoil*, by Baird Webel and Marc Labonte.

[12] Outlays for income security are estimated to increase as a percentage of total federal spending in 2010 (12.5%) relative to the 2009 level.

Figure 3. Components of Mandatory Spending As a Percentage of Federal Spending (FY1970-FY2020)



Source: Offsetting receipts are excluded. CRS calculations based on data from CBO, *Historical Tables*, available at http://www.cbo.gov/ftpdocs/108xx/doc10871/Historicaltables2010Jan_forweb.XLS; and CBO, *Budget Projections,* data available at http://www.cbo.gov/ftpdocs/117xx/doc11705/BudgetProjections.xls.

Notes: CBO added the category "Other Health Programs" to its *Budget Projections* data following the enactment of PPACA and HCERA. This category includes Health Insurance Subsidies, Exchanges, and Related Spending, MERHCF, CHIP, and Other health spending. Prior to PPACA and HCERA, MERHCF and CHIP were included in the "Other Mandatory" category.

In an effort to reform the private insurance market and expand health insurance coverage to the uninsured as federal spending on health care increases, the Patient Protection and Affordable Care Act (PPACA; P.L. 111-148) and the Health Care and Education Reconciliation Act of 2010 (HCERA; P.L. 111-152) were signed into law on March 23 and March 30, 2010, respectively.[13] Among other provisions, this legislation established a mandate for most U.S. residents to obtain health insurance, set up insurance exchanges, expanded Medicaid, and imposed various tax code changes. As a result of this legislation, mandatory federal outlays for health programs are projected to increase (see the "Other Health Programs" category in **Figure 3**) relative to what they were prior to the enactment of this legislation.[14] Revenue increases are projected to offset the additional mandatory outlays.

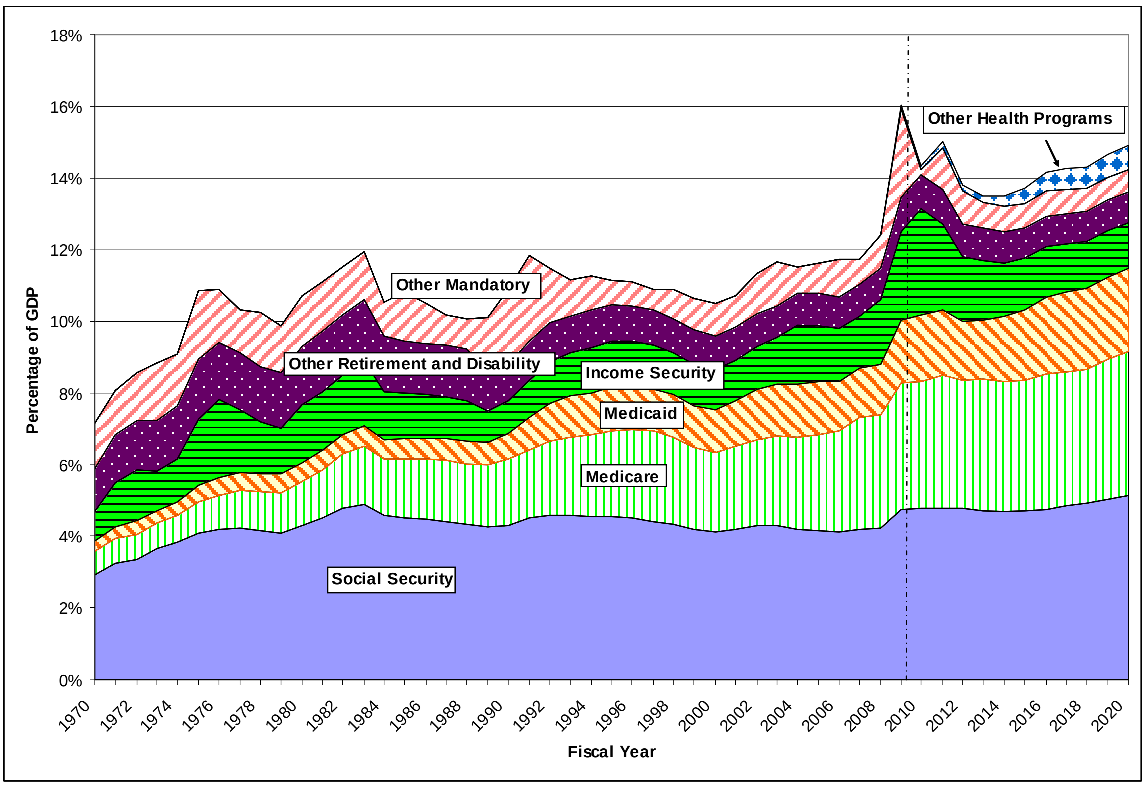
[13] For more information on PPACA and HCERA, see http://www.crs.gov/Pages/subissue.aspx?cliid=3746&parentid=13.

[14] CBO, *The Budget and Economic Outlook: An Update*, Table 1-4, August 2010.

Mandatory Spending and the Economy

Another way to evaluate mandatory spending trends is as a percentage of GDP to show what share of total economic resources are devoted to these programs. Outlays for mandatory programs can be affected by increases in costs, programmatic changes, the economy, and variations in the number of people who meet eligibility criteria for program participation. **Figure 4** shows the evolution of mandatory spending and its components relative to GDP since 1970.

Figure 4. Mandatory Spending Before Offsetting Receipts As a Percentage of GDP (FY1970-FY2020)



Source: CRS calculations based on CBO, *Historical Tables*, available at http://www.cbo.gov/ftpdocs/108xx/doc10871/Historicaltables2010Jan_forweb.XLS; and CBO, *Budget Projections,* data available at http://www.cbo.gov/ftpdocs/117xx/doc11705/BudgetProjections.xls. data. CBO baseline projections depicted to the right of the vertical line. Offsetting receipts are excluded.

Notes: CBO added the category "Other Health Programs" to its *Budget Projections* data following the enactment of PPACA and HCERA. This category includes Health Insurance Subsidies, Exchanges, and Related Spending, MERHCF, CHIP, and Other health spending. Prior to PPACA and HCERA, MERHCF and CHIP were included in the "Other Mandatory" category.

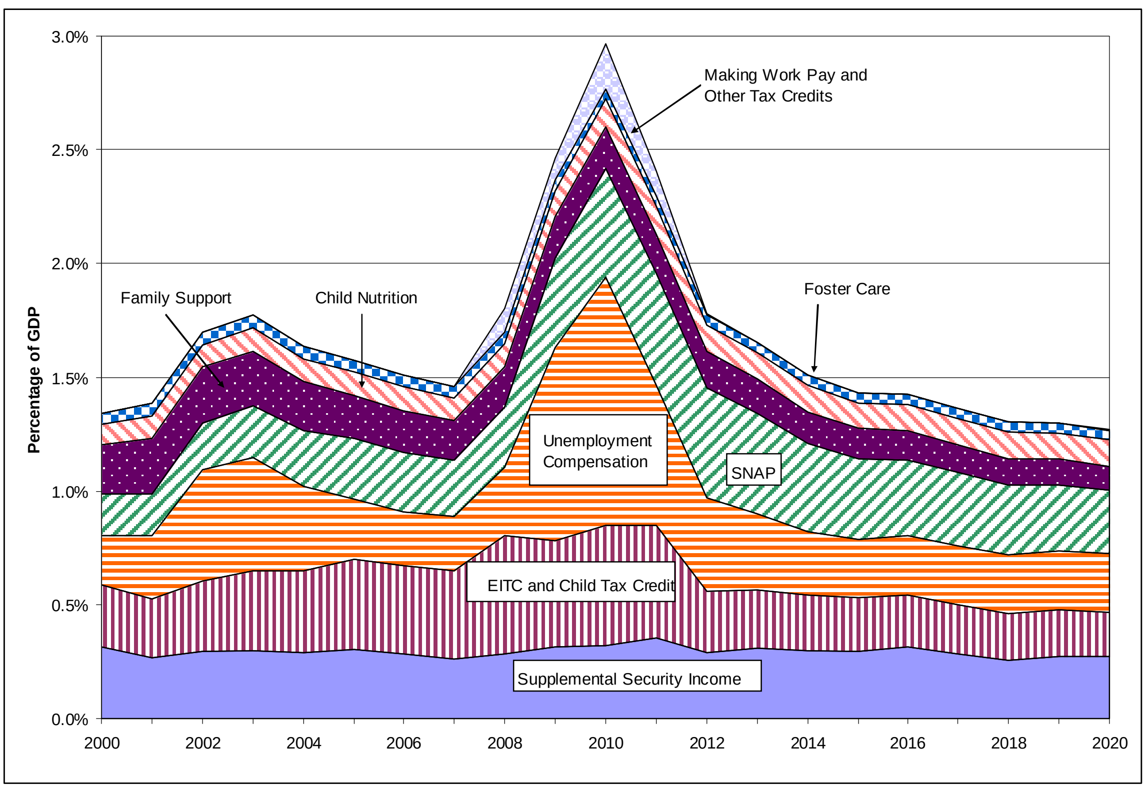
Mandatory spending, relative to the size of the economy, grew rapidly in the late 1960s and 1970s. In the 1980s, Medicare, Medicaid, and Social Security continued to grow, while other components of mandatory spending fluctuated with the business cycle. In the 1990s, mandatory spending including offsetting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

Social Security spending grew relative to the economy from 2.9% of GDP in 1970 to its peak of 4.9% of GDP in 1983. Since then, Social Security has fluctuated between 4.3% and 4.8% of GDP. CBO projects Social Security spending will increase from 4.8% in 2009 to 5.1% of GDP in 2020.

Both Medicare and Medicaid have grown faster than the overall economy, and continued growth is expected. In 1970, spending on Medicare and Medicaid totaled 0.9% of GDP. In 2009, spending on these two programs reached 5.3% of GDP. According to CBO current-law projections, they will total 6.4% of GDP in 2020.

During recessions, GDP falls and spending automatically increases on unemployment insurance and some means-tested programs such as SNAP. Spending on income security programs, therefore, has been more volatile than Social Security and Medicare spending because income security spending is more closely tied to economic fluctuations. In the 1960s, income security 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 security spending rose to over 2% of GDP. In recent years, income security spending has hovered around 1.5% of GDP. Due to current economic conditions and policy changes, income security spending rose to 2.5% of GDP in 2009 and is projected to equal 3.0% of GDP in 2010, before falling to 2.4% of GDP in 2011 and 1.3% of GDP in 2020. **Figure 5** depicts how outlays for income support programs have changed in response to economic conditions. Projections of spending on these programs beyond 2010, as depicted in this chart, are from the CBO baseline.

Figure 5. Income Security Programs As a Percentage of GDP (FY2000-FY2020)



Source: CRS calculation based on CBO data.

Why Has Mandatory Spending Risen?

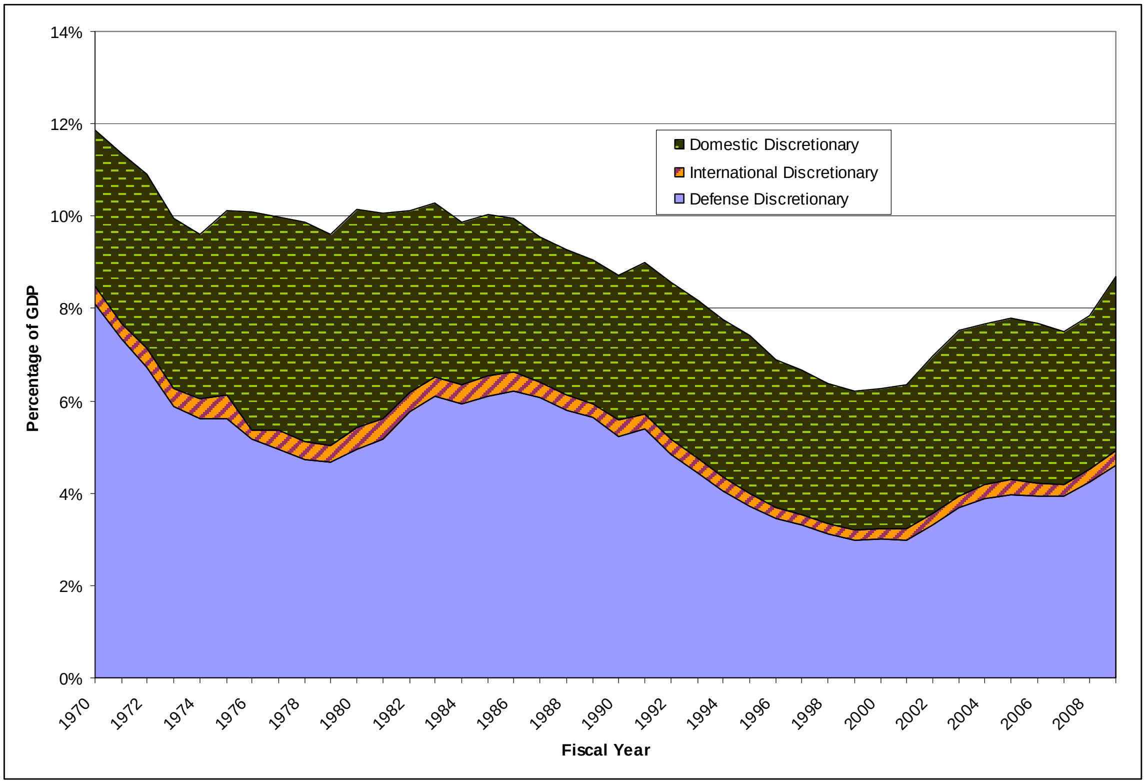
The share of mandatory spending has increased as a portion of total federal spending and as a percentage of GDP for four reasons.

First, discretionary spending, defined as non-entitlement spending that is provided through appropriations acts, has fallen relative to mandatory spending. Defense discretionary expenditures once dominated domestic discretionary spending but now account for a relatively smaller share of total federal spending. However, as a share of GDP, defense discretionary expenditures 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 discretionary spending, which accounted for 4.6% of GDP in 2009, this spending took up less than half the share of the economy compared to the late 1960s.

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 remained about 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. These trends in discretionary spending are shown in **Figure 6**.

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.

Figure 6. Discretionary Spending As a Percentage of GDP (FY1970-FY2009)



Source: CRS calculations based on CBO, *Historical Tables*, available at http://www.cbo.gov/ftpdocs/108xx/doc10871/Historicaltables2010Jan_forweb.XLS.

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 2020

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 6.3% of GDP by 2084—an increase of roughly 2 percentage points of GDP from its 2008 level. According to CBO extended baseline projections, federal mandatory spending on health care, in large part due to rising costs, is projected to reach 17.9% of GDP by 2084. However, under an alternative scenario in which health care cost growth does not slow down, spending on these programs could reach 20.1% of GDP by 2084.[15] By contrast, total federal spending on these programs in 2009 was 5.3% 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 it will be to make adjustments.

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 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 roughly one-third of mandatory spending. Medicare and Medicaid, since their inception, have taken up an increasingly large share of mandatory spending. Together, outlays for these two programs now exceed Social Security spending, and CBO current-law projections indicate these programs, as well as projected outlays for the new health care exchanges and subsidies, could make up nearly half of mandatory spending in 2020.

Reducing the federal deficit significantly by cutting spending without reducing mandatory spending, and in particular entitlements, would be difficult. Social Security, Medicare, and Medicaid accounted for just over 40% of total federal outlays in 2009. Focusing budget cuts on the big three programs, however, could adversely affect the elderly or the poor. Limiting budget reductions to income security programs, such as Temporary Assistance for Needy Families (TANF), SSI, and SNAP, would not reduce the federal deficit by much as these programs accounted for about 10% of total federal spending in 2009.

Most of the increases in federal spending have been occurring in Medicare and Medicaid. Fundamental reform of the health programs may be needed to eliminate long-term fiscal strains while preserving the goals of these programs.

[15] CBO, *The Long-Term Budget Outlook*, Supplemental Data for Figure A-1, June 2010, available at http://www.cbo.gov/doc.cfm?index=11579.

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