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Mandatory Spending Since 1962

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Summary

Federal spending is divided into three broad categories: discretionary spending, mandatory spending, and net interest. Mandatory spending is composed of budget outlays controlled by laws other than appropriation acts, including federal spending on entitlement programs. 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, and Supplemental Nutrition Assistance Program (SNAP). In contrast to mandatory spending, discretionary spending is provided and controlled through appropriations acts. Net interest spending is the government's interest payments on debt held by the public, offset by interest income that the government receives.

In FY2011, mandatory spending accounted for over half of total federal spending and over an eighth of GDP. Social Security accounted for a fifth of federal spending. Medicare and the federal share of Medicaid, the fastest growing components of mandatory spending, together accounted for 23% of federal spending. Those three programs, therefore, made up over 43% 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.

Federal spending has outrun federal revenues for the last 10 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 5.7% of GDP in FY2011 to 17.2% in FY2085 according to CBO's extended baseline projection. Social Security is projected to grow from 4.8% of GDP in FY2011 to 6.4% of GDP by FY2085.

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 has fallen over time relative to mandatory spending. Second, domestic discretionary spending has been relatively stable as a share of GDP compared to mandatory spending, which has grown more quickly. Third, the number of beneficiaries of entitlement programs has grown as the average age of population has risen. Fourth, health care costs per capita have grown far faster than the overall economy.

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. As a result of this legislation, mandatory federal outlays for health programs are projected by CBO to increase. Revenue increases are projected by CBO 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. This report will be updated annually.

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Overview

Mandatory spending is composed of budget outlays controlled by laws other than appropriation acts, including federal spending on entitlement programs.[1] 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, certain veterans' benefits, federal employee retirement and disability, Supplemental Nutrition Assistance Program (SNAP), and the earned income tax credit (EITC).[2] (See list in **Table 1**.) Mandatory spending also includes many smaller budgetary items, such as salaries of Members of Congress and the President. Congress sets eligibility requirements and benefits for entitlement programs. If the eligibility requirements are met for a specific mandatory program, outlays are made automatically.

In FY2011, mandatory spending—totaling 13.5% of gross domestic product (GDP)—exceeded discretionary spending's 9.0% share of GDP.[3] In addition, federal net interest payments accounted for 1.5% of GDP. Together total federal spending represented 24.1% of GDP. Mandatory spending composed over 56% of all federal spending in FY2011. Social Security, Medicare, and the federal share of Medicaid alone composed over 43% of all federal spending.

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. As a result of the current economic conditions and federal actions taken in response to the downturn, mandatory spending has been higher than its historical levels (as a percentage of GDP) over the last several fiscal years. After falling in FY2010 relative to FY2009 levels, mandatory spending rose again in FY2011. The Congressional Budget Office (CBO) projects mandatory spending to remain relatively constant, as a share of GDP, through FY2018 before beginning to rise again.

After FY2018, mandatory spending is projected 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 14.3% of GDP in FY2022. However, 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 and increasing health care costs will exert on the federal budget.

This report looks at mandatory spending and its growth 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.

[1] Mandatory spending is also referred to as direct spending in budgetary legislation.

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

[3] Unless otherwise noted, all data are from Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2012.

What Does Mandatory Spending Include?

Mandatory spending is controlled by laws other than appropriations acts. Such laws generally take the form of authorizing legislation. Authorizing legislation establishes or continues the operation of a federal program or agency, either indefinitely or for a specified period. 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 further legislative action by Congress. In most cases, the authorizing law requires payment, based on a benefit formula, to an individual or entity (e.g., a state) if eligibility criteria are met. In contrast, discretionary spending is provided and controlled through the annual appropriations process.[4] Net interest payments, which are automatically authorized and reported as a separate category, are the government's interest payments on debt held by the public offset by interest income that the government receives.[5]

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.[6]

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.[7] Those obligations become part of mandatory spending unless limited by the BEA or other budget legislation. As noted above, salaries of Members of Congress and the President are also deemed mandatory.

Table 1, below, shows CBO baseline projections for mandatory spending from FY2011 (actual) to FY2022.

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

[5] For more information, see CRS Report RS22354, *Interest Payments on the Federal Debt: A Primer*, by Thomas L. Hungerford.

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

[7] 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 Outlays, FY2011-FY2022

January 2012 CBO Baseline Projections (billions of dollars)

	Actual 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Social Security	**725**	**770**	**814**	**857**	**902**	**950**	**1,004**	**1,063**	**1,128**	**1,197**	**1,269**	**1,345**
Medicare[a]	**560**	**560**	**598**	**629**	**658**	**712**	**739**	**769**	**835**	**890**	**948**	**1,041**
Medicare offsetting receipts[b]	-80	-85	-94	-98	-103	-111	-119	-128	-138	-144	-154	-164
Medicaid	**275**	**262**	**281**	**330**	**370**	**407**	**432**	**456**	**487**	**522**	**564**	**605**
Health insurance subsidies & exchanges	*	*	**1**	**17**	**36**	**58**	**72**	**81**	**87**	**92**	**98**	**104**
Other Health Programs	**22**	**25**	**27**	**35**	**50**	**48**	**44**	**44**	**48**	**51**	**54**	**57**
MERHCF[c]	9	9	9	10	11	12	12	13	14	15	16	17
Children's Health Insurance Program	9	9	10	11	12	11	6	6	6	6	6	6
Other	4	7	8	14	27	25	26	25	28	30	32	34
Income Security	**405**	**345**	**333**	**297**	**293**	**295**	**288**	**286**	**295**	**301**	**308**	**320**
SNAP	77	80	82	80	80	80	78	77	75	74	73	73
Unemployment compensation	119	82	58	60	54	51	49	50	53	56	59	61
Supplemental Security Income	53	47	53	55	56	62	59	55	62	63	65	73
Earned income and child tax credits	78	79	81	48	47	46	45	45	46	46	47	49
Family support[d]	26	26	25	25	25	25	25	25	25	25	25	25
Child nutrition	18	19	21	22	22	23	24	25	26	27	28	29
Foster care	7	7	7	8	8	8	8	9	9	9	10	10
Making Work Pay and Other Tax Credits [e]	25	6	5	*	0	0	0	0	0	0	0	0
Civilian and Military Retirement	**144**	**144**	**152**	**156**	**160**	**170**	**171**	**172**	**183**	**189**	**196**	**207**
Federal civilian[f]	83	87	89	92	94	97	100	103	107	110	114	118
Military	55	49	54	56	57	63	60	58	64	66	68	75
Other	6	8	8	8	9	10	10	11	12	13	14	14
Veterans[g]	**71**	**68**	**72**	**73**	**74**	**81**	**78**	**75**	**83**	**85**	**87**	**95**
Income security	59	56	59	60	62	68	64	60	67	68	70	77
Other	12	12	13	12	13	14	14	15	16	17	17	18

	Actual 2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Other Programs	**15**	**96**	**60**	**40**	**39**	**43**	**44**	**48**	**57**	**56**	**56**	**59**
Troubled Asset Relief Program (TARP)[h]	-37	23	3	2	2	1	0	0	0	0	0	0
Fannie Mae and Freddie Mac[i]	5	7	3	3	2	2	2	2	3	3	3	3
Deposit Insurance[j]	-9	3	3	-10	-11	-14	-16	-18	-9	-10	-11	-13
Higher education	-33	-11	-18	-20	-19	-14	-7	-2	1	1	1	0
Agriculture	15	13	19	16	16	16	16	16	16	16	16	16
Other	73	59	50	49	49	51	49	49	48	46	46	52
Non-Medicare Offsetting Receipts	**-110**	**-114**	**-120**	**-120**	**-123**	**-126**	**-130**	**-137**	**-147**	**-151**	**-154**	**-155**
Federal share of federal employees' retirement	-63	-65	-65	-67	-69	-72	-75	-79	-82	-86	-89	-92
Other	-47	-49	-55	-53	-54	-54	-55	-58	-65	-65	-65	-63
Total Mandatory Outlays	**2,025**	**2,070**	**2,122**	**2,215**	**2,354**	**2,526**	**2,624**	**2,729**	**2,918**	**3,090**	**3,272**	**3,514**

Source: CBO, *Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2012, Table 3-2.

Notes: * indicates that an outlay level is between zero and $500 million. Totals and subtotals shown in bold. Items may not sum to totals due to rounding.

a. Excludes offsetting receipts.

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

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

d. 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.

e. Includes outlays for the first-time homebuyer credit, the American Opportunity credit, and other tax credits.

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

g. Income security includes veterans' compensation, pensions, and life insurance programs. Other benefits are primarily education subsidies.

h. A negative outlay level for TARP in FY2011 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. The negative outlays in FY2011 do not reflect TARP spending undertaken in that year.

i. The amount for FY2011 reflects cash transfers from the Treasury to Fannie Mae and Freddie Mac. The amounts shown for FY2012 through FY2022 reflect CBO's estimate of the subsidy cost of new loans and guarantees made by those two entities in each year, adjusted for market risk.

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

Mandatory spending is partially offset by certain fees and payments, known 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. 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.

Most mandatory spending is accounted for in the budget based on the dollar amount spent in each fiscal year. However, some mandatory programs are recorded differently. For example, 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). Rather than being accounted for on a cash basis, FCRA programs are accounted for on a net subsidy basis. FCRA required that the reported budgetary cost of a credit or loan program equal the estimated subsidy costs at the time the credit is provided. In other words, the subsidy cost is the estimated long-term cost to the government of a direct loan or a loan guarantee, calculated on a net present value basis, excluding administrative costs. This places the cost of federal credit programs on a budgetary basis equivalent to other federal outlays.[8] Troubled Asset Relief Program (TARP) costs are also calculated on a similar basis, but unlike other federal loan programs, calculations include adjustments for market risk.

Mandatory Spending Trends Over Time

Mandatory spending has taken up a larger and larger share of the federal budget over time. Mandatory spending grew over time with enactment of the Social Security Act of 1935 (P.L. 74-271) and the Medicare Act of 1965 (P.L. 89-97).[9] In FY1962, 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.[10] 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 1 shows historical trends in mandatory spending between FY1962 and FY2011 and CBO's baseline projections for these components to FY2022, expressed as a percentage of total federal spending. The CBO baseline is intended as a neutral starting point for the estimation of budgetary effects of legislative changes.

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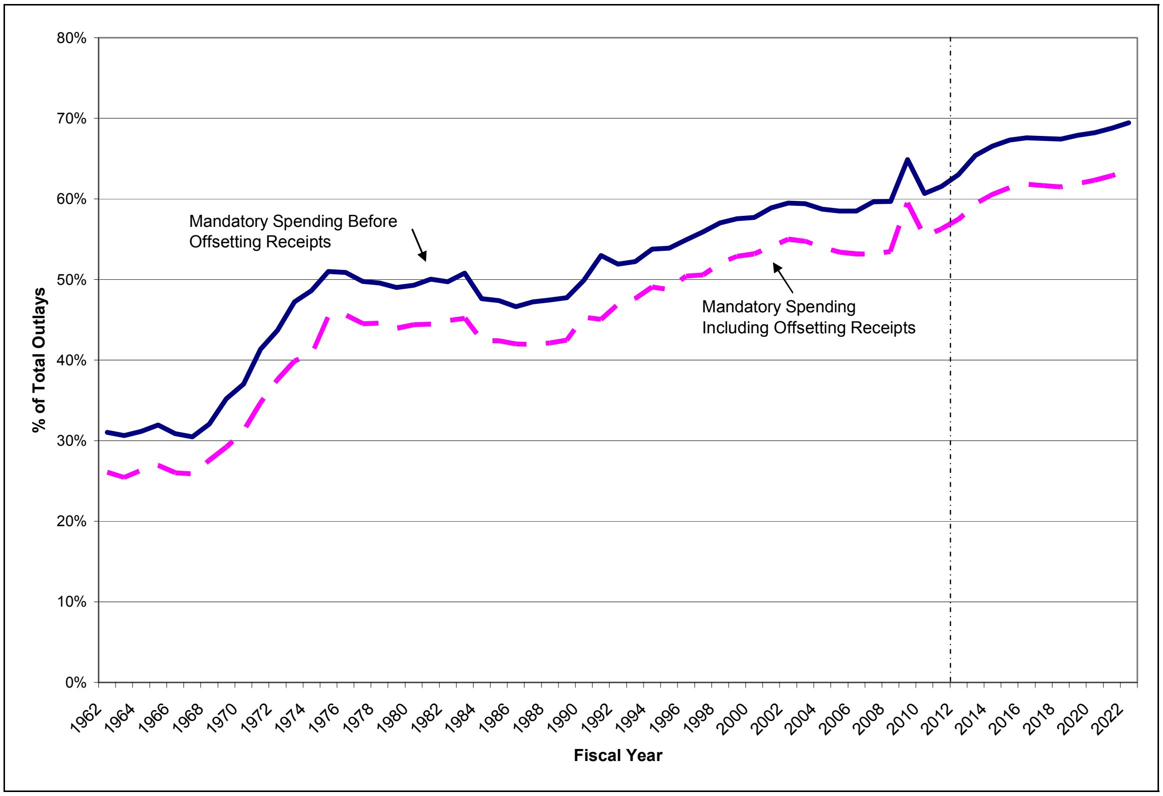
[8] CRS Report RL30346, *Federal Credit Reform: Implementation of the Changed Budgetary Treatment of Direct Loans and Loan Guarantees*, by James M. Bickley.

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

[10] 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 2010, offsetting receipts totaled $184 billion or 9% of total spending on mandatory programs.

Figure 1. Mandatory Spending and Offsetting Receipts As a Percentage of Total Outlays (FY1962-FY2022)



Source: Data for FY1962-FY1971 from OMB, *Budget for Fiscal Year 2013*, *Historical Tables*, Tables 1.3 and 8.5; Data for FY1972-FY2022 from CBO, *Historical Tables* and CBO Budget Projections data. 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 FY1962 (nearly a third if offsetting receipts are excluded). In FY1968, mandatory spending began growing relative to total federal spending and by FY1975 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 FY1990.

In FY2011, mandatory spending accounted for over 56% of total spending (or nearly 62% before offsetting receipts). The spike in mandatory spending between FY2008 and FY2009 was largely due to increased outlays related to federal financial interventions and the economic downturn. After falling in FY2010 relative to FY2009 levels, mandatory spending rose again in FY2011. The Congressional Budget Office (CBO) projects mandatory spending to remain relatively constant, as a share of GDP, through FY2018 before beginning to rise again. After FY2018, mandatory spending is projected 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 14.3% of GDP in FY2022. **Table 2** presents components of mandatory spending in FY2011 and FY2012 (estimated) and CBO baseline projections for mandatory spending in FY2022.

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

	FY2011 (Actual)			FY2012 (Estimated)			FY2022 (CBO Baseline Projections)		
Category[a]	**$Billions**	**% of Mandatory Spending[a]**	**% of GDP**	**$Billions**	**% of Mandatory Spending[a]**	**% of GDP**	**$Billions**	**% of Mandatory Spending[a]**	**% of GDP**
Social Security	725	32.7%	4.8%	770	33.9%	5.0%	1,345	35.1%	5.5%
Medicare	560	25.3%	3.7%	560	24.7%	3.6%	1,041	27.2%	4.2%
Medicaid	275	12.4%	1.8%	262	11.5%	1.7%	605	15.8%	2.5%
Health Insurance Subsidies & Exchanges	*	0.0%	0.0%	*	0.0%	0.0%	104	2.7%	0.4%
Other Health Programs	22	1.0%	0.2%	25	1.1%	0.2%	57	1.4%	0.2%
MERHCF	9	0.4%	0.1%	9	0.4%	0.1%	17	0.4%	0.1%
Children's Health Insurance Program	9	0.4%	0.1%	9	0.4%	0.1%	6	0.1%	0.0%
Other	4	0.2%	0.0%	7	0.3%	0.0%	34	0.9%	0.1%
Income Security	405	18.3%	2.7%	345	15.2%	2.2%	320	8.3%	1.3%
SNAP	77	3.5%	0.5%	80	3.5%	0.5%	73	1.9%	0.3%
Unemployment compensation	119	5.4%	0.8%	82	3.6%	0.5%	61	1.6%	0.2%
Supplemental Security Income	53	2.4%	0.4%	47	2.1%	0.3%	73	1.9%	0.3%
Earned income and child tax credits	78	3.5%	0.5%	79	3.5%	0.5%	49	1.3%	0.2%
Family support	26	1.2%	0.2%	26	1.1%	0.2%	25	0.7%	0.1%
Child nutrition	18	0.8%	0.1%	19	0.8%	0.1%	29	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	25	1.1%	0.2%	6	0.2%	0.0%	0	0.0%	0.0%
Civilian and Military Retirement	144	6.5%	1.0%	144	6.3%	0.9%	207	5.4%	0.8%
Federal civilian	83	3.7%	0.6%	87	3.8%	0.6%	118	3.1%	0.5%
Military	55	2.5%	0.4%	49	2.2%	0.3%	75	2.0%	0.3%
Other	6	0.3%	0.0%	8	0.4%	0.1%	14	0.4%	0.1%

Category[a]	FY2011 (Actual)			FY2012 (Estimated)			FY2022 (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	71	3.2%	0.5%	68	3.0%	0.4%	95	2.5%	0.4%
Income Security	59	2.7%	0.4%	56	2.5%	0.4%	77	2.0%	0.3%
Other	12	0.5%	0.1%	12	0.5%	0.1%	18	0.5%	0.1%
Other Programs	15	0.7%	0.1%	96	4.2%	0.6%	59	1.5%	0.2%
TARP	-37	-1.7%	-0.2%	23	1.0%	0.2%	0	0.0%	0.0%
Fannie Mae and Freddie Mac	5	0.2%	0.0%	7	0.3%	0.0%	3	0.1%	0.0%
Deposit insurance	-9	-0.4%	-0.1%	3	0.1%	0.0%	-13	-0.3%	-0.1%
Higher education	-33	-1.5%	-0.2%	-11	-0.5%	-0.1%	0	0.0%	0.0%
Agriculture	15	0.7%	0.1%	13	0.6%	0.1%	16	0.4%	0.1%
Other	73	3.3%	0.5%	59	2.6%	0.4%	52	1.4%	0.2%
Mandatory Spending Excluding Offsetting Receipts	2,215	100%	14.8%	2,269	100%	14.6%	3,833	100%	15.5%
Offsetting Receipts	-190		-1.3%	-200		-1.3%	-319		-1.3%
Medicare	-80		-0.5%	-85		-0.5%	-164		-0.7%
Federal share of federal employees' retirement	-63		-0.4%	-65		-0.4%	-92		-0.4%
Other	-47		-0.4%	-49		-0.4%	-63		-0.3%
Total Mandatory Spending	2,025		13.5%	2,070		13.3%	3,833		14.3%
Medicare Spending Net of Offsetting Receipts	480		3.2%	475		3.1%	877		3.6%

Source: CRS calculations based on CBO, *The Budget and Economic Outlook: Fiscal Years 2012 to 2022*, January 2012, Table 3-2.

Notes: * indicates that an outlay level is between zero and $500 million. Some items do not sum to totals due to rounding. See **Table 1** for other notes.

a. Excludes offsetting receipts.

In FY2009, total mandatory spending increased by 31% in dollar terms over FY2008, 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 FY2009 for TARP and between FY2009 and FY2013 for the GSE assistance.[11] Outlays for income security programs, like unemployment compensation and SNAP, also increased in FY2009 and continued at elevated levels through FY2011. By FY2012, outlays for the these programs are projected to return to close to their FY2008 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 higher levels of federal health spending.

Changes in Mandatory Spending

The composition of mandatory spending has changed dramatically over the past 40 years and, according to CBO baseline projections, will continue to change over the decade. **Figure 2** shows how major components of mandatory spending as a percentage of total federal spending have evolved since 1970.

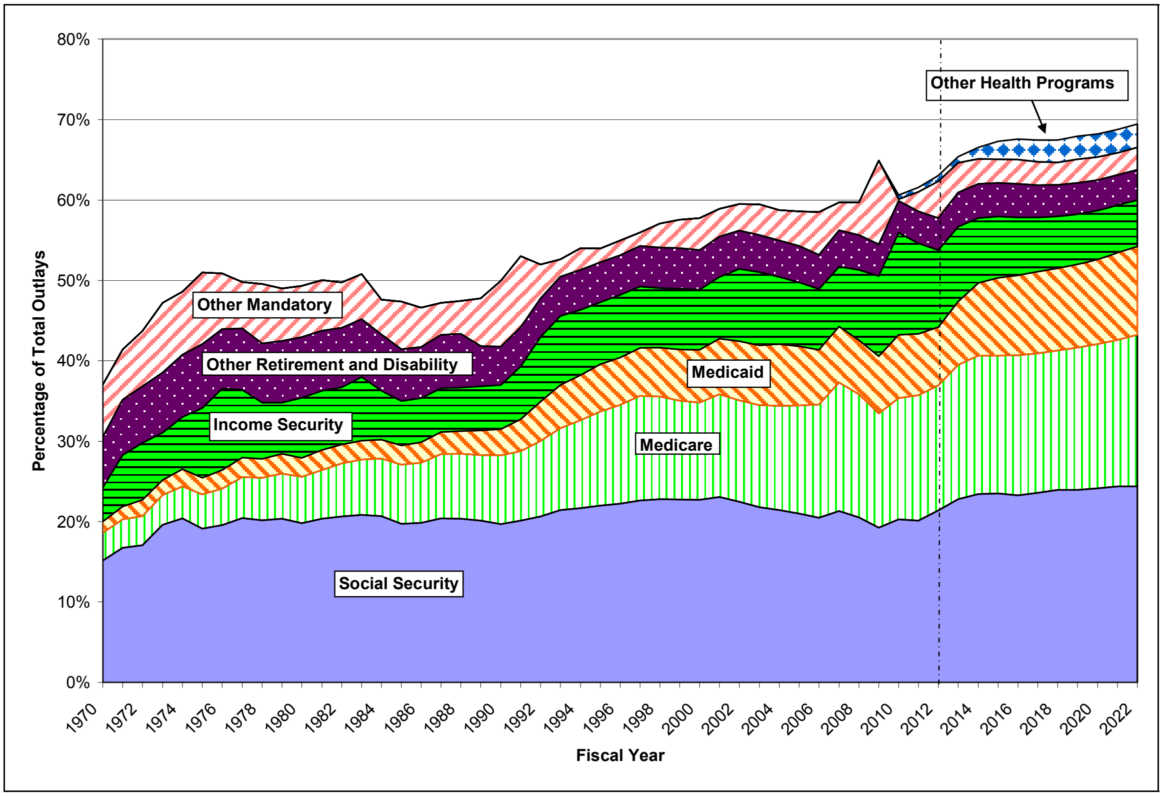
Persistent increases in health care spending have been a particularly important driver of mandatory spending trends. Since enactment of the 1965 Medicare Act, the Medicare and Medicaid programs have composed a growing share of mandatory spending. Medicare and Medicaid spending grew from 4.9% of total federal outlays in FY1970 to 23.2% in FY2011. CBO baseline projections show further increases in federal health spending will cause the Medicaid and Medicare share of total spending to continue to rise. In addition, federal spending on other health related programs is projected to increase as larger portions of the Affordable Care Act (Patient Protection and Affordable Care Act, P.L. 111-148, and the health care provisions of the Health Care and Education Reconciliation Act of 2010, P.L. 111-152) take effect beginning in 2014.[12] By FY2022, based on CBO baseline projections, spending on Medicare, Medicaid, and other federal health care programs is projected to account for 32.8% of total federal spending.

Over the next decade, spending on mandatory programs outside of Medicare, Medicaid, and other federal health programs is expected to remain flat or decline. Social Security's share of outlays is projected to remain essentially flat as a share of federal spending, ranging between 20% and 22% of total federal spending, throughout the decade. As the economic recovery continues, outlays for income security programs are projected to fall from 11.3% of total federal spending in FY2011 to 5.8% by FY2022. Spending on other mandatory programs, including federal civilian and military retirement, veterans benefits, agriculture supports, net cash infusions for the GSEs, and the costs related to TARP activities, is also projected to decline over the next decade.

[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] In FY2011, federal health spending was 23.8% of total federal spending.

Figure 2. Components of Mandatory Spending As a Percentage of Federal Spending (FY1970-FY2022)



Source: Offsetting receipts are excluded. CRS calculations based on data from CBO, *Historical Tables* and *Budget Projections*. CBO baseline projections depicted to the right of the vertical line.

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 by CBO to increase (see the "Other Health Programs" category in **Figure 2**) relative to what they were prior to the enactment of this legislation.[14] Revenue increases are projected by CBO to offset the additional mandatory outlays.

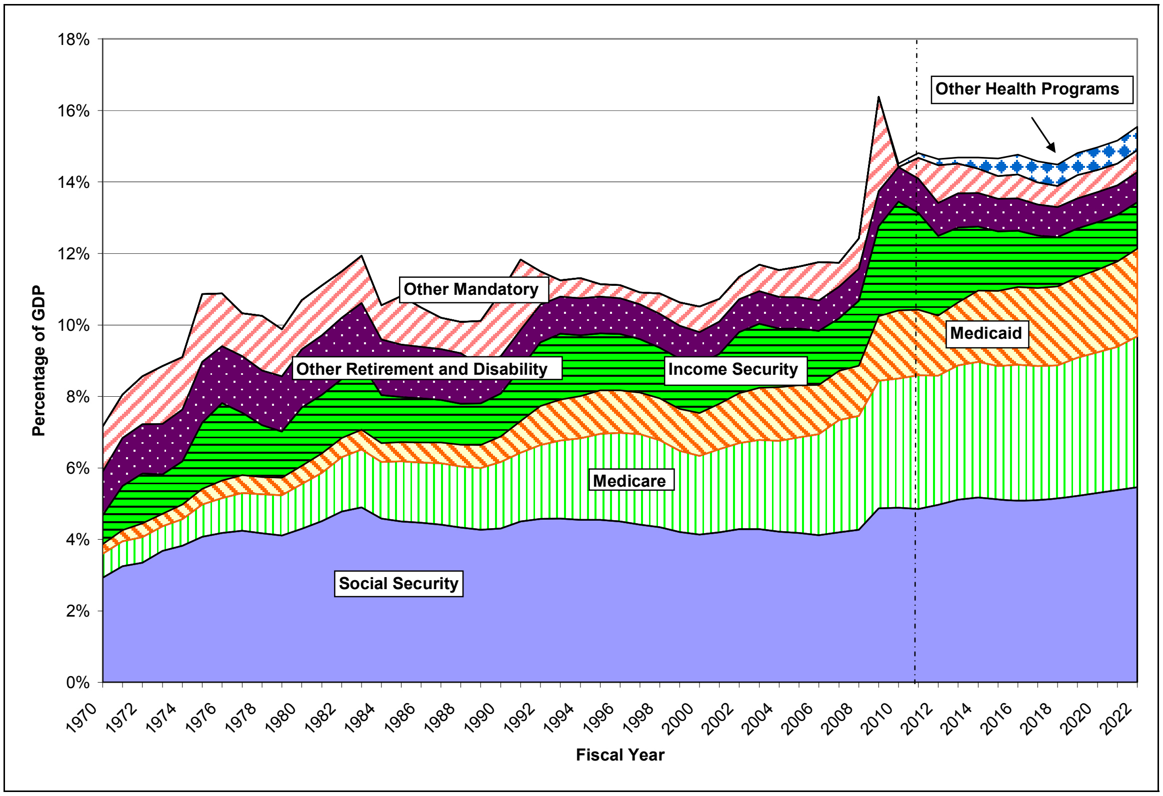
[13] For more information on PPACA and HCERA, see http://www.crs.gov/Pages/subissue.aspx?cliid=3746&parentid=13.

[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 is 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 3** shows the evolution of mandatory spending and its components relative to GDP since FY1970.

Figure 3. Mandatory Spending Before Offsetting Receipts As a Percentage of GDP (FY1970-FY2022)



Source: Offsetting receipts are excluded. CRS calculations based on data from CBO, *Historical Tables* and *Budget Projections*. CBO baseline projections depicted to the right of the vertical line.

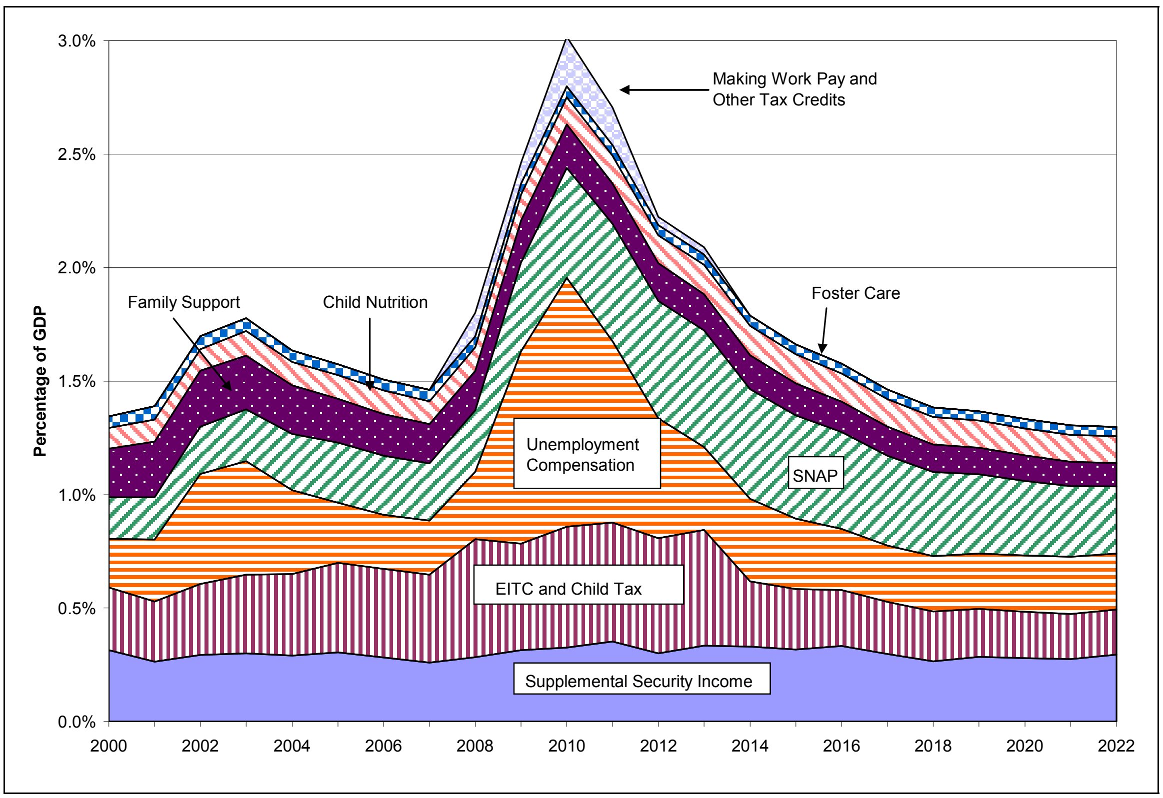
Notes: CBO added the category "Other Health Programs" to its *Budget Projections* data following the enactment of PPACA and HCERA. This category includes Health Insurance Subsidies, Exchanges, and Related Spending, MERHCF, CHIP, and Other health spending. Prior to PPACA and HCERA, MERHCF and CHIP were 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 FY1970 to its peak of 4.9% of GDP in FY1983. 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 FY2011 to 5.5% of GDP in FY2022. Both Medicare and Medicaid have grown faster than the overall economy, and continued growth is expected. In FY1970, spending on Medicare and Medicaid totaled 0.9% of GDP. In FY2011, spending on these two programs reached 5.6% of GDP. According to CBO current-law projections, they will total 6.7% of GDP in FY2022. Spending on other health programs is projected to grow from 0.1% of GDP in FY2011 to 0.7% of GDP in FY2022.

During recessions, GDP falls and spending automatically increases on unemployment insurance and other 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 3.0% of GDP in FY2010 before falling slightly to 2.7% of GDP in FY2011. By FY2022, income security is projected to fall to 1.3% of GDP in FY2022. **Figure 4** depicts how outlays for income security programs have changed in response to economic conditions over the last decade and where they are projected to be as the economy recovers. Projections of spending on these programs beyond FY2011, as depicted in this chart, are from the CBO baseline.

Figure 4. Income Security Programs As a Percentage of GDP (FY2000-FY2022)



Source: CRS calculation based on CBO data.

Why Has Mandatory Spending Risen Over Time?

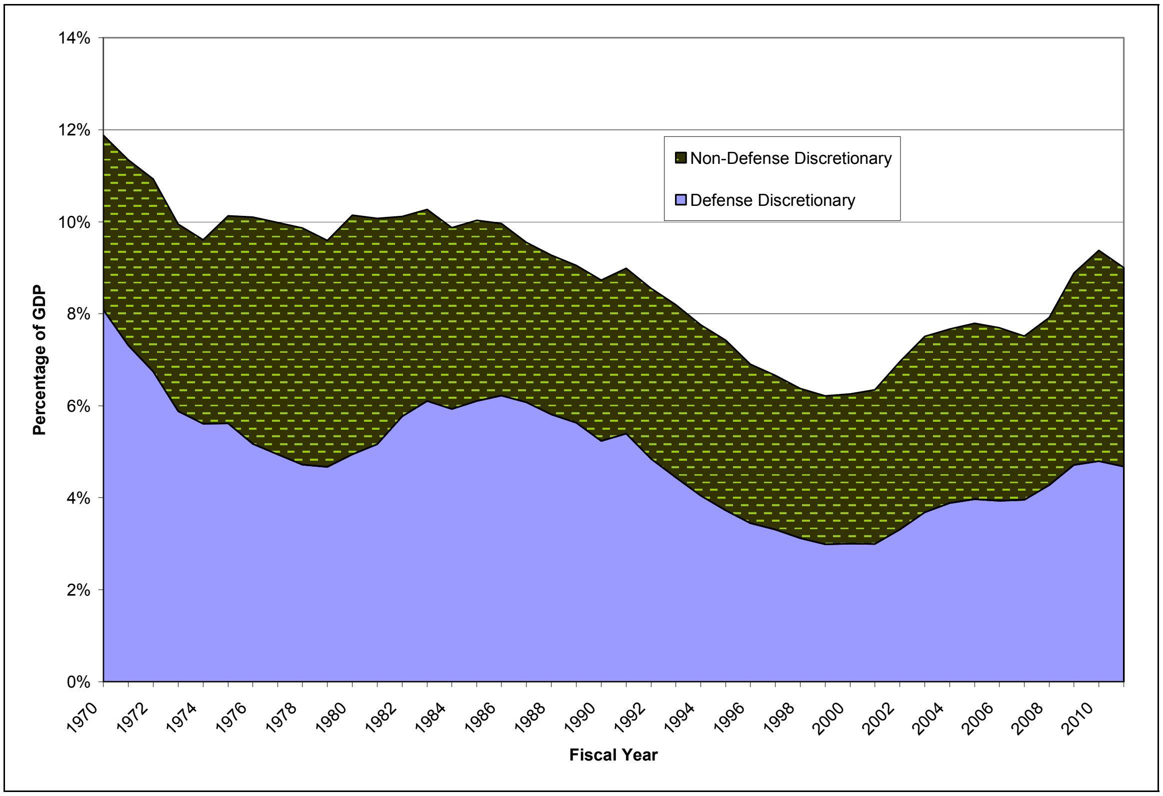
The share of mandatory spending has increased as a portion of total federal spending and as a percentage of GDP for four reasons.

First, discretionary spending, defined as spending provided and controlled through appropriations acts, has fallen relative to mandatory spending. Defense discretionary expenditures once dominated non-defense discretionary spending but now account for a relatively smaller share of total federal spending. 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 the increases in defense discretionary spending over the last decade, this spending took up less than half the share of the economy compared to the late 1960s.

Second, non-defense discretionary spending has been relatively stable as a share of GDP. Non-defense discretionary spending, about 2.5% of GDP in the early 1960s, rose to about 5% of GDP in the late 1970s, partly due to expansion of social spending and partly because of the severity of the 1974-1975 recession. In the 1980s, non-defense discretionary spending as a share of GDP fell, and budget limits or "caps" helped restrict growth in discretionary spending in the 1990s.[15] Due to slight increases in the last half dozen years, domestic discretionary spending remained between 3.5% and 4.6% of GDP—its approximate share for the late 1960s and early 1970s. These trends in discretionary spending are shown in **Figure 5**, below.

[15] For more information, see CRS Report R41901, *Statutory Budget Controls in Effect Between 1985 and 2002*, by Megan Suzanne Lynch.

Figure 5. Discretionary Spending As a Percentage of GDP (FY1970-FY2011)



Source: CBO, *Historical Tables.*

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 FY2022

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 first baby boomers reached 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 FY2085—an increase of 1.6 percentage points of GDP from its FY2011 level. According to CBO extended baseline projections, federal mandatory spending on health care, in large part due to rising costs, is projected to reach 17.2% of GDP by FY2085. However, under an alternative scenario in which health care cost growth does not slow down, spending on these programs could reach 19.4% of GDP by FY2085.[16] By contrast, total federal spending on these health programs in FY2011 was 5.7% 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 decade, according to CBO baseline projections, mandatory spending will account for more than 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. CBO current-law projections indicate that federal health spending, including Medicare, Medicaid, and outlays for new health care exchanges and subsidies, could make up nearly 50% of mandatory spending in FY2022.

Reducing the federal deficit significantly by cutting spending without reducing mandatory spending, and in particular entitlements, would be difficult. Focusing budget cuts on mandatory spending, particularly Social Security, Medicare, and Medicaid, however, could adversely affect the elderly or the poor. Limiting budget reductions to smaller mandatory programs, like Temporary Assistance for Needy Families (TANF), SSI, and SNAP, would not reduce the federal deficit by as much because most of the increases in federal spending have been occurring in Medicare and Medicaid. Further reform of the health programs may be needed to eliminate long-term fiscal strains while preserving the goals of these programs.

[16] CBO, *The Long-Term Budget Outlook*, Data Underlying Scenarios and Figures, June 2011.

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