Mandatory Spending Since 1962

Mindy R. Levit
Analyst in Public Finance

D. Andrew Austin
Analyst in Economic Policy

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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 FY2012, mandatory spending accounted for over 57% of total federal spending and over 13% of GDP. Social Security alone accounted for 22% of federal spending. Medicare and the federal share of Medicaid, the fastest growing components of mandatory spending, together accounted for 23% of federal spending. Therefore, spending on Social Security, Medicare, and Medicaid made up 44% of total federal spending. The composition of mandatory spending has changed significantly over the past 40 years. In 1962, before the 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.

Over the long term, projections suggest that if current policies remain unchanged, the United States could face 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 FY2012 to 16.4% in FY2085 according to CBO's extended baseline projection. Social Security is projected to grow from 4.9% of GDP in FY2012 to 6.6% of GDP by FY2085. The share of mandatory spending continues to increase as a portion of total federal spending.

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, mandatory outlays for health programs are projected by CBO to increase.

Mandatory spending levels have and will continue to be affected by the automatic spending reduction process enacted as part of the Budget Control Act of 2011 (BCA; P.L. 112-25). Though the majority of the spending reductions affect the discretionary side of the budget, mandatory spending was reduced by $17 billion in FY2013 and a projected $153 billion over the FY2014-FY2021 period. However, increases in mandatory spending primarily related to rising health care costs are projected to result in a continued upward trend.

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 FY2012, mandatory spending—totaling 13.1% of gross domestic product (GDP)—exceeded discretionary spending's 8.3% share of GDP.[3] In addition, federal net interest payments accounted for 1.4% of GDP. Together, total federal spending represented 22.7% of GDP. Mandatory spending composed over 57% of all federal spending in FY2012. Social Security, Medicare, and the federal share of Medicaid alone composed over 44% 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 prior 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 in FY2011 and again slightly in FY2012. The Congressional Budget Office (CBO) projects mandatory spending will remain relatively constant, as a share of GDP, through FY2021, before beginning to rise again.

After FY2021, mandatory spending is projected to account for an ever-increasing share of GDP through the rest of the 10-year budget window. Mandatory spending, according to CBO current-law projections, will be about 14.0% of GDP in FY2023. 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 over the longer term.

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.

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[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, *Updated Budget Projections: Fiscal Years 2013 to 2023*, May 2013.

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 FY2012 (actual) to FY2023.

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

[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, FY2012-FY2023

May 2013 CBO Baseline Projections (billions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Social Security	**768**	**809**	**848**	**894**	**944**	**999**	**1,057**	**1,121**	**1,189**	**1,260**	**1,335**	**1,414**
Medicare[a]	**551**	**586**	**597**	**615**	**671**	**695**	**722**	**794**	**849**	**911**	**1,018**	**1,064**
Medicare offsetting receipts[b]	-85	-90	-92	-94	-100	-108	-117	-125	-133	-143	-156	-170
Medicaid	**251**	**265**	**298**	**328**	**369**	**396**	**418**	**441**	**466**	**493**	**521**	**554**
Health insurance subsidies & related spending	*	**1**	**23**	**44**	**76**	**95**	**104**	**108**	**115**	**122**	**128**	**135**
Other Health Programs	**25**	**25**	**30**	**50**	**40**	**45**	**44**	**47**	**49**	**50**	**53**	**55**
MERHCF[c]	9	9	9	10	10	11	12	12	13	14	15	16
Children's Health Insurance Program	9	9	14	15	8	6	6	6	6	6	6	6
Other	7	8	7	25	22	28	27	29	30	31	32	33
Income Security	**354**	**341**	**325**	**321**	**328**	**232**	**322**	**315**	**321**	**329**	**342**	**343**
Supplemental Nutrition Assistance Program	80	83	80	79	79	78	77	76	75	74	73	73
Unemployment compensation	92	70	52	45	43	42	43	46	49	53	56	58
Supplemental Security Income	47	53	54	55	61	59	55	62	64	66	74	70
Earned income and child tax credits	77	77	80	82	82	83	84	73	74	75	77	78
Family support[d]	24	24	25	25	25	25	25	25	25	25	25	25
Child nutrition	19	20	21	22	23	24	25	26	27	28	29	30
Foster care	7	7	7	7	7	7	7	8	8	8	8	8
Miscellaneous Tax Credits [e]	7	6	6	6	6	6	7	0	0	0	0	0
Federal Civilian and Military Retirement	**144**	**152**	**155**	**159**	**168**	**169**	**171**	**181**	**187**	**193**	**204**	**205**
Civilian[f]	87	91	93	95	98	101	105	108	111	115	119	122
Military	49	54	56	57	63	61	58	64	66	68	75	72
Other	7	7	7	7	7	7	8	9	10	10	10	10
Veterans[g]	**68**	**79**	**83**	**85**	**95**	**92**	**88**	**97**	**100**	**101**	**111**	**105**
Income security	56	65	70	72	81	78	74	82	83	84	92	86
Other	12	14	13	13	14	14	14	16	16	17	19	19

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Other Programs	**82**	**-32**	**41**	**43**	**53**	**58**	**60**	**54**	**52**	**57**	**62**	**61**
Troubled Asset Relief Program (TARP)[h]	25	-9	-1	2	1	1	*	*	*	*	0	0
Deposit Insurance[i]	7	6	-10	-10	-11	-12	-13	-18	-18	-12	-14	-14
Higher education	-19	-36	-20	-20	-12	-3	3	4	3	3	2	2
Agriculture	12	25	14	16	16	16	15	16	16	16	16	16
Other	58	-18	59	56	58	57	53	52	51	50	58	57
Non-Medicare Offsetting Receipts	**-125**	**-117**	**-11**	**-120**	**-126**	**-131**	**-132**	**-140**	**-142**	**-147**	**-146**	**-151**
Federal share of federal employees' retirement	-67	-66	-67	-69	-71	-47	-77	-80	-83	-86	-89	-93
Other	-57	-51	-44	-51	-55	-57	-55	-60	-59	-61	-57	-58
Total Mandatory Outlays	**2,031**	**2,020**	**2,196**	**2,326**	**2,519**	**2,633**	**2,737**	**2,893**	**3,053**	**3,225**	**3,470**	**3,617**

Source: CBO, *Updated Budget Projections: Fiscal Years 2013 to 2023*, May 2013, Table 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. Figures for FY2012 are actual; figures for FY2013 are estimated; figures for FY2014-FY2023 are projected.

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 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. Negative outlay levels for TARP in FY2013 and FY2014 are 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 those years do not reflect TARP spending undertaken in that year.

i. 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 FY2012 and CBO's baseline projections for these components to FY2023, expressed as a percentage of total federal spending.[11]

[8] For more information, see CRS Report R42632, *Budgetary Treatment of Federal Credit (Direct Loans and Loan Guarantees): Concepts, History, and Issues for the 112th Congress*, 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.

[11] The CBO baseline is intended as a neutral starting point for the estimation of budgetary effects of legislative changes.

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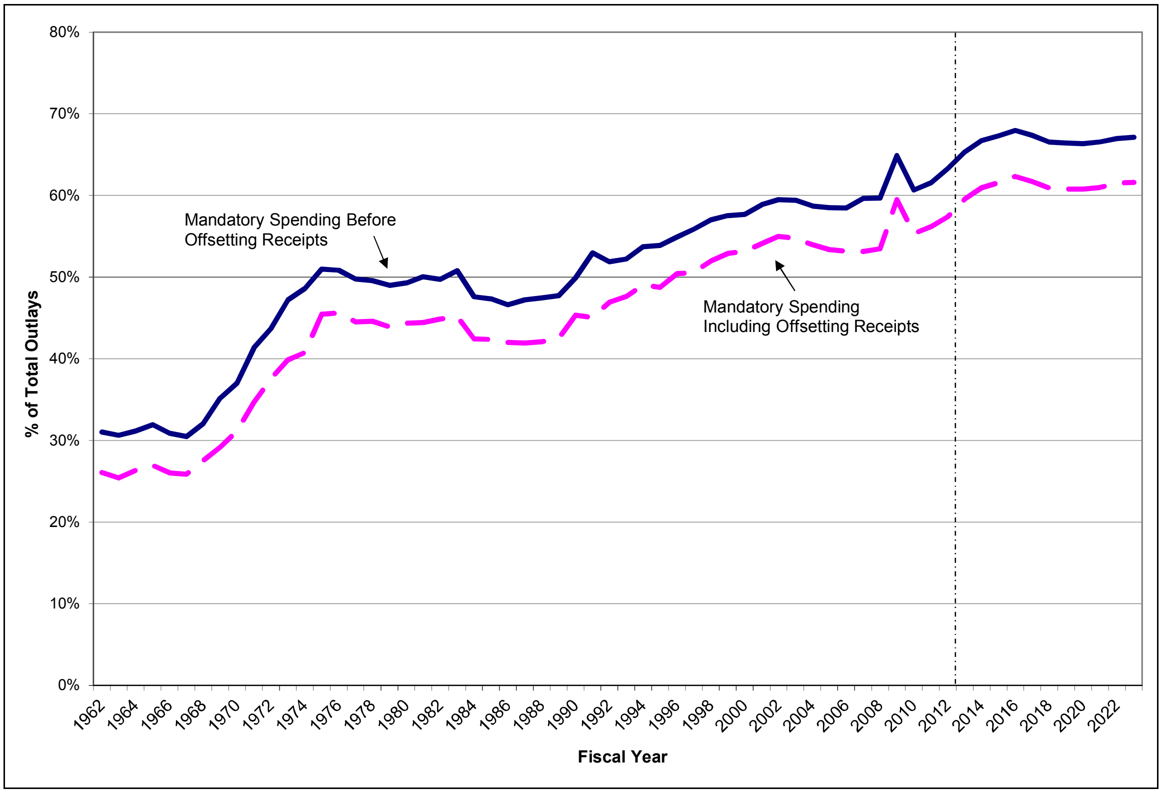
Figure 1. Mandatory Spending and Offsetting Receipts As a Percentage of Total Outlays (FY1962-FY2023)



Source: Data for FY1962-FY1971 from OMB, *Budget for Fiscal Year 2014*, *Historical Tables*, Tables 1.3 and 8.5; Data for FY1972-FY2023 from CBO *Historical Tables* and CBO *Budget Projections* data. CBO treats some offsetting receipts, especially regarding Medicare, differently than OMB. CBO baseline projections are shown 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 FY2012, mandatory spending accounted for over 57% of total spending (or more than 63% before offsetting receipts) and just over 13% of GDP (or over 14% of GDP before offsetting receipts). Mandatory spending spiked between FY2008 and FY2009 largely due to increases in outlays related to federal financial interventions and the economic downturn. After falling in FY2010 relative to FY2009 levels, mandatory spending rose again in FY2011 and FY2012 relative to the prior year. The Congressional Budget Office (CBO) projects mandatory spending will remain relatively constant, as a share of GDP, through FY2021 before beginning to rise again. After FY2021, mandatory spending is projected to account for an ever-increasing share of GDP throughout the rest of the 10-year budget window. Mandatory spending, according to CBO current-law projections, will be about 14.1% of GDP in FY2023. **Table 2** presents components of mandatory spending in FY2012 and FY2013 (estimated) and CBO baseline projections in FY2023 in dollar terms, as a percentage of total mandatory spending, and as a percentage of GDP.

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

	FY2012 (Actual)			FY2013 (Estimated)			FY2023 (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	768	34.3%	4.9%	809	36.3%	5.0%	1,414	35.9%	5.5%
Medicare	551	24.6%	3.5%	586	26.3%	3.7%	1,064	27.0%	4.1%
Medicaid	251	11.2%	1.6%	265	11.9%	1.7%	554	14.1%	2.1%
Health Insurance Subsidies & Related Spending	0	0.0%	0.0%	1	0.1%	0.0%	135	3.4%	0.5%
Other Health Programs	25	1.1%	0.2%	25	1.1%	0.2%	55	1.4%	0.2%
MERHCF	9	0.4%	0.1%	9	0.4%	0.1%	16	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	7	0.3%	0.0%	8	0.3%	0.0%	33	0.8%	0.1%
Income Security	354	15.8%	2.3%	341	15.3%	2.1%	343	8.7%	1.3%
SNAP	80	3.6%	0.5%	83	3.7%	0.5%	73	1.9%	0.3%
Unemployment compensation	92	4.1%	0.6%	70	3.1%	0.4%	58	1.5%	0.2%
Supplemental Security Income	47	2.1%	0.3%	53	2.4%	0.3%	70	1.8%	0.3%
Earned income and child tax credits	77	3.4%	0.5%	77	3.5%	0.5%	78	2.0%	0.3%
Family support	24	1.1%	0.2%	24	1.1%	0.2%	25	0.6%	0.1%
Child nutrition	19	0.9%	0.1%	20	0.9%	0.1%	30	0.8%	0.1%
Foster care	7	0.3%	0.0%	7	0.3%	0.0%	8	0.2%	0.0%
Miscellaneous Tax Credits	7	0.3%	0.0%	6	0.3%	0.0%	0	0.0%	0.0%
Federal Civilian and Military Retirement	144	6.4%	0.9%	152	6.8%	0.9%	205	5.2%	0.8%
Civilian	87	3.9%	0.6%	91	4.1%	0.6%	122	3.1%	0.5%
Military	49	2.2%	0.3%	54	2.4%	0.3%	72	1.8%	0.3%
Other	7	0.3%	0.0%	7	0.3%	0.0%	10	0.3%	0.0%

Category[a]	FY2012 (Actual)			FY2013 (Estimated)			FY2023 (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	68	3.0%	0.4%	79	3.5%	0.5%	105	2.7%	0.4%
Income Security	56	2.5%	0.4%	65	2.9%	0.4%	86	2.2%	0.3%
Other	12	0.5%	0.1%	14	0.6%	0.1%	19	0.5%	0.1%
Other Programs	82	3.7%	0.5%	-32	-1.4%	-0.2%	61	1.6%	0.2%
TARP	25	1.1%	0.2%	-9	-0.4%	-0.1%	0	0.0%	0.0%
Deposit insurance	7	0.3%	0.0%	6	0.3%	0.0%	-14	-0.4%	-0.1%
Higher education	-19	-0.9%	-0.1%	-36	-1.6%	-0.2%	2	0.1%	0.0%
Agriculture	12	0.5%	0.1%	25	1.1%	0.2%	16	0.4%	0.1%
Other	58	2.6%	0.4%	-18	-0.8%	-0.1%	57	1.5%	0.2%
Mandatory Spending Excluding Offsetting Receipts	**2,241**	**100%**	**14.4%**	**2,227**	**100%**	**13.9%**	**3,937**	**100%**	**15.2%**
Offsetting Receipts	-210		-1.4%	-207		-1.3%	-320		-1.2%
Medicare	-85		-0.5%	-90		-0.6%	-170		-0.7%
Federal share of federal employees' retirement	-67		-0.4%	-66		-0.4%	-93		-0.4%
Other	-57		-0.4%	-51		-0.3%	-58		-0.2%
Total Mandatory Spending	**2,031**		**13.1%**	**2,020**		**12.6%**	**3,617**		**14.0%**
Medicare Spending Net of Offsetting Receipts	466		3.0%	496		3.1%	894		3.5%

Source: CRS calculations based on CBO, *Updated Budget Projections: Fiscal Years 2013 to 2023*, May 2013, Table 2.

Notes: Some items do not sum to subtotals due to rounding. See **Table 1** for other notes.

a. Excludes offsetting receipts.

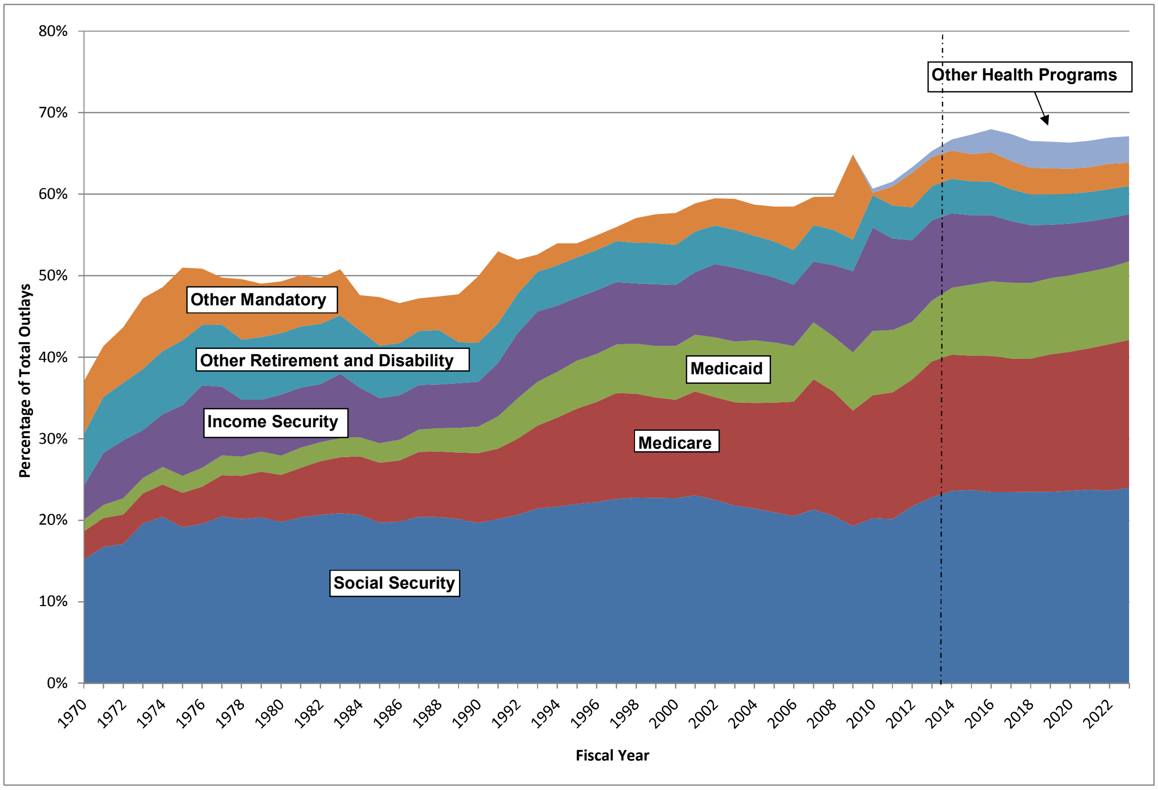
In FY2009, total mandatory spending increased by 31% in dollar terms over FY2008, primarily due to the economic downturn and federal financial interventions, including assistance provided in the Troubled Asset Relief Program (TARP) and to the GSEs (Fannie Mae and Freddie Mac). The majority of the impact of the enacted federal financial intervention programs on mandatory spending occurred in FY2009 for TARP and between FY2009 and FY2012 for GSE assistance.[12] Outlays for income security programs, like unemployment compensation and SNAP, also increased in FY2009 and continued at elevated levels through FY2012. By FY2015, outlays for the these programs are projected to return 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.

[12] 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.

Figure 2. Components of Mandatory Spending As a Percentage of Federal Spending (FY1970-FY2023)



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.

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 22.7% in FY2012. 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.[13] By FY2023, based on CBO baseline projections, spending on Medicare, Medicaid, and other federal health care programs is projected to account for 30.9% of total federal spending.

[13] 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 (continued...)

Over the next decade, spending on mandatory programs outside of Medicare, Medicaid, and other federal health programs is expected to remain flat or decline as a share of total federal spending. Social Security's share of outlays is projected to remain essentially flat as a share of federal spending, ranging between 22% and 24% 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 FY2012 to 5.9% by FY2023.[14] Spending on other mandatory programs, including federal civilian and military retirement, veterans benefits, agriculture supports, and the costs related to TARP activities, is also projected to decline over the next decade.

Mandatory spending levels have and will continue to be affected by the automatic spending reduction process enacted as part of the Budget Control Act of 2011 (BCA; P.L. 112-25).[15] In addition to including a mechanism to increase the debt limit, the BCA contained a variety of measures intended to reduce the budget deficit through spending reductions. Though the majority of the spending reductions affect the discretionary side of the budget, mandatory spending was reduced by $17 billion in FY2013 and is projected to be reduced by an additional $153 billion over the FY2014-FY2021 period.[16] However, as discussed above, increases in mandatory spending primarily related to rising health care costs will result in a continued upward trend.

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.

(...continued)

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

[14] Spending on income security programs peaked in FY2010 at 12.7% of total outlays.

[15] For more information on the BCA, see CRS Report R42506, *The Budget Control Act of 2011: The Effects on Spending and the Budget Deficit* , by Mindy R. Levit and Marc Labonte.

[16] Office of Management and Budget, *OMB Report to the Congress on the Joint Committee Sequestration for Fiscal Year 2013*, March 1, 2013, Tables 2 and 3 and CBO, *An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022*, August 2012, Box 1-1. In addition to the BCA's automatic spending reduction process, other changes in mandatory spending from program integrity, Pell grants, and other education programs amount to a reduction in spending of $20 billion over the FY2012 to FY2021 period. (Associated debt service savings are not included.) CBO, Letter to the Honorable John A. Boehner, Speaker and the Honorable Harry Reid, Majority Leader, *Estimated Effect on the Deficit of the Budget Control Act as posted on the web site of the Committee on Rules*, August 1, 2011, Table 3.

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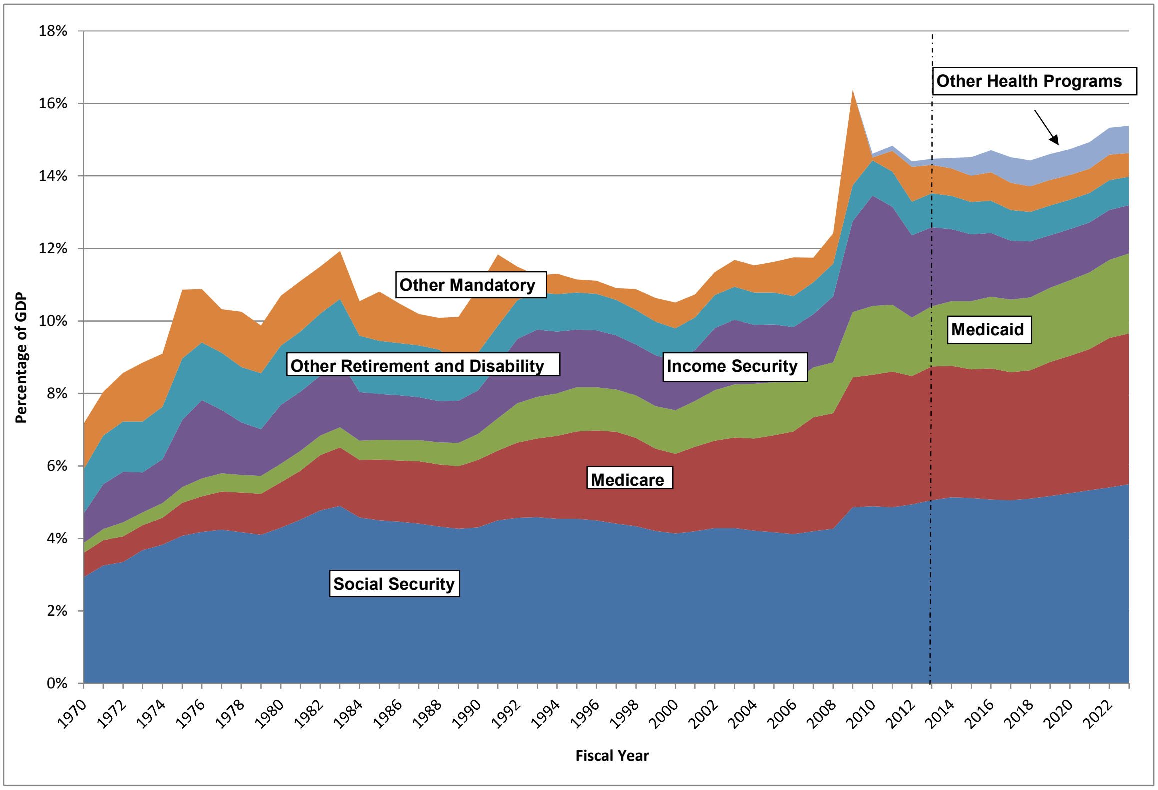
Figure 3. Mandatory Spending Before Offsetting Receipts As a Percentage of GDP (FY1970-FY2023)



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.

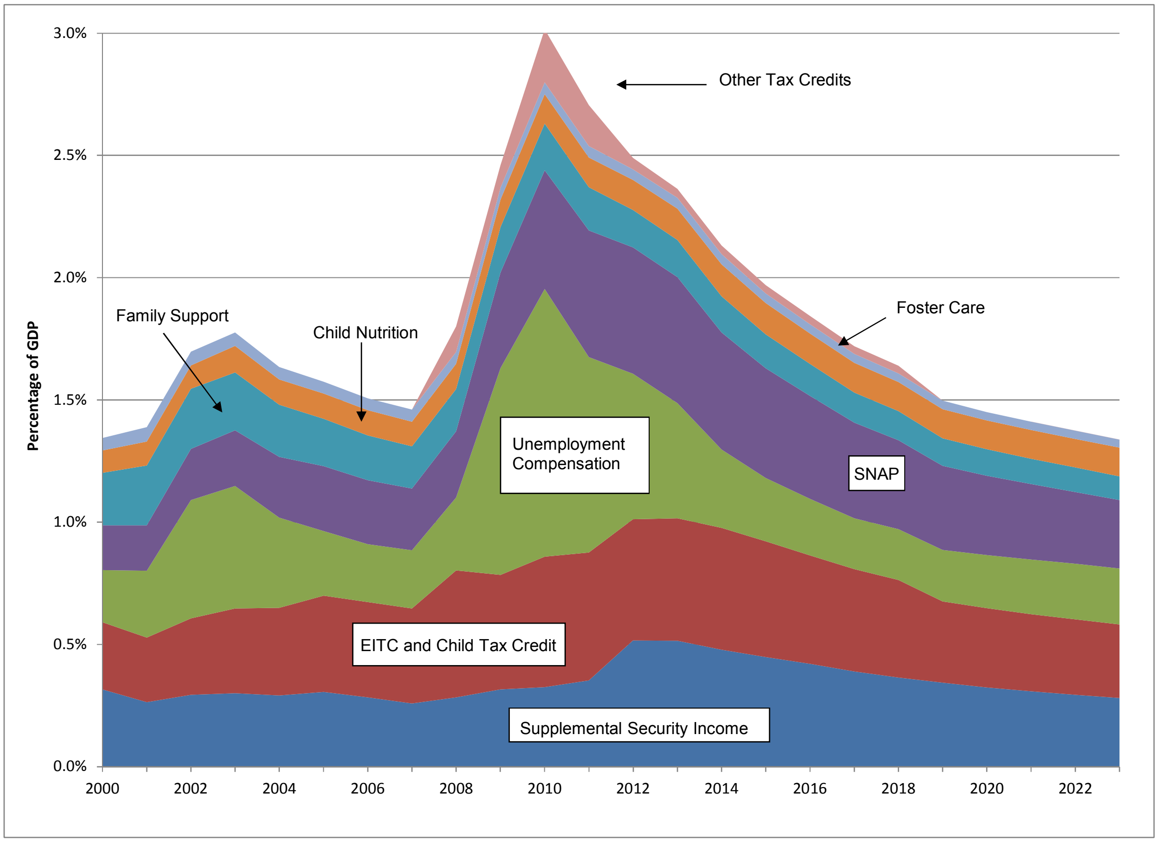
Notes: CBO added the category "Other Health Programs" to its *Budget Projections* data following the enactment of PPACA and HCERA. This category includes Health Insurance Subsidies, Exchanges, and Related Spending, MERHCF, CHIP, and Other health spending. Prior to PPACA and HCERA, MERHCF and CHIP were 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 4.9% of GDP in FY1983. Since then, Social Security has generally fluctuated between 4.3% and 4.9% of GDP. CBO projects Social Security spending will increase from 4.9% in FY2012 to 5.5% of GDP in FY2023. 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. After falling in FY2012 to 5.2% of GDP, spending on these programs is projected to increase to 5.6% of GDP in FY2016 and 6.4% of GDP in FY2023. Spending on other health programs is projected to grow from 0.2% of GDP in FY2012 to 0.7% of GDP in FY2023.

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, is often 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 and 2.3% of GDP in FY2012. By FY2023, income security is projected to fall to 1.3% of GDP. **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 continues to recover. Projections of spending on these programs beyond FY2014, as depicted in this chart, are from the CBO baseline.

Figure 4. Income Security Programs As a Percentage of GDP (FY2000-FY2023)



Source: CRS calculation based on CBO data.

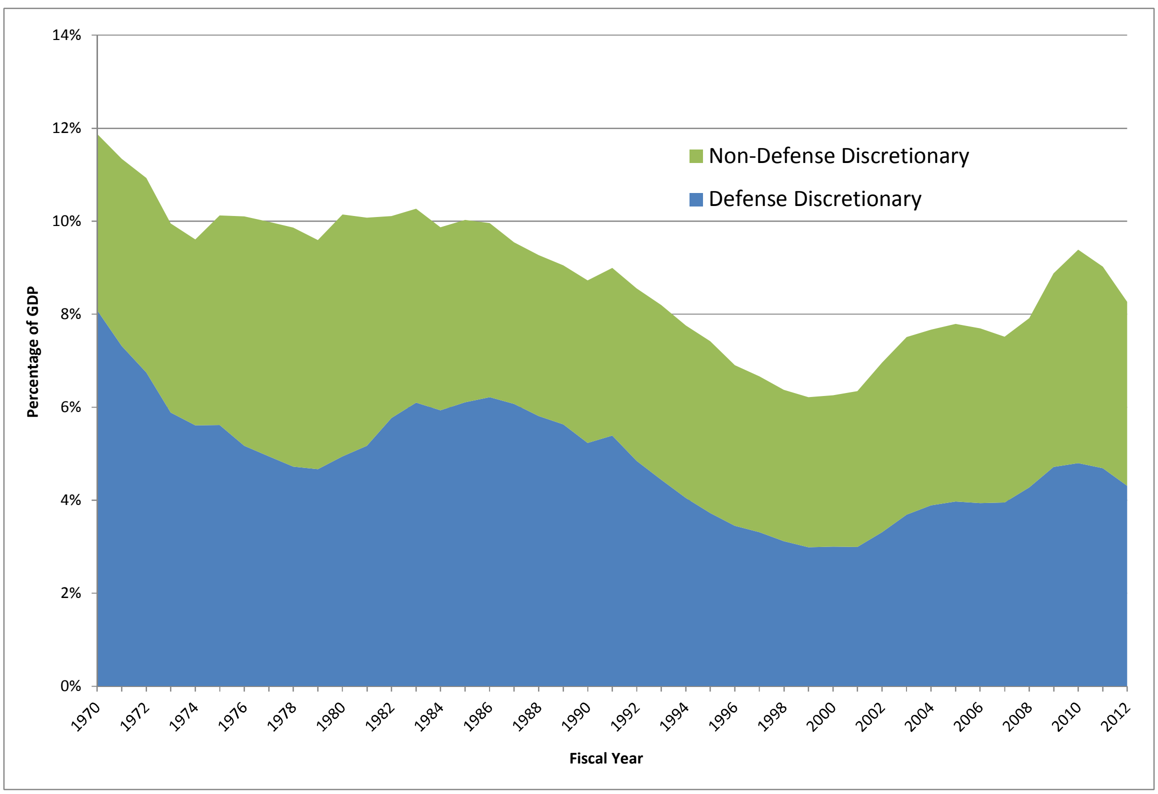
Why Has Mandatory Spending Risen Over Time?

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 latter half of the 1990s.[17] Due to slight increases in the last half dozen years, domestic discretionary spending remained between 3.6% and 4.6% of GDP—its approximate share for the late 1980s and early 1990s. The provisions of the Budget Control Act are set to further constrain discretionary spending through FY2021. These trends in discretionary spending are shown in **Figure 5** below.

Figure 5. Discretionary Spending
As a Percentage of GDP (FY1970-FY2012)



Source: CBO, *Historical Tables*.

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

Third, the number of beneficiaries of entitlement programs has grown as the average age of the 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), were temporarily or partially successful in slowing the rate of increase in health care spending.

Mandatory Spending Beyond FY2023

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. Though the first baby boomers reached age 65 in 2011, most will not reach age 65 until after 2015. Extended baseline projections suggest that Social Security spending could amount to 6.6% of GDP by FY2085—an increase of 1.7 percentage points of GDP from its FY2012 level. According to CBO extended baseline projections, federal mandatory spending on health care, in large part due to rising costs, is projected to reach 16.4% 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 18.0% of GDP by FY2085.[18] By contrast, total federal spending on these health programs in FY2012 was 5.3% of GDP. It is important to note that numerous uncertainties exist when trying to project future levels of spending, particularly for large mandatory programs.

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.

[18] CBO, *The 2012 Long-Term Budget Outlook*, Supplemental Data, June 2012.

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 50% of mandatory spending in FY2023.

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.

Author Contact Information

Mindy R. Levit
Analyst in Public Finance
mlevit@crs.loc.gov, 7-7792

D. Andrew Austin
Analyst in Economic Policy
aaustin@crs.loc.gov, 7-6552

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