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 2010, mandatory spending accounted for over half of total federal spending and over an eighth of gross domestic product (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 nine 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 5.5% of GDP in 2010 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 2010 to 6.3% of GDP by 2084.

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. 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 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. This report will be updated annually.

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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 2010, mandatory spending—totaling 13.2% of gross domestic product (GDP)—exceeded discretionary spending's 9.3% share of GDP.[2] In addition, federal net interest payments accounted for 1.4% of GDP. Together total federal spending represented 23.8% of GDP. Over 55% of all federal spending in 2010 was spent on mandatory programs. Social Security, Medicare, and the federal share of Medicaid alone composed over 43% of all federal spending.

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 2010 relative to 2009 levels, mandatory spending is estimated to increase in 2011. Congressional Budget Office (CBO) projects mandatory spending to fall between 2012 and 2014. However, beyond that period 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 14.0% of GDP in 2021.

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.

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.

Table 1, below, shows CBO baseline projections for mandatory spending from 2010 (actual) to 2021.

[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.

Table 1. Mandatory Outlays, FY2010-FY2021

January 2011 CBO Baseline Projections (billions of dollars)

	Actual 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Social Security	701	727	761	799	842	889	940	997	1,059	1,126	1,196	1,267
Medicare[a]	520	572	566	610	645	679	738	771	806	885	949	1,021
Medicare offsetting receipts[b]	-74	-80	-89	-92	-96	-101	-106	-118	-128	-139	-151	-167
Medicaid	273	274	264	278	329	371	416	447	474	508	544	587
Health insurance subsidies & exchanges	*	*	*	1	15	33	58	72	79	85	88	94
Other Health Programs	17	24	27	27	52	78	101	118	126	137	144	155
MERHCF[c]	8	9	9	10	11	11	12	13	14	15	16	17
Children's Health Insurance Program	8	8	9	9	10	10	10	8	6	6	6	6
Other	1	7	9	8	18	24	22	25	28	32	34	38
Income Security	438	409	343	327	285	282	284	279	278	287	292	302
SNAP	70	77	80	80	71	69	68	67	65	64	64	63
Unemployment compensation	159	129	87	64	61	58	53	52	54	56	58	60
Supplemental Security Income	47	53	46	52	53	54	60	57	53	60	62	69
Earned income and child tax credits	77	77	77	77	46	46	45	45	46	46	46	46
Family support[d]	28	27	25	25	25	25	25	25	25	25	25	25
Child nutrition	17	18	19	20	21	22	23	24	26	27	28	29
Foster care	7	7	7	7	8	8	8	8	9	9	9	10
Making Work Pay and Other Tax Credits[e]	32	21	2	2	*	*	*	*	*	*	*	*
Civilian and Military Retirement	139	146	141	149	154	158	168	168	169	180	185	192
Federal civilian[f]	82	84	86	88	91	94	97	100	104	107	111	114
Military	51	55	48	53	54	55	61	58	55	61	63	65
Other	7	8	7	8	9	9	10	10	11	11	12	13
Veterans[g]	58	78	64	70	72	74	81	78	75	82	84	87
Income security	49	67	53	58	59	61	67	63	60	66	68	69
Other	9	10	11	12	13	13	14	14	15	16	17	18

	Actual 2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Other Programs	**-52**	**68**	**82**	**68**	**54**	**55**	**58**	**55**	**53**	**63**	**62**	**60**
Troubled Asset Relief Program (TARP)[h]	-110	-25	4	2	1	1	1	*	*	*	*	*
Fannie Mae and Freddie Mac[i]	40	11	8	6	4	4	4	4	4	5	5	5
Deposit Insurance[j]	-32	6	8	3	-12	-12	-14	-17	-19	-10	-11	-12
Higher education[k]	-13	-3	-7	-10	-7	-3	2	5	6	6	6	6
Agriculture	15	16	13	17	16	15	15	15	15	15	15	16
Other	47	61	55	50	51	50	51	47	47	46	46	45
Non-Medicare Offsetting Receipts	**-110**	**-110**	**-122**	**-130**	**-134**	**-139**	**-143**	**-150**	**-157**	**-163**	**-167**	**-171**
Federal share of federal employees' retirement	-61	-62	-64	-66	-68	-70	-73	-76	-80	-83	-87	-90
Other	-49	-48	-58	-64	-66	-69	-70	-74	-77	-80	-80	-81
Total Mandatory Outlays	1,910	2,108	2,038	2,106	2,203	2,346	2,538	2,647	2,757	2,964	3,138	3,333

Source: CBO, *Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, Table 3-3, available at http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf.

Notes: * indicates that an outlay level is between zero and $500 million. Totals 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 FY2010 and 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 FY2010 and FY2011 do not reflect TARP spending undertaken in those years.

i. The amount for 2010 reflects cash transfers from the Treasury to Fannie Mae and Freddie Mac. The amounts shown for 2011 through 2021 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. Projected negative outlays for FY2010 indicate federal revenue from insurance premiums and asset sales are anticipated to exceed any expenditures related to failing banks.

k. 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 FY2010 for these programs was negative. Between FY2011 and FY2015 negative outlays are again projected, but as the economy recovers, positive outlays are expected for FY2016-FY2021.

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 dollar-for-dollar 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.[6] 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, minuscule before the Great Depression, 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).[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 1 shows historical trends in mandatory spending between 1962 and 2010 and CBO's baseline projections for these components to 2021, 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.[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]

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

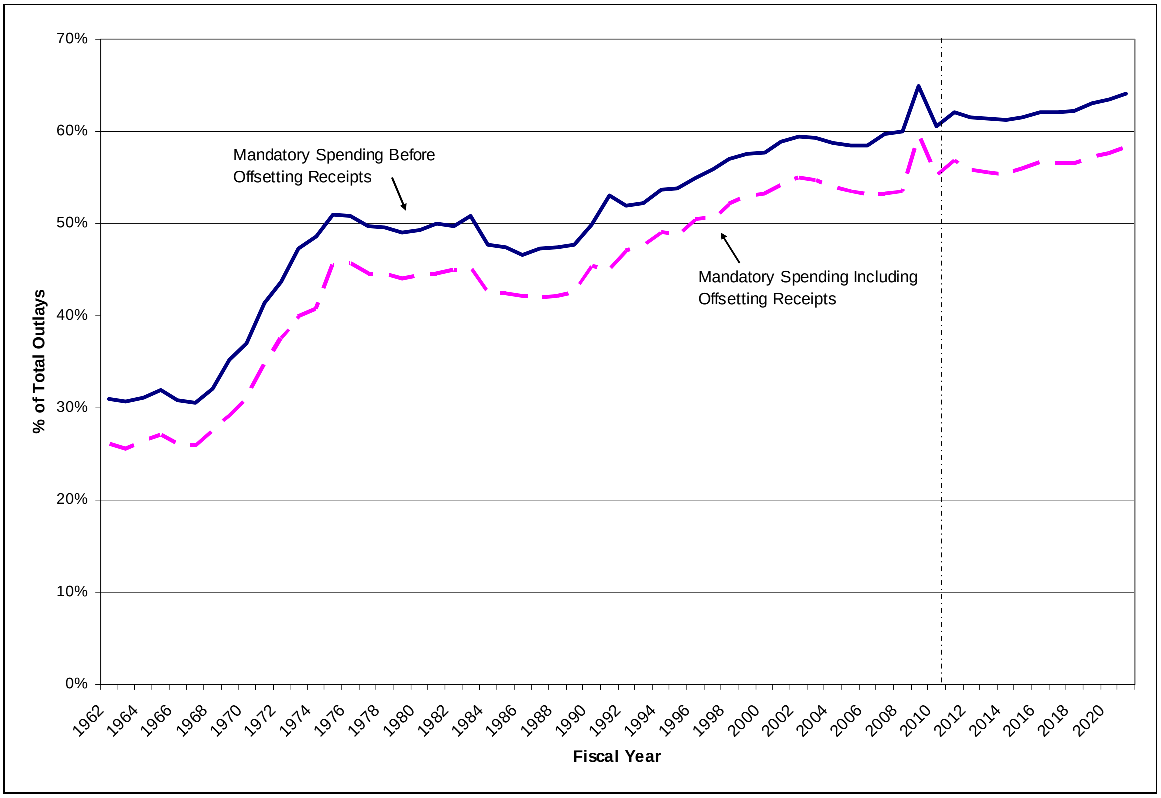
[7] Officially titled "Social Security Amendments of 1965."

[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 2010, offsetting receipts totaled $184 billion or 9% 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] In the baseline, CBO assumes current laws continue unchanged for mandatory programs, while discretionary spending is assumed to increase at the rate of inflation over the projection period. However, in the past, non-defense (continued...)

Figure 1. Mandatory Spending and Offsetting Receipts As a Percentage of Total Outlays (FY1962-FY2021)



Source: Data for FY1962-1970 from OMB, *Budget for Fiscal Year 2012*, *Historical Tables*, Tables 1.3 and 8.5, available at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/hist.pdf; Data for FY1971-FY2021 from CBO, *Historical Tables*, available at http://www.cbo.gov/ftpdocs/120xx/doc12039/historicalTables%5B1%5D.xls and CBO Budget Projections data available at http://www.cbo.gov/ftpdocs/120xx/doc12039/BudgetTables%5B1%5D.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 2010, mandatory spending accounted for over 55% of total spending (or 61% before offsetting receipts). The spike in mandatory spending 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 estimated to increase in 2011 before falling again between 2012 and 2014 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 2010 and 2011 (estimated) and CBO baseline projections for mandatory spending in 2021.

(...continued)

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]	FY2010 (Actual)			FY2011 (Estimated)			FY2021 (CBO Baseline Projections)		
	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP
Social Security	701	33.5%	4.8%	727	31.6%	4.8%	1,267	34.5%	5.3%
Medicare	520	24.9%	3.6%	572	24.9%	3.8%	1,021	27.8%	4.3%
Medicaid	273	13.0%	1.8%	274	11.9%	1.8%	587	16.0%	2.5%
Health Insurance Subsidies & Exchanges	*			*			94	2.6%	0.4%
Other Health Programs	17	0.8%	0.2%	24	0.8%	0.2%	61	1.6%	0.3%
MERHCF	8	0.4%	0.1%	9	0.4%	0.1%	17	0.5%	0.1%
Children's Health Insurance Program	8	0.4%	0.1%	8	0.4%	0.1%	6	0.2%	0.0%
Other	1	0.0%	0.0%	7	0.3%	0.0%	38	1.0%	0.2%
Income Security	438	20.9%	2.7%	409	17.8%	2.7%	302	8.2%	1.3%
SNAP	70	3.4%	0.5%	77	3.4%	0.5%	63	1.7%	0.3%
Unemployment compensation	159	7.6%	0.9%	129	5.6%	0.9%	60	1.6%	0.3%
Supplemental Security Income	47	2.3%	0.4%	53	2.3%	0.4%	69	1.9%	0.3%
Earned income and child tax credits	77	3.7%	0.5%	77	3.3%	0.5%	46	1.3%	0.2%
Family support	28	1.3%	0.2%	27	1.2%	0.2%	25	0.7%	0.1%
Child nutrition	17	0.8%	0.1%	18	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	32	1.5%	0.1%	21	0.9%	0.1%	*		
Civilian and Military Retirement	139	6.6%	1.0%	146	6.4%	1.0%	192	5.2%	0.8%
Federal civilian	82	3.9%	0.6%	84	3.6%	0.6%	114	3.1%	0.5%
Military	51	2.4%	0.4%	55	2.4%	0.4%	65	1.8%	0.3%
Other	7	0.3%	0.1%	8	0.3%	0.1%	13	0.3%	0.1%

Category[a]	FY2010 (Actual)			FY2011 (Estimated)			FY2021 (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	58	2.8%	0.5%	78	3.4%	0.5%	87	2.4%	0.4%
Income Security	49	2.3%	0.4%	67	2.9%	0.4%	69	1.9%	0.3%
Other	9	0.4%	0.1%	10	0.4%	0.1%	18	0.5%	0.1%
Other Programs	-52	-2.5%	0.5%	68	3.0%	0.5%	60	1.6%	0.3%
TARP	-110	-5.2%	-0.2%	-25	-1.1%	-0.2%	*		
Fannie Mae and Freddie Mac	40	1.9%	0.1%	11	0.5%	0.1%	5	0.1%	0.0%
Deposit insurance	-32	-1.5%	0.0%	6	0.3%	0.0%	-12	-0.3%	-0.1%
Higher education	-13	-0.6%	0.0%	-3	-0.1%	0.0%	6	0.2%	0.0%
Agriculture	15	0.7%	0.1%	16	0.7%	0.1%	16	0.4%	0.1%
Other	47	2.2%	0.4%	61	2.7%	0.4%	45	1.2%	0.2%
Mandatory Spending Excluding Offsetting Receipts	2,094	100%	14.4%	2,299	100%	15.3%	3,671	100%	15.4%
Offsetting Receipts	-184		-1.3%	-191		-1.3%	-338		-1.4%
Medicare	-74		-0.5%	-80		-0.5%	-167		-0.7%
Federal share of federal employees' retirement	-61		-0.4%	-62		-0.4%	-90		-0.4%
Other	-49		-0.3%	-48		-0.3%	-81		-0.3%
Total Mandatory Spending	1,910		14.0%	2,108		14.0%	3,333		14.0%
Medicare Spending Net of Offsetting Receipts	446		3.1%	492		3.3%	855		3.6%

Source: CBO, *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, Table 3-3, available at http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf.

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 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

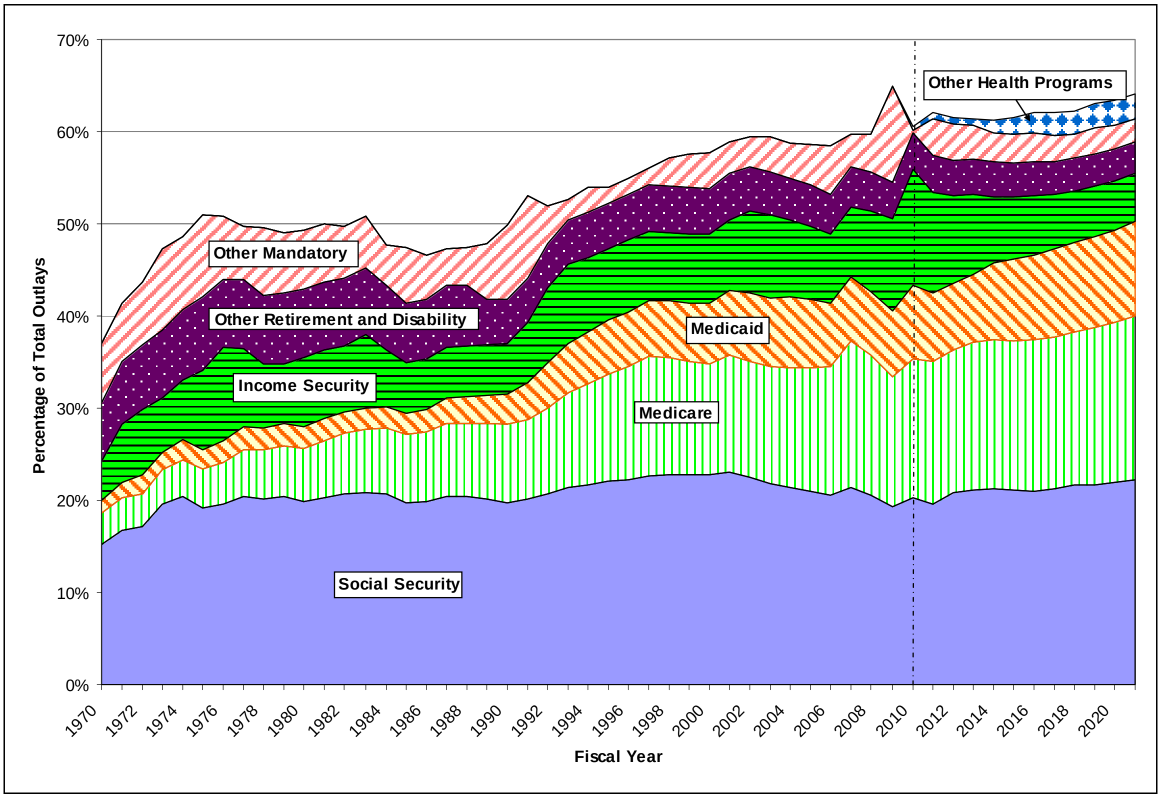
The composition of mandatory spending has changed dramatically over the past 40 years and, according to CBO baseline projections, will to continue to change over the decade. **Figure 2** shows how major components of mandatory spending as a percentage of total federal spending have evolved since 1970.

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 1970 to 22.9% in 2010. 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 2021, based on CBO baseline projections, Medicare and Medicaid are projected to account for 28.1% of total federal spending.

Over the next decade, spending on mandatory programs outside of Medicare and Medicaid 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 12.7% of total federal spending in 2010 to 5.3% by 2021. 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 2021, spending in this category is projected to fall to 1.1% 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.

Figure 2. Components of Mandatory Spending
As a Percentage of Federal Spending (FY1970-FY2021)



Source: Offsetting receipts are excluded. CRS calculations based on data from CBO, *Historical Tables*, available at http://www.cbo.gov/ftpdocs/120xx/doc12039/historicalTables%5B1%5D.xls; and CBO, *Budget Projections,* data available at http://www.cbo.gov/ftpdocs/120xx/doc12039/BudgetTables%5B1%5D.xls. 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.[12] 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 2**) relative to what they were prior to the enactment of this legislation.[13] Revenue increases are projected to offset the additional mandatory outlays.

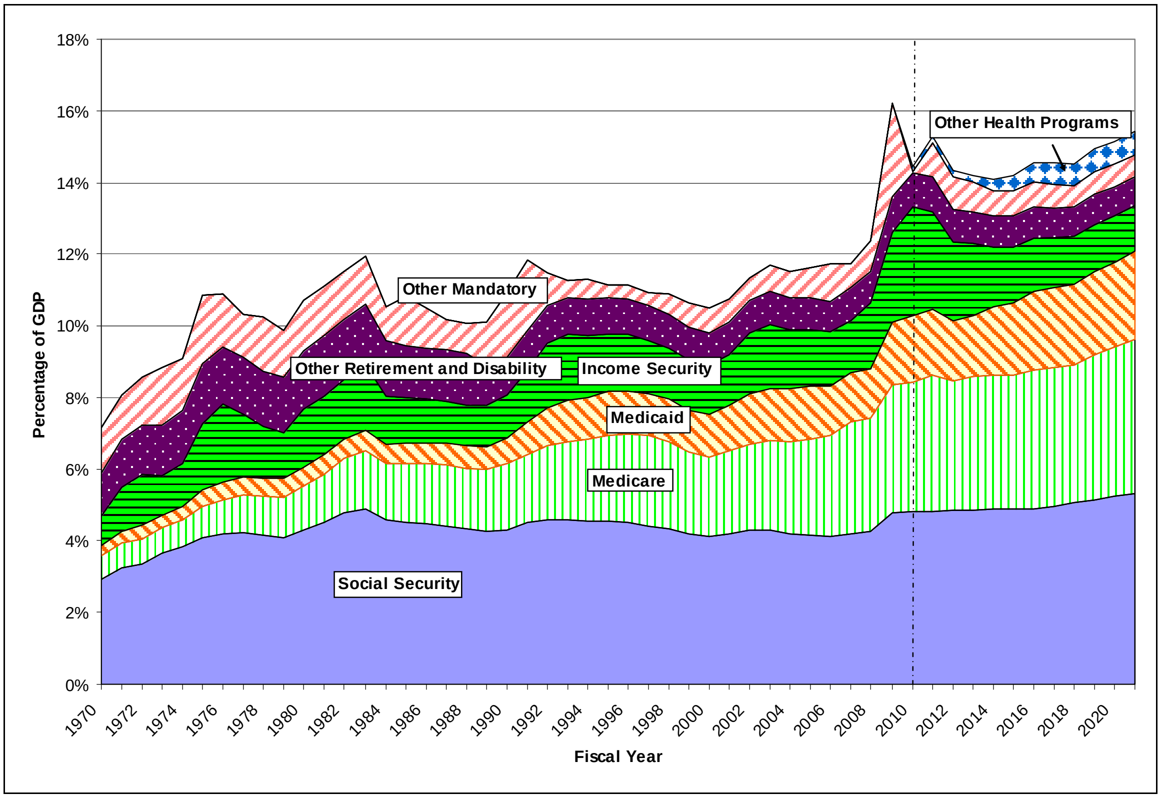
[12] For more information on PPACA and HCERA, see http://www.crs.gov/Pages/subissue.aspx?cliid=3746&parentid=13.

[13] 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 3** shows the evolution of mandatory spending and its components relative to GDP since 1970.

Figure 3. Mandatory Spending Before Offsetting Receipts As a Percentage of GDP (FY1970-FY2021)



Source: Offsetting receipts are excluded. CRS calculations based on data from CBO, *Historical Tables*, available at http://www.cbo.gov/ftpdocs/120xx/doc12039/historicalTables%5B1%5D.xls; and CBO, *Budget Projections,* data available at http://www.cbo.gov/ftpdocs/120xx/doc12039/BudgetTables%5B1%5D.xls. CBO baseline projections depicted to the right of the vertical line.

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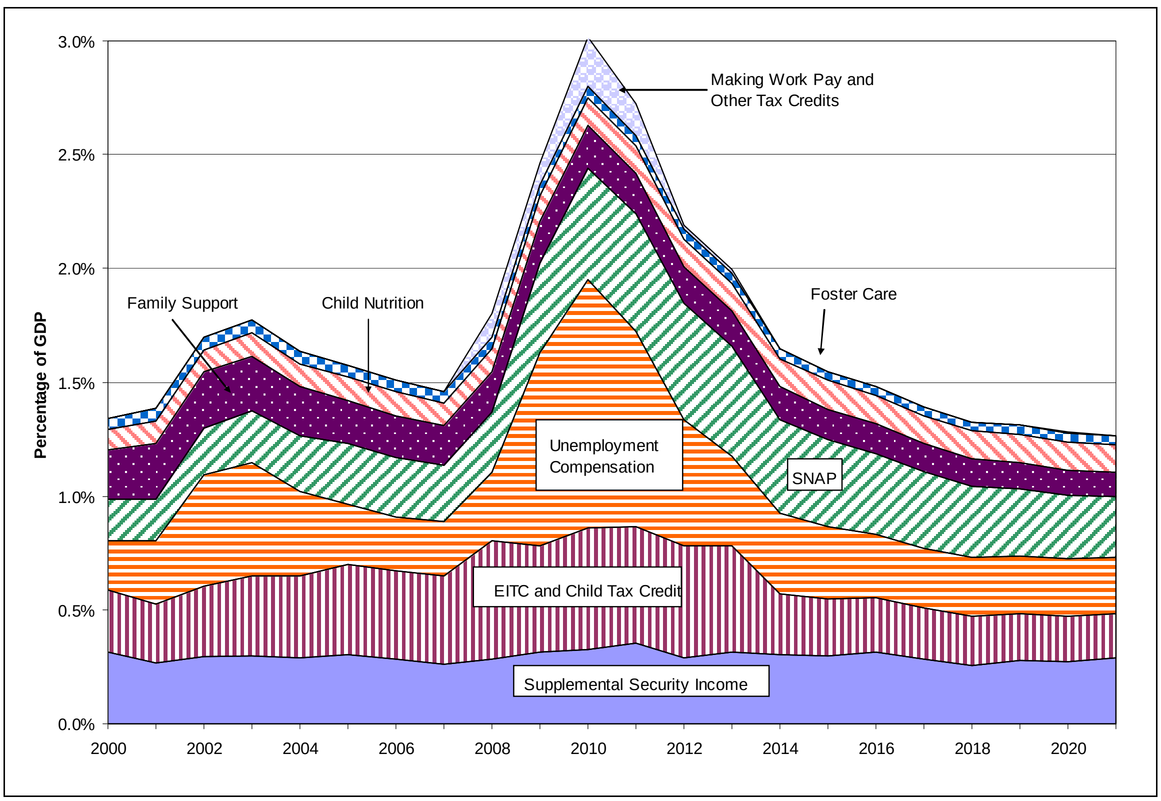
Mandatory spending, relative to the size of the economy, grew rapidly in the late 1960s and 1970s. In the 1980s, Medicare, Medicaid, and Social Security continued to grow, while other components of mandatory spending fluctuated with the business cycle. In the 1990s, mandatory spending including offsetting 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 2010 to 5.3% of GDP in 2021.

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 2010, spending on these two programs reached 5.6% of GDP. According to CBO current-law projections, they will total 6.8% of GDP in 2021.

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 2010 and is estimated to fall to 2.7% of GDP in 2011 before falling to 1.3% of GDP in 2021. **Figure 4** 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 4. Income Security Programs As a Percentage of GDP (FY2000-FY2021)



Source: CRS calculation based on CBO data.

Why Has Mandatory Spending Risen?

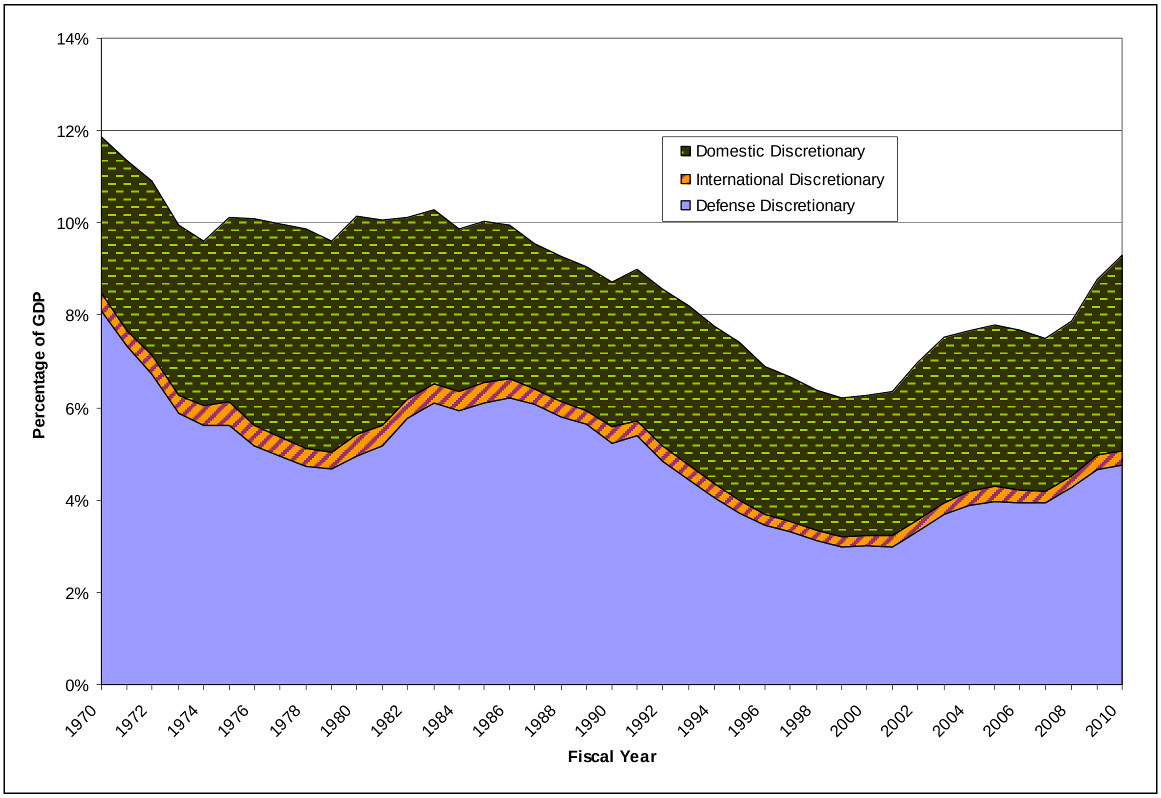
The share of mandatory spending has increased as a portion of total federal spending and as a percentage of GDP for four reasons.

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. 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 4.7% of GDP in 2010, 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 between 3.5% and 4.2% 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 5**.

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 5. Discretionary Spending
As a Percentage of GDP (FY1970-FY2010)



Source: CBO, *Historical Tables*, available at http://www.cbo.gov/ftpdocs/120xx/doc12039/historicalTables%5B1%5D.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 2021

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.[14] By contrast, total federal spending on these programs in 2010 was 5.6% 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 60% of mandatory spending in 2021.

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 over 43% of total federal outlays in 2010. 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 13% of total federal spending in 2010.

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.

[14] 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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