Mandatory Spending Since 1962

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Summary

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

In 2009, mandatory spending accounted for over half of total federal spending and almost a seventh of gross domestic product (GDP). Social Security accounted for nearly a fifth of federal spending. Medicare and the federal share of Medicaid, the fastest growing components of mandatory spending, together accounted for over a fifth of federal spending. Those three programs, therefore, made up over 40% of federal spending.

The composition of mandatory spending has changed significantly over the past 40 years. In 1962, before the 1965 creation of Medicare and Medicaid, mandatory spending was less than 30% of all federal spending. At that time, Social Security accounted for about half of all mandatory spending. By 2009, mandatory spending composed 60% of total federal spending. Medicare and Medicaid grew from almost nothing in 1965 to about 5.3% of GDP in 2009. Similarly, Social Security grew from 2.5% of GDP in 1962 to 4.8% in 2009.

Federal spending has outrun federal revenues for the last eight fiscal years. In the long term, projections suggest that if current policies remain unchanged, the United States faces a major fiscal imbalance, largely due to rising health care costs and impending Baby Boomer retirements. Medicare and the federal portion of Medicaid spending is projected to expand from 5.3% of GDP in 2009 to 17.8% in 2083 according to a Congressional Budget Office (CBO) extended baseline projection. Social Security is projected to grow from 4.8% of GDP in 2009 to 6.2% of GDP by 2083. Thus, funding health care costs while the U.S. population ages promises to strain federal budgets in coming decades.

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

This report will be updated 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 2009, mandatory spending—totaling 14.7% of gross domestic product (GDP)—overshadowed discretionary spending's 8.7% share of GDP.[2] In addition, federal net interest payments accounted for 1.3% of GDP. Nearly 60% of all federal spending in 2009 (total federal spending represented 24.7% of GDP) was spent on mandatory programs. Social Security, Medicare, and the federal share of Medicaid alone composed over 41% of all federal spending.

Due to the current economic conditions and subsequent federal financial interventions, mandatory spending was higher than its historical levels (as a percentage of GDP) in 2009. However, mandatory spending is projected to fall between 2010 and 2015. Following these declines, the Congressional Budget Office (CBO) projects that mandatory spending will continue to account for an ever-increasing share of GDP in the second half of the decade. Mandatory spending, according to CBO current-law projections, will be about 13.3% of GDP in 2020.

Mandatory spending plays a major role in larger fiscal trends. During economic downturns, government revenues fall and expenditures rise as more people become eligible for mandatory programs such as unemployment insurance and income support programs, causing deficits to increase or surpluses to shrink. These effects, known as "automatic stabilizers," provide a countercyclical fiscal stimulus in the short run without the need for new legislative action. Income support programs accounted for 16.6% of mandatory spending in 2009.

CBO baseline projections of mandatory spending, which extend to 2020, as well as extended baseline projections through 2083 are used to consider the long-term consequences of current mandatory spending policies.

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.

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

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[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.

most cases, the authorizing law requires, in the form of an eligibility criteria and a benefit formula, payment to an individual or entity (e.g., a state). Mandatory spending typically is provided in permanent or multi-year appropriations contained in the authorizing law, and therefore, the funding becomes available automatically each year, without legislative action by Congress. In contrast, discretionary spending is provided and controlled through the annual appropriations process.[3] Net interest payments, which are automatically authorized, are often reported as a separate category.

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

Mandatory spending is offset by certain fees and payments, which are counted as offsetting receipts rather than as revenue. Market-like charges, such as Medicare Part A deductibles and Medicare Part B premiums, are considered offsetting receipts. Some intragovernmental transfers, such as agency rents paid to the General Services Administration (GSA), are also counted as offsetting receipts by the recipient agency. Payments by Medicare beneficiaries and the federal government's tax and pension contributions in its role as an employer comprise the largest component of offsetting receipts within the mandatory spending category.

Mandatory Spending Trends Over Time

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

[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.

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

of all mandatory spending.[7] 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.

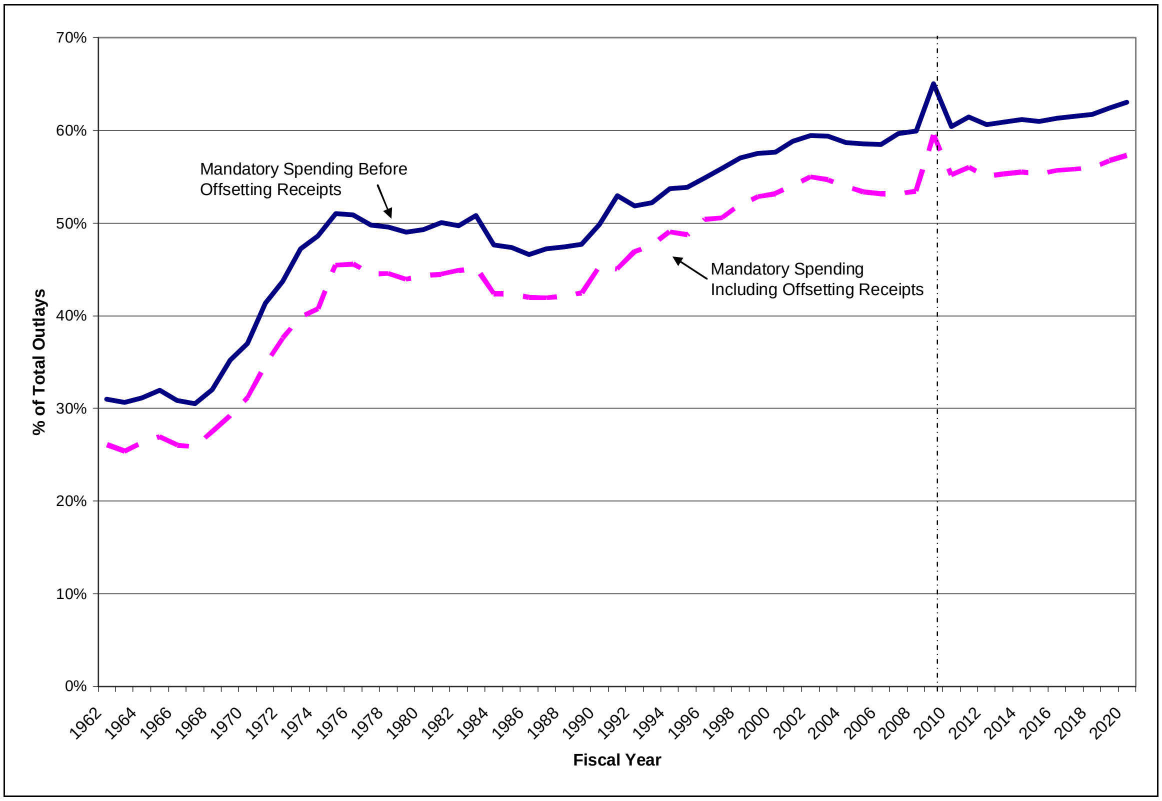
Figure 1 shows historical trends in mandatory spending between 1962 and 2009 and CBO's baseline projections for these components to 2020, expressed as a percentage of total federal spending. The CBO baseline, intended as a neutral starting point for the estimation of budgetary effects of legislative changes, is not a "best guess" of the likely future trajectory of the economy.[8] 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.[9]

[7] 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 1**. In 2009, offsetting receipts totaled $195 billion or 9% of total programmatic mandatory spending.

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

[9] CBO baseline projections start with Congress's most recent budgetary decisions and then assume that no policy changes will be made over the projection period. In the baseline, CBO assumes current laws continue unchanged for mandatory programs, while discretionary spending is assumed to increase at the rate of inflation over the projection period. However, in the past, non-defense discretionary spending has grown roughly as fast as overall economic growth, a growth rate greater than inflation.

Figure 1. Mandatory Spending and Offsetting Receipts As a Percentage of Total Outlays (FY1962-FY2020)



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

Mandatory spending was about a quarter of total federal spending in 1962 (nearly a third if offsetting receipts are excluded). In 1968, mandatory spending began growing relative to total federal spending and by 1975 accounted for about 45% of total spending (about half before offsetting receipts). From the mid-1980s through 1990, mandatory spending's share in total spending remained relatively steady, before starting to grow again after 1990. In 2009, mandatory spending accounted for 59.5% of total spending (or 65% before offsetting receipts). The spike between 2008 and 2009 was largely due to increased outlays related to federal financial interventions and the economic downturn. Though mandatory spending falls between 2010 and 2012 as the economy recovers, the upward trajectory resumes thereafter largely due to rising healthcare costs.

Table 1 presents components of mandatory spending in 2009 and 2010 (estimated) and CBO baseline projections for mandatory spending in 2020.

Table 1. Mandatory Spending in Detail

Category	FY2009			FY2010 (Estimated)			FY2020 (CBO Baseline Projections)		
	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP
Social Security	678	32.4%	4.8%	700	36.0%	4.8%	1,170	38.9%	5.2%
Medicare[b]	499	23.8%	3.5%	528	27.2%	3.6%	1,038	34.5%	4.6%
Medicaid	251	12.0%	1.8%	280	14.4%	1.9%	458	15.2%	2.0%
Income Support	348	16.6%	2.4%	400	20.6%	2.7%	283	9.4%	1.3%
SSI	45	2.1%	0.3%	48	2.5%	0.3%	61	2.0%	0.3%
EITC and child tax credits	67	3.2%	0.5%	72	3.7%	0.5%	45	1.5%	0.2%
Unemployment comp.	119	5.7%	0.8%	133	6.8%	0.9%	56	1.8%	0.2%
SNAP (Food Stamps)	56	2.7%	0.4%	70	3.6%	0.5%	61	2.0%	0.3%
Family support	26	1.3%	0.2%	28	1.4%	0.2%	25	0.8%	0.1%
Child nutrition	16	0.8%	0.1%	17	0.9%	0.1%	25	0.8%	0.1%
Foster care	7	0.3%	0.0%	7	0.4%	0.1%	9	0.3%	0.0%
Making Work Pay and Other Tax Credits	13	0.6%	0.1%	24	1.2%	0.2%	*		
Civilian and Military Retirement	138	6.6%	1.0%	141	7.3%	1.0%	188	6.3%	0.8%
Federal civilian	80	3.8%	0.6%	83	4.2%	0.6%	113	3.8%	0.5%
Military	50	2.4%	0.4%	51	2.6%	0.3%	63	2.1%	0.3%
Other	8	0.4%	0.1%	8	0.4%	0.1%	12	0.4%	0.1%
Veterans	50	2.4%	0.3%	57	2.9%	0.4%	79	2.6%	0.4%
Income Security	46	2.2%	0.3%	49	2.5%	0.3%	63	2.1%	0.3%
Other	4	0.2%	0.0%	8	0.4%	0.1%	16	0.5%	0.1%
Other Programs	325	15.5%	2.3%	22	1.2%	0.2%	92	3.1%	0.4%
Net Subsidy Costs for GSEs	91	4.4%	0.6%	21	1.1%	0.1%	3	0.1%	0.0%

Category	FY2009			FY2010 (Estimated)			FY2020 (CBO Baseline Projections)		
	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP	$Billions	% of Mandatory Spending[a]	% of GDP
TARP[c]	152	7.2%	1.1%	-67	-3.4%	-0.5%	*		
Agriculture	17	0.8%	0.1%	19	1.0%	0.1%	17	0.6%	0.1%
MERHCF[d]	8	0.4%	0.1%	8	0.4%	0.1%	17	0.6%	0.1%
Higher Education[e]	-18	-0.9%	-0.1%	-10	-0.5%	-0.1%	10	0.3%	0.0%
Universal Service Fund	8	0.4%	0.1%	8	0.4%	0.1%	9	0.3%	0.0%
CHIP	8	0.4%	0.1%	9	0.5%	0.1%	6	0.2%	0.0%
Social services	5	0.2%	0.0%	5	0.3%	0.0%	6	0.2%	0.0%
Deposit insurance[f]	23	1.1%	0.2%	-4	-0.2%	0.0%	-5	-0.2%	0.0%
Other	32	1.5%	0.2%	33	1.7%	0.2%	30	1.0%	0.1%
Offsetting Receipts	-195	-9.3%	-1.4%	-183	-9.4	-1.3%	-302	-10.0%	-1.3%
Medicare	-74	-3.5%	-0.5%	-78	-4.0%	-0.5%	-150	-5.0%	-0.7%
Employer's share of employee retirement	-56	-2.7%	-0.4%	-60	-3.1%	-0.4%	-83	-2.8%	-0.4%
Other	-65	-3.1%	-0.5%	-45	-2.3%	-0.3%	-68	-2.3%	-0.3%
Total Mandatory Spending	2,094	100.0%	14.7%	1,946	100.0%	13.3%	3,008	100.0%	13.3%
Medicare Spending Net of Offsetting Receipts	425	20.3%	3.0%	450	23.1%	3.1%	888	29.5%	3.9%

Source: CBO, *The Budget and Economic Outlook: Fiscal Years 2010 to 2020*, January 2010, Budget Projections Data, available at http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf. See source for notes. * Indicates that an outlay level is between -$500 million and $500 million. Some items do not sum to totals due to rounding.

a. Denominator includes offsetting receipts.

b. Excludes offsetting receipts.

c. A negative outlay level for TARP in FY2010 is recorded to reflect changes in economic and market conditions that have lowered CBO's estimates of the cost of the TARP program over its lifetime. CBO now estimates the net cost of TARP over its lifetime to be $99 billion. With actual outlays of $152 billion in FY2009, the CBO baseline now reflects negative net TARP outlays for the FY2010-FY2019 period of $53 billion (negative net outlays of $67 billion in FY2010 and positive outlays of $14 billion between FY2011-FY2019).

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

e. The estimated mandatory outlays for higher education reflect student loan and aid programs. As a result of revenues (i.e., proceeds from borrowers) exceeding the expenses (i.e., payments to lenders), the actual outlay level in FY2009 for these programs was negative. For FY2010 negative outlays are again projected, but as the economy recovers, positive outlays are expected for FY2011.

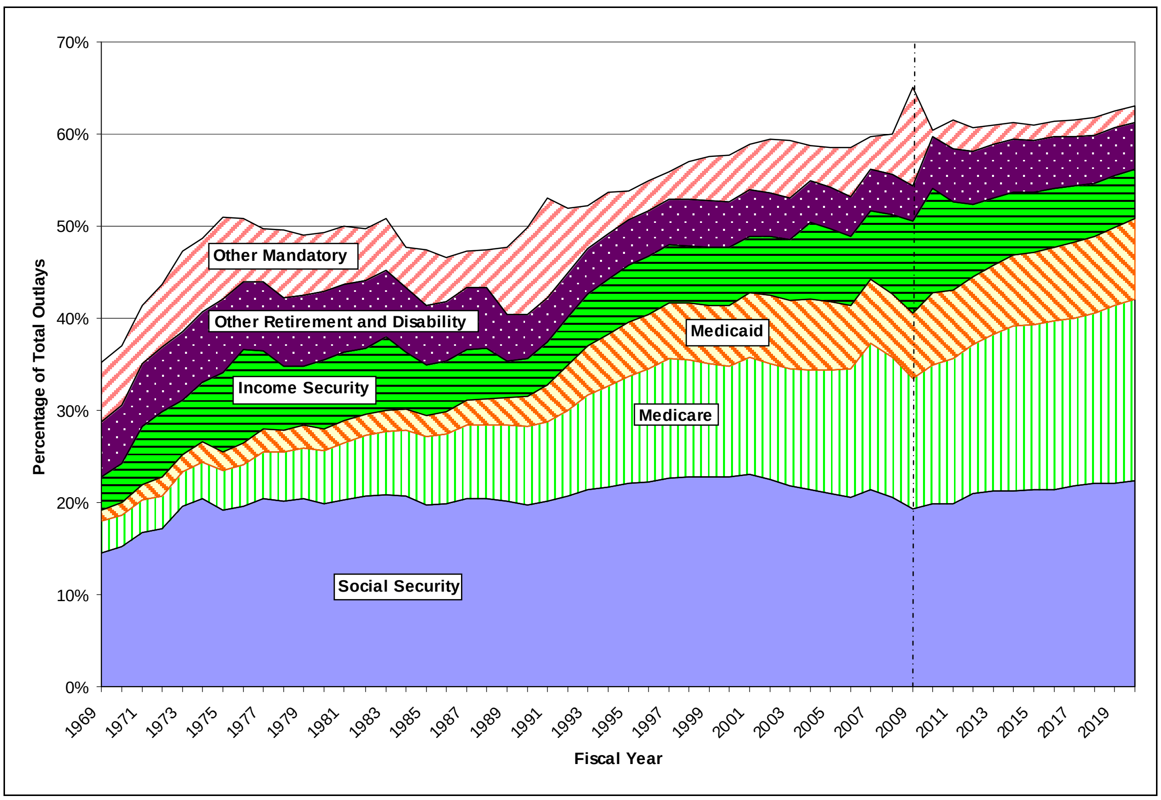
f. Net costs for deposit insurance are recorded on a cash basis. Positive outlays for FY2009 reflect payments made by the government to cover losses for failing banks. Projected negative outlays for FY2010 and FY2011 indicate federal revenue from insurance premiums and asset sales are anticipated to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

In 2009, total mandatory spending increased by 31% in dollar terms over 2008, primarily due to the economic downturn and federal financial interventions, including assistance provided in the Troubled Asset Relief Program (TARP) and aid to the GSEs (Fannie Mae and Freddie Mac). The majority of the impact of the enacted federal financial intervention programs should largely affect outlays in 2009 for TARP and between 2009 and 2013 for the GSE assistance. In addition, 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 economy is expected to recover, 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 the Composition of Mandatory Spending

The composition of mandatory spending has changed dramatically over the past 40 years and, according to CBO baseline projections, will to continue to change over the decade. **Figure 2** shows how major components of mandatory spending as a percentage of total federal spending have evolved since 1969.

Figure 2. Components of Mandatory Spending As a Percentage of Federal Spending (FY1969-FY2020)



Source: CBO, *Historical Tables*, available at http://www.cbo.gov/budget/historical.shtml. Baseline projections are CRS calculations based on CBO Budget Projections data, available at http://www.cbo.gov/budget/budproj.shtml. CBO baseline projections depicted to the right of the vertical dotted line. Offsetting receipts are excluded.

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 15.5% of mandatory spending in 1970 to 35.8% in 2009. CBO baseline projections show further increases in federal health spending will cause the Medicaid and Medicare share of mandatory spending to continue to rise. As an example, by 2020, based on CBO baseline projections, Medicare and Medicaid are projected to account for 49.7% of mandatory spending.

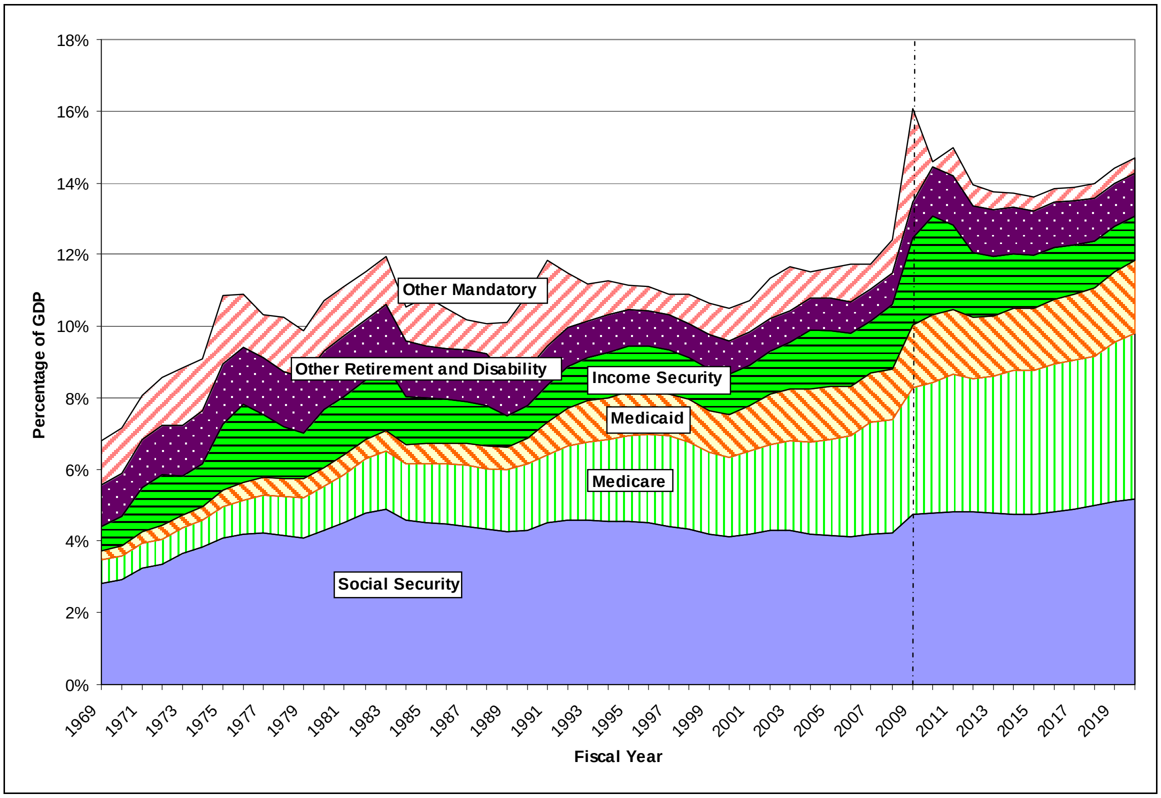
In contrast to growing per capita health care spending, Social Security's share of outlays is projected to remain essentially flat as a share of mandatory spending, from 38.4% in FY2008 to 38.9% in FY2020.[10]

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. **Figure 3** shows the evolution of mandatory spending and its components relative to GDP since 1969.

[10] In 2009, Social Security spending as a percentage of total mandatory spending fell to 32.4% due to the overall increase in total mandatory spending as a result of economic recovery and federal financial interventions. After 2011, the long-term trend in Social Security spending as a percentage of total mandatory spending remains relatively flat as discussed above.

Figure 3. Mandatory Spending Before Offsetting Receipts As a Percentage of GDP (FY1969-FY2020)



Source: CBO, *Historical Tables*, available at http://www.cbo.gov/budget/historical.shtml. Baseline projections are CRS calculations based on CBO Budget Projections data, available at http://www.cbo.gov/budget/budproj.shtml. CBO baseline projections depicted to the right of the vertical line. Offsetting receipts are excluded.

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 2.8% of GDP in 1969 to its peak of 4.9% of GDP in 1983. Since then, Social Security has fluctuated between 4.3% and 4.8% of GDP. CBO projects Social Security spending will increase from 4.8% in 2009 to 5.2% of GDP in 2020. Both Medicare and Medicaid have grown faster than the overall economy, and continued growth is expected. According to CBO current-law projections, they will total 6.6% of GDP in 2020.[11]

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

[11] CRS calculations based on CBO budget projection data, available at http://www.cbo.gov/budget/budproj.shtml.

Due to current economic conditions, income support spending rose to 2.4% of GDP in 2009 and is projected to equal 2.4% of GDP in 2010, before falling to 2.3% of GDP in 2011 and 1.3% of GDP in 2020.

The spike in the "other mandatory" spending category in 2009 is largely due to the net subsidy costs of outlays related to TARP and support for the GSEs.

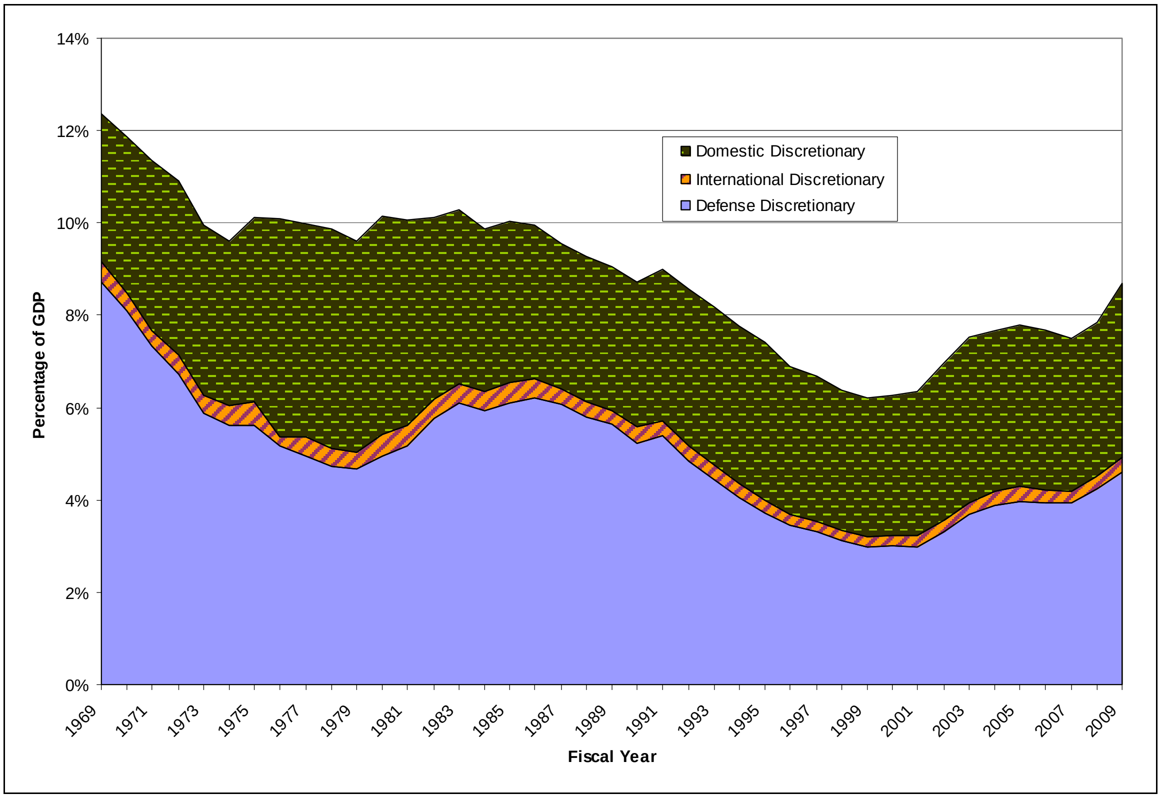
Why Has Mandatory Spending Risen?

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

First, discretionary spending, defined as non-entitlement spending that is provided through appropriations acts, has fallen relative to mandatory spending. Defense discretionary expenditures once dominated domestic discretionary spending but now account for a relatively smaller share of total federal spending. However, as a share of GDP, defense discretionary expenditures have trended downwards since the height of the Vietnam War in the late 1960s, despite temporary increases during the late 1970s and early 1980s. Even with recent increases in defense discretionary spending, which accounted for 4.6% of GDP in 2009, this spending took up less than half the share of the economy compared to the late 1960s.

Second, domestic discretionary spending has been relatively stable as a share of GDP compared to mandatory spending, which has grown more quickly. Domestic discretionary spending, about 2.5% of GDP in the early 1960s, rose to about 4.5% of GDP in the mid-1970s, partly due to expansion of social spending and partly because of the severity of the 1974-1975 recession. In the 1980s, domestic discretionary spending as a share of GDP fell, and budget limits or "caps" helped restrict growth in discretionary spending in the 1990s. Due to slight increases in the last half dozen years, domestic discretionary spending remained about 3.5% of GDP—its approximate share for the late 1960s and early 1970s. The international component of discretionary spending, just under 1% of GDP in 1962, has declined to 0.3% of GDP in recent years. These trends in discretionary spending are shown in **Figure 4**.

Figure 4. Discretionary Spending As a Percentage of GDP (FY1969-FY2009)



Source: CBO, *Historical Tables*, available at http://www.cbo.gov/budget/historical.shtml.

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 2020

CBO baseline projections, which extend 10 years forward, do not reflect the full force of the pressures the impending retirement of the large baby boom generation will exert on the federal budget. The oldest baby boomers reach age 65 in 2011, and most will not reach age 65 until after 2015. Extended baseline projections suggest that Social Security spending could amount to 6.2% of GDP by 2083—an increase of 2% of GDP from its 2008 level. According to CBO extended baseline projections, Medicare and Medicaid spending, in large part due to rising health care costs, is projected to reach 17.8% of GDP by 2083. However, under an alternative scenario where no slowing of health care cost growth occurs, spending on Medicare and Medicaid could reach 44.1% of GDP by 2083.[12] By contrast, total federal spending on these programs in 2008 was 4.6% 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 slightly less than 40% of mandatory spending. Medicare and Medicaid, since their inception, have taken up an increasingly large share of mandatory spending. Together those two programs' outlays now exceed Social Security spending, and CBO current-law projections indicate they could make up half of mandatory spending in 2020.

Reducing the federal deficit significantly by cutting spending without reducing mandatory spending, and in particular entitlements, would be difficult. Social Security, Medicare, and Medicaid account for over three-quarters of mandatory spending in 2008 and just over two-fifths of total federal outlays. Focusing budget cuts on the big three programs, however, could adversely affect the elderly or the poor. Limiting budget reductions to income support programs, such as Temporary Assistance for Needy Families (TANF), SSI, and SNAP, would not reduce the federal deficit by much as these programs account for about one-sixth of mandatory spending.

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[12] CBO, *The Long-Term Budget Outlook*, Supplemental Data for Figures 1-1, 1-2, and 2-3, June 2009, available at http://www.cbo.gov/ftpdocs/102xx/doc10297/06-25-LTBO.pdf.

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

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