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INSIGHT

Overview of Recent Fiscal Spending Projections

March 26, 2025

This brief summarizes projections for major components of the federal budget from the January 2025 Congressional Budget Office (CBO) budget outlook and the Biden Administration FY2025 budget submission issued in March 2024. The FY2026 budget submission is expected sometime this spring. Scoring of legislative proposals will start from these CBO baseline projections, which indicate the trajectory of federal spending under current law.

Federal spending can be divided between discretionary and mandatory categories, which reflects how Congress funds that spending. Discretionary spending is provided and controlled by annual appropriations laws. Mandatory spending is funded by other types of laws. Net interest is technically a form of mandatory spending, but is typically reported separately. In FY2025, discretionary budget authority (BA) is estimated at 6% of GDP. BA allows agencies to make financial obligations, such as contracts, grants, and salaries. FY2025 mandatory outlays are an estimated 14% of GDP, and net interest accounts for 3% of GDP. Outlays are generally a better measure of the scale of mandatory programs.

Discretionary Spending Trends

Defense discretionary spending is typically defined by the National Defense (050) budget function, which mostly covers Department of Defense (DOD) military activities, but also includes Department of Energy (DOE) nuclear weapons programs, as well as counterintelligence activities of the Federal Bureau of Investigation (FBI) and the Cybersecurity and Infrastructure Security Agency (CISA). Mandatory spending is a small fraction of defense spending.

Nondefense discretionary spending, in general, covers costs of running government operations outside of the National Defense budget function. This includes the Department of Veterans Affairs (VA), the Department of Homeland Security (DHS), the Department of Health and Human Services (DHHS), the Department of Transportation (DOT), the Department of Education (ED), and other agencies and offices. Some agencies, such as DHHS, oversee large amounts of mandatory spending.

Figure 1 shows defense discretionary budget authority (BA) as a share of gross domestic product (GDP) since 1980. Defense spending increased sharply after the Soviet Union's 1979 invasion of Afghanistan, but declined in the mid-1980s as concerns rose about cost overruns and rising deficits.

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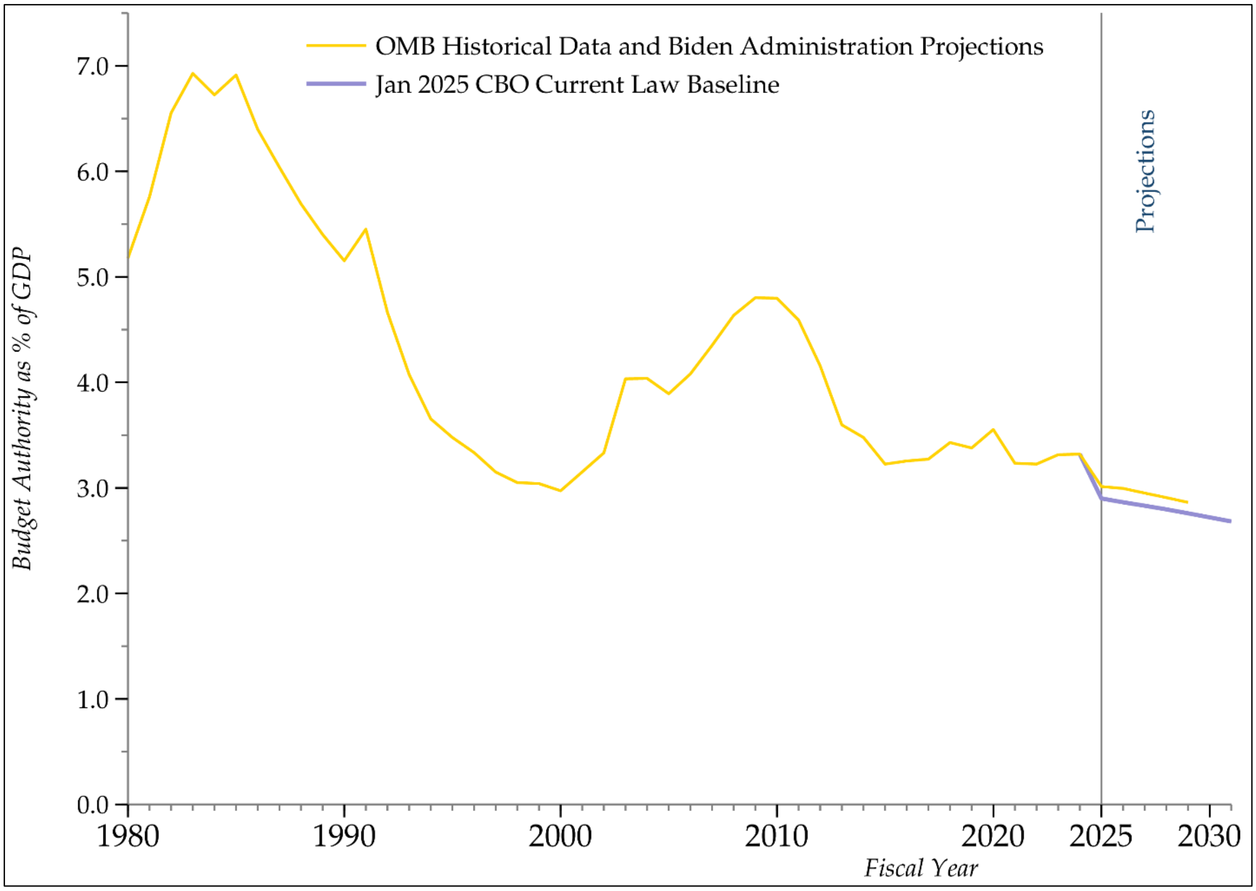
Figure 1. National Defense Discretionary BA

As percentage of GDP, FY1980-FY2031



Source: OMB FY2025 budget submission and January 2025 CBO current-law baseline projections.

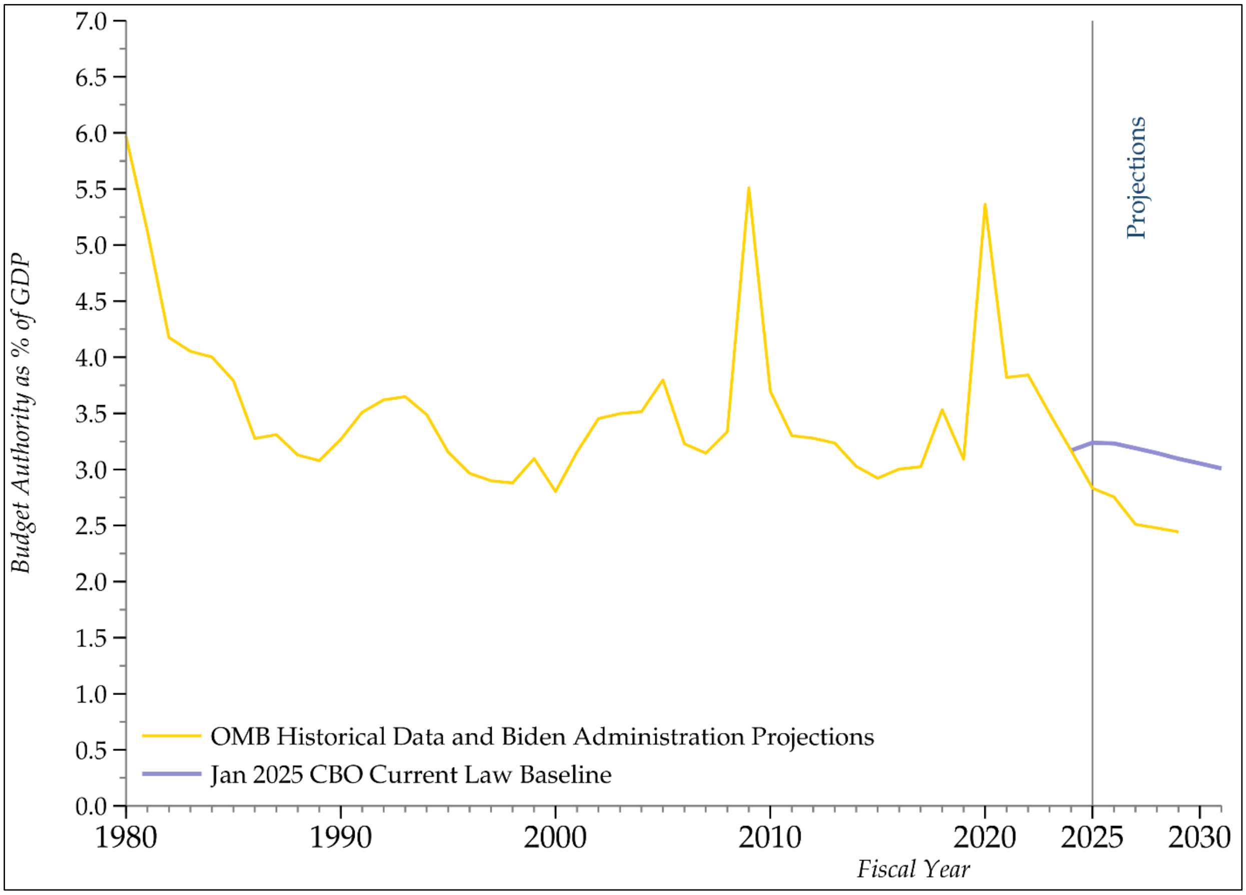
Note: National Defense is budget function 050.

That spending fell further after the collapse of the Soviet-dominated communist regimes in 1989 and the 1991 dissolution of the Soviet Union. Spending again rose after the attacks of September 11, 2001, and the subsequent wars in Afghanistan and Iraq. Since signing of the 2008 Status of Forces Agreement with Iraq, defense spending has fallen as a share of GDP. Discretionary defense BA was 3.3% of GDP in FY2024 and is estimated to fall to 2.9% in FY2025.

Figure 2 shows nondefense spending as a share of GDP. That spending nearly halved in the 1980s, before moving within the 3%-4% range for most following years.

Figure 2. Nondefense Discretionary BA

As percentage of GDP, FY1980-FY2031



Source: See **Figure 1**.

Notes Nondefense comprises budget functions other than National Defense (050).

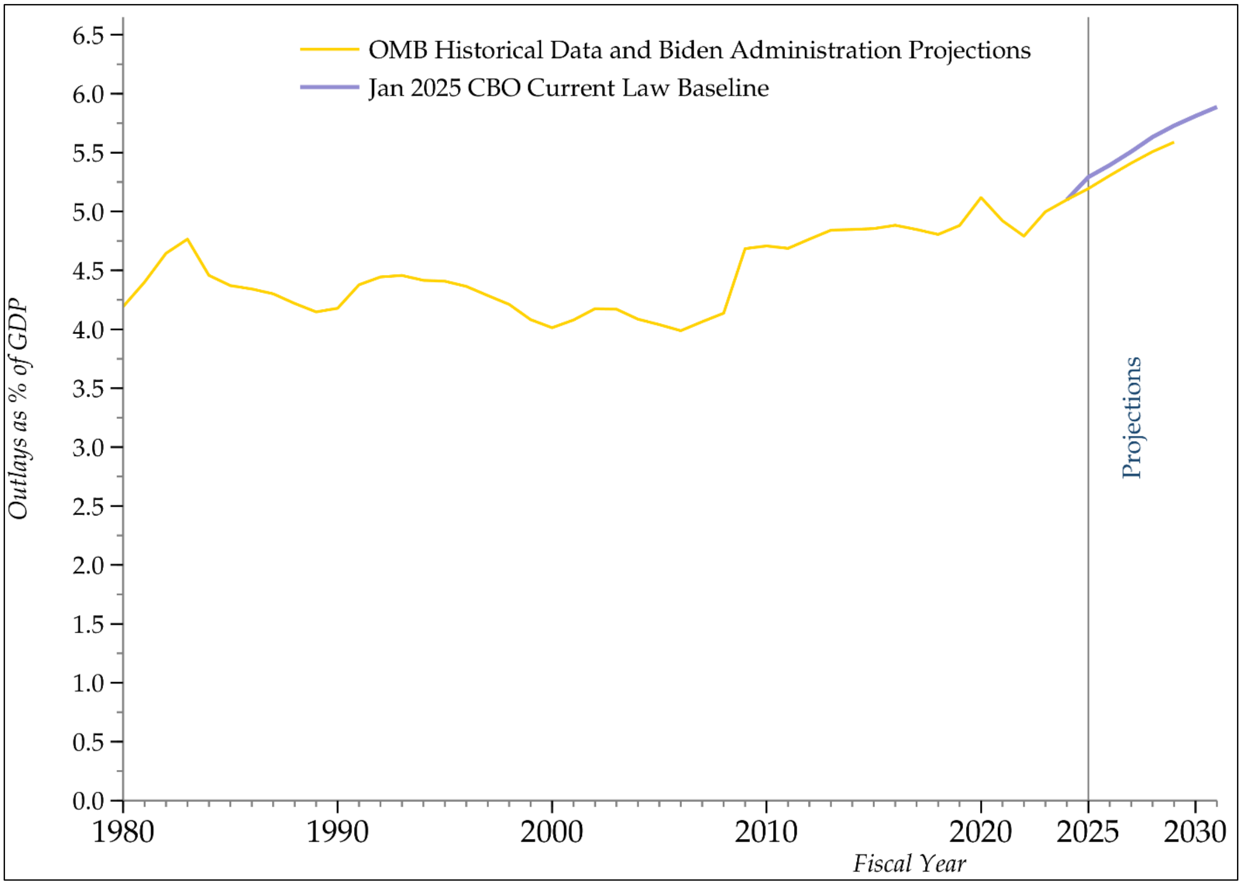
Nondefense spending, however, rose sharply as federal programs responded to the 2007-2009 Great Recession and the COVID-19 pandemic. Discretionary nondefense BA was 3.1% of GDP in FY2024, and it is estimated to rise to 3.2% in FY2025 due to higher emergency funding for national disasters.

Mandatory Spending

Large social insurance and health programs account for most mandatory outlays. Administrative operations, however, are typically financed via discretionary funds. **Figure 3** shows outlay trends for the largest mandatory program, Social Security. During severe recessions, such as in the early 1980s and the 2007-2009 Great Recession, those outlays rose. Demographics also play a role. The oldest cohort of Baby Boomers reached age 65 around 2011. As that generation's retirement has proceeded, the pool of Social Security beneficiaries has expanded.

Figure 3. Social Security Mandatory Outlays

As percentage of GDP, FY1980-FY2031

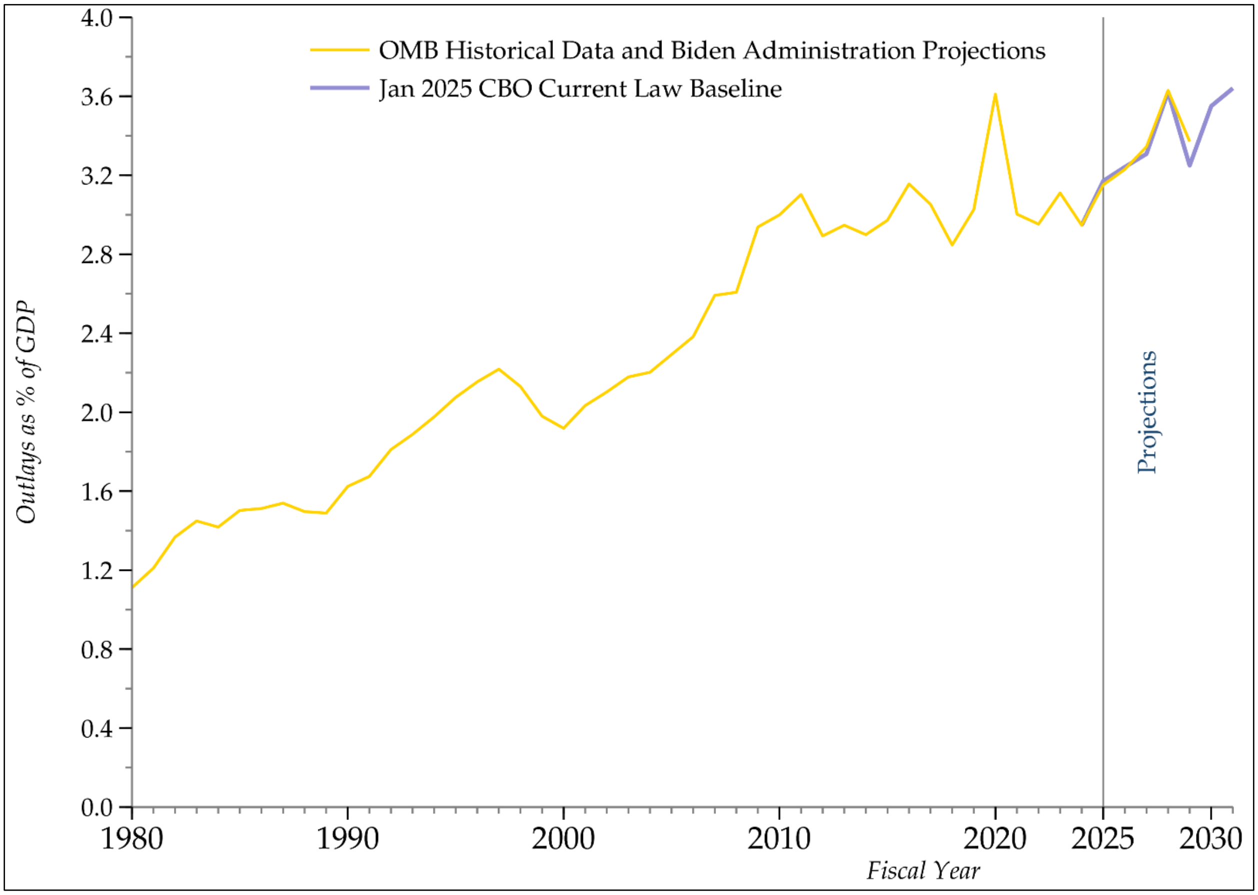


Source: See **Figure 1**.

Medicare (**Figure 4**) is the largest federal health program, financing care for those over 65 years and some younger persons with specific medical conditions. Various parts of Medicare cover hospital care, medical services, drugs, and other health goods and services. Medicare outlays have been rising since it was established in 1965 due to an expanding pool of beneficiaries and health care cost inflation. Medicare outlays have dipped when major health care reforms have been under consideration, such as in the mid-1990s and 2009-2010. Outlays rose sharply at the onset of the COVID-19 pandemic.

Figure 4. Medicare Mandatory Outlays

As percentage of GDP, FY1980-FY2030

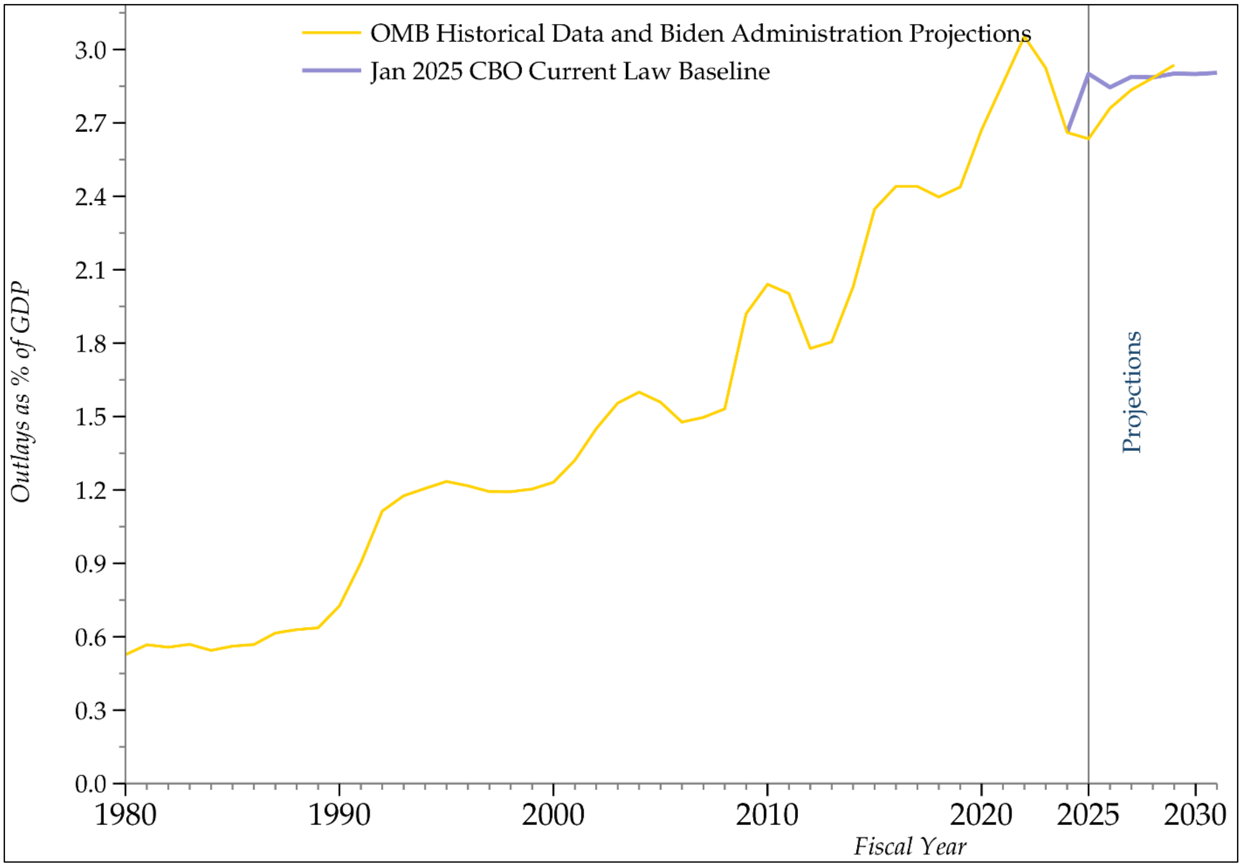


Source: See **Figure 1**.

Figure 5 shows outlay trends for other federal health programs, including Medicaid and the Children's Health Insurance Program (CHIP). Medicaid is a joint federal-state program that covers healthcare costs of low-income children, adults, elderly persons, and persons with disabilities. Children comprise the largest groups of enrollees, but most spending supports care for the aged and those with disabilities. Health care reforms in 2009 gave states incentives to expand Medicaid eligibility.

Figure 5. Medicaid and Other Health Programs

As percentage of GDP, FY1980-FY2031



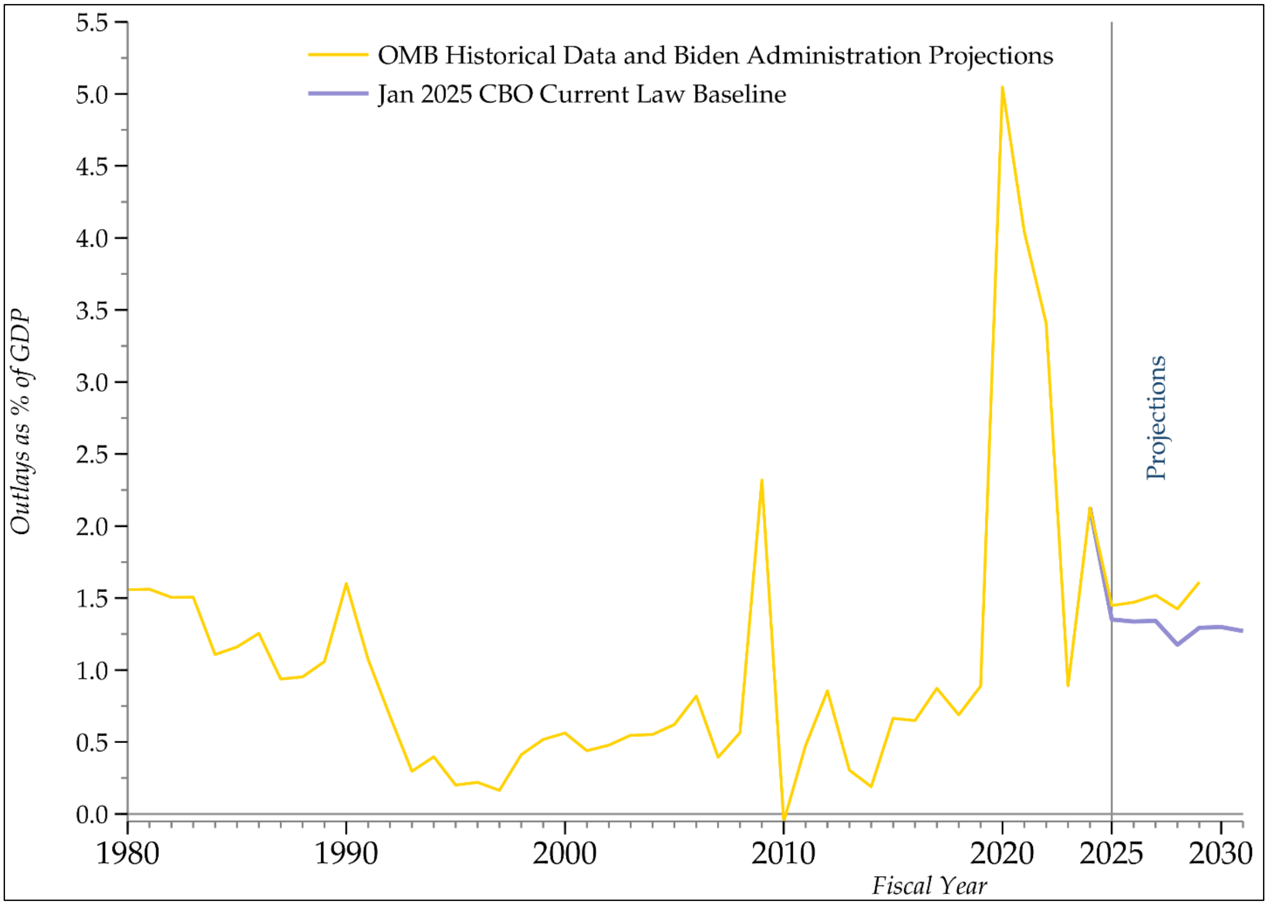
Source: See **Figure 1**.

Note: Outlays within budget function Health (550) support Medicaid, CHIP, other health care services, health research and training, and consumer and occupational health.

Figure 6 shows trends for other mandatory outlays. As with many other mandatory categories, those outlays typically rise during recessions, such as following the 1999-2000 dot-com boom and the 2007-2009 financial crisis. Responses to the COVID-19 pandemic, such as the CARES Act, and other measures, such as the Inflation Reduction Act, increase other mandatory spending above previous levels. The small negative value for FY2010 reflects certain transactions with government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, which had been put under receivership, as well as the prefunding of U.S. Postal Service pension costs.

Figure 6. Other Mandatory Outlays

As percentage of GDP, FY1980-FY2031



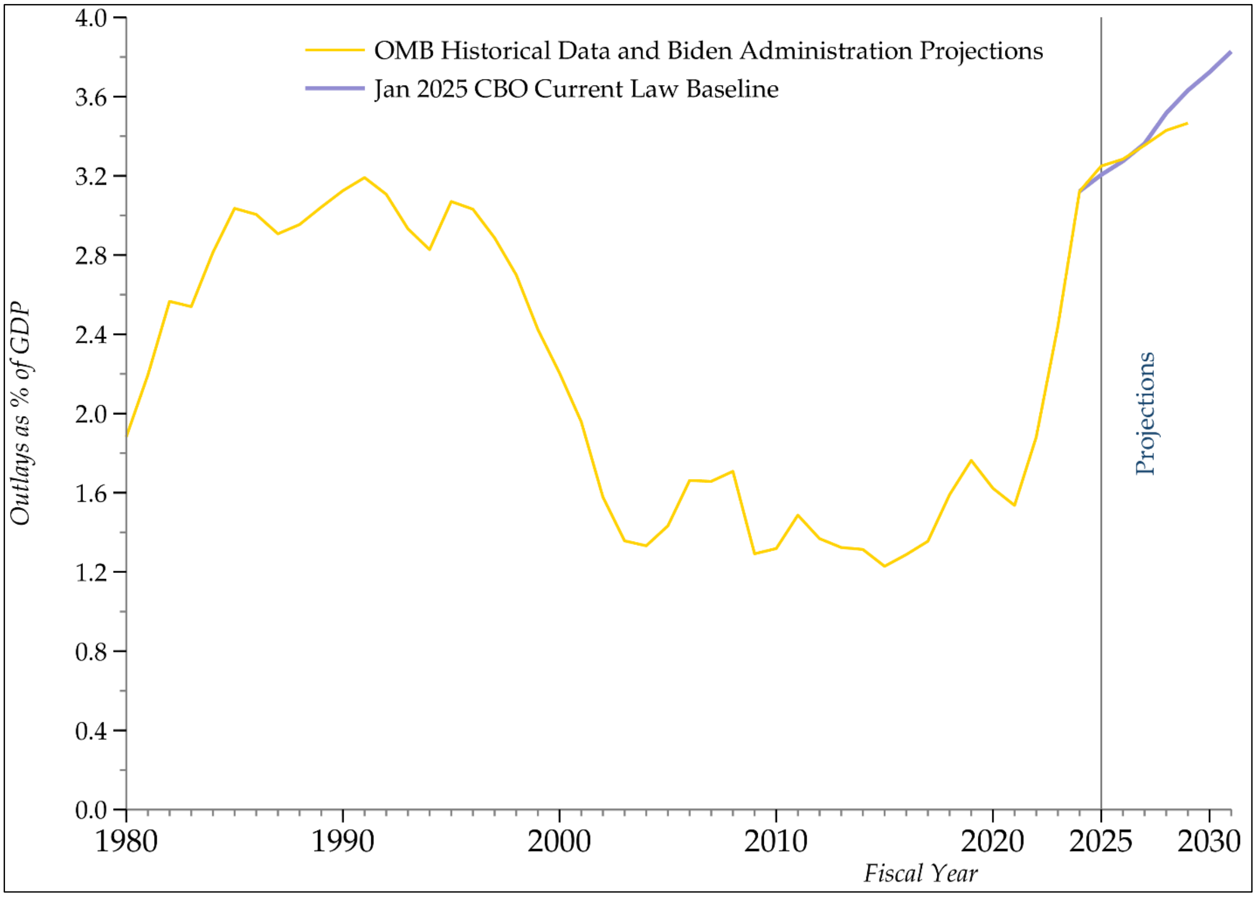
Source: See **Figure 1**.

Note: Reports mandatory outlays for budget functions other than Social Security (650), Medicare (570), and Health (550). Undistributed offsetting receipts are not included.

Figure 7 shows trends in net interest costs, which reflect federal debt held by the public and average interest rates. Interest rates rose sharply in the early 1980s, as the Federal Reserve sought to bring down inflationary expectations. After that, interest rates trended downward, approaching zero in 2020, as the COVID-19 pandemic slowed economic activity, as **Figure 8** shows. Since then, rates have risen to levels similar to those before the 2007-2009 financial crisis. Federal debt levels, however, have been rising, apart from a brief period in the late 1990s. Net interest costs as a share of GDP have doubled in recent years due to the combination of rising interest rates and debt levels.

Figure 7. Net Interest Outlays

As percentage of GDP, FY1980-FY2031



Source: See **Figure 1**.

Figure 8. Interest Rates on 10-Year U.S. Bonds, 1980-2025

Source: St. Louis Federal Reserve Bank FRED and Organization of Economic Cooperation and Development (OECD).

Note: Shaded columns indicate U.S. recessions.

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