Chapter Four

The Spending Outlook

The Congressional Budget Office projects that federal spending will total $1.9 trillion in 2001—a 3.6 percent increase from 2000. Assuming that current policies remain unchanged, CBO expects spending to rise to $2.6 trillion in 2011 (see Table 4-1). The rate of growth in spending will average 3.8 percent from 2001 through 2011 under baseline assumptions.

Federal spending averaged about 19 percent of the country's gross domestic product in the 1960s, rising to about 22 percent in the 1980s. Under CBO's baseline, projected real growth in the economy outstrips the growth in federal spending, which falls from 18 percent of GDP in 2001 to approximately 15 percent of GDP by 2011.

Federal spending can be divided into categories based on its treatment in the budget process:

- *Discretionary spending*—which pays for such things as defense, transportation, national parks, and foreign aid—accounts for about one-third of the budget. Discretionary programs are controlled by annual appropriation acts; policymakers decide each year how many dollars to devote to continuing current activities and funding new ones. CBO's baseline depicts the path of discretionary spending in accordance with the Deficit Control Act, which states that current spending should be assumed to grow with inflation in the future.[1]

- *Entitlements and other mandatory spending*—which constitute more than half of the federal budget—consist overwhelmingly of benefit programs such as Social Security, Medicare, and Medicaid. The Congress generally controls spending for those programs by setting rules for eligibility, benefit formulas, and other parameters rather than by voting for dollar amounts each year. CBO's baseline projections of mandatory spending assume that existing laws and policies remain unchanged and that most expiring programs will be extended.

- *Offsetting receipts*—fees and other charges that are recorded as negative budget authority and outlays—are collected without annual appropriation action. (Fees and other charges that are triggered by appropriation action are classified as offsetting collections, which are credited to discretionary spending.) Offsetting receipts differ from revenues in that revenues are collected as an exercise of the government's sovereign powers, whereas offsetting receipts are generally collected from other government accounts or paid by the public for businesslike transactions (such as rents and royalties from leases for oil and gas drilling on the Outer Continental Shelf).

- *Net interest*—which includes interest paid on Treasury securities, other interest that the government pays (for example, on late refunds issued by the Internal Revenue Service), and interest that the government collects from various sources (such as from commercial banks for deposits in tax and loan accounts)—is driven by the size of the government's debt, annual budget surpluses, and market interest rates.

1. The inflation rates used in CBO's baseline, as specified by the Deficit Control Act, are the employment cost index for wages and salaries (for expenditures related to federal personnel) and the GDP deflator (for other expenditures).

Table 4-1.
CBO's Baseline Budget Projections of Outlays (By fiscal year)

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
					In Billions of Dollars							
Discretionary Spending	617	646	682	710	730	750	766	782	804	824	845	866
Mandatory Spending	1,030	1,089	1,157	1,219	1,296	1,378	1,441	1,520	1,614	1,713	1,820	1,934
Offsetting Receipts	-81	-87	-95	-108	-111	-107	-113	-119	-125	-131	-139	-147
Net Interest	223	205	179	163	142	116	90	72	65	58	53	51
Proceeds Earned on the Balance of Uncommitted Funds[a]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1	-12	-38	-68	-104	-146
Total	1,789	1,853	1,923	1,984	2,056	2,137	2,184	2,243	2,320	2,396	2,475	2,558
On-budget	1,458	1,506	1,561	1,611	1,669	1,738	1,773	1,820	1,884	1,943	2,005	2,070
Off-budget	331	348	361	373	388	399	411	423	437	453	470	489
					As a Percentage of GDP							
Discretionary Spending	6.3	6.3	6.3	6.2	6.0	5.9	5.8	5.6	5.5	5.4	5.2	5.1
Mandatory Spending	10.5	10.5	10.6	10.6	10.7	10.9	10.8	10.9	11.0	11.2	11.3	11.4
Offsetting Receipts	-0.8	-0.8	-0.9	-0.9	-0.9	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9
Net Interest	2.3	2.0	1.6	1.4	1.2	0.9	0.7	0.5	0.4	0.4	0.3	0.3
Proceeds Earned on the Balance of Uncommitted Funds[a]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	*	-0.1	-0.3	-0.4	-0.6	-0.9
Total	18.2	18.0	17.7	17.3	17.1	16.9	16.4	16.1	15.9	15.6	15.4	15.1
On-budget	14.8	14.6	14.4	14.0	13.8	13.7	13.4	13.1	12.9	12.7	12.4	12.2
Off-budget	3.4	3.4	3.3	3.3	3.2	3.2	3.1	3.0	3.0	3.0	2.9	2.9
Memorandum:												
Gross Domestic Product (Billions of dollars)	9,828	10,319	10,880	11,477	12,059	12,656	13,279	13,932	14,619	15,338	16,109	16,922

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable; * = between -0.05 percent and zero.

a. "Uncommitted funds" is CBO's term for the surpluses remaining in each year after paying down publicly held debt available for redemption.

o *Proceeds earned on the balance of uncommitted funds*—another category that offsets outlays—is the return that CBO assumes will be earned on surplus funds that are not used to redeem debt held by the public. CBO's baseline assumes that the surpluses projected for the 2002-2011 period will initially be used to pay down debt. But because some debt will not yet have matured or will be unavailable for repurchase, the projected surpluses may exceed the amount of debt that can be paid off in a particular year.[2] CBO's projections thus assume that those uncommitted funds will be invested at a rate of return equal to the average rate projected for Treasury bills and notes. However, CBO makes no explicit assumptions about how much of the

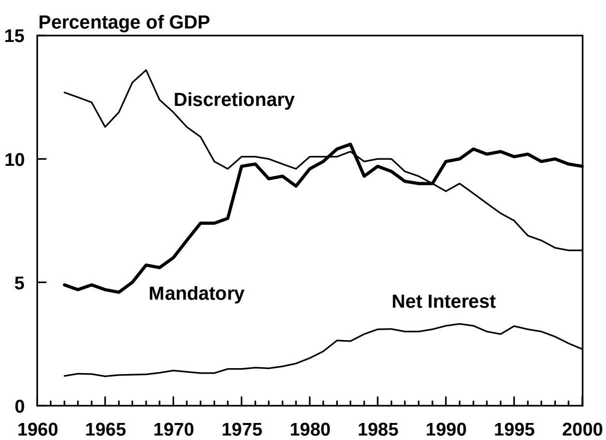
2. Outstanding long-term bonds and ongoing programs that issue nonmarketable debt restrict the Treasury's ability to use surpluses to reduce debt held by the public. Although the Treasury can repurchase some long-term debt, it is unlikely that all bondholders would be willing to sell at prices that the government would be willing to pay.

funds the Treasury would invest through its current arrangements with banks and the Federal Reserve or through any other investments that might be chosen (for example, debt or equity instruments, in the public or private sector, or in the United States or abroad).

The mix of federal spending has changed significantly over time. Today, the government spends more—as a proportion of GDP—on entitlement programs and less on discretionary activities than it did in the past. Spending on entitlements and other mandatory programs (net of offsetting receipts) increased from 4.9 percent of GDP in 1962 to 9.7 percent in 2000. Over the same period, discretionary spending fell from 12.7 percent to 6.3 percent of GDP (see Figure 4-1). (For detailed annual data on each of the broad categories of spending since 1962, see Appendix F.)

Under CBO's baseline projections, mandatory spending (net of offsetting receipts) will climb to 10.5 percent of GDP by 2011 as discretionary spending falls to 5.1 percent of GDP. CBO estimates that mandatory spending (net of offsetting receipts) will continue to grow faster than the economy—at a rate of 6.0 percent a year—led by the spending for the two major health care programs, Medicare and Medicaid, which are projected to grow at an average annual rate of 7.2 percent and 8.6 percent, respectively (see Table 4-2).

Figure 4-1.
Major Components of Spending as a Percentage of GDP, Fiscal Years 1962-2000



SOURCE: Congressional Budget Office based on data from the Office of Management and Budget.

Although total discretionary outlays were virtually unchanged from 1991 through 1996, defense spending declined 3.6 percent, while nondefense spending rose 4.7 percent. From 1996 through 2000, total discretionary outlays increased 3.7 percent, although defense spending grew more slowly than nondefense spending. From 2000 to 2001, CBO estimates, discretionary budget authority will increase by 8.5 percent, while discretionary outlays will grow by 4.8 percent. Under CBO's baseline projections, total discretionary outlays will rise at an average annual rate of 3.0 percent from 2001 to 2011.

Discretionary Spending

Each year, the Congress starts the appropriation process anew. The annual appropriation acts it passes provide new budget authority (the authority to enter into financial obligations) for discretionary programs and activities. That authority translates into outlays when the money is actually spent. Although some funds are spent quickly, others are disbursed over several years. In any given year, discretionary outlays include spending from both new budget authority and from amounts appropriated previously.

Trends in Discretionary Spending

As a percentage of GDP, discretionary spending has dropped from 9.0 percent in 1991 to 6.3 percent in 2000. In nominal (or dollar) terms, total discretionary outlays were only $1 billion higher in 1996 than in 1991. After 1996, discretionary spending began to rise; outlays were $83 billion higher in 2000 than in 1996.

Focusing only on total discretionary spending, however, masks significantly different and sometimes offsetting trends in defense and nondefense outlays. Defense outlays fell from $320 billion in 1991 to $266 billion in 1996, while nondefense spending jumped from $214 billion in 1991 to $269 billion in

Table 4-2.
Average Annual Rate of Growth in Outlays (By fiscal year, in percent)

	1991-1996	1996-2000	Projected 2000-2001	Projected[a] 2001-2011
Discretionary	*	3.7	4.8	3.0
Defense	-3.6	2.6	2.2	2.8
Nondefense	4.7	4.6	7.2	3.1
Mandatory[b]	5.6	4.9	5.6	6.0
Social Security	5.4	4.0	5.8	5.3
Medicare	10.9	3.2	10.5	7.2
Medicaid	11.9	6.3	10.6	8.6
Other	-0.1	7.3	-1.4	4.1
Net Interest[c]	4.4	-1.9	-8.2	-13.0
Total Outlays[c]	3.3	3.5	3.6	3.8
Total Outlays Excluding Net Interest	3.2	4.4	5.3	4.9
Memorandum:				
Consumer Price Index	2.8	2.4	2.9	2.6
Nominal GDP	5.4	6.3	5.0	5.1

SOURCE: Congressional Budget Office.

NOTE: * = between zero and 0.05 percent.

a. Using the inflators specified in the Deficit Control Act (gross domestic product deflator and employment cost index) for discretionary spending after 2001.

b. Includes offsetting receipts.

c. Includes proceeds earned on the balance of uncommitted funds.

1996 (see Table 4-3).[3] Since 1996, both defense and nondefense outlays have grown, although the rise in nondefense spending has continued to outstrip that for defense. From 1996 through 2000, nondefense outlays grew at an average annual rate of 4.6 percent, compared with a 2.6 percent average annual rise in defense spending (see Table 4-2). Despite the apparently rapid surge in spending for nondefense programs (relative to defense programs), economic growth has exceeded the growth in nondefense outlays, which at the end of 2000 were below their 1991 level as a percentage of GDP.

3. The Department of Defense estimates that its outlays in 1991 included approximately $20 billion in discretionary spending attributable to Operation Desert Storm.

The Caps on Discretionary Spending

The Budget Enforcement Act of 1990 placed limits on budget authority and outlays. For 2001, the caps apply to three categories of discretionary spending: overall discretionary (which comprises the spending categories previously separated as defense, nondefense, and violent crime reduction), highways, and mass transit. The limits are enforced through sequestration, which provides for an across-the-board cut in funding for discretionary programs to eliminate excess spending.

As an enforcement mechanism, the caps have become less effective than when they were first implemented. Over the past few years, the Congress and the President have used a number of tactics—

Table 4-3.
Defense and Nondefense Discretionary Outlays, Fiscal Years 1991-2001

	Defense Outlays		Nondefense Outlays		Total Discretionary Outlays (In billions of dollars)
	In Billions of Dollars	As a Percentage of Total Discretionary Outlays	In Billions of Dollars	As a Percentage of Total Discretionary Outlays	
1991	320	60	214	40	533
1992	303	57	232	43	535
1993	292	54	249	46	541
1994	282	52	262	48	544
1995	274	50	272	50	546
1996	266	50	269	50	534
1997	272	49	277	51	549
1998	270	49	284	51	555
1999	275	48	300	52	575
2000	295	48	322	52	617
2001 [a]	301	47	345	53	646

SOURCES: Office of Management and Budget for 1991 through 2000 and Congressional Budget Office for 2001.

a. Estimated.

including advance appropriations, obligation and payment delays, emergency designations, and specific legislative direction—to boost discretionary spending while statutorily complying with the limits. To accommodate additional discretionary spending in 2001, the Congress and the President simply increased the caps on budget authority and outlays by $99 billion and $59 billion, respectively.

For 2002, CBO estimates the total limits on discretionary spending to be $552 billion for budget authority and $576 billion for outlays.[4] In comparison, those caps are below the adjusted 2001 limits by $89 billion and $69 billion, respectively. Total discretionary budget authority and outlays under CBO's baseline for 2002 exceed their respective caps by $113 billion and $106 billion. (For additional information on the discretionary spending caps, see Appendix A.)

4. Those amounts include the new land conservation, preservation, and infrastructure caps, which take effect in 2002.

Composition of Discretionary Spending in 2001

CBO's estimate of $646 billion in discretionary spending for 2001 is nearly $30 billion higher than the level in 2000. Additional nondefense outlays account for 78 percent of that increase. The faster growth in nondefense outlays slightly increases their share of total discretionary outlays to 53 percent in 2001.

Nondefense spending is distributed among several categories, with the three largest accounting for between 12 percent and 16 percent of such spending in 2001 (see Figure 4-2). The education, training, and social services category, with expected outlays of $54 billion, includes all federal programs related to education and employment as well as social services for children, families, the elderly, and disabled people. Transportation (ground, air, water, and mass transit) is expected to record $50 billion in outlays in 2001. Under the income security category, two-thirds of the anticipated $44 billion in spending pays for housing assistance; most of the remainder funds nutrition programs and the administrative costs of mandatory benefit programs.

Spending for other categories that account for more than 5 percent of nondefense discretionary outlays in 2001 includes $34 billion for health research and public health (including the Indian Health Service); $29 billion for the administration of justice; $26 billion for natural resources and the environment; $23 billion for international programs (mainly the conduct of foreign affairs, security assistance, and development and humanitarian aid); $22 billion for veterans' benefits (medical care and other noncash benefits); and $20 billion for space and science research.

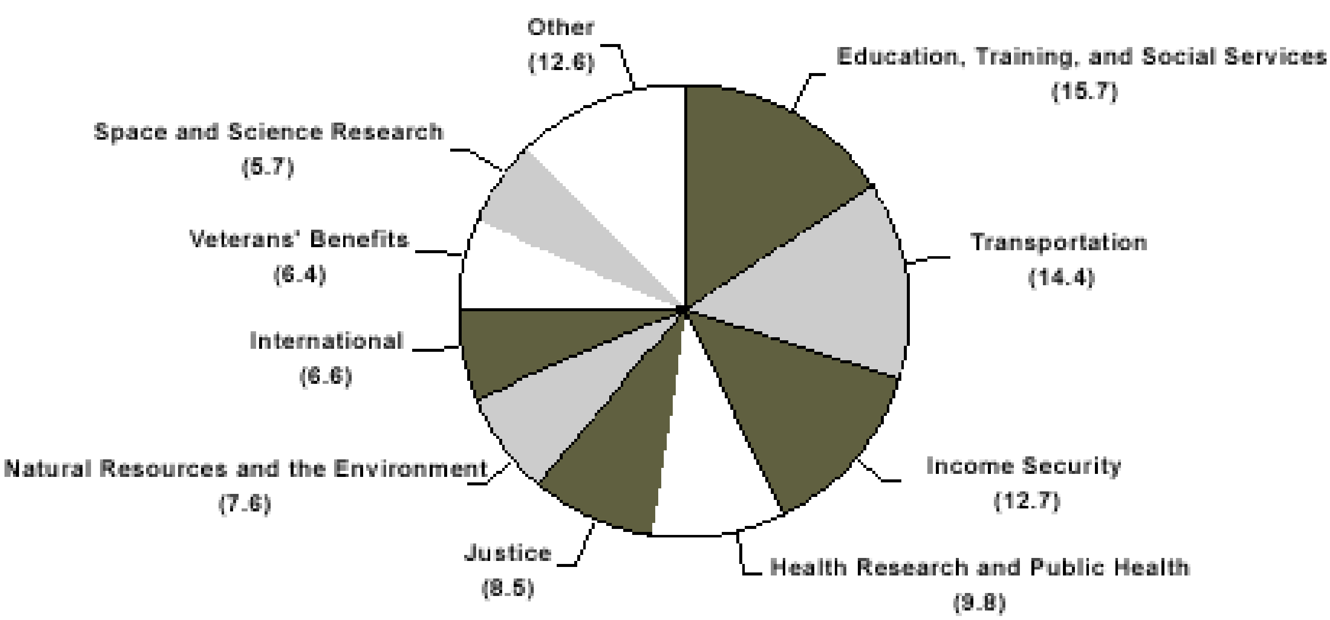
Discretionary Spending for 2002 to 2011

To construct the baseline for discretionary spending, CBO inflated budget authority from the level appropriated in 2001 using the employment cost index (for expenditures related to federal personnel) and the GDP deflator (for other expenditures). In 2002, however, outlays rise by more than just those rates of inflation because of spending from budget authority appropriated in prior years and other technical factors. Since the Deficit Control Act requires CBO to use those inflation factors and to assume that current policies remain in place, the baseline projection is not a prediction of future outcomes but rather a reference point for assessing policy changes.

Under CBO's baseline, discretionary outlays increase from $646 billion in 2001 to $866 billion in 2011. Because the economy is projected to grow faster than the baseline for such spending, discretionary outlays drop as a percentage of GDP from 6.3 percent in 2001 to 5.1 percent in 2011.

Since the size of the projected surpluses is very sensitive to assumptions about discretionary spending, CBO has calculated four alternative scenarios for such spending during the 2002-2011 period. One scenario assumes that budget authority grows at the same rate as nominal GDP after 2001 (an annual average of 5.1 percent), causing discretionary outlays to be $905 billion higher than the baseline over the 10-year period (see Table 4-4). Another alternative assumes that budget authority grows by 1 percentage

Figure 4-2.
Nondefense Discretionary Spending, by Category, Fiscal Year 2001 (In percent)



SOURCE: Congressional Budget Office.

NOTE: Projected nondefense discretionary spending for 2001 totals $345 billion.

Table 4-4.
CBO's Projections of Discretionary Spending Under Alternative Paths (By fiscal year, in billions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Baseline (Discretionary Spending Grows at the Rate of Inflation After 2001)[a]												
Budget Authority												
Defense	301	311	322	330	339	347	356	365	375	385	394	405
Nondefense	285	326	343	353	362	371	380	389	399	409	419	430
Total	587	637	665	683	701	718	736	755	774	793	814	835
Outlays												
Defense	295	301	314	323	332	344	350	356	369	379	388	399
Nondefense	322	345	368	387	398	407	416	426	435	446	456	468
Total	617	646	682	710	730	750	766	782	804	824	845	866
Discretionary Spending Grows at the Rate of Nominal Gross Domestic Product After 2001												
Budget Authority												
Defense	301	311	328	346	364	382	400	420	441	462	486	510
Nondefense	285	326	346	365	383	402	422	443	464	487	512	537
Total	587	637	674	711	747	784	823	863	905	950	997	1,047
Outlays												
Defense	295	301	318	334	351	372	388	405	428	449	472	495
Nondefense	322	345	370	395	414	433	452	473	494	516	540	566
Total	617	646	688	729	765	805	840	877	922	966	1,012	1,061
Discretionary Spending Grows at the Rate of Inflation Plus One Percentage Point After 2001[a]												
Budget Authority												
Defense	301	311	325	337	350	362	375	388	402	417	432	447
Nondefense	285	326	343	356	369	382	396	410	424	440	455	472
Total	587	637	668	693	719	744	770	798	827	856	887	919
Outlays												
Defense	295	301	316	328	340	356	366	377	394	408	423	438
Nondefense	322	345	368	389	403	416	429	443	458	473	489	505
Total	617	646	684	717	743	772	795	820	851	881	912	943
Discretionary Spending Is Frozen at the Level Enacted for 2001												
Budget Authority												
Defense	301	311	311	311	311	311	311	311	311	311	311	311
Nondefense	285	326	330	329	329	329	329	329	329	329	329	329
Total	587	637	641	641	641	641	641	641	641	641	641	641
Outlays												
Defense	295	301	307	307	308	311	309	307	310	310	310	310
Nondefense	322	345	362	373	376	373	371	370	369	369	369	368
Total	617	646	669	681	684	684	680	677	679	679	679	679

(Continued)

Table 4-4.
Continued

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Discretionary Spending Equals CBO's Estimates of the Statutory Caps in 2002 and Grows at the Rate of Inflation Thereafter[b]												
Budget Authority	587	637	552	567	582	597	611	627	642	658	675	692
Outlays	617	646	576	592	607	623	638	654	671	687	704	722
Memorandum:												
Debt Service on Differences from Baseline												
Growth at rate of nominal GDP	0	0	*	1	2	5	8	14	20	28	38	50
Growth at inflaton plus one percentage point	0	0	*	*	1	2	3	5	8	11	15	20
Frozen at the 2001 level	0	0	*	-1	-3	-7	-11	-17	-24	-33	-43	-55
Equal to the Caps in 2002	0	0	-3	-8	-15	-23	-31	-40	-50	-60	-71	-83

SOURCE: Congressional Budget Office.

NOTES * = between -$500 million and $500 million.

In CBO's projections, discretionary outlays are always higher than budget authority because of spending from the Highway Trust Fund and the Airport and Airway Trust Fund, which is subject to obligation limitations in appropriation acts. The budget authority for such programs is provided in authorizing legislation and is not considered discretionary. Another reason outlays exceed budget authority is that they include spending from appropriations provided in previous years.

a. Using the inflators specified in the Deficit Control Act (GDP deflator and employment cost index).

b. Using the consumer price index for urban consumers.

point more than inflation (the inflation rates used here are the same ones used in CBO's baseline, as specified in the Deficit Control Act). Under that assumption, discretionary outlays from 2002 through 2011 are a cumulative $359 billion higher than the baseline. A third scenario assumes that budget authority is essentially frozen at the nominal level enacted for 2001. Under the freeze assumption, discretionary outlays over the 2002-2011 period total $968 billion less than the baseline. The fourth alternative assumes that budget authority and outlays equal CBO's estimate of the 2002 caps and grow with the consumer price index for urban consumers thereafter; under that assumption, discretionary outlays from 2002 through 2011 would total $1,284 billion less than the baseline.

Entitlements and Other Mandatory Spending

Currently, more than half of the $1.9 trillion that the federal government spends each year supports entitlement programs and other types of mandatory spending (other than net interest). Most mandatory programs make payments to recipients—a wide variety of people, as well as businesses, nonprofit institutions, and state and local governments—that are eligible and apply for funds. Payments are governed by formulas set in law and are not constrained by annual appropriation bills.

As a share of total outlays, mandatory spending jumped from 32 percent in 1962 to 58 percent in 2000. If current policies remain unchanged, CBO estimates that mandatory spending will continue to grow faster than other spending, reaching 64 percent of total outlays, or nearly twice the size of discretionary outlays, by 2005.

The Deficit Control Act makes legislation that affects mandatory programs (other than Social Security) and receipts subject to pay-as-you-go discipline through 2002. The pay-as-you-go budgetary restriction means that any increase in spending or reduction in receipts should be offset by cuts in other mandatory spending or by increases in revenues, as measured on an annual basis. Violation of the pay-as-you-go rules triggers a sequestration—an across-the-board cut in certain mandatory spending programs—to offset any net reduction in the surplus.[5] Social Security has its own set of procedural safeguards, which the Congress established to prevent policy actions that would significantly worsen either the short-term or the long-term condition of the program's trust funds.

Less than one-fourth of entitlements and mandatory spending, or about one-seventh of all federal spending, is means-tested—that is, paid to individuals who must document their need on the basis of income or assets that are below certain specified thresholds. In some cases, other criteria, such as family status, are also used. The remainder of mandatory spending has no such restrictions and is labeled non-means-tested.

Means-Tested Programs

Since the 1960s, spending on means-tested benefits has more than tripled as a share of the economy—from 0.8 percent of GDP in 1962 to a high of 2.6 percent in 1995. Since 1995, means-tested outlays have declined slightly as a share of GDP, slipping to 2.4 percent in 2000; however, that trend is not expected to continue. Changes in spending for these programs are driven by several factors, including inflation, rising health care costs, fluctuating unemployment, growth of the eligible populations, and new legislation. Largely because of Medicaid growth, CBO projects that spending for means-tested programs will grow more rapidly than the economy, climbing to 2.8 percent of GDP by 2011.

Medicaid. Outlays for Medicaid, the joint federal/state program that provides medical care to many of the nation's poor people, made up nearly half of all spending for means-tested entitlements in 2000 (see Table 4-5). Over the next decade, Medicaid is projected to grow more rapidly than other means-tested programs, with its federal outlays mounting from \$130 billion in 2001 to \$295 billion in 2011, an average annual growth rate of 8.6 percent. Spending for acute care services, which includes pharmaceuticals and payments to managed care plans, accounts for more than half of Medicaid outlays (see Figure 4-3). CBO projects that acute care spending will grow from \$67 billion in 2001 to \$166 billion in 2011. Spending for long-term care, which accounts for about one-third of Medicaid outlays, is expected to climb from \$40 billion in 2001 to \$96 billion in 2011. Growth in payments to hospitals that serve a disproportionate share of Medicaid beneficiaries or other low-income people—so-called disproportionate share hospital (DSH) payments—is limited by statute. As a result, that spending is projected to remain almost flat over the next decade, growing from \$9 billion in 2001 to \$10 billion in 2011. Administrative expenses are expected to remain at 5 percent of total Medicaid spending, rising from \$7 billion in 2001 to \$16 billion by 2011. Other payments to providers, mainly spending related to the Medicare upper payment limit, are projected to remain at about \$7 billion over the next decade as restrictions on those payments take effect.[6]

Medicaid spending in 2000 exceeded CBO's expectation of 7 percent growth, climbing to 9 percent—the highest level in seven years. Between 1996 and 1997, growth in spending ranged from 3 percent to 4 percent a year, before rising to 6.7 percent in 1999. The recent jump in growth has several components. The most notable factor has been states' increasing use of a financing mechanism related to the Medicare upper payment limit. Under

5. However, the Congress may choose to legislatively eliminate pay-as-you-go balances to avoid a sequestration. For example, the pay-as-you-go balance for 2001, which the Office of Management and Budget estimated at \$10.5 billion, was reset to zero as directed by the Consolidated Appropriations Act, 2001.

6. The term "Medicare upper payment limit" refers to a regulatory ceiling in Medicaid payment policy. States may not pay certain groups of facilities more than they would using Medicare payment principles.

Table 4-5.
CBO's Projections of Mandatory Spending (By fiscal year, in billions of dollars)

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Means-Tested Programs												
Medicaid	117	130	141	153	166	180	194	211	229	248	271	295
State Children's Health Insurance	2	3	3	3	4	4	4	4	4	5	5	5
Food Stamps	18	19	20	21	22	23	24	24	25	26	27	27
Supplemental Security Income	31	28	32	34	36	41	40	39	45	47	50	52
Family Support[a]	21	23	24	24	25	25	25	26	26	26	27	27
Veterans' Pensions	3	3	3	3	3	4	3	3	3	4	4	4
Child Nutrition	9	10	10	10	11	11	12	12	13	13	14	14
Earned Income and Child Tax Credits	27	27	27	27	28	28	28	28	29	29	29	29
Student Loans	1	5	5	5	4	4	5	5	5	5	5	5
Foster Care	5	6	6	7	7	8	8	9	9	10	11	11
Total	236	252	272	288	305	328	343	361	388	413	441	471
Non-Means-Tested Programs												
Social Security	406	430	452	474	498	523	550	578	608	642	679	719
Medicare	216	238	252	270	290	317	333	363	391	421	456	492
Subtotal	622	668	704	744	788	840	882	940	998	1,063	1,135	1,211
Other Retirement and Disability												
Federal civilian[b]	50	53	56	59	62	65	68	71	75	78	82	85
Military	33	34	35	36	37	38	39	40	41	42	43	44
Other	5	5	5	5	5	5	5	5	5	5	6	6
Subtotal	88	92	96	100	104	108	113	117	121	126	131	135
Unemployment Compensation	21	23	26	27	29	31	33	35	37	40	41	43
Other Programs												
Veterans' benefits[c]	24	22	25	27	28	31	30	29	32	33	33	34
Commodity Credit Corporation Fund	30	17	10	9	9	9	8	6	5	5	5	5
Social services	4	5	5	5	5	5	5	5	5	5	5	5
Credit liquidating accounts	-13	-9	-8	-9	-10	-10	-10	-10	-10	-10	-9	-9
Universal Service Fund	4	5	6	6	12	13	13	13	13	13	13	13
Department of Defense health care	0	0	0	5	6	6	7	7	8	8	9	10
Other	14	13	21	17	19	17	16	16	16	16	16	16
Subtotal	63	53	58	60	69	71	69	66	69	71	72	74
Total	794	836	884	932	990	1,050	1,097	1,159	1,226	1,300	1,379	1,463
Total												
All Mandatory Spending	1,030	1,089	1,157	1,219	1,296	1,378	1,441	1,520	1,614	1,713	1,820	1,934

SOURCE: Congressional Budget Office.

NOTE: Spending for the benefit programs shown above generally excludes administrative costs, which are discretionary. Spending for Medicare also excludes premiums, which are considered offsetting receipts.

a. Includes Temporary Assistance for Needy Families, Payments to States for Child Support Enforcement and Family Support, Child Care Entitlement to States, and Children's Research and Technical Assistance.

b. Includes Civil Service, Foreign Service, Coast Guard, and other small retirement programs and annuitants' health benefits.

c. Includes veterans' compensation, readjustment benefits, life insurance, and housing programs.

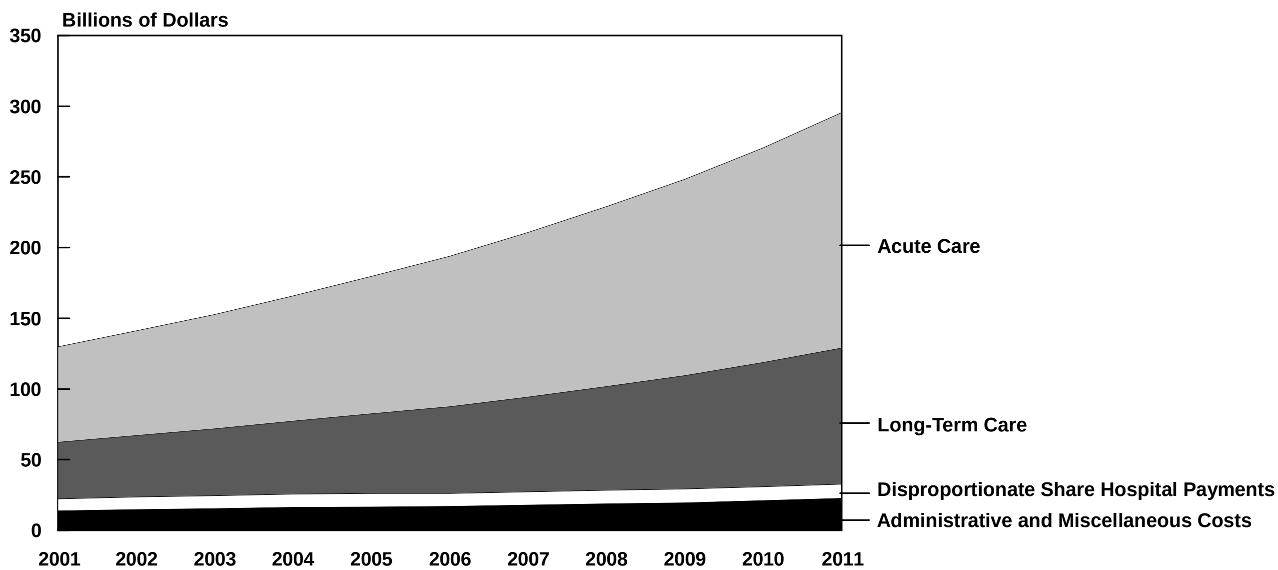
that mechanism, states pay certain public facilities at rates far in excess of normal Medicaid rates and generate additional federal Medicaid spending. In 2000, a number of states expanded their use of that mechanism.

At the same time, the cost and use of medical care services, particularly prescription drugs, increased across the board. States' decisions to expand Medicaid eligibility, increase payment rates to providers, and initiate outreach efforts have increased both enrollment and costs. Enrollment of adults and children grew in 2000 as state outreach efforts and advocacy campaigns reached former Medicaid enrollees who had left the rolls following welfare reform. Enrollment also grew as a result of state expansions of eligibility for parents and outreach related to the State Children's Health Insurance Program (SCHIP).

CBO anticipates that the growth in Medicaid spending will continue to escalate in 2001, increasing by 10.6 percent over 2000. After that, the program is expected to grow at 8 percent to 9 percent annually. In the short term, several factors appear likely to contribute to accelerated spending growth. States will continue to generate additional federal spending from their use of the UPL mechanism, although regulations required by the Benefits Improvement and Protection Act (BIPA, Public Law 106-554) will begin to curb it in later years. Growth in medical costs and wages also is likely to place upward pressure on spending. In addition, spending on pharmaceutical benefits is expected to continue to rise as demand for and the prices of current and new high-cost products increases.

Furthermore, recent legal challenges under the Americans with Disabilities Act are causing states to increase the number of disabled people receiving long-term care services at home or in the community. New enrollment of children will also likely continue to grow through 2002, and it will be amplified because New York is expected to enroll more than 100,000 children in Medicaid who were incorrectly covered by SCHIP. Administrative costs for computer systems and for Medicaid services provided in schools will also exert pressure on spending in the near term.

Figure 4-3.
CBO's Baseline Projections of Federal Medicaid Spending, Fiscal Years 2001-2011



SOURCE: Congressional Budget Office.

In the longer term, CBO expects that medical and wage inflation will continue as will expansion of eligibility for and use of noninstitutional long-term care services and pharmaceutical benefits. In addition, states will likely have to pay higher rates to managed care organizations to maintain their participation in the program. Continued efforts by states to convert programs to Medicaid that they now fund alone will also drive new spending. Lastly, enrollment will continue to outstrip population growth in most years as participation by the eligible but previously unenrolled rises and states expand coverage to include new populations.

Other Means-Tested Programs. Outlays for other means-tested programs are generally projected to grow more slowly than those for Medicaid. Spending for the State Children's Health Insurance Program is estimated to increase from about $3 billion in 2001 to $5 billion in 2011. Food Stamp outlays are expected to grow moderately from $19 billion in 2001 to $27 billion in 2011 (see Table 4-5). Supplemental Security Income (SSI) benefits are estimated to grow from $28 billion in 2001 to $52 billion in 2011. Roughly half of that growth results from cost-of-living adjustments in benefits; most of the rest stems from the growth in and shifting mix of SSI caseloads.

CBO expects spending for family support programs, including Temporary Assistance for Needy Families (TANF), to gradually increase from its 2001 level of $23 billion to reach $27 billion in 2011. That increase in spending is the result of several factors. From 2001 through 2011, cash benefit levels will increase and investments by states in work, training, and child care programs will become fully phased-in. Furthermore, states will exercise their flexibility under TANF to spend money in nontraditional ways, such as for transportation, child welfare activities, or substance abuse counseling. Outlays for refundable tax credits—the earned income tax credit and the child tax credit—are expected to grow from $27 billion in 2001 to $29 billion in 2011.

The student loan program is difficult to classify as either means-tested or non-means-tested. CBO includes that program in the means-tested category because historically the majority of loans have had interest subsidies and have been limited to students from families with relatively low income and financial assets. However, in recent years, the fastest-growing category of loans is the set to which no means-testing is applied. In 2001, about $33 billion in student loans will be guaranteed or provided directly by the federal government. Over the 2001-2011 period, total expected loan disbursements top $410 billion. Of that total, the percentage of loans that are not means-tested is projected to increase from 49 percent in 2001 to 54 percent in 2011.

The costs included in the federal budget for student loans reflect only a small portion of the disbursements. Under the Credit Reform Act, only the subsidy costs of the loans are treated as outlays. Those outlays are estimated as the future costs in today's dollars for in-school interest subsidies, default costs, and other expected costs over the life of the loans. CBO estimates that the subsidy and administrative costs of the student loan program will range from $4 billion to $5 billion a year through 2011.

Non-Means-Tested Programs

Social Security, Medicare, and other retirement and disability programs dominate non-means-tested entitlements. Social Security is by far the largest federal program, with expected outlays of $430 billion in 2001. It pays benefits to 45 million people—a number that is projected to increase to more than 55 million by 2011. Most Social Security beneficiaries also participate in Medicare, which is expected to cost $238 billion in 2001. Together, those two programs account for more than one out of every three dollars that the federal government spends (up from about one in four dollars in 1980). CBO projects that the two programs combined will grow by more than $540 billion from 2001 to 2011—even before the surge in beneficiaries that is expected to begin shortly thereafter as increasing numbers of baby boomers retire.

Social Security. During the past decade, Social Security outlays grew by an average of about 5.1 percent a year. Over the next decade, that growth rate is projected to average about 5.3 percent a year. Similarly, the share of the economy devoted to Social Security will remain fairly constant at about 4 percent of GDP through 2011. CBO estimates that by 2011, spending for Social Security will total $719 billion.

The Social Security program for Old-Age and Survivors Insurance (OASI) will pay about $372 billion in benefits in 2001. Benefit costs for that program are easier to project, in the near term, than those for other non-means-tested programs because the forces that drive its costs are quite predictable. More than 90 percent of people over age 65, and more than half of those ages 62 to 64, collect Social Security benefits on the basis of their past earnings (or the earnings of their spouse). Therefore, CBO bases its projections of OASI benefits chiefly on estimates of the size of the elderly population and on the assumption that the average benefit will continue to grow at a rate higher than that for inflation.

The other component of Social Security, the Disability Insurance (DI) program, will pay about $58 billion in benefits in 2001 to disabled workers between the ages of 18 and 65 and their dependents. Projections of DI costs tend to be more uncertain than the costs of the OASI program because DI's growth will depend on the number of people who suffer from serious medical impairments that lead them to seek disability benefits. Thus, in the short run, inaccuracies in projections of Social Security spending are most likely to stem from misestimates of the number of disabled beneficiaries or of the cost-of-living adjustments made to all Social Security benefits each year, which depend on inflation.

Medicare. Currently, Medicare spending is about half as large as Social Security spending, but it is expected to grow faster than Social Security over the next decade. By 2011, CBO projects that spending for the Medicare program will total more than $492 billion, and Medicare's share of the economy will have risen by more than one-half of a percentage point, from 2.3 percent of GDP in 2001 to 2.9 percent.

Historically, Medicare's growth rate has varied widely, and such fluctuations are likely to continue. The program's outlays increased by an average of almost 11 percent a year during the first half of the 1990s. Between 1997 and 1999, however, the rate of growth in spending slowed each year, falling from a high of almost 9 percent in 1997 to a 1 percent decline in spending in 1999. In 2000, by contrast, Medicare spending increased by 3 percent, and CBO projects it will grow by more than 10 percent in 2001 (those numbers exclude premiums). Annual spending increases for the period from 2001 through 2011 will average 7.5 percent, according to CBO estimates.

Why did Medicare spending drop so precipitously from 1997 through 1999, and why is it expected to pick up again in 2001 (and beyond)? Most of the decline can be explained by a strong effort to ensure compliance with payment rules. The savings from this effort more than offset the additional spending caused by increases in payment rates and higher enrollment in the late 1990s. However, the bulk of the savings from that effort has been realized, and as a result the increases in spending are now greater than the reduction caused by stricter compliance with payment rules.

Growth from 2000 to 2011 stems from various factors. First, payment rates for most services in the fee-for-service sector (including hospital care and services furnished by physicians, home health agencies, and skilled nursing facilities) are subject to automatic updates based on changes in input prices in those settings. CBO estimates that annual updates will increase by an average of 3.1 percent from 2001 through 2011. That increase is the net effect of legislation increasing certain rates and the expiration of legislation restricting certain other automatic updates. Roughly 43 percent of the increase in Medicare spending over the 10-year period comes from automatic updates to payment rates.

Second, increases in caseloads make up an additional 26 percent of the increase in Medicare spending from 2001 through 2011. CBO projects that the number of enrollees in Medicare's Hospital Insurance (Part A) program will swell by 20 percent, from 40 million to 48 million, between 2001 and 2011. However, the increases in spending that will accompany those enrollees will be greater in the second half of the decade than in the first half as growth in enrollment accelerates from 1.1 percent in 2001 to 3.1 percent in 2011.

The remainder of the increase results from other changes in covered benefits and payment rates required by the Balanced Budget Act of 1997, the Balanced Budget Refinement Act (BBRA), BIPA, and by such factors as changes in medical technology, practice patterns, billing behavior, and the age distribution of enrollees.

Other Non-Means-Tested Programs. Other federal retirement and disability programs, totaling $92 billion in 2001, are less than one-fourth the size of Social Security. They are dominated by benefits for the federal government's civilian and military retirees and the Railroad Retirement program. Those programs are expected to average 3.9 percent annual growth from 2001 through 2011.

The strong economy has reduced spending for unemployment compensation from its peak of $37 billion in 1992 to $21 billion in 2000. As the projected rate of growth in the economy slows and the unemployment rate rises, CBO estimates that spending for unemployment compensation will creep up.

The balance of spending for non-means-tested programs funds a diverse set of activities—mainly veterans' benefits, farm price and income supports, certain social service grants to the states, the Universal Service Fund, and health care benefits for military retirees. Credit liquidating accounts add offsetting collections to the category’s total (total net credit reestimates, which are included in the “other” category in Table 4-5, also reduce mandatory spending—by more than $6 billion—in 2001). CBO projects that spending for other non-means-tested programs will total $53 billion in 2001 (down from $63 billion in 2000) and that it will fluctuate between $58 billion and $72 billion over the baseline period before ending the decade at $74 billion. The estimated drop over the next decade in spending for farm price and income supports is more than offset by a continuing increase in net outlays for veterans’ benefits and for the Universal Service Fund. In addition, costs will rise from the expansion of health care benefits (medical coverage and prescription drug coverage) for military retirees age 65 and over. CBO estimates that the program, which takes effect in 2003, will increase mandatory spending by $5 billion in its first year, rising to $10 billion by 2011.

Because of weak global demand and plentiful crop supply in recent years, prices for major supported crops such as corn, cotton, and wheat have been low. As a result, both automatic and legislated increases in agricultural spending soared in 2000 from already-high 1999 levels. Spending for farm price and income supports surged from $18 billion in 1999 to $30 billion in 2000, and automatic price supports provided farmers with about $4 billion more in income assistance in 2000 than in 1999. In addition to the normal farm program benefits, the Congress provided $5 billion in emergency appropriations in 1999, $13 billion in 2000, and $4 billion in 2001.

In spite of the recent upsurge, CBO estimates that spending for farm price and income supports will drop to $17 billion in 2001 and continue falling to roughly $5 billion a year toward the end of the decade. The drop in spending over the 10-year period occurs because emergency appropriations are not part of the ongoing mandatory program and therefore are not projected in future years. Also, demand for U.S. agricultural products is expected to gradually improve, bringing commodity prices back to more normal levels by the latter half of the decade.

Why Does Mandatory Spending Increase?

As a whole, spending for entitlements and other mandatory programs has more than doubled since 1985—rising faster than both nominal growth in the economy and the rates of inflation. CBO's baseline projections expect that trend to continue.

Why does mandatory spending grow so fast? One convenient way to analyze that growth is to break it down by its major causes. Such a breakdown shows that rising caseloads, automatic increases in benefits, and greater use of medical services will account for about 85 percent of the growth in entitlements and other mandatory programs between 2002 and 2011.

Mounting caseloads produce more than one-fifth of the total growth. Relative to 2001 outlays, higher caseloads increase spending by $13 billion in 2002 and $194 billion in 2011 (see Table 4-6). The majority of that spending is concentrated in Social Security and Medicare and can be traced to continued expansion of the elderly and disabled populations. Most of the rest is in Medicaid. The growth of caseloads alone will boost outlays in each of those three programs by between 13 percent and 27 percent during the 2001-2011 period.

Automatic increases in benefits account for more than one-third of the growth in entitlement programs. All of the major retirement programs grant automatic cost-of-living adjustments (COLAs) to their beneficiaries. CBO expects those adjustments, which are pegged to the consumer price index, to be 2.9 percent in 2001, and to range between 2.6 and 2.8 percent from 2002 through 2004 before leveling off at 2.5 percent thereafter. In 2001, outlays for programs with COLAs total almost $567 billion. COLAs are projected to add an extra $12 billion to that amount in 2002 and $161 billion in 2011.

Several other programs—chiefly the earned income tax credit (EITC), Food Stamps, and Medicare—are also automatically indexed to changes in prices. The income thresholds above which the EITC begins to be phased out as well as the maximum amount of the tax credit are both automatically adjusted for inflation using the consumer price index (the credit is administered through the individual income tax, but credits in excess of tax liabilities are recorded as outlays in the budget). The Food Stamp program makes annual adjustments to its benefit payments according to changes in the Department of Agriculture's Thrifty Food Plan index. Medicare's payments to providers are based in part on special price indexes for the medical sector. The combined effect

Table 4-6.
Sources of Growth in Mandatory Spending (By fiscal year, in billions of dollars)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Estimated Spending for Base Year 2001	1,089	1,089	1,089	1,089	1,089	1,089	1,089	1,089	1,089	1,089
Sources of Growth										
Increases in caseloads	13	26	41	58	75	94	115	139	164	194
Automatic increases in benefits										
Cost-of-living adjustments	12	29	46	62	77	93	110	126	143	161
Other[a]	10	20	31	43	55	67	81	97	115	133
Other increases in benefits										
Increases in Medicare and Medicaid[b]	19	33	52	72	94	117	141	166	196	225
Growth in Social Security[c]	8	13	18	25	33	42	51	63	76	92
Irregular number of benefit payments[d]	-1	2	2	11	-2	-5	2	2	2	2
Change in outlays for deposit insurance	*	*	1	1	*	*	*	*	*	*
Other sources of growth	6	8	17	18	21	23	25	30	35	39
Total	68	131	207	289	352	431	525	624	731	845
Projected Spending	1,157	1,219	1,296	1,378	1,441	1,520	1,614	1,713	1,820	1,934

SOURCE: Congressional Budget Office.

NOTE: * = between zero and $500 million.

a. Automatic increases in Food Stamp and child nutrition benefits, certain Medicare reimbursement rates, the earned income tax credit, and several smaller adjustments under formulas specified by law.

b. All growth not attributed to increased caseloads and automatic increases in reimbursement rates.

c. All growth not attributed to increased caseloads and cost-of-living adjustments.

d. Represents baseline differences attributable to assumptions about the number of benefit checks that will be issued in a fiscal year. Normally, benefit payments are made once a month. However, Medicare will pay 13 months of benefits in 2001 and 2005 and 11 in 2002 and 2006. Supplemental Security Income and veterans' benefits will be paid 11 times in 2001, 13 times in 2005, 12 times in 2006, and 11 times in 2007.

of indexing for all of those programs is an extra $10 billion in outlays in 2002 and $133 billion in 2011.

The remaining boost in entitlement spending comes from increases that cannot be attributed to rising caseloads or automatic adjustments to benefits. Two of those sources of growth are expected to become even more important over time. First, CBO anticipates that Medicaid spending will grow with inflation even though it is not formally indexed at the federal level. Medicaid payments to providers are determined by the states, and the federal government matches those payments, according to a formula set by law. If states increase their benefits to account for inflation, federal payments will rise correspondingly. Second, the health programs have faced steadily escalating costs per participant beyond the effects of inflation; that trend, which is often termed an increase in "intensity," reflects the consumption of more health services per participant and the growing use of more costly procedures. CBO estimates that the residual growth in Medicare and Medicaid from both of those sources will be $19 billion in 2002 and $225 billion in 2011.

In most retirement programs, the average benefit grows faster than the COLA alone. Social Security is a prime example. Because new retirees have recent earnings that were bolstered by real wage growth, their benefits generally exceed the monthly check of a longtime retiree who last earned a salary a decade or two ago and has been receiving only cost-of-living adjustments since then. And because more women are working today, more new retirees receive benefits based on their own earnings rather than a smaller spouse's benefit. In Social Security alone, CBO estimates that those trends will add $8 billion in outlays in 2001 and $92 billion in 2011.

Mandatory spending will increase or decrease in a given year depending on whether October 1 falls on a weekend. If it does, a benefit payment is made at the end of September, which increases spending in the year just ended and decreases spending in the new fiscal year. Thus, Supplemental Security Income, veterans' compensation and pension programs, and Medicare (for payments to health maintenance organizations) may send out 11, 12, or 13 monthly checks in a fiscal year (see Table 4-6). Irregular numbers of benefit payments will affect mandatory spending in 2001, 2002, and 2005 through 2007.

Most of the remaining growth in spending for benefit programs derives from (1) rising benefits for new retirees in the Civil Service and Military Retirement programs (fundamentally the same phenomenon as in Social Security) and (2) larger average benefits for unemployment compensation (a program that lacks an explicit COLA but pays amounts that are generally linked to the recent earnings of its beneficiaries). Those factors together contribute just $39 billion of the total $845 billion increase in mandatory spending by 2011.

Legislation Assumed in the Baseline

The general baseline concept for mandatory spending is to project budget authority and outlays in accordance with current law. However, in the case of certain programs with outlays of more than $50 million in the current year, the Deficit Control Act directs CBO to assume that the programs continue when their authorization expires.[7] The bulk of projected spending associated with such programs occurs after 2002, when the current authorizations for the Food Stamp and TANF programs expire (see Table 4-7). In addition, the act directs CBO to assume that cost-of-living adjustments for veterans' compensation are granted each year.

Offsetting Receipts

Offsetting receipts are income that the government records as negative spending. Those receipts are either intragovernmental (reflecting payments from one part of the federal government to another) or propri-

7. Section 257 of the Deficit Control Act stipulates that programs with current year outlays of $50 million or more established prior to enactment of the Balanced Budget Act of 1997 should be assumed to continue in the baseline, but programs established after the 1997 act could be assumed to expire in the baseline. That decision is based on scoring by OMB and CBO, in consultation with the budget committees. For example, the authorization for the Initiative for Future Agriculture and Food Systems program, with outlays of $60 million in 2001, is assumed to expire after 2003.

Table 4-7.
Program Continuations Assumed in CBO's Baseline (By fiscal year, in billions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Commodity Credit Corporation Fund[a]											
Budget authority	n.a.	n.a.	9.2	9.2	8.8	8.0	6.4	5.3	5.3	5.2	5.1
Outlays	n.a.	n.a.	9.2	9.2	8.8	8.0	6.4	5.3	5.3	5.2	5.1
Ground Transportation Programs Controlled by Obligation Limitations[b]											
Budget authority	n.a.	n.a.	n.a.	37.1	37.1	37.1	37.1	37.1	37.1	37.1	37.1
Outlays	n.a.	n.a.	n.a.	0	0	0	0	0	0	0	0
Ground Transportation Programs Not Subject to Annual Obligation Limitations											
Budget authority	n.a.	n.a.	n.a.	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Outlays	n.a.	n.a.	n.a.	0.1	0.3	0.5	0.6	0.6	0.6	0.6	0.6
Air Transportation Programs Controlled by Obligation Limitations											
Budget authority	n.a.	n.a.	n.a.	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Outlays	n.a.	n.a.	n.a.	0	0	0	0	0	0	0	0
Family Preservation and Support											
Budget authority	n.a.	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Outlays	n.a.	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Rehabilitation Services and Disability Research											
Budget authority	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.8	2.9	3.0	3.0	3.1
Outlays	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.0	2.8	2.9	3.0	3.1
State Children's Health Insurance Fund											
Budget authority	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.0	5.0	5.0	5.0
Outlays	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.9	0.8	3.7	5.0
Federal Unemployment Benefits and Allowances											
Budget authority	n.a.	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Outlays	n.a.	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Food Stamps											
Budget authority	n.a.	n.a.	21.3	22.2	23.0	23.7	24.5	25.2	26.0	26.8	27.5
Outlays	n.a.	n.a.	19.9	22.1	22.9	23.7	24.4	25.2	26.0	26.7	27.4
Child Nutrition[c]											
Budget authority	n.a.	n.a.	n.a.	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Outlays	n.a.	n.a.	n.a.	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Child Care Entitlement to States											
Budget authority	n.a.	n.a.	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Outlays	n.a.	n.a.	2.1	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Temporary Assistance for Needy Families											
Budget authority	n.a.	n.a.	16.7	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9
Outlays	n.a.	n.a.	17.6	17.8	18.0	18.1	18.2	18.2	18.2	18.2	18.2
Veterans' Compensation COLAs											
Budget authority	0	0.4	1.0	1.6	2.4	2.9	3.2	4.0	4.6	5.3	6.0
Outlays	0	0.4	1.0	1.6	2.4	2.8	3.1	4.0	4.6	5.2	5.9
Total											
Budget authority	0	1.0	51.6	94.8	96.1	96.5	98.9	104.5	105.9	107.3	108.7
Outlays	0	0.7	50.4	54.5	56.2	57.0	58.6	60.9	62.5	66.8	69.4

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable; COLAs = cost-of-living adjustments.

a. Agricultural commodity price and income supports under the Federal Agriculture Improvement and Reform Act of 1996 (FAIR) generally expire after 2002. Although permanent price support authority under the Agricultural Adjustment Act of 1939 and the Agricultural Act of 1949 would then become effective, section 257(b)(2)(iii) of the Deficit Control Act says that the baseline must assume continuation of the FAIR provisions.

b. Authorizing legislation provides contract authority, which is counted as mandatory budget authority. However, because spending is subject to obligation limitations specified in annual appropriation acts, outlays are considered discretionary.

c. The expiring child nutrition programs are the Summer Food Service program and state administrative expenses.

etary (reflecting payments from the public in exchange for goods or services).

A decision to collect more (or less) money in the form of offsetting receipts usually requires a change in the laws that generate such collections. Thus, offsetting receipts are treated as offsets to mandatory spending for pay-as-you-go purposes. Fees and other charges that are triggered by appropriation action are classified as offsetting collections. In those cases, the collections offset discretionary spending.

Intragovernmental transfers representing the contributions that federal agencies make to their employee retirement plans account for roughly 45 percent of offsetting receipts—a share that is expected to remain relatively constant through 2011 (see Table 4-8). Agency contributions are paid primarily to the trust funds for Social Security, Military Retirement, and Civil Service Retirement. Some contribution rates are set by statute; others are determined on an actuarial basis. The contributions that agencies must make for their employees are charged against their budgets in the same way as other elements of their

Table 4-8.
CBO's Projections of Offsetting Receipts (By fiscal year, in billions of dollars)

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Employer's Share of Employee Retirement												
Social Security	-8	-8	-9	-9	-10	-11	-11	-12	-13	-14	-15	-16
Military Retirement	-11	-11	-12	-13	-13	-14	-14	-15	-15	-16	-16	-17
Civil Service Retirement and other	-19	-19	-20	-21	-22	-23	-23	-24	-26	-27	-28	-29
Subtotal	-38	-39	-41	-42	-45	-47	-49	-51	-54	-56	-59	-62
Medicare Premiums	-22	-24	-27	-30	-33	-37	-40	-43	-47	-51	-56	-61
Energy-Related Receipts[a]	-6	-8	-7	-6	-6	-6	-5	-5	-5	-5	-5	-5
Natural Resource-Related Receipts[b]	-3	-4	-4	-3	-3	-3	-3	-3	-4	-4	-4	-4
Electromagnetic Spectrum Auctions	*	-1	-4	-10	-10	-1	-1	-1	*	*	*	*
Department of Defense Health Care	0	0	0	-3	-3	-4	-4	-4	-4	-4	-4	-4
Other[c]	-12	-12	-13	-12	-10	-10	-11	-11	-11	-11	-12	-12
Total	-81	-87	-95	-108	-111	-107	-113	-119	-125	-131	-139	-147

SOURCE: Congressional Budget Office.

NOTE: * = between zero and -$500 million.

a. Includes proceeds from the sale of power, various fees, and naval petroleum reserve and Outer Continental Shelf receipts.

b. Includes timber and mineral receipts and various fees.

c. Includes asset sales.

employee compensation. Future retirement benefits are an important part of the compensation package for the government's roughly 4.2 million civilian, military, and postal workers. The budget treats those contributions as outlays and handles the deposits made in retirement funds as offsetting receipts. The transfers thus wash out in the budgetary totals, leaving only the funds' disbursements—for retirement benefits and administrative costs—reflected in total outlays.

The largest proprietary receipt that the government collects comprises premiums from the 38 million people enrolled in Supplementary Medical Insurance (Part B of Medicare), which primarily covers physicians' and outpatient hospital services. Premiums in the program are set to cover one-quarter of its costs. The monthly charge for SMI beneficiaries is $50 in 2001; it is projected to climb to $110 in 2011.

Almost all enrollees in Part B of Medicare pay the monthly premium. In the case of Part A, the Hospital Insurance program, most beneficiaries are considered to be entitled to those benefits and are not charged a premium. However, Medicare collects Part A premiums for about 360,000 enrollees who did not participate in employment covered by Medicare payroll taxes for a sufficient amount of time to be entitled to free enrollment. CBO estimates that collections of premiums for both parts of Medicare will increase from $24 billion in 2001 to $61 billion in 2011; more than 95 percent of the increase in those collections is associated with enrollees' payments of the regular monthly SMI premium. The federal government, however, also pays a substantial share of those premiums because Medicaid pays the Part B premium (and, if necessary, the Part A premium) for Medicare enrollees who are eligible for Medicaid. Thus, CBO projects that collections of premiums from nonfederal sources will increase from $19 billion in 2001 to $45 billion in 2011.

The program providing health care benefits for military retirees will collect $3 billion in receipts in 2003 and increase slowly to $4 billion in 2011. Other proprietary receipts come mostly from royalties and charges for oil and natural gas, electricity, minerals, and timber and from various fees levied on users of government property and services. Auctions by the Federal Communications Commission of rights to use parts of the electromagnetic spectrum are expected to continue through 2007, when the authority to conduct them expires. CBO estimates those auctions will bring in $1 billion in 2001, between $4 billion and $10 billion each year from 2002 to 2004, and smaller amounts in subsequent years (see Box 4-1).

Net Interest

Interest costs are a sizable but shrinking portion of the federal budget, representing more than 12 percent of government outlays in 2000—which is down from 15 percent in 1998. Under CBO's baseline projections of rapidly rising surpluses for 2001 through 2011, outstanding government debt continues to decline sharply over the period. Therefore, annual interest payments on the debt over the period quickly plummet from their 2000 level of $223 billion.

The path of interest costs depends in part on the size and composition of federal debt. Some of the securities that are currently outstanding, such as long-term bonds, will not be available for redemption over the next 10 years (see the discussion in Chapter 1). Therefore, in any given year, some will remain outstanding and incur interest costs, regardless of the size of the surplus. Starting in the first year when all available debt is retired, 2006 under CBO's baseline assumptions, any uncommitted funds from residual surpluses are accounted for separately, and proceeds earned by investing those funds are not considered part of net interest.

Net interest drops from $205 billion in 2001 to $90 billion in 2006 (see Table 4-9). After 2006, as the remaining long-term debt slowly matures, net interest declines more gradually, reaching $51 billion in 2011. Under baseline assumptions, net interest as a share of total spending drops from 11 percent in 2001 to about 2 percent in 2011.

In general, interest costs are not covered by the enforcement provisions of the Deficit Control Act because they are not directly controllable. Rather, interest payments depend on the amount of outstanding government debt and on interest rates. The Congress

Box 4-1.
Auctions of Spectrum Licenses Are Likely to Yield Higher Proceeds

CBO's baseline projection of offsetting receipts from Federal Communications Commission (FCC) auctions of portions of the electromagnetic spectrum totals nearly $28 billion over the 2001 through 2011 period, an increase of more than $10 billion relative to CBO's July 2000 estimate.[1] The prices being paid for spectrum licenses have skyrocketed over the last year, leading CBO to revise its valuations upward as well.

Many telecommunications and broadcast services require the use of the radio spectrum. By law, the FCC must use competitive bidding, or auctioning, to assign commercial licenses to use the radio spectrum when more than one commercial party seeks such licenses. In developing baseline projections for spectrum auctions, CBO attempts to measure the net effect of several factors that will determine future auction receipts. Those factors include the amount of spectrum that will be auctioned, the likely prices for that spectrum, and the statutory guidelines that shape FCC auctions.[2]

Like other nations, the United States will be making large blocks of spectrum available for new uses over the next few years, including spectrum for "third generation" (also known as "3G") mobile telecommunications services, which would simultaneously provide voice and high-speed data communications. The commission is in the process of allocating spectrum for 3G services, with auctions planned for sometime in the fall of 2002. CBO expects the FCC to auction licenses for other purposes as well, in accord with its broad statutory authority to allocate frequencies for commercial use as new technologies and market developments permit.

While CBO's assumptions about the amount of spectrum to be auctioned have not changed substantially since last year, recent actions by the commission suggest that the timing of auctions may change if the statutory deadlines conflict with other legislative directives regarding spectrum management. As a result, CBO now expects auction receipts to peak in fiscal years 2003 and 2004 rather than in 2002, the year targeted in the Balanced Budget Act of 1997.

CBO's new price assumptions reflect the dramatic increase in amounts paid for spectrum licenses in Europe and the United States in the past year. European auctions held over the spring and summer of 2000 yielded unit prices that were, on average, about four times higher than the amounts previously paid for similar licenses in the United States. Bidding in the FCC's reauction of certain "C-block" licenses was robust as well. Those higher prices have been driven largely by market enthusiasm for 3G services.

While it appears that auction proceeds over the next five years will exceed CBO's earlier expectations, those projections—and all other spectrum estimates—are subject to considerable uncertainty. The process of making new frequencies available for auction has moved more slowly than anticipated. Both public and private users of the radio spectrum have strongly resisted efforts to make their spectrum available for new uses. Spectrum values have also proven to be volatile, changing in response to trends in technology, the extent of competition for telecommunications markets, and the availability of capital at the time of the auction. Future auctions also are likely to involve frequencies that are encumbered by other uses or technical limitations, suggesting that prices may be lower than those being paid for the unencumbered spectrum auctioned in 2000.

1. CBO's current estimate does not include receipts from the FCC's reauction of certain "C-block" licenses, which ended on January 26, 2001. Proceeds from the reauction of C-block licenses are subject to credit reform procedures and are not included in the $28 billion estimate of offsetting receipts projected for 2001-2011. Instead, any proceeds retained from the reauction will be treated as a recovery on the loans made by the FCC to the original C-block licensees. The money recovered from such loans determines the amount of the credit subsidy, which is measured on a present-value basis over the life of the loan. Credit subsidies, which are classified as mandatory, are estimated annually and are adjusted to reflect the most recent information regarding the cash flows being generated by the licenses. Although the final disposition of the reauctioned licenses remains subject to certain legal proceedings, CBO expects that the Office of Management and Budget will make a downward adjustment in the estimated subsidy for the C-block portfolio, which would appear as a negative outlay in fiscal year 2001. On the basis of the results of the auction at the time CBO prepared this baseline, it estimated that the subsidy reestimate could total about $9 billion. Total winning bids were close to $17 billion—a few billion dollars higher than CBO estimated when completing its baseline projections earlier in the month. Future revisions to the baseline, which are generally completed before the Congress adopts a budget resolution, will reflect more up-to-date information on the reauction of C-block licenses.

2. For a more detailed description of these factors, see *The CBO Baseline for Spectrum Auction Receipts*, which is included as Appendix B to CBO's *Budget and Economic Outlook: Fiscal Years 2001-2010* (January 2000).

and the President influence the former by making decisions about taxes and spending and thus about government borrowing. Beyond that, they exert no direct control over interest rates, which are determined by market forces and Federal Reserve policy.

Net or Gross?

Net interest is the most economically relevant measure of what it costs the government to service its debt. However, some budget watchers stress gross interest (and its counterpart, gross federal debt) rather than net interest (and its counterpart, debt held by the public). But that choice exaggerates the government's debt-service burden because it overlooks billions of dollars in interest income that the government now receives.

Currently, about $3.4 trillion worth of federal securities sold to the public to finance previous deficits are outstanding. The federal government also has issued more than $2.1 trillion worth of securities to its own trust funds (mainly Social Security and other retirement trust funds). Those securities represent the past surpluses of the trust funds, and their total amount grows approximately in step with the

Table 4-9.
CBO's Projections of Federal Interest Outlays and Proceeds from Uncommitted Funds
(By fiscal year, in billions of dollars)

	Actual 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Interest on the Public Debt (Gross interest)[a]	362	369	337	331	325	315	307	307	319	334	350	371
Interest Received by Trust Funds												
Social Security	-60	-68	-75	-83	-93	-104	-117	-131	-146	-162	-180	-198
Other trust funds[b]	-69	-85	-73	-78	-81	-85	-89	-93	-98	-102	-106	-111
Subtotal	-129	-154	-149	-161	-174	-189	-206	-224	-244	-264	-286	-309
Other Interest[c]	-10	-11	-9	-8	-9	-10	-10	-11	-11	-11	-11	-11
Total (Net Interest)	223	205	179	163	142	116	90	72	65	58	53	51
Proceeds Earned on the Balance of Uncommitted Funds[d]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-1	-12	-38	-68	-104	-146
Total (Net interest plus proceeds earned on the balance of uncommitted funds)	223	205	179	163	142	116	90	60	27	-10	-51	-95

SOURCE: Congressional Budget Office.

NOTE: n.a. = not applicable.

a. Excludes interest costs of debt issued by agencies other than the Treasury (primarily the Tennessee Valley Authority).

b. Principally Civil Service Retirement, Military Retirement, Medicare, unemployment insurance, and the Airport and Airway Trust Fund.

c. Primarily interest on loans to the public.

d. "Uncommitted funds" is CBO's term for the surpluses remaining in each year after paying down publicly held debt available for redemption.

projected trust fund surpluses (see Chapter 1). The funds redeem the securities as needed to pay benefits; in the meantime, the government both pays and collects the interest on those securities. It also receives interest income from loans and short-term cash balances. Broadly speaking, gross interest encompasses all interest paid by the government (even to its own funds) and ignores all interest received. Net interest, by contrast, is the net flow to people and organizations outside the federal government (excluding any proceeds earned on uncommitted funds).

In 2000, net interest was about two-thirds as large as gross interest. CBO estimates that the government will pay $369 billion in gross interest costs in 2001 (see Table 4-9). Of that amount, however, $154 billion is credited to trust funds and is not paid out by the government. CBO also projects that the government will collect nearly $11 billion in other interest income this year. Therefore, net interest costs will total $205 billion in 2001.

Other Interest

The $11 billion in other interest that CBO expects the government to receive in 2001 comprises some interest payments and some interest collections. On balance, however, the government takes in more in that category than it pays out. Among the expenditures are Treasury payments for interest on tax refunds that are delayed for more than 45 days after the filing date (those payments total approximately $3 billion a year). An example of other collections is the interest received from the financing accounts of credit programs, mostly for direct loans. As those programs (student loans, for instance) make more loans, they borrow money from and pay interest to the Treasury. Interest payments from such programs are expected to rise slightly from $10 billion in 2000 to $11 billion in 2011.

Proceeds Earned on the Balance of Uncommitted Funds

By 2006, the baseline begins to record uncommitted funds from the residual of the surplus after all available debt is paid down. CBO makes no explicit assumption about what the Treasury might do with balances of uncommitted funds; its projections simply assume that all funds over the amounts needed to retire available debt will earn proceeds at a rate equal to the average rate projected for Treasury bills and notes.

The initial proceeds are quite small, only $1 billion in 2006. But they grow quickly as large amounts of uncommitted funds are accumulated in the later years of the projection period. Under baseline assumptions, CBO assumes that the balance of uncommitted funds will reach almost $3.2 trillion by 2011 and the proceeds from investing it will reach $146 billion in that year.