CHAPTER

4

The Spending Outlook

Federal spending totaled more than $2.0 trillion in 2002—an increase of $147 billion, or 7.9 percent, from the previous year. Excluding interest payments, spending last year jumped by 11 percent—the largest increase since 1981. Substantial increases in both defense and nondefense discretionary spending, a sharp rise in outlays for unemployment benefits, and continued growth in the major entitlement programs accounted for the upswing (*see Box 4-1* for descriptions of various types of federal spending).

On the discretionary side of the budget, defense and nondefense outlays each grew by roughly $42 billion in 2002. The Congressional Budget Office estimates that more than half of the growth in defense spending resulted from initiatives that were planned or funded before the September 11 terrorist attacks; most of the remaining growth supported the war against terrorism. Growth in nondefense discretionary spending was spread among various programs, most notably in the areas of education, transportation, health, and justice.

On the mandatory side of the budget, payments for unemployment benefits climbed by $23 billion as the unemployment rate rose significantly and a temporary extension in benefits was enacted. Spending for the three major entitlement programs—Social Security, Medicare, and Medicaid—went up by about $57 billion, and outlays for other mandatory programs rose by $17 billion. Offsetting the growth in other areas of the budget were net interest payments, which declined by $35 billion in 2002.

CBO projects that federal spending will grow less rapidly this year. Under the assumptions (of the adjusted baseline) that current laws remain the same and that discretionary budget authority totals about $751 billion after the regular 2003 appropriations are enacted, CBO projects that spending will rise by $110 billion, to $2.1 trillion—a 5.5 percent increase over 2002 outlays (*see Tables 4-1 and 4-2*). Excluding interest payments, spending is projected to grow by 6.7 percent in 2003. A war with Iraq or other additional spending, however, could push outlays significantly above those levels (see Chapter 5).

Fueling the growth in outlays for 2003 are increases in discretionary spending and continued growth in entitlements, offset by lower net interest payments resulting from currently low interest rates. On the basis of the two appropriation acts (defense and military construction) that have been enacted, CBO estimates that budget authority for defense discretionary programs has increased by $21 billion (5.8 percent) from the 2002 level. That increase—along with spending from earlier budget authority provided in response to the September 11 terrorist attacks and other appropriations—is estimated to boost defense outlays by $28 billion (7.9 percent) over the level in 2002. Assuming nondefense budget authority of about $369 billion—the difference between the target level of $751 billion for all discretionary funding and the $382 billion assumed for defense—outlays for nondefense programs are projected to rise by $30 billion (7.7 percent), chiefly as a result of rapid increases in budget authority in previous

Box 4-1.

Categories of Federal Spending

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

Discretionary spending pays for such activities as defense, transportation, national parks, and foreign aid. Discretionary programs are controlled by annual appropriation acts; policymakers decide each year how many dollars to devote to which activities. Certain fees and other charges that are triggered by appropriation action are classified as offsetting collections, which offset discretionary spending. The Congressional Budget Office's (CBO's) baseline depicts the path of discretionary spending in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, which states that current spending should be assumed to grow with inflation in the future.[1] For this report, current spending consists of appropriations provided for fiscal year 2003 for defense ($382 billion) and—pending enactment of the other regular appropriation bills—about $369 billion for nondefense activities.[2] The $751 billion in total discretionary budget authority for 2003 is assumed in CBO's adjusted baseline.

Mandatory spending consists overwhelmingly of benefit programs such as Social Security, Medicare, and Medicaid. The Congress generally determines spending for those benefit programs by setting rules for eligibility, benefit formulas, and other parameters rather than by appropriating specific 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. Mandatory spending also includes offsetting receipts—fees and other charges that are recorded as negative budget authority and outlays. 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 business-like transactions (such as rents and royalties from leases for oil and gas drilling on the Outer Continental Shelf).

Net interest includes interest paid on Treasury securities and other interest that the government pays (for example, on late refunds issued by the Internal Revenue Service) minus interest that the government collects from various sources (such as from commercial banks, where the Treasury keeps much of its operating cash). It is determined by the size and composition of the government's debt, annual budget deficits or 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).

2. Some defense discretionary programs are funded in the energy and water and other appropriation acts; the adjusted baseline assumes that these programs (about $16 billion) are funded at the levels in the current continuing resolution. The assumed $369 billion for nondefense activities is implied by the Republican leadership's apparent agreement with the President concerning total discretionary budget authority for 2003, which totals about $751 billion.

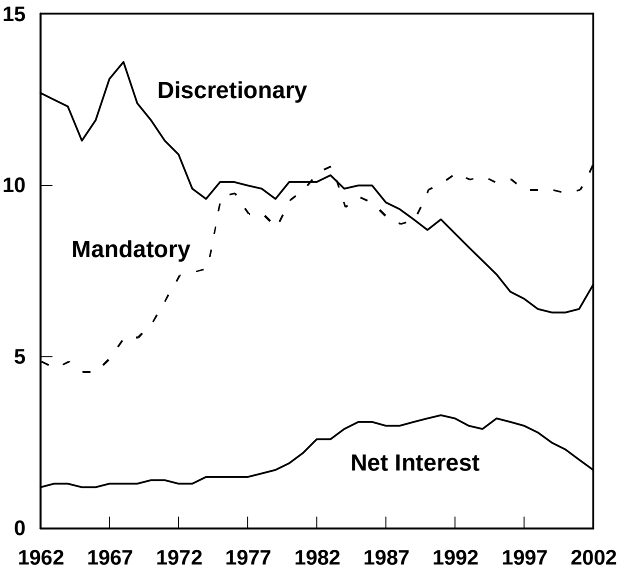
years. Spending for entitlement and other mandatory programs—which now constitutes more than half of all federal spending—will increase by $66 billion (6.0 percent) over its level in 2002, CBO projects. Declining interest payments will offset some of those spending increases. Despite a growing stock of debt held by the public, low interest rates are projected to reduce net interest payments by $14 billion (8.1 percent).

A look at longer-term trends reveals that the mix of federal spending has changed significantly over time. Today, the government spends less—as a proportion of gross domestic product—on discretionary activities and more on entitlement programs than it did in the past. Discretionary spending has declined from 12.7 percent of GDP in 1962 to 7.1 percent in 2002 (*see Figure 4-1*). In contrast, spending on entitlements and other mandatory programs

Figure 4-1.

Major Components of Spending, 1962-2002

(Percentage of GDP)



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

(net of offsetting receipts) has climbed from 4.9 percent to 10.7 percent of GDP over the 40-year span. (For detailed annual data on spending since 1962, see Appendix F.)

Under assumptions in the adjusted baseline, discretionary spending will grow roughly half as fast as the economy, CBO projects, or at an average annual rate of 2.6 percent, from 2003 to 2013. As a result, its share of GDP is projected to drop further—to 5.7 percent by 2013. Led by the two major health care programs, Medicare and Medicaid, mandatory spending (net of offsetting receipts) will grow slightly faster than the economy—or at a rate of 5.4 percent—if current policies remain unchanged. At that rate, mandatory outlays will claim 11.1 percent of GDP by 2013. (Growth in Social Security and health programs —driven by the aging of the baby-boom generation—is expected to accelerate rapidly beyond the 10-year projection horizon.) Although interest payments currently consume a sizable portion of the federal budget, CBO projects that such spending will decline from 1.7 percent of GDP in 2002 to 0.9 percent of GDP in 2013 as debt held by the public grows slowly in the near term and shrinks in later years.

Overall, spending as a percentage of GDP has fallen over the past two decades—from a peak of 23.5 percent in 1983 to a low of 18.4 percent in 2000. The steep increase in spending in 2002 drove that figure up to 19.5 percent. Under assumptions in the adjusted baseline, CBO estimates that outlays will fall to 17.7 percent of GDP by 2013.

Discretionary Spending

Each year, the Congress starts the appropriation process anew. The annual appropriation acts that 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.

Recent Trends in Discretionary Spending

Since the mid-1980s, total discretionary outlays as a share of GDP have dropped, falling from 10.0 percent in 1985 to a low of 6.3 percent in 1999 and 2000. Since then, such spending has turned upward, reaching 7.1 percent of GDP in 2002 (*see Table 4-3 on page 81*). Defense outlays as a share of the economy have also declined, moving from 6.2 percent in 1986 to a low of 3.0 percent in 1999 and 2000; CBO estimates a slightly higher rate of 3.5 percent for 2003 under the assumptions in its adjusted baseline. Nondefense discretionary spending has remained relatively constant as a share of GDP since the mid-1980s, although it has grown steadily in dollar terms; under CBO's adjusted baseline, such spending is estimated to total 3.9 percent of GDP in 2003.

The Congress and the President have enacted most of the appropriations for defense spending for 2003, but nondefense discretionary budget authority is not yet final. Current law for the 11 remaining appropriation bills is a continuing resolution—Public Law 108-2, expiring on January 31, 2003—that grants funding authority, in most cases, at the rate of operations provided in the previous

Table 4-1.

CBO's Projections of Outlays Under Its Adjusted Baseline

	Actual 2002	2003	2004	2005	2006	2007	2008	2009
						In Billions of Dollars		
Discretionary Spending	734	792	817	834	848	866	891	915
Mandatory Spending[b]	1,106	1,172	1,218	1,270	1,326	1,396	1,475	1,566
Net Interest	171	157	165	194	212	217	217	214
Total	**2,011**	**2,121**	**2,199**	**2,298**	**2,387**	**2,479**	**2,583**	**2,695**
On-budget	1,655	1,751	1,816	1,905	1,979	2,058	2,149	2,243
Off-budget	356	370	383	393	407	420	434	451
						As a Percentage of GDP		
Discretionary Spending	7.1	7.4	7.2	7.0	6.7	6.5	6.4	6.2
Mandatory Spending[b]	10.7	10.9	10.8	10.6	10.5	10.5	10.6	10.6
Net Interest	1.7	1.5	1.5	1.6	1.7	1.6	1.6	1.5
Total	**19.5**	**19.7**	**19.4**	**19.3**	**19.0**	**18.7**	**18.5**	**18.3**
On-budget	16.0	16.3	16.1	16.0	15.7	15.5	15.4	15.2
Off-budget	3.4	3.4	3.4	3.3	3.2	3.2	3.1	3.1
Memorandum:								
Gross Domestic Product (Billions of dollars)	10,337	10,756	11,309	11,934	12,582	13,263	13,972	14,712

Source: Congressional Budget Office.

Notes: The projections incorporate the assumption that discretionary budget authority totals $751 billion for 2003 and grows with inflation thereafter.

n.a. = not applicable.

a. Numbers in the bottom half of the column are shown as a percentage of cumulative GDP over this period.

b. Includes offsetting receipts.

year.[1] Pending enactment of the remaining regular appropriation bills, CBO assumes that discretionary budget authority under its adjusted baseline will total about $751 billion, as apparently agreed to by the Republican leadership and the President.[2] CBO's adjusted baseline, therefore, reflects an enacted increase of nearly $21 billion in defense budget authority from 2002 to 2003 (from $361 billion to $382 billion), and an assumed decrease of roughly $5 billion in nondefense budget authority (from $374 billion in 2002 to $369 billion for 2003).[3]

1. Some spending that occurred in 2002 was not included in the continuing resolution since it was considered to be a "one-time" event. That spending funded programs such as response and recovery efforts in New York City, purchases of smallpox vaccine, and anthrax cleanup efforts by the Postal Service.

2. That figure essentially represents the President's budget request—including amendments issued after the budget was released last February but excluding the $10 billion designated as a "wartime contingency."

3. Budget authority for defense increased over 2002 levels by roughly $19 billion for the development and procurement of weapon systems and $7 billion for personnel costs; budget authority for operations and maintenance and revolving funds combined decreased by about $6 billion from 2002 levels. Some defense discretionary programs are funded in the energy and water and other appropriation acts; CBO assumes in its adjusted baseline that those programs are funded at the levels in the current continuing resolution.

2010	2011	2012	2013	Total, 2004-2008[a]	Total, 2004-2013[a]
940	969	989	1,020	4,257	9,089
1,661	1,774	1,856	1,988	6,684	15,529
208	199	184	159	1,004	1,968
2,809	**2,943**	**3,029**	**3,167**	**11,945**	**26,587**
2,339	2,454	2,516	2,627	9,908	22,087
470	489	512	539	2,038	4,500
6.1	6.0	5.8	5.7	6.8	6.3
10.7	10.9	10.9	11.1	10.6	10.8
1.3	1.2	1.1	0.9	1.6	1.4
18.1	**18.1**	**17.8**	**17.7**	**18.9**	**18.4**
15.1	15.1	14.8	14.7	15.7	15.3
3.0	3.0	3.0	3.0	3.2	3.1
15,480	16,250	17,013	17,851	n.a.	n.a.

Discretionary Spending for 2004 to 2013

As specified in the Deficit Control Act, CBO inflates discretionary budget authority (using the factors specified in law) from the level appropriated in the current year to provide a reference point for assessing policy changes. Projections of the surplus or deficit are sensitive to the assumed growth in discretionary spending, so CBO typically develops alternative projections using different rates of growth. This year, however, even the base from which projections are made is uncertain.

To illustrate the effect of different assumptions about discretionary spending in the future, CBO presents alternative scenarios for such spending during the 2004-2013 period (*see Table 4-4 on pages 82 and 83*).

The first scenario—CBO's adjusted baseline—assumes that budget authority in 2003 totals about $751 billion and grows at the rates of inflation specified in the Deficit Control Act. The second scenario is CBO's unadjusted baseline, which assumes that total budget authority equals $738 billion—as calculated on the basis of the continuing resolution—and also grows at the rates of inflation specified in the Deficit Control Act. Under the second scenario, discretionary outlays over the 10-year period would be $135 billion less than the adjusted figures presented in this report, and debt-service costs would fall by $43 billion.

A third scenario assumes that funding of $751 billion in 2003 grows at the average annual rate of nominal GDP after 2003 (5.2 percent a year, on average, or about twice as fast as the overall rate of growth assumed in the adjusted baseline). Total discretionary outlays would exceed CBO's baseline figures by a cumulative $1.2 trillion over the projection period under this scenario. Added debt-service costs would bring the cumulative outlay increase to $1.5 trillion.

The final scenario shows discretionary spending frozen at $751 billion throughout the projection period. Under that assumption, discretionary outlays over the 2004-2013 period would total $1.1 trillion less than in CBO's adjusted baseline, with debt-service savings bringing the difference to $1.4 trillion.

Entitlements and Other Mandatory Spending

Currently, more than half of the money that the federal government spends each year supports entitlement programs and other types of mandatory spending (not including 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 generally are not constrained by annual appropriation acts.

As a share of total outlays, mandatory spending steadily increased from 32 percent in 1962 to 60 percent in 2002. If current policies remained unchanged, mandatory spend-

Table 4-2.

Average Annual Rate of Growth in Outlays Under CBO's Adjusted Baseline

(In percent)

	Actual 2001-2002	Estimated 2002-2003	Projected[a] 2003-2013
Discretionary Spending	13.1	7.8	2.6
Defense	14.0	7.9	2.7
Nondefense	12.3	7.7	2.4
Mandatory Spending	9.6	6.0	5.4
Social Security	5.4	4.8	5.5
Medicare[b]	6.4	5.7	6.6
Medicaid	13.2	6.4	8.5
Other[b]	18.5	7.9	2.1
Net Interest	-17.1	-8.1	0.1
Total Outlays	7.9	5.5	4.1
Total Outlays Excluding Net Interest	11.0	6.7	4.4
Memorandum:			
Consumer Price Index	1.5	2.3	2.4
Nominal GDP	3.0	4.1	5.2
Discretionary Budget Authority	10.7	2.2	2.8
Defense	8.8	5.8	2.7
Nondefense	12.6	-1.3	2.8

Source: Congressional Budget Office.

Note: The projections incorporate the assumption that discretionary budget authority totals $751 billion for 2003 and grows with inflation thereafter.

a. As specified by the Deficit Control Act, CBO's baseline uses the employment cost index for wages and salaries to inflate discretionary spending related to federal personnel and the GDP deflator to adjust other spending.

b. Includes offsetting receipts.

ing would continue to grow faster than other spending, reaching 69 percent of total outlays in 2013, CBO estimates. Among the largest mandatory programs are Social Security, Medicare, and Medicaid, which together accounted for over 71 percent of mandatory spending in 2002 and are projected to constitute almost 78 percent of such spending in 2013.

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 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 2.8 percent last year. Changes in spending for means-tested programs are driven by several factors, including inflation, rising health care costs, fluctuating unemployment, growth of the eligible populations, and new legislation. Under CBO's estimates, spending for means-tested programs would grow more rapidly than the economy over the next 10 years—largely because of growth in Medicaid—climbing to 3.0 percent of GDP in 2013.

Medicaid. Federal outlays for Medicaid, the joint federal/state program that pays for the medical care of many of the nation's poor, made up over half of all spending for means-tested entitlements in 2002 (*see Table 4-5 on page 84*). Medicaid outlays grew by 13.2 percent last year,

Table 4-3.

Defense and Nondefense Discretionary Outlays

	Defense Outlays			Nondefense Outlays			Total Discretionary Outlays		
	In Billions of Dollars	As a Percentage of GDP	Percentage Change from Previous Year	In Billions of Dollars	As a Percentage of GDP	Percentage Change from Previous Year	In Billions of Dollars	As a Percentage of GDP	Percentage Change from Previous Year
1985	253	6.1	11.0	163	3.9	7.5	416	10.0	9.6
1986	274	6.2	8.2	165	3.7	1.2	439	10.0	5.5
1987	283	6.1	3.2	162	3.5	-1.8	444	9.5	1.3
1988	291	5.8	3.0	174	3.5	7.3	464	9.3	4.5
1989	304	5.6	4.5	185	3.4	6.5	489	9.0	5.3
1990	300	5.2	-1.3	201	3.5	8.5	501	8.7	2.4
1991	320	5.4	6.5	214	3.6	6.5	533	9.0	6.5
1992	303	4.9	-5.3	231	3.7	8.2	534	8.6	0.1
1993	292	4.5	-3.4	247	3.8	6.8	539	8.2	1.0
1994	282	4.1	-3.5	259	3.7	4.9	541	7.8	0.4
1995	274	3.7	-3.1	271	3.7	4.7	545	7.4	0.6
1996	266	3.5	-2.8	267	3.5	-1.7	533	6.9	-2.2
1997	272	3.3	2.1	276	3.4	3.3	547	6.7	2.7
1998	270	3.1	-0.5	282	3.2	2.3	552	6.4	0.9
1999	275	3.0	1.9	297	3.2	5.2	572	6.3	3.6
2000	295	3.0	7.1	320	3.3	7.9	615	6.3	7.5
2001	306	3.1	3.8	343	3.4	7.3	649	6.5	5.6
2002	349	3.4	14.0	385	3.7	12.3	734	7.1	13.1
2003[a]	377	3.5	7.9	415	3.9	7.7	792	7.4	7.8

Sources: Office of Management and Budget for 1985 through 2002 and Congressional Budget Office for 2003.

a. Estimated using CBO's adjusted baseline (in which discretionary budget authority for 2003 totals $751 billion).

marking the sixth consecutive year that spending growth in the program accelerated. The 2002 increase resulted from a combination of higher prices and rising enrollment and utilization. Most notably, spending for outpatient prescription drugs, which accounted for about 9 percent of Medicaid spending in 2002, jumped by 18 percent (after rising by roughly 20 percent in each of the previous three years). Rising unemployment—along with state and federal actions in recent years to expand Medicaid eligibility and benefits, increase payment rates to providers, and conduct outreach—has increased both enrollment and costs. States also expanded their use of financing mechanisms related to Medicare's upper payment limit (UPL), which generated additional federal payments.[4]

CBO projects that spending growth for the program will drop to 6.4 percent in 2003 as a result of slower growth in enrollment, smaller increases in payment rates, and restrictions on UPL spending. Despite that decline, Medicaid spending over the next decade is projected to grow more rapidly than spending for other means-tested programs. Higher prices, greater consumption of services, and, to a lesser extent, increased enrollment will continue to drive up Medicaid's costs, pushing federal outlays from $157 billion in 2003 to $356 billion in 2013—an average annual increase of 8.5 percent. Spending for acute care services, which includes payments to managed care plans and payments for prescription drugs, accounts for more than half of all Medicaid outlays and is the most rapidly growing component of the program. Acute care spending

4. The UPL is a regulatory ceiling in Medicaid's payment policy that prohibits states from paying certain classes of facilities more than they would under Medicare's rules. However, many states use financing mechanisms to pay certain public facilities at rates far above Medicaid's normal rates, but below Medicare's upper payment limit, and then receive federal matching funds for those payments. Those public facilities return the excess funds to the states, which then retain the additional money from the federal match.

Table 4-4.

CBO's Projections of Discretionary Spending Under Alternative Paths

(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Adjusted Baseline (Discretionary Spending of About $751 Billion Grows with Inflation After 2003)[a]													
Budget Authority													
Defense	382	391	401	411	423	434	446	459	472	485	499	2,060	4,422
Nondefense	369	383	392	402	413	424	436	448	461	473	486	2,015	4,319
Total	**751**	**774**	**793**	**814**	**836**	**858**	**882**	**907**	**932**	**959**	**985**	**4,075**	**8,740**
Outlays													
Defense[b]	377	389	400	406	414	428	440	452	468	474	491	2,037	4,363
Nondefense	415	428	435	442	453	463	475	488	501	515	528	2,220	4,726
Total	**792**	**817**	**834**	**848**	**866**	**891**	**915**	**940**	**969**	**989**	**1,020**	**4,257**	**9,089**
Discretionary Spending of About $738 Billion Grows with Inflation After 2003[a]													
Budget Authority													
Defense	382	391	401	411	423	434	446	459	472	485	499	2,060	4,422
Nondefense	357	370	379	389	399	410	422	433	445	458	470	1,949	4,178
Total	**738**	**762**	**780**	**801**	**822**	**845**	**868**	**892**	**917**	**943**	**969**	**4,009**	**8,599**
Outlays													
Defense[b]	377	389	400	406	414	428	440	452	468	474	491	2,037	4,363
Nondefense	408	417	423	430	439	449	461	473	486	500	513	2,158	4,592
Total	**785**	**806**	**822**	**836**	**853**	**877**	**901**	**925**	**955**	**974**	**1,004**	**4,195**	**8,954**
Discretionary Spending of About $751 Billion Grows at the Rate of Nominal GDP After 2003													
Budget Authority													
Defense	382	401	423	446	470	495	521	548	576	605	636	2,235	5,121
Nondefense	369	393	414	436	459	484	509	536	563	591	621	2,186	5,006
Total	**751**	**794**	**837**	**882**	**929**	**978**	**1,030**	**1,084**	**1,139**	**1,197**	**1,256**	**4,421**	**10,127**
Outlays													
Defense[b]	377	397	417	435	455	482	508	534	566	587	620	2,186	5,001
Nondefense	415	433	450	468	491	514	539	565	593	621	651	2,355	5,324
Total	**792**	**830**	**867**	**903**	**945**	**996**	**1,047**	**1,100**	**1,158**	**1,208**	**1,271**	**4,541**	**10,325**
Discretionary Spending Is Frozen at About $751 Billion													
Budget Authority													
Defense	382	382	382	382	382	382	382	382	382	382	382	1,908	3,816
Nondefense	369	370	370	370	370	369	369	369	369	369	369	1,848	3,695
Total	**751**	**752**	**751**	**751**	**751**	**751**	**751**	**751**	**751**	**751**	**751**	**3,756**	**7,511**
Outlays													
Defense[b]	377	382	384	381	378	380	380	380	383	377	380	1,905	3,806
Nondefense	415	422	422	420	417	412	411	411	410	410	410	2,093	4,144
Total	**792**	**805**	**806**	**800**	**795**	**792**	**791**	**791**	**793**	**787**	**790**	**3,998**	**7,951**

(Continued)

Table 4-4.

Continued

(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Memorandum:													
Debt Service on Differences from CBO's Adjusted Baseline													
$738 billion in 2003 grows with inflation	*	*	-1	-2	-3	-4	-5	-6	-7	-8	-9	-10	-43
$751 billion in 2003 grows at the rate of nominal GDP	*	*	1	4	8	13	20	29	40	54	69	27	240
Frozen at $751 Billion	*	*	-1	-3	-7	-12	-19	-27	-37	-50	-64	-24	-220

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. Outlays also may exceed budget authority because they include spending from appropriations provided in previous years.

a. Using the inflators specified in the Deficit Control Act (the GDP deflator and the employment cost index for wages and salaries).
b. When October 1 falls on a weekend, certain federal payments due on that date are shifted into September; consequently, military personnel will be paid 13 times in 2005 and 2011 and 11 times in 2007 and 2012.

is anticipated to rise from $87 billion in 2003 to $211 billion in 2013. Spending for long-term care, which accounts for about 30 percent of all Medicaid spending, is also expected to grow rapidly, climbing from $46 billion in 2003 to $111 billion in 2013, as states expand participants' eligibility to receive home- and community-based services in response to legal challenges under the Americans with Disabilities Act.

Currently, combined federal and state outlays for Medicaid approach total outlays for Medicare, the federal government's other major health care program. As Medicaid spending continues to grow, it will overtake Medicare spending in the next few years.

Other Means-Tested Programs. CBO projects that outlays for other means-tested programs will grow at an average annual rate of 2.1 percent from 2003 through 2013, although it expects those programs to grow by 4.8 percent in 2003, largely because of the current weakness in the economy. For example, outlays for the Food Stamp program are projected to jump by 10.7 percent in 2003, with roughly half of that increase attributable to economic conditions; as the economy improves, spending growth in that program is estimated to slow, yielding an average annual growth rate of 2.4 percent over the next decade.

CBO's baseline estimates for 2012 and 2013 reflect the scheduled expiration, on December 31, 2010, of the cuts in marginal tax rates and the child tax credit provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001. After EGTRRA expires, the income threshold at which tax credits are phased out will no longer rise in tandem with income; and as tax rates increase to pre-EGTRRA levels, the tax liability of married couples filing jointly will rise. Consequently, a higher portion of the earned income tax credit (EITC) they are eligible for will go to offset their tax liability instead of being paid out as a refundable credit. As a result, the government's EITC outlays will drop by about $3 billion in 2012. Likewise, child tax credit outlays will plummet from $9 billion to less than $1 billion after EGTRRA expires, because only families with three or more children will receive any refundable credits.

Table 4-5.

CBO's Baseline Projections of Mandatory Spending

(In billions of dollars)

	Actual 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Means-Tested Programs														
Medicaid	148	157	167	179	195	212	231	251	274	299	326	356	983	2,489
Supplemental Security Income	31	32	33	37	36	35	40	41	43	48	43	48	181	405
Earned Income Tax and Child Tax Credits	33	34	34	34	37	37	37	38	39	42	30	30	179	357
Food Stamps	22	24	25	25	25	26	27	28	28	29	30	31	128	274
Family Support[a]	26	27	26	26	25	26	25	25	26	26	27	27	128	259
Child Nutrition	10	11	11	11	12	12	13	13	14	14	15	16	59	132
Foster Care	6	6	7	7	7	7	8	8	9	9	9	10	36	80
Student Loans	3	3	4	5	6	6	6	6	6	6	6	6	27	58
State Children's Health Insurance	4	4	5	5	5	5	5	5	5	5	5	5	24	50
Veterans' Pensions	3	3	3	4	3	3	4	4	4	4	4	5	17	39
Total	**286**	**302**	**314**	**333**	**351**	**369**	**395**	**420**	**448**	**483**	**496**	**534**	**1,762**	**4,142**
Non-Means-Tested Programs														
Social Security	452	474	493	514	540	568	598	633	671	712	757	807	2,714	6,293
Medicare	254	269	283	302	315	337	359	385	414	449	479	521	1,597	3,843
Subtotal	706	743	776	817	855	905	957	1,018	1,085	1,161	1,235	1,327	4,310	10,136
Other Retirement and Disability														
Federal civilian[b]	56	59	62	65	68	71	75	78	82	86	90	94	341	771
Military	35	36	37	38	39	40	41	42	43	44	45	47	194	416
Other	5	6	6	6	6	7	7	6	7	7	7	7	32	66
Subtotal	96	100	104	109	113	118	122	127	132	137	142	147	567	1,253
Unemployment Compensation	51	56	46	43	43	45	45	47	49	51	52	54	222	476
Other Programs														
Veterans' benefits[c]	25	29	31	36	34	32	35	36	36	40	35	39	168	354
Commodity Credit Corporation	14	13	16	17	17	16	15	16	15	14	13	13	81	151
TRICARE for Life	0	4	5	6	7	7	8	9	9	10	11	11	34	83
Universal Service Fund	5	6	6	6	6	7	7	7	7	7	7	7	32	67
Social services	4	5	5	5	5	5	5	5	5	5	5	5	24	49
Other	10	16	17	15	15	13	13	14	14	14	14	15	73	144
Subtotal	58	73	80	85	84	80	82	85	86	90	86	90	412	849
Total	**911**	**972**	**1,007**	**1,053**	**1,095**	**1,148**	**1,208**	**1,277**	**1,352**	**1,438**	**1,516**	**1,619**	**5,511**	**12,713**
Offsetting Receipts														
Offsetting Receipts	**-91**	**-103**	**-103**	**-115**	**-121**	**-122**	**-127**	**-131**	**-139**	**-147**	**-156**	**-165**	**-588**	**-1,326**
Total														
Mandatory Spending	**1,106**	**1,172**	**1,218**	**1,270**	**1,326**	**1,396**	**1,475**	**1,566**	**1,661**	**1,774**	**1,856**	**1,988**	**6,684**	**15,529**
Memorandum:														
Mandatory Spending Excluding Offsetting Receipts	1,197	1,275	1,321	1,385	1,446	1,517	1,603	1,697	1,800	1,921	2,012	2,153	7,273	16,855

Source: Congressional Budget Office.

Note: Spending for the benefit programs shown above generally excludes administrative costs, which are discretionary.

a. Includes Temporary Assistance for Needy Families and various programs that involve payments to states for child support enforcement and family support, child care entitlements, and research to benefit children.

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

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

The authorization for Temporary Assistance for Needy Families (TANF), which makes up the bulk of family support programs, expired at the end of 2002, although the Congress extended it temporarily through March of this year. For its baseline, CBO assumes that funding for TANF will continue at the 2002 level (as required by the Deficit Control Act). As a result, total spending for family support programs is projected to remain fairly stable, ranging from $25 billion to $27 billion over the 10-year period. CBO will modify its projections of TANF spending to reflect any changes in the program when it is reauthorized.

Although the student loan program is difficult to classify as either means-tested or non-means-tested, CBO includes that program in the former 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, an increasing proportion of loans involve no means-testing. For 2003, CBO estimates that about $43 billion in student loans will be guaranteed or provided directly by the federal government. Over the 2003-2013 period, total loan disbursements will top $569 billion. Of that total, the share of loans that are not means-tested will expand from 53 percent in 2003 to 61 percent in 2013.

The costs that are 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 interest subsidies, default costs, and other expected expenses over the life of the loans. CBO estimates that the subsidy and administrative costs of the student loan program will range from $3 billion to $6 billion a year from 2003 through 2013. The means-tested loans, which feature the most favorable terms, account for the bulk of those costs.

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 $474 billion in 2003. It pays benefits to 46 million people—a number that is projected to swell to about 56 million by 2013. Most Social Security beneficiaries also participate in Medicare, which is expected to cost $269 billion this year. 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 annual costs for the two programs combined will grow by $584 billion from 2003 to 2013 as the leading edge of the baby-boom generation reaches the age of eligibility for the programs. In total, Social Security and Medicare account for more than half of the projected increase in federal outlays over that period.

Social Security. During the past decade, Social Security outlays grew at an average rate of about 4.7 percent a year. For the next 10 years, growth will average roughly 5.5 percent a year, CBO projects. However, 10-year averages do not fully reveal the long-term trends propelling growth in outlays. As baby boomers begin to qualify for Social Security in the second half of the decade, the program's growth rate will accelerate more rapidly, climbing from 5.2 percent in 2007 to 6.6 percent in 2013. The same trend underlies the growth in Social Security's estimated share of the economy, which is projected to stand at 4.3 percent in 2009 before creeping up to reach 4.5 percent in 2013. The number of people who qualify for Social Security will continue to escalate after 2013, causing the program (along with Medicare, which exhibits a similar pattern) to put an increasing strain on the federal budget.

Social Security's Old-Age and Survivors Insurance (OASI) program pays benefits to retired workers, their eligible spouses and children, and some survivors (chiefly aged widows and young children) of deceased workers. It will pay about $397 billion in benefits in 2003. Most beneficiaries are elderly, and most elderly people collect Social Security: three-fifths of people between the ages of 62 and 64 and more than 90 percent of people age 65 and older collect Social Security. Consequently, CBO bases its estimates of the number of beneficiaries and of OASI outlays primarily on the size of the elderly population.

CBO projects that OASI benefits will cost $666 billion in 2013, an increase of 68 percent over the amount in 2003, reflecting an average growth rate of 5.3 percent a year. In contrast, benefits grew by 53 percent over the past decade, or at an average annual rate of 4.3 percent. Overall, of that 4.3 percent average annual growth, roughly 2.6 percent can be assigned to cost-of-living adjustments

(COLAs), 0.8 percent to increasing enrollment, and 0.9 percent to growth in the average real benefit (in excess of COLAs). For the next decade, CBO expects that the growth in COLAs will slow to 2.4 percent a year, enrollment growth will accelerate to 1.6 percent a year, and the average real benefit will increase by 1.2 percent a year.

The smaller Disability Insurance (DI) program pays benefits to insured workers who have suffered a serious medical impairment before they reach retirement age and to their eligible spouses and children. According to CBO's projections, DI benefits will grow even faster than OASI benefits, from $73 billion in 2003 to $136 billion in 2013, or at an average rate of 6.4 percent a year. CBO ascribes 3.2 percent of that future growth rate to increasing caseloads, 2.4 percent to COLAs, 1.4 percent to real benefit growth, and -0.8 percent to other factors (chiefly a drop in lump-sum payments from unusually high levels in 2003). Over the past decade, the average growth rate for the DI program measured 7.8 percent, but that growth was apportioned differently: CBO attributed roughly 4.4 percent to caseloads, 2.6 percent to COLAs, and about 0.9 percent to real benefit growth.

Social Security outlays include about $4 billion in mandatory spending other than OASI and DI benefits. Almost all of that spending reflects an annual transfer to the Railroad Retirement program.

Medicare. Currently, Medicare spending (not including premiums) is about 56 percent as large as Social Security spending, but it is expected to grow faster than Social Security spending over the next decade. By 2013, CBO projects, outlays for the Medicare program will total $521 billion, and that spending's share of the economy will have risen by nearly one-half of a percentage point, from 2.5 percent of GDP in 2003 to 2.9 percent.

CBO projects that Medicare spending will rise by 6.0 percent in 2003 and that growth will average 6.8 percent a year through 2013. That projected growth over the next decade 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 and other economic factors, including changes in GDP and productivity. CBO estimates that automatic updates to payment rates will average 3.0 percent each year (although updates for specific services will vary considerably) and will account for roughly 43 percent of the projected increase in Medicare spending from 2003 through 2013.

Second, increases in caseloads make up an additional 28 percent of the anticipated rise in Medicare outlays over the 10-year period. CBO projects that the number of enrollees in Medicare's Hospital Insurance (Part A) program will expand by 21 percent, from 40 million to 49 million, between 2003 and 2013. The increases in spending associated with new enrollees will be greater in the second half of the decade than in the first half, as baby boomers begin to reach 65. Growth in enrollment will accelerate from 1.1 percent in 2003 to 2.9 percent in 2013, CBO estimates.

The remainder of the increase results from other changes in covered benefits; from changes in payment rates required by the Balanced Budget Act of 1997, the Balanced Budget Refinement Act, and the Benefits Improvement and Protection Act of 2000; and from factors such as changes in medical technology, billing behavior, and the age distribution of enrollees.

A countervailing factor that will put downward pressure on Medicare spending over the next decade is the formula used to establish the fee schedule for physicians' services—the sustainable growth rate (SGR) formula. The SGR establishes a cumulative spending target for physicians' services and services related to a physician visit. CBO estimates that spending through 2002 has exceeded the cumulative target by about $17 billion and that the amount of spending in excess of the target will grow by another $10 billion in the next few years. The SGR formula ultimately will recoup spending above the cumulative target by reducing payment rates for physicians' services or by holding increases below the rate of inflation as measured by the Medicare economic index. As a result, payment rates are scheduled to drop by 4.4 percent on March 1, 2003. (Those rates were reduced by 5.4 percent last year.)

CBO's projections also reflect declining enrollment in Medicare+Choice plans. That enrollment peaked in 2000 at 6.3 million Medicare beneficiaries and declined to 5.1

million (13 percent of Medicare beneficiaries) in 2002. CBO projects that enrollment in Medicare+Choice plans will continue to fall in the next few years, leveling off at about 3.7 million enrollees in 2009 and 2010 (8 percent of Medicare beneficiaries).

Other Non-Means-Tested Programs. Other federal retirement and disability programs, which are dominated by benefits for the federal government's civilian and military retirees, recorded outlays of $96 billion in 2002. CBO projects that such outlays will reach $100 billion in 2003 and increase by an average of roughly 3.9 percent each year thereafter through 2013.

Economic weakness caused the unemployment rate to soar from 4.4 percent in fiscal year 2001 to 5.7 percent in 2002. As a result, spending for unemployment compensation reached an all-time high of $51 billion in 2002. Because CBO expects the unemployment rate to inch up to an average of 5.9 percent in 2003, and because the Congress recently extended unemployment compensation benefits for people covered under the Job Creation and Worker Assistance Act of 2002, CBO projects that total outlays for unemployment compensation will increase to $56 billion in 2003. After 2003, spending for unemployment benefits will fall through mid-decade, CBO projects, and then increase slowly thereafter to reach $54 billion by 2013.

Outlays for other non-means-tested programs are projected to grow at an average annual rate of 2.2 percent. Cost-of-living adjustments and higher caseloads for veterans' compensation account for most of the increase in spending for veterans' benefits, which will total $29 billion in 2003 (up from $25 billion last year) and rise to $39 billion by 2013, CBO estimates. Spending for farm price and income supports is projected to remain fairly stable through 2013, ranging from $13 billion to $17 billion (for more details, see Chapter 1). The TRICARE for Life program, which provides health care benefits (including prescription drug coverage) for retirees of the uniformed services age 65 and older, will boost mandatory spending by $4 billion in 2003, a figure that rises to $11 billion in 2013.

What Explains the Projected Rate of Increase in Mandatory Spending?

As a whole, spending for entitlements and other mandatory programs has more than doubled since 1989—rising faster than both nominal growth in the economy and inflation. CBO's baseline projections show that trend continuing.

Why is mandatory spending projected to grow so much? One way to analyze that growth is to break it down by its major causes. Such a breakdown shows that more than 85 percent of the growth in entitlements and other mandatory programs between 2003 and 2013 results from more participants, automatic increases in benefits, and greater use of, and increasing prices for, medical services.

Burgeoning numbers of participants produce almost one-fourth of the total growth. Additional beneficiaries increase spending by $19 billion in 2004 and $212 billion in 2013 relative to outlays in 2003 (*see Table 4-6*). The majority of that spending is concentrated in Social Security and Medicare and can be traced to a growing number of elderly and disabled people; most of the rest is for Medicaid. CBO estimates that growth in the number of participants accounts for 29 percent of the growth in Social Security, 27 percent of the growth in Medicare, and 15 percent of the growth in Medicaid during the 2004-2013 period.

Automatic increases in benefits account for about one-third of the growth in entitlement programs. All of the major retirement programs grant automatic cost-of-living adjustments to their beneficiaries (the adjustment for 2003 is 1.4 percent). CBO estimates that those adjustments, which are pegged to the consumer price index, will be 2.2 percent in 2004 and 2005, 2.4 percent in 2006, and 2.5 percent thereafter. As a result, COLAs are projected to add $11 billion to total outlays in 2004 and $163 billion in 2013.

Several other programs—chiefly the earned income tax credit, the Food Stamp program, and Medicare—are also automatically indexed to changes in prices and other economic factors. The income thresholds above which the

Table 4-6.

Sources of Growth in Mandatory Outlays

(In billions of dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Estimated Spending for Base Year 2003	1,275	1,275	1,275	1,275	1,275	1,275	1,275	1,275	1,275	1,275
Sources of Growth										
Increases in participation	19	36	52	69	87	109	132	155	182	212
Automatic increases in benefits										
Cost-of-living adjustments	11	25	40	57	73	91	108	126	144	163
Other[a]	9	18	29	40	51	64	79	97	115	135
Other increases in Medicare and Medicaid[b]	9	22	40	60	83	110	139	172	207	243
Other growth in Social Security[c]	4	8	14	23	32	44	57	73	92	113
Irregular number of benefit payments[d]	0	9	-3	-6	0	0	0	10	-10	0
Other sources of growth	-6	-6	-1	*	*	5	9	14	8	11
Total	**46**	**110**	**172**	**242**	**328**	**422**	**525**	**647**	**737**	**878**
Projected Spending	1,321	1,385	1,446	1,517	1,603	1,697	1,800	1,921	2,012	2,153

Source: Congressional Budget Office.

Notes: * = between -$500 million and $500 million.

The mandatory spending shown here excludes offsetting receipts, which are detailed in Table 4-7.

a. Automatic increases in the Food Stamp program and child nutrition benefits, certain Medicare reimbursement rates, the earned income tax credit, TRICARE for Life, and statutory increases for veterans' education.

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

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

d. Represents differences attributable to the number of benefit checks that will be issued in a fiscal year. Normally, benefit payments are made once a month. However, Medicare will make 13 payments to Medicare+Choice plans in 2005 and 2011 (because October 1 falls on a weekend) and 11 payments in 2006 and 2012. Supplemental Security Income and veterans' benefits will be paid 13 times in 2005 and 2011 and 11 times in 2007 and 2012.

earned income tax credit begins to be phased out and the maximum amount of the tax credit are both automatically adjusted for inflation using the consumer price index.[5] The Food Stamp program adjusts its benefit payments each year according to changes in the costs of components in the Department of Agriculture's Thrifty Food Plan. Medicare's payments to providers are based in part on special price indexes for the medical sector and other economic factors, including changes in GDP and productivity. The combined effect of indexing for all of those programs is an extra $9 billion in outlays in 2004 and $135 billion in 2013.

The remaining boost in entitlement spending comes from increases that cannot be attributed to rising enrollment or automatic adjustments to benefits. Two of those sources of growth are expected to become more important over time. First, CBO anticipates that spending for Medicaid will grow with inflation even though the program 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 in response to higher prices, 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 growth in Medicare and Medicaid from both of those sources will be $9 billion in 2004 and $243 billion in 2013.

In most federal retirement programs, the average benefit grows faster than the COLA alone. Social Security is a prime example. Because awards to new retirees are buoyed

5. Credits are administered through the individual income tax. Credits in excess of tax liabilities are recorded as outlays in the federal budget.

by recent growth in wages, their benefits generally exceed the monthly check of a long-time retiree who last earned a salary a decade or two ago and has been receiving only cost-of-living adjustments since then. Because women's labor force participation grew dramatically beginning in the mid-1960s, more new retirees receive benefits based on their own earnings rather than smaller benefits based on their status as a spouse of a retiree. In Social Security alone, CBO estimates, the resulting increase in benefits will add $4 billion to outlays in 2004 and $113 billion in 2013.

Mandatory spending will increase or decrease in a given fiscal year depending on whether the first day of the year, October 1, falls on a weekend. If it does, some benefit payments will be made at the end of September, which increases spending in the year just ended and decreases spending in the new year. Thus, the Supplemental Security Income program, 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. Irregular numbers of benefit payments will affect mandatory spending in 2005, 2006, 2007, 2011, and 2012.

The remaining growth in spending for benefit programs derives from rising benefits for new retirees in the civil service and military retirement programs (fundamentally the same phenomenon as in Social Security); 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); and other sources of growth. Offsetting some of those factors is the expiration of emergency benefits for unemployment insurance. Together, other factors contribute just $11 billion of the total $878 billion increase in mandatory spending from 2003 to 2013.

Offsetting Receipts

Offsetting receipts are income that the federal government records as negative spending—that is, offsets to mandatory spending.[6] Those receipts are either intragovernmental (reflecting payments from one part of the federal government to another) or proprietary (reflecting payments from the public in exchange for goods or services).

Intragovernmental transfers representing the contributions that federal agencies make to their employees' retirement plans are the largest component of the offsetting receipts category (*see Table 4-7*). Such contributions account for roughly 40 percent of total offsetting receipts in each year through 2013. Agencies' contributions go 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. Those contributions are charged against the agencies' budgets in the same way that other elements of their employees' compensation are. The budget treats them as outlays of the employing agency and records the retirement fund deposits as offsetting receipts. The transfers thus wash out in the budget totals, leaving only the funds' disbursements—for retirement benefits and administrative costs—reflected in total outlays.

The TRICARE for Life program works in the same way. The payment made by the Department of Defense is offset by the receipt of that payment into the fund. The transfer washes out, leaving only the fund's disbursements reflected as outlays. CBO projects that the program will collect $7 billion from the Department of Defense in 2003, an amount that increases to $14 billion in 2013.

The largest amount of proprietary receipts that the government collects constitutes 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 beneficiaries is $59 in 2003; it is projected to climb to $111 in 2013. Enrollees in Part B of Medicare pay the monthly premium or Medicaid pays it on their behalf.

In the case of Part A, the Hospital Insurance program, most of its 40 million beneficiaries are considered to be entitled to those benefits and are not charged a premium. However, Medicare collects Part A premiums for about 400,000 enrollees who were not employed in jobs covered

6. Fees and other charges that are triggered by appropriation action are classified as offsetting collections. In those cases, the collections offset discretionary spending.

Table 4-7.

CBO's Baseline Projections of Offsetting Receipts

(In billions of dollars)

	Actual 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Employer's Share of Employee Retirement														
Social Security	-9	-9	-10	-11	-11	-12	-13	-14	-15	-16	-17	-18	-58	-137
Military retirement	-13	-12	-12	-13	-13	-13	-14	-14	-15	-15	-16	-16	-65	-140
Civil service retirement and other	-21	-21	-22	-23	-24	-25	-26	-27	-28	-29	-30	-31	-119	-264
Subtotal	-43	-43	-44	-46	-48	-50	-53	-55	-57	-60	-62	-65	-242	-541
TRICARE for Life	0	-7	-8	-9	-9	-9	-10	-11	-11	-12	-13	-14	-45	-105
Medicare Premiums	-26	-28	-31	-33	-36	-39	-42	-45	-49	-54	-59	-64	-181	-452
Energy-Related Receipts[a]	-6	-6	-5	-6	-6	-7	-7	-7	-7	-7	-7	-7	-31	-65
Natural Resources-Related Receipts[b]	-3	-4	-3	-3	-3	-3	-3	-3	-3	-4	-4	-4	-17	-35
Electromagnetic Spectrum Auctions	*	*	*	-8	-8	-3	-2	0	0	0	0	0	-21	-21
Other	-12	-15	-12	-10	-10	-10	-10	-10	-11	-11	-11	-11	-52	-107
Total	**-91**	**-103**	**-103**	**-115**	**-121**	**-122**	**-127**	**-131**	**-139**	**-147**	**-156**	**-165**	**-588**	**-1,326**

Source: Congressional Budget Office.

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

a. Includes proceeds from the sale of power, various fees, and royalties on mineral production and oil and gas production from the Outer Continental Shelf.
b. Includes timber and mineral receipts and various fees.

by Medicare payroll taxes long enough to qualify for free enrollment. CBO estimates that collections of premiums for both parts will grow from $28 billion in 2003 to $64 billion in 2013 (premiums for Supplementary Medical Insurance account for more than 95 percent of those amounts). 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. CBO projects that collections of premiums from nonfederal sources will more than double, rising from $25 billion in 2003 to $57 billion in 2013.

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 of rights to use parts of the electromagnetic spectrum are expected to continue until the Federal Communications Commission's authority expires at the end of 2007. CBO estimates that those auctions will bring in a total of $21 billion over the 2004-2008 period, with most of the receipts being recorded in 2005 and 2006.

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 will be extended when their authorization expires.[7]

7. Section 257 of the Deficit Control Act stipulates that programs with current-year outlays of $50 million or more that were established prior to enactment of the Balanced Budget Act of 1997 are assumed in the baseline to continue but that the treatment of pro-

The Food Stamp program, Temporary Assistance for Needy Families, and the State Children's Health Insurance Program are examples of programs whose current authorizations expire but in the baseline are assumed to continue. The Deficit Control Act also directs CBO to assume that a cost-of-living adjustment for veterans' compensation is granted each year. The assumption that expiring programs will continue accounts for about $6 billion in projected outlays in 2003; that figure expands to $81 billion by 2013 (*see Table 4-8*).

Net Interest

Interest costs are still a sizable portion of the federal budget, even though they have been shrinking in the past few years. (Net interest outlays peaked at $244 billion in 1997.) In 2002, such costs totaled $171 billion—about 8.5 percent of the federal government's outlays. Although CBO projects that debt held by the public will increase in 2003 to finance the deficit, it anticipates that net interest payments will decline to $157 billion (*see Table 4-9 on page 94*). That reduction is mainly attributable to a recent drop in interest rates—particularly short-term rates.

The federal government's interest payments depend on the amount of outstanding debt held by the public and on interest rates. The Congress and the President can influence the former through legislation governing taxes and spending—and thus the amount of government borrowing. Interest rates are determined by market forces and the Federal Reserve's policies.

Interest costs are also affected by the composition of debt held by the public. The average maturity of outstanding marketable debt has remained fairly constant, fluctuating between five and six years since 1985. That stability, however, masks some changes in the types of securities issued by the Treasury. For example, in 2001, the Treasury stopped issuing 30-year bonds and introduced a four-week bill. As a result, the average maturity of outstanding debt has fallen from a little over six years in December 2000 to five-and-a-half years in September 2002. Currently, Treasury bills with a maturity of one year or less account for about 28 percent of all marketable debt (a similar proportion is projected to continue through the projection period). Short-term debt generally carries lower interest rates than long-term debt does; however, because such debt turns over more quickly, it is more sensitive to changes in interest rates.

As interest rates rise in CBO's economic forecast (and debt held by the public grows to finance projected deficits), net interest also climbs, peaking in 2007 and 2008 at $217 billion. Through the middle of the 10-year period, projected interest rates stabilize at the higher rates, but debt held by the public begins to gradually fall as the baseline shifts from deficit to surplus. After 2008, the decline in net interest mirrors the overall reduction in debt. CBO projects that net interest will account for about 5 percent of total spending in 2013.

Net or Gross?

Net interest is the most economically relevant measure of the government's costs 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 $3.5 trillion of federal securities that have been sold to the public to finance previous deficits remain outstanding. The federal government also has issued about $2.7 trillion in securities to its own accounts (mainly Social Security and other retirement trust funds). Those securities represent the past surpluses of government accounts, and their total amount grows approximately in step with the projected trust fund surpluses (see Chapter 1). The funds redeem the securities as needed to pay benefits or finance programs; in the meantime, the government both pays and collects 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

grams established after the 1997 law will be decided on a case-by-case basis, in consultation with the House and Senate Budget Committees. For example, the authorization for the Initiative for Future Agriculture and Food Systems program, which was established in 1998 and for which outlays of $111 million are projected for 2003, is assumed to expire after 2003.

Table 4-8.

Costs for Mandatory Programs That CBO's Baseline Assumes Will Continue Beyond Their Current Expiration Dates

(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Food Stamps													
Budget authority	n.a.	n.a.	n.a.	n.a.	n.a.	26.8	27.6	28.4	29.3	30.2	31.1	26.8	173.4
Outlays	n.a.	n.a.	n.a.	n.a.	n.a.	25.6	27.6	28.4	29.3	30.2	31.1	25.6	172.0
Temporary Assistance for Needy Families													
Budget authority	6.7	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	16.9	84.5	168.9
Outlays	5.6	15.6	17.4	17.7	17.3	16.9	16.9	16.9	16.9	16.9	16.9	84.9	169.4
Commodity Credit Corporation[a]													
Budget authority	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.6	14.8	14.0	13.4	12.8	n.a.	70.5
Outlays	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.6	14.8	14.0	13.4	12.8	n.a.	70.5
Veterans' Compensation COLAs													
Budget authority	0	0.4	1.1	1.8	2.3	3.1	3.8	4.6	5.7	5.6	6.8	8.7	35.0
Outlays	0	0.4	1.1	1.7	2.2	3.1	3.8	4.5	5.7	5.5	6.7	8.6	34.7
Child Care Entitlement to States													
Budget authority	0.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	13.6	27.2
Outlays	0.6	2.2	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	12.7	26.3
State Children's Health Insurance Program													
Budget authority	n.a.	n.a.	n.a.	n.a.	n.a.	5.0	5.0	5.0	5.0	5.0	5.0	5.0	30.2
Outlays	n.a.	n.a.	n.a.	n.a.	n.a.	2.2	4.1	4.8	5.3	5.3	5.4	2.2	27.0
Rehabilitation Services and Disability Research													
Budget authority	n.a.	n.a.	n.a.	n.a.	2.8	2.8	2.9	2.9	3.1	3.1	3.2	5.6	20.8
Outlays	n.a.	n.a.	n.a.	n.a.	1.9	2.7	2.9	3.0	3.0	3.1	3.2	4.7	19.9
Ground Transportation Programs Not Subject to Annual Obligation Limitations													
Budget authority	n.a.	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	3.2	6.4
Outlays	n.a.	0.2	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.4	5.5
Federal Unemployment Benefits and Allowances													
Budget authority	n.a.	n.a.	n.a.	n.a.	n.a.	0.9	0.9	0.9	1.0	1.0	1.0	0.9	5.7
Outlays	n.a.	n.a.	n.a.	n.a.	n.a.	0.4	0.9	0.9	0.9	1.0	1.0	0.4	5.1
Child Nutrition[b]													
Budget authority	n.a.	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	2.1	4.6
Outlays	n.a.	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	2.1	4.5

(Continued)

Table 4-8.

Continued

(In billions of dollars)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Family Preservation and Support													
Budget authority	n.a.	n.a.	n.a.	n.a.	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.6	2.1
Outlays	n.a.	n.a.	n.a.	n.a.	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	1.8
Health Resources and Services Administration													
Budget authority	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.5
Outlays	*	*	*	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.5
Ground Transportation Programs Controlled by Obligation Limitations[c]													
Budget authority	n.a.	36.7	36.7	36.7	36.7	36.7	36.7	36.7	36.7	36.7	36.7	183.6	367.3
Outlays	n.a.	0	0	0	0	0	0	0	0	0	0	0	0
Air Transportation Programs Controlled by Obligation Limitations[c]													
Budget authority	n.a.	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	17.0	34.0
Outlays	n.a.	0	0	0	0	0	0	0	0	0	0	0	0
Total													
Budget authority	**7.5**	**61.3**	**62.0**	**62.6**	**66.2**	**99.8**	**117.0**	**117.8**	**119.2**	**119.5**	**121.2**	**351.9**	**946.6**
Outlays	**6.2**	**18.8**	**21.9**	**23.1**	**25.3**	**54.9**	**75.8**	**77.4**	**79.3**	**79.5**	**81.2**	**144.0**	**537.2**

Source: Congressional Budget Office.

Note: * = between zero and $50 million; n.a. = not applicable; COLAs = cost-of-living adjustments.

a. Agricultural commodity price and income supports under the Farm Security and Rural Investment Act of 2002 (FSRIA) generally expire after 2007. 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 that the FSRIA provisions continue.

b. Includes the Summer Food Service program and state administrative expenses.

c. 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.

contrast, is the net flow to people and entities outside the federal government.

In 2002, net interest was about half as large as gross interest. CBO estimates that the government will pay $324 billion in gross interest costs in 2003. Of that amount, however, $156 billion will be credited to trust funds and not paid out by the government. CBO also projects that the government will collect about $11 billion in other interest and investment income this year. Therefore, net interest costs will total an estimated $157 billion in 2003.

Other Interest

The $11 billion in other interest that CBO expects the government to receive in 2003 represents the net of interest payments and interest collections. On balance, however, the government takes in more such interest than it pays out. Among its interest expenses are Treasury payments for interest on tax refunds that are delayed for more than 45 days after the filing date. Among its interest collections is the interest received from the financing accounts of credit programs, such as direct student loans. Although the other interest category appears to grow

Table 4-9.

CBO's Projections of Federal Interest Outlays Under Its Adjusted Baseline

(In billions of dollars)

	Actual 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total, 2004-2008	Total, 2004-2013
Interest on Public Debt (Gross interest)[a]	333	324	333	378	415	439	459	478	495	510	520	522	2,024	4,548
Interest Received by Trust Funds														
Social Security	-77	-84	-90	-98	-109	-121	-135	-150	-166	-183	-201	-220	-553	-1,474
Other trust funds[b]	-76	-71	-67	-72	-77	-81	-86	-90	-95	-100	-105	-111	-383	-885
Subtotal	-153	-156	-157	-170	-186	-203	-221	-241	-261	-283	-306	-330	-936	-2,359
Other Interest[c]	-8	-11	-11	-14	-16	-18	-20	-22	-24	-26	-29	-32	-79	-212
Other Investment Income[d]	0	*	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-4	-9
Total (Net Interest)	**171**	**157**	**165**	**194**	**212**	**217**	**217**	**214**	**208**	**199**	**184**	**159**	**1,004**	**1,968**

Source: Congressional Budget Office.

Notes: The projections assume that discretionary budget authority totals $751 billion for 2003 and grows with inflation thereafter.

* = between -$500 million and zero.

a. Excludes interest costs of debt issued by agencies other than the Treasury (primarily the Tennessee Valley Authority).
b. Mainly the Civil Service Retirement, Military Retirement, Medicare, and Unemployment Insurance Trust Funds.
c. Primarily interest on loans to the public.
d. Earnings on private investments by the National Railroad Retirement Investment Trust.

rapidly through the projection period, nearly all of that increase is attributable to interest on the accrued balances credited to the TRICARE for Life program. The interest payments are reflected in Table 4-9 as part of gross interest on the public debt, and the receipts are recorded in the other interest category; the net effect on interest outlays is zero.

Other Investment Income

A relatively new category in the budget's accounting for net interest represents the earnings on the private holdings of the newly created National Railroad Retirement Investment Trust. As part of the Railroad Retirement and Survivors' Improvement Act of 2001, that trust is now allowed to invest the balances of the Railroad Retirement trust funds in non-Treasury securities, such as stocks and corporate bonds; previously, all balances could be invested only in nonmarketable Treasury securities. CBO makes no assumption about the gains or losses that the fund might incur when investing in riskier securities; its projections assume that such investments will earn a risk-adjusted rate of return equal to the average interest rate projected for Treasury bills and notes. Such earnings total no more than $1 billion each year through 2013.