Committee for a Responsible Federal Budget
U.S. Budget Watch

Mandatory Spending in the President's Budget
March 20, 2009

In its recent Budget Outline, the Administration claims to reduce the deficit by paying for its new initiatives, winding down the war in Iraq, and raising taxes on higher earners. In their budget, the Administration displays policy changes relative to a current policy baseline, which they constructed (see February 26 CRFB Analysis). The budget relative to the standard current-law baseline, however, reduces taxes, increases mandatory spending, and increases the deficit. This paper takes a close look at mandatory spending in the proposed budget.

The Budget Enforcement Act Baseline

Figure 1 shows the BEA baseline by category. The deficit figures in the table below differ somewhat from those published in the President's Budget because CRFB's calculations include the recent stimulus legislation, which was not included in the BEA baseline deficit figures published in the Budget. Our computations also do not include the reclassification of Pell Grants from discretionary to mandatory in order to provide continuity with the most recent historical tables.

Under the assumptions required by the BEA current law baseline, deficits of $1.4 trillion in the current fiscal year subside over time, and reach a low of $56 billion in FY2018. This is largely driven by the increase in receipts from the scheduled expiration of all the 2001 and 2003 tax cuts and the assumption that the Alternative Minimum Tax (AMT) will not be "patched" in the future as it has in previous years. As spending on economic stimulus and the financial recovery taper off, outlays in total return to nearly 21 percent of GDP under the BEA baseline.

Fig. 1: BEA Baseline by Category (billions and percent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	**$2,524**	**$2,215**	**$2,449**	**$2,911**	**$3,243**	**$3,506**	**$3,706**	**$3,913**	**$4,115**	**$4,320**	**$4,535**	**$4,772**
Outlays:												
Discretionary	$1,135	$1,248	$1,315	$1,289	$1,265	$1,277	$1,291	$1,315	$1,344	$1,375	$1,407	$1,440
Mandatory	$1,595	$2,247	$1,976	$1,988	$1,918	$2,034	$2,182	$2,305	$2,479	$2,612	$2,743	$2,963
Net Interest	$253	$148	$180	$280	$350	$391	$415	$429	$436	$439	$441	$447
Total Outlays	**$2,983**	**$3,644**	**$3,472**	**$3,557**	**$3,533**	**$3,702**	**$3,889**	**$4,049**	**$4,258**	**$4,426**	**$4,591**	**$4,850**
Deficit (-)	**-$459**	**-$1,429**	**-$1,023**	**-$646**	**-$290**	**-$196**	**-$183**	**-$136**	**-$143**	**-$106**	**-$56**	**-$78**
Revenues	**17.7%**	**15.6%**	**16.6%**	**18.8%**	**19.7%**	**20.0%**	**20.2%**	**20.4%**	**20.5%**	**20.6%**	**20.7%**	**20.9%**
Outlays:												
Discretionary	8.0%	8.8%	8.9%	8.3%	7.7%	7.3%	7.0%	6.8%	6.7%	6.6%	6.4%	6.3%
Mandatory	11.2%	15.8%	13.4%	12.8%	11.6%	11.6%	11.9%	12.0%	12.4%	12.5%	12.5%	13.0%
Net Interest	1.8%	1.0%	1.2%	1.8%	2.1%	2.2%	2.3%	2.2%	2.2%	2.1%	2.0%	2.0%
Total Outlays	**21.0%**	**25.6%**	**23.6%**	**22.9%**	**21.5%**	**21.2%**	**21.1%**	**21.1%**	**21.2%**	**21.1%**	**21.0%**	**21.2%**
Deficit (-)	**-3.2%**	**-10.0%**	**-6.9%**	**-4.2%**	**-1.8%**	**-1.1%**	**-1.0%**	**-0.7%**	**-0.7%**	**-0.5%**	**-0.3%**	**-0.3%**

Under this baseline, discretionary spending drops significantly in proportion of the size of the economy, from 8 percent of GDP in FY2008 (and 8.9 percent at its peak in FY2010) to 6.2 percent of GDP by FY2019, as outlays related to the Iraq war level out at around $75 billion per year. This decline is roughly offset by increased mandatory spending, which rises from 11.2 percent of GDP in FY2008 to 13 percent of the economy by FY2019. Net interest spending fluctuates, but ends up in 2018 at 2 percent of GDP – which is not far from where it began in 2008.

The President's Policies

The President's proposed budget increases mandatory spending considerably, through a number of policy changes. However, the budget does not account for his Health Reform Reserve Fund — one of the largest policy initiatives in the President's request.[1] This fund is a deficit-neutral reserve fund that would allow the use of spending reductions and revenue increases to offset part of the costs of a new health care plan. Roughly half of the $634 billion in savings comes from revenue increases. The other half comes from reducing Medicare and Medicaid spending.[2]

The information provided in the Budget can be used to calculate the budget aggregates under the assumption that health care reform is enacted entirely as mandatory spending

[1] Table S-2, Footnote 2 states that the health reform policies are non-additive. This can be confirmed by comparing the difference in deficits in Tables S-3 and S-4 with the total reduction in projected deficits shown in Table S-2.

[2] See the box in Table S-6 of *A New Era of Responsibility*, pp 127-128. While the policies assumed are not shown in a format that states directly whether they affect outlays or receipts, it is clear that limiting the tax rate at which itemized deductions reduce tax liability will increase receipts.

(as opposed to through tax cuts or discretionary spending), and with the offsets proposed by the Administration. Those calculations are shown in the table below. The figures also include the effect of the President's policy of budgeting for natural disasters as mandatory spending to facilitate comparison with the BEA current law baseline.[3]

Fig. 2: President's Policies – Including Health Reform (billions and percent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	**$2,524**	**$2,186**	**$2,381**	**$2,724**	**$3,112**	**$3,356**	**$3,535**	**$3,712**	**$3,895**	**$4,083**	**$4,277**	**$4,492**
Outlays:												
Discretionary	$1,120	$1,279	$1,368	$1,286	$1,257	$1,269	$1,286	$1,313	$1,341	$1,370	$1,401	$1,434
Mandatory[1]	$1,610	$2,520	$2,020	$2,067	$2,058	$2,185	$2,345	$2,473	$2,651	$2,785	$2,920	$3,149
Net Interest	$253	$139	$164	$283	$378	$434	$474	$509	$539	$564	$590	$622
Total Outlays	**$2,983**	**$3,938**	**$3,552**	**$3,636**	**$3,693**	**$3,888**	**$4,105**	**$4,295**	**$4,531**	**$4,719**	**$4,911**	**$5,205**
Deficit (-)	**-$459**	**-$1,752**	**-$1,171**	**-$912**	**-$581**	**-$532**	**-$570**	**-$583**	**-$636**	**-$636**	**-$634**	**-$713**
Revenues	**17.7%**	**15.4%**	**16.2%**	**17.6%**	**18.9%**	**19.2%**	**19.2%**	**19.3%**	**19.4%**	**19.5%**	**19.5%**	**19.6%**
Outlays:												
Discretionary	7.9%	9.0%	9.3%	8.3%	7.6%	7.3%	7.0%	6.8%	6.7%	6.5%	6.4%	6.3%
Mandatory[1]	11.3%	17.7%	13.7%	13.3%	12.5%	12.5%	12.8%	12.9%	13.2%	13.3%	13.3%	13.8%
Net Interest	1.8%	1.0%	1.1%	1.8%	2.3%	2.5%	2.6%	2.7%	2.7%	2.7%	2.7%	2.7%
Total Outlays	**21.0%**	**27.7%**	**24.1%**	**23.5%**	**22.4%**	**22.2%**	**22.3%**	**22.4%**	**22.6%**	**22.5%**	**22.4%**	**22.8%**
Deficit (-)	**-3.2%**	**-12.3%**	**-8.0%**	**-5.9%**	**-3.5%**	**-3.0%**	**-3.1%**	**-3.0%**	**-3.2%**	**-3.0%**	**-2.9%**	**-3.1%**

Including the costs of his health care plan, spending would grow considerably under President Obama's budget. Under the current law baseline, outlays would return to a fairly average level of GDP after the costs of the current economic and financial crisis have passed. Under the President's budget, however, outlays as a share of the economy would reach a permanently higher level, and would only grow from there as population aging and rising health care costs take their toll on the budget.

In addition to total outlays increasing, the composition of these outlays change. Mandatory payments – the combination of mandatory programs and net interest spending – increase from 62 percent of total government spending in 2008 to 72 percent of total spending in 2019 under the President's budget. Annually appropriated discretionary spending, meanwhile, will fall below current levels to almost historically low levels (a projection that is unlikely to occur). Although much of this would occur under current law, the President's budget further increases the amount of mandatory spending within the budget.

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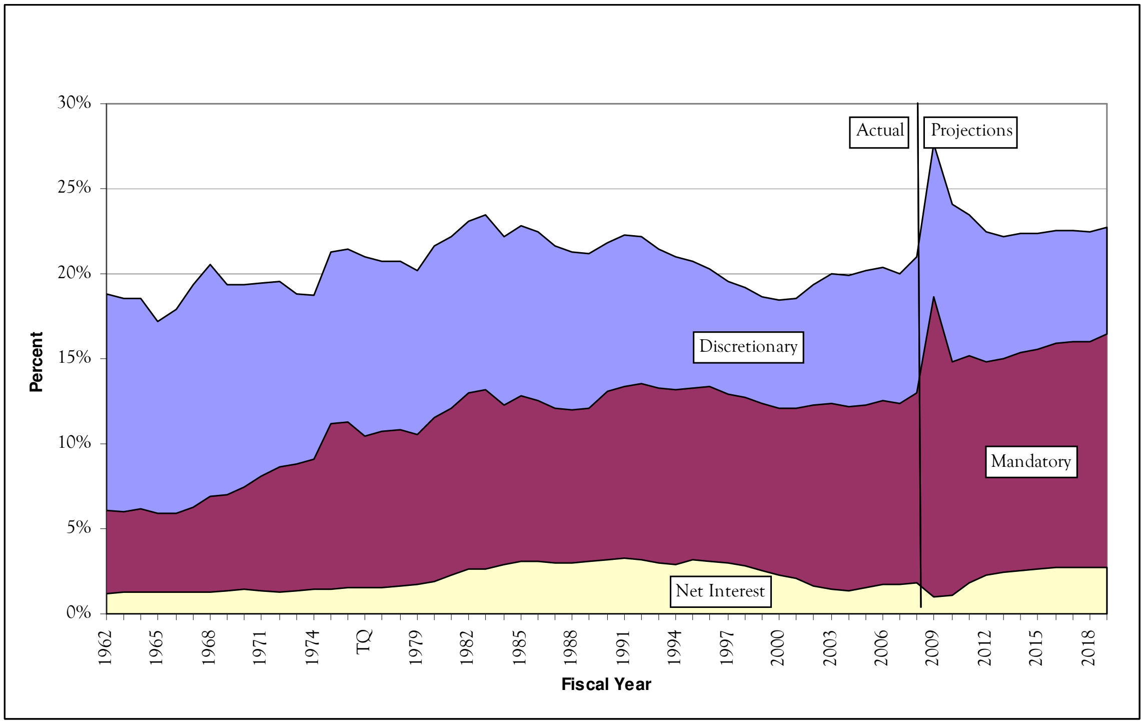
[3] This seems appropriate since the disaster funds can be viewed as an appropriated entitlement, which are programs whose operations are largely outside of the control of the appropriators even though appropriators have a role in the allocation of the funds. Appropriated entitlements, such as the Food Stamp program, are shown as mandatory spending in the baseline.

Fig. 3: Historic and Projected Outlays by Category – Including Health Reform (percent of GDP)



Our strong preference would be to see mandatory spending slow relative to current policy baseline projections. For one, it is these programs — specifically Social Security, Medicare and Medicaid— that are putting the most upward pressure on the budget. Moreover, the design of mandatory spending, where programs do not go through the annual appropriations process, makes these programs more difficult to change, and diminishes the flexibility of the budget. The current financial crisis and dismal long-term fiscal picture both suggest the need for more flexibility, not less. While it makes sense that the President would advocate for the policies on which he campaigned, we worry about the introduction of too much new permanent spending before addressing the unsustainable growth of existing programs.