

SPECIAL REPORT

February 1995
Number 44

An Overview of the President's FY 1996 Budget *Mandatory Spending to Consume 71 Percent of Budget by 2000*

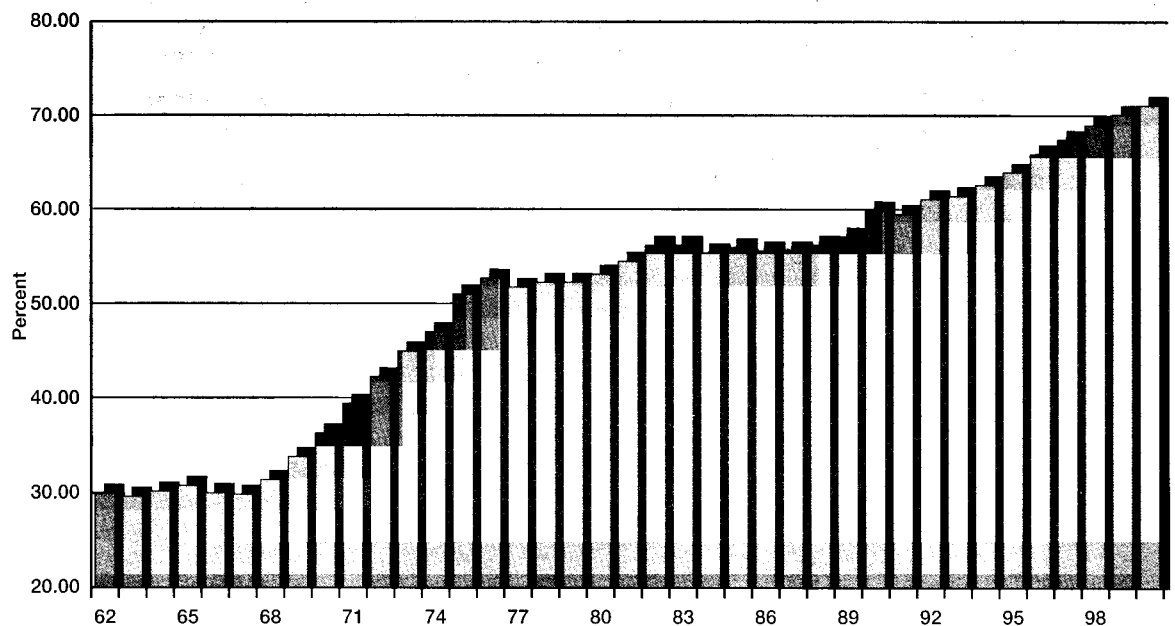
By Arthur P. Hall, Ph.D.
Senior Economist
Tax Foundation

The Clinton administration has released its fiscal 1996 budget into a political environment in which Congress is seriously considering a constitutional amendment to require a balanced budget by the year 2002. The administration's projected level of mandatory spending and the resulting high level of projected annual deficits reveals the challenge that federal lawmakers face in their quest for a balanced budget.

Figure 1 reveals that mandatory federal spending will consume about 71 percent of the federal budget by the year 2000. Indeed, President Clinton's Bipartisan Commission on Entitlement and Tax Reform reports, based on current projections, that mandatory spending "will consume all tax revenue collected by the Federal government" in the year 2012.

As Figure 2 illustrates, the budget category known as "mandatory spending" is the

Figure 1
Mandatory Federal Spending as a Share of Total Federal Spending
1962-2000



Source: Tax Foundation calculations based on Office of Management and Budget data.

driving force behind the perpetual increases in federal government spending and the budget deficits reported in *Table 1*. Mandatory spending primarily consists of so-called entitlement programs and the interest payments that the federal government must make on its outstanding debt. (See *Table 2*.)

Federal government entitlement programs, as opposed to "discretionary" programs, amount to all federal benefits payable to individuals, institutions, and state and local governments that do not require annual re-authorization by Congress. The payments made by the programs listed in *Table 3*, like Social Security, Medicare, Medicaid, and Welfare, are available to anyone — regardless of overall cost — that meets the statutory requirements of the spending program.

The Unsustainable Growth of Entitlement Program Spending

Table 3 charts the growth of major entitlement spending over the past four decades along with the Clinton administration's projections for the year 2000. With the exception of the decade from 1976 to 1986, when defense spending increased as a share of total federal

spending, the major entitlement programs have consumed an ever-greater share of total federal spending.

The increasing budgetary share of entitlement spending has resulted from its substantial growth rate. Over the past four decades, after adjusting for inflation, spending on the major entitlement programs listed in *Table 3* has grown at an average annual rate of 6.5 percent. By contrast, after adjusting for inflation, all other federal spending has grown at an average annual rate of 2.3 percent.

Furthermore, entitlement spending over the past four decades has grown almost twice as fast as gross domestic product, which has grown at an inflation-adjusted 3.4 percent average annual rate.

President Clinton's fiscal 1996 budget perpetuates the long-term trend of entitlement spending growth exceeding GDP growth, as *Table 3* shows. As *Table 3* and *Figure 3* further reveal, the period from 1976 to 1986 represents the only decade in which GDP growth exceeded the growth rate of federal spending on entitlement programs.

The current trends in entitlement spending growth are inconsistent not only with the goal of a balanced federal budget, but also with the solvency of the entitlement programs themselves. For example, the Medicare Public Trustees project that the Medicare Hospital Insurance program will become insolvent in the year 2001. The Social Security Trustees project that the Social Security program will become insolvent in the year 2029, 20 years sooner than the Trustees projected in 1984.

Table 1.
Federal Spending, Receipts, and Deficits (\$Billions)
1986-2000

Fiscal Year	Current Dollars			Constant 1995 Dollars		
	Total Spending	Total Receipts	Deficit	Total Spending	Total Receipts	Deficit
1986	990	769	-221	1,325	1,029	-296
1987	1,004	854	-150	1,302	1,108	-195
1988	1,064	909	-155	1,328	1,135	-193
1989	1,143	991	-152	1,366	1,185	-182
1990	1,253	1,031	-222	1,436	1,181	-254
1991	1,324	1,054	-270	1,458	1,160	-297
1992	1,382	1,092	-290	1,491	1,178	-313
1993	1,408	1,154	-254	1,479	1,212	-267
1994	1,461	1,258	-203	1,502	1,293	-209
1995e	1,539	1,346	-193	1,539	1,346	-193
1996e	1,612	1,415	-197	1,566	1,375	-191
1997e	1,685	1,472	-213	1,589	1,388	-201
1998e	1,745	1,549	-196	1,598	1,419	-180
1999e	1,822	1,625	-197	1,621	1,446	-175
2000e	1,905	1,711	-194	1,646	1,478	-168

Source: Office of Management and Budget

Federal Spending by Department and Government Function

The details of federal spending by department and by function further highlight the rapid growth of mandatory spending. *Table 4* reveals that the three largest federal departments in terms of total spending are those that administer mandatory spending.

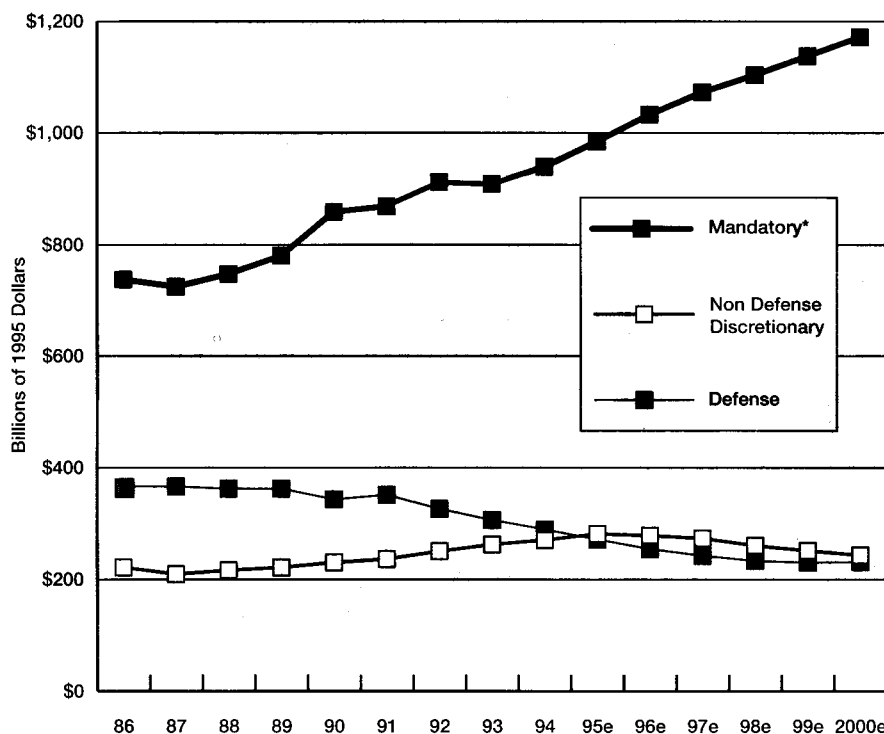
In President Clinton's fiscal 1996 budget, the Department of Treasury ranks as the largest department based on dollars spent. About 94 percent of the Treasury's 1996 spending will be dedicated to interest on the federal government's outstanding debt. Following close behind the Treasury are, respectively, the Social Security Administration (Social Security) and the Department of Health and Human Services (Medicare and Medicaid). The Department of Defense ranks as the fourth largest department, but most of its spending, with the

Table 2
Federal Spending by Major Budget Category (\$Billions)
FY1986-2000

Fiscal Year	Current Dollars				Constant 1995 Dollars			
	Mandatory	Non-Defense Discretionary	Defense	Net Interest	Mandatory	Non-Defense Discretionary	Defense	Net Interest
1986	\$415	\$166	\$274	\$136	\$555	\$222	\$367	\$182
1987	420	162	283	139	545	210	367	180
1988	447	174	291	152	558	217	363	190
1989	484	186	304	169	579	222	363	202
1990	567	202	300	184	650	231	344	211
1991	595	215	320	195	655	237	352	215
1992	646	233	303	199	697	251	327	215
1993	667	250	292	199	700	263	307	209
1994	712	264	282	203	732	271	290	209
1995e	751	282	272	234	751	282	272	234
1996e	806	287	262	257	783	279	255	250
1997e	867	290	258	270	818	274	243	255
1998e	922	285	255	283	845	261	234	259
1999e	982	283	260	297	874	252	231	264
2000e	1,046	282	268	310	904	244	232	268

Source: Office of Management and Budget.

Figure 2
Federal Spending by Major Category, 1986-2000
Billions of 1995 Dollars



* Includes net interest payments on the federal debt.
Source: Tax Foundation calculations based on Office of Management and Budget data.

exception of military pensions, is categorized as discretionary. These four departments are also the largest based on projections for the year 2000, except the Social Security Administration displaces the Treasury as the top spending department.

Despite their top-ranked size, however, only the Departments of Health and Human Services and Treasury ranked in the top four in terms of spending growth over the 1986 to 1996 time period. During the period from 1996 to 2000, the Department of Health and Human Services remains in the top four departments in terms of spending growth and the Social Security Administration displaces the Department of the Treasury.

The top-ranked departments in terms of 1996 to 2000 spending growth are the Department of Commerce, the Department of Justice, the Department of Health and Human Services, and the Social Security Administration. The growth in Commerce Department spending is concentrated in the area of science and technology, particularly the budgets of the National Institute of Standards and Technology and the National Telecommunications and Information Administration. The growth in Department of Justice spending is primarily accounted for by the new Violent

Table 3
Federal Spending on Major Entitlement Programs
(\$Billions)

Entitlement Category	1956	1966	1976	1986	1996e	2000e	Avg. Annual Percent Growth**
Social Security	\$5.4	\$20.3	\$72.7	\$196.5	\$351.4	\$430.7	10.5%
Welfare*	3.9	6.4	44.5	67.8	145.7	179.1	9.1
Medicare	0.0	0.0	15.0	68.4	174.7	244.0	12.3
Medicaid	0.0	0.8	8.6	25.0	95.9	136.5	16.3
Federal Employee Retirement and Disability	1.0	3.3	15.5	41.3	67.6	81.5	10.6
Veterans Benefits and Services	4.4	4.4	13.9	15.7	19.0	24.0	3.9
Total	\$14.7	\$35.2	\$170.2	\$414.7	\$854.3	\$1,095.8	10.3%
Percent of Total Federal Spending	20.8%	26.2%	45.8%	41.9%	53.0%	57.5%	

Average Annual Percent Change:

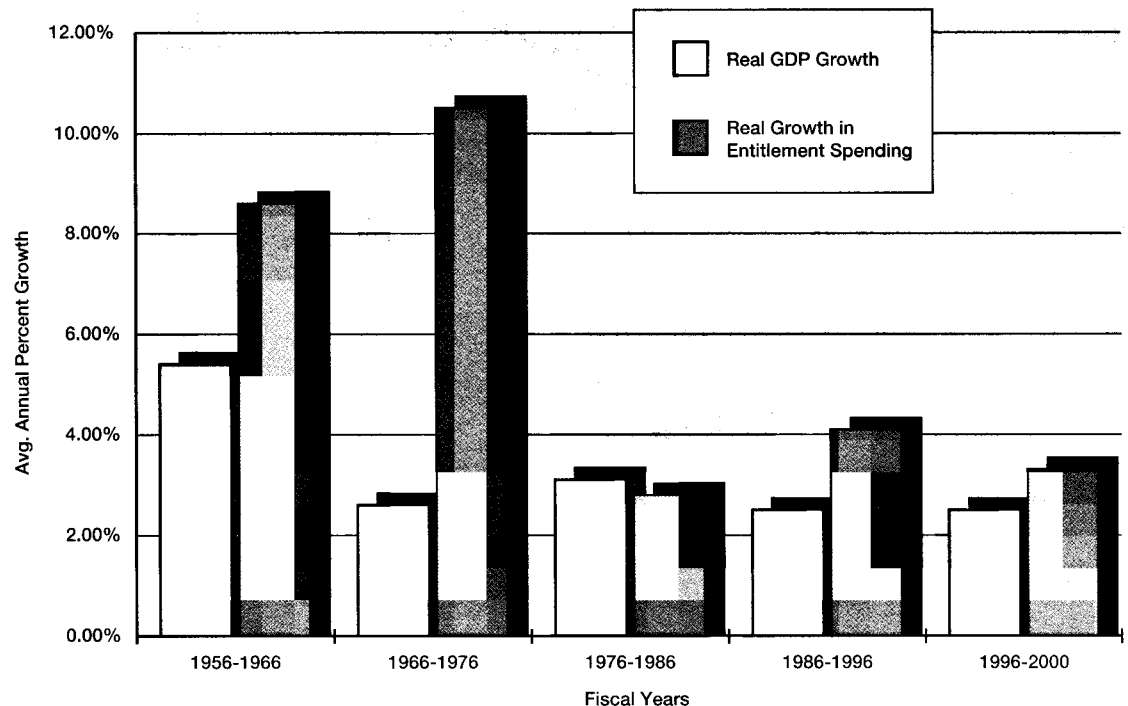
Entitlement Spending	*	9.1%	17.1%	9.3%	7.5%	6.4%
Inflation-Adjusted Entitlement Spending	*	8.6%	10.5%	2.8%	4.1%	3.3%
Gross Domestic Product	*	5.9%	8.6%	9.6%	5.8%	2.2%
Inflation-Adjusted GDP	*	5.4%	2.6%	3.1%	2.5%	2.5%

* Includes all mandatory spending on Human Resource Programs and Income Security Programs (except Medicaid and Federal Employee Retirement and Disability).

** Average annual percent growth between 1956 and 2000, except for Medicare (1976-2000) and Medicaid (1966-2000).

Source: Tax Foundation calculations based on Office of Management and Budget data.

Figure 3
Comparative Inflation-Adjusted Growth Rate of U.S. Economy and Federal Entitlement Spending, 1956-2000



Source: Tax Foundation calculations based on Office of Management and Budget data.

*Table 4
Total Spending by Department and Spending Growth Rank
(\$Millions)*

Department	FY 1986	FY 1996	FY 2000e	Avg. Annual Growth Rate FY86-96	Avg. Annual Growth Rate FY96-2000	FY86-96 Growth Rank	FY96-2000 Growth Rank
Legislative Branch	\$1,665	\$2,957	\$3,089	5.91%	1.10%	12	15
The Judiciary	1,071	3,336	3,588	12.03	1.84	2	12
Executive Office of the President	107	191	168	5.97	-3.16	11	25
Funds Appropriated by the President	11,042	10,779	11,060	-0.24	0.65	24	17
Agriculture	58,679	62,276	63,360	0.60	0.43	23	18
Commerce	2,083	4,109	7,118	7.03	14.72	5	1
Defense - Military	265,480	250,045	257,935	-0.60	0.78	25	16
Defense - Civil	20,254	31,934	36,334	4.66	3.28	15	8
Education	17,673	30,651	28,409	5.66	-1.88	13	22
Energy	11,026	15,758	13,895	3.64	-3.10	19	24
Health and Human Services	122,943	331,437	444,150	10.43	7.59	3	3
Housing and Urban Development	14,139	26,276	29,305	6.39	2.77	8	9
Interior	4,785	7,340	6,670	4.37	-2.36	16	23
Justice	3,768	13,525	18,255	13.63	7.79	1	2
Labor	23,941	35,853	39,147	4.12	2.22	17	11
State	2,865	5,547	5,206	6.83	-1.57	6	21
Transportation	27,378	37,337	35,452	3.15	-1.29	20	19
Treasury	179,390	386,082	466,497	7.97	4.84	4	6
Veterans Affairs	26,536	37,951	41,581	3.64	2.31	18	10
Environmental Protection Agency	4,867	6,609	6,943	3.11	1.24	21	14
General Services Administration	380	639	672	5.33	1.27	14	13
NASA	7,403	14,127	13,268	6.68	-1.56	7	20
Office of Personnel Management	23,955	42,795	52,225	5.97	5.10	10	5
Small Business Administration	557	437	514	-2.40	4.14	26	7
Social Security Administration	210,994	381,740	475,225	6.11	5.63	9	4
Other Independent Agencies	12,393	14,327	10,557	1.46	-7.35	22	26
Total	\$1,055,374	\$1,754,058	\$2,070,623	5.21%	4.24%		

Note: Excludes "undistributed offsetting receipts" and "allowances."

Source: Tax Foundation calculations based on data from Office of Management and Budget.

Crime Reduction Trust Fund created by crime legislation enacted in 1994.

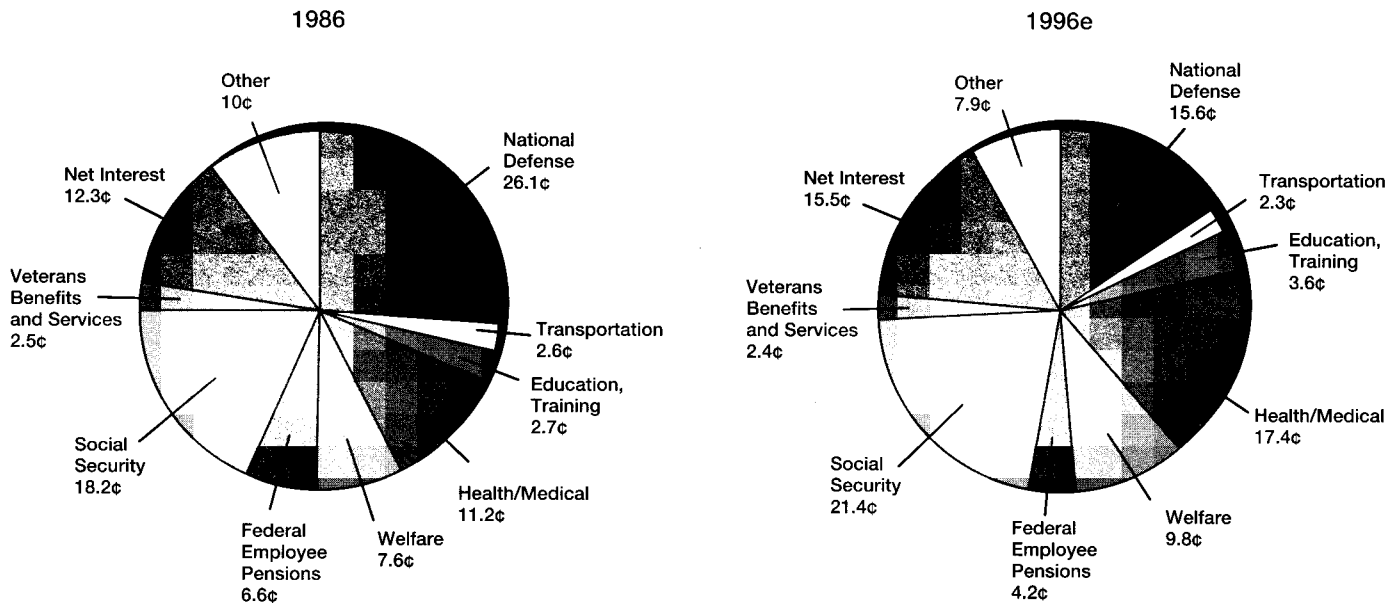
Table 5 and Figures 4 and 5 provide a snapshot of how a federal tax dollar was spent in fiscal 1986 and how it will be spent in fiscal 1996. Like Table 4, it shows that taxpayer money is increasingly being channeled into mandatory spending. Over the decade 1986 to 1996, five functional spending categories have absorbed a larger share of each taxpayer dollar: (1) Health/Medical; (2) Education, Training, Employment and Social Services; (3) Net Interest; (4) Welfare; and (5) Social Security. Each of these functions pertain, either in whole or in part, to mandatory spending. Every other spending function shows no

change or, like National Defense, is being crowded out by mandatory spending.

Conclusion

By the year 2000, mandatory spending will exceed 70 percent of all federal spending. The federal government cannot sustain its current rate of mandatory spending growth. Only by slowing or reversing the growth of entitlement spending can federal lawmakers provide a structurally sound balanced budget. And only by achieving a sustainable balanced budget can lawmakers stop fueling the net interest payments that continue to consume an ever-larger share of every taxpayer dollar.

Figure 5
Where the American Tax Dollar Goes (by Federal Function), 1986 and 1996



Source: Tax Foundation calculations based on Office of Management and Budget data.

Table 5
Where the American Tax Dollar Goes (by Federal Function)

	FY1986	FY1996e
National Defense	26¢	16¢
International Affairs	2	1
General Science, Space and Technology	1	1
Energy	1	0*
Natural Resources and Environment	1	1
Agriculture	3	1
Commerce and Housing Credit	1	1
Transportation	3	2
Community and Regional Development	1	1
Education, Training, Employment and Social Services	3	4
Health/Medical	11	17
Welfare	8	10
Federal Employee Pensions	7	4
Social Security	18	21
Veterans Benefits, Services	2	2
Administration of Justice	1	1
General Government	1	1
Net Interest	12	16
Total	\$1	\$1

* Less than 1¢ out of every tax dollar.
Note: Numbers may not add up due to rounding.
Source: Tax Foundation calculations based on Office of Management and Budget data.

SPECIAL REPORT
(ISSN 1068-0306) is published at least 10 times yearly by the Tax Foundation, an independent 501(c)(3) organization chartered in the District of Columbia.

4-12 pp.
Annual subscription: \$25.00
Individual issues \$5.

The Tax Foundation, a nonprofit, nonpartisan research and public education organization, has monitored tax and fiscal activities at all levels of government since 1937.

©1994 Tax Foundation

Editor and Communications Director
Stephen Gold

Tax Foundation
1250 H Street, NW
Suite 750
Washington, DC 20005
(202) 783-2760