

The Long-Term Outlook for Other Federal Noninterest Spending

Although Social Security, the major health care programs, and net interest account for most federal spending, more than 40 percent of the federal government's spending in 2016 will go toward other programs and activities. That spending—referred to in this report as other federal noninterest spending—includes outlays for all discretionary programs, which are funded through the annual appropriation process, and outlays for many mandatory programs.¹

The Congressional Budget Office projects that, under the broad assumptions used for this analysis, other federal noninterest spending would drop from a total of 9.2 percent of gross domestic product (GDP) in 2016 to 7.7 percent in 2026 and then to 7.3 percent in 2046:

- Discretionary spending, which is estimated to equal 6.5 percent of GDP in 2016, would fall to 5.2 percent by 2026. For its extended baseline, CBO assumed that discretionary spending as a percentage of GDP would remain roughly constant after 2026 (see Figure 4-1).
- Mandatory spending other than spending for Social Security and the major health care programs would decrease from 2.8 percent of GDP this year to 2.5 percent in 2026. (That spending includes the refundable portions of tax credits, such as the earned income tax credit, for which payments are made to taxpayers if the credit exceeds their tax liability; those payments are recorded in the budget as outlays.) For its extended baseline, CBO assumed that such spending—other than the portion related to refundable tax credits—would continue to fall in relation to GDP at roughly the same rate that it fell over the 2021–2026 period. All told, other mandatory spending is projected to equal 2.1 percent of GDP in 2046.

Other Federal Noninterest Spending Over the Past 50 Years

During the past 50 years, federal spending for everything other than Social Security, the major health care programs, and net interest has averaged 12 percent of GDP. Such spending declined from its peak of 15 percent of GDP in 1968 to 9 percent in 2015. Measured as shares of GDP, both discretionary spending and other mandatory spending rose in response to the 2007–2009 recession but declined in recent years.

Discretionary Spending

Since the 1970s, the share of spending that occurs through the annual appropriation process has diminished. Between 1966 and 2015, discretionary spending declined from 67 percent of total federal spending to 32 percent. Measured as a share of the economy, that spending decreased from 11.5 percent of GDP to 6.6 percent.

Defense Discretionary Spending. Spending for national defense, most of which is administered by the Department of Defense (DoD), accounts for about half of discretionary spending. In 2016, DoD's spending falls mostly into three broad categories:

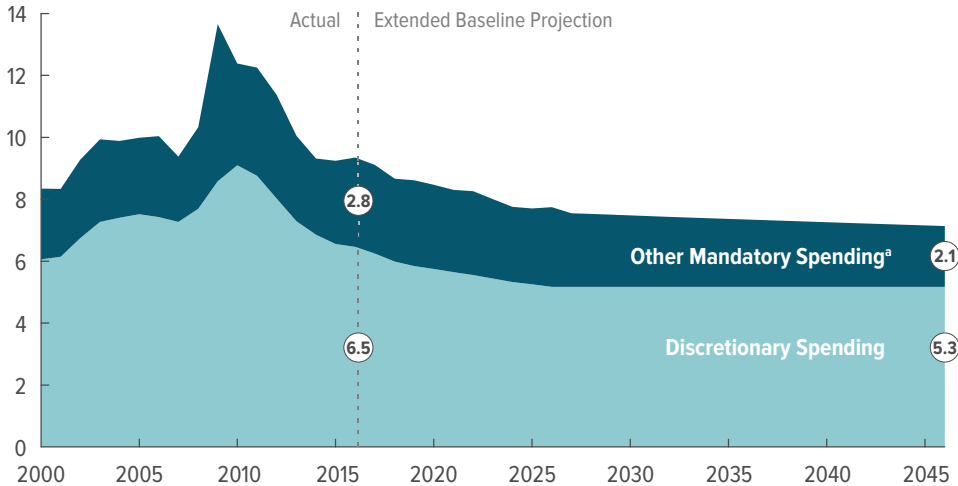
- Operation and maintenance, which supports the day-to-day activities of the military, the training of military units, the majority of costs for the military's health care system, and compensation for most of DoD's civilian employees;
- Military personnel, which covers compensation for uniformed service members, including pay, allowances for housing and food, and related activities, such as moving service members and their families to new duty stations; and
- Acquisition, which includes the procurement, research, development, testing, and evaluation of weapon systems and other major pieces of equipment.

1. For a description of the activities included in various categories of federal spending, see Congressional Budget Office, *The Budget and Economic Outlook: 2016 to 2026* (January 2016), Box 3-1, www.cbo.gov/publication/51129.

Figure 4-1.

Other Federal Noninterest Spending

Percentage of Gross Domestic Product



Measured as a percentage of economic output, other federal noninterest spending in CBO's extended baseline falls by a fifth between 2016 and 2046. The majority of that drop stems from a projected decline in discretionary spending over the next decade.

Source: Congressional Budget Office.

The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2026 and then extending most of the concepts underlying those baseline projections for the rest of the long-term projection period.

a. Other mandatory spending is all mandatory spending other than that for Social Security and the major health care programs. It includes the refundable portions of the earned income and child tax credits and of the American Opportunity Tax Credit.

Fifty years ago, in 1966, defense discretionary spending equaled 7.5 percent of GDP; it peaked at 9.1 percent two years later as a result of military operations in Vietnam. In the late 1970s, such spending dropped below 5.0 percent of GDP before rising again during the defense buildup from 1982 to 1986, when it averaged 5.9 percent (see Figure 4-2). After the end of the Cold War, outlays for defense fell again in relation to GDP, reaching a low of 2.9 percent at the turn of the century. Largely as a result of military operations in Iraq and Afghanistan, such outlays climbed again in the 2000s, peaking at 4.7 percent in 2010. Since then, defense spending has declined in relation to the size of the economy; in 2015, it amounted to 3.3 percent of GDP.

Nondefense Discretionary Spending. The rest of discretionary outlays are for nondefense purposes that span a wide array of federal investment and other activities, including the following:

- Education (excluding student loans), training, employment, and social services;
- Transportation, including highway and transit programs as well as airport security;
- Housing assistance;

- Veterans' health care;
- Health-related research and public health programs;
- Administration of justice, including federal law enforcement, criminal justice, and correctional activities;
- International affairs, including international development, humanitarian assistance, peacekeeping, nuclear nonproliferation, and the operation of U.S. embassies and consulates; and
- Activities and programs in other areas, including natural resources and the environment, science, agriculture, and community and regional development.

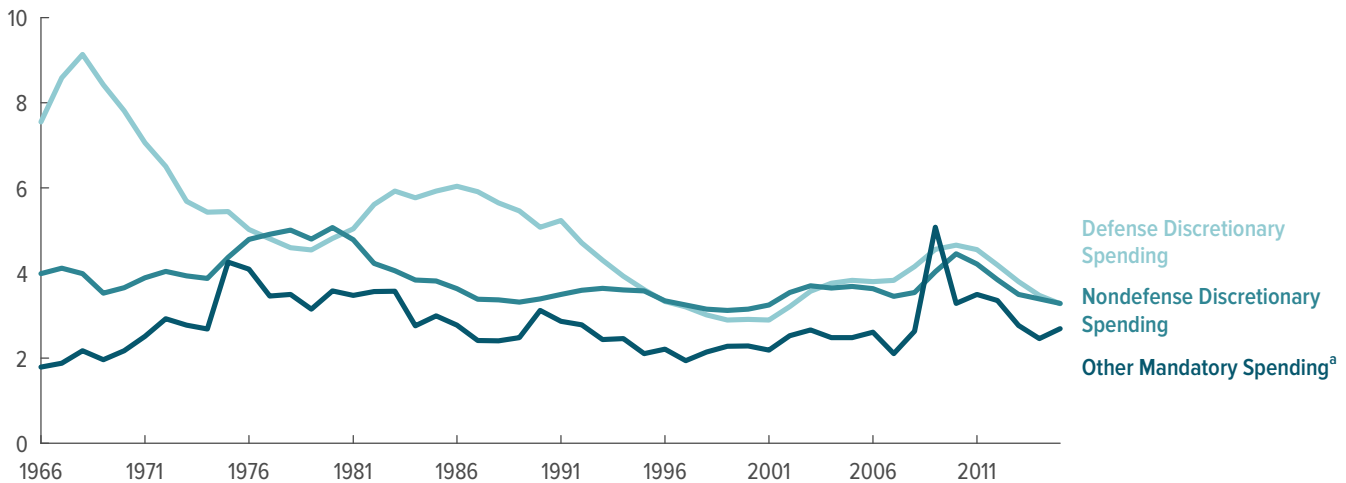
Nondefense discretionary spending was close to 4 percent of GDP from 1966 through the mid-1970s and averaged almost 5 percent of GDP between 1975 and 1981. From 1984 to 2008, such spending remained between 3 percent and 4 percent of GDP. More recently, funding from the American Recovery and Reinvestment Act of 2009, along with other funding associated with the federal government's response to the 2007–2009 recession,

Figure 4-2.

Other Federal Noninterest Spending, by Category, 1966 to 2015

In total, other federal noninterest spending is now about a third lower, measured as a percentage of gross domestic product, than it was in 1966. Most of that reduction has taken place in defense discretionary spending, which is less than half its former size.

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

a. Other mandatory spending is all mandatory spending other than that for Social Security and the major health care programs. It includes the refundable portions of the earned income and child tax credits and of the American Opportunity Tax Credit.

helped push nondefense discretionary spending above 4.0 percent of GDP from 2009 through 2011. Such spending dropped below 4.0 percent of GDP in 2012 and has continued to decline since then, reaching 3.3 percent of GDP in 2015.

Other Mandatory Spending

Mandatory spending other than that for Social Security and the major health care programs covers the following programs and activities, among others:

- Civilian and military retirement (including benefits paid to retired federal civilian and military employees) and some benefits paid to retired railroad workers;
- Earned income, child, and other refundable tax credits, for which payments are made to taxpayers if the credit exceeds their tax liability;
- Certain veterans' benefits, some of which are available only to veterans (such as housing, readjustment, disability compensation, and life insurance), and others of which are sometimes available to dependents or survivors as well (such as educational assistance, pensions, dependency and indemnity compensation, and burial benefits);

- Food and nutrition programs, including the Supplemental Nutrition Assistance Program, and child nutrition programs;
- Unemployment compensation;
- Supplemental Security Income; and
- Family support and foster care, including grants to states that help fund welfare programs, Temporary Assistance for Needy Families, foster care, and child support enforcement.

Other mandatory spending is net of various offsetting receipts, which are payments collected by government agencies from other government accounts or from the public in businesslike or market-oriented transactions that are recorded in the budget as negative outlays (that is, as credits against mandatory spending). A significant share of offsetting receipts is collected under the Medicare program (mostly in the form of premiums paid by beneficiaries); those receipts are combined with Medicare outlays in this report (see Chapter 3 for more information). Other sources of offsetting receipts include contributions that government agencies make to federal retirement programs, the proceeds from leases to drill for oil and

Table 4-1.

Other Federal Noninterest Spending Under CBO's Baseline

Percentage of Gross Domestic Product		
	2016	2026
Discretionary Spending		
Defense	3.2	2.6
Nondefense	3.3	2.6
Total	6.5	5.2
Other Mandatory Spending		
Civilian and military retirement	0.9	0.8
Nutrition programs	0.5	0.4
Refundable tax credits ^a	0.5	0.4
Veterans' benefits	0.6	0.5
Unemployment compensation	0.2	0.2
Supplemental Security Income	0.3	0.3
Offsetting receipts	-0.7	-0.5
Other	0.5	0.4
Total	2.8	2.5
Total, Other Federal Noninterest Spending	9.2	7.7

Source: Congressional Budget Office.

Other federal noninterest spending is all spending other than that for Social Security, the major health care programs, and net interest.

a. The earned income and child tax credits and the American Opportunity Tax Credit.

natural gas on the Outer Continental Shelf, and payments made to the Treasury by Fannie Mae and Freddie Mac.

Other mandatory spending has generally remained between 2 percent and 4 percent of GDP since the mid-1960s. However, as a result of the government's response to the recession that began in December 2007, such spending spiked to over 5 percent of GDP in 2009. As the economy improved and federal spending related to the recession waned, other mandatory spending measured as a share of the economy fell sharply. In 2015, that spending was 2.7 percent of GDP.

Long-Term Projections of Other Federal Noninterest Spending

Combined, discretionary spending and other mandatory spending are projected to be a smaller share of GDP in the coming three decades than such spending has been in the past. Under CBO's extended baseline, federal spending for all programs and activities other than

Social Security, the major health care programs, and net interest is estimated to be 9.2 percent of GDP in 2016 and is projected to total 7.7 percent in 2026 and 7.3 percent in 2046. At those levels, other federal noninterest spending as a share of GDP would be lower than it has been since the 1930s.

Discretionary Spending

Projections of discretionary spending for 2016 through 2026 come from CBO's most recent 10-year baseline budget projections, which were published in March.² Through 2021, most discretionary appropriations are constrained by the caps put in place by the Budget Control Act of 2011 (as amended). For 2022 through 2026, CBO's baseline projections incorporate the assumption that those appropriations will equal the 2021 amount, with increases for inflation. Funding for certain purposes, such as war-related activities, is not constrained by the Budget Control Act's caps. In CBO's projections, such funding is assumed to increase each year through 2026 at the rate of inflation, starting from the amounts provided in 2016. Under those assumptions, outlays from discretionary appropriations are projected to decline from 6.5 percent of GDP this year—already well below the 50-year average of 8.7 percent—to 5.2 percent of GDP in 2026 (see Table 4-1).³ That year, about half of the outlays would be for national defense and half for nondefense activities. At those levels, total discretionary spending and its defense and nondefense components would account for smaller shares of GDP than they have since at least 1962 (the first year for which comparable data are available). In the extended baseline, such spending measured as a share of GDP remains roughly constant over the subsequent two decades.

Like its baseline, CBO's extended baseline is meant to be a benchmark for measuring the budgetary effects of legislation, so it, too, reflects the assumption that current laws generally remain unchanged. However, after 2021—when the caps established by the Budget Control Act are due to expire—total discretionary spending will not be constrained by current laws but instead will be determined by lawmakers' future actions. With no basis for predicting those actions, CBO based its long-term projections of discretionary spending on a combination

2. See Congressional Budget Office, *Updated Budget Projections: 2016 to 2026* (March 2016), www.cbo.gov/publication/51384.

3. Ibid.

of the baseline projections through 2026 and historical experience.

CBO assumed that after 2026 discretionary spending would remain constant as a percentage of GDP before the agency accounted for the effect on the economy of the fiscal policy projected under the extended baseline. CBO estimates that fiscal policy under the extended baseline would dampen economic growth, so its projection of discretionary spending does not grow at precisely the same rate as GDP. (For further discussion, see Chapter 6.)

CBO incorporated the assumption that discretionary spending as a share of GDP would remain at about the 2026 level, 5.2 percent of GDP, through 2046 in its extended baseline after considering the two alternatives—further decreases or future increases relative to GDP. In CBO’s judgment, a projection that showed discretionary spending continuing to decline in relation to GDP beyond 2026 would not be the most useful benchmark for analyzing future fiscal policy because the historical evidence suggests that such a decline is very unlikely to continue. Over the past half century or so for which comparable data are available, discretionary spending has always been a larger share of economic output than it is projected to be in 2026. Throughout that period, nondefense discretionary spending has been greater than 3.0 percent of GDP and has not shown a sustained trend, in either direction, in relation to the size of the economy. Defense spending has accounted for at least 2.9 percent of GDP throughout the past five decades and has been between that amount and 4.7 percent of GDP over the past 20 years. The other alternative, projecting discretionary spending to increase in relation to GDP after 2026, would require CBO to select a specific rate at which discretionary spending would grow, and the agency has no clear basis for choosing such a rate.

Other Mandatory Spending

CBO’s baseline projections reflect the assumption that mandatory programs will operate as they do under current law, which includes the automatic spending cuts put in place by the Budget Control Act and extended through 2025. In CBO’s most recent baseline projections, total mandatory spending excluding that for Social Security and the major health care programs is estimated to amount to 2.8 percent of GDP this year and next.⁴ Such spending then declines in subsequent years, falling to 2.5 percent of GDP by 2026.⁵ In the extended baseline, such spending measured as a share of GDP continues to

fall over the subsequent two decades—declining to 2.1 percent of GDP in 2046. Because some benefits would decline in relation to average income, the benefits available to people many years in the future would be lower, relative to income, than what they are today.

Most of the projected decline through 2026 in other mandatory spending as a share of GDP occurs for two reasons. First, the number of beneficiaries for some of the programs is expected to decline in relation to the size of the population as the economy expands. Second, the average payment per beneficiary measured relative to average income is projected to decrease. For example, income thresholds for eligibility for some large income support programs, such as Supplemental Security Income and the Supplemental Nutrition Assistance Program, generally rise with prices, whereas income usually rises more rapidly than prices—especially when the economy grows stronger. As a result of that strengthening of the economy, the number of beneficiaries in some programs is expected to rise more slowly than the population or even to decrease over the next 10 years. Furthermore, average payments under some large programs are indexed to inflation and therefore tend to grow more slowly than income.

A small part of the decline between 2016 and 2026 stems from a projected reduction in spending relative to GDP for the earned income tax credit, the child tax credit, and the American Opportunity Tax Credit. Outlays for the refundable portions of those credits are projected to decrease from 0.5 percent of GDP in 2016 to 0.4 percent in 2026. The key parameters of those tax credits are either not indexed or indexed only to inflation. Thus, as real income grows faster than inflation, the amounts of various credits that people qualify for decrease in relation to GDP.

For the years after 2026, mandatory spending excluding that for Social Security, the major health care programs, and refundable tax credits was not projected in detail because of the number of programs involved and the

4. In 2016, outlays for other mandatory spending will be boosted by the shift in timing of some payments from fiscal year 2017 to 2016 (because October 1, 2016, falls on a weekend). If not for that shift, CBO estimates, such outlays would equal 2.7 percent of GDP in 2016.

5. See Congressional Budget Office, *Updated Budget Projections: 2016 to 2026* (March 2016), Figure 4, www.cbo.gov/publication/51384.

variety of factors that influence spending on them. Instead, CBO used an approximate method to project spending for those programs as a group; except for the tax credits, such spending was assumed to decline in relation to GDP (excluding any effect that fiscal policy may have on the economy) after 2026 at the same rate at which it is projected to fall between 2021 and 2026 (excluding the decline in spending in the Supplemental Nutrition Assistance Program).⁶ CBO projected outlays for the refundable portions of the earned income tax credit, the child tax credit, and the American Opportunity Tax Credit separately, using the methods for its long-term revenue projections (see Chapter 5). CBO estimates that fiscal policy under current law would dampen GDP growth

after 2026, so projected spending for those programs as a share of GDP is slightly higher than it would be if fiscal policy did not affect the economy.

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6. CBO projects that spending for the Supplemental Nutrition Assistance Program (SNAP) will decline from 0.4 percent of GDP in 2016 to less than 0.3 percent of GDP in 2026 as the economy strengthens. Because CBO does not anticipate that significant decline relative to GDP in outlays for SNAP to continue beyond 2026, such outlays were excluded from the calculation of the rate of decline for the portion of other mandatory spending that excludes the refundable portions of tax credits. In 2027 and later years, CBO projects, outlays for SNAP as a share of GDP will decline at the same rate as other mandatory spending (excluding the refundable tax credits).