CHAPTER

2

The Spending Outlook

Overview

Under current law, federal outlays in 2018 will total $4.1 trillion, the Congressional Budget Office estimates—$160 billion, or 4 percent, more than the amount spent in 2017. Spending is projected to grow at an average annual rate of 5.5 percent over the coming decade, reaching $7.0 trillion in 2028 (see Table 2-1). Social Security, Medicare, and net interest account for more than two-thirds of that increase.

Projected Spending in 2018 Differs From Spending in the Past

Federal outlays in 2018 will equal 20.6 percent of gross domestic product (GDP), CBO estimates, down slightly from 20.8 percent last year but above the 50-year average of 20.3 percent. That increase over the historical average is largely attributable to significant growth in mandatory spending (net of the offsetting receipts that are credited against such spending), which is expected to equal 12.7 percent of GDP in 2018, compared with its 9.8 percent average over the 1968–2017 period. As a share of GDP, the other major components of federal spending will fall below their 50-year averages: Discretionary spending is anticipated to equal 6.4 percent of GDP this year, compared with its 8.5 percent average over the past 50 years, and net outlays for interest are expected to equal 1.6 percent of GDP, compared with the 50-year average of 2.0 percent (see Figure 2-1).

About half of the projected growth in outlays in 2018 is attributable to discretionary spending, which is projected to rise by $80 billion, or 7 percent, from $1.2 trillion last year to nearly $1.3 trillion this year. The government's net interest costs are also anticipated to grow in 2018, increasing by $53 billion, or 20 percent, to $316 billion. CBO estimates that mandatory spending will remain close to last year's amount—$2.5 trillion—rising by $27 billion, or 1 percent. (For descriptions of those three major types of federal spending, see Box 2-1 on page 46.)

Shifts in the Timing of Payments Will Affect Spending

Spending for 2018 would be about $44 billion higher if not for a shift in the timing of certain payments because the first day of fiscal year 2018—October 1, 2017—was a Sunday. When the first day of a month falls on a weekend, certain monthly payments (mostly for mandatory benefit programs such as Medicare, Supplemental Security Income, and certain programs for veterans) normally made on that day are shifted to the preceding month; when that date is October 1, the shift moves payments to the preceding fiscal year. Accordingly, for those benefit programs, only 11 months of payments will be made in fiscal year 2018 rather than the usual 12.

Without that shift in the timing of payments, outlays this year would be 5 percent greater than in 2017 and measure 20.8 percent of GDP, CBO estimates—a slight uptick from the 20.7 percent of GDP they would have measured last year if a similar shift in the timing of payments was excluded. Additional timing shifts will occur later in the projection period: CBO estimates that $62 billion in outlays will shift from 2023 into 2022, $67 billion will shift from 2024 into 2023, and $89 billion will shift from 2029 into 2028.

Spending Is Projected to Rise Significantly Relative to GDP

In CBO's baseline projections, outlays continue to rise in relation to the size of the economy over the coming decade, reaching 23.3 percent of GDP in 2028 (adjusted to exclude the effects of timing shifts), an increase of 2.5 percentage points from the adjusted estimate for 2018.[1] Relative to GDP, mandatory spending and net interest costs are projected to rise significantly, whereas discretionary spending is projected to decline (see Figure 2-2 on page 47). Specifically:

- Mandatory spending is projected to increase by 2 percentage points (from 12.9 percent of GDP to 14.9 percent), primarily because the aging of the

1. The timing shift in 2028 boosts projected outlays for that year to $7.0 trillion, or 23.6 percent of GDP.

Table 2-1.

Outlays Projected in CBO's Baseline

	Actual, 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total 2019–2023	Total 2019–2028
								In Billions of Dollars						
Mandatory														
Social Security	939	984	1,043	1,110	1,180	1,253	1,330	1,410	1,495	1,583	1,676	1,774	5,915	13,853
Medicare[a]	702	707	776	830	893	996	1,032	1,062	1,181	1,267	1,358	1,521	4,527	10,915
Medicaid	375	383	401	417	437	465	493	524	554	587	620	655	2,213	5,152
Other spending	756	724	758	776	808	857	854	851	891	920	928	981	4,053	8,624
Offsetting receipts	-253	-252	-260	-272	-286	-305	-317	-334	-361	-374	-393	-406	-1,439	-3,306
Subtotal	2,519	2,546	2,719	2,861	3,031	3,266	3,392	3,513	3,760	3,983	4,189	4,524	15,269	35,238
Discretionary														
Defense	590	622	669	651	655	671	679	688	710	727	745	769	3,325	6,964
Nondefense	610	658	693	689	693	708	727	748	771	794	817	839	3,511	7,480
Subtotal	1,200	1,280	1,362	1,340	1,348	1,380	1,406	1,436	1,481	1,522	1,562	1,608	6,836	14,445
Net Interest	263	316	390	485	570	643	702	739	774	817	864	915	2,789	6,897
Total	**3,982**	**4,142**	**4,470**	**4,685**	**4,949**	**5,288**	**5,500**	**5,688**	**6,015**	**6,322**	**6,615**	**7,046**	**24,893**	**56,580**
On-budget	3,180	3,288	3,556	3,706	3,901	4,168	4,303	4,414	4,658	4,883	5,084	5,416	19,634	44,088
Off-budget[b]	801	853	915	980	1,048	1,120	1,197	1,274	1,357	1,439	1,531	1,631	5,259	12,492
Memorandum:														
Outlays Adjusted to Exclude Timing Shifts														
Mandatory outlays	2,516	2,587	2,719	2,861	3,031	3,208	3,387	3,575	3,760	3,983	4,189	4,440	15,206	35,154
Total outlays	**3,978**	**4,186**	**4,470**	**4,685**	**4,949**	**5,226**	**5,495**	**5,755**	**6,015**	**6,322**	**6,615**	**6,957**	**24,826**	**56,490**
Gross Domestic Product	19,178	20,103	21,136	22,034	22,872	23,716	24,621	25,583	26,595	27,608	28,677	29,803	114,379	252,646
								As a Percentage of Gross Domestic Product						
Mandatory														
Social Security	4.9	4.9	4.9	5.0	5.2	5.3	5.4	5.5	5.6	5.7	5.8	6.0	5.2	5.5
Medicare[a]	3.7	3.5	3.7	3.8	3.9	4.2	4.2	4.2	4.4	4.6	4.7	5.1	4.0	4.3
Medicaid	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.1	2.1	2.2	2.2	1.9	2.0
Other spending	3.9	3.6	3.6	3.5	3.5	3.6	3.5	3.3	3.3	3.3	3.2	3.3	3.5	3.4
Offsetting receipts	-1.3	-1.3	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3
Subtotal	13.1	12.7	12.9	13.0	13.3	13.8	13.8	13.7	14.1	14.4	14.6	15.2	13.3	13.9
Discretionary														
Defense	3.1	3.1	3.2	3.0	2.9	2.8	2.8	2.7	2.7	2.6	2.6	2.6	2.9	2.8
Nondefense	3.2	3.3	3.3	3.1	3.0	3.0	3.0	2.9	2.9	2.9	2.8	2.8	3.1	3.0
Subtotal	6.3	6.4	6.4	6.1	5.9	5.8	5.7	5.6	5.6	5.5	5.4	5.4	6.0	5.7
Net Interest	1.4	1.6	1.8	2.2	2.5	2.7	2.8	2.9	2.9	3.0	3.0	3.1	2.4	2.7
Total	**20.8**	**20.6**	**21.2**	**21.3**	**21.6**	**22.3**	**22.3**	**22.2**	**22.6**	**22.9**	**23.1**	**23.6**	**21.8**	**22.4**
On-budget	16.6	16.4	16.8	16.8	17.1	17.6	17.5	17.3	17.5	17.7	17.7	18.2	17.2	17.5
Off-budget[b]	4.2	4.2	4.3	4.4	4.6	4.7	4.9	5.0	5.1	5.2	5.3	5.5	4.6	4.9
Memorandum:														
Outlays Adjusted to Exclude Timing Shifts														
Mandatory outlays	13.1	12.9	12.9	13.0	13.3	13.5	13.8	14.0	14.1	14.4	14.6	14.9	13.3	13.9
Total outlays	**20.7**	**20.8**	**21.2**	**21.3**	**21.6**	**22.0**	**22.3**	**22.5**	**22.6**	**22.9**	**23.1**	**23.3**	**21.7**	**22.4**

Source: Congressional Budget Office.

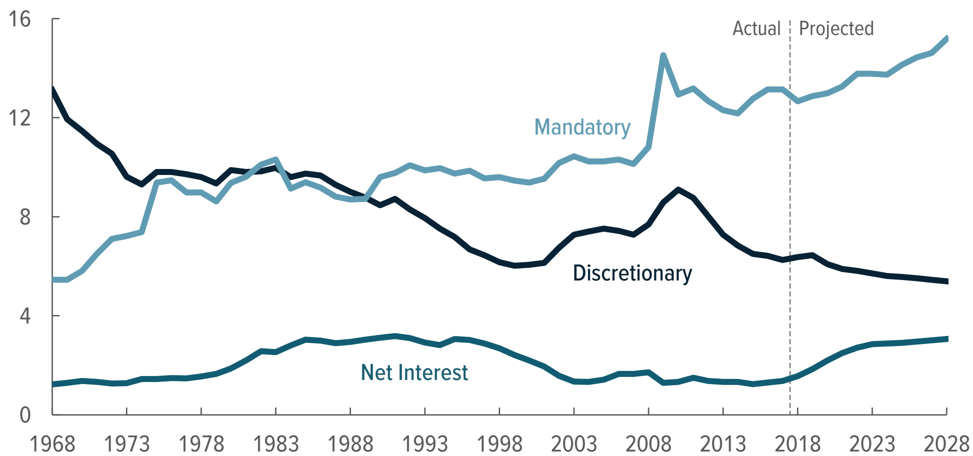
a. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts.

b. Off-budget outlays stem from transactions related to the Social Security trust funds and the net cash flow of the Postal Service.

Figure 2-1.

Outlays, by Category

Percentage of Gross Domestic Product



Under current law, rising spending for Social Security and Medicare would boost mandatory outlays.

Total discretionary spending is projected to fall as a share of gross domestic product as outlays grow modestly in nominal terms.

At the same time, growing debt and higher interest rates are projected to push up net interest costs.

Source: Congressional Budget Office, using data from the Office of Management and Budget.

population and rising health care costs per beneficiary will increase spending for Social Security, Medicare, and other programs.

- As interest rates return to historically higher levels and federal debt continues to mount, net outlays for interest are projected to jump significantly, increasing by 1.5 percentage points and nearly doubling as a share of the economy (from 1.6 percent of GDP to 3.1 percent) by 2028.

- Discretionary spending is projected to fall by 1.0 percentage point as a share of GDP—from 6.4 percent to 5.4 percent. That decline reflects lower statutory limits on discretionary funding in 2020 and 2021 and the assumption (required by law) that discretionary funding will grow at the rate of inflation—which is slower than projected growth in GDP—beginning in 2022. Those projected decreases follow significant increases in discretionary funding provided for 2018 in the Consolidated Appropriations Act, 2018 (Public Law 115-141), and permitted for 2019 by the Bipartisan Budget Act of 2018 (P.L. 115-123).

Among mandatory programs, outlays for Social Security and for major health care programs are projected to rise relative to GDP; spending for all other mandatory programs is projected to decline relative to GDP. In particular (adjusted to exclude the effects of timing shifts):

- Outlays for the largest federal program, Social Security, are expected to rise from 4.9 percent of GDP in 2018 to 6.0 percent in 2028.

- Federal outlays for the major health care programs—Medicare, Medicaid, subsidies offered through the health insurance marketplaces established under the Affordable Care Act and related spending, and the Children's Health Insurance Program (CHIP)—are projected to grow from 5.3 percent of GDP in 2018 to 6.6 percent in 2028, mostly because of growth in Medicare spending.[2]

- Outlays for all other mandatory programs (net of offsetting receipts) are projected to decline from 2.7 percent of GDP in 2018 to 2.4 percent in 2028.

Mandatory Spending

Mandatory—or direct—spending consists of spending for some benefit programs and other payments to people, businesses, nonprofit institutions, and state and local governments. Mandatory spending is generally governed by statutory criteria and is not normally constrained by the annual appropriation process.[3] Certain types of payments that federal agencies receive from the public and from other government agencies are classified as offsetting

2. Spending for Medicare is presented net of premium payments and other offsetting receipts, unless otherwise noted.

3. Each year, some mandatory programs are modified by provisions in annual appropriation acts. Such changes may decrease or increase spending for the affected programs for one or more years.