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.

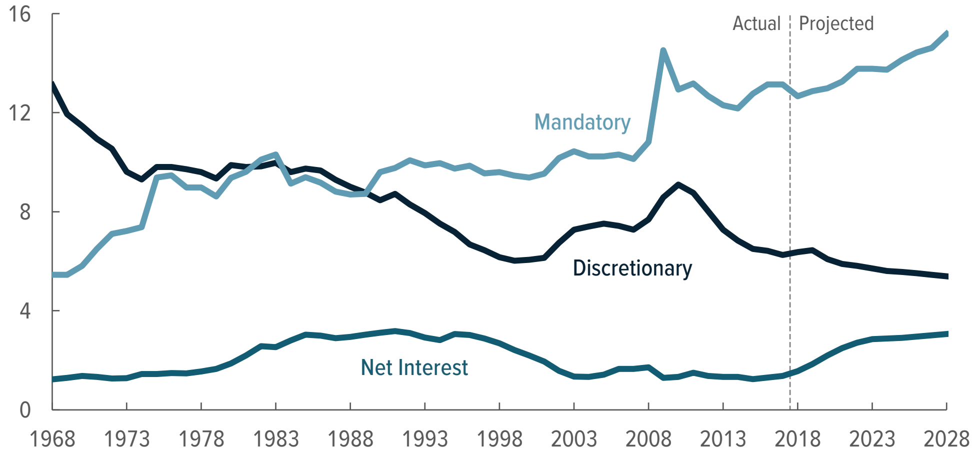
a. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts.

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.

Box 2-1.

Categories of Federal Spending

On the basis of its treatment in the budget process, federal spending can be divided into three broad categories: mandatory spending, discretionary spending, and net interest.

Mandatory spending consists primarily of spending for benefit programs, such as Social Security, Medicare, and Medicaid. The Congress largely determines funding for those programs by setting rules for eligibility, benefit formulas, and other parameters rather than by appropriating specific amounts each year. In making baseline projections, the Congressional Budget Office generally assumes that the existing laws and policies governing those programs will remain unchanged. 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 in the exercise of the government's sovereign powers (income taxes, for example), whereas offsetting receipts are mostly collected from other government accounts or from members of the public for businesslike transactions (premiums for Medicare or royalties for the drilling of oil on public lands, for example).

Discretionary spending is controlled by annual appropriation acts in which policymakers specify how much money will be provided for certain government programs in specific years. Appropriations fund a broad array of government activities, including defense, law enforcement, and transportation. They also fund the national park system, disaster relief, and foreign aid. Some of the fees and charges triggered by appropriation acts are classified as offsetting collections and are credited against discretionary spending for the particular accounts affected.

CBO's baseline projections depict the path of spending for individual discretionary accounts as directed by the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177). That act stated that current appropriations should be assumed to grow with inflation in the future.[1]

1. In CBO's baseline projections, discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries of workers in private industry; other discretionary funding is adjusted using the gross domestic product price index.

However, the baseline also incorporates the assumption that discretionary funding will not exceed caps imposed by the Budget Control Act of 2011 (P.L. 112-25) and modified by subsequent legislation.

Discretionary funding related to five types of activities is not constrained by the caps, and it is generally assumed to grow with inflation after 2018, in accordance with the rules governing CBO's baseline projections. Specifically, appropriations designated for overseas contingency operations and activities designated as emergency requirements are assumed to grow with inflation. Funding for the other three types of activities—which consist of certain efforts to reduce overpayments in benefit programs, programs designated by the 21st Century Cures Act (P.L. 114-225), and disaster relief—is not constrained by the caps on defense and nondefense funding but is subject to other annual limits.

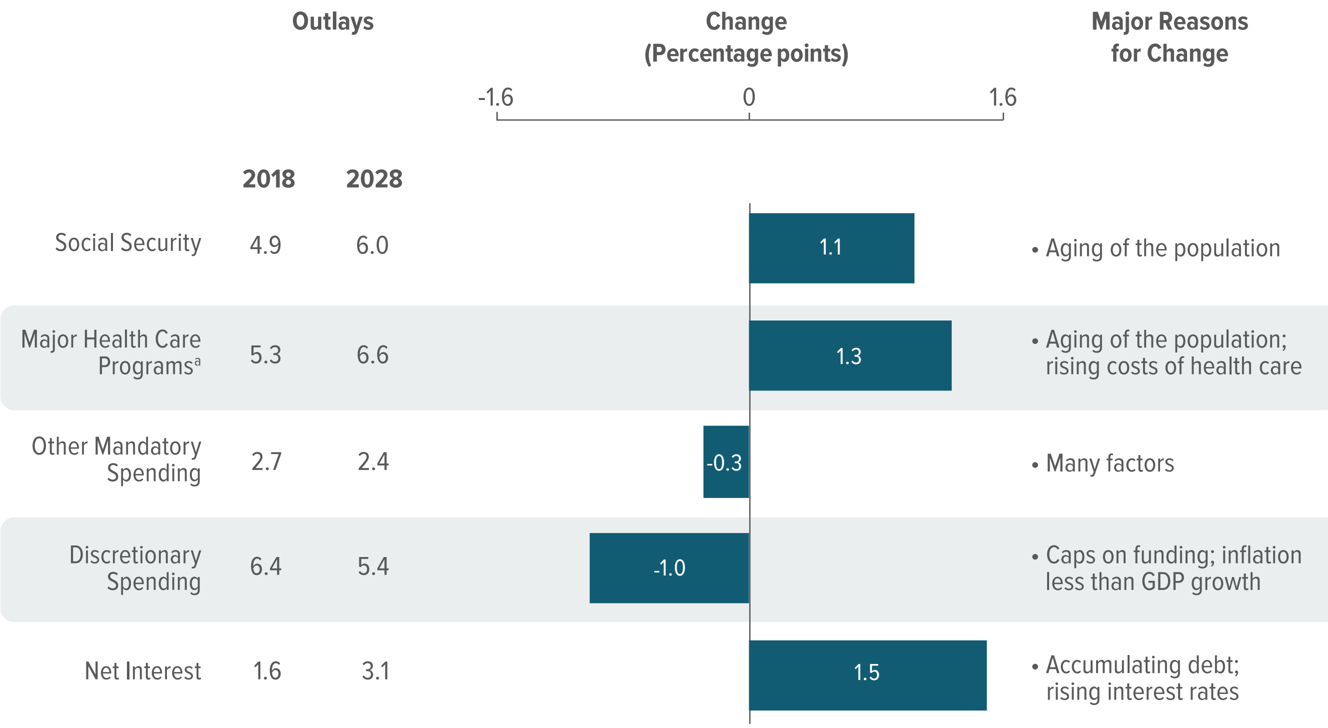
In addition to outlays from appropriations subject to the caps, the baseline projections include discretionary spending for highway and airport infrastructure programs and public transit programs, all of which receive mandatory budget authority from authorizing legislation. Each year, however, appropriation acts control spending for those programs by limiting how much of that budget authority the Department of Transportation can obligate. For that reason, those obligation limitations are often treated as a measure of discretionary resources, and the resulting outlays are considered discretionary spending.

Net interest consists of interest paid on Treasury securities and other interest that the government pays (for example, interest paid on late refunds issued by the Internal Revenue Service) minus the amounts that it collects from various sources (for example, from states that pay the federal unemployment trust fund interest on advances they received when the balances of their state unemployment accounts were insufficient to pay benefits in a timely fashion). Net interest is determined by the size and composition of the government's debt and by market interest rates.

Figure 2-2.

Major Changes in Projected Outlays From 2018 to 2028

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

GDP = gross domestic product.

Outlays as a percentage of GDP have been adjusted to exclude the effects of timing shifts.

a. Consists of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

receipts and reduce mandatory spending. In 2018, mandatory spending (net of offsetting receipts) accounts for about 60 percent of total estimated spending.

The Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), referred to here as the Deficit Control Act, requires CBO's projections for most mandatory programs to incorporate the assumption that current laws continue unchanged.[4] Therefore, CBO's baseline projections for mandatory spending reflect the estimated effects of economic influences, caseload growth, and other factors on the cost of those programs. The projections also incorporate a set of across-the-board reductions (known as sequestration) that are required under current law for spending on certain mandatory programs.

CBO's Baseline Projections of Mandatory Spending From 2018 to 2028

In 2017, mandatory spending totaled about $2.5 trillion, or 13.1 percent of GDP. CBO estimates that under current law, such spending will rise by about 1 percent in 2018, remaining at $2.5 trillion, or 12.7 percent of GDP (see Table 2-2). Most of that estimated increase is attributable to larger outlays for Social Security and the major health care programs and decreases in offsetting receipts from Fannie Mae and Freddie Mac, moderated by a decline in outlays for higher education. The rate of growth in mandatory spending is slowed by the shift

4. Section 257 of the Deficit Control Act also requires CBO to assume that certain mandatory programs will continue beyond their scheduled expiration and that entitlement programs, including Social Security and Medicare, will be fully funded and thus will be able to make all scheduled payments. Other rules that govern the construction of CBO's baseline have been developed by the agency in consultation with the House and Senate Committees on the Budget. For further details, see Congressional Budget Office, "How CBO Prepares Baseline Budget Projections" (February 2018), www.cbo.gov/publication/53532.

Table 2-2.

Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual,												Total	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019–2023	2019–2028
Social Security														
Old-Age and Survivors Insurance	796	840	895	956	1,019	1,085	1,155	1,226	1,303	1,382	1,465	1,557	5,109	12,043
Disability Insurance	143	144	148	154	161	168	176	184	192	201	211	216	806	1,810
Subtotal	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
Major Health Care Programs														
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
Health insurance subsidies and related spending[b]	48	58	60	61	67	74	76	78	81	83	87	91	338	757
Children's Health Insurance Program	16	16	16	14	13	13	13	14	14	15	15	16	69	143
Subtotal[a]	1,141	1,164	1,252	1,322	1,409	1,548	1,614	1,677	1,831	1,952	2,080	2,282	7,146	16,967
Income Security Programs														
Earned income, child, and other tax credits[c]	83	87	99	99	99	100	99	100	101	102	88	88	496	975
Supplemental Nutrition Assistance Program	70	69	66	65	65	65	65	65	66	67	69	70	326	664
Supplemental Security Income	55	51	57	58	60	67	64	60	68	70	72	81	306	658
Unemployment compensation	31	30	27	30	36	43	47	50	52	55	57	59	183	456
Family support and foster care[d]	31	32	32	32	33	33	33	34	34	34	34	34	163	333
Child nutrition	23	24	26	27	28	29	30	31	33	34	36	37	139	311
Subtotal	294	294	307	311	320	336	338	341	354	363	356	370	1,613	3,397
Federal Civilian and Military Retirement														
Civilian[e]	101	102	105	109	113	118	122	126	131	135	139	143	568	1,242
Military	58	54	61	63	66	73	70	66	73	75	77	85	332	708
Other	4	3	3	4	5	6	7	8	4	10	7	7	25	61
Subtotal	163	160	169	177	184	197	198	200	207	220	223	236	925	2,011
Veterans' Programs														
Income security[f]	86	83	94	99	103	115	111	105	119	123	127	144	522	1,140
Other[g]	19	17	17	16	17	18	18	18	20	20	21	23	87	190
Subtotal	105	100	112	115	120	134	129	124	138	143	148	167	609	1,330
Other Programs														
Agriculture	13	17	14	13	15	15	15	15	15	15	15	15	71	145
Deposit Insurance	-12	-14	-9	-8	-7	-8	-8	-8	-8	-8	-9	-8	-39	-79
MERHCF	10	10	11	11	12	12	13	14	14	15	16	17	59	135
Fannie Mae and Freddie Mac[h]	0	0	3	2	*	2	2	2	2	2	2	2	8	19
Higher education	42	-4	3	7	8	8	7	6	6	6	6	6	33	63
Other	77	87	73	74	76	73	70	66	67	67	67	70	366	704
Subtotal	130	97	94	98	104	103	99	95	96	97	98	102	498	986

Continued

Table 2-2. Continued

Mandatory Outlays Projected in CBO's Baseline

Billions of Dollars

	Actual, 2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total 2019–2023	Total 2019–2028
Offsetting Receipts														
Medicare[i]	-111	-124	-135	-145	-155	-168	-180	-194	-208	-225	-242	-261	-782	-1,912
Federal share of federal employees' retirement														
Social Security	-17	-17	-18	-18	-19	-20	-20	-21	-22	-22	-23	-24	-96	-208
Military retirement	-18	-19	-21	-21	-21	-22	-22	-23	-24	-24	-25	-25	-107	-228
Civil service retirement and other	-35	-37	-38	-39	-40	-41	-42	-43	-45	-46	-47	-48	-200	-429
Subtotal	-71	-72	-76	-78	-80	-83	-85	-88	-90	-92	-95	-97	-403	-865
Receipts related to natural resources	-9	-11	-11	-11	-11	-12	-11	-12	-13	-13	-13	-13	-56	-119
MERHCF	-7	-8	-8	-8	-9	-9	-10	-10	-11	-11	-12	-12	-43	-99
Fannie Mae and Freddie Mac[h]	-29	-6	0	0	0	0	0	0	0	0	0	0	0	0
Other	-27	-31	-30	-30	-31	-33	-31	-31	-39	-33	-31	-23	-154	-311
Subtotal	-253	-252	-260	-272	-286	-305	-317	-334	-361	-374	-393	-406	-1,439	-3,306
Total Mandatory Outlays	**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**
Memorandum:														
Mandatory Spending Excluding the Effects of Offsetting Receipts	2,772	2,799	2,979	3,132	3,317	3,570	3,709	3,847	4,121	4,357	4,582	4,930	16,707	38,544
Spending for Medicare Net of Offsetting Receipts	591	583	641	685	738	828	852	868	973	1,042	1,116	1,260	3,744	9,003
Spending for Major Health Care Programs Net of Offsetting Receipts[j]	1,030	1,040	1,118	1,177	1,254	1,380	1,434	1,484	1,622	1,726	1,838	2,021	6,364	15,055
Mandatory Spending Excluding the Effects of Timing Shifts, Net of Offsetting Receipts	**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**

Source: Congressional Budget Office.

Data on spending for benefit programs in this table generally exclude administrative costs, which are discretionary.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund (including TRICARE for Life); * = between zero and $500 million.

a. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts. (Net Medicare spending is included in the memorandum section of the table.)

b. Spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and provided through the Basic Health Program and spending to stabilize premiums for health insurance purchased by individuals and small employers (preliminary estimate).

c. Includes outlays for the American Opportunity Tax Credit and other credits.

d. Includes the Temporary Assistance for Needy Families program, the Child Support Enforcement program, the Child Care Entitlement program, and other programs that benefit children.

e. Includes benefits for retirement programs in the civil service, foreign service, and Coast Guard; benefits for smaller retirement programs; and annuitants' health care benefits.

f. Includes veterans' compensation, pensions, and life insurance programs.

g. Primarily education subsidies. (The costs of veterans' health care are classified as discretionary spending and therefore are not shown in this table.)

h. Cash payments from Fannie Mae and Freddie Mac to the Treasury are recorded as offsetting receipts in 2017 and 2018. Beginning in 2019, CBO's estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold. CBO counts those costs as federal outlays in the year of issuance.

i. Includes premium payments, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicaid's prescription drug costs.

j. Consists of spending for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

in the timing of certain payments from fiscal year 2018 to fiscal year 2017.[5] Without that timing shift, mandatory spending would increase in 2018 by an additional $40 billion (or 2.8 percent), to $2.6 trillion, or 12.9 percent of GDP. (In the discussion of mandatory spending that follows, all numbers have been adjusted to exclude the effects of timing shifts.)

From 2018 to 2028, outlays for mandatory programs are projected to rise by an average of about 6 percent per year, reaching $4.4 trillion in 2028. As a share of GDP, mandatory spending is projected to increase slightly through 2020—to 13.0 percent.[6] Then, it rises steadily to 14.9 percent in 2028. By comparison, mandatory spending averaged 12.8 percent of GDP over the past 10 years and 9.8 percent over the past 50 years.

Much of the projected growth in mandatory spending over the coming decade is attributable to two factors. First, the number of people age 65 or older in the population has been growing significantly—more than doubling over the past 50 years and expected to rise by more than one-third by 2028. In CBO's baseline projections, spending for people age 65 or older in several large mandatory programs—Social Security, Medicare, Medicaid, and military and federal civilian retirement programs—increases from 38 percent of all federal noninterest spending in 2018 to 45 percent in 2028.

Second, health care costs (adjusted to account for the aging of the population) are projected to grow faster than the economy over the long term. Growth in health care spending has slowed in recent years, but the reasons for that slowdown are not clear. In CBO's projections, spending per enrollee in federal health care programs grows more rapidly over the coming decade than it has in recent years, but it does not return to the higher rates of growth that were experienced before the slowdown.

The effects on federal spending of those two long-term trends are already apparent over the 10-year horizon—especially for Social Security and Medicare—and will grow in size beyond the baseline period.

Social Security. Social Security, the largest federal spending program, provides cash benefits to the elderly, to people with disabilities, and to the dependents and survivors of people covered by the program. Last year, Social Security outlays totaled $939 billion, or 4.9 percent of GDP. Under current law, outlays for Social Security are projected to rise by $45 billion in 2018, or about 5 percent. That growth rate is higher than it has been in recent years, largely because Social Security beneficiaries received a cost-of-living adjustment (COLA) of 2.0 percent in January 2018, the largest since 2012. Growth in the number of beneficiaries is also anticipated to tick up from 1.5 percent last year to 1.9 percent in 2018.

Over the 2019–2028 period, outlays for Social Security are projected to grow at an average rate of about 6 percent per year, reaching $1.8 trillion—or 6.0 percent of GDP—by 2028. That growth reflects increases in the number of beneficiaries and in the amount of the average benefit. In CBO's projections, the number of beneficiaries grows by about 2.3 percent each year, from an average of 62.3 million beneficiaries in 2018 to 78.0 million in 2028, and average benefits grow by about 3.7 percent each year, mainly because of annual COLAs, which are projected to average 2.4 percent.

Medicare, Medicaid, and Other Major Health Care Programs. In 2017, net federal outlays for Medicare, Medicaid, and other major programs related to health care accounted for 41 percent of mandatory spending (net of offsetting receipts) and totaled $1.0 trillion, or 5.4 percent of GDP. In CBO's baseline projections (excluding the effects of shifts in the timing of certain payments), that spending increases by $35 billion, or 3.4 percent, in 2018; from 2019 to 2028, it increases at an average rate of about 6 percent per year, reaching $2.0 trillion, or 6.6 percent of GDP, by the end of that period.

Medicare. Outlays for Medicare, a program that provides subsidized medical insurance to the elderly and to some people with disabilities, account for about half of the projected increase in outlays for major health care programs in 2018 and about two-thirds of the growth in such outlays through 2028. CBO estimates that Medicare spending (net of offsetting receipts—mostly in the form of premiums paid by beneficiaries—and adjusted to exclude the effects of timing shifts) will grow

5. A timing shift with effects of a similar magnitude occurred from 2017 into 2016; the net effect of the two timing shifts on mandatory spending in 2017 was small, increasing outlays by $3 billion.

6. Mandatory spending as a share of GDP is projected to grow more slowly in the near term largely because GDP is projected to grow faster in 2019 and 2020 than later in the projection period. The growth in nominal mandatory spending is slightly slower in the first two years than later in the projection period.

by 3 percent in 2018, much more slowly than in most recent years. That slower growth is attributable to higher receipts from premiums.[7] Enrollment is projected to increase by 2.7 percent in 2018, a rate just slightly higher than the 2.6 percent rate of increase recorded last year.

Over the 2019–2028 period, Medicare outlays are projected to increase by an average of 7 percent per year, driven by the rising per-beneficiary costs of medical care. Cost growth accounts for nearly 5 percentage points of that increase, and growing enrollment accounts for the rest. By 2028, projected net outlays for Medicare grow to $1.2 trillion.

Medicaid. Spending for Medicaid, a joint federal and state program that funds medical care for certain low-income, elderly, and disabled people, is estimated to increase by 2 percent, or $9 billion, in 2018. That rate of growth is one of the slowest since 2012, when provisions in the American Recovery and Reinvestment Act of 2009 (P.L. 111-5) that increased the federal government's share of Medicaid spending expired and federal spending on the program fell. Flattening growth in enrollment (which had picked up considerably after Medicaid eligibility was expanded by the Affordable Care Act) and slow growth in per capita costs largely explain the smaller increase in spending in 2018 compared with earlier years. After 2018, outlays for the program are projected to grow at an average rate of about 5.5 percent per year (about 1 percent because of increasing enrollment and nearly 5 percent because of increasing per capita costs), closer to historical growth levels.

Health Insurance Subsidies and Related Spending. Outlays for health insurance subsidies and related spending are estimated to increase by $10 billion, or 21 percent, in 2018.[8] That jump mostly stems from an average increase of 34 percent in premiums for the second-lowest-cost "silver" plan in health insurance marketplaces established under the Affordable Care Act. (Those premiums are the benchmark for determining subsidies for plans obtained through the marketplaces.) Over the 2019–2028 period, the average growth in spending is projected to lessen considerably, to just under 5 percent per year, as per-beneficiary spending rises with the costs of providing medical care. CBO estimates that, under current law, outlays for health insurance subsidies and related spending would rise by about 60 percent over the projection period, increasing from $58 billion in 2018 to $91 billion by 2028.

Children's Health Insurance Program. CHIP is a program financed jointly by states and the federal government that provides health insurance coverage to children in families whose income, although modest, is too high for them to qualify for Medicaid. CBO estimates that outlays for CHIP will be about $500 million lower in 2018 than in 2017, primarily because of unusually high spending at the end of last year: Some states drew down additional funds for the program in 2017, probably in anticipation of the scheduled expiration of its authorization at the end of that year. (Funding for the program has since been reauthorized through 2027.)[9] Federal spending for CHIP is projected to decline through 2021 because the average federal matching rate for the program is scheduled to decrease from 93 percent in 2018 to 70 percent in 2021 and subsequent years. After 2021, spending on the program is projected to grow by about 3 percent per year, principally because of increasing costs per enrollee.

7. The jump in receipts from premiums stems largely from increases in how much many beneficiaries will actually pay for their premium for Medicare Part B, which covers physicians' services and other outpatient care. The basic Part B premium is the same in 2018 as it was in 2017 ($134 per month). However, about two-thirds of Part B enrollees did not pay the full $134 in 2017 because of a "hold-harmless" provision, which limits the increase in a beneficiary's payment for the Part B premium to the increase in that beneficiary's Social Security benefit. (Most Medicare enrollees have their Part B premium withheld from their monthly Social Security benefit.) With an increase in Social Security benefits in 2018, many Medicare beneficiaries will pay more or all of the full Part B premium; in fact, most of the total increase in Social Security benefits for those beneficiaries will go toward Part B premiums. CBO estimates that about half of the beneficiaries who paid less than the full premium in 2017 will again have their payments held down by the hold-harmless provision in 2018—that is, all of the increase in their Social Security benefits will go toward the Part B premium. The remaining beneficiaries are seeing some increase in take-home Social Security benefits even after they pay the full $134.

8. These subsidies lower the cost of health insurance purchased through marketplaces by people who meet income and other criteria for eligibility. The related spending consists of outlays for risk adjustment and reinsurance, and grants to states for establishing health insurance marketplaces.

9. The Congress extended CHIP's authorization through 2023 in the HEALTHY KIDS Act of 2017 (P.L. 115-120) and further extended it through 2027 in the Bipartisan Budget Act of 2018 (P.L. 115-123).

Income Security. Mandatory spending related to income security includes outlays for certain refundable tax credits, the Supplemental Nutrition Assistance Program (SNAP), Supplemental Security Income (SSI), unemployment compensation, and certain programs that support children and families. Excluding the effects of a shift in the timing of $4 billion in SSI payments, projected spending in this category rises by 1.5 percent, from $294 billion in 2017 to $298 billion in 2018 (or 1.5 percent of GDP). Over the 2019–2028 period, total mandatory spending for income security is projected to grow by an average of 2 percent per year, which is slower than GDP is projected to grow. As a result, by 2028, such outlays are projected to shrink to 1.2 percent of GDP.

Earned Income, Child, and Other Tax Credits. Refundable tax credits reduce a filer's overall income tax liability; if the credit exceeds the filer's income tax liability, the government pays all or some portion of that excess to the taxpayer.[10] Those payments are categorized as outlays.

Over the 2018–2028 period, projected outlays for refundable tax credits vary significantly. The refundable amounts of the credits are projected to jump from $87 billion in 2018 to $99 billion in 2019, mostly because Public Law 115-97, referred to here as the 2017 tax act, expands the child tax credit (see Appendix B). In addition, the 2017 tax act temporarily reduces tax liabilities, thereby increasing outlays for the refundable portion of certain tax credits.

After remaining close to $100 billion a year for much of the coming decade, projected outlays for the tax credits fall to $88 billion in 2027, after many provisions in the 2017 tax act will have expired under current law, decreasing the amount of the child tax credit and increasing tax liabilities for most people. (However, those outlays are lower than they would have been prior to the 2017 tax act because one provision of the act that lowers outlays—a change in the measure of inflation used to adjust tax parameters, including tax brackets—does not expire under current law.)

Supplemental Nutrition Assistance Program. SNAP provides benefits to help people in low-income households purchase food. CBO expects that outlays for SNAP will decrease slightly in 2018 because of continued declines in participation since the recent (post-recession) peak in 2013.

In CBO's projections, participation rates continue to decline through 2028 until they return to rates seen just before the 2007–2009 recession. However, because decreased outlays from lower participation are expected to be offset by projected increases in the cost of food (which SNAP benefits are linked to), projected outlays for the program remain roughly constant from 2020 through 2024. In 2025, projected spending on the program begins to rise as the decline in participation moderates but the price of food continues to grow. By 2028, CBO projects, outlays for SNAP, under current law, would equal the amount spent in 2017—$70 billion.

Supplemental Security Income. SSI provides cash benefits to people with low income who are elderly or disabled. CBO estimates that spending for SSI will fall by about $3 billion in 2018 because of the shift in the timing of $4 billion in payments from 2018 to 2017. Without that timing shift, outlays would rise by about $1 billion in 2018. In CBO's baseline projections, outlays for the program grow by 3 percent per year on average. Projected COLAs account for much of that growth. By 2028, without changes to current law, projected spending for SSI reaches $81 billion, or $75 billion if the effects of timing shifts are excluded.

Unemployment Compensation. The federal-state unemployment compensation program provides benefits to people who lose their jobs through no fault of their own, are actively seeking work, and meet other criteria established by the laws in their states. CBO expects spending on the program to decline by $1 billion in 2018 as a result of lower unemployment—the effects of which are partly offset by expected wage growth over the projection period, which increases average unemployment benefits. In CBO's projections, the unemployment rate continues to drop in 2019, then rises through 2027. Outlays for unemployment compensation follow that pattern: Such spending declines through 2019, then increases through 2028, reaching $59 billion—nearly double the $30 billion in outlays estimated for the current year.

Family Support, Foster Care, and Child Nutrition Programs. Spending for programs that support children and families, such as the Temporary Assistance for Needy

10. For more information, see Congressional Budget Office, *Refundable Tax Credits* (January 2013), www.cbo.gov/publication/43767.

Families (TANF) program and school lunch programs, grows in CBO's baseline by about 2 percent per year, on average. Funding for some programs, including TANF, is capped, whereas funding for other programs, including school lunch programs, is projected to grow with inflation and participation. In CBO's projections, outlays for all such programs increase from $56 billion in 2018 to $72 billion in 2028.

Civilian and Military Retirement. Retirement and survivors' benefits for most federal civilian employees (along with benefits provided through several smaller retirement programs for employees of various government agencies and for retired railroad workers) are estimated to cost $105 billion in 2018, the same amount as in 2017. Under current law, such outlays would grow by nearly 4 percent annually over the projection period, CBO estimates, reaching $151 billion in 2028. The projected growth in federal civil service retirement benefits is attributable primarily to COLAs for retirees and to increases in federal salaries, which boost benefits for people entering retirement.

The federal government also provides annuities to retired military personnel and their survivors. Outlays for those annuities totaled $58 billion in 2017; in 2018, they are projected to dip to $54 billion, but that estimate rises to $59 billion if the effects of timing shifts are removed. Most of the projected annual growth in those outlays over the 2019–2028 period results from COLAs and increases in military basic pay. Excluding the effects of shifts in the timing of payments of some annuities, outlays for military retirement benefits are projected to grow by an average of 3 percent per year, reaching $79 billion in 2028.

Veterans' Programs. Mandatory spending for veterans' benefits includes disability compensation, readjustment benefits, pensions, insurance, housing assistance, and burial benefits. Excluding the effects of shifts in the timing of certain payments, outlays for those benefits totaled $104 billion (of which roughly 80 percent represented disability compensation) in 2017 and are estimated to rise to $107 billion in 2018. That total does not include most federal spending for veterans' health care, which is funded through discretionary appropriations. CBO projects that under current law, mandatory spending for veterans' benefits would grow at an average rate of about 4 percent per year over the next decade, reaching $156 billion in 2028 (excluding shifts in the timing of some payments).

Other Mandatory Programs. The remainder of mandatory spending encompasses a number of other activities, including agricultural programs, net outlays for deposit insurance, health care benefits for retirees of the uniformed services and their dependents and surviving spouses, cash transfers to and from Fannie Mae and Freddie Mac, and loans and other programs related to higher education. Together, those outlays totaled $130 billion last year but are estimated to drop to $97 billion in 2018. That decrease is primarily driven by revisions to the estimated subsidy costs of outstanding loans recorded by the Department of Education.[11] In 2017, such revisions boosted outlays by $39 billion, whereas in 2018, CBO estimates, they will reduce outlays by $9 billion. The $48 billion decrease in outlays over the two years is partially offset by an estimated increase of $11 billion in mandatory outlays related to hurricane relief efforts in 2018. Altogether, over the 2018–2028 period, spending on these other mandatory programs is projected to increase by a total of about $5 billion, or about 5 percent.

Offsetting Receipts. Offsetting receipts are funds collected by federal agencies from other government accounts or from the public in businesslike or market-oriented transactions that are recorded as negative outlays (that is, as credits against direct spending). Such receipts include Medicare beneficiaries' premiums, intragovernmental payments made by federal agencies for their employees' retirement benefits, royalties and other charges for the production of oil and natural gas on federal lands, proceeds from sales of timber harvested and minerals extracted from federal lands, payments to the Treasury by Fannie Mae and Freddie Mac (for 2017

11. CBO calculates the subsidy costs for student loans following the procedures specified in the Federal Credit Reform Act of 1990 (FCRA). Under FCRA, the discounted present value of expected income from federal student loans issued during the 2018–2028 period is projected to exceed the discounted present value of the government's costs. (A present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time; the present value depends on the rate of interest—known as the discount rate—that is used to translate future cash flows into current dollars.) Credit programs that produce net income rather than net outlays are said to have negative subsidy rates, which result in negative outlays. The original subsidy calculation for a set of loans or loan guarantees may be increased or decreased in subsequent years by a credit subsidy reestimate that reflects an updated assessment of the cash flows associated with the outstanding loans or loan guarantees.

and 2018 only), and various fees paid by users of public property and services.[12]

CBO estimates that offsetting receipts will dip slightly this year, from $253 billion in 2017 to $252 billion in 2018. That decline is the result of two factors with countervailing effects. First, CBO estimates that remittances to the Treasury from Fannie Mae and Freddie Mac will decrease by $23 billion. About two-thirds of that reduction is from write-downs the entities took on their tax-deferred assets in response to the 2017 tax act; in addition, the Federal Housing Finance Agency and the Treasury Department recently directed the entities to increase their capital reserves, which means they will remit less in order to meet that goal. Second, other offsetting receipts are estimated to be about $22 billion higher in 2018 than in 2017, largely as a result of a $13 billion increase in receipts of Medicare beneficiaries' premiums.

After 2018, offsetting receipts are projected to grow by an average of about 5 percent per year, from $260 billion in 2019 to $406 billion in 2028. Growth in receipts of Medicare premiums, which is projected to average almost 8 percent per year, accounts for nearly 90 percent of that increase.

Assumptions About Expiring Programs

In keeping with the rules established by the Deficit Control Act, CBO's baseline projections incorporate the assumption that some mandatory programs will be extended when their authorization expires, although the rules provide for different treatment of programs created before and after the Balanced Budget Act of 1997 (P.L. 105-33). All direct spending programs that predate that act and have current-year outlays greater than $50 million are assumed to continue in CBO's baseline projections. Whether programs established after 1997 are assumed to continue is determined on a program-by-program basis, in consultation with the House and Senate Budget Committees.

CBO's baseline projections therefore incorporate the assumption that the following programs whose authorization expires within the current projection period will continue: SNAP, TANF, the Child Care Entitlement to States, rehabilitation services, child nutrition programs, some transporation programs, the Trade Adjustment Assistance program for workers, family preservation and support programs, CHIP, and most farm subsidy programs. In addition, the Deficit Control Act directs CBO to assume that a COLA for veterans' compensation will be granted each year. In CBO's projections, the assumption that expiring programs and veterans' COLAs will continue accounts for about $1.1 trillion in outlays between 2019 and 2028, most of which are for SNAP and TANF (see Table 2-3 on page 56). That amount represents about 3 percent of all mandatory spending.

Discretionary Spending

An array of federal activities is funded or controlled through annual appropriations. Such discretionary spending, which CBO estimates will account for about 30 percent of total outlays in 2018, includes most spending on national defense, elementary and secondary education, housing assistance, international affairs, and the administration of justice, as well as outlays for transportation and other programs.

How Caps on Discretionary Funding Affect CBO's Projections

Most discretionary funding is limited by caps on annual discretionary appropriations that were originally specified in the Budget Control Act of 2011 (P.L. 112-25) and modified by subsequent legislation. Under current law, separate caps exist for defense and nondefense spending through 2021. If the total amount of discretionary funding provided in appropriation acts for a given year exceeds the cap for either category, the President must sequester—or cancel—a sufficient amount of new budget authority (following procedures specified in the Budget Control Act) to eliminate the breach.[13]

12. Because the government placed Fannie Mae and Freddie Mac into conservatorship in 2008 and now controls their operations, CBO considers their activities governmental and includes the budgetary effects of their activities in its projections as if they were federal agencies. On that basis, for the 10-year period after the current fiscal year, CBO projects the subsidy costs of their new activities using procedures that are similar to those specified in the Federal Credit Reform Act of 1990 for determining the costs of federal credit programs—but with adjustments to reflect the associated market risk. The Administration, by contrast, considers Fannie Mae and Freddie Mac to be outside the federal government for budgetary purposes and records cash transactions between them and the Treasury as federal outlays or receipts. As a result, in its baseline projections, CBO treats only the current fiscal year in the same manner as the Administration in order to provide its best estimate of the amount that the Treasury ultimately will report as the federal deficit for 2018. Similarly, to match the Administration's historical budget totals, CBO also uses the Administration's treatment for past years.

13. The authority to determine whether a sequestration is required (and, if so, exactly how to make the necessary cuts in budget authority) rests with the Administration's Office of Management and Budget.

CBO's projections for discretionary funding incorporate those limits and are formulated following principles and rules that are largely set in law. In accordance with section 257 of the Deficit Control Act, CBO starts projections for individual accounts with the most recent appropriation and applies the appropriate inflation rate to project funding for future years.[14] After account-level projections of discretionary funding are made, the total amount of budget authority is adjusted to comply with the caps on discretionary funding through 2021. (CBO does not adjust each account because, although the total amount of spending is constrained by the caps, individual accounts themselves are not.) Projections for years after 2021 reflect the assumption that discretionary funding keeps pace with inflation.

In addition, some or all of the discretionary funding related to five types of activities is not constrained by the caps (instead, for most of those activities, the caps are adjusted to accommodate such funding, up to certain limits) and is generally assumed to grow with inflation after 2018.[15] Specifically, appropriations designated for overseas contingency operations (OCO) and activities designated as emergency requirements are assumed to grow with inflation.[16] For two other activities—certain efforts to reduce overpayments in benefit programs, and disaster relief—the extent to which the caps can be adjusted is subject to annual constraints, as specified in law. Finally, programs designated by the 21st Century Cures Act (P.L. 114-225) are not subject to the caps, but their total funding is subject to specified annual limits.

The recently enacted Bipartisan Budget Act of 2018 (P.L. 115-123) increased, by $143 billion and $152 billion, respectively, limits on discretionary funding that otherwise would have been in place for 2018 and 2019 under the Budget Control Act (as modified).[17] As a result, overall limits on discretionary budget authority total $1,208 billion in 2018, rise to $1,244 billion (a 3 percent increase) in 2019, and then fall to an estimated $1,118 billion (a 10 percent reduction) in 2020, when limits return to the lower levels set by the Budget Control Act (see Table 2-4 on page 58). They then rise to $1,145 billion (a 2 percent increase) in 2021, CBO estimates, the last year the caps are in place under current law.

All told, discretionary budget authority in CBO's baseline projections follows a pattern similar to that of the caps through 2021 and then increases gradually, to account for inflation, through 2028. Outlays that arise from that budget authority generally follow the same trend but more gradually, because of the delay between when funding is provided and when it is spent. Outlays can occur over short periods (to pay salaries, for example) or longer ones (for example, to pay for long-term research or construction). Therefore, discretionary outlays estimated for each year represent a mix of spending stemming not only from new budget authority but also from prior appropriations. Increases in outlays are particularly likely to lag behind increases in budget authority when the latter are large or occur well after the beginning of a fiscal year.

CBO's Baseline Projections of Discretionary Spending in 2018

If no more appropriations are enacted for 2018, discretionary funding will total $1,422 billion this year, CBO estimates, including $197 billion for activities that permit adjustments to the funding caps.[18] The remaining amount—$1,225 billion—is $17 billion more than the overall limit on discretionary funding for 2018; that excess occurs because certain provisions in the Consolidated Appropriations Act, 2018, are estimated to reduce net funding for mandatory programs by $17 billion. When appropriation acts include changes that reduce mandatory funding, the savings are credited against the discretionary funding provided by those acts

14. In CBO's baseline projections, discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries of workers in private industry; other discretionary funding is adjusted using the gross domestic product price index.

15. Spending for certain transportation programs is controlled by obligation limitations, which also are not constrained by the caps on discretionary funding and are assumed to grow with inflation.

16. Overseas contingency operations refer to certain military and diplomatic activities in Afghanistan and elsewhere, but some designated OCO funding has not been directly related to those activities. Funding that is categorized as an emergency requirement is funding designated in statute pursuant to section 251(b)(2)(A)(i) of the Deficit Control Act.

17. For more information about the discretionary caps, see Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2018* (April 2018), www.cbo.gov/publication/53696.

18. The $1,422 billion total includes CBO's estimates of some components of discretionary funding—for example, market-driven fees that are credited as offsets to discretionary appropriations. However, the bulk of discretionary funding consists of specified appropriations.

Table 2-3.

Costs for Mandatory Programs That Continue Beyond Their Current Expiration Date in CBO's Baseline

Billions of Dollars

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total 2019–2023	Total 2019–2028
Supplemental Nutrition Assistance Program													
Budget authority	0	66	65	65	65	65	65	66	67	69	70	326	664
Outlays	0	63	65	65	65	65	65	66	67	69	70	323	661
Temporary Assistance for Needy Families													
Budget authority	0	17	17	17	17	17	17	17	17	17	17	87	173
Outlays	0	13	16	16	17	17	17	17	17	17	17	79	165
Veterans' Compensation COLAs													
Budget authority	0	3	6	8	11	13	16	19	22	25	28	41	150
Outlays	0	3	5	8	11	13	15	19	22	25	30	41	150
Commodity Credit Corporation[a]													
Budget authority	0	*	2	9	10	10	10	11	11	11	11	30	85
Outlays	0	*	1	9	9	9	10	10	11	11	11	28	82
Child Care Entitlements to States													
Budget authority	0	3	3	3	3	3	3	3	3	3	3	15	29
Outlays	0	2	3	3	3	3	3	3	3	3	3	14	28
Rehabilitation Services													
Budget authority	0	0	0	0	0	4	4	4	4	4	4	4	25
Outlays	0	0	0	0	0	2	4	4	4	4	4	2	22
Child Nutrition[b]													
Budget authority	0	1	1	1	1	1	1	1	1	1	1	4	10
Outlays	0	1	1	1	1	1	1	1	1	1	1	4	9
Ground Transportation Programs Not Subject to Annual Obligation Limitations													
Budget authority	0	0	0	1	1	1	1	1	1	1	1	2	6
Outlays	0	0	0	*	*	1	1	1	1	1	1	1	5

Continued

in judging their compliance with the caps. (Once in law, however, any such savings are incorporated into CBO's baseline projections for mandatory spending.)

Altogether, discretionary budget authority in 2018 exceeds last year's funding by $202 billion, or nearly 17 percent.[19] Of that increase, $139 billion reflects larger appropriations provided by the Consolidated Appropriations Act, 2018, subject to the limits set in the Bipartisan Budget Act of 2018. The remainder consists of funding for activities not constrained by the caps, which is $63 billion (or 47 percent) greater than last year. That increase primarily reflects historically large amounts of funding designated as an emergency requirement, partially offset by lower funding for OCO. All

19. Much of the analysis in this report was prepared before the enactment of the Consolidated Appropriations Act, 2018 (P.L. 115-141), on March 23, 2018. CBO incorporated the effects of that law into its budget projections in aggregate but could not incorporate the account-level detail of the 2018 discretionary funding that the law provided. Instead, CBO calculated, on an annualized basis, the amount of funding provided for specific discretionary activities in 2018 under the most recent continuing resolution, Subdivision 3 of Division B of the Bipartisan Budget Act of 2018 (P.L. 115-123). CBO then adjusted amounts of defense and nondefense funding, in aggregate, separately for funding constrained by the caps and other funding (mostly for OCO), by amounts necessary to bring them in line with the increased funding provided for 2018 by the Consolidated Appropriations Act, 2018. As a result, subsequent account-level estimates of outlays for discretionary programs could differ from the projections in this report.

Table 2-3. Continued

Costs for Mandatory Programs That Continue Beyond Their Current Expiration Date in CBO's Baseline

Billions of Dollars

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total 2019–2023	Total 2019–2028
Trade Adjustment Assistance for Workers[c]													
Budget authority	0	0	0	0	0	*	*	*	*	1	1	*	3
Outlays	0	0	0	0	0	*	*	*	*	*	1	*	2
Promoting Safe and Stable Families													
Budget authority	0	0	0	0	*	*	*	*	*	*	*	1	2
Outlays	0	0	0	0	*	*	*	*	*	*	*	*	2
Ground Transportation Programs Controlled by Obligation Limitations[d]													
Budget authority	0	0	0	50	50	50	50	50	50	50	50	151	403
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Air Transportation Programs Controlled by Obligation Limitations[d]													
Budget authority	0	3	3	3	3	3	3	3	3	3	3	17	34
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Children's Health Insurance Program													
Budget authority	0	0	0	0	0	0	0	0	0	0	15	0	15
Outlays	0	0	0	0	0	0	0	0	0	0	0	0	0
Natural Resources													
Budget authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Outlays	0	0	*	*	*	0	0	0	0	0	0	*	*
Total													
Budget authority	**0**	**94**	**97**	**158**	**161**	**168**	**172**	**176**	**181**	**186**	**206**	**678**	**1,599**
Outlays	**0**	**82**	**91**	**102**	**106**	**111**	**116**	**122**	**127**	**131**	**139**	**492**	**1,126**

Source: Congressional Budget Office.

COLAs = cost-of-living adjustments; * = between -$500 million and $500 million.

a. Agricultural commodity price and income supports and conservation under the Agricultural Act of 2014 generally expire after 2018. Although permanent price support authority under the Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 would then become effective, CBO adheres to the rule in section 257(b)(2)(ii) of the Deficit Control Act that indicates that the baseline should assume that the provisions of the Agricultural Act of 2014 remain in effect.

b. Includes the Summer Food Service program and states' administrative expenses.

c. Does not include the cost of extending Reemployment Trade Adjustment Assistance.

d. Authorizing legislation for those programs provides contract authority, which is counted as mandatory budget authority. However, because the programs' spending is subject to obligation limitations specified in annual appropriation acts, outlays are considered discretionary.

told, CBO estimates that discretionary outlays will total $1,280 billion in 2018 (6.4 percent of GDP), $80 billion (or nearly 7 percent) more than in 2017.

Defense Spending. CBO estimates that defense funding in 2018 will total $701 billion—$67 billion (or almost 11 percent) more than in 2017. That rise reflects a $78 billion increase in funding subject to the limit on defense appropriations and a net $11 billion reduction in funding for OCO and other activities that are not constrained by that limit. Outlays for defense programs are expected to rise by $32 billion (or 5 percent) in 2018 to a total of $622 billion (or 3.1 percent of GDP).

Nondefense Spending. Funding for nondefense activities in 2018 will total $721 billion, by CBO's

Table 2-4.

Discretionary Spending Projected in CBO's Baseline

Billions of Dollars

	Actual, 2017[a]	2018[a]	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total 2019–2023	Total 2019–2028
Budget Authority														
Defense	634	701	719	651	666	683	699	717	734	752	771	789	3,419	7,182
Nondefense	586	721	724	671	687	704	721	739	757	775	794	814	3,507	7,385
Total	**1,220**	**1,422**	**1,443**	**1,322**	**1,353**	**1,386**	**1,420**	**1,455**	**1,491**	**1,527**	**1,565**	**1,603**	**6,925**	**14,567**
Outlays														
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
Total	**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**
Memorandum:														
Caps in the Budget Control Act (As Amended), Including Automatic Reductions to the Caps														
Defense	551	629	647	576	590	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nondefense	519	579	597	542	555	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	**1,070**	**1,208**	**1,244**	**1,118**	**1,145**	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Adjustments to the Caps[b]														
Defense	83	72	73	75	76	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nondefense	51	125	127	129	132	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	**134**	**197**	**200**	**204**	**209**	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Congressional Budget Office.

CBO's baseline projections incorporate the assumption that the caps on discretionary budget authority and the automatic enforcement procedures specified in the Budget Control Act of 2011 (as amended) remain in effect through 2021.

Nondefense discretionary outlays are usually greater than budget authority because of spending from the Highway Trust Fund and the Airport and Airway Trust Fund that is subject to obligation limitations set in appropriation acts. The budget authority for such programs is provided in authorizing legislation and is not considered discretionary.

n.a. = not applicable.

a. The amount of budget authority for 2017 and for 2018 in CBO's baseline does not match the sum of the spending caps plus adjustments to the caps, mostly because changes to mandatory programs included in the appropriation acts for those years were credited against the caps. In the baseline, those changes (which reduced mandatory budget authority in both years) appear in their normal mandatory accounts.

b. Some or all of the discretionary funding related to five types of activities is not constrained by the caps; for most of those activities, the caps are adjusted to accommodate such funding, up to certain limits. Specifically, appropriations designated for overseas contingency operations and activities designated as emergency requirements are assumed to grow with inflation after 2018. For two other activities—certain efforts to reduce overpayments in benefit programs, and disaster relief—the extent to which the caps can be adjusted is subject to annual constraints, as specified in law. Finally, programs designated by the 21st Century Cures Act are not subject to the caps, but their total funding is subject to specified annual limits.

estimation—$135 billion (or 23 percent) more than last year.[20] That amount is $142 billion more than the statutory limit on nondefense funding for this year:

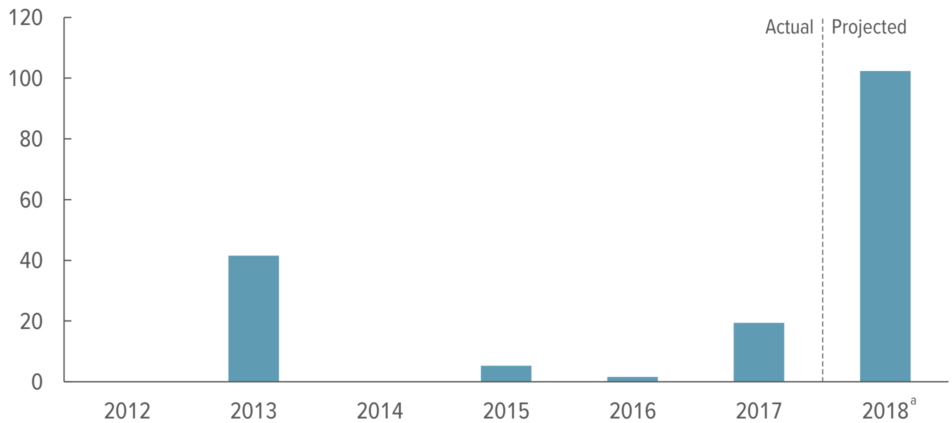
- Most of that added funding—nearly $125 billion—is not constrained by the limit, including $102 billion designated as an emergency requirement related to hurricanes Harvey, Irma, and Maria and wildfires

20. In addition, transportation-related obligation limitations enacted for 2018 total $59 billion.

Figure 2-3.

Discretionary Nondefense Funding for Emergency Requirements

Billions of Dollars



Funding for emergency requirements in 2018—mainly related to hurricanes and wildfires—is about nine times greater than the average annual amount over the six years since the Budget Control Act of 2011 was enacted.

Source: Congressional Budget Office.

a. The amount of funding shown for 2018 does not include almost $18 billion in additional budget authority from changes to mandatory programs that also were designated as emergency requirements.

in western states.[21] (By comparison, from 2012 through 2017, nondefense funding designated as an emergency requirement averaged about $11 billion annually; see Figure 2-3.) Appropriations for other activities that are not subject to the overall limit on nondefense funding total $22 billion and consist of $12 billion for OCO, slightly more than $7 billion for disaster relief, and $3 billion (in total) for program-integrity and health programs designated by the 21st Century Cures Act.

- The remaining $17 billion in excess of the 2018 cap reflects larger gross appropriations that are offset by estimated reductions in budget authority for mandatory programs stemming from changes that were included in the Consolidated Appropriations Act, 2018.

Altogether, CBO estimates that nondefense outlays will total $658 billion this year (3.3 percent of GDP), $48 billion, or almost 8 percent, more than in 2017.

CBO's Baseline Projections of Discretionary Spending From 2019 to 2028

Total discretionary outlays in CBO's baseline projections increase by 6.4 percent in 2019, dip by 1.6 percent in 2020, remain about the same in 2021 and grow thereafter, to $1,608 billion, or 5.4 percent of GDP, in 2028. By comparison, the lowest percentage of GDP for discretionary spending over the past 50 years was 6.0 percent in 1999, and the average over that time has been 8.5 percent (see Figure 2-4).

Budget Authority in 2019. Caps on discretionary budget authority will be $36 billion higher in 2019 than in 2018, reflecting an $18 billion increase to both the defense and nondefense limits. Projected increases in defense funding for 2019 total $18 billion. Projected increases in nondefense funding are smaller, totaling $3 billion.

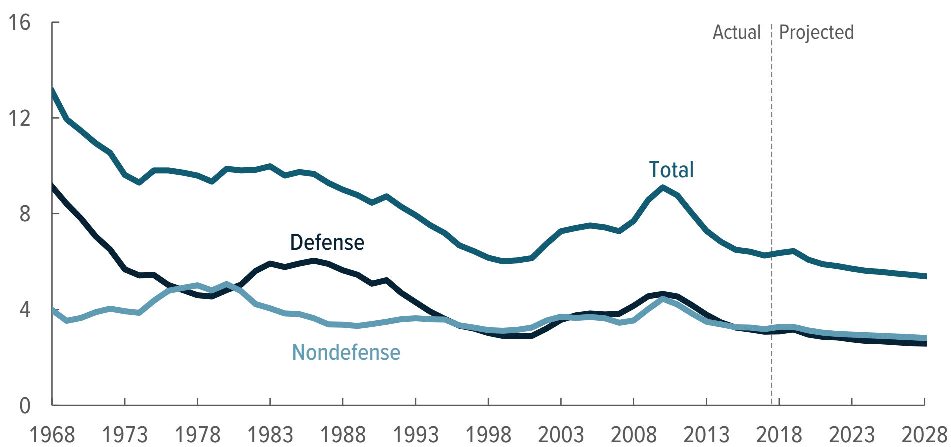
The projected increase in nondefense funding consists of $2 billion for funding not constrained by the caps and $1 billion for funding constrained by the caps. In accordance with rules set in law, the former increase reflects the assumption that the historically large amount

21. Total emergency funding in 2018 was more than $102 billion; that amount does not include almost $18 billion in additional budget authority from changes to *mandatory* programs that also were designated as emergency requirements. The largest of the changes was the cancellation of $16 billion of the outstanding debt owed to the Treasury by the National Flood Insurance Fund. Because those changes in mandatory programs were designated as emergency requirements, they did not affect the amount of discretionary funding allowed under the caps. CBO's baseline projections for mandatory programs include the anticipated effects of the changes.

Figure 2-4.

Discretionary Outlays, by Category

Percentage of Gross Domestic Product



CBO's projections of discretionary spending incorporate budgetary caps through 2021 and the assumption that discretionary budget authority grows with inflation thereafter.

Discretionary budget authority is projected to decline by 8 percent in 2020 because of scheduled reductions to the caps.

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

of emergency funding for 2018 grows with inflation. The latter increase reflects the net effects of an $18 billion increase in the nondefense limits and the fact that the Consolidated Appropriations Act, 2018, includes $17 billion in offsets to discretionary budget authority in 2018. Those offsets stem from estimated reductions in mandatory budget authority, which are typically included in appropriation acts that provide nondefense funding and allow discretionary funding to exceed the cap.[22] No such changes to mandatory programs have been enacted for 2019.

Budget Authority in 2020 and Subsequent Years. In 2020, discretionary limits fall by an estimated $126 billion, resulting in a $121 billion (or 8 percent) net reduction in overall budget authority. (That change includes a $4 billion projected increase in funding not constrained by the caps.) In total, defense and nondefense funding fall, respectively, by $68 billion (or almost 10 percent) and $52 billion (or 7 percent). In the baseline projections, discretionary budget authority after 2020 rises by 2.4 percent a year, on average, reflecting both the rate of increase in the caps in 2021 pursuant to the Budget Control Act and the assumption that such budget authority will grow with inflation beginning in 2022.

Alternative Assumptions About Discretionary Funding

If the policies governing discretionary funding differed from those underlying the baseline projections, discretionary outlays could differ greatly from the amounts projected in CBO's baseline. To illustrate such potential differences, CBO estimated the budgetary consequences of three alternative paths for discretionary funding. (Those estimates are provided in Chapter 4.) The first alternative reflects different assumptions about future funding for emergency requirements. In the two other scenarios, funding for discretionary programs in future years increases at rates different from those CBO is required to use in its baseline projections (see Figure 2-5).

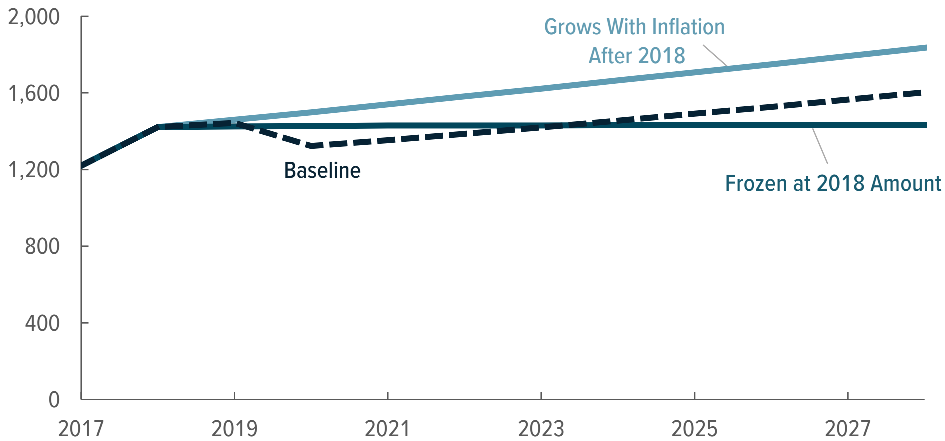
Emergency Spending. CBO projected spending assuming that nondefense funding designated as emergency requirements would remain in line with the average amount of such funding over the 2012–2017 period—$11 billion (with adjustments to reflect growth at the rate of inflation)—rather than the historically large amount provided for 2018. Under that scenario, holding all other projections unchanged from CBO's baseline, discretionary outlays over the 2019–2028 period would total $577 billion (or 4 percent) less

22. Since 2012, such offsets to discretionary budget authority have averaged about $18 billion per year, thus allowing discretionary funding in each year to exceed the statutory limits by about that amount.

Figure 2-5.

Discretionary Budget Authority Projected in CBO's Baseline and Under Two Alternative Scenarios

Billions of Dollars



Discretionary funding in future years could be more or less than the amounts in CBO's baseline projections, which reflect the assumption that funding for 2019 through 2021 will adhere to the current-law caps and grow with inflation after that.

Source: Congressional Budget Office.

than the amounts projected in the baseline. In 2028, discretionary outlays would equal 5.1 percent of GDP—significantly less than the 6.4 percent estimated for 2018.

Other Discretionary Spending. For the first of the two other alternative scenarios, CBO assumed that most discretionary funding constrained by the caps would grow at the rate of inflation after 2018, rather than being adjusted to accord with the caps for 2019 and the lower limits that will otherwise apply to funding for 2020 and 2021 under the Budget Control Act (as modified).[23] If that occurred, discretionary funding over the 2019–2028 period would grow, on average, by 2.6 percent a year. As a result, outlays would rise at a slightly faster rate (7 percent) in 2019 than in the baseline and would grow by 5 percent (rather than fall) in 2020. They would increase steadily thereafter, by an average of 3 percent per year through 2028. In that scenario, outlays would surpass CBO's baseline projections by $1.7 trillion (or nearly 12 percent) over the 2019–2028 period. In 2028, discretionary spending would equal 6.2 percent of GDP—slightly less than the percentage estimated for 2018 in CBO's baseline.

The second other scenario reflects the assumption that most discretionary budget authority, transportation-related obligation limitations, and funding for activities that are not constrained by the caps would be kept at the nominal 2018 amounts for the entire projection period.[24] (Such scenarios are sometimes called freezes in regular appropriations.) In that case, total discretionary spending would dip below the amount in CBO's baseline in 2019, exceed baseline amounts between 2020 and 2023, and again drop below the baseline (by increasing sums) between 2024 and 2028. Over the 2019–2028 period, discretionary outlays would be $175 billion (or about 1 percent) less than projected in the baseline and would fall to 4.9 percent of GDP in 2028—well below the percentage estimated for 2018 in CBO's baseline.

Net Interest

In the budget, net interest primarily encompasses the government's interest payments on federal debt, offset by income that the government receives from interest on loans. Outlays for net interest are dominated by the interest paid to holders of the debt that the Department of the Treasury issues to the public. The Treasury also pays interest on debt issued to trust funds and other government accounts, but such payments are

23. This scenario would not affect spending for activities that are not constrained by discretionary spending limits under the Budget Control Act, including transportation programs controlled by obligation limitations.

24. Some items, such as offsetting collections and payments made by the Treasury on behalf of the Department of Defense's TRICARE for Life program, would not be held constant.

intragovernmental transactions that have no effect on the budget deficit. (For more information about federal debt, see Chapter 4.) Other federal accounts also pay and receive interest for various reasons.[25]

CBO estimates that outlays for net interest will increase from $263 billion in 2017 to $316 billion (or 1.6 percent of GDP) in 2018 and then nearly triple by 2028, climbing to $915 billion. As a result, under current law, outlays for net interest are projected to reach 3.1 percent of GDP in 2028—almost double what they are now.

Although several factors affect the federal government's net interest costs—such as the rate of inflation for Treasury inflation-protected securities and the maturity structure of outstanding securities (for example, longer-term securities generally yield higher interest)—its primary drivers are the amount of debt held by the public and interest rates on Treasury securities.

The increase in federal borrowing projected in the baseline is a significant factor affecting the projected growth in net interest costs. Debt held by the public is projected to rise by 83 percent (in nominal terms) over the next 11 years, increasing from $15.7 trillion at the end of 2018 to $28.7 trillion in 2028.

The projected large increase in interest costs over the next decade is also affected significantly by the increase in interest rates underlying CBO's baseline projections. Those rates rise quickly over the next several years before falling during the second half of the forecast. The rate paid on 3-month Treasury bills is anticipated to increase from an average of 1.6 percent in 2018 to 3.8 percent in 2021 before falling back to 2.8 percent in 2024, about where it is projected to remain through 2028. Similarly, the interest rate on 10-year Treasury notes is projected to rise from its current rate of 2.9 percent to 4.2 percent in 2021 and then decline to 3.7 percent in 2024, where it is projected to remain through 2028. (For a more detailed discussion of CBO's forecast for interest rates, see the section on "Monetary Policy and Interest Rates" in Chapter 1.)

25. See Congressional Budget Office, *Federal Debt and Interest Costs* (December 2010), www.cbo.gov/publication/21960.

Uncertainty Surrounding the Spending Outlook

Budget projections are inherently uncertain, and even if no changes were made to current law, actual outcomes would undoubtedly differ in some ways from CBO's projections. The agency attempts to construct its spending projections so that they fall in the middle of the distribution of possible outcomes. Hence, actual spending could turn out to be higher or lower than CBO projects.

In 2017, CBO examined the accuracy of its past projections, specifically focusing on the second year (often called the budget year, which usually begins about six months after the projections are released) and the sixth year of the projection period. In both cases, although the agency's spending projections were generally close to actual amounts, they were too high, on average.[26] From 1984 to 2016, the mean absolute error—that is, the average of all errors without regard for whether they were positive or negative—was 2.3 percent for CBO's budget-year projections and 5.9 percent for the sixth-year projections. Percentage errors of those sizes would equal $103 billion in 2019 and $322 billion in 2023. CBO continually examines errors in its past projections, reviews data on spending patterns for federal programs, and consults with outside experts on those programs in order to improve its estimating methodology.

26. Those comparisons reflect adjustments to exclude the effects of legislation enacted after the projections were prepared. See Congressional Budget Office, *An Evaluation of CBO's Past Outlay Projections* (November 2017), www.cbo.gov/publication/53328.