Spending

Each year, lawmakers determine how much the federal government will spend and how the money will be allocated among 15 cabinet departments and dozens of independent agencies and commissions. But the budget is more than just a tally of numbers. It also expresses the policy priorities of our government — and country.

In 2018, total federal spending was $4.1 trillion — about one-fifth of the economy and $12,500 for each person living in the United States. That spending can be divided into three categories: mandatory spending, discretionary spending, and interest.

Mandatory Spending

This category of spending is called "mandatory" because such programs are governed by provisions of permanent law. Put another way, spending on a mandatory program is essentially on “autopilot” unless policymakers change the laws governing the program.

Many programs that provide benefits to individuals are classified as mandatory spending, such as Social Security, Medicare, and Medicaid. These programs are also often referred to as "entitlements" because individuals who meet the programs’ eligibility requirements are "entitled" to benefits.

Mandatory spending covers programs in six major areas:

- **Social Security** provides payments to retired and disabled workers, as well as to their spouses, dependent children, and survivors.

- **Major Health Programs** finance healthcare through four major programs: Medicare (for seniors and disabled people); Medicaid (for low-income people); health insurance subsidies and related programs (for low- and moderate-income people); and the Children’s Health Insurance Program (for low-income children and parents).

- **Income Security Programs** make payments to individuals based on their income through programs such as: earned income, child, and other tax credits (refundable tax credits for the working poor); the Supplemental Nutritional Assistance Program (formerly known as food stamps); Supplemental Security Income (payments to disabled children and adults with limited incomes); unemployment compensation (time-limited payments for people who become unemployed); family support and foster care; and child nutrition.

- **Federal Retirement Programs** for federal civilian and military retirees.

- **Veterans’ Programs** that provide pensions, income support, and other benefits for veterans.

- **Other Programs** consist of a diverse group of activities, including those that provide agricultural
subsidies, student loan subsidies, health care benefits for retirees of the uniformed services, and deposit insurance.

Lawmakers do not provide specific funding levels for mandatory spending. Instead, they specify who is eligible for benefits as well as the type and level of benefits that each person can receive. For example, the unemployment insurance program has eligibility criteria that, once met, entitle an individual to receive a certain level of benefits. Total spending on the program depends on the number of people who file for unemployment, not on a fixed amount of funding set by lawmakers.

The term "mandatory" doesn't mean that lawmakers are powerless to alter this spending, however. Elected officials can at any time adjust the eligibility criteria and benefit formulas that determine spending on mandatory programs, as they did with Social Security in 1983. However, if Congress and the President take no action, the current formulas remain in place year after year, and the spending flows as specified by the law without interruption.

Over time, spending for mandatory programs has grown more quickly than for most other programs — mostly because of growth in Social Security, Medicare, and Medicaid. In 1970, only 31 percent of the federal budget
was spent on mandatory programs, while the rest funded an array of discretionary programs and net interest. In 2018, 61 percent of federal spending went to mandatory programs.

**Discretionary Spending**

Discretionary spending is determined on an annual basis by Congress and the President through enactment of appropriations. As opposed to the "automatic" nature of mandatory spending, discretionary spending must be revisited each year.

There are typically 12 separate appropriations bills shepherded through the Congress by powerful appropriations committees. Defense spending represents more than half of all discretionary spending. Other major activities funded through appropriations include: homeland security, education, transportation, research, food safety, science and space programs, disaster assistance, environmental protection, public housing, and federal law enforcement.
Historically, most federal spending was discretionary. In the 1960s, two-thirds of total federal spending went to fund discretionary programs. Today, discretionary spending is about one-third of the budget, and over the next 10 years, it will fall further to about one-fifth of total spending, and it will decrease to a historically low level relative to the size of our national economy.
Net Interest

The third major category of spending is interest on the national debt. Under current law, CBO projects that net interest costs will grow from 1.6 percent in 2018 to 3.0 percent in 2029, and will total 5.7 percent in 2049. Within 10 years, interest on the debt is projected to be the third largest “program” in the federal budget.