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How Much Federal Spending Is Uncontrollable?

By Rudolph G. Penner and Julianna Koch

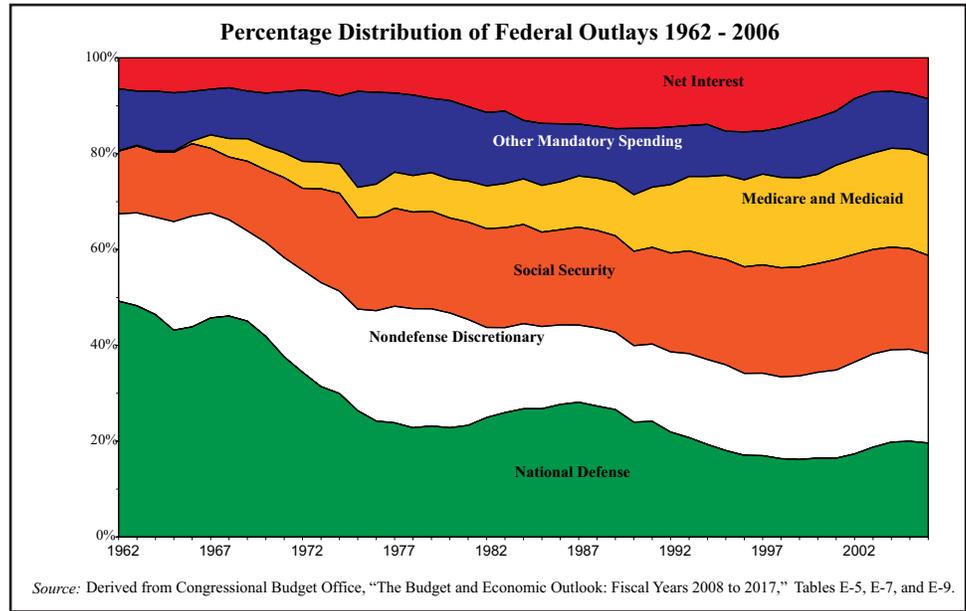
Discussions of the federal budget often refer to mandatory spending — on Social Security, Medicare, and similar programs — as “uncontrollable.” In contrast with discretionary programs that Congress usually funds with annual appropriations, entitlement spending is determined by permanent laws specifying who qualifies for what benefits.

Reducing federal spending, either by changing eligibility criteria and benefit levels for entitlement programs or by cutting appropriations for discretionary programs, is always politically difficult. Still, it is often assumed that it is easier to control discretionary programs because they automatically end if Congress fails to renew them. Further, the three largest entitlements — Social Security, Medicare, and Medicaid — appear to be out of control. Their costs have risen much faster than tax revenues and GDP because of exploding health costs and the aging of the population.

Total mandatory spending — entitlements and other contractual obligations plus net interest — has far outpaced total spending over time; its share of the federal budget nearly doubled from 33 percent in 1962 to 62 percent in 2006 (see graph). Medicare and Medicaid accounted for most of that

growth, ballooning over the past 40 years from essentially nothing to one-third of all mandatory spending. Social Security’s share of total spending has also climbed rapidly, from 13 percent to 20 percent, over the same period. The share paying for net interest waxed and waned, driven by patterns of deficit spending and interest rates.

The rising share of federal outlays for mandatory spending derived not only from rapidly growing spending on health and retirement programs but also from a marked secular decline in defense spending. The defense share of the budget fell from almost half in 1962 to just 20 percent in 2006, which allowed mandatory spending to grow rapidly with little change in the overall tax burden. In contrast, the share of spending for nondefense discretionary programs has changed relatively little, fluctuating by roughly 20 percent of the federal budget throughout the period.



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