

Statement of
Nancy M. Gordon
Assistant Director
for
Human Resources and Community Development
Congressional Budget Office

before the
Income Security Task Force
Committee on the **Budget**
U.S. House of Representatives

November 9, 1987

NOTICE

This statement is not available for public release until it is delivered at 1 p.m. (EST), Monday, November 9, 1987.

The growth in the federal budget deficit in recent years is focusing considerable attention on the level and composition of federal spending and revenues. One particular area of concern is entitlement programs, because outlays for them make up a large part of the federal budget.

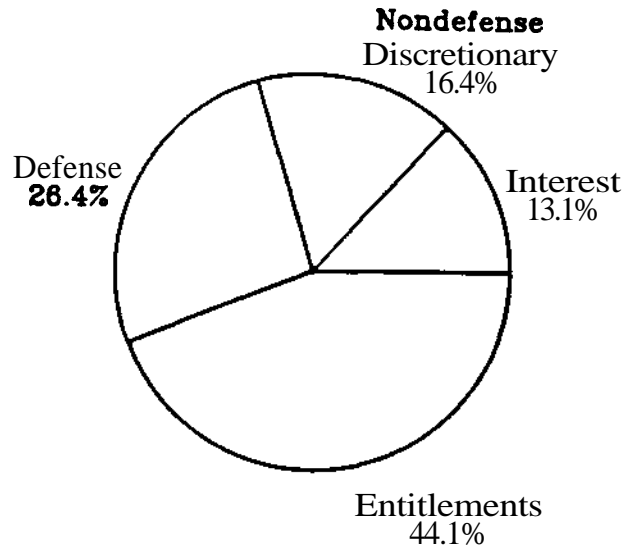
This statement addresses three topics:

- o The growth in major categories of federal spending over the past quarter century;
- o The growth and changing composition of all entitlement programs; and
- o Patterns of spending for individual entitlement programs.

MAJOR CATEGORIES OF FEDERAL SPENDING

As shown in Figure 1, a large share of federal spending is concentrated in a limited number of areas. Of total 1986 outlays, more than two-fifths was devoted to entitlements and other mandatory spending **programs—that is,** programs that provide benefits to all people or jurisdictions who are eligible to receive aid and who choose to participate. More than one-fourth was devoted to national defense. All the remaining functions of government together (other than interest payments) accounted for one-sixth of total spending. Outlays for these purposes are referred to in this statement as

Figure 1.
Outlays for Major Spending Categories
as Percentages of Gross Outlays, 1986



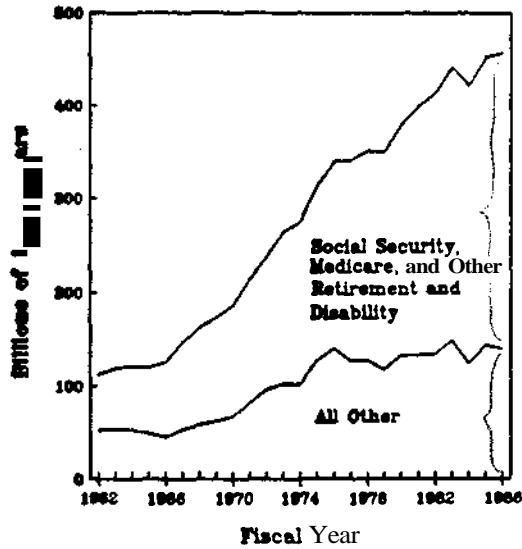
SOURCE: Congressional Budget Office calculations.

nondefense discretionary spending. Tax **expenditures**—that is, provisions of the federal income tax law that lower revenues by allowing preferential treatment, such as the deductibility of home mortgage **interest**—are not included in this statement.

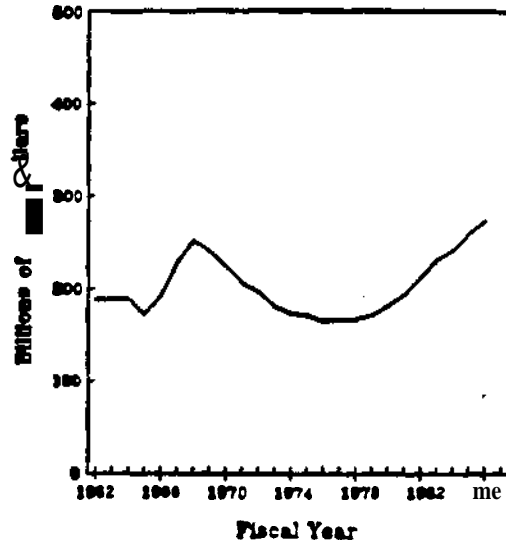
As illustrated in Figure 2, federal outlays in real **terms**—that is, adjusted for inflation, as measured by the GNP **deflator**—have increased for each of the four major categories of federal spending over the past 25 years, but at different rates. The composition of spending has varied considerably,

Figure 2. Outlays by Spending Category, in Constant 1986 Dollars, 1962-1986

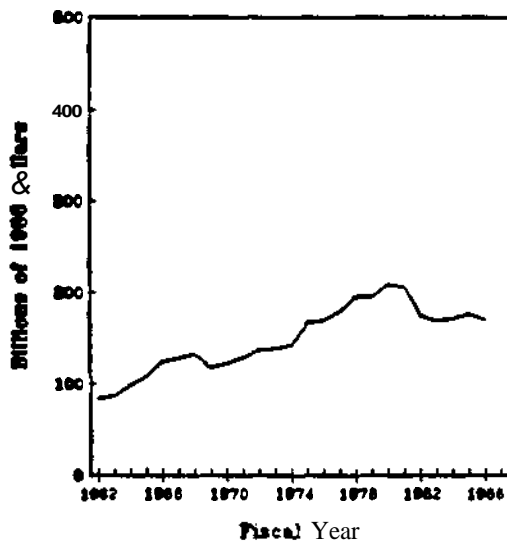
Entitlements and Other Mandatory Spending



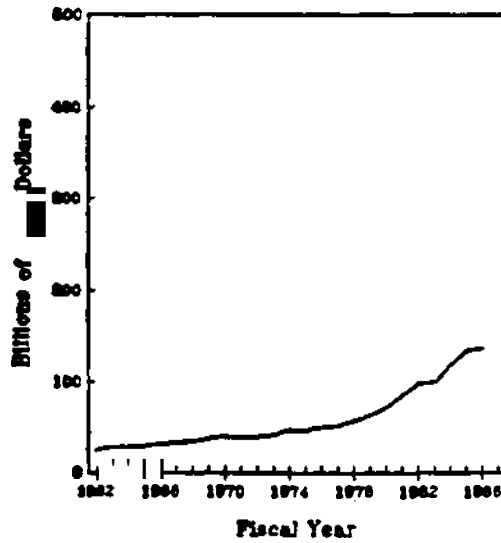
National Defense



Nondefense Discretionary



Net Interest



SOURCE: Congressional Budget Office calculations.

NOTE: Outlays were converted to 1986 dollars using the aggregate implicit price deflator for the gross national product.

however, in response to the **country's** changing priorities for defense, social welfare, foreign aid, space exploration, and so forth. This evolution has not been smooth over time; it has reflected the demands of war and changing conceptions of the role of government.

Entitlement Programs

Entitlements and other mandatory spending represent the largest single category of federal spending and account for the majority of the growth in total federal expenditures since 1962. As shown in Figure 2, the federal government spent about \$460 billion for them in **1986**~~—~~**an** amount that was four times larger in real terms than in 1962. Among the major spending categories, only net interest grew at a more rapid rate, and that was from a much smaller base.

The bulk of federal spending for entitlement programs, as well as most of the growth in outlays, is for Social Security, Medicare, and retirement and disability programs for federal civilian and military employees. As discussed in more detail later, these three sets of programs account for 70 percent of federal outlays for entitlement programs. About half of the remaining 30 percent is for other non-means-tested programs, such as agricultural price supports and unemployment insurance, and the rest is for means-tested programs, such as Medicaid and Food Stamps.

National Defense

National defense programs include the military activities of the Department of Defense and related functions, such as procuring nuclear warheads, maintaining defense stockpiles, and administering the Selective Service.

In 1986, the federal government spent about \$275 billion for these programs, about 45 percent more than the amount spent in 1962 (after adjusting for inflation). Outlays for national defense during the past quarter century were subject to much wider swings than were the other major categories of federal spending. Expenditures rose sharply during the Vietnam War—by almost one-third between 1962 and 1968—and then declined for most of the next decade. Between 1978 and 1986, real outlays for defense rose by 65 percent.

Nondefense Discretionary Programs

Nondefense discretionary spending covers all nondefense programs for which spending is determined by annual appropriations or by loan or obligation limits imposed in appropriation acts. It includes portions of all budget functions except national defense and net interest. A large part of this category represents the salary and expense accounts that finance the ongoing operations of the civilian agencies of government. It also covers about half of the grants to state and local governments, including those for subsidized housing, highways and mass transit, elementary and secondary education,

employment and training assistance, and low-income home energy assistance.

Spending for nondefense discretionary programs doubled during the 25-year period, rising throughout the 1960s and 1970s and then falling during the current decade. Between 1962 and 1980, outlays (in 1986 dollars) surged from about \$85 billion to \$205 billion. Spending was sharply curtailed in 1982 and 1983, falling about 18 percent. Since then, it has remained roughly constant in real terms, at, for example, \$170 billion in 1986.

Net Interest

Net interest primarily reflects the cost of servicing the government's large and growing debt, with a small offset from interest income the government earns on assets such as loans made to the public, cash balances, and so forth. Thus, trends in net interest outlays follow the growth in the federal debt and changes in the effective interest rate on this debt.

Spending on net interest mushroomed in real terms from \$25 billion in 1962 to \$135 billion in 1986. The federal **government's** real annual net interest cost doubled between 1962 and 1976 and then almost tripled (from the higher base) during the next 10 years.

Federal Spending as a Percent of GNP

During this quarter century, as the gross national product (GNP) doubled in real terms, spending by the federal government grew from about one-fifth to one-fourth of GNP. Expressing federal outlays as a percentage of GNP is a convenient way of depicting whether, over time, society is allocating a higher or lower proportion of its total resources to specific activities of the federal government. As shown in Figure 3, federal spending for entitlement programs and for net interest accounted for larger percentages of GNP in 1986 than in 1962; outlays for defense, as a percentage of GNP, were smaller; and the percentage of GNP expended on nondefense discretionary programs was essentially unchanged.

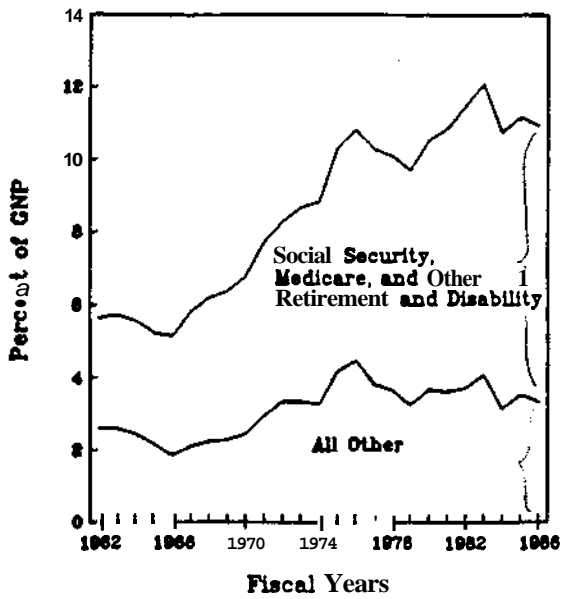
OUTLAYS FOR ENTITLEMENTS AND OTHER MANDATORY SPENDING

The top half of Figure 4 shows that almost all federal outlays for entitlements in 1986 were for non-means-tested **programs—that** is, programs for which eligibility is not determined on the basis of income. Social Security, Medicare, and retirement and disability programs for federal workers made up 70 percent of the total, with other non-means-tested programs accounting for another 15 percent. The remaining 15 percent was for means-tested programs.

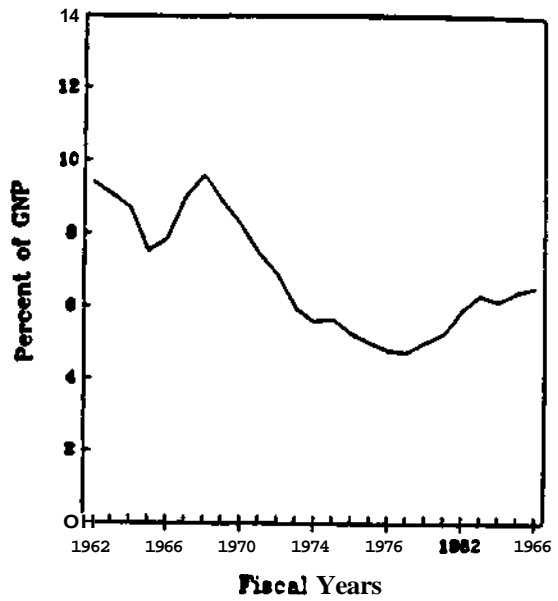
From 1962 through the mid-1970s, outlays for entitlements grew rapidly as a result of the creation of new entitlement programs and major

Figure 3. Outlays by Spending Category as Percentages of GNP, 1962-1986

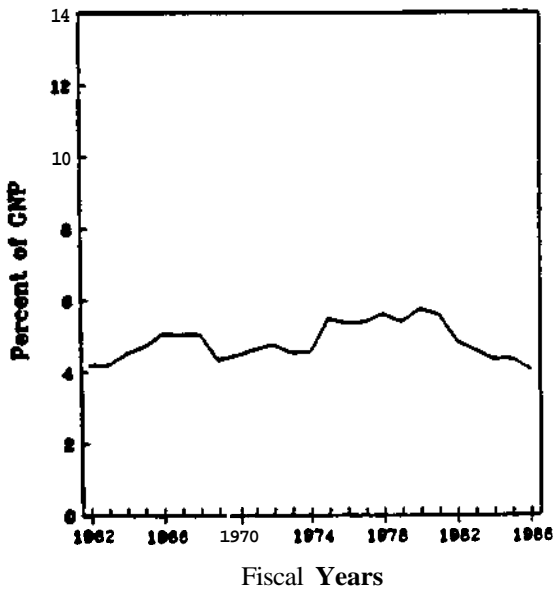
Entitlements and Other Mandatory Spending



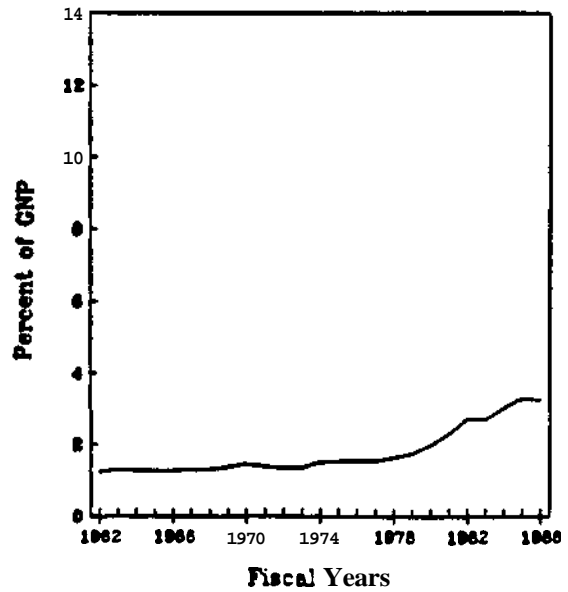
National Defense



Nondefense Discretionary

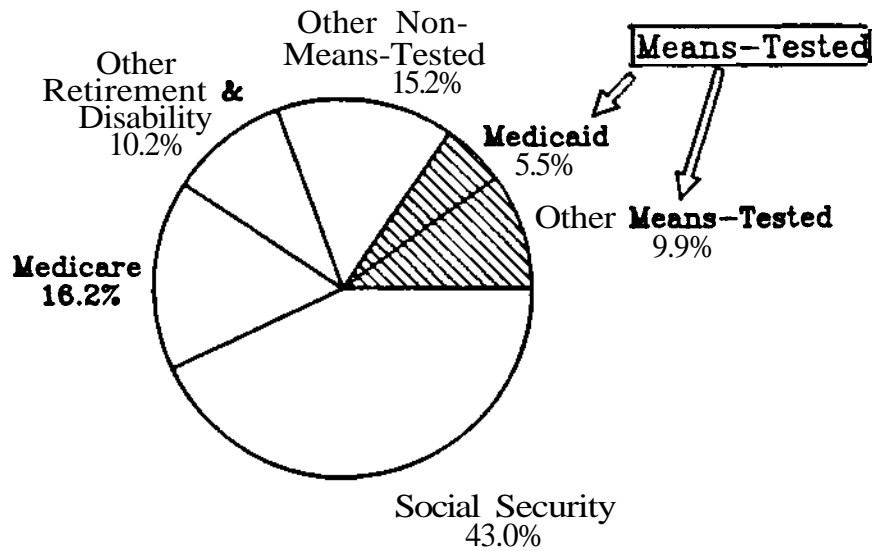


Net Interest

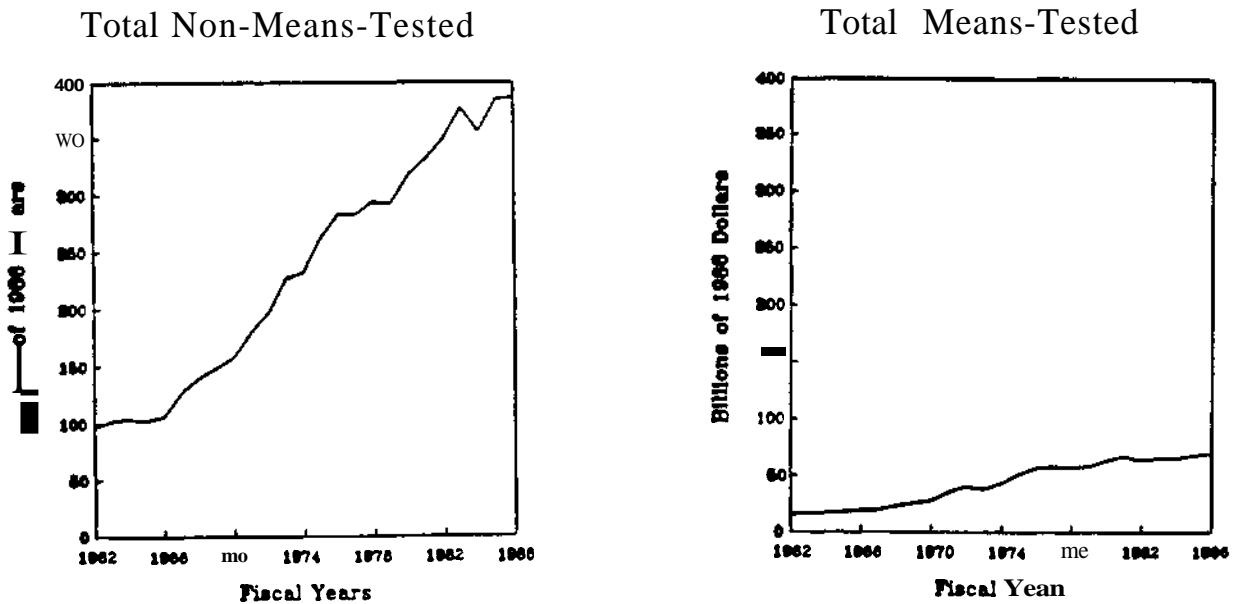


SOURCE: Congressional Budget Office calculations.

Figure 4.
Composition of Outlays for Entitlements
and Other Mandatory Spending, 1986



Outlays for Non-Means-Tested
and Means-Tested Entitlements,
in Constant 1986 Dollars, 1962-1986



SOURCE: Congressional Budget Office calculations.

NOTE: Outlays were converted to 1986 dollars using the aggregate implicit price deflator for the gross national product.

expansions in eligibility and benefits in both new and existing programs (see Figure 2). After accounting for inflation, spending for this category tripled between 1962 and 1976, rising from \$112 billion to \$340 billion (in 1986 dollars).

Although growth in entitlement spending slowed after the mid-1970s, outlays continued to increase in real ~~terms~~**rising** from \$340 billion in 1976 to \$457 billion in 1986. Since 1981, legislative actions to slow this growth have been substantial, but because of factors such as phase-in periods, the effects of these changes only started to become apparent a few years later.

The bottom half of Figure 4 shows outlays for non-means-tested and means-tested entitlements separately. Because the non-means-tested programs started from a base that was about six times the size of the means-tested ones, the growth in total spending on entitlements was dominated by the expenditures on the former. Both non-means-tested and means-tested entitlement programs, however, have grown about fourfold since 1962.

The two major health entitlement programs, Medicare and Medicaid, cost the federal government \$100 billion in 1986, which represented 22 percent of all federal outlays for entitlement programs. Moreover, they have grown considerably faster than other entitlements, accounting for about 30 percent of the entire growth in real spending for this category during the two decades since they began.

Non-Means-Tested
Entitlement Programs

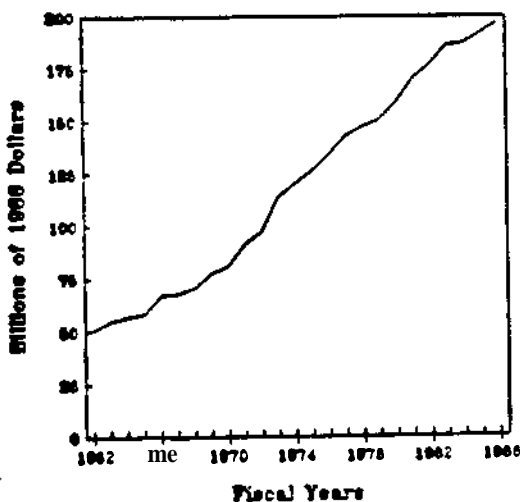
As shown in Figure 5, a fourfold increase in outlays for Social Security between 1962 and 1986 was the largest single component of the expansion in expenditures for non-means-tested programs. The start-up and growth of Medicare and the continued growth in federal employee retirement and disability programs were also major components.

Social Security. Between 1962 and 1986, real outlays for Social Security (the Old Age and Survivors and the Disability Insurance programs combined) grew from about \$50 billion to nearly \$200 billion, as both the number of beneficiaries and their average monthly benefits each increased. Average benefits rose in real terms because of legislative actions and because of growth in the earnings of beneficiaries during their working years, on which their benefits are based.

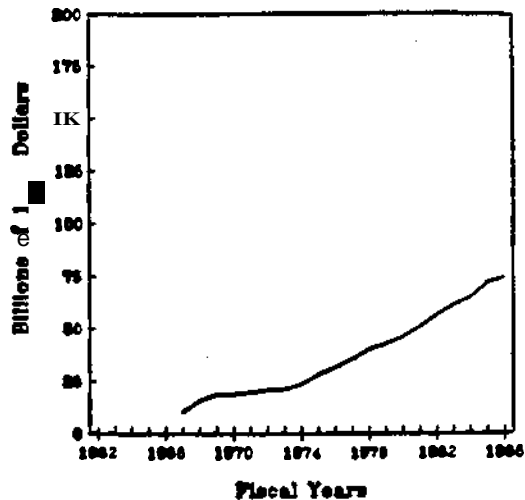
Medicare. Outlays for Medicare (Hospital Insurance and Supplementary Medical Insurance) have risen rapidly since the program began in 1967. Federal expenditures (adjusted for inflation) increased from \$10 billion in its first year to nearly \$75 billion in 1986. The sources of this growth include price increases in excess of general inflation, more use of medical care services, and a larger number of beneficiaries.

Figure 5. Outlays for Non-Means-Tested Entitlements by Category, in Constant 1986 Dollars, 1962-1986

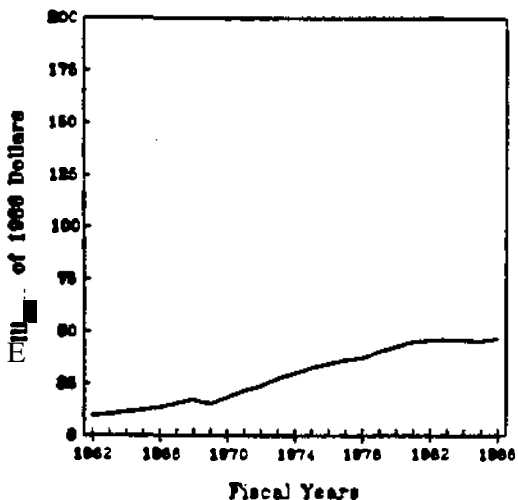
Social Security



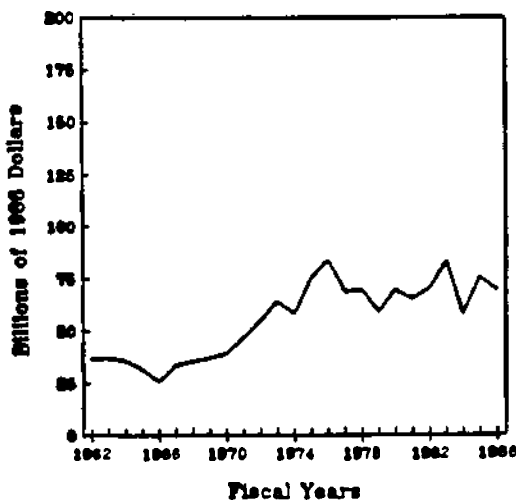
Medicare



Other Retirement & Disability



Other Non-Means-Tested



SOURCE: Congressional Budget Office calculations.

NOTES: Outlays were converted to 1986 dollars using the aggregate implicit price deflator for the gross national product.

Figures reflect the way that federal spending is currently categorized, with historical data made as consistent as possible. Because of differences in factors such as the treatment of administrative costs and accounting procedures, however, these estimates may not match other historical data.

Retirement and Disability Programs for Federal Workers. During this period, outlays for retired and disabled civil service employees and retired military personnel increased almost fivefold in real **terms**--from about \$10 billion to nearly \$50 billion. As with Social Security, this growth in real spending reflected increases in the number of beneficiaries (many of whom began their careers during the federal employment boom years of World War II and became eligible for retirement in the 1970s and 1980s) and in the amounts they received.

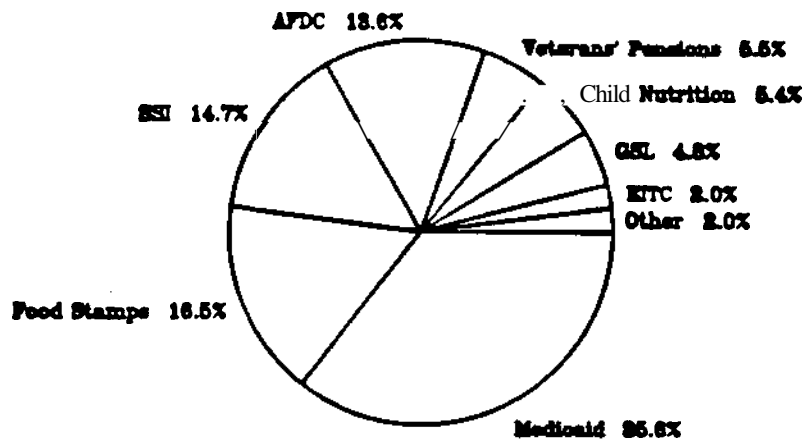
Other Non-Means-Tested Programs. This category includes programs such as agricultural price supports, unemployment insurance, **veterans'** compensation, and general revenue sharing that are not means-tested. Total real outlays for this set of programs grew until the mid-1970s and have remained around \$60 billion to \$80 billion since then.

Means-Tested Entitlement Programs

Means-tested entitlement programs cost \$70 billion in **1986**--**accounting** for the remaining 15 percent of federal outlays for entitlement programs. As shown in Figure 6, the major programs in this category in 1986 were as follows:

- o Medicaid;
- o Food Stamps;
- o Supplemental Security Income (SSI);
- o Aid to Families with Dependent Children (AFDC);

Figure 6.
Outlays for Means-Tested Entitlements,
1986



SOURCE: Congressional Budget Office calculations.

- o Veterans' Pensions;
- o Child Nutrition;
- o Guaranteed Student Loans (GSLs); and
- o Earned Income Tax Credit (EITC).

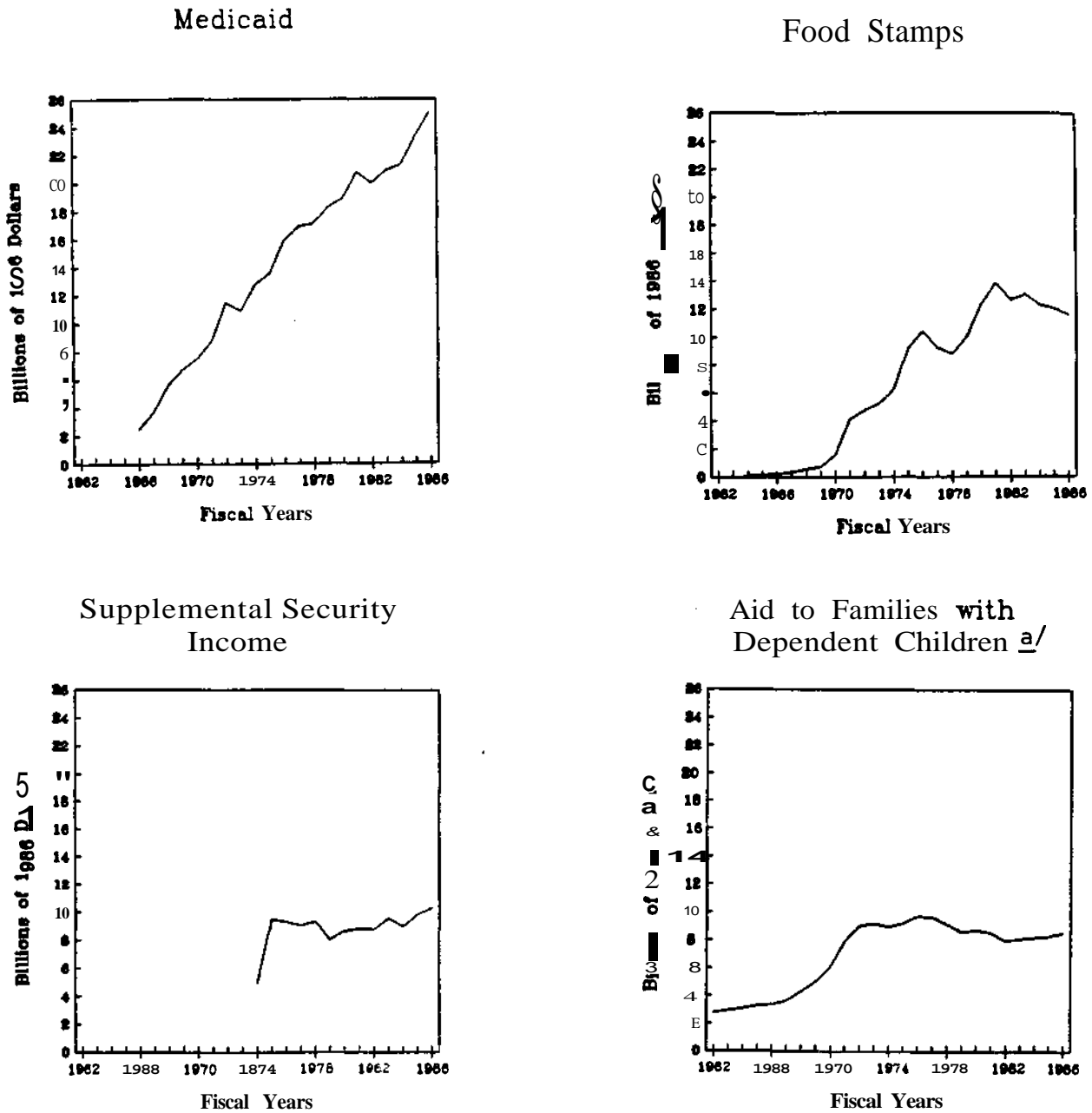
Together, these eight programs accounted for about 98 percent of total federal outlays for means-tested entitlement programs in 1986, but only about 7 percent of all federal spending.

The remainder of this section concentrates on Figure 7, which shows the growth in real outlays for these programs over the past quarter century.

Medicaid. In 1986, the federal government spent \$25 billion for ~~Medicaid~~—over one-third of total federal outlays on means-tested entitlement programs in that year. Under the Medicaid program, the federal government shares with the states the cost of financing health care for recipients of AFDC and SSI, ~~and—at state option—for~~ certain other low-income people classified as medically needy. Federal outlays for Medicaid increased by more than general inflation in every year but two (1973 and 1982) after participation in the program began in 1966. The causes of this growth are similar to those for Medicare.

Food Stamps. The federal government spent about \$12 billion in 1986 on the Food Stamp program. With few exceptions, any household that meets income and asset limitations, as well as work requirements, qualifies for benefits. The program was established by the Food Stamp Act of 1964 and, after a series of legislative and administrative changes, was nationally available by 1975. Program outlays grew sharply in real terms between 1975 and 1981, as both the number of recipients and their average monthly benefits increased. Since then, outlays have fallen by about 15 percent, as

Figure 7. Outlays for Means-Tested Entitlements by Category, in Constant 1986 Dollars, 1962-1986

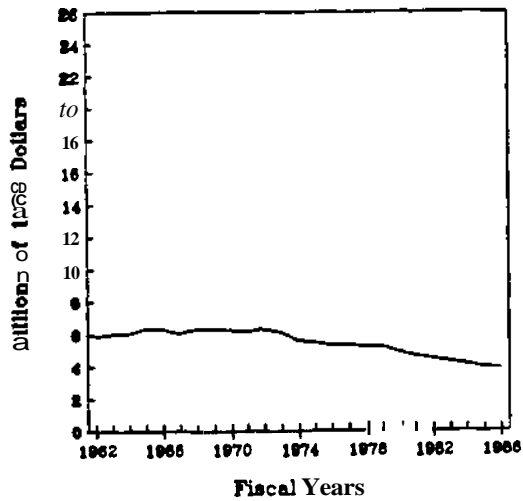


(continued)

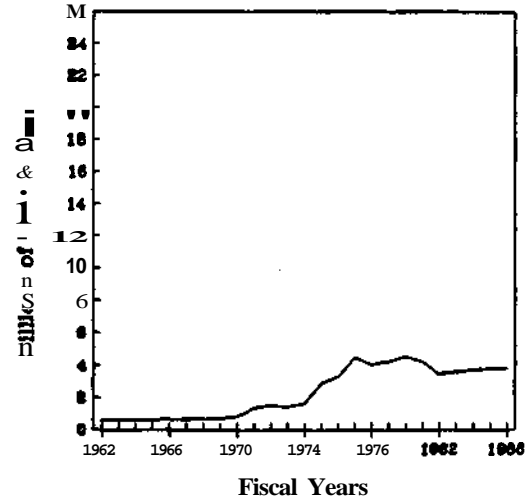
a. Outlays for AFDC exclude administrative costs that were included in Figure 6.

Figure 7. Outlays for Means-Tested Entitlements (continued)

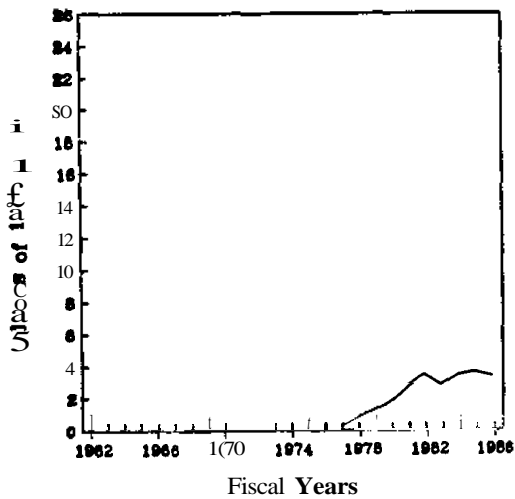
Veterans' Pensions



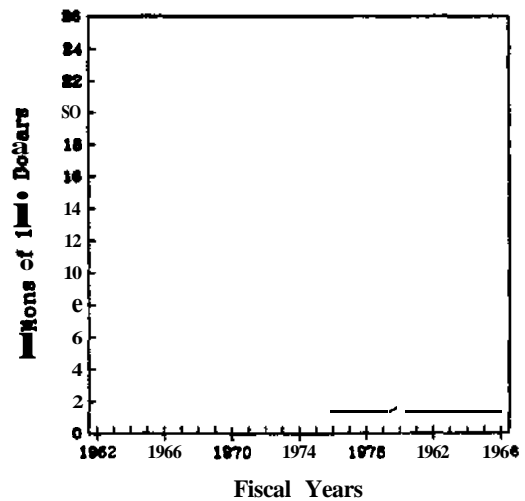
Child Nutrition



Guaranteed Student Loans



Earned Income Tax Credit ^{b/}



SOURCE: Congressional Budget Office calculations.

NOTES: Outlays were converted to 1986 dollars using the aggregate implicit price deflator for the gross national product.

Figures reflect the way that federal spending is currently categorized, with historical data made as consistent as possible. Because of differences in factors such as the treatment of administrative costs and accounting procedures, however, these estimates may not match other historical data.

b. Excludes tax expenditures, which were about 50 percent of outlays.

changes in legislation reduced the **growth** in benefit amounts and restricted eligibility; from 1981 to 1986, both average monthly participation and average monthly benefits decreased.

Supplemental Security Income. In 1986, the federal government spent about \$10 billion for the SSI program, which provides indexed cash payments to needy aged, blind, and disabled people. Begun in 1974, this program replaced the federal grants to states for old-age assistance, aid to the blind, and aid to the permanently disabled. From 1975 to 1986, annual outlays remained between \$9 billion and \$10 billion in 1986 dollars, as the number of aged recipients sharply declined (from about 2.3 million in 1975 to 1.5 million in 1986), while the number of blind or disabled recipients rose by about the same number (from 2.0 million to 2.8 million).

Aid to Families with Dependent Children. The federal government spent about \$8.5 billion in 1986 for its share of AFDC benefits. AFDC provides matching grants to states to help them fund financial assistance to needy children in families in which a parent has died, is absent from the home, or is incapacitated, or (at state option) in which the principal earner is unemployed. Real outlays for benefits in 1976 were more than three times higher than they were in 1962, as the number of AFDC recipients and the average benefits per recipient both increased. The majority of this growth occurred between 1967 and 1972, when the number of recipients doubled.

From 1976 to 1986, real outlays first fell and then increased; the net decline during this decade reflects nominal benefit levels that did not keep up with inflation, as well as fewer recipients.

Veterans' Pensions. In 1986, the federal government spent about \$4 billion for veterans' **pensions—means-tested** cash payments to war veterans who are elderly or totally disabled from non-service-connected causes, and to survivors of veterans. Although benefits per recipient are indexed, a drop in the number of beneficiaries has led to declining real outlays over the 25-year period.

Child Nutrition. The federal government spent about \$4 billion for child nutrition programs in 1986. Most of the **outlays** were for the school lunch program, which provides financial assistance to participating schools that serve lunches to children. The program has a reimbursement system that allows children from households with incomes of no more than 130 percent of the poverty threshold to receive free meals and allows children from households with incomes between 130 percent and 185 percent of poverty to receive partially subsidized meals. In real terms, outlays rose rapidly during the 1970s, as legislation increased reimbursement rates and expanded the availability of the lunch program to more schools and to more students. Legislative changes in 1980 and 1981 reduced reimbursement rates and limited the frequency of adjustments in them for inflation.

Guaranteed Student Loans. In 1986, the federal government spent about \$3.4 billion on Guaranteed Student Loans. Under this program, the federal government guarantees loans to postsecondary students, pays the interest while the borrowers are enrolled in school, and subsidizes borrowers' interest rates thereafter. High interest rates and legislative changes led to rapid growth in real outlays during the late-1970s and early-1980s. The Congress then reduced costs by limiting eligibility and raising fees paid by borrowers. Since 1983, further legislative changes and lower interest rates have kept outlays fairly stable at about \$3 billion per year.

Earned Income Tax Credit. Assistance is provided to working-poor families with children through the Earned Income Tax Credit (EITC). The EITC reduces income tax bills for those who would otherwise owe taxes. When the credit exceeds the tax liability, the taxpayer receives a payment for the difference. In 1986, \$1.4 billion in such payments was made to families under the EITC program--about the same as the outlays in 1976, the first year in which payments were made. In addition, about \$700 million was provided to families in the form of reduced taxes. These tax expenditures are not counted as outlays (and are not included in Figure 7) but do expand the after-tax incomes of these families.

OTHER PROGRAMS

At the request of the Task Force, we also examined outlays for housing assistance and the Special Supplemental Food Program for Women, Infants,

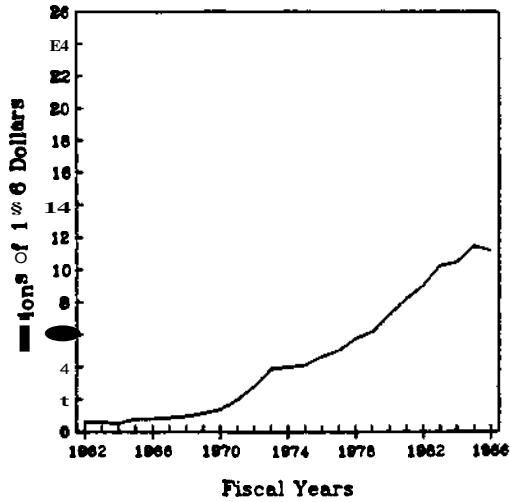
and Children (WIC). Figure 8 shows outlays for these activities, expressed in 1986 dollars.

The federal government spent over \$11 billion in 1986 for programs administered by the Department of Housing and Urban Development to subsidize the shelter costs of some lower-income households, primarily through rental assistance programs such as the Section 8 rental assistance program (authorized in 1974) and the public housing program (authorized in 1937). These programs generally limit **participants'** housing expenditures to no more than 30 percent of their incomes. Unlike entitlement programs, this assistance is not available for every household that meets the programs' eligibility conditions. Rising real outlays for housing assistance between 1962 and 1986 increased the proportion of the eligible population served, however, to about one-third. In contrast, reductions in appropriations of budget authority in recent years are likely to restrain the future growth in the number of households assisted.

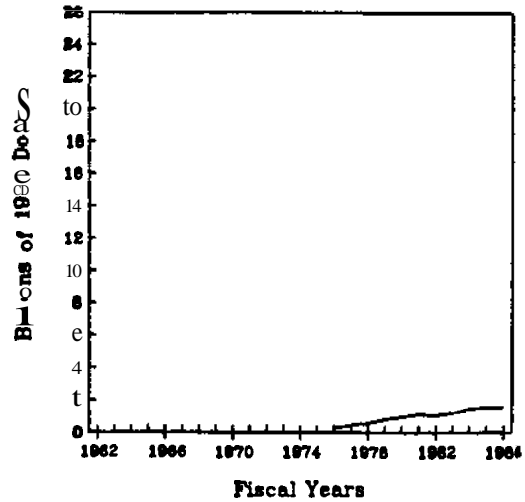
The WIC program provides nutritional supplements to low-income infants, children, and pregnant women who are at nutritional risk. Real outlays increased from about \$300 million in WIC's first year (1976) to about \$1.6 billion in 1986, thereby enabling a higher number of the eligible population to be served.

Figure 8. Outlays for Housing Assistance Payments and WIC, in Constant 1986 Dollars, 1962-1986

Housing Assistance Payments



WIC



SOURCE: Congressional Budget Office calculations.

NOTES: Outlays were converted to 1986 dollars using the aggregate implicit price deflator for the gross national product.

Figures reflect the way that federal spending is currently categorized, with historical data made as consistent as possible. Because of differences in factors such as the treatment of administrative costs and accounting procedures, however, these estimates may not match other historical data.