

14. REVIEW OF DIRECT SPENDING AND RECEIPTS

Introduction

The Budget Enforcement Act of 1990 established caps to control discretionary spending and a pay-as-you-go requirement to control legislative changes to mandatory programs and revenues. It did not, however, control the growth of mandatory spending resulting from economic and technical factors. In August 1993, the President established procedures to control this growth in mandatory spending by issuing Executive Order 12857. The Order set targets on the level of mandatory spending, excluding deposit insurance and net interest, for 1994 through 1997. The Order also specified actions to be taken if the targets had been exceeded. These actions could have included specific revenue or direct spending changes or reductions in the discretionary caps. If the targets were exceeded, the savings to remove the excess in the prior, current, and/or budget years were required over a six-year period covering the current year through four years beyond the budget year. The President also had the option of recommending breaching the targets because of economic conditions or other specific reasons. This chapter presents the final annual review of direct spending and receipts. The Administration is proposing to control both discretionary and mandatory spending through a joint budget resolution (see Chapter 13, "Preview Report" in this volume).

OMB issued an initial report to the Congress in September 1993 setting the mandatory targets for 1994

through 1997. The initial targets were based on the economic and technical assumptions used in preparing the congressional budget resolution for 1994. They were consistent with the policies in the resolution as adjusted by final Congressional action on the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993). The targets were revised in the 1995, 1996, and 1997 Budgets. Under the Order, no further adjustments are required.

Comparison of Mandatory Targets and Outlays under Current Law

Table 14-1 shows the major changes from the 1997 Budget in estimated outlays for mandatory programs in existing law that are covered by the target. Over the two year period, current law estimates have declined by \$37.8 billion. Most of this difference is the result of reestimates for Medicaid, Medicare and credit liquidating accounts. In addition, outlays decreased for a redefinition of the budgetary component of the Universal Service Fund and changed for timing shifts in spectrum auction receipts. Table 14-2 shows the beneficiary assumptions of major benefit programs.

As Table 14-1 shows, estimates of spending for programs covered by the targets were \$46.7 billion below in 1996 and are projected to be \$63.3 billion below the target in 1997. Since current law spending is projected to be below the targets, a special message to reduce direct spending is not required.

Table 14-1. MANDATORY TARGETS AND SUMMARY OF CHANGES TO CURRENT LAW OUTLAYS

(In billions of dollars)

	1996	1997	1996-97
Mandatory targets as of March 1996	840.0	908.5	
Changes to outlays under current laws			
Outlays under current laws as of March 1996	808.6	867.7	
Changes since March 1996:			
Medicaid	-2.9	-3.8	-6.7
Universal service fund	-3.3	-3.3	-6.6
Credit liquidating accounts	-4.1	-2.3	-6.3
Medicare	-3.4	-1.6	-5.0
Spectrum auctions	3.9	-6.4	-2.5
Other	-5.5	-5.2	-10.7
Total adjustments	-15.3	-22.5	-37.8
Outlays under current laws as of February 1997	793.3	845.2	
Amount over (+) or under (-) the current target	-46.7	-63.3	-110.0
Memorandum:			
Initial mandatory targets (Executive Order 12857)	823.7	887.7	

Table 14-2. BENEFICIARIES ESTIMATES FOR MAJOR BENEFIT PROGRAMS

(Annual average, in thousands)

	1996	1997	1998	1999	2000	2001	2002
Family education loans	3,221	3,080	2,928	2,681	2,610	2,710	2,812
Direct education loans	1,731	2,194	2,644	3,140	3,447	3,574	3,702
Foster care and adoption assistance	390	417	445	475	508	540	572
Medicaid ¹	34,152	34,495	34,996	35,547	36,100	36,633	37,207
Medicare:							
Hospital insurance	37,675	38,117	38,561	39,025	39,523	40,022	40,531
Supplementary medical insurance	35,978	36,481	36,906	37,327	37,751	38,181	38,601
Railroad retirement	775	754	731	708	685	663	641
Federal civil service retirement	2,322	2,350	2,380	2,407	2,429	2,446	2,468
Military retirement	1,836	1,864	1,891	1,916	1,934	1,949	1,961
Unemployment insurance	8,270	8,350	8,820	9,300	9,430	9,510	9,510
Food stamps	25,633	24,303	23,377	23,511	23,526	23,525	23,527
Child nutrition	28,199	28,646	29,059	29,484	29,902	30,808	30,700
Supplemental security income (SSI):							
Aged	1,318	1,263	1,019	994	972	952	934
Blind/Disabled	5,000	5,004	4,807	4,846	4,916	4,968	5,022
Subtotal, SSI	6,318	6,267	5,826	5,840	5,888	5,920	5,956
Temporary assistance for needy families ²	4,389	*	*	*	*	*	*
Child Care Entitlement to States	NA	393	407	409	436	462	477
Earned income tax credit	14,528	14,777	15,012	15,299	15,483	15,692	15,898
Social Security (OASDI):							
Old age and survivors insurance	37,504	37,821	38,129	38,435	38,766	39,128	39,527
Disability insurance	5,910	6,160	6,432	6,714	6,994	7,270	7,541
Veterans compensation	2,549	2,571	2,589	2,606	2,619	2,632	2,645
Veterans pensions	765	738	714	694	677	663	650

NA = Not Applicable.

¹ Average number of enrollees during the year.² TANF replaced AFDC with a block grant giving States broad flexibility to design and run welfare programs. HHS has little information on which to base future estimates of beneficiaries. The 1996 figure represents the AFDC caseload at the end of 1996.**Growth in Mandatory Programs**

Table 14-3 shows outlays for mandatory and related programs for the years 1996 through 2002. Under current law, spending on mandatory programs including net interest is projected to be \$1,140.0 billion in 1998, \$59.3 billion more than the 1997 estimate of \$1,080.7 billion. By 2002, spending for mandatory programs including net interest is projected to reach \$1,384.9 billion.

Spending on programs covered by the mandatory targets is projected to grow from \$845.2 billion in 1997 to \$1,139.2 billion in 2002, an annual average rate of 6.2 percent. In percentage terms, the areas of largest growth are the health entitlements. More than half of the growth is in Medicaid and Medicare. For additional information on the trends in mandatory spending, see Chapter 16 "Current Services Estimates" in this volume.

Table 14-3. OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW

(In billions of dollars)

	1996 actual	Estimate						Total 1997-2002
		1997	1998	1999	2000	2001	2002	
Human resources programs:								
Education, training, employment, and social services:								
Family education loans	3.0	0.3	2.4	2.2	2.1	2.2	2.3	11.5
Direct loans	0.6	0.4	1.1	1.4	1.3	1.2	1.3	6.7
Social services	8.7	9.4	9.5	9.9	10.3	10.6	11.1	60.9
Other	1.6	0.4	-0.3	-0.5	-0.5	-0.5	-0.5	-2.0
Subtotal, education, training, employment, and social services	13.9	10.5	12.7	13.0	13.3	13.5	14.1	77.1
Health:								
Medicaid	92.0	98.5	104.5	111.2	119.6	129.1	139.2	702.0
FEHB and other	4.8	5.0	5.1	5.1	5.2	5.5	5.9	31.9
Subtotal, health	96.8	103.5	109.6	116.3	124.8	134.6	145.1	734.0
Medicare:								
Hospital insurance	126.5	136.3	147.5	159.5	172.0	185.6	199.6	1000.5
Supplementary medical insurance	67.2	74.9	82.5	91.1	100.0	109.7	120.6	578.9
Medicare premiums and collections	-22.4	-19.7	-21.3	-22.4	-23.3	-24.2	-25.2	-136.1
Subtotal, medicare	171.3	191.6	208.6	228.2	248.8	271.1	295.1	1,443.3

Table 14-3. OUTLAYS FOR MANDATORY AND RELATED PROGRAMS UNDER CURRENT LAW—Continued

(In billions of dollars)

	1996 actual	Estimate						Total 1997-2002
		1997	1998	1999	2000	2001	2002	
Income security:								
General retirement and disability:								
Railroad retirement	4.4	4.2	4.2	4.2	4.4	4.5	4.5	26.1
Other	0.5	.....	.....	-0.1	0.1	0.1	.....	0.2
Subtotal, general retirement and disability	4.8	4.2	4.2	4.2	4.5	4.7	4.5	26.3
Federal employee retirement and disability:								
Civilian employees retirement	40.1	41.9	43.9	46.0	48.0	50.0	52.3	282.1
Military retirement	28.8	30.1	31.3	32.4	33.5	34.5	35.5	197.3
Other	-1.0	-0.9	-1.1	-0.9	-0.8	-0.8	-0.7	-5.4
Subtotal, Federal employees retirement and disability	68.0	71.1	74.1	77.4	80.6	83.7	87.1	474.0
Unemployment compensation	22.6	22.8	24.7	26.1	27.4	28.5	29.6	159.0
Food and nutrition assistance:								
Food stamps (incl. Puerto Rico)	25.4	24.5	25.0	26.1	27.0	27.9	28.8	159.4
State child nutrition programs	7.9	8.3	8.5	8.9	9.3	9.8	10.3	54.9
Other	0.4	0.5	0.4	0.4	0.4	0.4	0.4	2.6
Subtotal, food and nutrition assistance	33.7	33.2	33.9	35.4	36.7	38.1	39.5	216.9
Other income security:								
Supplemental security income	24.1	26.6	25.5	26.8	29.7	26.5	29.7	164.7
AFDC and temporary assistance for needy families	16.7	18.8	19.7	20.2	20.1	20.1	20.1	119.0
Earned income tax credit	19.2	21.2	22.0	22.9	23.8	24.6	25.5	140.0
Other	-1.1	-0.4	-0.3	-0.4	-0.4	-0.3	-0.4	-2.3
Subtotal, other income security	58.9	66.1	66.8	69.5	73.2	70.9	75.0	421.5
Subtotal, income security	188.0	197.4	203.8	212.6	222.5	225.9	235.6	1,297.7
Social Security	347.1	364.2	380.9	398.6	417.7	438.0	459.7	2,459.2
Veterans' benefits and services:								
Compensation ¹	14.2	16.2	16.7	17.3	19.1	17.0	18.8	105.1
Pensions	2.8	3.1	3.2	3.7	4.0	3.5	3.9	21.4
Other	1.8	1.3	2.1	2.6	2.5	2.5	2.5	13.5
Subtotal, veterans benefits and services	18.8	20.6	22.0	23.6	25.6	23.0	25.2	140.0
Subtotal, human resources programs	835.8	887.8	937.7	992.3	1,052.6	1,106.1	1,174.8	6,151.3
Other programs included in the entitlement target:								
Commodity Credit Corporation	4.6	7.8	9.9	9.5	9.0	7.8	7.6	51.6
Undistributed offsetting receipts:								
Employer share, employee retirement	-33.5	-34.4	-35.3	-36.4	-38.1	-39.7	-41.7	-225.5
Rents and royalties on the Outer Continental Shelf	-3.7	-4.2	-4.4	-4.0	-3.9	-4.0	-4.3	-24.8
Spectrum auction	-0.3	-8.0	-9.4	-1.3	-0.3	-0.1	.....	-19.0
Other undistributed offsetting receipts .....	.....	.....	-4.3	.....	.....	.....	.....	-4.3
Subtotal, undistributed offsetting receipts	-37.6	-46.5	-53.3	-41.7	-42.2	-43.8	-46.0	-273.6
Other functions	-9.6	-3.9	-0.4	-1.2	3.7	2.6	2.8	3.7
Subtotal, other programs included in the entitlement target	-42.5	-42.6	-43.8	-33.5	-29.5	-33.4	-35.6	-218.3
Subtotal, mandatory programs included in the entitlement target	793.3	845.2	894.0	958.9	1,023.1	1,072.7	1,139.2	5,933.0
Deposit insurance	-8.4	-12.1	-3.9	-1.9	-1.3	-1.6	-1.5	-22.2
Net interest:								
Interest on the public debt	344.0	356.7	365.2	370.9	371.9	374.1	375.9	2,214.7
Interest received on trust funds	-97.4	-104.0	-108.1	-111.8	-114.4	-116.8	-120.1	-675.0
Other interest	-5.5	-5.2	-7.2	-6.6	-7.3	-8.0	-8.7	-43.0
Subtotal net interest	241.1	247.6	249.9	252.4	250.2	249.4	247.2	1,496.7
Total, outlays for mandatory and related programs	1,026.0	1,080.7	1,140.0	1,209.4	1,272.0	1,320.5	1,384.9	7,407.5

¹ 13 benefit payments are outlayed in 2000. Only 11 benefit payments are outlayed in 1996.

Growth in Receipts

Baseline receipts are projected to be \$1,573.8 billion in 1998, \$70.0 billion more than the 1997 estimate. By 2002, baseline receipts are projected to reach \$1,901.6 billion. For additional information on the trends in baseline receipts, see Chapter 16 "Current Service Estimates" in this volume.

The Order requires a comparison between the current level of receipts and the levels projected as of the date of enactment of OBRA 93 (September 1993 Midsession). As shown in Table 14-4, receipts are higher than the September 1993 Midsession estimates in each year, by amounts ranging from \$46.2 billion to \$61.2 billion. These increases are the net effect of legislative, administrative and regulatory changes; revisions in economic assumptions; and technical estimating revisions. Revised economic assumptions have increased receipts in each year, by amounts ranging from \$29.0 billion to \$38.0 billion. These economic changes are primarily the effect of higher wages and sales and corporate profits, partially offset by the effects of lower interest rates. Technical revisions, primarily reflecting collection experience, updated tabulations from tax returns, and revisions in historical economic data, have increased receipts in each year. Regulatory and legislative changes since September 1993 have also increased receipts in each year.

Table 14-4. COMPARISON OF 1994 MIDSSESSION (CBO UPDATED) AND 1997 BUDGET BASELINE RECEIPTS

(In billions of dollars)

	1996	1997	1998
1994 Midsession baseline estimate	1,402.9	1,457.6	1,512.6
Revised economic assumptions:			
Individual income taxes	10.2	9.2	17.0
Corporation income taxes	19.9	17.4	18.4
Social insurance taxes and contributions	-0.6	3.6	4.9
Excise taxes	1.0	1.1	1.2
Estate and gift taxes	0.2	0.2	0.2
Customs duties	-0.1	0.3	0.7
Federal Reserve deposit of earnings	0.2	-2.8	-4.3
Other miscellaneous receipts			
Subtotal, economic assumptions	30.7	29.0	38.0
Technical revisions:			
Individual income taxes	11.1	6.8	6.9
Corporation income taxes	19.3	22.6	30.2
Social insurance taxes and contributions	-7.7	-7.8	-11.6
Excise taxes	-3.4	-6.4	-6.5
Estate and gift taxes	2.2	1.6	1.8
Customs duties	-2.0	-2.7	-2.4
Federal Reserve deposit of earnings	2.0	6.9	7.4
Other miscellaneous receipts	-3.7	-3.8	-3.6
Subtotal technical revisions	17.6	17.2	22.2
Enacted legislation and Administration action	1.9	0.1	1.0
Total changes	50.2	46.2	61.2
1998 Budget baseline estimate	1,453.1	1,503.8	1,573.8