Federal Spending—By The Numbers

By Brian M. Riedl, The Heritage Foundation

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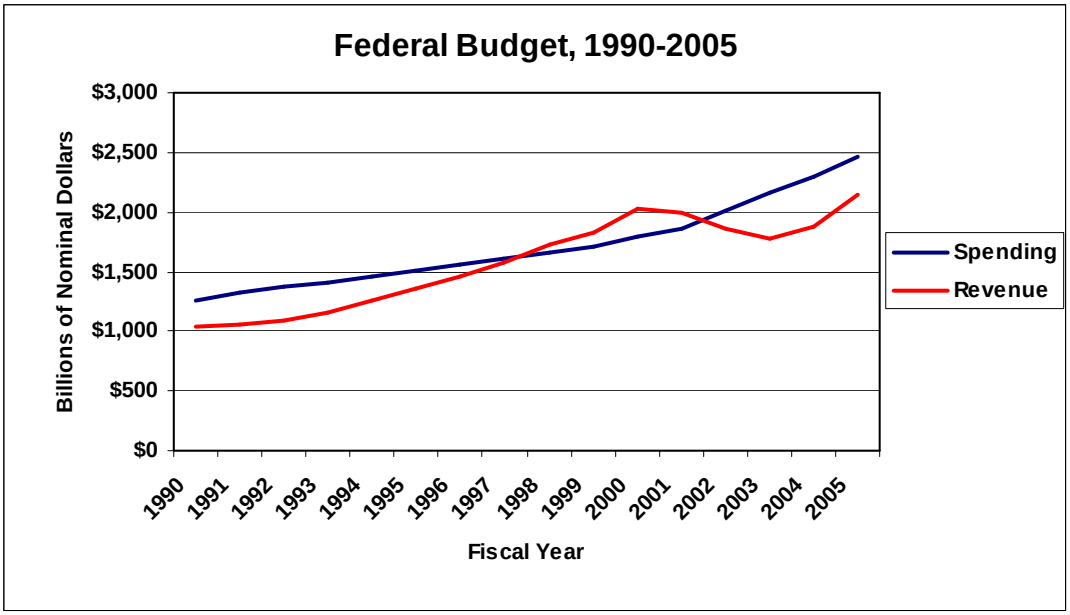
Overall Budget Trends

- In 2005, Washington spent $2,470 billion, raised $2,154 billion, and ran a $317 billion budget deficit.
- Tax revenues strongly correlate with economic growth. With the help of recent tax relief, economic growth pushed 2005 tax revenues up by 15%.
- Spending increased by 8% in 2005 and is up 33% overall since 2001.
- The $317 billion budget deficit represents 2.6% of GDP. More importantly, the public-debt-to-GDP ratio stands at 38%, which is actually below the level at any point in the 1990s.

Federal Budget, 1990-2005
(Nominal $Billions)

Year	Discretionary Spending	Entitlement Spending	Net Interest Spending	TOTAL SPENDING	TOTAL REVENUE	SURPLUS/ DEFICIT
1990	$501	$568	$184	$1,253	$1,032	-$221
1991	533	597	195	1,324	1,055	-269
1992	534	649	199	1,382	1,091	-290
1993	539	671	199	1,410	1,154	-255
1994	541	718	203	1,462	1,259	-203
1995	545	739	232	1,516	1,352	-164
1996	533	787	241	1,561	1,453	-108
1997	547	810	244	1,601	1,579	-22
1998	552	859	241	1,653	1,722	69
1999	572	900	230	1,703	1,827	124
2000	615	951	223	1,789	2,025	236
2001	649	1009	206	1,863	1,991	127
2002	734	1106	171	2,011	1,853	-158
2003	824	1179	153	2,157	1,783	-374
2004	896	1237	160	2,292	1,880	-413
2005	963	1327	180	2,470	2,154	-317

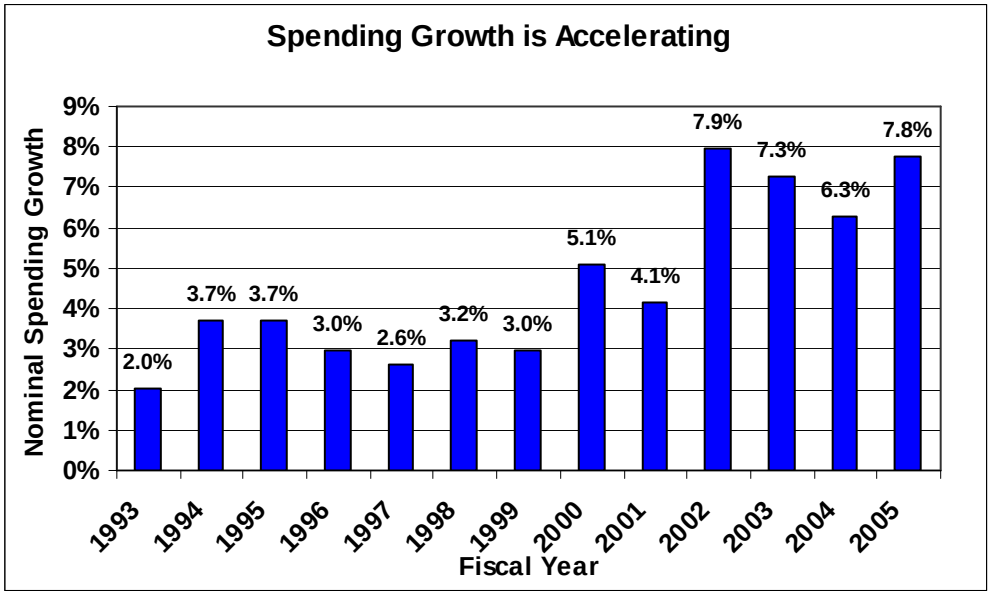
Total spending is the sum of discretionary, entitlement, and net interest spending. Spending breakdowns for 2005 are preliminary estimates.



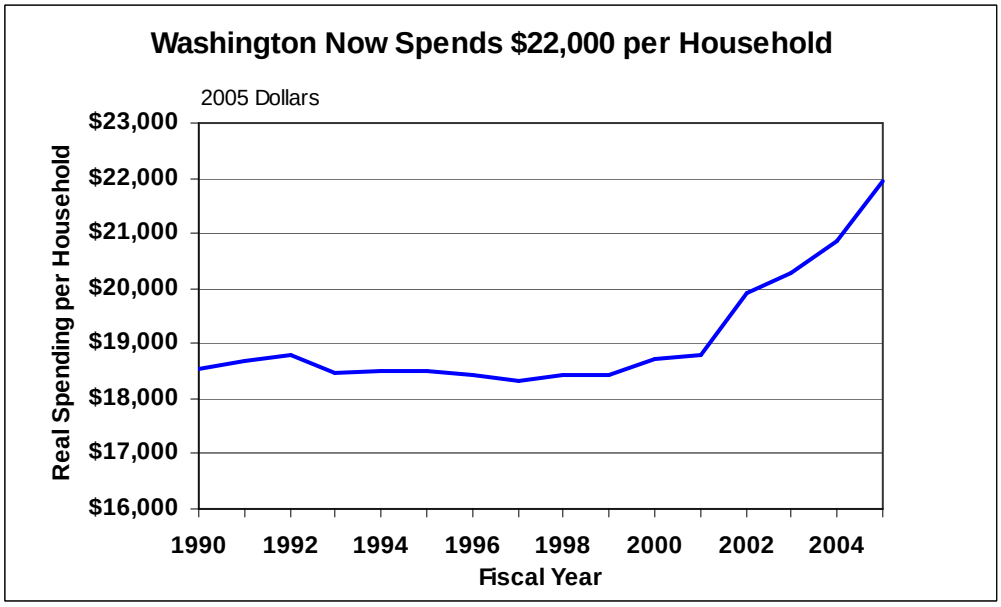
Source: Both the table and chart are based on Office of Management and Budget (OMB) data.

Overall Spending

- Federal spending has grown twice as fast under President Bush as under President Clinton.
- Federal spending has increased by 33% since 2001, from $1,863 billion to $2,470 billion.
- In 2005, inflation-adjusted federal spending neared $22,000 per household, the highest level since World War II.
- For 2005, the federal government spent $21,956 per household, overall, taxed $19,147 per household, and ran a budget deficit of $2,809 per household.



Source: Office of Management and Budget (OMB).



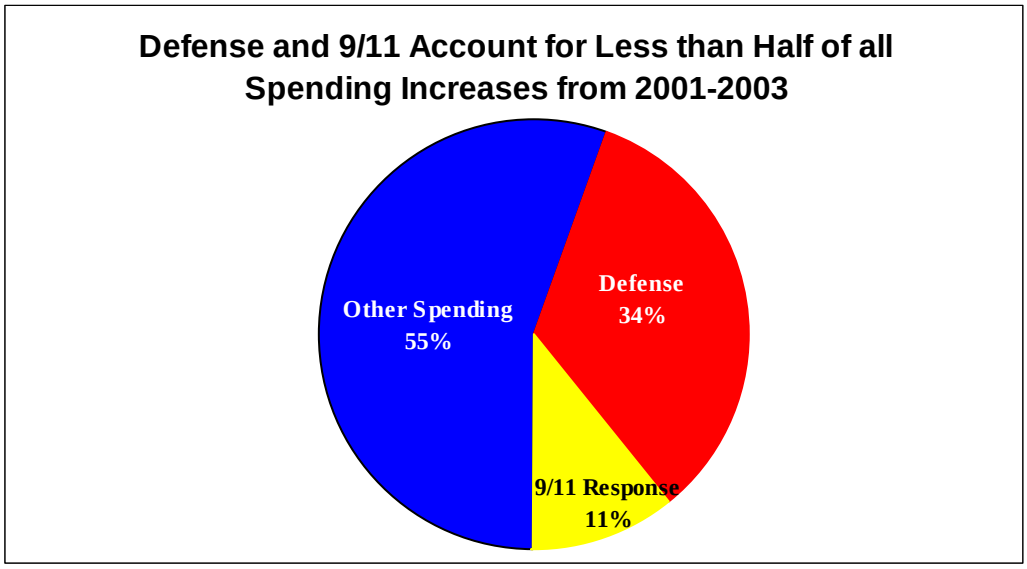
Source: Heritage Foundation Calculations based on Office of Management and Budget (OMB) spending data and U.S. Census Bureau population data.

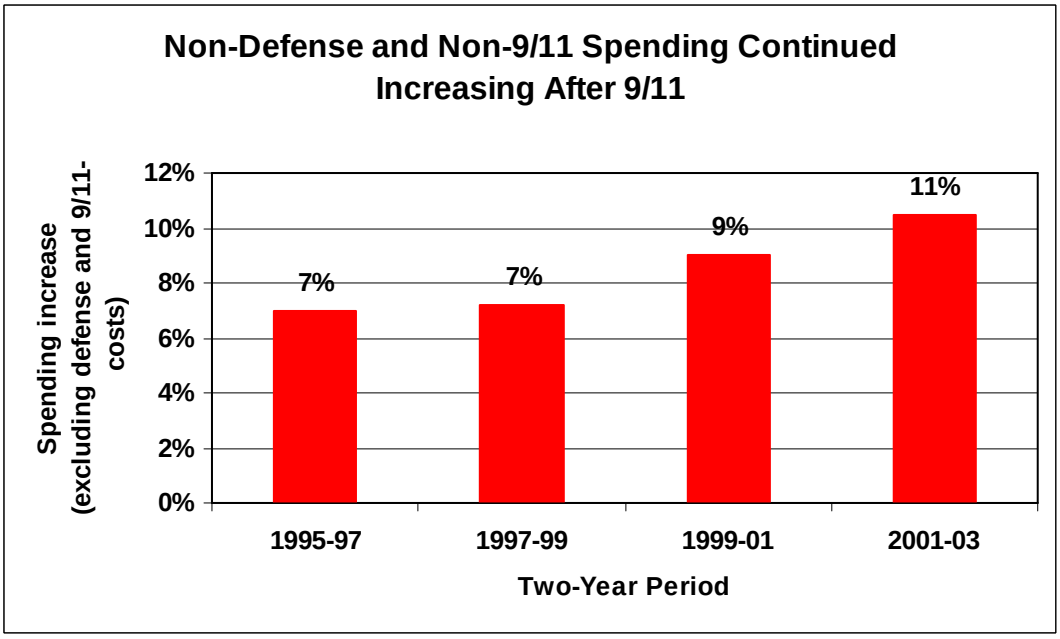
What About Defense and 9/11?

Defense and 9/11-related costs certainly played a role in this spending spree, albeit a smaller role than is commonly reported. From 2001 through 2003, spending expanded by $296 billion, of which:

- $100 billion (34%) went for defense;
- $32 billion (11%) went for 9/11-related costs such as homeland security, international assistance, rebuilding New York, and compensating victims; and
- $164 billion (55%) went to new federal spending totally unrelated to defense and 9/11.

Spending outside of defense and 9/11-related items jumped 11% from 2001-2003, its fastest growth in a decade.





Source: Heritage Foundation calculations based on data from the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO).

Where Is All the Money Going?

Apart from defense and homeland security, lawmakers enacted:

- A 2002 farm bill estimated to cost $180 billion over 10 years, or 80% more than the baseline level;
- A 2003 Medicare drug bill estimated to cost $724 billion in its first ten years and as much as $2 trillion over the following decade;
- The 2001 No Child Left Behind Act, which is most responsible for the 100% increase in education spending from 2001 through 2005;
- $20 billion in federal assistance to states; and
- $20 billion in new spending from expansions of the refundable Earned Income Tax Credit and Child Tax Credit.

Lawmakers have made no serious progress balancing new spending with savings elsewhere in the budget. Note that this spending occurred at a time when net interest payments dropped $26 billon due to low interest rates. Net interest costs will soon increase as interest rates return to normal levels.

Federal Spending By Category, 2001-2005

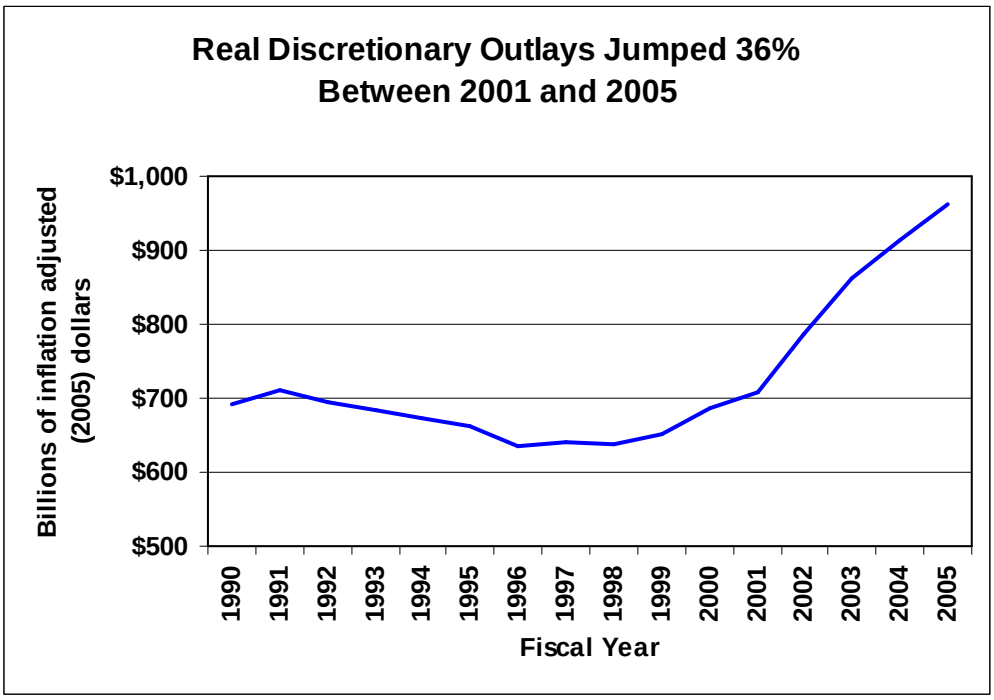
(Nominal $Millions)

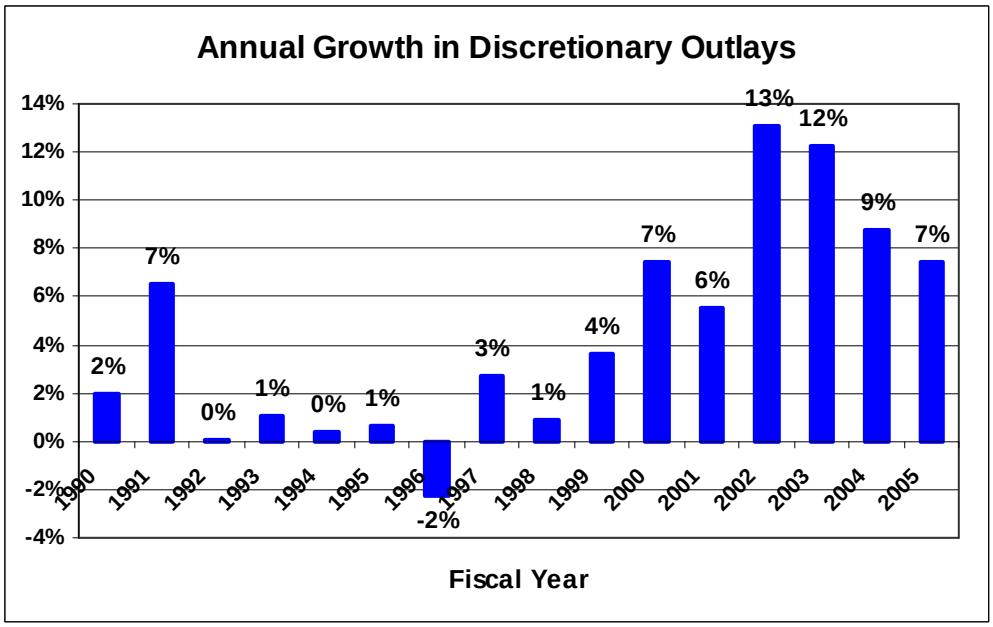
Spending Category	Total Outlays			2001-2005 Increase		
	2001	2005		Amount	Percentage	Avg. Annual
Social Security	$432,958	$519,686		$86,728	20%	4.7%
National Defense	304,882	500,770		195,888	64%	13.2%
Medicare	217,384	295,432		78,048	36%	8.0%
Income Security Programs	152,640	211,929		59,289	39%	8.6%
Medicaid	129,374	188,497		59,123	46%	9.9%
Federal Retirement & Disability	80,972	94,312		13,340	16%	3.9%
Education	35,203	70,520		35,317	100%	19.0%
Health Research and Regulation	42,896	69,035		26,139	61%	12.6%
Veterans Benefits	45,039	68,161		23,122	51%	10.9%
Highways & Mass Transit	35,804	43,694		7,890	22%	5.1%
Justice Administration	30,205	40,657		10,452	35%	7.7%
Unemployment Benefits	30,242	38,066		7,824	26%	5.9%
International Affairs	16,493	31,961		15,468	94%	18.0%
Natural Resources & Environment	25,623	30,960		5,337	21%	4.8%
Farm Subsidies	26,253	30,504		4,251	16%	3.8%
Training, Employment, Social Services	21,940	25,734		3,794	17%	4.1%
General Science, Space & Technology	19,784	24,021		4,237	21%	5.0%
Community & Regional Development	11,773	20,141		8,368	71%	14.4%
General Government	14,260	18,855		4,595	32%	7.2%
Air Transportation	13,975	17,951		3,976	28%	6.5%
Housing & Commerce	5,739	10,653		4,914	86%	16.7%
Water Transportation	4,668	6,841		2,173	47%	10.0%
General Retirement & Disability	5,761	6,611		850	15%	3.5%
Energy	9	1,441		1,432	15911%	255.7%
Undistributed Offsetting Receipts/Other	-47,011	-76,432		-32,421	69%	14.0%
Net Interest	206,167	180,000		-23,167	-11%	-2.9%
Total Spending	**1,863,033**	**2,470,000**		**606,967**	**33%**	**7.3%**

Source: Heritage Foundation calculations based on Office of Management and Budget (OMB) data and 2005 preliminary estimates.

Discretionary Spending

- From 2001 through 2005, discretionary outlays surged 48% (36% after adjusting for inflation), from $649 billion to $969 billion.
- Lawmakers had leveled off discretionary spending increases in the 1990s.

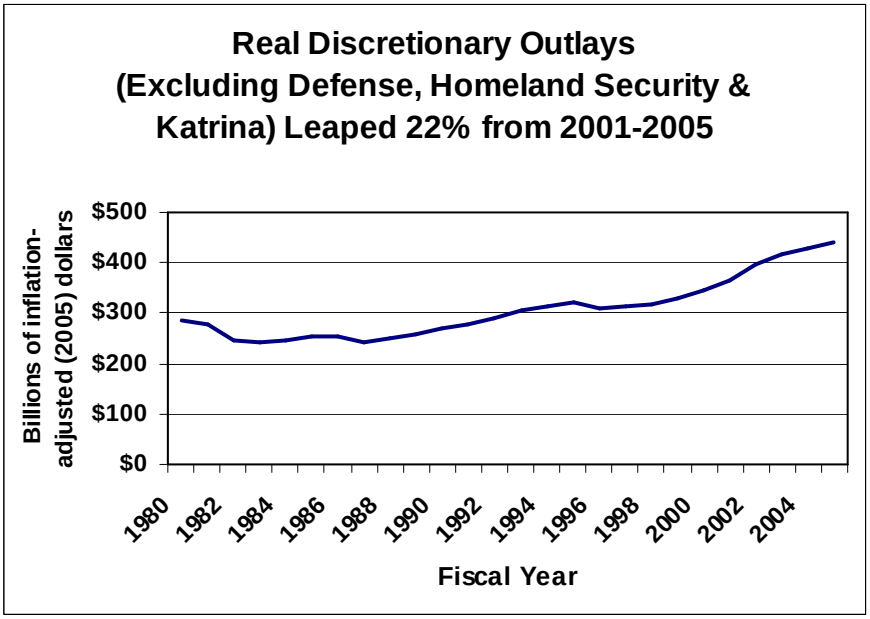




Source: Both charts are based on Office of Management and Budget (OMB) data.

Discretionary Spending, Broken Down

- Discretionary spending increases have not been contained to defense, homeland security, and Hurricane Katrina relief, but have grown across the board.
- Since 2001, all other discretionary spending has increased by 33% (22% after adjusting for inflation).



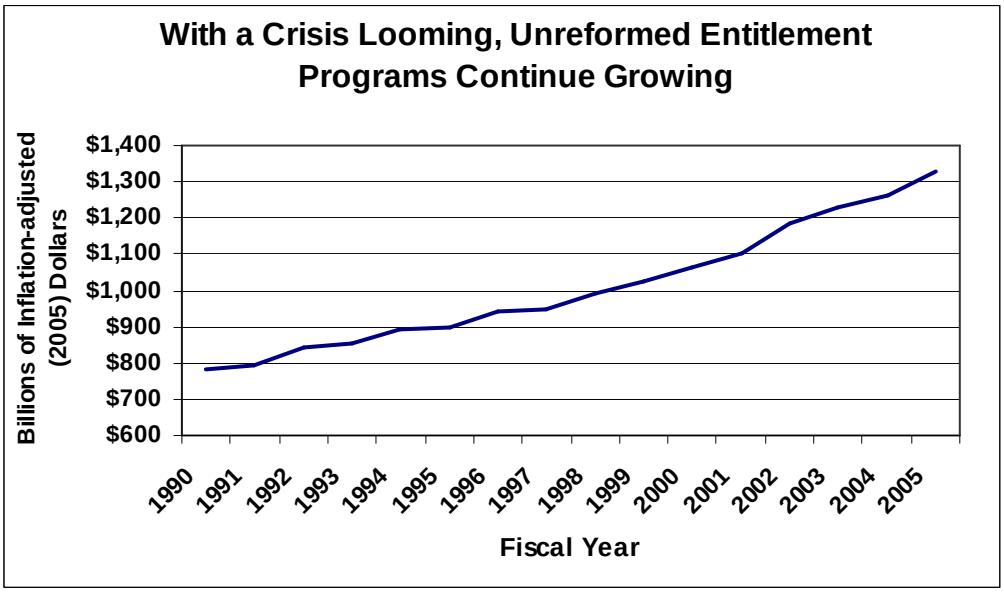
Nominal Discretionary Spending Since 1990
($billions)

Year	TOTAL	Defense	Homeland Security	Katrina (estimate)	Remaining Discretionary
1990	**501**	300	6		195
1991	**533**	320	6		207
1992	**534**	303	7		224
1993	**539**	292	7		240
1994	**541**	282	8		251
1995	**545**	274	8		263
1996	**533**	266	8		259
1997	**547**	272	8		267
1998	**552**	270	9		273
1999	**572**	276	9		287
2000	**615**	295	10		310
2001	**649**	306	10		333
2002	**734**	349	13		372
2003	**824**	405	20		399
2004	**896**	454	23		419
2005	**963**	492	27	2	442

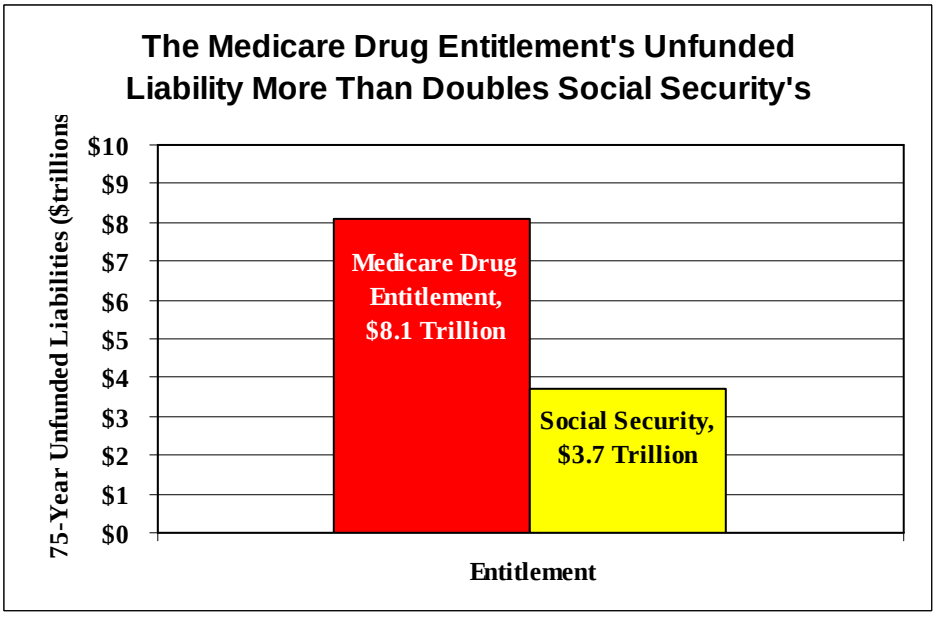
Sources: Both the chart and table were created by the Heritage Foundation using Office of Management and Budget (OMB) and Congressional Budget Office (CBO) data. Katrina spending and pre-2001 homeland security spending are Heritage Foundation estimates.

Entitlement Spending

- Entitlements consume nearly 60% of all program spending and a record 10.8% of GDP.
- Entitlement spending is projected to nearly double over the next decade. Medicare is expanding by 9% annually, Medicaid by 8% annually, and Social Security by 6% annually.
- The Medicare drug entitlement is estimated to cost $724 billion over the next decade and as much as $2 trillion over the following decade. Lawmakers created this entitlement in 2003 without any plan to pay for it.
- The Medicare drug entitlement is a universal entitlement that will go to all seniors regardless of need. By contrast, simply extending and expanding the Medicare Drug Discount Card, which targets needy seniors, would cost between $5 billion and $10 billion annually.



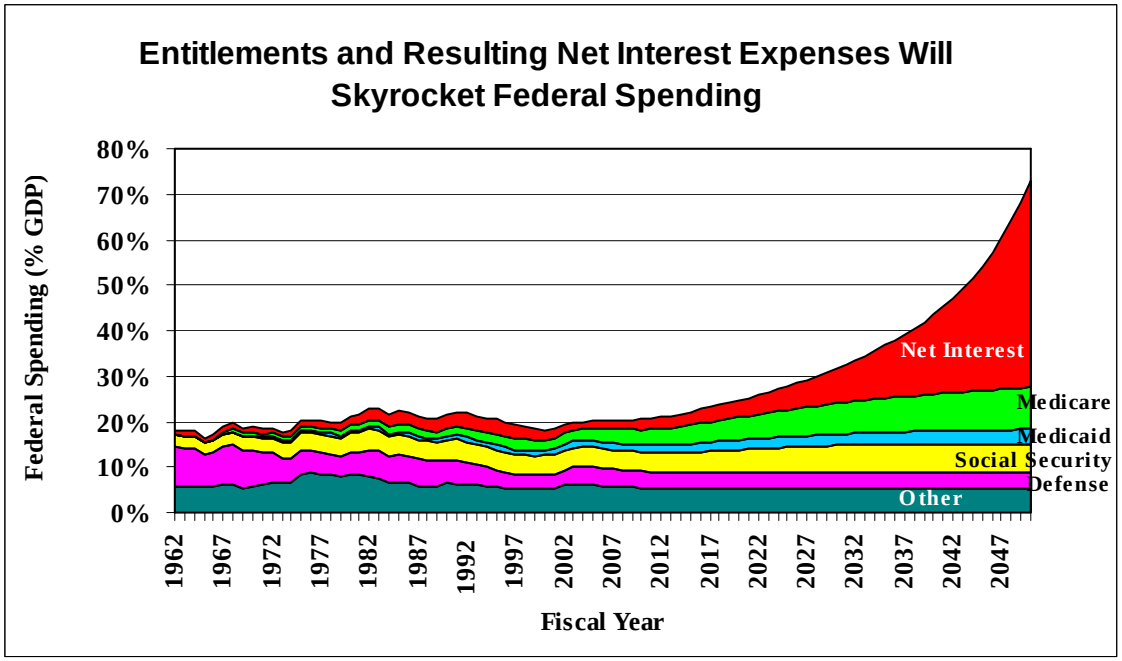
Source: Office of Management and Budget (OMB) data adjusted for inflation by the Heritage Foundation.

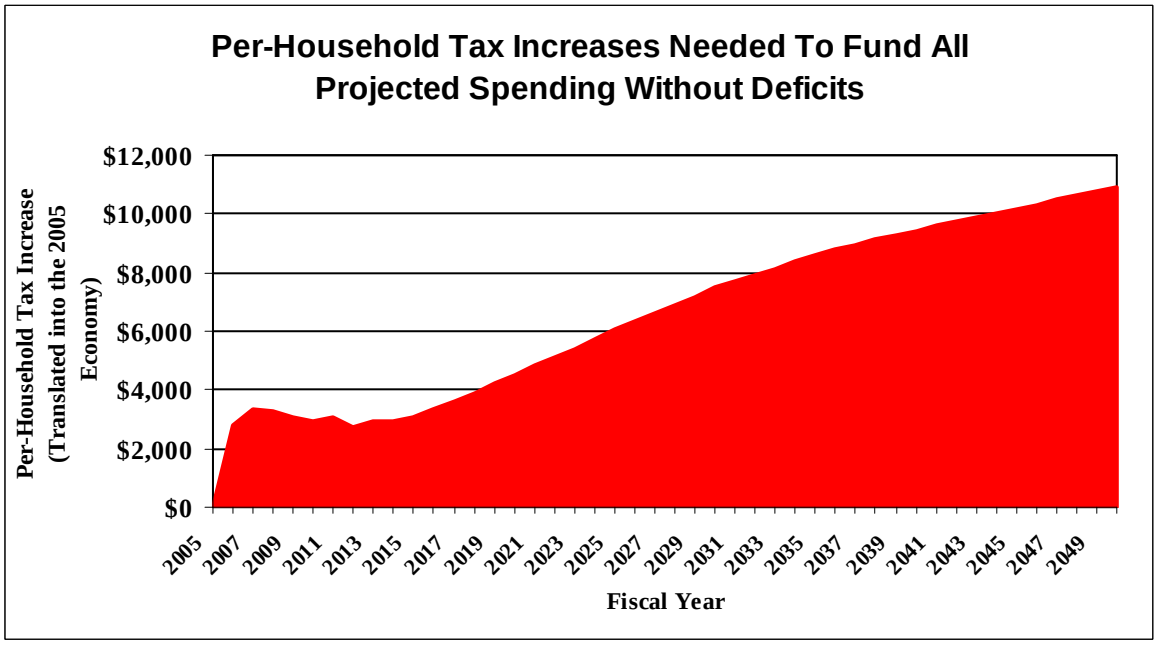


Source: Centers for Medicare and Medicaid Services, *2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Insurance Trust Funds*, March 23, 2004, p. 109, at www.cms.hhs.gov/publications/trusteesreport; and Social Security Administration, *2004 Social Security Trustees Report*, March 23, 2004, p. 2, at http://www.ssa.gov/OACT/TR/TR04/tr04.pdf.

Entitlement Spending: Long-Term Trends

- The total cost of Social Security, Medicare, and Medicaid is projected to leap from 8.4% of GDP in 2005 to 18.9% of GDP by 2050.
- Federal program spending is projected to reach 27.6% of GDP by 2050, while net interest spending will consume an additional 9% to 46% of GDP (depending on whether massive deficit spending increases interest rates).
- Unless Social Security, Medicare, and Medicaid are reformed, lawmakers face three options:
  A) Raise taxes every year until taxes are 60 percent ($11,000 per household) higher than today;
  B) Eliminate every federal program except Social Security, Medicare, and Medicaid by 2045; or
  C) Do nothing and watch the federal debt expand so much that even a minor interest rate response would induce a spiral of rising debt and interest rates, threatening the entire economy.

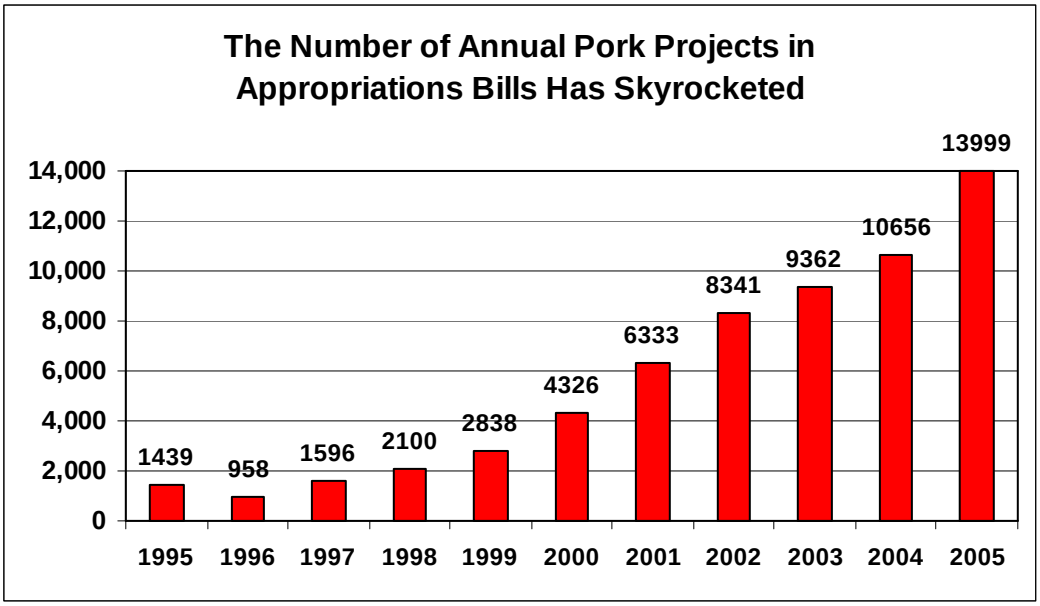


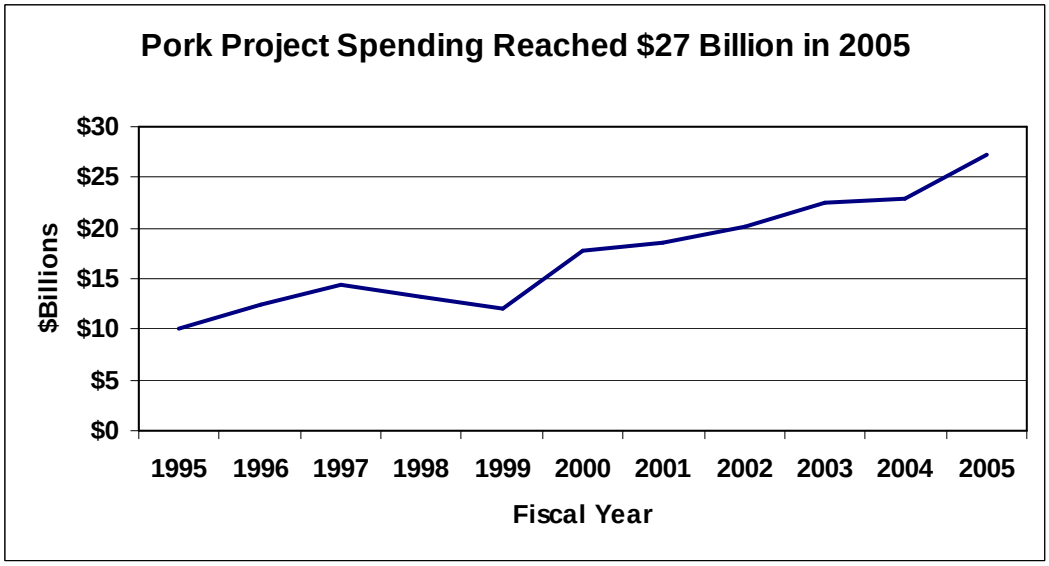


Source: Both charts are from Heritage Foundation calculations to be released in a forthcoming paper.

Pork Projects

- Definition: Originally, lawmakers would fund government grant programs and then let federal and state agencies select individual grant recipients through a competitive application process. Now, Congress actually determines, within legislation, who will receive government grants by "earmarking" grant money to specific recipients. Earmarks are also known as "pork projects."
- Earmarking is considered a corrupting process. Many of these pork projects are bought and sold by lobbyists, who, for a generous commission, will ensure that a client gets a government grant without having to go through the regular channel of justifying the project to a federal agency. Perhaps coincidentally, lawmakers often receive hefty campaign donations from earmark recipients.
- In addition to regular annual appropriations earmarks, the recent highway authorization bill contained approximately 6,400 earmarks, with a total cost of $25 billion.
- Recent pork projects have included the Rock & Roll Hall of Fame, a therapeutic horseback riding program, a grant to combat teen "goth" culture in Blue Springs, Missouri, an indoor rainforest in Iowa, and Alaska's infamous "Bridge to Nowhere."





Source: Both the chart and graph are from Citizens Against Government Waste, www.cagw.org.

Nowhere To Cut?

- The federal government cannot account for **$24.5 billion** spent in 2003.
- Federal auditors are currently examining all federal programs. Thus far, **38%** of all examined programs have failed to show any positive impact on the populations they serve. Yet lawmakers appropriated **$154 billion** to these programs in FY 2004.
- The Congressional Budget Office published a "Budget Options" book identifying **$140 billion** in potential spending cuts.
- The Defense Department wasted **$100 million** on unused flight tickets and never bothered to collect refunds even though the tickets were refundable.
- The federal government spends **$23 billion** annually on special interest pork projects such as grants to the Rock and Roll Hall of Fame or funds to combat teenage "goth" culture in Blue Springs, Missouri.
- Washington spends **tens of billions of dollars** on failed and outdated programs such as the Rural Utilities Service, the U.S. Geological Survey, and the Economic Development Association.
- The federal government made at least **$20 billion** in overpayments in 2001. Current estimates are between $40 billion and $100 billion in annual overpayments.
- The Department of Housing and Urban Development's **$3.3 billion** in overpayments in 2001 accounted for over 10% of the department's total budget.
- Over one recent 18-month period, Air Force and Navy personnel used government-funded credit cards to charge at least **$102,400** for admission to entertainment events, **$48,250** for gambling, **$69,300** for cruises, and **$73,950** for exotic dance clubs and prostitutes.
- Examples of wasteful duplication include: **342** economic development programs; **130** programs serving the disabled; **130** programs serving at-risk youth; **90** early childhood development programs; **75** programs funding international education, cultural, and training exchange activities; and **72** federal programs dedicated to assuring safe water.
- The Advanced Technology Program spends **$150 million** annually subsidizing private businesses, and 40% of this goes to Fortune 500 companies.
- The Conservation Reserve program pays farmers **$2 billion** annually to not farm their land.
- Washington spends **$60 billion** annually on corporate welfare, versus $43 billion on homeland security.
- The Department of Agriculture spends $**12 billion to $30 billion** annually on farm subsidies, the vast majority of which go to agribusinesses and farmers averaging $135,000 in annual income.
- **Massive farm subsidies** also go to several members of Congress, and celebrity "hobby farmers" such as David Rockefeller, Ted Turner, Scottie Pippen, and former Enron CEO Ken Lay.
- Congressional investigators were able to receive **$55,000** in federal student loan funding for a fictional college they created to test the Department of Education.
- The Army Corps of Engineers has been accused of **illegally manipulating data** to justify expensive but unnecessary public works projects.
- Food stamp overpayments cost **$600 million** annually.
- School lunch program abuse costs **$120 million** annually.
- Veterans' program overpayments cost **$800 million** annually.
- Earned Income Tax Credit (EITC) overpayments cost **$9 billion** annually.
- Better tracking of student loan recipients would save **$1 billion** annually.
- Preventing states from using accounting tricks to secure additional Medicaid funds would save **several billion dollars** annually.
- Medicare contractors owe the federal government **$7 billion.**

Sources: See Brian M. Riedl, "How to Get Federal Spending Under Control," Heritage Foundation *Backgrounder* No. 1733, March 10, 2004, at http://www.heritage.org/Research/Budget/bg1733.cfm. The study explaining the failed 38% of programs can be found at Eileen Norcross, "An Analysis of the Office of Management and Budget's Performance Assessment Rating Tool," Mercatus Center, June 2005, at http://www.mercatus.org/governmentaccountability/article.php/1280.html.

Underlying Data and 2006-2015 Budget Projections

- This page contains the underlying data for many of the charts and tables in this paper.
- The 2006-2015 budget projections begin with CBO's baseline projections, and then assume that:
  1) The Bush tax cuts will be extended and the Alternative Minimum Tax fixed;
  2) Discretionary spending (excluding Iraq and Katrina) will remain constant as a percent of GDP;
  3) Iraq spending will continue to wind down; and
  4) Hurricane Katrina-related spending will total $200 billion (a ballpark estimate).
- Revenues are projected to expand by 4.3 percent annually, but annual spending will grow by 5.8 percent.
- These baseline totals assume no more terrorist attacks, natural disasters, entitlement expansions, or recessions. Historically, Congress spends well above this baseline.
- Combined nominal spending for Social Security, Medicare, and Medicaid is projected to double by 2015.
- Runaway spending pushes the projected budget deficit to $873 billion by 2015 and even higher thereafter.

Historical Budget Data and Future Budget Projections, 1990-2015 ($billions)

	GDP	Revenue	Spending	Surplus/Deficit		SPENDING BREAKDOWN													
						Discretionary						Entitlement							Interest
						TOTAL	Defense	Homeland	Katrina	Other Disc.		TOTAL	Soc. Sec.	Medicare	Medicaid	Katrina	Other Mand.		
1990	5803	**1032**	**1253**	**-221**		**501**	300	6		195		**568**	247	96	41		185		**184**
1991	5996	**1055**	**1324**	**-269**		**533**	320	6		207		**597**	267	102	53		175		**195**
1992	6338	**1091**	**1382**	**-290**		**534**	303	7		224		**649**	285	116	68		179		**199**
1993	6657	**1154**	**1410**	**-255**		**539**	292	7		240		**671**	302	128	76		166		**199**
1994	7072	**1259**	**1462**	**-203**		**541**	282	8		251		**718**	317	142	82		177		**203**
1995	7398	**1352**	**1516**	**-164**		**545**	274	8		263		**739**	333	157	89		160		**232**
1996	7817	**1453**	**1561**	**-108**		**533**	266	8		259		**787**	347	171	92		176		**241**
1997	8304	**1579**	**1601**	**-22**		**547**	272	8		267		**810**	362	187	96		165		**244**
1998	8747	**1722**	**1653**	**69**		**552**	270	9		273		**859**	376	190	101		192		**241**
1999	9268	**1827**	**1703**	**124**		**572**	276	9		287		**900**	387	188	108		217		**230**
2000	9817	**2025**	**1789**	**236**		**615**	295	10		310		**951**	406	194	118		233		**223**
2001	10128	**1991**	**1863**	**127**		**649**	306	10		333		**1009**	429	214	129		236		**206**
2002	10487	**1853**	**2011**	**-158**		**734**	349	13		372		**1106**	452	228	148		278		**171**
2003	11004	**1783**	**2157**	**-374**		**824**	405	20		399		**1179**	471	246	161		301		**153**
2004	11554	**1880**	**2292**	**-413**		**896**	454	23		419		**1237**	492	269	176		300		**160**
2005	**12271**	**2154**	**2470**	**-317**		**963**	**492**	**27**	**2**	**442**		**1327**	**519**	**295**	**184**	**0**	**329**		**180**
2006	12967	**2265**	**2660**	**-395**		**1041**	508	28	50	455		**1408**	546	329	192	15	326		**211**
2007	13655	**2348**	**2824**	**-476**		**1095**	536	29	50	479		**1481**	574	374	203	10	320		**248**
2008	14372	**2455**	**2973**	**-518**		**1121**	550	31	35	505		**1561**	602	395	221	10	333		**292**
2009	15106	**2581**	**3115**	**-534**		**1146**	555	32	28	530		**1641**	634	420	239	0	348		**328**
2010	15836	**2711**	**3250**	**-539**		**1155**	565	34		556		**1732**	670	449	260		353		**363**
2011	16578	**2835**	**3447**	**-612**		**1202**	585	36		582		**1846**	709	489	282		366		**399**
2012	17331	**3000**	**3625**	**-625**		**1257**	611	37		608		**1931**	753	513	305		360		**437**
2013	18105	**3147**	**3855**	**-708**		**1313**	639	39		636		**2067**	801	563	330		373		**475**
2014	18903	**3303**	**4087**	**-784**		**1370**	666	41		664		**2198**	852	609	357		380		**519**
2015	19729	**3467**	**4340**	**-873**		**1429**	694	42		693		**2345**	907	660	387		391		**566**

Source: Heritage Foundation calculations based on CBO data. Katrina-related spending projections are based on current rough estimates.

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