

Background

No. 1703
November 13, 2003



Published by The Heritage Foundation

Most New Spending Since 2001 Unrelated to the War on Terrorism

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Following the attacks of September 11, 2001, Americans called on Washington to spend the resources necessary to fight terrorists abroad, protect the homeland, and rebuild New York City. It is therefore no surprise that total federal spending has grown 16 percent since 2001. In 2003, federal spending topped \$20,000 per household for the first time since World War II.¹

The real surprise, however, is that over half of all new spending since 2001 is unrelated to defense and the 9/11 attacks.

Of course, discerning what spending is actually related to defense and the 9/11 attacks is not easy. Lawmakers have successfully blurred the distinction between national security and other spending by simply adding “defense” or “homeland security” to the titles of their old, rejected spending proposals.

This is not a new development. Back in 1958, when the escalating Cold War was gripping the nation, congressional spenders seeking an expanded federal role in education enacted the *National Defense Education Act*.² Since the 9/11 attacks, lawmakers have classified as “defense” or “homeland security” everything from levitating trains to farm subsidies.³

1. Adjusted for inflation and put in 2003 dollars.

2. Emphasis added.

3. See Ronald D. Utt, Ph.D., “Lobbyists Continue to Use Tragedy to Raid American Taxpayers: An Update,” Heritage Foundation *Background* No. 1502, November 13, 2001, at www.heritage.org/Research/Budget/BG1502.cfm.

Talking Points

- Only 45 percent of all new federal spending since 2001 has been related to defense and the 9/11 attacks. The remaining 55 percent was spent on programs unrelated to the war on terrorism.
- Programs unrelated to defense and the 9/11 attacks have grown by 11 percent since 2001—their fastest rate in nearly a decade.
- Several domestic, non-security programs are currently growing at a faster rate than the defense budget.
- Discretionary spending on programs unrelated to the war on terrorism has increased by \$51 billion since 2001.

This paper, in its entirety, can be found at:
www.heritage.org/budget/bg1703.cfm

Produced by the Thomas A. Roe Institute for
Economic Policy Studies

Published by The Heritage Foundation
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Washington, DC 20002-4999
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Spending related to defense and 9/11 falls into four categories:

- All defense spending,
- New homeland security spending enacted in response to 9/11,
- New international assistance and security spending enacted in response to 9/11, and
- All costs associated with compensating victims of terrorism and rebuilding New York City.

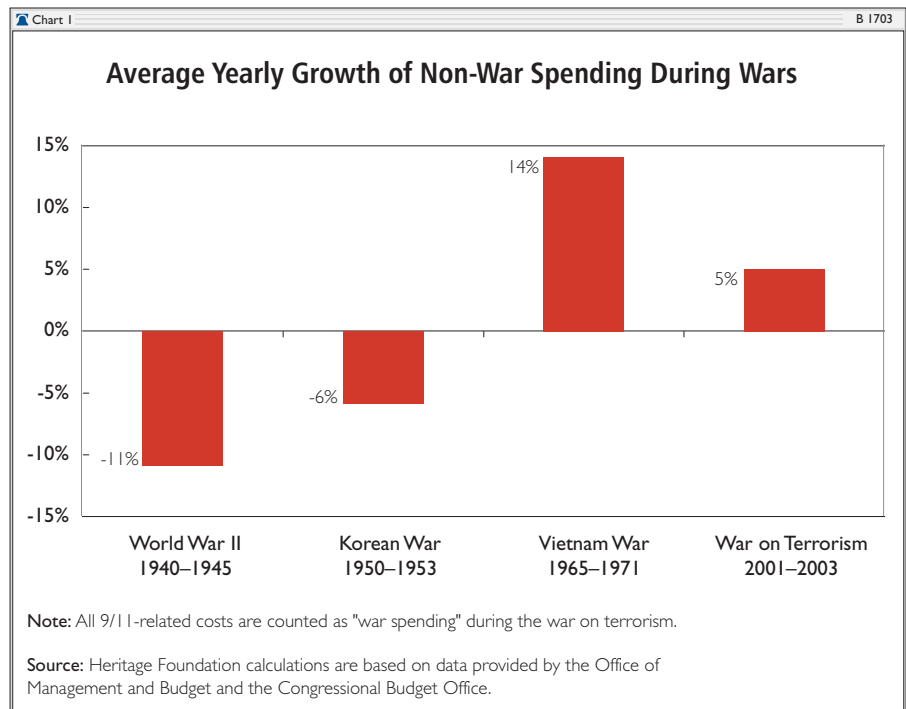
By grouping those expenditures together, it is possible to measure their collective role in the 2001 through 2003 federal spending spree. It turns out that only 45 percent of the \$296 billion spending increase over the past two years was related to defense and 9/11. The remaining 55 percent was spent on other federal programs unrelated to the war on terrorism. Federal spending on programs unrelated to defense and the 9/11 attacks has grown by 11 percent since 2001.⁵

Historical Context

Budgets are about setting priorities, and especially in times of war, non-defense programs must take a backseat to the nation's security needs. During World War II, President Franklin Roosevelt reduced non-war-related spending by an average of 11 percent each year. (See Chart 1.) Similarly, President Harry Truman signed budgets during the Korean War that reduced non-defense spending by 6 percent annually.

This trend was reversed during the Vietnam War, as President Lyndon Johnson signed budgets expanding the non-defense budget by 14 percent per year. Tax increases and economic stagnation followed.

While not quite reaching the levels under President Johnson, federal spending during the war on



terrorism has more closely reflected the Vietnam-era spending binges than the spending restraint of World War II and the Korean War. Spending not related to defense and 9/11 has increased by an average of 5 percent per year since 2001.⁶

The Big Picture

From 2001 through 2003, the federal budget expanded by \$296 billion. (See Table 1.) New defense spending accounted for \$100 billion of that amount, and other 9/11-induced spending on homeland security, international aid, and domestic rebuilding totaled \$32 billion. (See Table 2.) That leaves \$164 billion in new spending completely unrelated to defense and the 9/11 attacks. Chart 2 shows that these unrelated expenditures were responsible for 55 percent of all new spending.

These spending increases have been spread across several categories.⁷ For example:

- **Unemployment** benefit payments increased by 85 percent to \$56 billion. Payments typically

4. *Ibid.*

5. All spending totals in this paper were calculated by The Heritage Foundation using data provided by the Office of Management and Budget and the Congressional Budget Office.

6. Five percent growth for two consecutive years creates 11 percent overall growth due to compounding.

Table 1						B 1703
Spending Increases from 2001 Through 2003 (\$millions)						
Spending Category	2001	2003	Spending Increase		Percent of 2-year,	
			Amount	Percent	\$296 Billion Increase	
Defense and 9/11						
National Defense	\$305,500	\$405,109	\$99,609	33%	34%	
9/11-Induced Spending	0	32,025	32,025	N/A	11%	
Subtotal: Defense and 9/11	305,500	437,134	131,634	43%	45%	
Other Spending						
Social Security	432,958	465,758	32,800	8%	11%	
Various Income Security Programs	152,640	183,990	31,350	21%	11%	
Medicaid	129,374	160,560	31,186	24%	11%	
Medicare	217,384	243,382	25,998	12%	9%	
Unemployment Compensation	30,242	55,842	25,600	85%	9%	
Education	35,203	57,932	22,729	65%	8%	
Other Health Programs	42,896	56,498	13,602	32%	5%	
Veterans Assistance	45,039	57,230	12,191	27%	4%	
General Government	14,589	23,848	9,259	63%	3%	
Air Transportation	11,647	17,720	6,073	52%	2%	
Community and Regional Development	11,907	17,003	5,096	43%	2%	
Other Programs	226,020	228,710	2,690	1%	1%	
Net Interest	206,028	151,394	-54,634	-27%	-18%	
Subtotal: Other Spending	1,555,927	1,719,866	163,939	11%	55%	
Total	1,861,427	2,157,000	295,573	16%	100%	

Note: In order to reflect pre-9/11 spending levels, \$2 billion in 9/11-related spending is removed from 2001.

Source: Heritage Foundation calculations are based on data provided by the Office of Management and Budget and the Congressional Budget Office.

Table 2				B 1703
New Non-Defense Spending As a Result of 9/11 (\$millions)				
Category	2001	2002	2003	
Homeland Security	\$0	\$7,319	\$17,630	
Foreign Aid and International Security	0	1,591	6,708	
Domestic Rebuilding	2,328	7,110	5,887	
Net Interest	140	960	1,800	
Total	2,468	16,980	32,025	

Source: Heritage Foundation calculations are based on data provided by the Office of Management and Budget and the Congressional Budget Office.

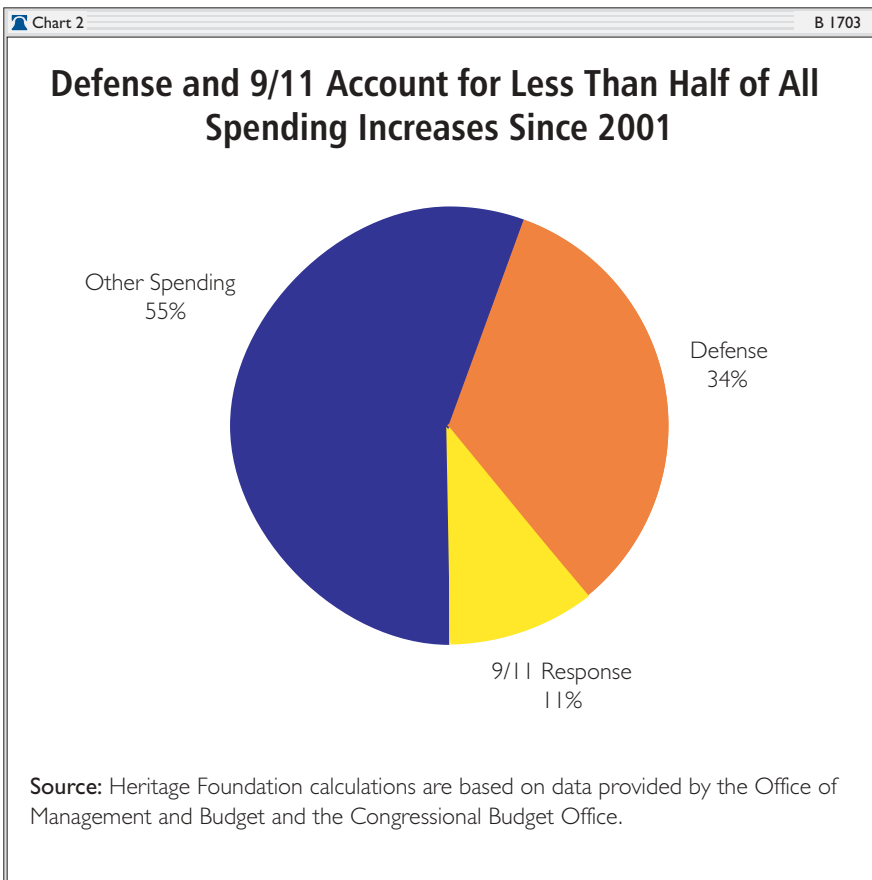
increase during economic downturns as more people become unemployed. Additionally, Congress and President George W. Bush enacted several bills extending unemployment benefits to workers beyond their typical 13-week limit.

- **Education** spending increased by 65 percent to \$58 billion. Nearly \$11 billion of this increase occurred in elementary and secondary education, a result of the 2001 No Child Left Behind Act as well as added special education funding. College student financial assistance accounted for much of the remaining increase.
- **General government** costs increased by 63 percent to \$24 billion. Much of this new spending was allocated to the federal bailout of state governments, passed as part of the 2003 tax cut.
- **Air transportation** spending jumped by 52 percent to \$18 billion even when excluding security costs associated with the 9/11 attacks. Much of this assistance was designed to bail out financially strapped airlines, whose economic struggles began well before the terrorist attacks.

Excluding defense and all 9/11-related costs, federal spending grew by 11 percent from 2001 through 2003—the largest two-year increase in nearly a decade. (See Chart 3.) Instead of trading off new security costs by cutting elsewhere, lawmakers actually accelerated non-defense and non-9/11-related spending.

The resulting guns-and-butter budget brought the cost of government to more than \$20,000 per household for the first time since World War II. Of that amount, non-defense and non-9/11-related spending reached a record \$16,000 per household

7. The U.S. economy was in recession and unemployment benefit payments were increasing well before September 11, 2001. While the terrorist attacks certainly worsened the recession, particularly in some industries (e.g., tourism and air travel), determining how much 9/11 increased unemployment benefit payments is virtually impossible.

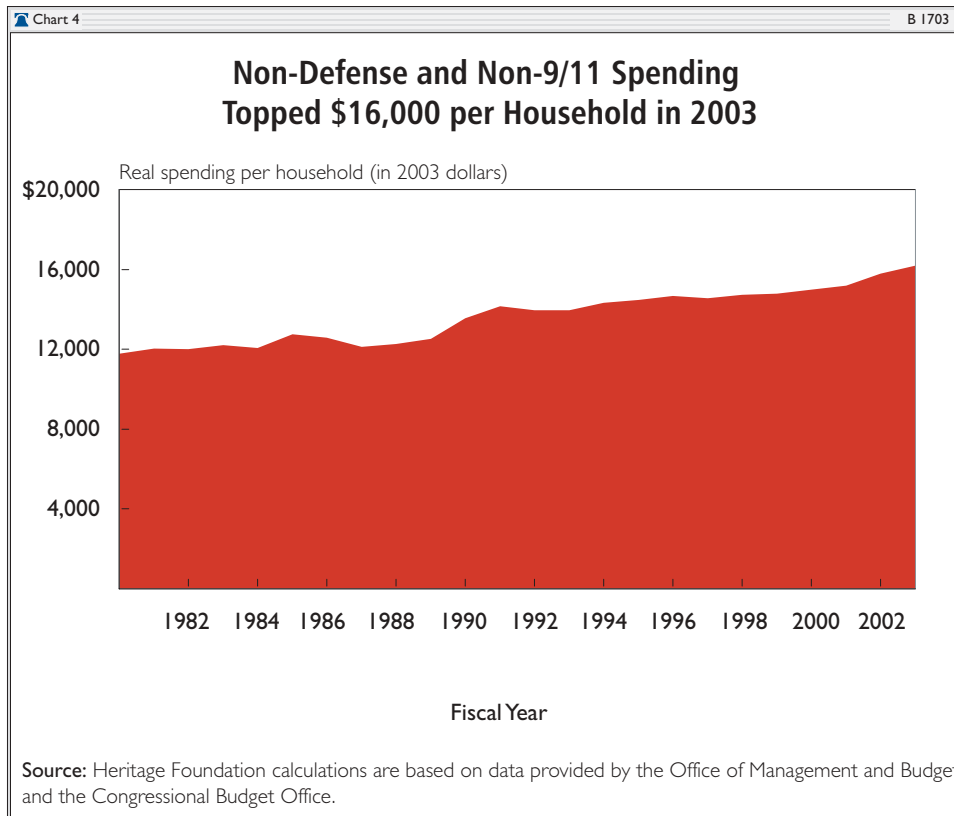
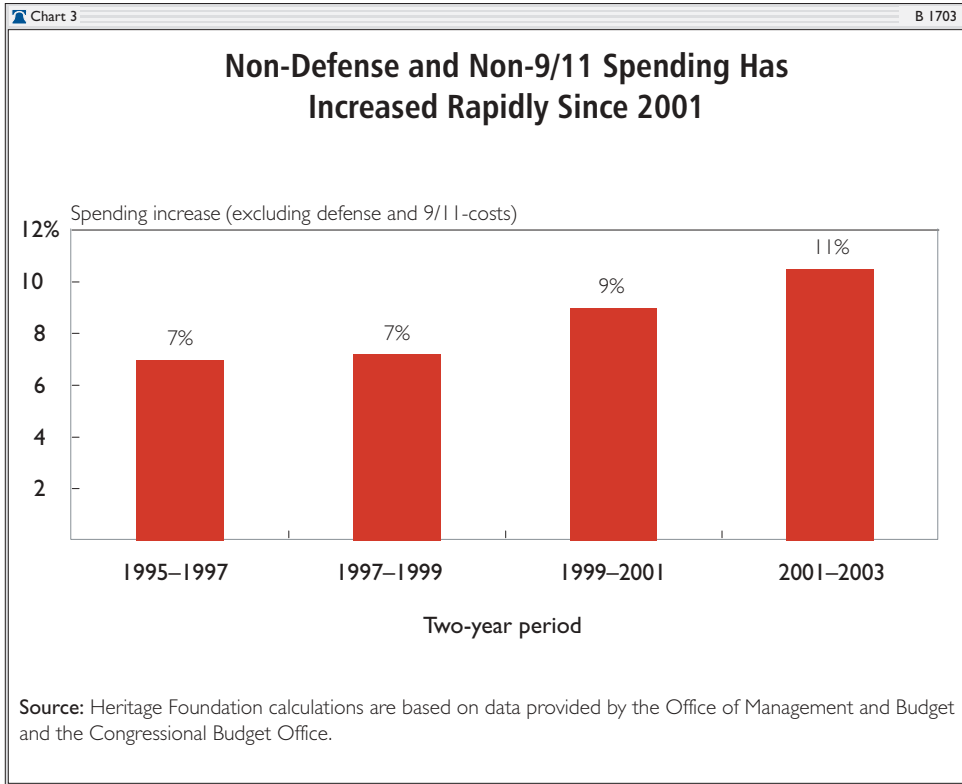


in 2003—\$1,000 per household more than in 2001. (See Chart 4.)

It could have been much worse. Net interest payments on the national debt actually declined by \$55 billion over this period. Low interest rates, rather than any deliberate federal policies, created this “interest dividend.” If this decline had not occurred, the two-year non-defense, non-9/11 spending increase would have been 14 percent rather than 11 percent—an extra \$514 per household.

Discretionary Spending

Lawmakers often deny responsibility for mandatory spending trends because those programs’ expenditures are determined by spending formulas written into law years ago. Instead, many lawmakers prefer to be judged by discretionary programs,



whose budgets are set by Congress and the President each year.

But elected officials are not forbidden from changing these spending formulas any time they see fit. In fact, lawmakers have a responsibility to align mandatory spending levels with the nation's evolving priorities.

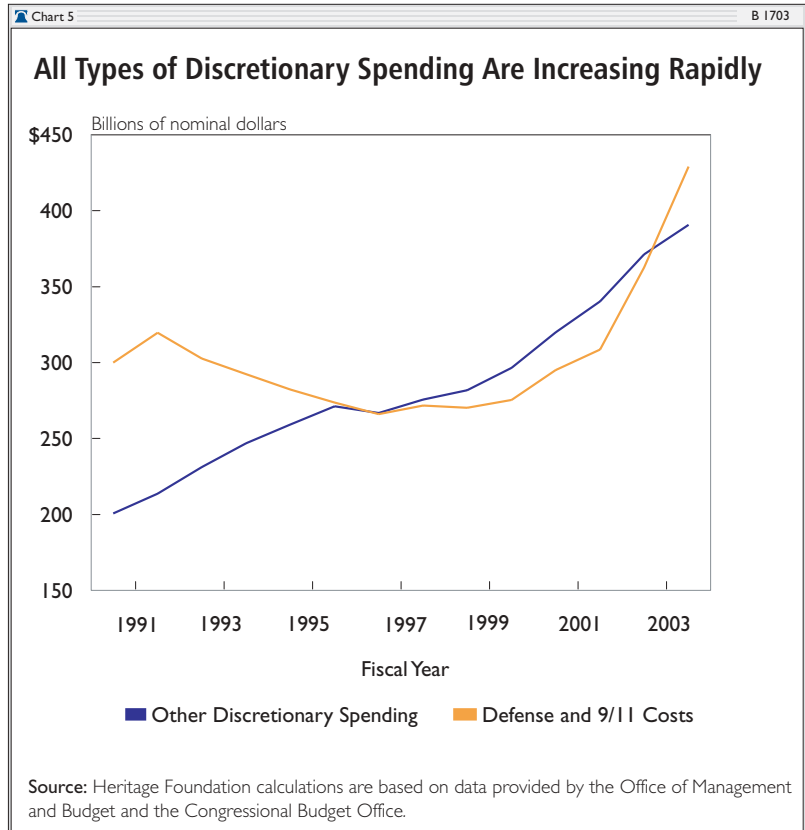
Even restricting the analysis to discretionary programs does not make Congress and the President appear any more fiscally responsible. Since 2001, defense and 9/11-related discretionary spending has jumped 40 percent, from \$306 billion to \$429 billion. But rather than balance these costs by cutting discretionary spending elsewhere, Congress *expanded* other programs by 15 percent, from \$340 billion to \$391 billion—the second largest two-year increase in a decade. (See Table 3.)

Chart 5 shows that non-defense spending has been rising steadily for over a decade. Throughout the 1990s, these non-defense spending increases were balanced by deep defense cuts, leaving discretionary spending levels generally unchanged. The September 11 attacks reversed the downward trend in defense spending and added new costs for homeland security, international security assistance, and rebuilding New York City.

Lawmakers could have used this opportunity to repeal some of the recent increases in programs unrelated to 9/11. Instead, they:

- **Refused** to cut back the discretionary portion of the \$80 billion corporate welfare budget,
- **Expanded** the \$20 billion pork-barrel project budget,⁸ and
- **Ignored** reports identifying billions lost each year in waste, fraud, and abuse.

Lawmakers rejected proposals to offset new security spending with savings elsewhere and chose to increase the “butter” budget to go along with the expanded “guns” budget.



Why it Matters

Runaway government spending is about more than green-eyeshade accounting. All government spending must be paid for in taxes, and these taxes make it difficult for families to afford necessities such as food, housing, and medical care and for businesses to invest in the economy and create jobs.

In 2003, Washington spent \$20,300 per household—the most since World War II. For that amount of government, Americans paid \$16,780 per household in federal taxes and must eventually pay the remaining \$3,520 per household (plus interest) represented by the 2003 budget deficit. These taxes reduce the incentives to work, save, and invest, leading to fewer jobs, lower incomes, and limited opportunities for low-income Americans.

Taxes are not the only cost of government spending. Every dollar the government spends represents one less dollar available for use in the private economy. Most economists agree that politicians—moti-

8. See Citizens Against Government Waste, *2003 Congressional Pig Book Summary* (Washington, D.C.: Citizens Against Government Waste, 2003), at www.cagw.org/site/PageServer?pagename=reports_pigbook2003 (November 4, 2003).

vated by re-election—do not spend money as effectively as businesses and individuals. Furthermore, it is unrealistic to expect politicians to outsmart and improve the functioning of a massive \$11 trillion economy involving 270 million Americans. Hence, government expansion into areas such as housing, food, and pensions often blocks the market from functioning and reduces economic growth.

The consequences of excessive spending and taxation are evident in Western Europe, where politicians have promised to provide for all their citizens' needs in exchange for higher taxes and bigger government. Western Europeans typically have incomes 40 percent below Americans and unemployment rates twice as high. On average, they also pay about 50 percent of their earnings in taxes.

The war on terrorism is a long-term battle with long-term costs. The slumber of the 1990s has been replaced with a resolve to modernize the U.S. Department of Defense so that it can fight terrorists wherever they are found. At home, building America's homeland security and creating an infrastruc-

ture able to respond to any future terrorist attacks are expensive, long-term projects.

The nation's priorities have changed, and Washington must respond by balancing its spending priorities and restraining non-security spending. Otherwise, tax relief and economic growth will be two more casualties of the September 11 attacks.

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Table 3 B 1703

Discretionary and Mandatory Spending Increases from 2001 through 2003 (in \$billions)

Spending Category	2001	2003	Spending Increase	
			Amount	Percent
Discretionary				
Defense and 9/11	\$306	\$429	\$123	40%
Other Discretionary	340	391	51	15%
Discretionary Subtotal	646	820	174	27%
Mandatory Subtotal	1,215	1,337	122	10%
Total	1,861	2,157	296	16%

Note: In order to reflect pre-9/11 spending levels, \$2 billion in 9/11-related spending is removed from 2001.

Source: Heritage Foundation calculations are based on data provided by the Office of Management and Budget and the Congressional Budget Office.