

Federal Spending – By The Numbers

By Brian M. Riedl
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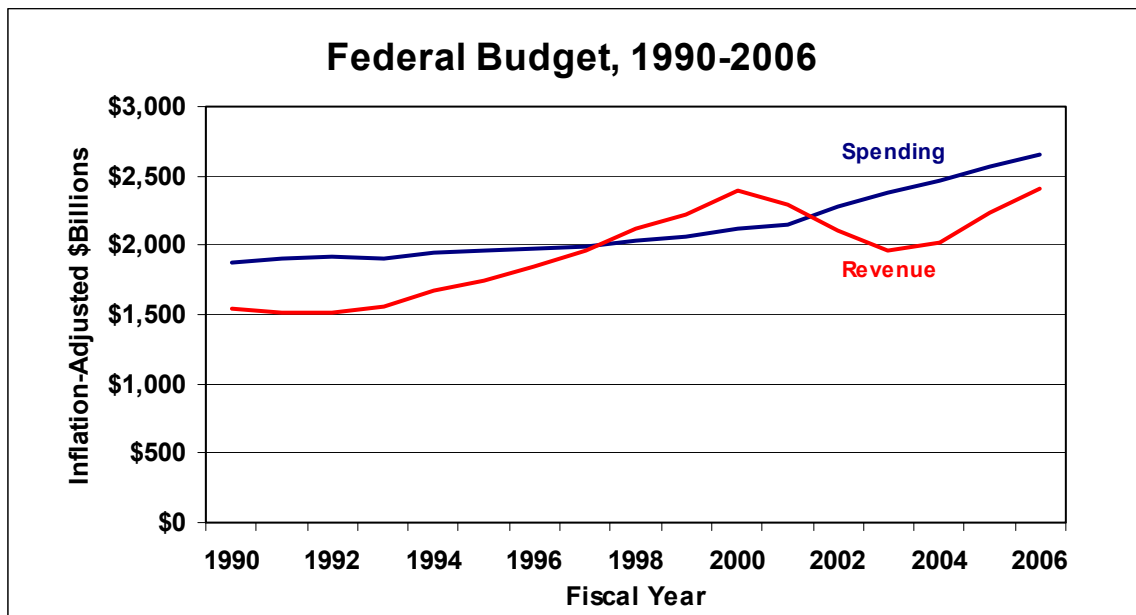
Overall Budget Trends

- In 2006, Washington spent \$2,655 billion, raised \$2,407 billion, and ran a \$248 billion budget deficit.
- Tax revenues strongly correlate with economic growth. With the help of recent tax relief, economic growth pushed 2006 tax revenues up by 12% (8% after inflation).
- Spending increased by 7% (4% after inflation) in 2006 and is up 42% (23% after inflation) overall since 2001.
- The \$248 billion budget deficit represents 1.9% of GDP. More importantly, the public-debt-to-GDP ratio stands at 37%, which is actually below the post-World War II average and the level at any point in the 1990s.

Federal Budget, 1990-2006 (Inflation-adjusted to 2006, in \$billions)

Year	Discretionary Spending	Entitlement Spending	Net Interest Spending	TOTAL SPENDING	TOTAL REVENUE	SURPLUS/ DEFICIT
1990	\$751	\$852	\$276	\$1,879	\$1,547	-\$331
1991	766	857	279	1,903	1,516	-386
1992	741	901	277	1,919	1,516	-403
1993	731	909	269	1,909	1,564	-345
1994	719	952	269	1,941	1,671	-269
1995	706	957	301	1,964	1,752	-212
1996	675	997	305	1,977	1,841	-137
1997	680	1,007	303	1,990	1,963	-27
1998	679	1,058	297	2,034	2,119	85
1999	693	1,091	279	2,064	2,215	150
2000	727	1,124	264	2,114	2,393	279
2001	749	1,165	238	2,151	2,299	147
2002	832	1,254	194	2,280	2,101	-179
2003	910	1,302	169	2,382	1,969	-413
2004	961	1,327	172	2,459	2,017	-443
2005	1,004	1,367	191	2,561	2,231	-329
2006	1,017	1,412	227	2,655	2,407	-248

Note: Total spending is the sum of discretionary, entitlement, and net interest spending.

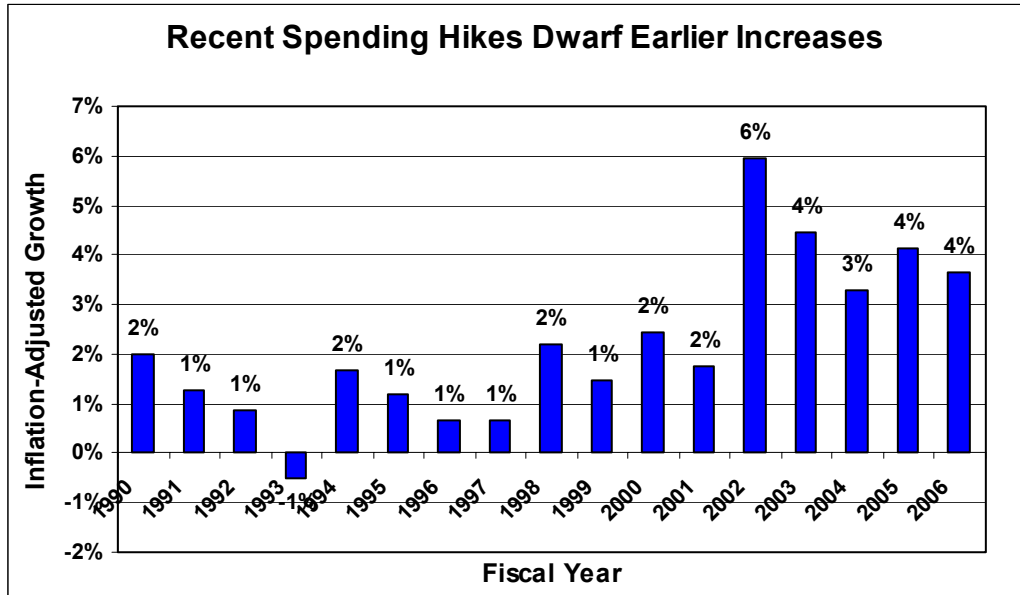


Source: Both the table and the chart are based on Office of Management and Budget, Historical Table 1.1, adjusted for inflation into 2006 dollars.

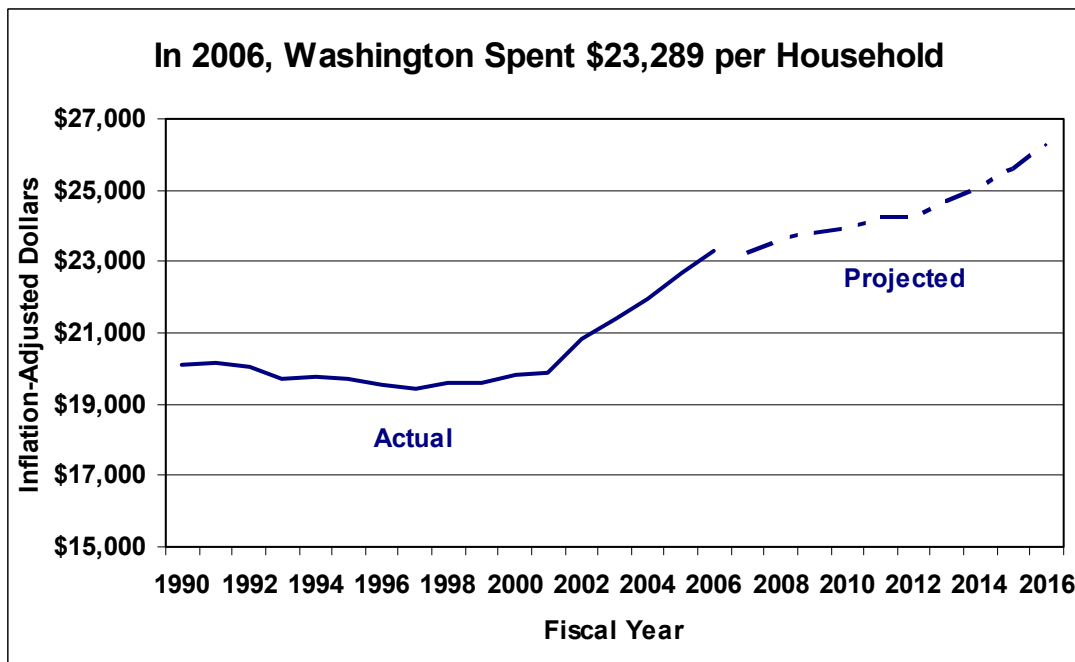
(All nominal figures can be found on page 12.)

Overall Spending Trends

- Federal spending has grown twice as fast under President Bush as under President Clinton.
- Federal spending has increased by 42% (23% after inflation) since 2001.
- In 2006, inflation-adjusted federal spending topped \$23,000 per household for the first time since World War II.
- For 2006, the federal government spent \$23,289 per household, overall, taxed \$21,114 per household, and ran a budget deficit of \$2,175 per household.



Source: Office of Management and Budget, Historical Table 1.1, adjusted for inflation into 2006 dollars.



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

Where Is All the Money Going?

Defense and homeland security are responsible for just above one-third of all new spending since 2001. Lawmakers also enacted:

- The 2001 No Child Left Behind Act, which is responsible for much of the 129 percent inflation-adjusted increase in education spending from 2001 through 2006;
- A 2002 farm bill that pushed annual farm spending to double the levels of the 1990s;
- A 2003 Medicare drug entitlement estimated to cost \$822 billion in its first ten years and as much as \$2 trillion over the following decade;
- The 2005 highway bill, which, at \$286 billion over six years, is the most expensive highway bill ever; and
- Large expansions of outlays for 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 remained relatively steady due to low interest rates. Net interest costs will rise if interest rates increase.

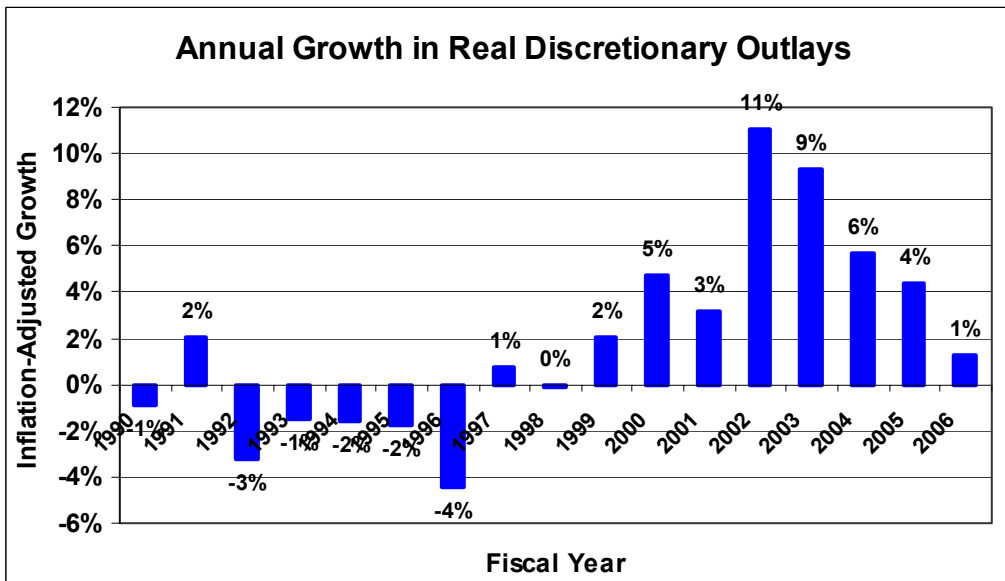
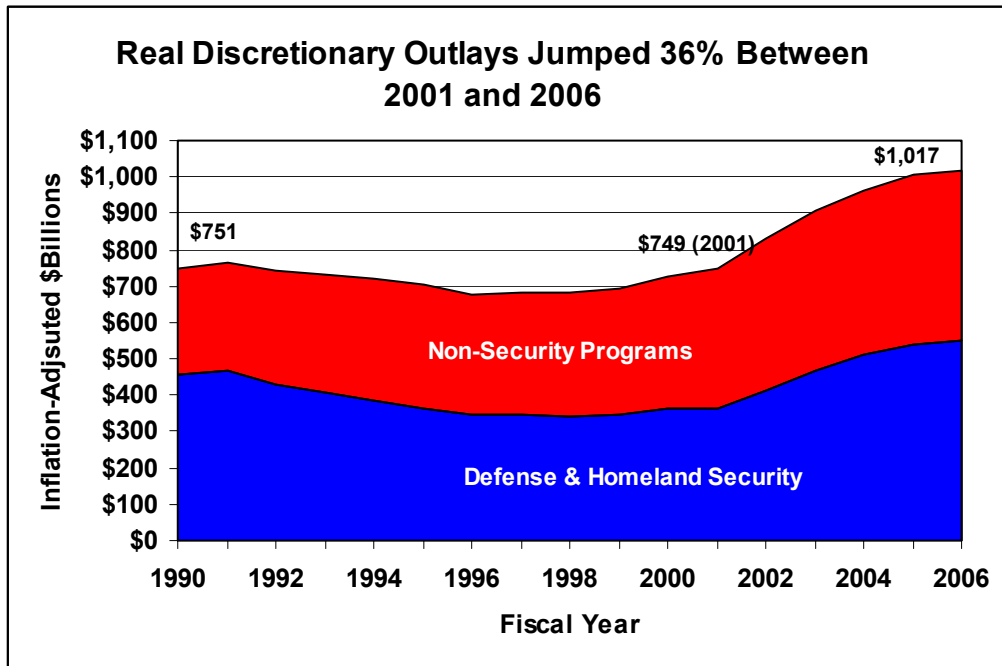
Federal Spending By Category, 2001-2006 (Inflation-Adjusted to 2006 Dollars, in \$millions)

Spending Category	Total Outlays		2001-2006 Increase		
	2001	2006	Amount	Percentage	Avg. Annual
Social Security	\$499,928	\$548,549	\$48,621	10%	1.9%
National Defense	351,899	521,840	169,941	48%	8.2%
Medicare	251,009	329,868	78,859	31%	5.6%
Income Security Programs	176,434	215,775	39,341	22%	4.1%
Medicaid	149,386	180,625	31,239	21%	3.9%
Federal Retirement & Disability	93,497	98,296	4,799	5%	1.0%
Education	40,683	93,257	52,574	129%	18.0%
Health Research and Regulation	49,531	72,155	22,624	46%	7.8%
Veterans Benefits	52,006	69,842	17,836	34%	6.1%
Community & Regional Development	13,594	54,531	40,937	301%	32.0%
Highways & Mass Transit	41,342	45,209	3,867	9%	1.8%
Justice Administration	34,874	41,016	6,142	18%	3.3%
Unemployment Benefits	34,920	33,814	-1,106	-3%	-0.6%
Natural Resources & Environment	29,586	33,055	3,469	12%	2.2%
International Affairs	19,044	29,549	10,505	55%	9.2%
Farm Subsidies	30,314	25,970	-4,344	-14%	-3.0%
Training, Employment, Social Services	25,334	25,303	-31	0%	0.0%
General Science, Space & Technology	22,844	23,616	772	3%	0.7%
General Government	16,582	18,215	1,633	10%	1.9%
Air Transportation	16,137	18,005	1,868	12%	2.2%
Water Transportation	5,390	7,030	1,640	30%	5.5%
Housing and Commerce	6,619	6,188	-431	-7%	-1.3%
General Retirement & Disability Insurance	6,652	4,592	-2,060	-31%	-7.1%
Energy	10	782	772	7425%	137.3%
Undistributed Offsetting Receipts/Other	-54,283	-68,250	-13,967	26%	4.7%
Net Interest	238,057	226,603	-11,454	-5%	-1.0%
Total Spending	2,151,389	2,655,435	504,046	23%	4.3%

Source: Office of Management and Budget, Historical Table 3.2, adjusted for inflation into 2006 dollars. Nominal 2001 spending totaled \$1,864 billion.

Discretionary Spending

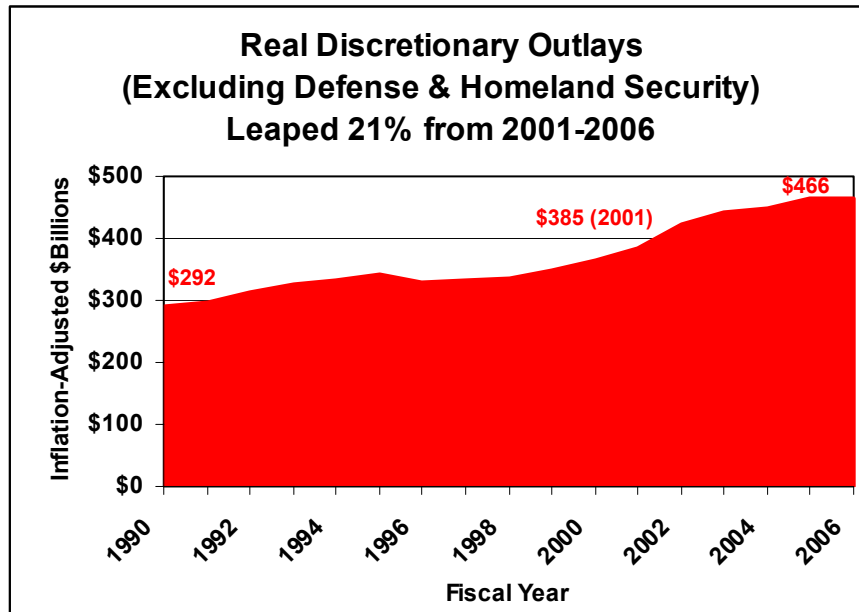
- From 2001 through 2006, discretionary outlays surged 57% (36% after adjusting for inflation) to \$1,017 billion.
- Lawmakers had leveled off discretionary spending increases in the 1990s.



Source: Both charts are based on Office of Management and Budget, Historical Table 8.1, adjusted for inflation into 2006 dollars. Homeland security figures are Heritage Foundation estimates.

Discretionary Spending, by Category

- Discretionary spending has grown across the board in recent years.
- From 2001 to 2006, defense and homeland security discretionary spending leaped 74% (51% after inflation), yet spending on non-security programs also increased by 40% (21% after inflation).
- Much of the rapid increase in defense spending since 2001 merely replenished cuts made during the 1990s.
- Among inflation-adjusted discretionary spending between 1990 and 2006:
 - Defense and homeland security spending increased 20% and
 - Non-security spending increased 60%.



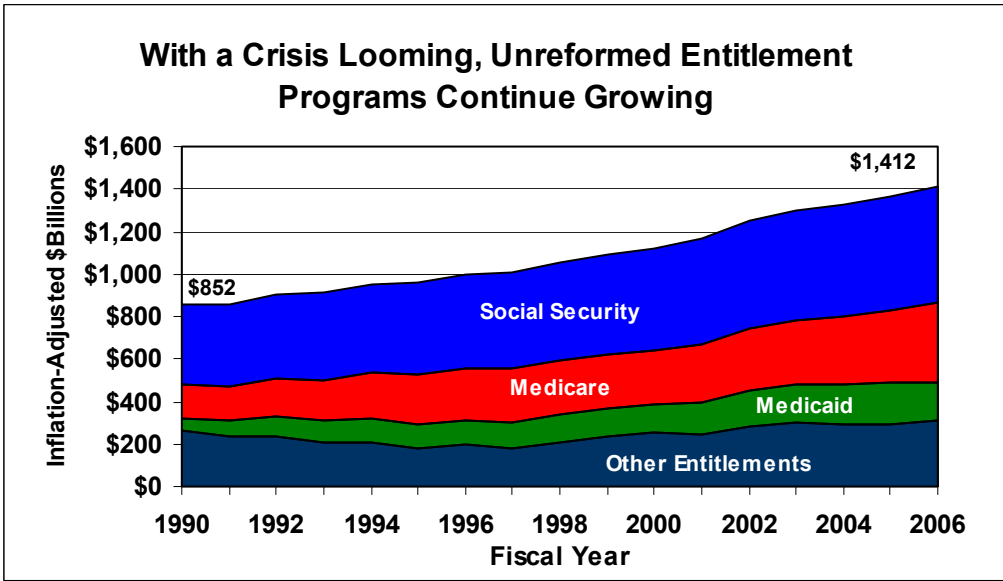
Discretionary Spending Since 1990 (Inflation-Adjusted to 2006 Dollars, in \$billions)

Year	TOTAL	Defense	Homeland Security	Non-Security Discretionary
1990	\$751	\$450	\$9	\$292
1991	766	459	9	298
1992	741	420	10	311
1993	731	396	10	324
1994	719	375	10	334
1995	706	355	11	341
1996	675	337	10	327
1997	680	338	11	332
1998	679	332	11	336
1999	693	334	11	348
2000	727	349	12	366
2001	749	353	12	385
2002	832	396	15	422
2003	910	447	22	441
2004	961	487	25	450
2005	1004	512	28	464
2006	1017	520	31	466

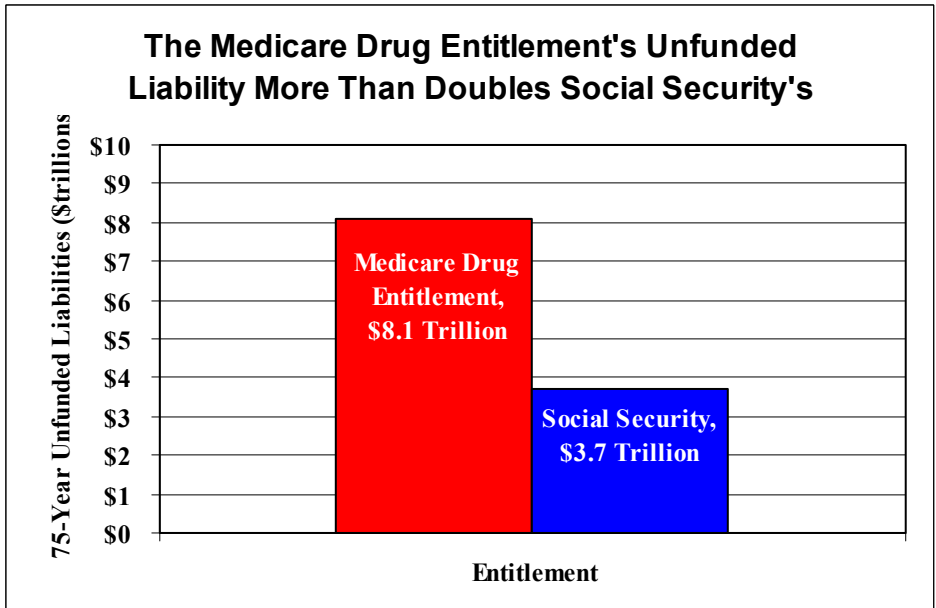
Source: Both the chart and the table are based on Office of Management and Budget, Historical Table 8.1, adjusted for inflation into 2006 dollars. Homeland security figures are Heritage Foundation estimates.

Entitlement Spending

- Entitlements (excluding net interest) consume 53% of all program spending and a record 10.8% of GDP.
- Nominal entitlement spending is projected to nearly double over the next decade. Medicare and Medicaid will expand by 8% annually, and Social Security by 6% annually.
- The Medicare drug entitlement is estimated to cost \$822 billion through 2017 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 available to all seniors regardless of need.



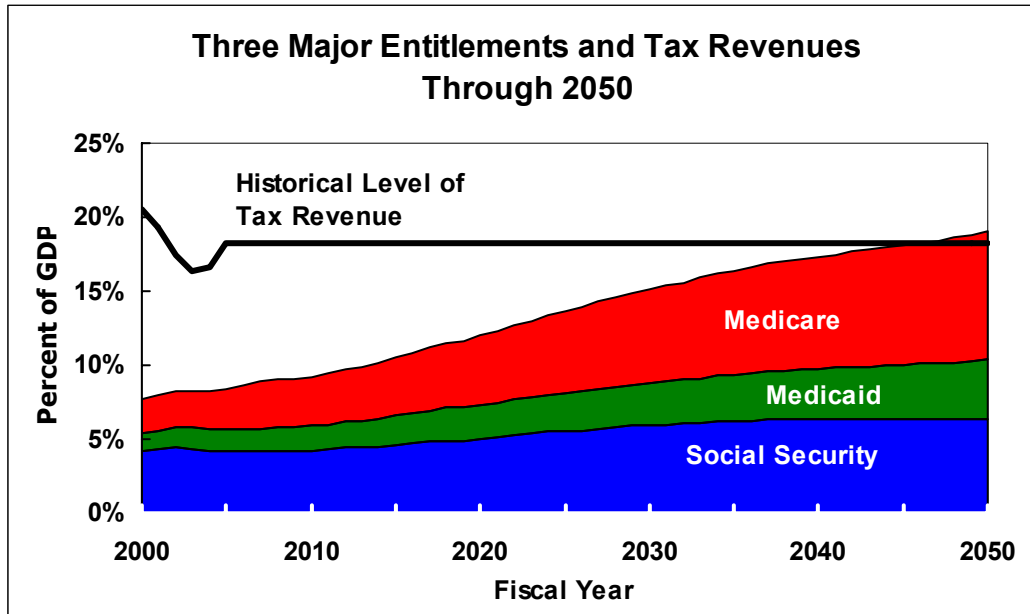
Source: Office of Management and Budget, Historical Table 8.5, adjusted for inflation into 2006 dollars.



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 <http://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 8.7% of GDP in 2006 to 19.0% of GDP by 2050.
- Additionally, net interest spending will consume an additional 9% to 46% of GDP (depending on whether massive deficit spending leads to increased interest rates) unless lawmakers rein in these programs.
- Without entitlement reform, America will have to choose between France-level tax increases or unprecedented budget cuts.



Tax Increases or Spending Cuts Needed to Fund Social Security, Medicare, and Medicaid

	"Big 3" Entitlement Costs		How to Pay for Increase Above 2006 Level	
	Total Spending %GDP	Increase Above 2006 level %GDP	Option 1 Higher Tax Level Per Household	Option 2 Cut Other Programs Percentage
2006	8.7%	--	\$0	0%
2007	8.9%	0.2%	\$226	2%
2008	9.0%	0.3%	\$339	3%
2009	9.0%	0.3%	\$339	3%
2010	9.2%	0.5%	\$566	5%
2015	10.6%	1.9%	\$2,149	19%
2020	12.0%	3.3%	\$3,733	33%
2025	13.6%	4.9%	\$5,543	49%
2030	15.2%	6.5%	\$7,353	65%
2035	16.3%	7.6%	\$8,597	76%
2040	17.3%	8.6%	\$9,728	86%
2045	18.1%	9.4%	\$10,633	94%
2050	19.0%	10.3%	\$11,651	>100%

Source: The chart and the table are based on CBO "Long-Term Budget Outlook" (December 2005) and Heritage Foundation estimates of equivalent tax increase and spending cuts.

How to read this table: In 2050, the "big three" entitlements will consume 10.3% more of GDP than today. Raising taxes by 10.3% of GDP is like raising taxes by \$11,651 per household today. Alternatively, cutting 10.3% of GDP from other federal programs would mean cutting more than 100% from all other programs. In other words, eliminating all other programs would not pay for promised entitlement spending.

Are Anti-Poverty Programs Being Slashed?

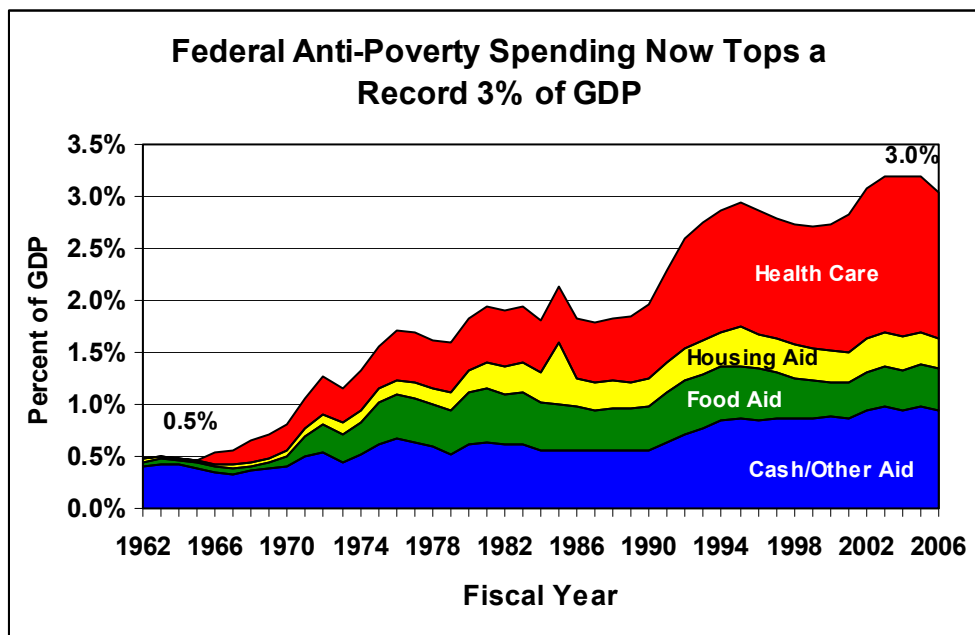
- It is a myth that anti-poverty spending has already been slashed and cannot be a source of savings.
- Anti-poverty spending has surged 41% (22% after inflation) under President Bush, to a record 3% of GDP.
- Since 2001, Medicaid rolls have expanded by 12 million and Food Stamp rolls by 9 million. Average benefit levels have grown faster than the inflation rate.
- Program success should be measured by reduced government dependency, rather than increased spending.

Real Anti-Poverty Spending Has Jumped 22% Since 2001 (Inflation-Adjusted to 2006 Dollars, in millions)

Breakdown by Anti-Poverty Category	2001	2006	Increase
Health Care Assistance	\$153,657	\$186,076	21%
Housing Assistance	34,745	38,295	10%
Food Assistance	39,320	53,928	37%
Cash & Other Assistance	102,185	123,552	21%
TOTAL ANTI-POVERTY SPENDING	329,907	401,851	22%

Funding for the Largest Anti-Poverty Programs	2001	2006	Increase
Medicaid Grants to States	\$149,386	\$180,625	21%
Supplemental Security Income (SSI)	34,654	40,203	16%
Earned Income Tax Credit (EITC) Payments	30,164	36,166	20%
Food Stamps	22,050	34,620	57%
Housing Certificate Fund & Rental Aid	19,306	23,534	22%
Temporary Assistance for Needy Families (TANF)	21,457	16,897	-21%
Child Tax Credit Payments	1,134	15,473	1265%
Child Nutrition Programs	11,040	12,437	13%
State Children's Health Insurance Fund (S-CHIP)	4,271	5,451	28%
Child Care Programs	4,292	5,252	22%
Women, Infants and Children (WIC)	4,708	5,056	7%
Other Programs	27,446	26,137	-5%
TOTAL ANTI-POVERTY SPENDING	329,907	401,851	22%

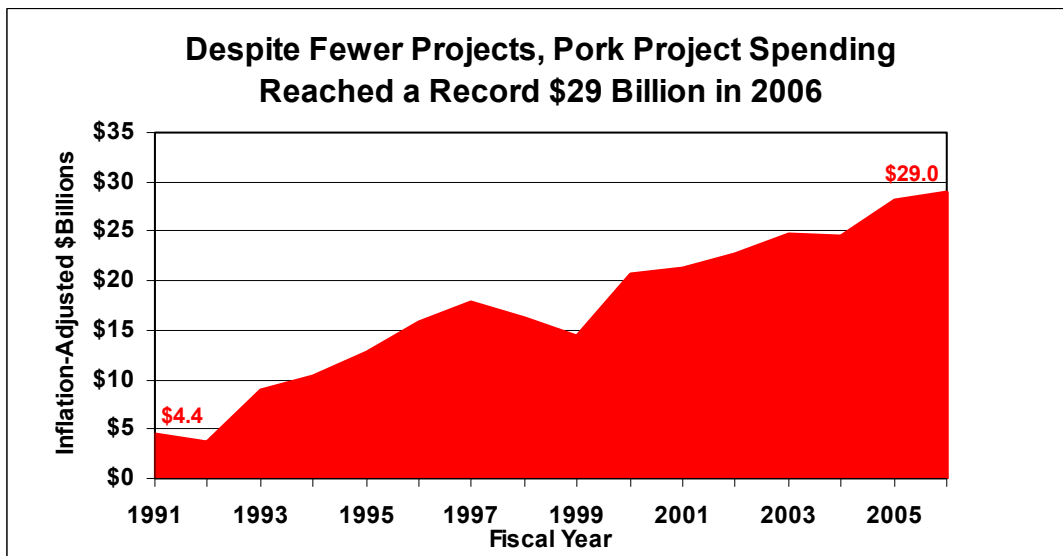
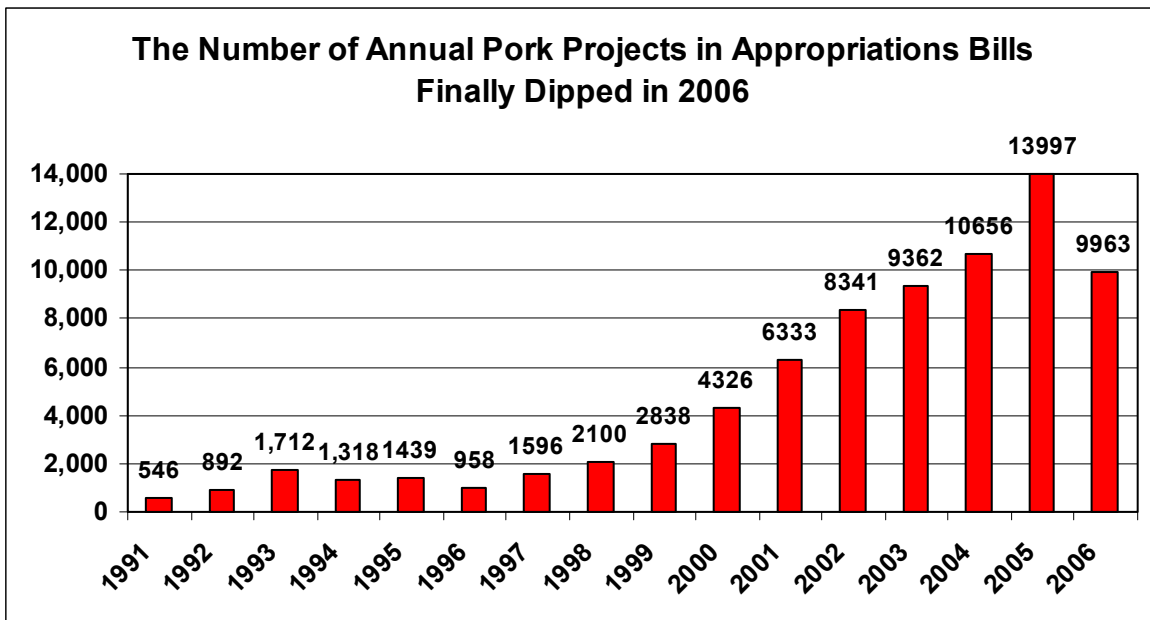
EITC and Child Tax Credit payments reflect actual subsidies beyond the tax reductions enjoyed by participants.



Source: Office of Management and Budget Historical Tables, Tables 3.2 and 8.5, consisting of budget functions 604 (housing aid), 605 (food aid), 609 (other income support), Medicaid, and S-CHIP, adjusted for inflation into 2006 dollars and into GDP.

Pork Projects

- Definition: Originally, lawmakers would fund government grant programs and then let federal and state agencies select individual grant recipients through competitive application processes. Now, Congress actually determines, within legislation, who will receive government grants by “earmarking” grant money to specific recipients. Earmarks are known as “pork projects.”
- Earmarking is a corrupting process. Many of these pork projects are bought and sold by lobbyists, who, for a generous commission, ensure that a client gets a government grant without having to go through the regular process 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 2005 highway authorization bill contained approximately 6,371 earmarks, with a combined cost of \$25 billion.
- The Democratic Congress has pledged an earmark moratorium for FY 2007. Its leaders have proposed to clean up, but not necessarily reduce, earmarking. President Bush has pledged to cut the number of earmarks in half.



Source: Both charts are based on data from Citizens Against Government Waste, www.cagw.org.

Nowhere To Cut?

- Congress appropriated **\$20 million** for “commemoration of success” celebrations related to Iraq and Afghanistan.
- **Over half of all farm subsidies** go to corporate farms with average household incomes of \$200,000.
- Lawmakers diverted **\$13 million** from Hurricane Katrina relief spending to build a museum celebrating the Army Corps of Engineers—the agency partially responsible for the failed levees that flooded New Orleans.
- Fraud related to Hurricane Katrina spending is estimated to top **\$2 billion**. In addition, debit cards provided to hurricane victims were used to pay for Caribbean vacations, NFL tickets, Dom Perignon champagne, “Girls Gone Wild” videos, and a sex change operation.
- The federal government made at least **\$37 billion** in overpayments in 2005. Current estimates range between \$40 billion and \$100 billion in annual overpayments.
- Auditors discovered that **900,000** of the 2.5 million recipients of emergency Katrina assistance provided false or duplicative names, addresses, or Social Security numbers.
- Medicare officials recently mailed **\$50 million** in erroneous refunds to 230,000 Medicare recipients.
- The Commerce Department has **lost 1,137 laptop computers** since 2001, many with Americans’ personal data.
- Audits showed **\$34 billion** worth of Homeland Security contracts contained significant waste, fraud, and abuse.
- Suburban families are receiving large **farm subsidies for the grass in their backyards**—subsidies that many of these families never requested and do not want.
- Federal auditors estimate that **\$4 billion** in Iraq-related spending is lost to corruption each year.
- Homeland Security employee purchases include 63-inch plasma TVs, iPods, and **\$230** for a beer brewing kit.
- 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** safe water programs.
- Washington spends **\$60 billion** annually on corporate welfare, versus \$43 billion on homeland security.
- The CBO published a “Budget Options” book identifying **\$140 billion** in potential spending cuts.
- Two drafting errors in the 2005 Deficit Reduction Act will add **\$2 billion** to its total cost.
- Washington recently spent **\$1.8 million** to help build a private golf course in Atlanta, Georgia.
- California cannot account for **\$550 million** in Medicaid spending between 2001 and 2004.
- Medicaid fraud and abuse are estimated to cost between **\$15-\$25 billion** annually.
- Government 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.
- Members of Congress have spent **hundreds of thousands** of taxpayer dollars supplying their offices with popcorn machines, plasma televisions, DVD equipment, ionic air fresheners, camcorders, and signature machines.
- The federal government cannot account for **\$24.5 billion** spent in 2003.
- The Defense Department wasted **\$100 million** on unused flight tickets and never bothered to collect refunds even though the tickets were refundable.
- Over one recent 18-month period, Air Force and Navy personnel used government-funded credit cards to charge at least **\$102,400** on admission to entertainment events, **\$48,250** on gambling, **\$69,300** on cruises, and **\$73,950** on exotic dance clubs and prostitutes.
- Congress recently gave Alaska Airlines **\$500,000** to paint a Chinook salmon on a Boeing 737.
- **Massive farm subsidies** also go to several members of Congress and to celebrity “hobby farmers” such as David Rockefeller, Ted Turner, and Scottie Pippen.
- 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 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.
- The Army Corps of Engineers has been accused of **illegally manipulating data** to justify expensive but unnecessary public works projects.

Source: Dozens of public studies and reports compiled by the Heritage Foundation.

Nominal Budget Data and 2007-2017 Budget Baseline

- This page contains basic nominal data (not adjusted for inflation) for those who prefer that format.
- The 2007-2017 budget projections begin with CBO’s baseline projections, and then assume that:
 - 1) All tax cuts will be extended and the Alternative Minimum Tax fixed (using CBO estimates);
 - 2) Spending on Iraq and Afghanistan will grow at the midpoint between CBO’s “slow drawdown” and “fast drawdown” scenarios; and
 - 3) Other discretionary spending will expand 4 percent per year beginning in FY 2008.
- These baseline totals assume no more terrorist attacks, natural disasters, entitlement expansions, or recessions. Historically, Congress has spent well above this baseline.
- Combined nominal spending for Social Security, Medicare, and Medicaid is projected to double by 2016.
- Runaway spending pushes the projected budget deficit to \$704 billion by 2017 and even higher thereafter.

Historical Budget Data and Future Budget Projections, 1990-2017 (Nominal Dollars, in billions)

	GDP	Revenue	Spending	Surplus/ Deficit	SPENDING BREAKDOWN										
					Discretionary				Entitlement					Interest	
					TOTAL	Defense	Home and	Other Disc.	TOTAL	Soc. Sec.	Medicare	Medicaid	Other Mand.		
1990	\$5803	\$1032	\$1253	-\$221	\$501	\$300	\$6	\$195	\$568	\$247	\$107	\$41	\$174	\$184	
1991	5996	1055	1324	-269	533	320	6	207	597	267	114	53	163	195	
1992	6338	1091	1382	-290	534	303	7	224	649	285	129	68	166	199	
1993	6657	1154	1410	-255	539	292	7	240	671	302	143	76	151	199	
1994	7072	1259	1462	-203	541	282	8	251	718	317	160	82	159	203	
1995	7398	1352	1516	-164	545	274	8	263	739	333	177	89	139	232	
1996	7817	1453	1561	-108	533	266	8	259	787	347	191	92	157	241	
1997	8304	1579	1601	-22	547	272	8	267	810	362	208	96	144	244	
1998	8747	1722	1653	69	552	270	9	273	859	376	211	101	171	241	
1999	9268	1827	1703	124	572	276	9	287	900	387	209	108	196	230	
2000	9817	2025	1789	236	615	295	10	310	951	406	216	118	211	223	
2001	10128	1991	1864	127	649	306	10	333	1009	429	238	129	212	206	
2002	10487	1853	2011	-158	734	349	13	372	1106	452	253	148	253	171	
2003	11004	1783	2157	-374	824	405	20	399	1179	471	274	161	273	153	
2004	11554	1880	2292	-413	896	454	23	419	1237	492	297	176	272	160	
2005	12293	2154	2472	-318	969	494	27	448	1320	519	333	182	286	184	
2006	13065	2407	2655	-248	1017	520	31	466	1412	544	374	181	313	227	
2007	13645	2530	2740	-210	1049	559	32	458	1456	582	428	193	253	235	
2008	14300	2648	2891	-243	1103	593	33	477	1534	609	449	208	268	254	
2009	15014	2732	3013	-281	1126	596	34	496	1620	639	477	225	279	267	
2010	15742	2796	3129	-333	1139	588	35	516	1708	675	508	242	283	282	
2011	16465	2899	3290	-391	1166	593	37	537	1820	711	557	261	291	304	
2012	17205	3033	3400	-367	1192	596	38	558	1884	754	564	282	284	324	
2013	17973	3136	3586	-450	1225	605	39	581	2020	801	623	304	292	341	
2014	18764	3272	3772	-500	1265	620	41	604	2141	851	667	327	296	366	
2015	19582	3424	3982	-558	1313	643	42	628	2276	906	719	353	298	393	
2016	20425	3580	4239	-659	1363	666	44	654	2457	964	806	380	307	419	
2017	21295	3745	4449	-704	1417	691	45	680	2586	1027	851	410	298	446	

Source: Heritage Foundation calculations based on OMB and CBO historical data and CBO’s future budget baseline (with alternative adjustments).

Note: Medicare numbers are higher than OMB figure on page 4 because CBO places Medicare offsetting collections in a separate account.

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