

Federal Spending by the Numbers 2008

Brian M. Riedl, The Heritage Foundation

Contents

Overall Budget Trends.....	2
Overall Spending Trends	3
Where Is All the Money Going?.....	4
Discretionary Spending.....	5
Discretionary Spending by Category	6
Entitlement Spending.....	7
Entitlement Spending: Long-Term Trends	8
Are Anti-Poverty Programs Being Slashed?.....	9
Pork Projects	10
Nowhere To Cut?.....	11
Nominal Budget Data and the Budget Baseline	12

February 25, 2008

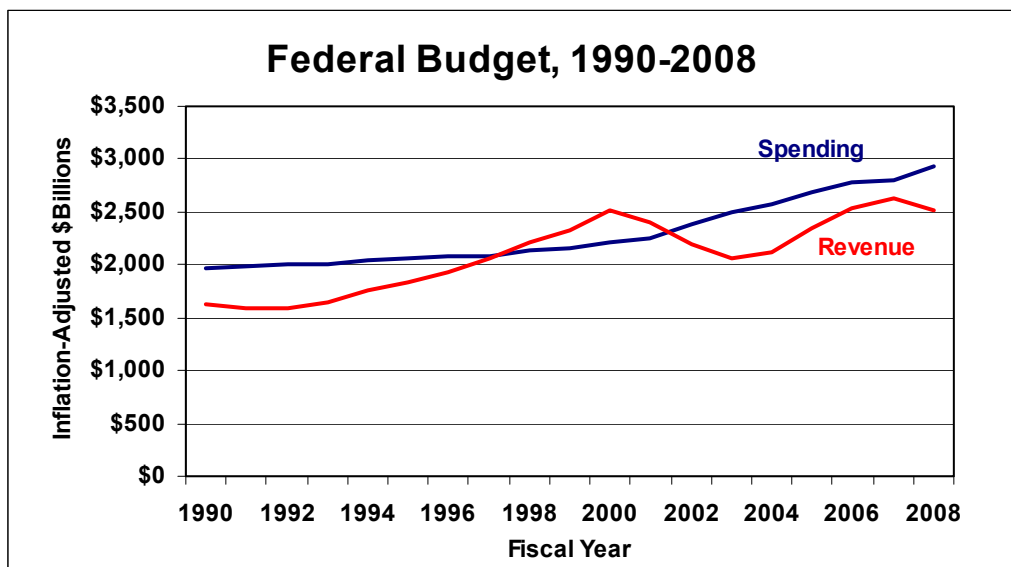
Overall Budget Trends

- In 2008, Washington will spend \$2,931 billion, raise \$2,521 billion, and run a \$410 billion budget deficit.
- Tax revenues strongly correlate with economic growth. Economic growth pushed real 2004–07 tax revenues up 25 percent—the fastest growth in 40 years. A slowing economy and tax rebates may reduce 2008 revenues.
- Spending will increase 7.4 percent (4.5 percent after inflation) in 2008 and has risen 57 percent (30 percent after inflation) overall since 2001.
- The \$410 billion budget deficit represents 2.9 percent of GDP. More importantly, the public-debt-to-GDP ratio stands at 38 percent, which is actually below the post-World War II average and below the level at any point in the 1990s.

The Federal Budget, 1990–2008

(Inflation-adjusted to 2008 dollars, in billions)

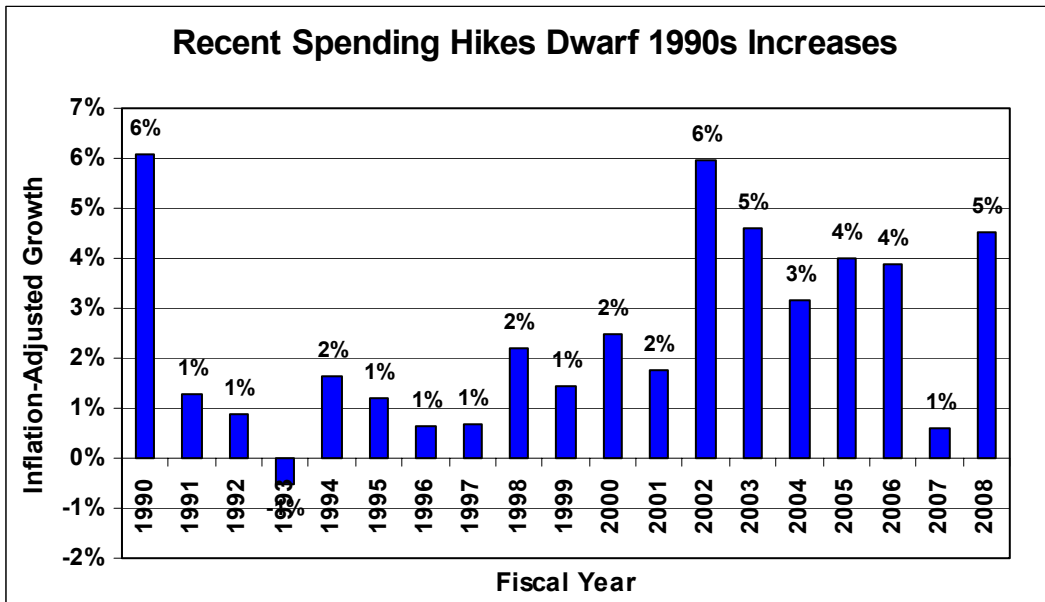
Year	Discretionary Spending	Entitlement Spending	Net Interest Spending	TOTAL SPENDING	TOTAL REVENUE	SURPLUS/DEFICIT
1990	\$787	\$893	\$290	\$1,970	\$1,623	-\$347
1991	803	899	293	1,995	1,589	-406
1992	777	944	290	2,012	1,589	-423
1993	766	954	282	2,002	1,640	-362
1994	754	999	282	2,035	1,752	-283
1995	740	1,004	315	2,060	1,837	-223
1996	708	1,045	320	2,073	1,930	-143
1997	713	1,056	318	2,087	2,058	-29
1998	712	1,109	311	2,133	2,222	89
1999	727	1,144	292	2,164	2,323	160
2000	762	1,179	276	2,217	2,510	293
2001	786	1,220	250	2,256	2,411	155
2002	873	1,314	203	2,390	2,203	-188
2003	956	1,368	177	2,501	2,064	-437
2004	1,007	1,392	180	2,580	2,115	-464
2005	1,051	1,432	200	2,683	2,337	-345
2006	1,067	1,482	238	2,787	2,527	-260
2007	1,070	1,490	244	2,804	2,638	-166
2008	1,137	1,551	244	2,931	2,521	-410



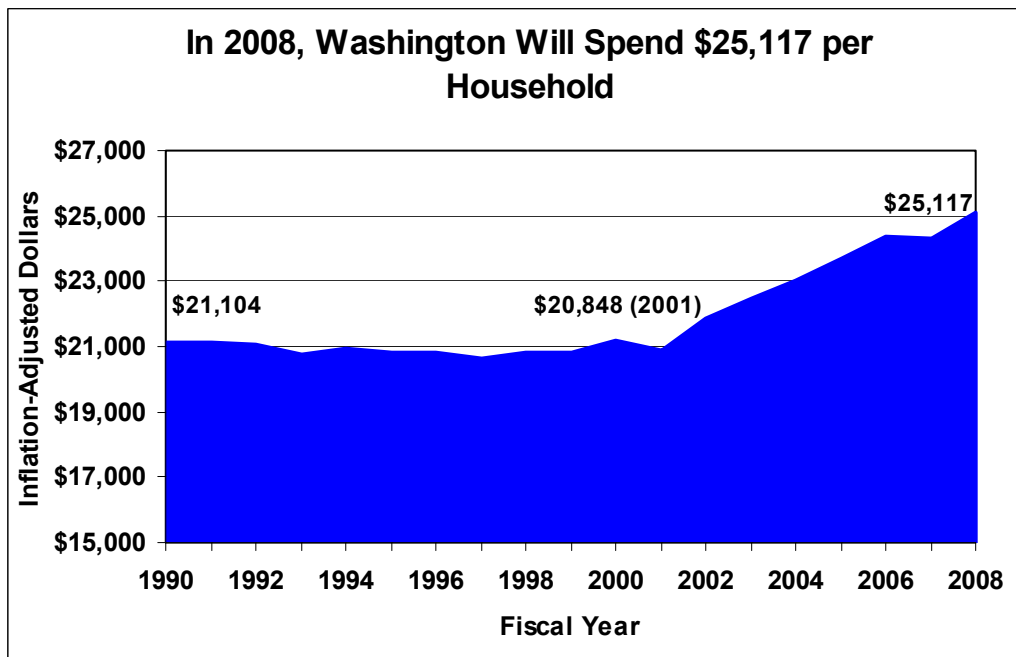
Source: Office of Management and Budget, Historical Table 1.1, adjusted for inflation into 2008 dollars. All nominal figures can be found on page 12.

Overall Spending Trends

- Federal spending has grown twice as fast under President Bush as under President Clinton.
- Federal spending has increased by 57 percent (30 percent after inflation) since 2001.
- In 2008, inflation-adjusted federal spending will top \$25,000 per household, up more than \$4,000 since 2001.
- In 2008, the federal government will spend \$25,117 per household, collect taxes of \$21,604 per household, and run a budget deficit of \$3,513 per household.



Source: Office of Management and Budget, Historical Table 1.1, adjusted for inflation into 2008 dollars.



Source: Heritage Foundation calculations based on Office of Management and Budget spending data and U.S. Census Bureau population data.

Where Is All the Money Going?

Defense and homeland security are responsible for just 40 percent of all new spending since 2001. Lawmakers also enacted:

- The 2001 No Child Left Behind Act, which is responsible for much of the 58 percent inflation-adjusted increase in education spending from 2001 through 2008;
- A 2002 farm bill that pushed annual farm spending to double the levels of the 1990s;
- A 2003 Medicare drug entitlement estimated to cost \$783 billion over the next decade and trillions in the following decades;
- 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 done little to balance new spending with savings elsewhere in the budget.

Note that this new spending came at a time when net interest payments remained relatively steady due to low interest rates. Interest payments will rise if interest rates increase.

Federal Spending By Category, 2001-2008

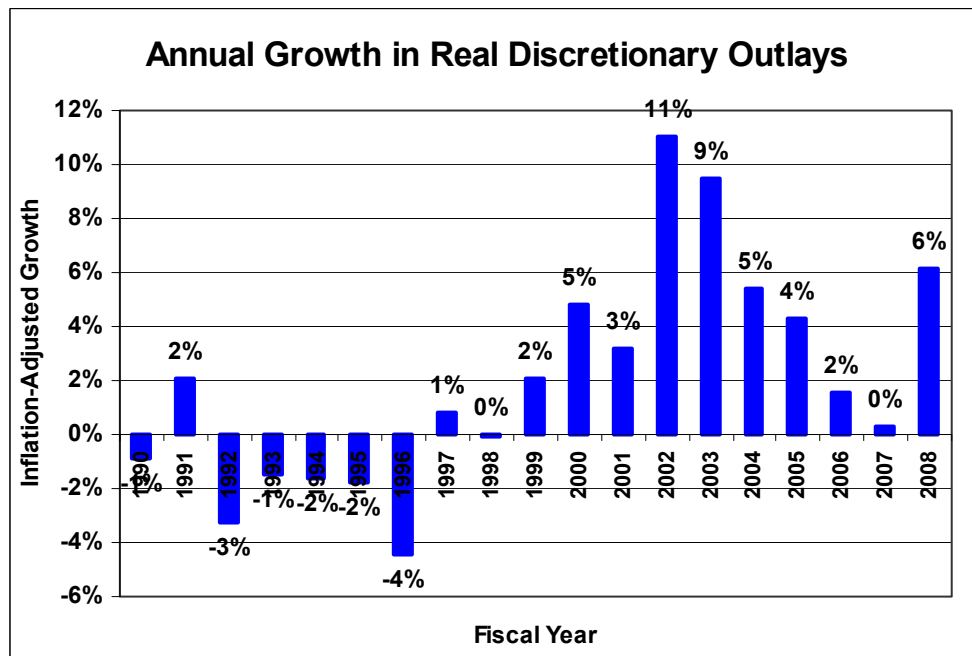
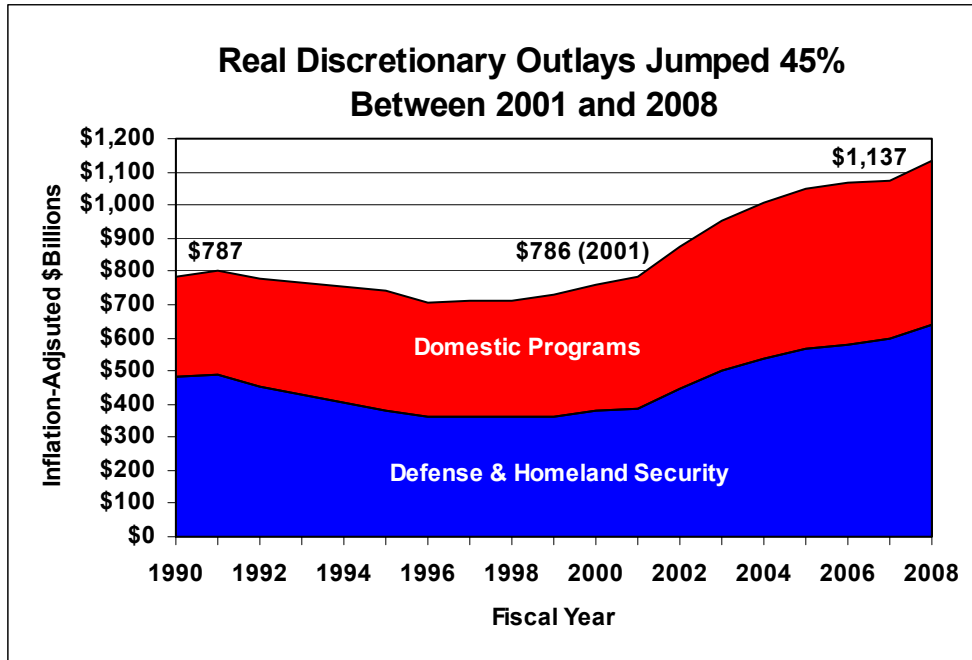
(Inflation-adjusted to 2008 dollars, in millions)

Spending Category	Total Outlays		2001-2008 Increase		
	2001	2008	Amount	Percentage	Avg. Annual
Social Security	\$524,212	\$615,256	\$91,044	17%	2.3%
National Defense	368,992	607,263	238,271	65%	7.4%
Medicare	263,202	396,333	133,131	51%	6.0%
Income Security Programs	185,004	234,098	49,094	27%	3.4%
Medicaid	156,642	203,788	47,146	30%	3.8%
Federal Retirement & Disability	98,038	109,086	11,048	11%	1.5%
Veterans Benefits	54,532	86,618	32,086	59%	6.8%
Health Research & Regulation	51,937	80,711	28,774	55%	6.5%
Education	42,659	67,493	24,834	58%	6.8%
Highways & Mass Transit	43,350	53,090	9,740	22%	2.9%
Justice Administration	36,568	46,202	9,634	26%	3.4%
Unemployment Benefits	36,616	37,333	717	2%	0.3%
Natural Resources & Environment	31,024	35,549	4,525	15%	2.0%
International Affairs	19,969	34,826	14,857	74%	8.3%
General Science, Space & Technology	23,954	27,631	3,677	15%	2.1%
Community & Regional Development	14,254	27,601	13,347	94%	9.9%
Training, Employment, Social Services	26,564	25,896	-668	-3%	-0.4%
Farm Subsidies	31,786	20,967	-10,819	-34%	-5.8%
General Government	17,388	19,809	2,421	14%	1.9%
Air Transportation	16,920	18,132	1,212	7%	1.0%
Water Transportation	5,652	9,046	3,394	60%	6.9%
General Retirement & Disability Insurance	6,975	7,923	948	14%	1.8%
Housing and Commerce	6,940	7,361	421	6%	0.8%
Energy	11	3,005	2,994	27477%	123.2%
Undistributed Offsetting Receipts/Other	-56,919	-87,742	-30,823	54%	6.4%
Net Interest	249,620	243,947	-5,673	-2%	-0.3%
Total Spending	2,255,891	2,931,222	675,331	30%	3.8%

Source: Office of Management and Budget, Historical Table 3.2, adjusted for inflation into 2008 dollars. Nominal 2001 spending totaled \$1,864 billion.

Discretionary Spending

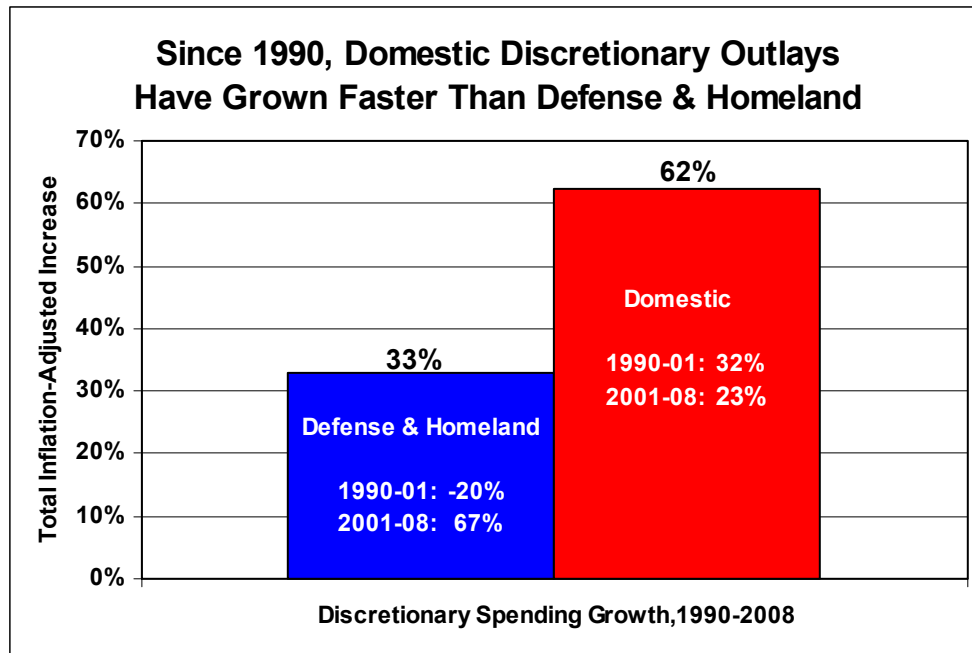
- From 2001 through 2008, discretionary outlays surged 75 percent (45 percent after inflation) to \$1,137 billion.
- Lawmakers had leveled off discretionary spending increases in the 1990s.



Source: Office of Management and Budget, Historical Table 8.1, adjusted for inflation into 2008 dollars. Pre-2001 homeland security figures are Heritage Foundation estimates.

Discretionary Spending by Category

- Discretionary spending has grown across the board in recent years.
- From 2001–2008, defense and homeland security discretionary spending leaped 102 percent (67 percent after inflation), and spending on domestic programs increased by 49 percent (23 percent after inflation).
- Much of the rapid 2001–2008 defense spending surge reversed cuts made during the 1990s. Domestic discretionary programs have actually grown faster than defense and homeland security since 1990.



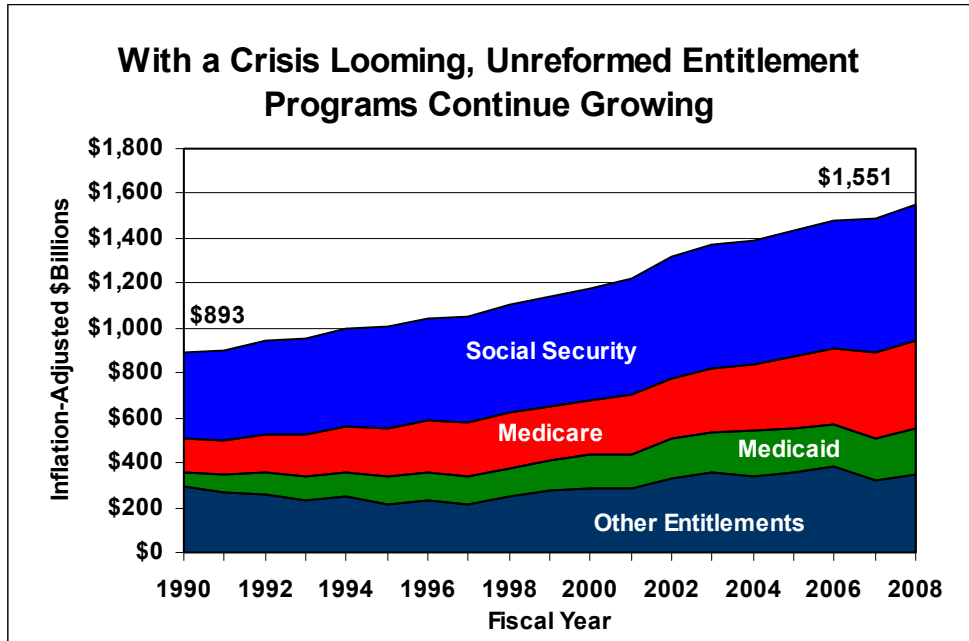
Discretionary Spending Since 1990 (Inflation-adjusted to 2008 dollars, in billions)

Year	TOTAL	Defense	Homeland Security	Domestic Discretionary
1990	787	\$472	\$9	\$306
1991	803	482	9	313
1992	777	441	10	327
1993	766	415	10	341
1994	754	393	10	350
1995	740	372	11	358
1996	708	353	10	343
1997	713	354	10	348
1998	712	349	11	353
1999	727	350	11	366
2000	762	365	11	385
2001	786	371	13	403
2002	873	415	29	429
2003	956	469	34	453
2004	1007	511	28	469
2005	1051	536	32	483
2006	1067	546	33	489
2007	1070	564	34	472
2008	1137	604	36	497

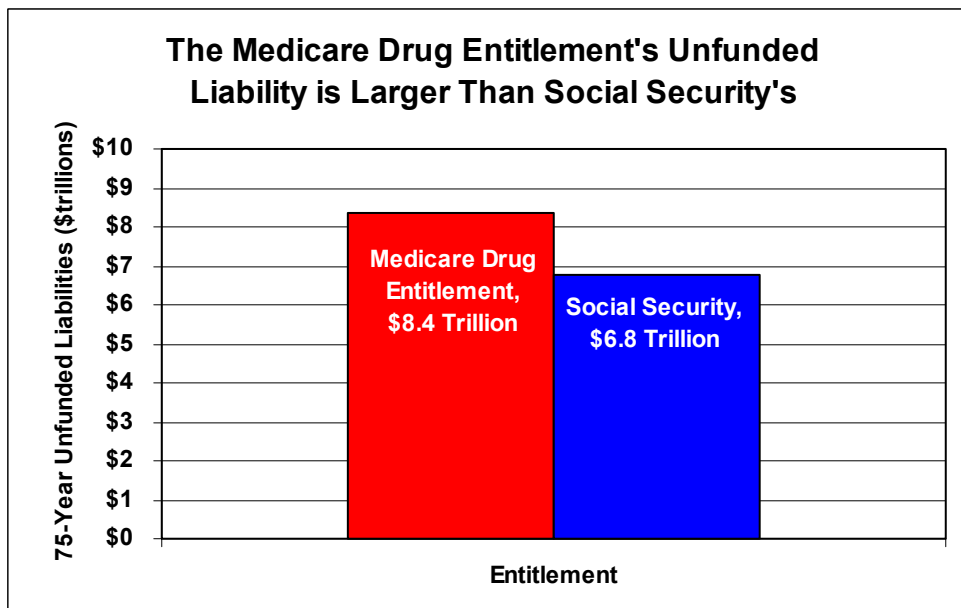
Source: Office of Management and Budget, Historical Table 8.1, adjusted for inflation into 2008 dollars. Pre-2001 homeland security figures are Heritage Foundation estimates.

Entitlement Spending

- Entitlements (excluding net interest) account for 53 percent of all program spending and a record 11 percent of GDP.
- Nominal entitlement spending is projected to nearly double over the next decade. Medicaid will expand by 8 percent annually, Medicare by 7 percent annually, and Social Security by 6 percent annually.
- The Medicare drug entitlement is estimated to cost \$783 billion over the next decade and trillions over the following decades. 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.



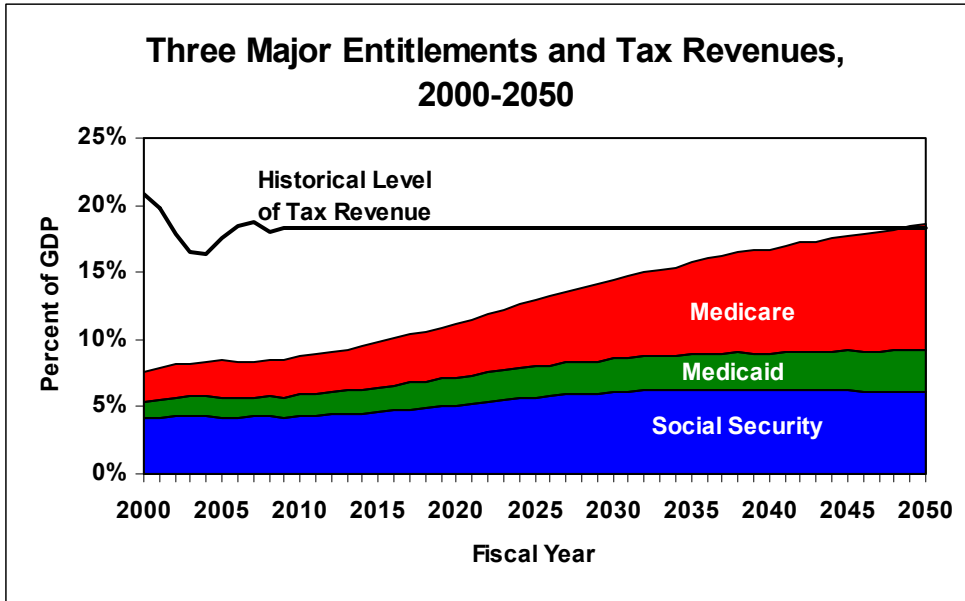
Source: Office of Management and Budget, Historical Table 8.5, adjusted for inflation into 2008 dollars.



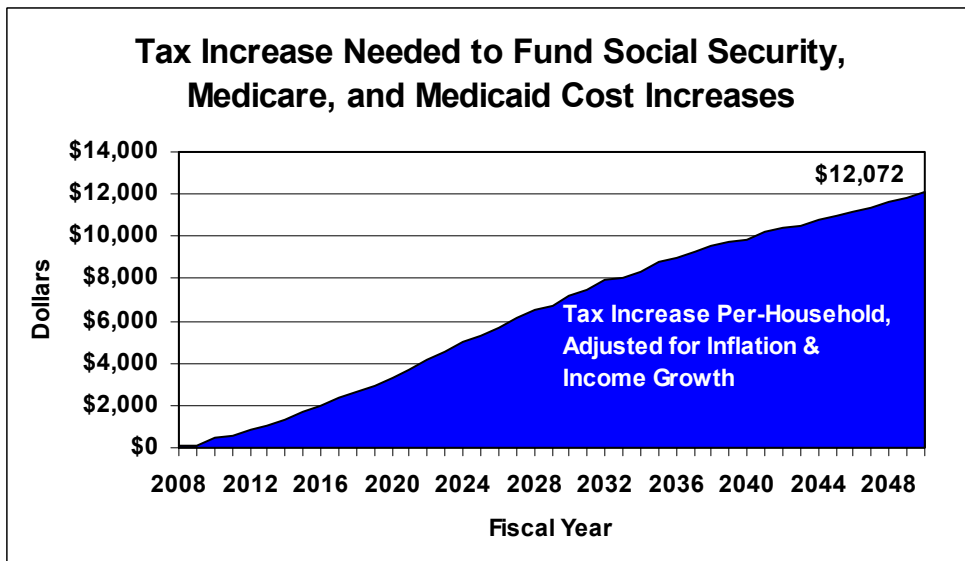
Source: Government Accountability Office, "Fiscal Year 2007 Financial Report of the United States Government," December 2007, p. 46.

Entitlement Spending: Long-Term Trends

- The total cost of Social Security, Medicare, and Medicaid is projected to leap from 8.4 percent of GDP in 2007 to 18.6 percent of GDP by 2050.
- Additionally, net interest spending will consume an additional 9 percent to 46 percent of GDP (depending on whether massive deficit spending leads to increased interest rates) unless lawmakers rein in these programs.
- Without entitlement reform, America will eventually have to choose from among:
 - Raising taxes by the current equivalent of \$12,072 per household by 2050, and further thereafter, which would cause economic stagnation;
 - Eliminating every federal program except Social Security, Medicare, and Medicaid; or
 - Increasing the national debt to unprecedented levels that could cause an economic collapse.



Source: Spending projections from Congressional Budget Office, alternative fiscal scenario in "The Long-Term Budget Outlook," December 2007..



Source: Heritage Foundation calculations based on Congressional Budget Office data.

Are Anti-Poverty Programs Being Slashed?

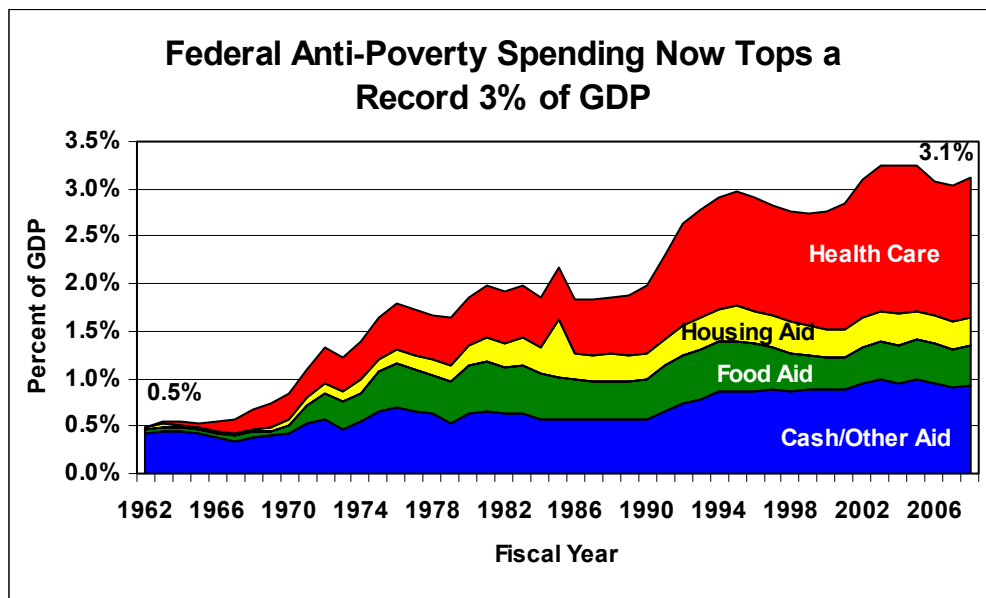
- It is a myth that anti-poverty spending has already been slashed and cannot be a source of savings or reforms.
- Anti-poverty spending has surged 56 percent (29 percent after inflation) under President Bush, to a record 3 percent of GDP.
- Since 2001, Medicaid rolls have expanded by 12 million and 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, not increased spending.

Anti-Poverty Spending Has Jumped 29 Percent Since 2001 (Inflation-adjusted to 2008 dollars, in millions)

Category	2001	2008	Increase
Health Care Assistance	161,121	211,388	31%
Housing Assistance	36,433	41,041	13%
Food Assistance	41,230	60,269	46%
Cash & Other Assistance	107,148	132,788	24%
TOTAL ANTI-POVERTY SPENDING	345,932	445,486	29%

Funding for the Largest Anti-Poverty Programs	2001	2008	Increase
Medicaid Grants to States	156,642	203,788	30%
Supplemental Security Income (SSI)	36,338	44,352	22%
Earned Income Tax Credit (EITC) Payments	31,629	39,463	25%
Food Stamps	23,121	38,780	68%
Housing Certificate Fund & Rental Aid	20,244	24,600	22%
Temporary Assistance for Needy Families (TANF)	22,500	17,261	-23%
Child Tax Credit Payments	1,189	16,321	1273%
Child Nutrition Programs	11,576	14,452	25%
State Children's Health Insurance Fund (S-CHIP)	4,479	7,600	70%
Foster Care & Adoption Grants to States	6,915	6,670	-4%
Women, Infants and Children (WIC)	4,936	5,974	21%
Child Care Programs	4,500	4,979	11%
Other Programs	21,864	21,246	-3%
TOTAL ANTI-POVERTY SPENDING	345,932	445,486	29%

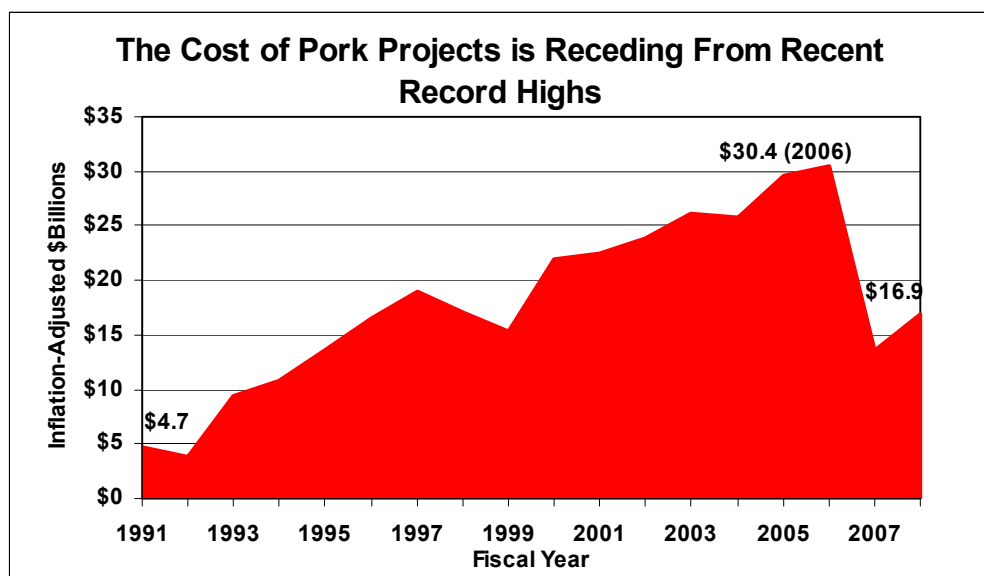
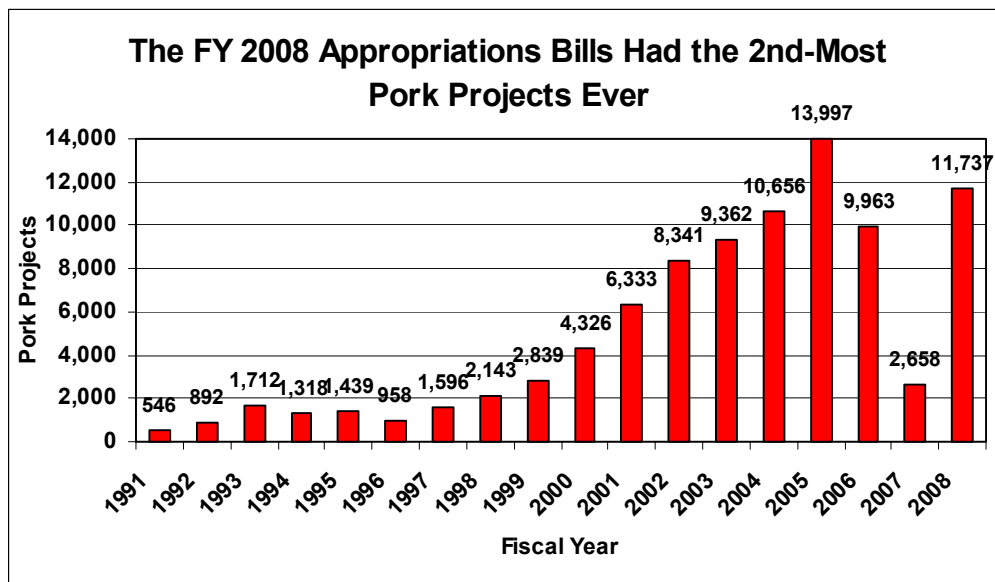
EITC and Child Tax Credit payments reflect actual subsidies beyond the tax reductions enjoyed by participants.



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

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, however, 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 a corrupting process. It effectively gives individual lawmakers their own pot of tax dollars to distribute to organizations of their choosing. Consequently, politics and campaign contributions now play a larger role in government grant distributions, at the expense of statutory formulas and competitive application processes. The FBI is investigating whether many lawmakers have made earmark decisions for personal profit.
- In addition to regular annual appropriations earmarks, the 2005 highway authorization bill contained approximately 6,371 earmarks worth \$25 billion in total.
- A year-long continuing resolution held down the FY 2007 earmark total. The new Democratic Congress then pledged – and subsequently failed – to cut FY 2008 earmarks in half from their FY 2005 peak. In response, President Bush has pledged to veto FY 2009 spending bills that do not cut the number and cost of earmarks in half from FY 2008 levels.



Source: Citizens Against Government Waste and the Office of Management and Budget.

Nowhere To Cut?

- The federal government made at least **\$55 billion** in overpayments in 2007.
- The Pentagon recently spent **\$998,798** shipping two 19-cent washers from South Carolina to Texas and **\$293,451** sending an 89-cent washer from South Carolina to Florida.
- Washington spends **\$60 billion** annually on corporate welfare versus \$50 billion on homeland security.
- 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.
- **Over half of all farm subsidies** go to corporate farms with average household incomes of \$200,000.
- Government auditors spent the past five years examining all federal programs and found that 22 percent of them—costing taxpayers a total of **\$123 billion per year**—fail to show any positive impact on the populations they serve.
- Congress appropriated **\$20 million** for “commemoration of success” celebrations related to Iraq and Afghanistan.
- 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.
- 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.
- 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.
- The National Institutes of Health spends **\$1.3 million** per month to rent a lab that it cannot use.
- The National Oceanic and Atmospheric Administration billed taxpayers for its 30th anniversary celebration in 2000 and then for its 200th anniversary celebration in 2007.
- 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 Defense Department wasted **\$100 million** on unused flight tickets and never bothered to collect refunds even though the tickets were refundable.
- Medicaid fraud and abuse are estimated to cost **\$15–\$25 billion** annually.
- 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 spent **\$2.4 billion** on 10 new jets that the Pentagon insists it does not need and will not use.
- 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 at least one sex change operation.
- Auditors discovered that **900,000** of the 2.5 million recipients of emergency Katrina assistance provided false names, addresses, or Social Security numbers or submitted multiple applications.
- Medicare officials recently mailed **\$50 million** in erroneous refunds to 230,000 Medicare recipients.
- The Commerce Department has **lost 1,137 computers** since 2001, many containing Americans’ personal data.
- Audits showed **\$34 billion** worth of Department of Homeland Security contracts contained significant waste, fraud, and abuse.
- Washington recently spent **\$1.8 million** to help build a private golf course in Atlanta, Georgia.
- Congress recently gave Alaska Airlines **\$500,000** to paint a Chinook salmon on a Boeing 737.
- 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; 40 percent of this funding goes to Fortune 500 companies.
- The Conservation Reserve program pays farmers **\$2 billion** annually not to farm their land.

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

Nominal Budget Data and the 2008-18 Budget Baseline

- This page contains basic nominal data (unadjusted for inflation) for those who prefer that format.
- The 2008–2018 budget projections begin with CBO’s baseline projections and then add several reasonable assumptions:
 1. All tax cuts will be extended and the Alternative Minimum Tax will be 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 at the rate of 4 percent per year beginning in FY 2009.
- These baseline totals assume no more terrorist attacks, natural disasters, entitlement expansions, or recessions. Historically, Congress has spent well above this baseline.
- Runaway spending pushes the projected budget deficit to \$788 billion by 2018 and even higher thereafter.

Historical Budget Data and Future Budget Projections, 1990-2018

(nominal dollars, in billions)

	GDP	Reve nue	Spen ding	Surplus/ Deficit	SPENDING BREAKDOWN									
					Discretionary				Entitlement					Interest
					TOTAL	Defense	Homel and	Other Disc.	TOTAL	Soc. Sec.	Medi care	Medi caid	Other Mand	
1990	5735	\$1032	\$1253	-\$221	\$501	\$300	\$6	\$195	\$568	\$246	\$107	\$41	\$174	\$184
1991	5935	1055	1324	-269	533	320	6	208	597	267	114	53	163	194
1992	6240	1091	1382	-290	534	303	7	225	649	285	129	68	166	199
1993	6576	1154	1410	-255	539	292	7	240	671	302	143	76	150	199
1994	6961	1259	1462	-203	541	282	7	252	718	317	160	82	159	203
1995	7326	1352	1516	-164	545	274	8	263	739	333	177	89	139	232
1996	7694	1453	1561	-107	533	266	8	258	787	347	191	92	156	241
1997	8182	1579	1601	-22	547	272	8	267	810	362	208	96	144	244
1998	8628	1722	1653	69	552	270	8	273	860	376	211	101	171	241
1999	9125	1828	1702	126	572	275	9	288	900	387	209	108	196	230
2000	9710	2025	1789	236	615	295	9	311	951	406	216	118	211	223
2001	10058	1991	1863	128	649	306	11	333	1008	429	238	129	211	206
2002	10377	1853	2011	-158	734	349	25	361	1106	452	254	148	253	171
2003	10809	1783	2160	-378	825	405	30	391	1182	470	274	161	276	153
2004	11500	1880	2293	-413	895	454	25	417	1237	492	297	176	273	160
2005	12238	2154	2472	-318	968	494	30	445	1320	519	333	182	287	184
2006	13016	2407	2655	-248	1017	520	31	466	1412	544	374	181	314	227
2007	13668	2568	2730	-162	1042	549	33	460	1451	581	436	191	243	237
2008	14312	2521	2931	-410	1137	604	36	497	1551	610	454	204	283	244

2009	14812	2725	3068	-343	1166	629	37	500	1654	646	485	225	298	248
2010	15600	2803	3201	-398	1186	627	39	520	1737	682	512	243	300	278
2011	16445	2914	3356	-442	1203	622	40	541	1846	719	561	261	305	306
2012	17256	3066	3456	-390	1224	620	42	563	1902	761	565	282	294	329
2013	18043	3159	3653	-494	1259	630	44	585	2040	807	629	304	300	354
2014	18856	3306	3834	-528	1297	643	46	609	2156	856	671	328	301	380
2015	19685	3451	4036	-585	1340	659	47	633	2288	908	719	353	308	409
2016	20540	3606	4300	-694	1390	682	49	658	2469	965	803	381	320	441
2017	21426	3770	4512	-742	1442	706	51	685	2596	1027	841	412	316	474
2018	22355	3940	4728	-788	1498	733	53	712	2724	1092	879	445	308	506

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 cited previously in this report because CBO places Medicare offsetting collections in a separate account.

—Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.