

# Federal Spending – By The Numbers

By Brian M. Riedl  
The Heritage Foundation

February 6, 2006



214 Massachusetts Avenue, NE  
Washington, DC 20002  
202-546-4400 • [heritage.org](http://heritage.org)

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## Overall Budget Trends

- In 2005, Washington spent \$2,472 billion, raised \$2,154 billion, and ran a \$318 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 14%.
- Spending increased by 8% in 2005 and is up 33% overall since 2001.
- The \$318 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.

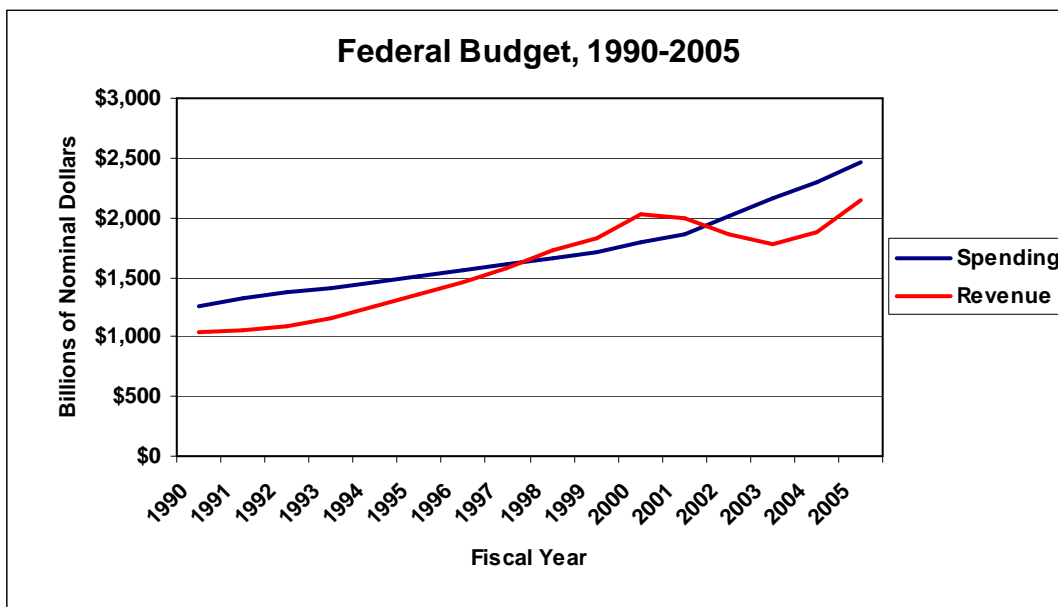
### Federal Budget, 1990-2005

(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	969	1320	184	2,472	2,154	-318

During this period, inflation averaged 3 percent annually, and the population grew 1 percent annually.

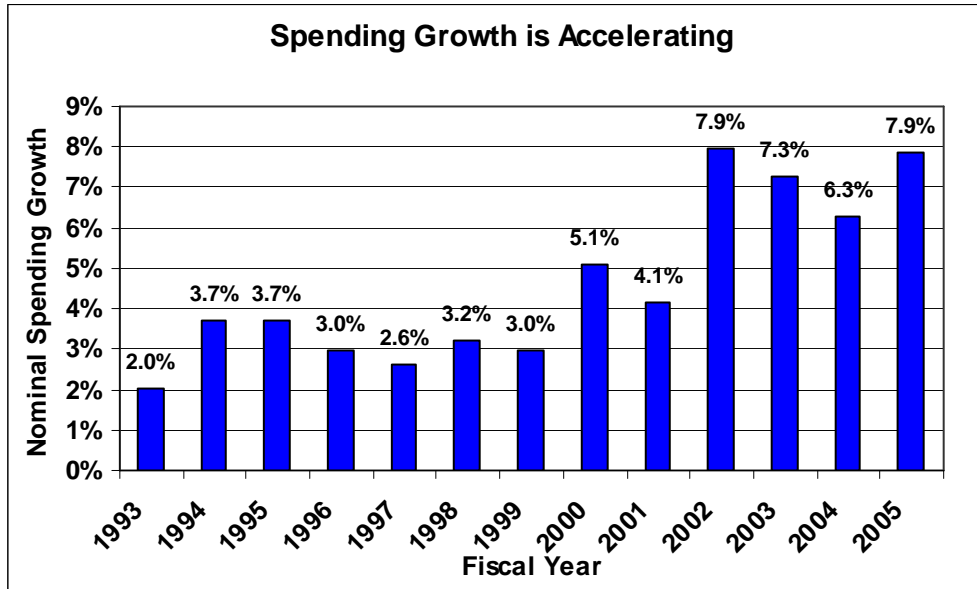
Total spending is the sum of discretionary, entitlement, and net interest spending.



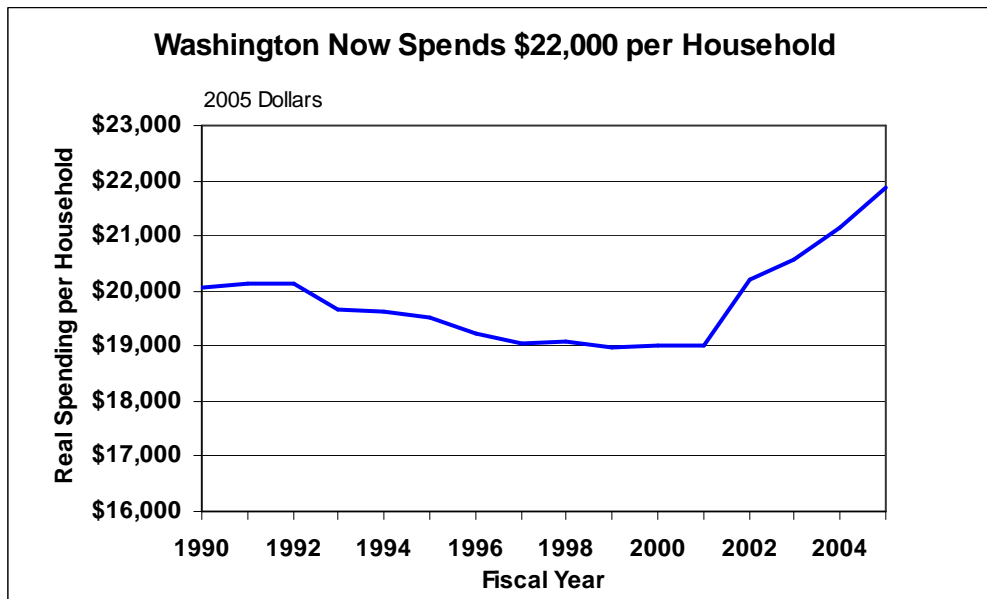
Source: Both the table and chart are based on Office of Management and Budget (OMB) data.

## Overall Spending Trends

- 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 \$2,472 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 \$21,878 per household, overall, taxed \$19,062 per household, and ran a budget deficit of \$2,816 per household.



During this period, inflation averaged 3 percent annually, and the population grew 1 percent annually.  
 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.

## 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 137% increase in education spending from 2001 through 2006;
- \$20 billion in federal assistance to states; and
- \$22 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 remained relatively steady due to low interest rates. Net interest costs will soon increase as interest rates return to normal levels.

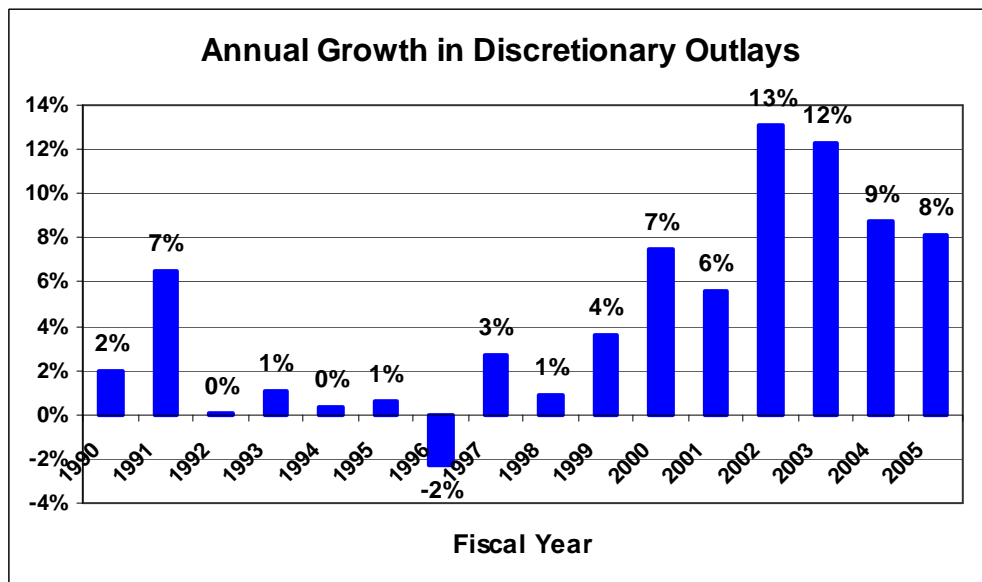
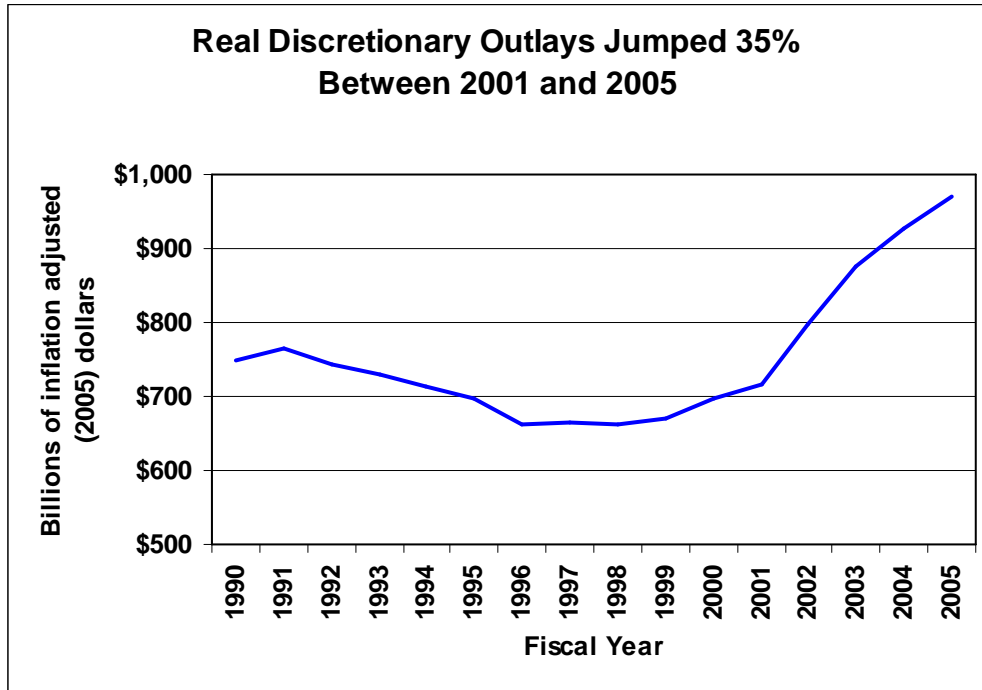
### Federal Spending By Category, 2001-2006 (Nominal \$Millions)

Spending Category	Total Outlays		2001-2006 Increase		
	2001	2006	Amount	Percentage	Avg. Annual
<b>Social Security</b>	\$432,958	\$554,740	\$121,782	28%	5.1%
<b>National Defense</b>	304,882	535,943	231,061	76%	11.9%
<b>Medicare</b>	217,384	342,987	125,603	58%	9.5%
<b>Income Security Programs</b>	152,640	215,690	63,050	41%	7.2%
<b>Medicaid</b>	129,374	192,334	62,960	49%	8.3%
<b>Federal Retirement &amp; Disability</b>	80,972	99,180	18,208	22%	4.1%
<b>Education</b>	35,203	83,480	48,277	137%	18.9%
<b>Veterans Benefits</b>	45,039	70,410	25,371	56%	9.3%
<b>Health Research and Regulation</b>	42,896	76,455	33,559	78%	12.3%
<b>Highways &amp; Mass Transit</b>	35,804	45,783	9,979	28%	5.0%
<b>Justice Administration</b>	30,205	41,342	11,137	37%	6.5%
<b>Unemployment Benefits</b>	30,242	38,554	8,312	27%	5.0%
<b>International Affairs</b>	16,493	34,750	18,257	111%	16.1%
<b>Natural Resources &amp; Environment</b>	25,623	32,731	7,108	28%	5.0%
<b>Farm Subsidies</b>	26,253	26,846	593	2%	0.4%
<b>Community &amp; Regional Development</b>	11,773	52,025	40,252	342%	34.6%
<b>Training, Employment, Social Services</b>	21,940	26,171	4,231	19%	3.6%
<b>General Science, Space &amp; Technology</b>	19,784	23,996	4,212	21%	3.9%
<b>Air Transportation</b>	13,975	18,581	4,606	33%	5.9%
<b>General Government</b>	14,260	19,085	4,825	34%	6.0%
<b>Housing and Commerce</b>	5,739	9,087	3,348	58%	9.6%
<b>General Retirement &amp; Disability Insurance</b>	5,761	7,208	1,447	25%	4.6%
<b>Water Transportation</b>	4,668	7,273	2,605	56%	9.3%
<b>Energy</b>	9	2,621	2,612	29022%	211.1%
<b>Undistributed Offsetting Receipts/Other</b>	-47,011	-68,648	-21,637	46%	7.9%
<b>Net Interest</b>	206,167	220,053	13,886	7%	1.3%
<b>Total Spending</b>	<b>1,863,033</b>	<b>2,708,677</b>	<b>845,644</b>	<b>45%</b>	<b>7.8%</b>

From 2001 through 2006, inflation will have totaled 12 percent, and the population will have grown 5 percent. 2006 numbers reflect current OMB estimates. Additional supplemental spending will add to this total. Source: Heritage Foundation calculations based on Office of Management and Budget (OMB) data.

## Discretionary Spending

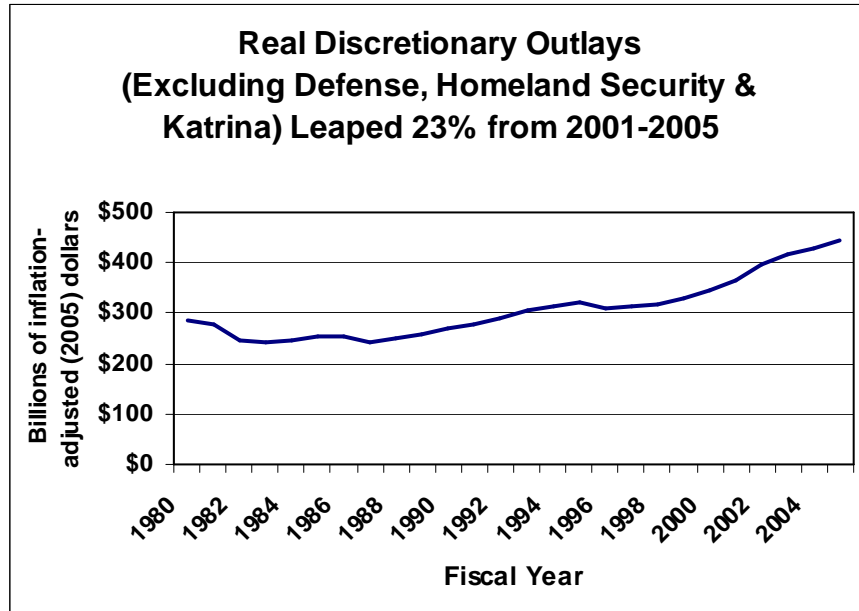
- From 2001 through 2005, discretionary outlays surged 49% (35% after adjusting for inflation), from \$649 billion to \$969 billion.
- Lawmakers had leveled off discretionary spending increases in the 1990s.



During this period, inflation averaged 3 percent annually, and the population grew 1 percent annually.  
 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 34% (23% after adjusting for inflation).



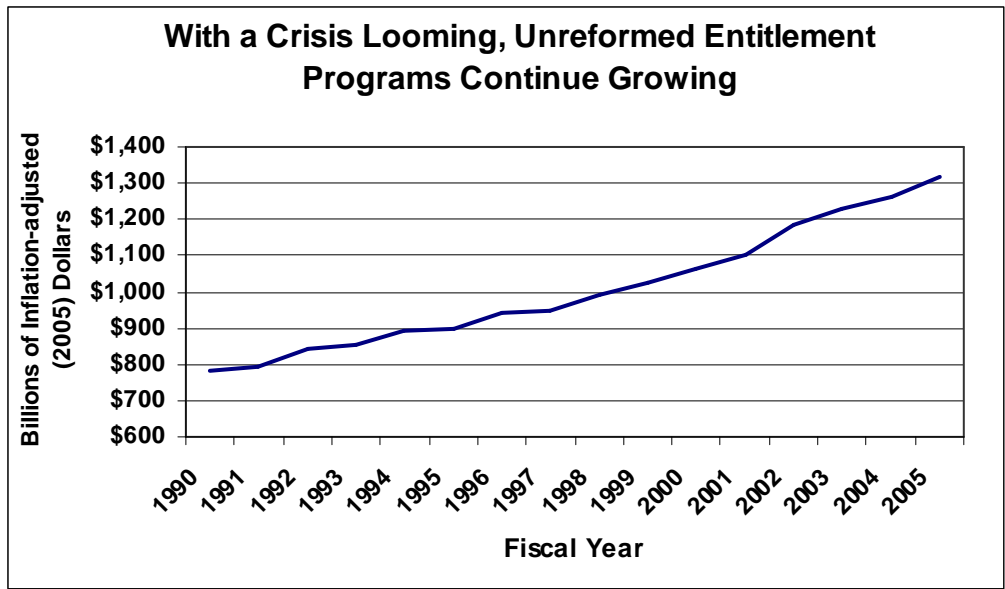
### Nominal Discretionary Spending Since 1990 (Billions)

Year	<b>TOTAL</b>	Defense	Homeland Security	Katrina (estimate)	Remaining Discretionary
1990	<b>501</b>	300	6		195
1991	<b>533</b>	320	6		207
1992	<b>534</b>	303	7		224
1993	<b>539</b>	292	7		240
1994	<b>541</b>	282	8		251
1995	<b>545</b>	274	8		263
1996	<b>533</b>	266	8		259
1997	<b>547</b>	272	8		267
1998	<b>552</b>	270	9		273
1999	<b>572</b>	276	9		287
2000	<b>615</b>	295	10		310
2001	<b>649</b>	306	10		333
2002	<b>734</b>	349	13		372
2003	<b>824</b>	405	20		399
2004	<b>896</b>	454	23		419
2005	<b>969</b>	494	27	2	446

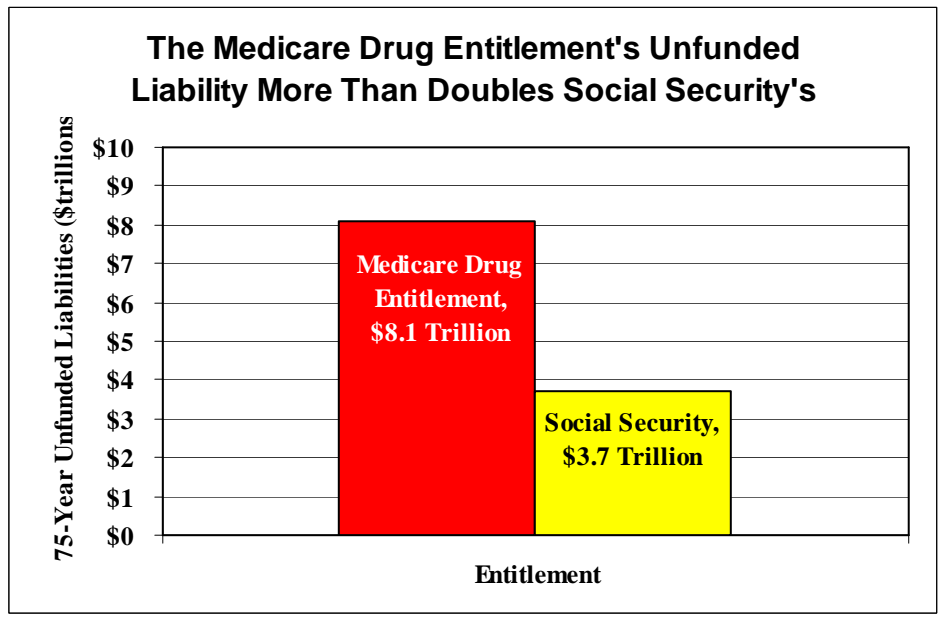
During this period, inflation averaged 3 percent annually, and the population grew 1 percent annually.  
Sources: Heritage Foundation calculations using Office of Management and Budget (OMB) and Congressional Budget Office (CBO) data. Pre-2001 homeland security spending is a Heritage Foundation estimate.

# Entitlement Spending

- Entitlements (excluding net interest) consume 53% 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.



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

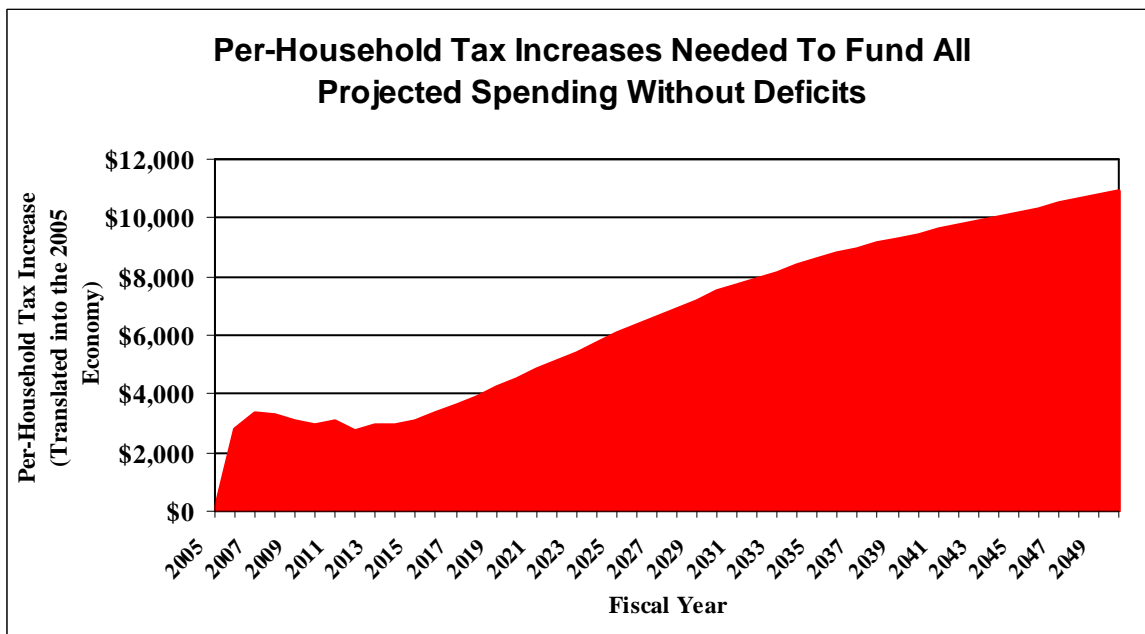
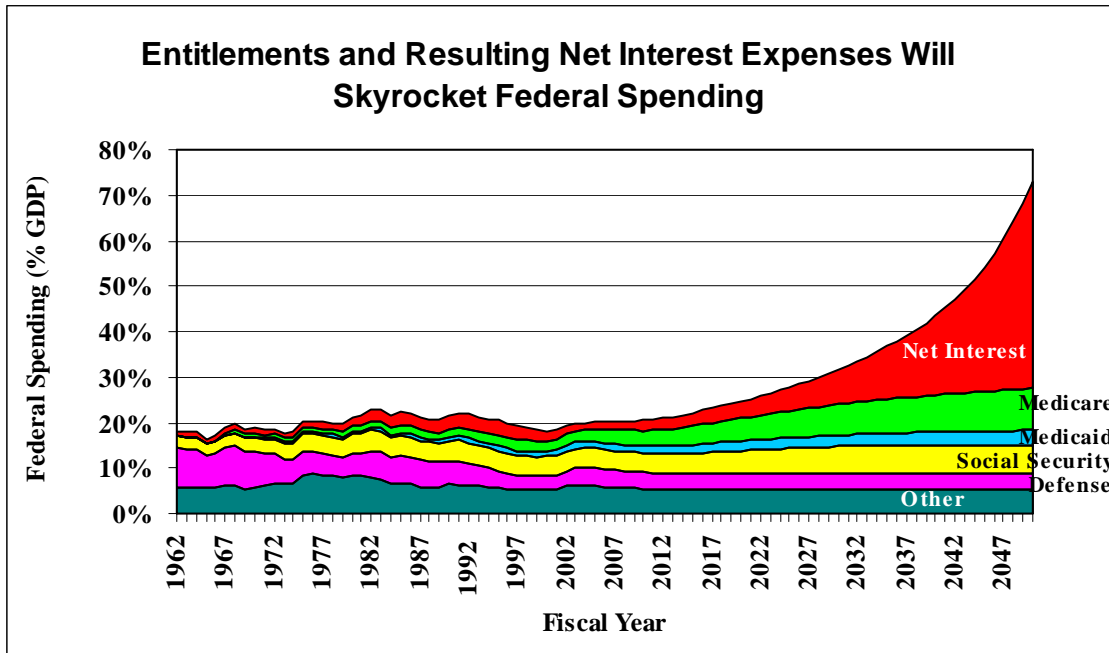


Source: Centers for Medicare and Medicaid Services, *2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Insurance Trust Funds*, March 23, 2004, p. 109, at [www.cms.hhs.gov/publications/trusteesreport](http://www.cms.hhs.gov/publications/trusteesreport); 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 8.4% 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: Brian M. Riedl, "Entitlement-Driven Long-Term Budget Substantially Worse Than Previously Projected," Heritage Foundation *Backgrounder* No. 1897, November 30, 2005.

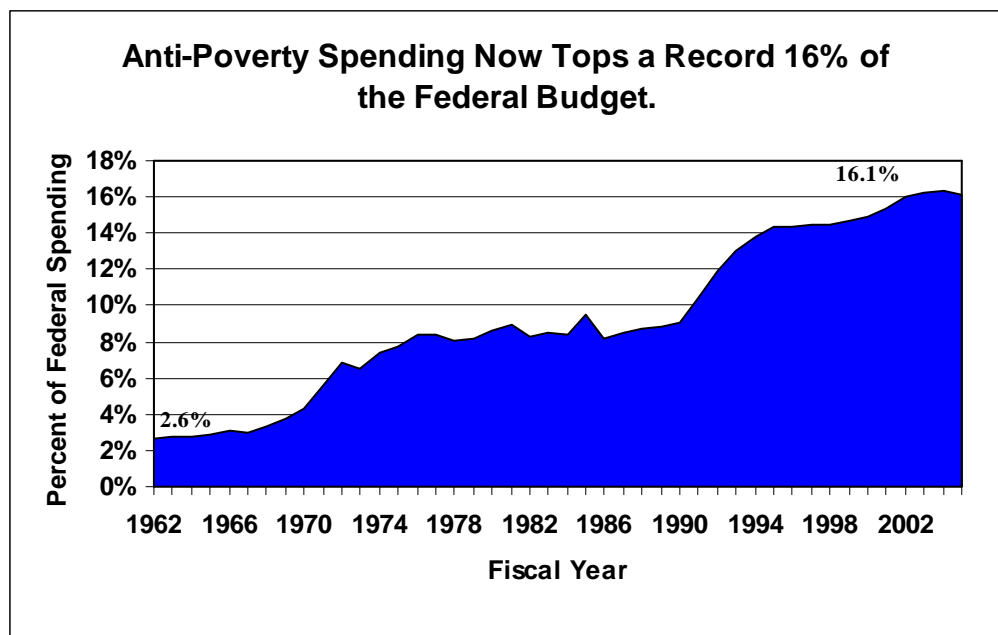
## Are Anti-Poverty Programs Being Slashed?

- It is a myth that anti-poverty spending has already been slashed and cannot be a source of savings.
- Anti-poverty spending has surged 39% under President Bush to a record 16% of all federal spending
- From 2001 through 2005, Medicaid rolls expanded by 10 million and Food Stamp rolls by 8 million. Average benefit levels grew faster than the inflation rate.
- The measure of program success should be reducing government dependency, rather than spending levels.

Breakdown by Anti-Poverty Category (Nominal \$millions)	2001	2005	Increase
Health Care Assistance	\$133,073	\$186,849	40%
Food Assistance	34,053	50,833	49%
Housing Assistance	30,091	37,899	26%
Cash & Other Assistance	88,496	121,353	37%
<b>TOTAL ANTI-POVERTY SPENDING</b>	<b>285,713</b>	<b>396,934</b>	<b>39%</b>

Breakdown by Anti-poverty Program (Nominal \$millions)	2001	2005	Increase
Medicaid Grants to States	\$129,374	\$181,720	40%
Supplemental Security Income (SSI)	30,012	40,924	36%
Food Stamps	19,096	32,614	71%
Earned Income Tax Credit (EITC) Payments	26,123	34,559	32%
Housing Certificate Fund & Rental Aid	16,720	23,285	39%
Temporary Assistance for Needy Families (TANF)	18,583	17,400	-6%
Child Tax Credit Payments	982	14,624	1389%
Child Nutrition Programs	9,561	11,899	24%
State Children's Health Insurance Fund (S-CHIP)	3,699	4,129	12%
Women, Infants and Children (WIC)	4,077	4,985	22%
Child Care Programs	3,717	4,901	32%
Other programs	23,769	25,894	9%
<b>TOTAL ANTI-POVERTY SPENDING</b>	<b>285,713</b>	<b>396,934</b>	<b>39%</b>

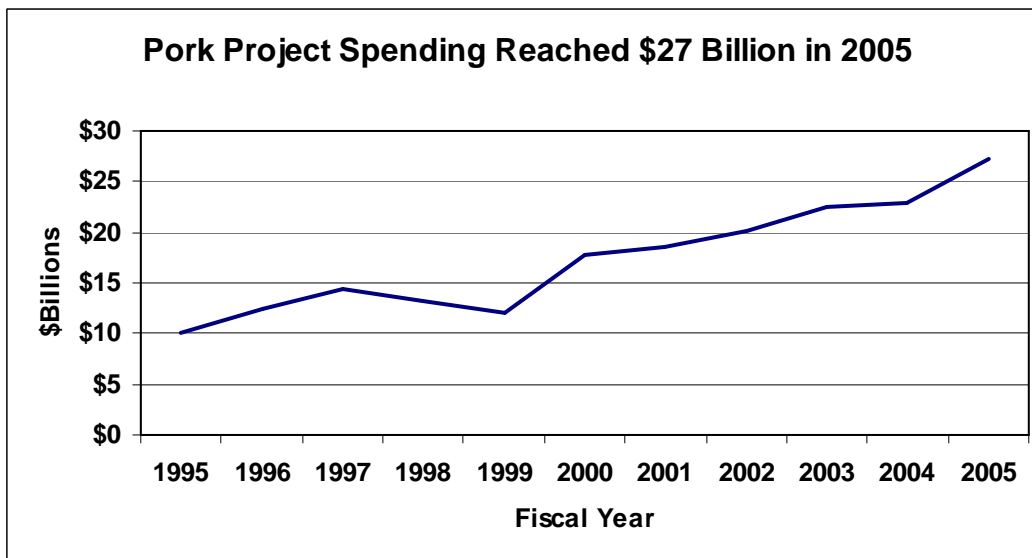
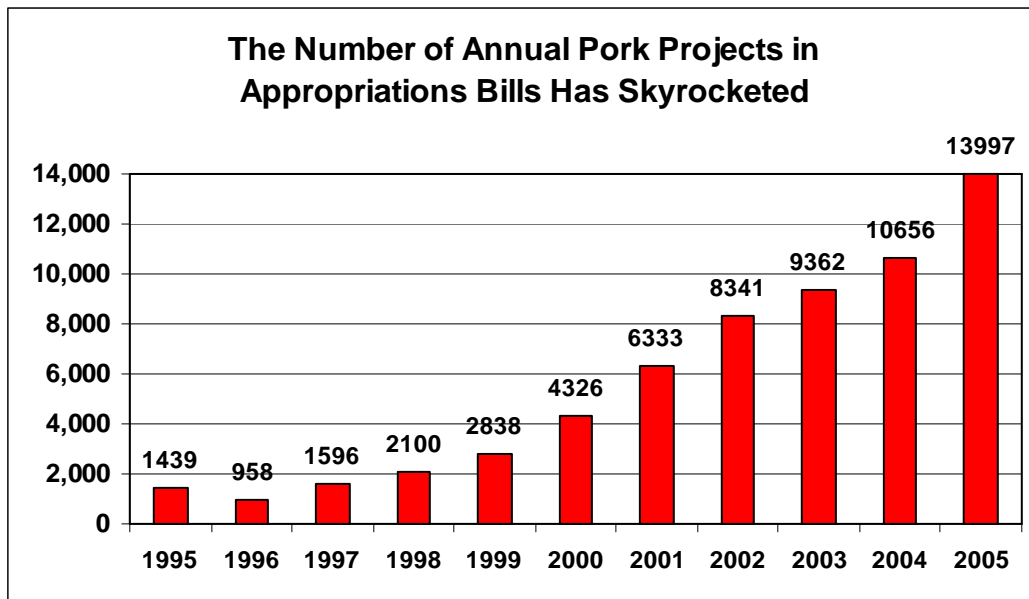
From 2001 through 2005, inflation totaled 10 percent, and the population grew 4 percent.  
 EITC and Child Tax Credit payments reflect actual subsidies beyond the tax reductions enjoyed by participants.



Source: Office of Management and Budget Historical Tables, Tables 3.2 and 8.5, at <http://www.whitehouse.gov/omb/budget/fy2007/hist.html>, and 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 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 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 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 recent highway authorization bill contained approximately 6,371 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](http://www.cagw.org).

## Nowhere To Cut?

- The federal government made at least **\$37 billion** in overpayments in 2005. Current estimates are between \$40 billion and \$100 billion in annual overpayments.
- 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.
- 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.
- 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.
- 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** for admission to entertainment events, **\$48,250** for gambling, **\$69,300** for cruises, and **\$73,950** for exotic dance clubs and prostitutes.
- Congress recently gave Alaska Airlines **\$500,000** to paint a Chinook salmon on a Boeing 737.
- 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 Congressional Budget Office published a “Budget Options” book identifying **\$140 billion** in potential spending cuts.
- The federal government spends **\$27 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 **\$37 billion** in overpayments in 2005. Current estimates are between \$40 billion and \$100 billion in annual overpayments.
- **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 Department of Housing and Urban Development’s **\$3.3 billion** in overpayments in 2001 accounted for over 10% of the department’s total budget.
- 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 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.
- 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.

Sources: See Brian M. Riedl, “How to Get Federal Spending Under Control,” Heritage Foundation *Background* 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 2006-2016 Budget Projections

- This page contains the underlying data for many of the charts and tables in this paper.
- The 2006-2016 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) Annual non-emergency discretionary outlays after 2006 will rise 5% for defense and 4 percent for non-defense;
  - 3) Iraq spending will continue to wind down (using CBO estimates);
  - 4) Modest additional sums will be appropriated to rebuild after Hurricane Katrina; and
  - 5) The recent budget reconciliation bill (using CBO estimates) will be signed by President Bush.
- Revenues are projected to expand by 5.0 percent annually, but annual spending will grow by 5.6 percent.
- 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 2015.
- Runaway spending pushes the projected budget deficit to \$804 billion by 2016 and even higher thereafter.

### Historical Budget Data and Future Budget Projections, 1990-2016 (\$billions)

FY	GDP	Rev enue	Spendi ng	Surplu s/Defic it	SPENDING BREAKDOWN										Inte rest
					Discretionary					Entitlement					
					TOT AL	Defen se	Ho melan d	Kat rina	Other Disc.	TOT AL	Soc. Sec.	Med icar e	Medic aid	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	2	446	1320	519	333	182	286	184
2006	13082	2300	2676	-376	1031	520	29	30	452	1427	550	391	191	295	218
2007	13781	2396	2802	-406	1067	538	30	30	470	1484	579	445	201	259	251
2008	14508	2519	2941	-422	1096	556	31	20	489	1568	606	478	219	264	277
2009	15264	2637	3071	-434	1127	571	32	15	508	1646	638	509	237	262	298
2010	16021	2761	3217	-456	1154	582	34	10	529	1743	673	543	257	271	320
2011	16768	2884	3394	-510	1194	604	35	5	550	1854	709	587	278	279	345
2012	17524	3040	3532	-492	1240	632	36		572	1921	752	616	301	251	370
2013	18311	3184	3750	-566	1295	662	38		595	2058	799	677	325	256	397
2014	19121	3339	3971	-632	1352	694	39		618	2194	850	737	352	256	425
2015	19963	3505	4210	-705	1412	728	41		643	2339	904	802	382	252	459
2016	20839	3679	4483	-804	1475	763	43		669	2516	962	885	413	255	493

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

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.