

■ In 2010, about three-fifths of federal expenditures went to three areas: defense and security, Social Security, and the major health insurance programs (Medicare, Medicaid, and the Children's Health Insurance Program).

Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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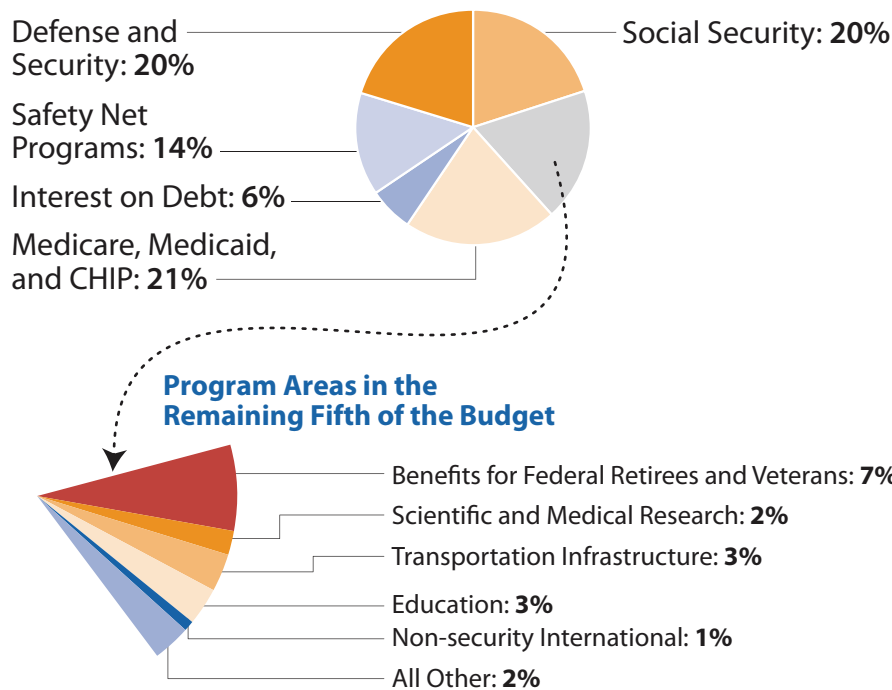
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The federal government collects taxes in order to finance various public services. As policymakers and citizens weigh key decisions about revenues and expenditures, it is instructive to examine what the government does with the money it collects.

In fiscal year 2010, the federal government spent \$3.5 trillion, amounting to 24 percent of the nation's Gross Domestic Product (GDP). While the level of 2010 expenditures — as a share of GDP — exceeds those of recent years, the composition of the budget largely resembles the patterns of recent years. Of that \$3.5 trillion, almost \$2.2 trillion was financed by federal tax revenues. The remaining \$1.3 trillion was financed by borrowing; this deficit will ultimately be paid for by future taxpayers. (See box for the recession's impact on the budget.) As shown in the graph below, three major areas of spending each make up about one-fifth of the budget:

- **Defense and security:** In 2010, some 20 percent of the budget, or \$705 billion, paid for defense and security-related international activities. The bulk of the spending in this category reflects the underlying costs of the Department of Defense and other security-related activities. The total also includes the cost of supporting operations in Iraq and Afghanistan, which totaled \$170 billion in 2010.
- **Social Security:** Another 20 percent of the budget, or \$707 billion, paid for Social Security, which provided retirement benefits averaging \$1,175 per month to 34.6 million retired workers in December 2010. Social Security also provided benefits to 2.9 million spouses and children of retired workers, 6.4 million surviving children and spouses of deceased workers, and 10.2 million disabled workers and their eligible dependents in December 2010.
- **Medicare, Medicaid, and CHIP:** Three health insurance programs — Medicare, Medicaid, and the Children's Health Insurance Program (CHIP) — together accounted for 21 percent of the budget in 2010, or \$732 billion. Nearly two-thirds of this amount, or \$452 billion, went to Medicare, which provides health coverage to around 47 million people who are over the age of 65 or have disabilities. The remainder of this category funds Medicaid and CHIP, which in a typical month in 2010 will provide health care or long-term care to about 60 million low-income children, parents, elderly people, and people with disabilities. Both Medicaid and CHIP require matching payments from the states.

Most of Budget Goes Toward Defense, Social Security, and Major Health Programs



Source: 2010 figures from Office of Management and Budget, FY2012 Historical Tables.
Note: Percentages may not total 100 due to rounding.

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Two other categories together account for another fifth of federal spending:

- **Safety net programs:** About 14 percent of the federal budget in 2010, or \$496 billion, went to support programs that provide aid (other than health insurance or Social Security benefits) to individuals and families facing hardship.

These programs include: the refundable portion of the earned-income and child tax credits, which assist low- and moderate-income working families through the tax code; programs that provide cash payments to eligible individuals or households, including Supplemental Security Income for the elderly or disabled poor and unemployment insurance; various forms of in-kind assistance for low-income families and individuals, including food stamps, school meals, low-income housing assistance, child-care assistance, and assistance in meeting home energy bills; and various other programs such as those that aid abused and neglected children.

A Center analysis shows that such programs kept approximately 15 million Americans out of poverty in 2005 and reduced the depth of poverty for another 29 million people. (Such programs likely kept even more Americans out of poverty since the recession began. For

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2009 and 2010 Budget Outcomes Skewed by the Recession

Due to one of the worst economic downturns since the Great Depression — and the policies enacted to combat it — 2009 and 2010 tax and spending levels diverged from recent patterns. Plunging federal revenues amounted to less than 15 percent of GDP in 2009 and 2010, the lowest levels in decades. The efforts to prevent collapse of the financial system and to deal with the failure of Fannie Mae and Freddie Mac, the automatic expansion of programs like unemployment insurance and food stamps (which always grow during economic downturns to meet rising need), and spending from the February 2009 stimulus package together pushed federal outlays to 25 percent of GDP in 2009 and nearly 24 percent of GDP in 2010. As a result, deficits reached record levels.

It will take the economy several years to fully recover, and during that time federal revenues and expenditures will continue to differ from historical experience. However, the composition of the budget in 2010 largely resembles recent federal spending patterns.

example, seven provisions of the Recovery Act enacted in February 2009 kept more than 6 million additional people out of poverty in 2009, according to a Center analysis.)

- **Interest on the national debt:** The federal government must make regular interest payments on the money it has borrowed to finance past deficits — that is, on the national debt held by the public, which reached \$9 trillion by the end of fiscal 2010. In 2010, these interest payments claimed \$196 billion, or about 6 percent of the budget.

As the graph shows, the remaining fifth of federal spending goes to support a wide variety of other public services. These include providing health care and other benefits to veterans and retirement benefits to retired federal employees, assuring safe food and drugs, protecting the environment, and investing in education, scientific and medical research, and basic infrastructure such as roads, bridges, and airports. A very small slice of this remaining 18 percent — about 1 percent of the total budget — goes to non-security programs that operate internationally, including programs that provide humanitarian aid.

While critics often decry “government spending,” it is important to look beyond the rhetoric and determine whether the actual public services that government provides are valuable. To the extent that such services are worth paying for, the only way to do so is ultimately with tax revenue. Consequently, when thinking about the costs that taxes impose, it is essential to balance those costs against the benefits the nation receives from public services.

Appendix

We based our estimates of spending in fiscal year 2010 on the most recent historical data released by the Office of Management and Budget (OMB). (The Federal fiscal year 2010 runs from October 1, 2009 to September 30, 2010.)

The broad expenditure categories presented in this paper were constructed on the basis of classifications commonly used by budget agencies. The categories are constructed by grouping related programs and activities into broad functions, which are further broken down into subfunctions. The details of how the categories used in this paper were constructed from those functions and subfunctions are described below.

Defense and security: The largest component of the “defense and security” category is the national defense function (050). In addition, this category includes the international security assistance subfunction (152) of the international affairs function.

Social Security: This category consists of all expenditures in the Social Security function (650), including benefits and administrative costs.

Medicare, Medicaid, and CHIP: This category consists of the Medicare function (570), including benefits, administrative costs, and premiums, as well as the “Grants to States for Medicaid” account and the “Children’s health insurance fund” account (both in 550).

Safety net programs: This category of programs includes all programs in the income security function (600) except those that fall in the following two subfunctions: federal employees’ retirement and disability (602) and general retirement and disability insurance (601). The latter contains the Pension Benefit Guarantee Corporation and also covers programs that provide pension and disability benefits to certain small groups of private sector workers.

Interest on debt: This category contains the net interest function (900).

Everything else: This category includes all federal expenditures not included in one of the five categories defined above. The subcomponents of this category that are displayed in the graph are defined as follows:

- **Benefits for federal retirees and veterans:** This subcategory combines the veterans' benefits and services function (700) and the federal employee retirement and disability subfunction (602, which is part of the income security function).
- **Education:** The education subcategory combines three subfunctions of the education, training, employment, and social services function: elementary, secondary, and vocational education; higher education; and research and general educational aids (subfunctions 501, 502, and 503 respectively).
- **Scientific and medical research:** This subcategory consists of the general science, space, and technology function (250), and the health research and training subfunction (552).
- **Transportation:** This subcategory consists of the entire transportation function (400).
- **Non-security international:** This subcategory consists of the international affairs function (150) except for international security assistance, which is included with defense, above.
- **All other:** This subcategory consists of all other federal expenditures.