Federal Budget in Pictures

CUT SPENDING // FIX THE DEBT // REDUCE THE TAX BURDEN

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The Congressional Budget Office shows very clearly something we’ve known for a long time: Higher spending is driving deficits and debt to unsupportable heights. The public debt is already at $41,000 for every American; a child born in 2015 will be faced with a $142,000 share of the debt by the time he or she leaves college.

U.S. public debt has doubled since before the Great Recession, reaching levels not seen since shortly after World War II. Why does the debt matter? Extensive research shows that excessive debt harms job growth and ultimately lowers Americans’ personal incomes. Unless America changes course soon, younger and future generations will inherit a massive national debt and a less prosperous nation.

It is critical that Americans understand what the nation’s spending, debt, and taxes mean for them and their families—as well as what solutions can point the way forward. The Heritage Foundation’s Federal Budget in Pictures offers a unique tool to learn about these vital issues in a clear, compelling way.

The federal government has borrowed to finance much of the spending growth over the past two decades. Yet when the Government Accountability Office and others independently evaluate government programs, the reports too often show spending being wasted on duplicative and ineffective government programs. Moreover, the federal government has become bloated, intruding in areas better handled by the private sector and state and local governments.

Dealing with government waste, fraud, and inappropriate spending is crucial—one key element of budget reform. This includes eliminating
programs that favor well-connected individuals and groups at the cost of the general public.

Another essential aspect of reform is readily evident simply from looking at the budget: Medicare, Medicaid, and other health care programs, together with Social Security, make up 51 percent of the federal budget. Millions of Americans rely on these outdated, unsustainable programs that were designed decades ago. Congress has yet to take the steps needed to reform these programs to benefit those most in need, while being affordable for taxpayers.

The 2015 Federal Budget in Pictures helps Americans understand the severity of the nation’s current fiscal situation. Lawmakers must make tough choices to cut government spending, just as American households have trimmed back their own unnecessary spending in recent years. We can change the nation’s current course, support a budget based on real constitutional priorities, and unshackle the enormous power of free people to create jobs, wealth, and prosperity.
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Cut Spending

Spending is growing and will hit record levels without restraint, threatening economic freedom.
Where Does All the Money Go?

In 2014, the major entitlement programs—Social Security, Medicare, Medicaid, and other health care programs—consumed 51 percent of all federal spending. These programs, and interest on the debt, are on track to consume an even greater share of spending in future years, while the portion of federal spending dedicated to other national priorities will decline.

Source: Office of Management and Budget. Notes: Figures have been rounded. Income security and other benefits includes federal employee retirement and disability, unemployment compensation, food and housing assistance, and other federal income security programs.
Higher Spending Drives America’s Deficit Crisis

Federal spending is projected to grow at a rapid pace beyond the 10-year budget window as spending on interest on the debt, health care programs (such as Medicare, Medicaid, and Obamacare), and Social Security reach unsustainable levels without reforms. Deficits will explode because of higher spending, even as tax revenues exceed their average historical level.

Source: Congressional Budget Office.
Federal Spending per Household Is on the Rise

Federal spending per household is projected to grow by 20 percent through 2023, after adjusting for inflation. Federal spending per household more than doubled from 1962 to 2003, and grew by 15 percent over the past decade.

**Sources:** Congressional Budget Office, Office of Management and Budget, and U.S. Census Bureau.
National Defense Spending Would Plummet Under Obama’s Budget

Defense spending is declining under President Obama and is on track to fall to its lowest level as a share of gross domestic product in 50 years.

Source: Office of Management and Budget.
Entitlement Reform Is Necessary to Rein in Spending and Debt

Annual spending on Medicare, Medicaid, Social Security, and other mandatory programs is massive compared to other federal spending priorities. While there is too much waste and inappropriate spending in the discretionary budget, Congress must also make entitlement reform a top priority.

Source: Office of Management and Budget.
Two-Thirds of All Federal Spending Went to Entitlement Programs in 2014

Social Security, Medicare, Medicaid, welfare and other benefit programs, and interest on the debt made up 66 percent of federal spending in 2014.

**Source:** Office of Management and Budget.
**Total Social Security Benefit Payments Are Growing Rapidly**

Since 1990, total Social Security benefit payments have more than doubled after adjusting for inflation. Disability benefits have been the fastest-growing segment, while Old-Age benefits are the largest and had the most growth in dollars. Total benefit payments are expected to continue growing rapidly as the large baby boomer generation enters retirement age, straining Social Security’s financial resources.

*Source:* Social Security Administration.
Fix the Debt

Excessive spending is creating record levels of debt—and the worst is yet to come, threatening opportunity and prosperity for younger generations.
Each American’s Share of the Public Debt Is Skyrocketing

As Washington continues spending well beyond its means, it is burdening Americans with increasing levels of debt. Congress must cut spending to fix the debt.

Sources: Congressional Budget Office, Office of Management and Budget, and U.S. Census Bureau.
What if a Typical Family Spent and Borrowed Like the Federal Government?

If a median-income family spent and borrowed like the federal government does, it would spend $61,000 despite earning only $52,000. It would pile $9,000 on top of an already massive debt of more than $311,000—like having a mortgage, only without the house.

Sources: Congressional Budget Office, Treasury Department, and U.S. Census Bureau.
Publicly Held Debt Set to Skyrocket

Runaway spending, especially on Medicare, Medicaid, and Social Security, will drive federal debt to unsustainable levels. Total national debt includes publicly held debt—or debt borrowed in credit markets—and debt that one part of the government owes to another. Including intragovernmental debt, the national debt already exceeds the size of the nation’s economic product (GDP).

Sources: Congressional Budget Office and Office of Management and Budget.
Federal Budget Deficits Will Reach Record Peacetime Levels

Without reforms, growing spending—especially for Medicare, Medicaid, Social Security, and other mandatory programs—will drive deficits to catastrophic levels. Congress should cut spending and put the entitlements on a sustainable budget.

Sources: Congressional Budget Office and Office of Management and Budget.
All Tax Revenue Will Go Toward Health Care, Social Security, and Net Interest by 2031

In less than two decades, all projected tax revenues would go toward only health care (Medicare and Medicaid, including CHIP and Obamacare), Social Security, and interest on the debt. Entitlement reform is a must.

Sources: Congressional Budget Office and Office of Management and Budget.
Social Security Deficits: Permanent and Growing

Social Security began running cash-flow deficits in 2010, paying out $51 billion more in benefits than the program received in payroll taxes that year. Without reforms, Social Security’s cash-flow deficits will rise rapidly and will quadruple in less than 20 years, when its combined trust fund would be exhausted.

Source: Social Security Administration.
Congress Should Cut Spending Before It Considers Raising the Debt Limit

Congress has raised the debt limit too many times without making substantive budget reforms to curb the growth of the debt. In recent years, Congress has suspended the debt limit altogether, most recently through March 15, 2015. When the debt limit is reinstated, it will exceed $18 trillion. Congress should adopt budget reforms that fix spending and debt instead of growing the debt without limits.

Source: Office of Management and Budget.
Reduce the Tax Burden

America’s growing tax burden is a drag on the economy, hurting jobs and American international competitiveness.
Top 10 Percent of Earners Paid 68 Percent of Federal Income Taxes

Top earners were the main target of recent tax increases under President Obama, but the federal income tax system is already highly progressive. The top 10 percent of income earners paid 68 percent of all federal income taxes in 2011 (the latest year available), though they earned 45 percent of all income. The bottom 50 percent paid 3 percent of income taxes, but earned 12 percent of income.

Source: Internal Revenue Service. Note: Figures do not sum to totals due to rounding.
Low- and Middle-Income Americans Get Hit with the Payroll Tax

Payroll (FICA) taxes are levied on wages and salaries to fund the Social Security retirement and disability programs and part of the Medicare hospital insurance program (Part A). Average effective payroll tax rates are highest for individuals in the middle of the income distribution.

Source: Tax Policy Center.
How Government Transfer Payments Affect Net Tax Rates

The top 20 percent of earners, on average, are the only income group to pay any substantive federal taxes (payroll, income, and others) when government transfer payments (Medicare, Social Security, Medicaid, and others) are included.

Source: Congressional Budget Office.
Raising Tax Rates Does Not Necessarily Lead to Higher Tax Receipts

Although the top individual tax rate fluctuated between 91 percent and 28 percent over the past 50 years, total individual receipts have remained fairly stable as a percentage of GDP. The top rate was last increased in 2013 and is now at 39.6 percent.

Source: Internal Revenue Service.
U.S. Corporate Tax Rates Are the Highest in the Developed World

The U.S. total corporate tax rate at 39.1 percent is the highest corporate tax rate in the developed world, which reduces investment in the U.S. and costs American workers jobs and higher wages.

Source: Organization for Economic Co-operation and Development (OECD).
**Cumulative Payroll Taxes Consume 15.3 Percent of Workers’ Paychecks**

Payroll (FICA) taxes fund the Social Security retirement and disability programs and part of the Medicare hospital insurance program (Part A). Without reforms, Medicare and Social Security spending threatens workers with higher payroll taxes.

**Source:** Social Security Administration.
Obamacare Comes With a Barrage of Tax Hikes

Obamacare imposes numerous tax hikes, which total nearly $800 billion over 10 years. Obamacare’s higher tax rates on income and investment will slow economic growth, leaving hard-working Americans and businesses worse off.

Sources: Congressional Budget Office and Joint Committee on Taxation.
The charts in this publication are based primarily on data available from the Office of Management and Budget (OMB) as of February 2015 and the Congressional Budget Office (CBO) as of July 2014. The charts using OMB data display the historical growth of federal spending, revenue, and debt to 2015, while the charts using CBO data show projected growth to as far as 2089. Projections based on OMB data are taken from the President’s budget for fiscal year 2016.

The charts show annual data. Debt limit data are based on the limit in effect at the end of the calendar year. All spending and revenue data are based on the federal fiscal year. Prior to 1976, the fiscal year was from July 1 to June 30. That year, the current format of October 1 to September 30 was implemented. In the charts, the transition period is omitted for simplicity. Inflation adjustments are calculated using the deflators from OMB Historical Table 10.1: “GROSS DOMESTIC PRODUCT AND DEFLATORS USED IN THE HISTORICAL TABLES: 1940–2019.” Historical averages for spending and revenues in this publication span from 1952 to 2008, encompassing post–World War II and pre–Great Recession years unless otherwise indicated.
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FOR MORE THAN 10 YEARS, the Federal Budget in Pictures has been an indispensable guide to understanding trends affecting every American family: rising government spending, soaring national debt, and our growing tax burden.

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