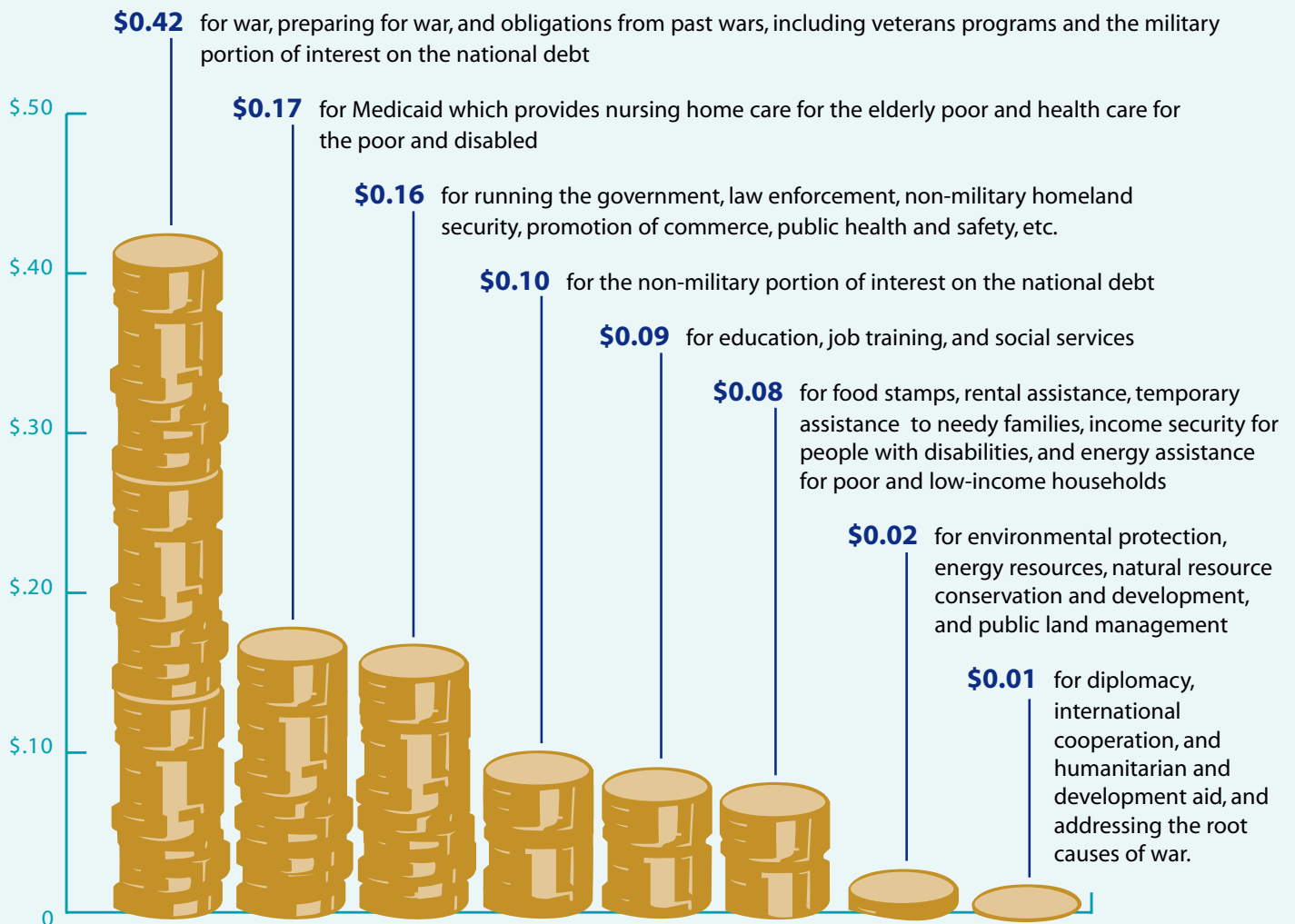


Where Do Our Income Tax Dollars Go?

For each dollar of federal income tax we paid in 2004, the government spent about:



Note: This analysis is for Fiscal Year 2004 (FY04) which ended September 30, 2004. This is the year for which we file tax returns in 2005. The pennies add up to \$1.05 because of "undistributed offsetting receipts" which caused this deviation. The analysis is based on actual Federal Funds outlays in FY04, which totaled more than \$1.7 trillion. Source: Budget of the U.S. Government Fiscal Year 2006.

The federal budget is a reflection of our country's moral values. Does this budget reflect your values?

If this budget is out of balance with your values, please tell your representative and senators.

At FCNL, we make it easy to get in touch with your legislators: go to www.fcnl.org or call us toll free at 1-800-630-1330 or write us at the Friends Committee on National Legislation, 245 Second Street, NE, Washington, D.C. 20002.

War Is Not the Answer!



Unmet Human Needs At Home and Abroad

- § Nearly 36 million people in the U.S. live in poverty, with 15.3 million living in deep poverty (living on cash incomes of less than half the poverty level). Nearly one in five children in the U.S. (17.6%) live in poverty, according to the U.S. Census Bureau.
- § Over 44 million people in the U.S. did not have health insurance in 2003, according to the Kaiser Commission on Medicaid and the Uninsured.
- § The U.S. Conference of Mayors reports that hunger and homelessness continued to increase in cities in 2004 despite improving economic trends. Many requests for food and shelter could not be met for lack of resources.
- § More than 39 million people, including 20 million children, live in working poor families where wage-earners are unable to earn enough to rise above poverty. Twenty percent of the jobs in the U.S. pay less than poverty-level wages for a family of four (less than \$9 an hour), according to the Working Poor Families Project.
- § The cost of rental housing is beyond the reach of many low-income households, according to the National Low Income Housing Coalition. A worker must earn on average \$15.37 per hour (almost three times the minimum wage) in order to afford rent and utilities for a two-bedroom apartment (if they are to spend no more on housing than the federal standard of 30 percent of wages). The median hourly wage is less than that (\$14) and 25 percent of the population earns less than \$10 an hour.
- § One billion children around the world lack basic shelter, water, sanitation, schooling, health care, and food, according to UNICEF. In sub-Saharan Africa, the HIV/AIDS pandemic has already left 12 million orphans, and continuing high death rates among young adults are expected to cause the labor forces in the worst affected countries to contract 30%–40% by 2015. Each month, 150,000 African children die from preventable and treatable malaria.
- § The U.S. ranks last among 22 developed countries in the amount of overseas development assistance it provides as a percentage of GDP (0.07%).

For more information, go to www.fcni.org or call us toll free at 1-800-630-1330 or write us at the Friends Committee on National Legislation, 245 Second Street, NE, Washington, D.C. 20002.

War Is Not the Answer!



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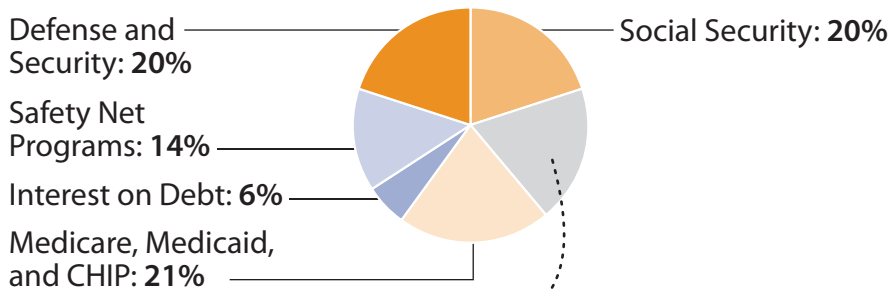
The federal government collects taxes in order to finance various public services. As policymakers and citizens weigh key decisions about revenues and expenditures, it is instructive to examine what the government does with the money it collects.

In fiscal year 2010, the federal government is projected to spend \$3.6 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 \$3.6 trillion, almost \$2.2 trillion will be financed by federal tax revenues. The remaining \$1.4 trillion will be financed by borrowing; this deficit will ultimately be paid for by future taxpayers. (See box on page 3 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:

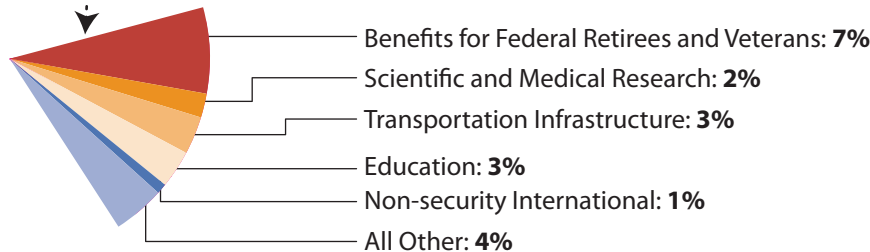
- **Defense and security:** In 2010, some 20 percent of the budget, or \$715 billion, will pay for defense and security-related international activities. The bulk of the spending in this category reflects the underlying costs of the Department of Defense and other security-related activities. The total also includes the cost of supporting operations in Iraq and Afghanistan, which is expected to total \$172 billion in 2010.
- **Social Security:** Another 20 percent of the budget, or \$708 billion, will pay for Social Security, which provided retirement benefits averaging \$1,117 per month to 36 million retired workers (and their eligible dependents) in December 2009. Social Security also provided survivors' benefits to 6.4 million surviving children and spouses of deceased workers and disability benefits to 9.7 million disabled workers and their eligible dependents in December 2009.
- **Medicare, Medicaid, and CHIP:** Three health insurance programs — Medicare, Medicaid, and the Children's Health Insurance Program (CHIP) — will together account for 21 percent of the budget in 2010, or \$753 billion. Nearly two-thirds of this amount, or \$468 billion, will go to Medicare, which provides health coverage to around 46 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 64 million low-income children, parents, elderly people, and people with disabilities. Both Medicaid and CHIP require matching payments from the states.

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

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



Program Areas in the Remaining Fifth of the Budget



Source: Congressional Budget Office, 2010.

Note: Percentages may not total 100 due to rounding.

- **Safety net programs:** About 14 percent of the federal budget in 2010, or \$482 billion, will 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 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.)

- Safety net programs kept approximately 15 million Americans out of poverty in 2005 and reduced the depth of poverty for another 29 million people.

- When thinking about the costs that taxes impose, it is essential to balance those costs against the benefits the nation receives from public services.

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. Preliminary data show that 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 more than 24 percent of GDP in both years. 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.

- **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, which is projected to reach \$9 trillion by the end of fiscal 2010. In 2010, these interest payments (net of some interest income) will claim \$209 billion, or about 6 percent of the budget.

As the graph shows, the remaining 19 percent 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 19 percent – about 1 percent of the total budget – goes for 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.

We based our estimates of spending in fiscal year 2010 on the most recent data released by the Congressional Budget Office (CBO). (Federal fiscal year 2010 runs from October 1, 2009 to September 30, 2010.) We adjusted the CBO data to accommodate the additional costs of continuing certain current policies. Specifically, we assumed that Congress would provide additional funding for the wars in Iraq and Afghanistan and would cancel the scheduled Medicare fee cuts for physicians. These adjustments do not materially change the composition of the budget.

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 veteran’s 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.