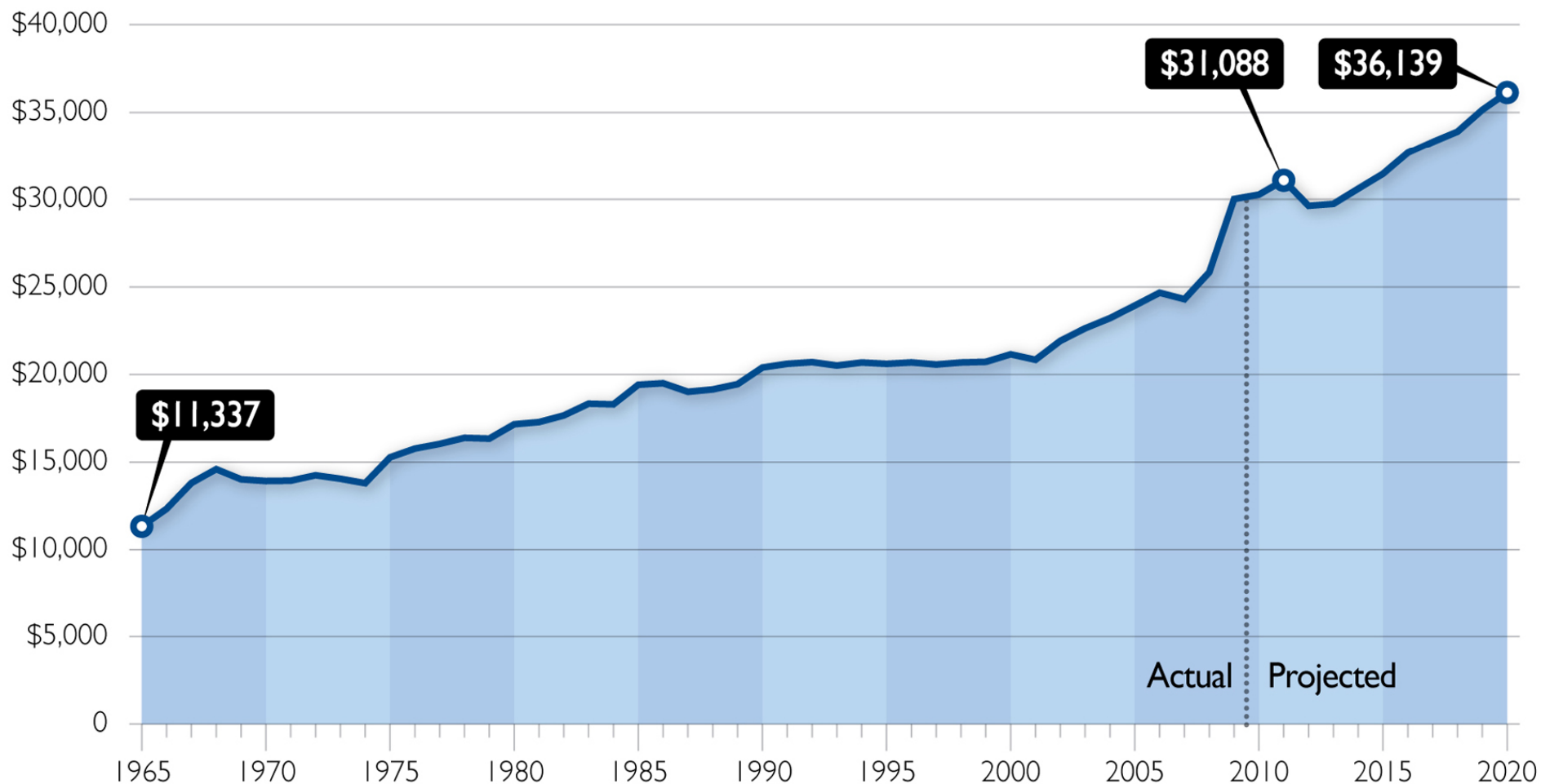


Federal Spending per Household Is Skyrocketing

The federal government is spending more on a per-household basis than ever before.

INFLATION-ADJUSTED DOLLARS (2009)

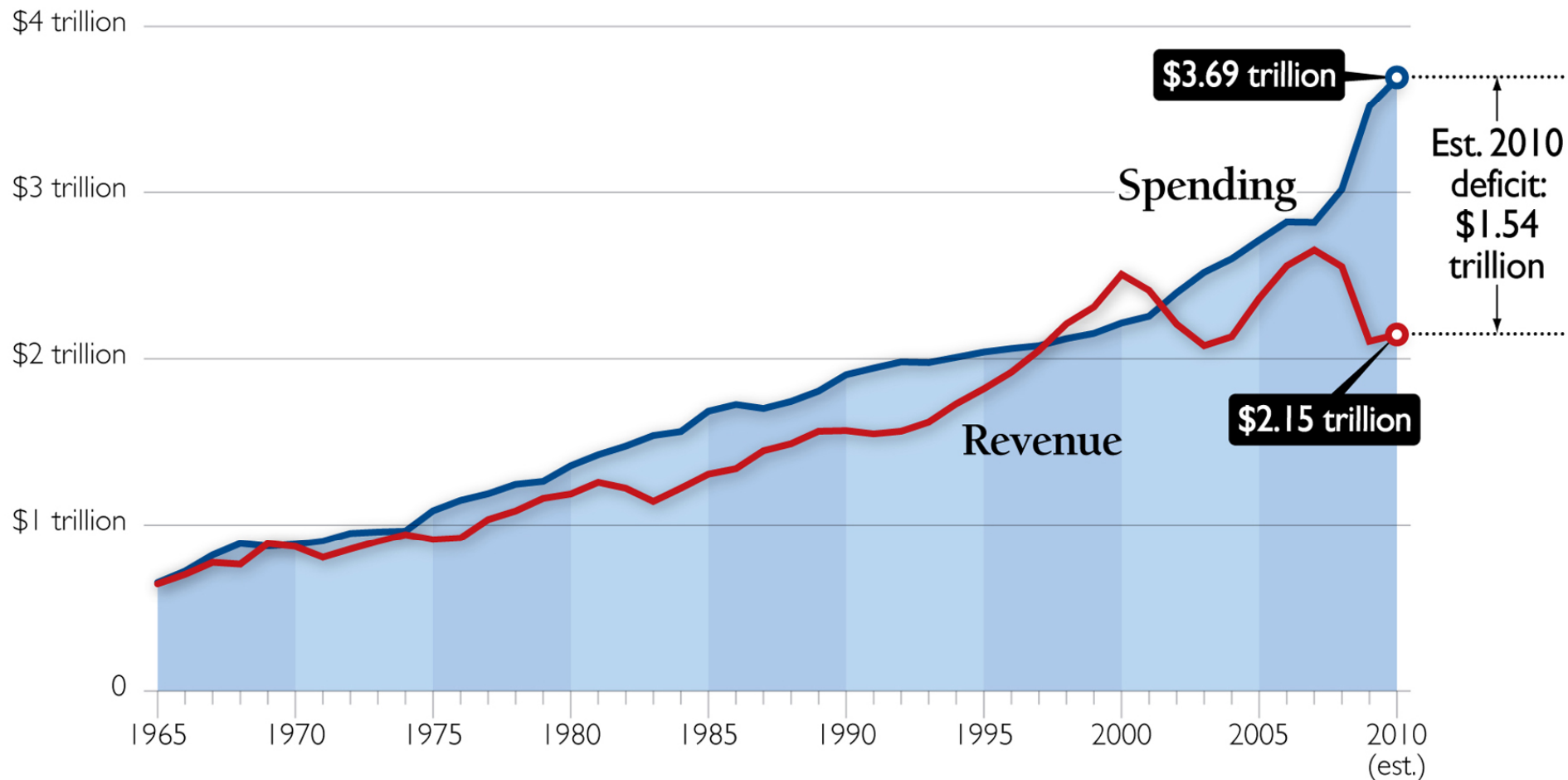


Source: U.S. Census Bureau, White House Office of Management and Budget, and Congressional Budget Office.

Federal Spending Is Growing Faster Than Federal Revenue

Since 1965, taxes and spending have been rising. Federal revenues have dropped recently due to the economic recession while spending has reached a record high.

INFLATION-ADJUSTED DOLLARS (2009)

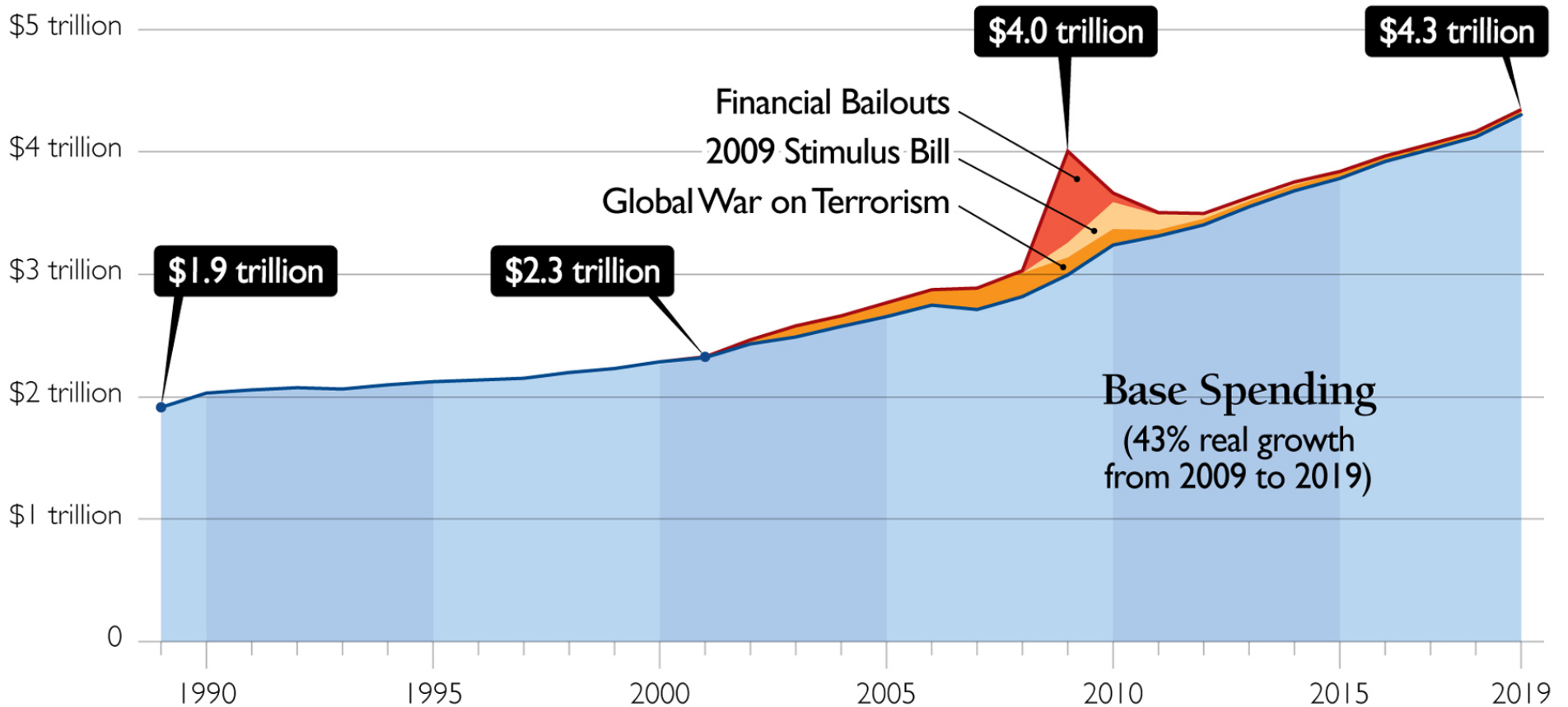


Source: White House Office of Management and Budget.

Recent Spending Hikes Are Not Limited to Temporary Emergencies

The overall increase in base spending is a significant budgetary concern. Recent bailouts and the stimulus were expensive, but they are a modest fraction of the total budget. Even the global war on terrorism is just a small sliver of spending.

INFLATION-ADJUSTED DOLLARS (2009)

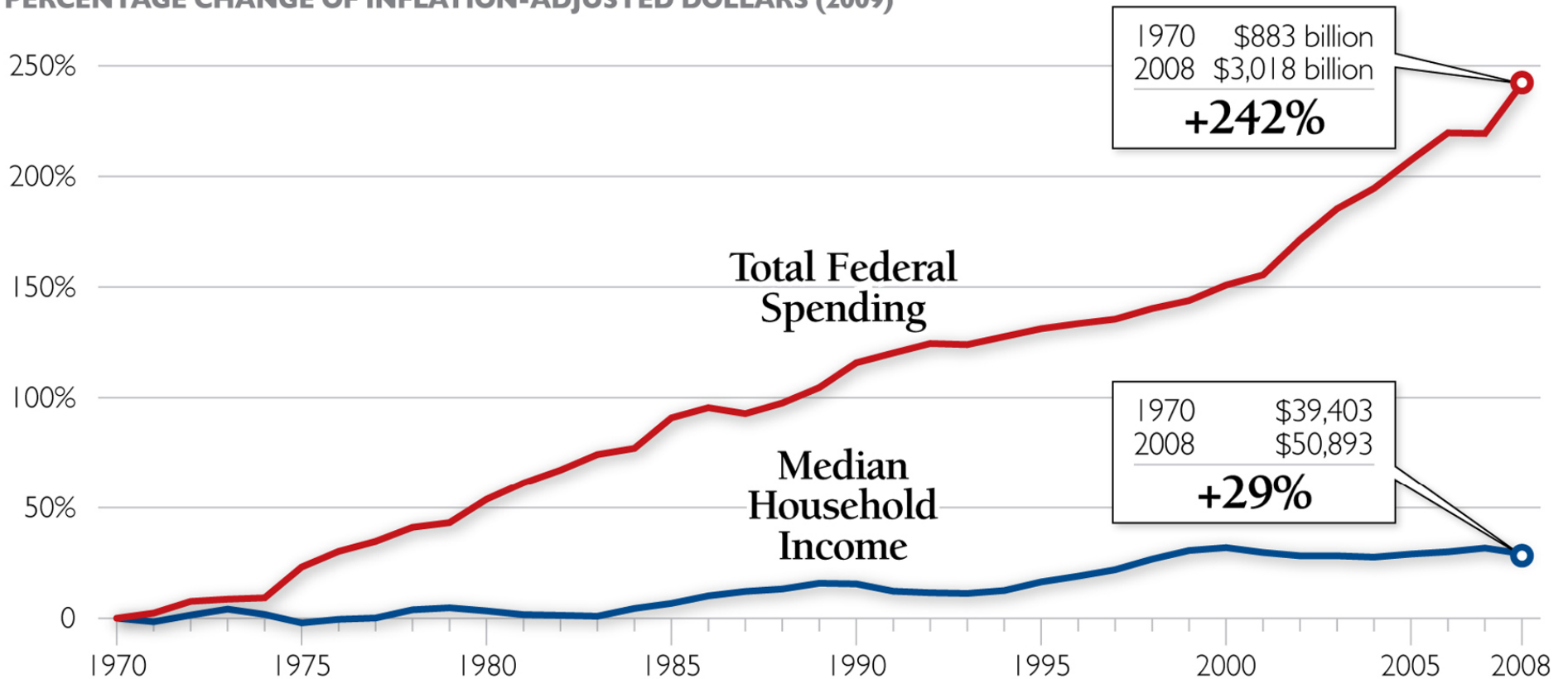


Source: Heritage Foundation calculations based on White House Office of Management and Budget data.

Federal Spending Grew More Than Eight Times Faster Than Median Income

When federal spending grows faster than people's paychecks, the government's burden on taxpayers becomes greater. Over the past few decades, middle-income Americans' earnings have risen 29 percent, while spending has increased 242 percent.

PERCENTAGE CHANGE OF INFLATION-ADJUSTED DOLLARS (2009)

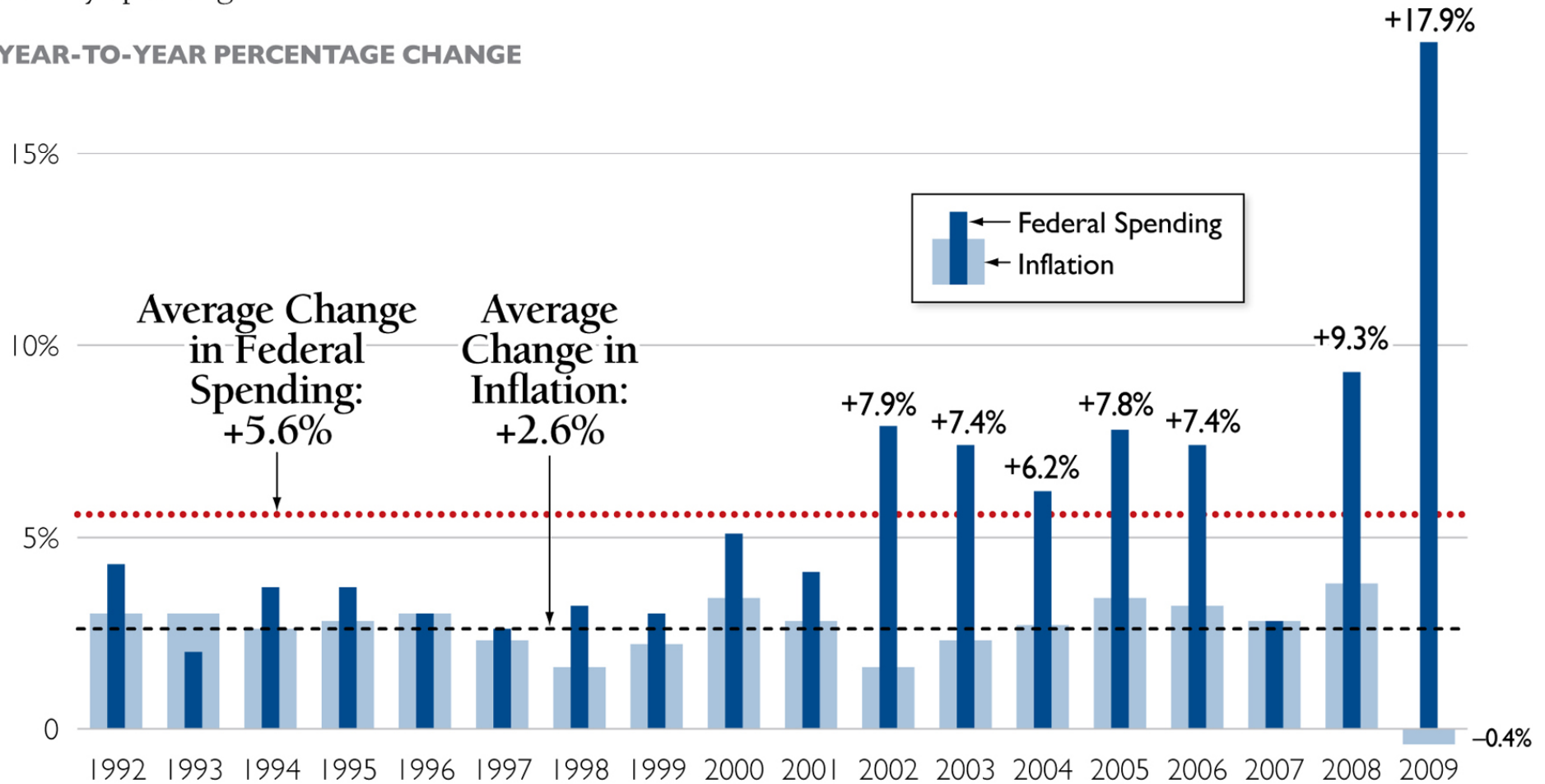


Source: U.S. Census Bureau and White House Office of Management and Budget.

Federal Spending Is Outpacing Inflation

Prices normally rise year to year, but federal spending has risen even faster, making it more costly than ever. Although spending grew substantially after 9/11, less than half of the increase is due to defense and homeland security spending.

YEAR-TO-YEAR PERCENTAGE CHANGE

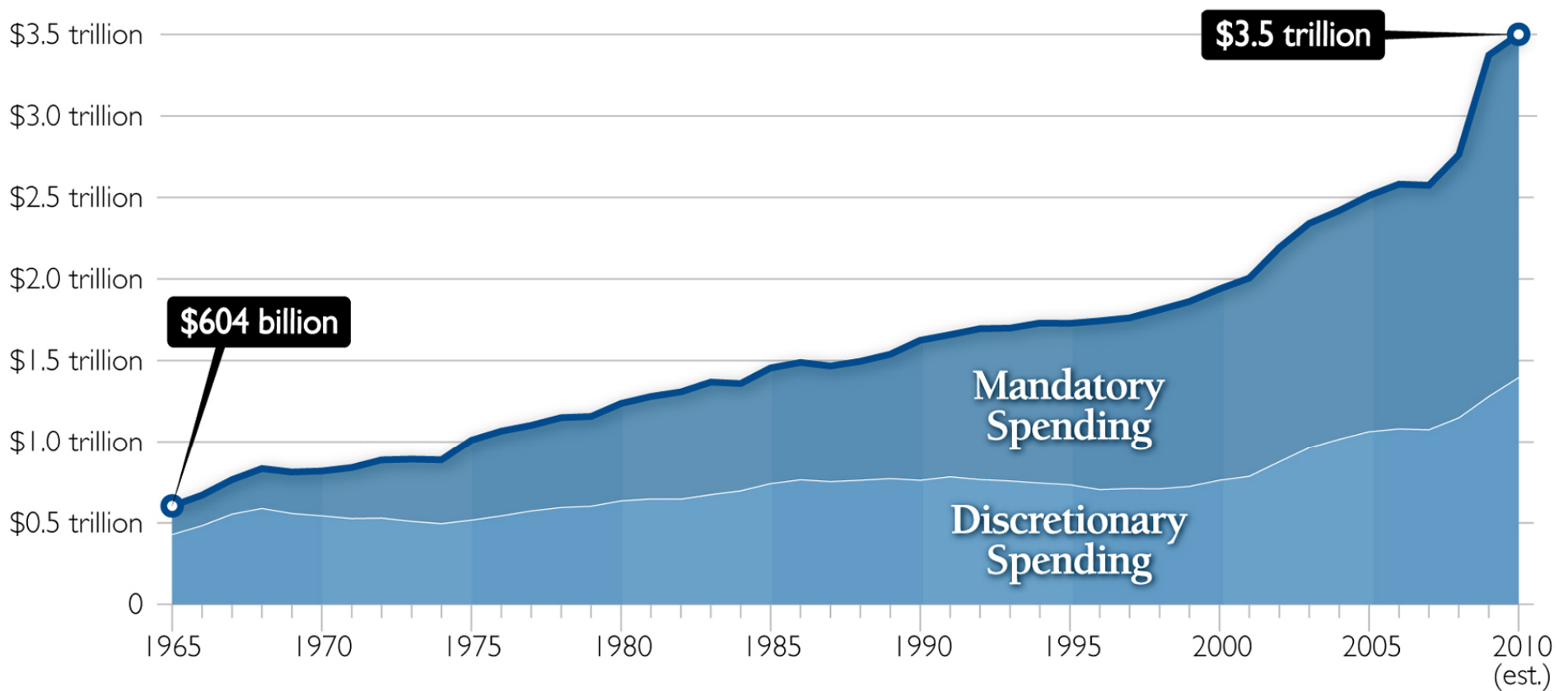


Source: White House Office of Management and Budget and Bureau of Labor Statistics.

Mandatory Spending Has Increased Nearly Five Times Faster Than Discretionary Spending

Only one-third of the federal budget, discretionary spending, is subject to required annual congressional debate. The remainder, mandatory spending, grows on autopilot and has increased nearly five times faster than discretionary spending. Most of the current increase is due to stimulus and entitlement spending.

INFLATION-ADJUSTED DOLLARS (2009)

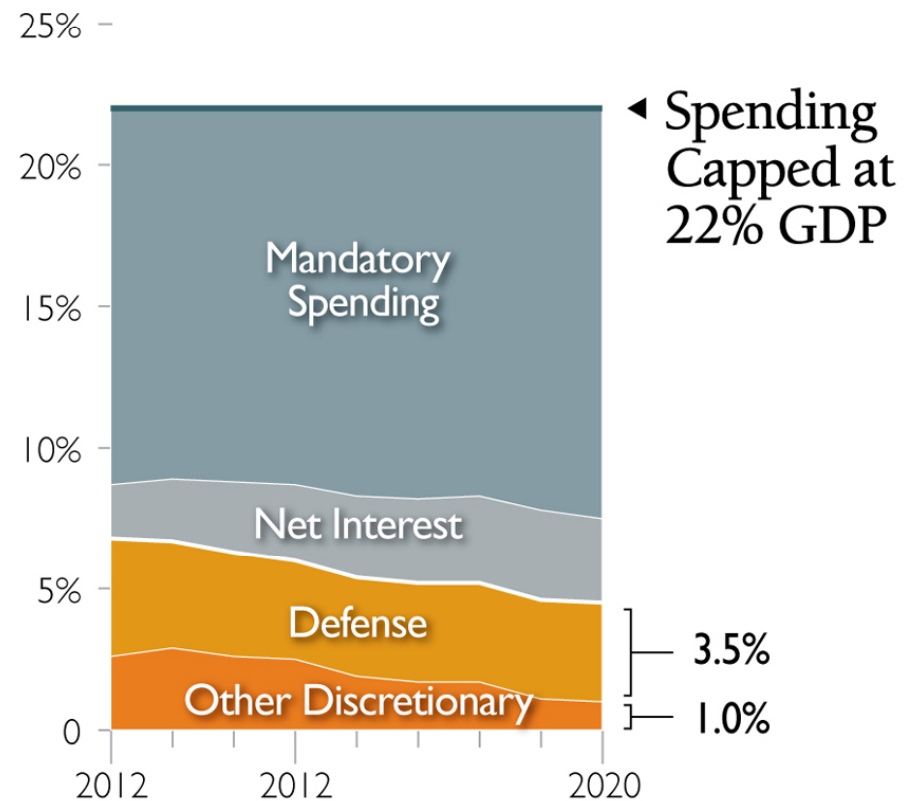
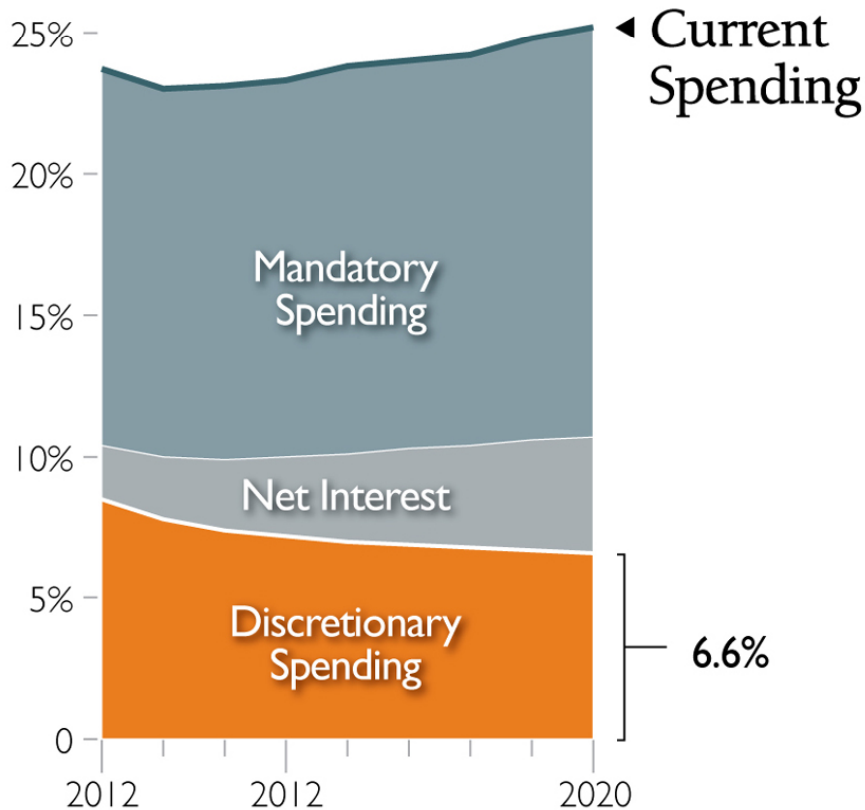


Source: White House Office of Management and Budget.

Entitlement Spending and Interest Payments Are Squeezing Out Other Programs

One way to control spending is to cap it as a share of GDP. Because interest must be paid and if entitlement spending increases automatically, caps would squeeze other spending. Even if defense spending is reduced, entitlement reform is necessary for more budgetary flexibility.

PERCENTAGE OF GDP

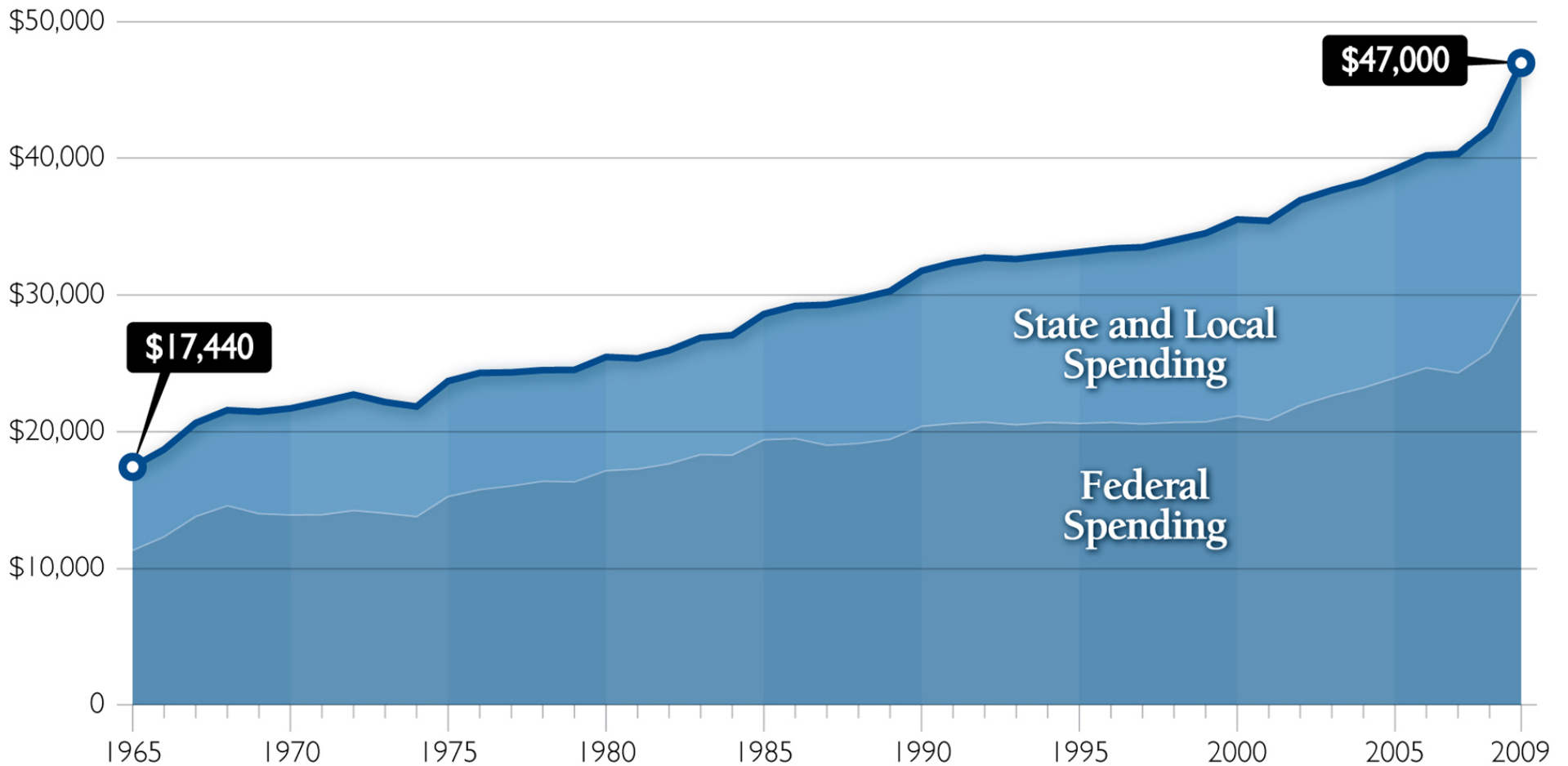


Source: Heritage Foundation calculations based on White House Office of Management and Budget data.

Total Government Spending Has More Than Doubled Since 1965

State and local government spending imposes a significant additional burden on taxpayers on top of federal spending.

PER-HOUSEHOLD SPENDING, IN INFLATION-ADJUSTED DOLLARS (2009)

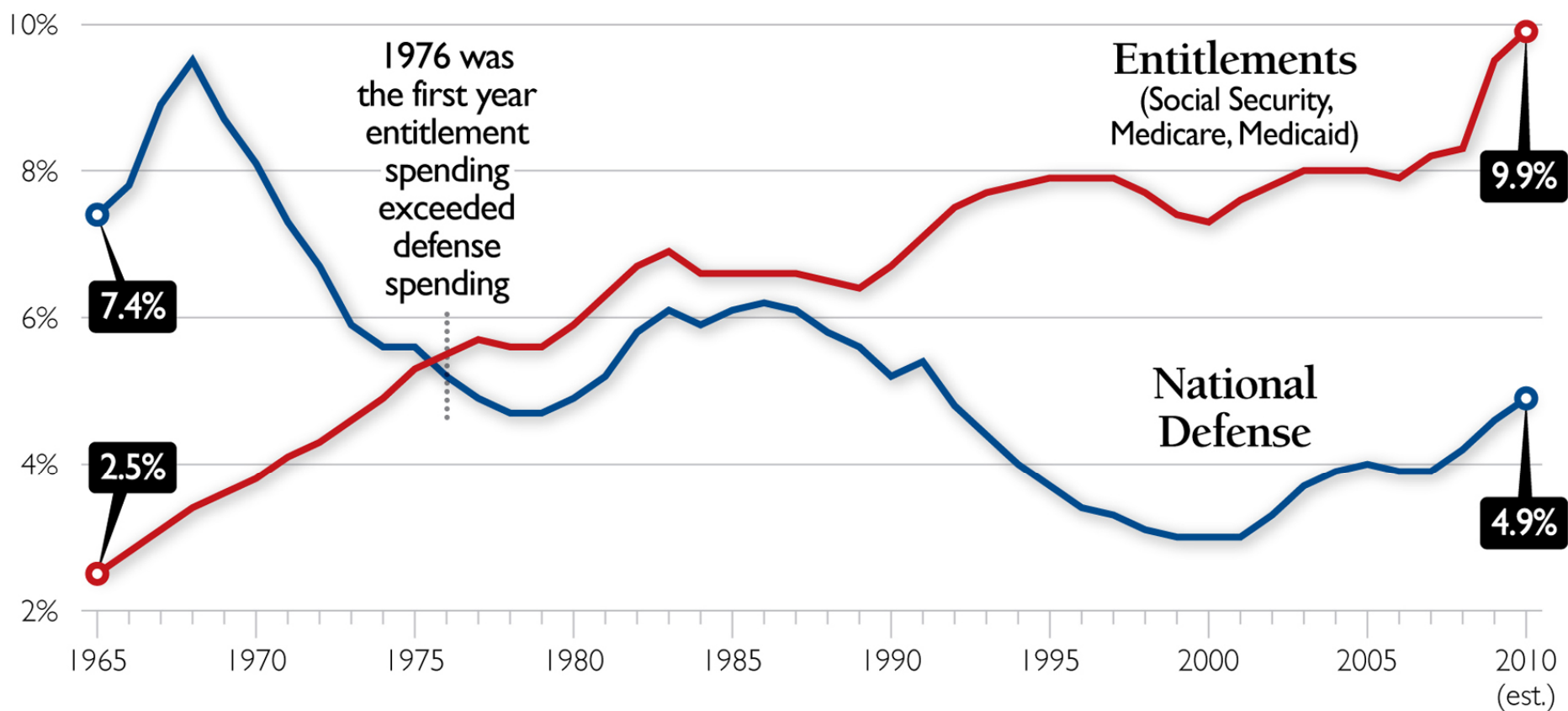


Source: U.S. Census Bureau, White House Office of Management and Budget, and 2010 Economic Report of the President.

Defense Spending Has Declined While Entitlement Spending Has Increased

Spending on national defense, a core constitutional function, has declined significantly over time, despite wars in Iraq and Afghanistan. Meanwhile, spending on the three major entitlements—Social Security, Medicare, and Medicaid—has more than tripled and is rapidly crowding out other programs.

PERCENTAGE OF GDP

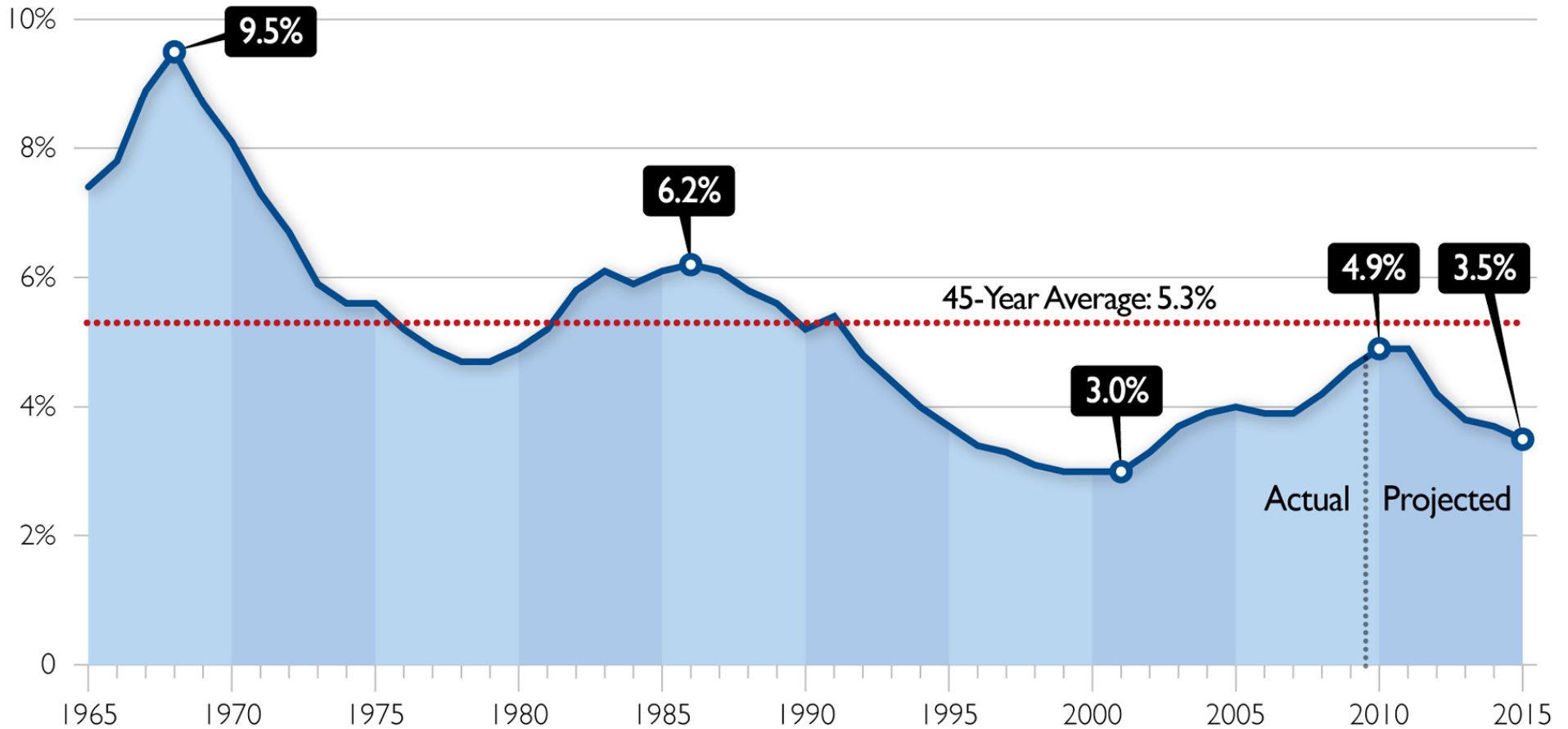


Source: White House Office of Management and Budget.

Obama's Budget Would Reduce National Defense Spending

Adequate funding is crucial for the military to fulfill its constitutional duty to provide for the common defense. Yet defense spending has fallen below its 45-year historical average despite ongoing operations in Iraq and Afghanistan.

DEFENSE SPENDING AS A PERCENTAGE OF GDP

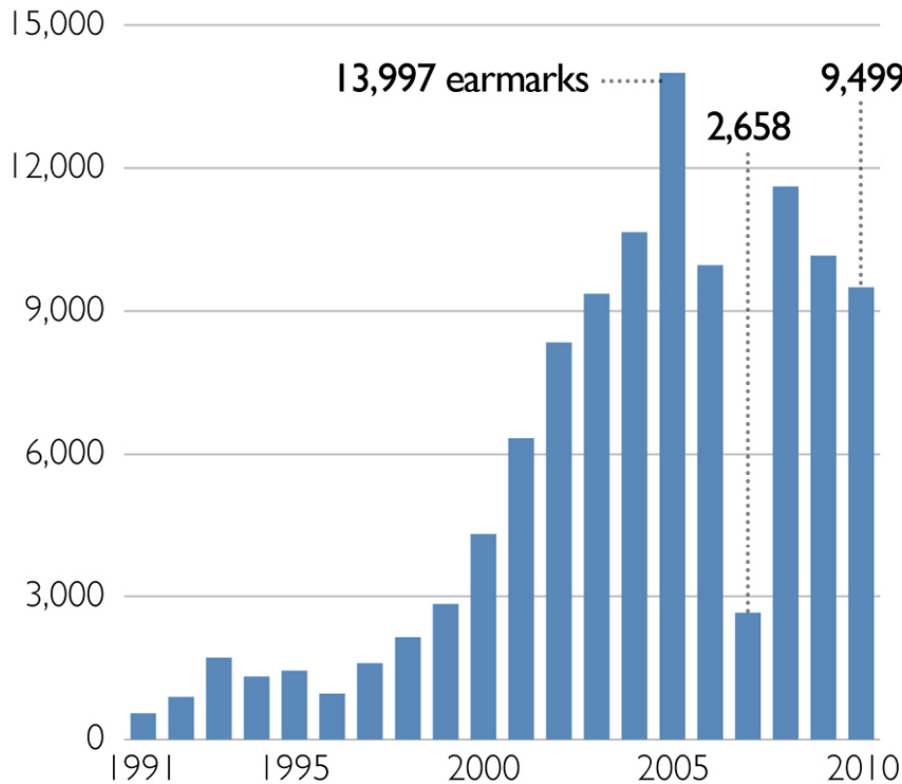


Source: White House Office of Management and Budget.

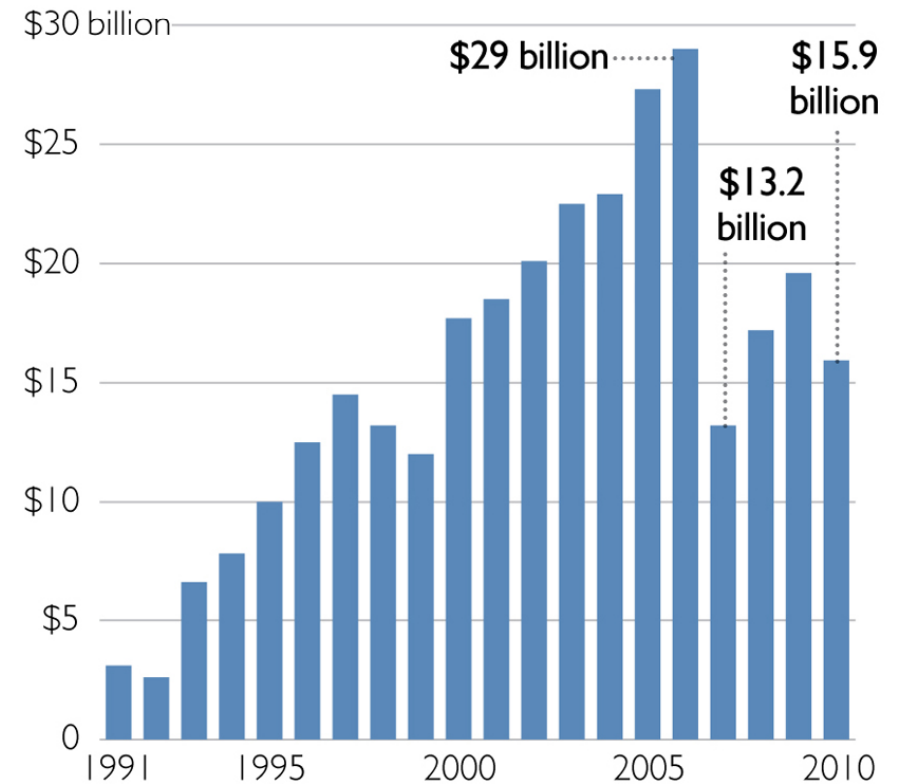
Earmark Spending Continues Despite Change in Congressional Leadership

Despite pledges from President Obama and congressional leaders to curtail earmark spending, the practice has continued at previous levels. The most recent spending bills included nearly 10,000 pork projects costing taxpayers nearly \$16 billion.

NUMBER OF EARMARKS



COST OF EARMARKS

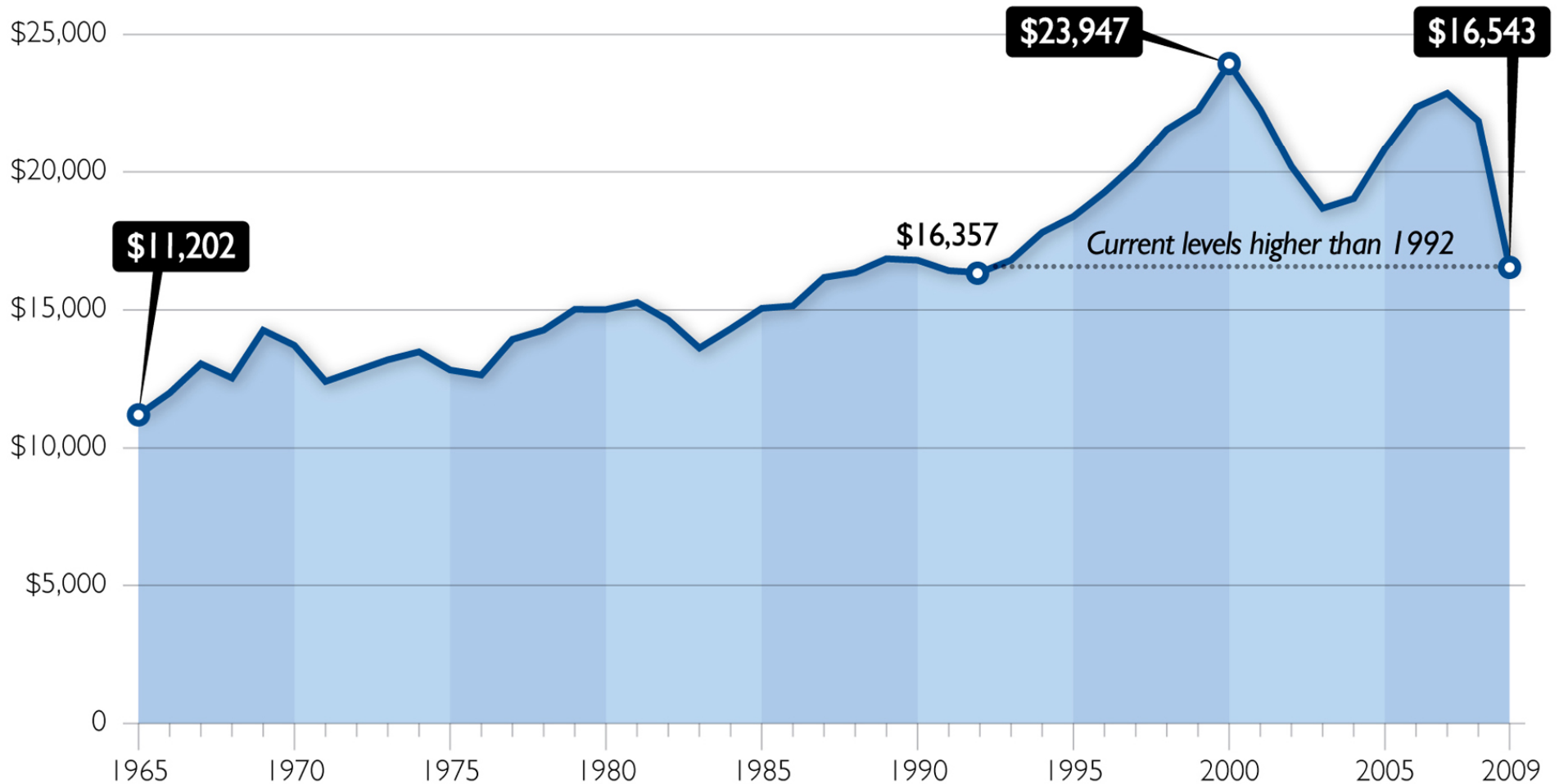


Source: Citizens Against Government Waste and Taxpayers for Common Sense.

Taxes per Household Have Risen Dramatically

American households are sending more of their income to Washington, despite the economic downturn.

INFLATION-ADJUSTED DOLLARS (2009)

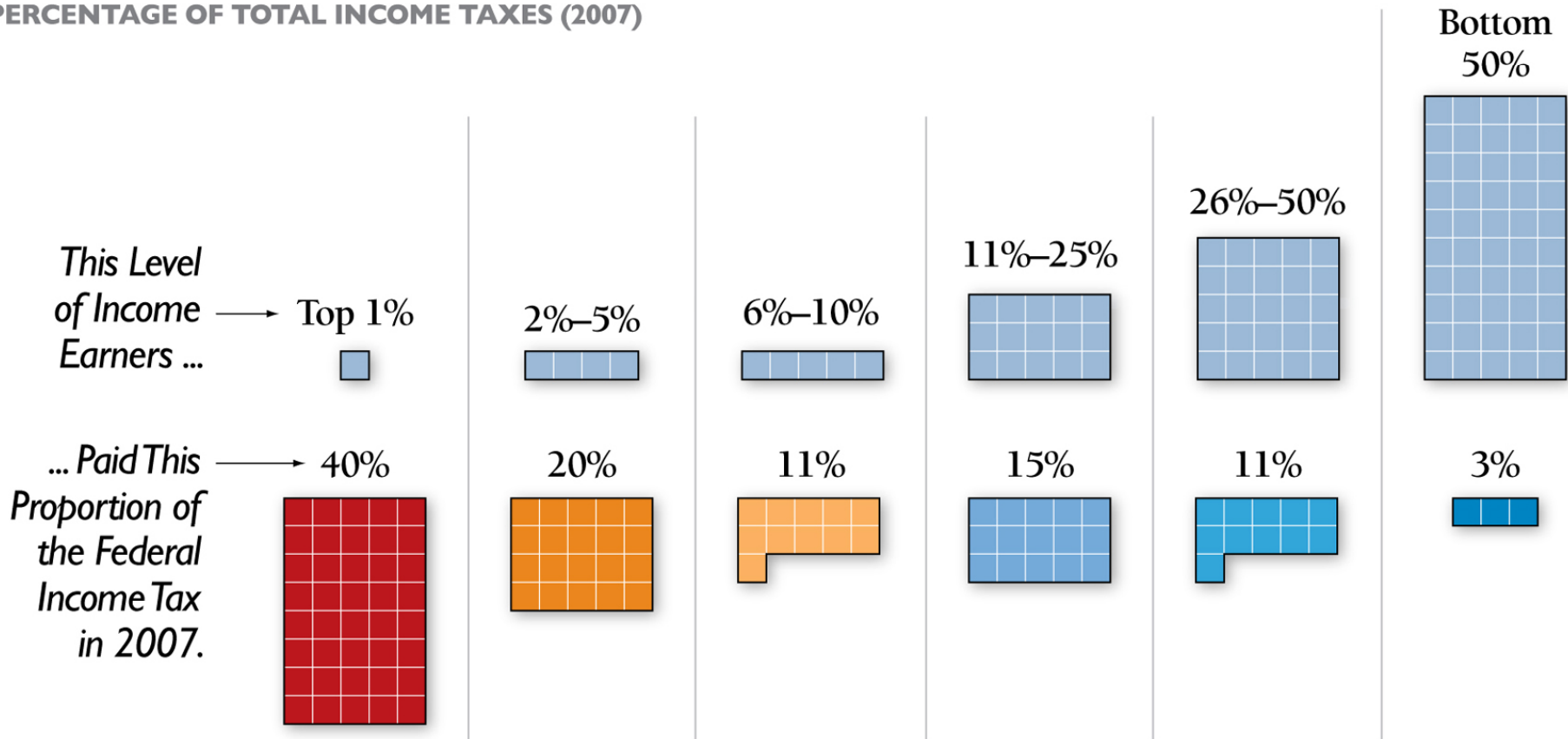


Source: White House Office of Management and Budget.

The Top 10 Percent of Earners Paid 71 Percent of Federal Income Tax

Top earners are the target for new tax increases, but the U.S. tax system is already highly progressive. The top 1 percent of income earners paid 40 percent of all federal income taxes in 2007, while the bottom 50 percent paid only 3 percent. More than one-third of U.S. earners paid no federal income tax at all.

PERCENTAGE OF TOTAL INCOME TAXES (2007)

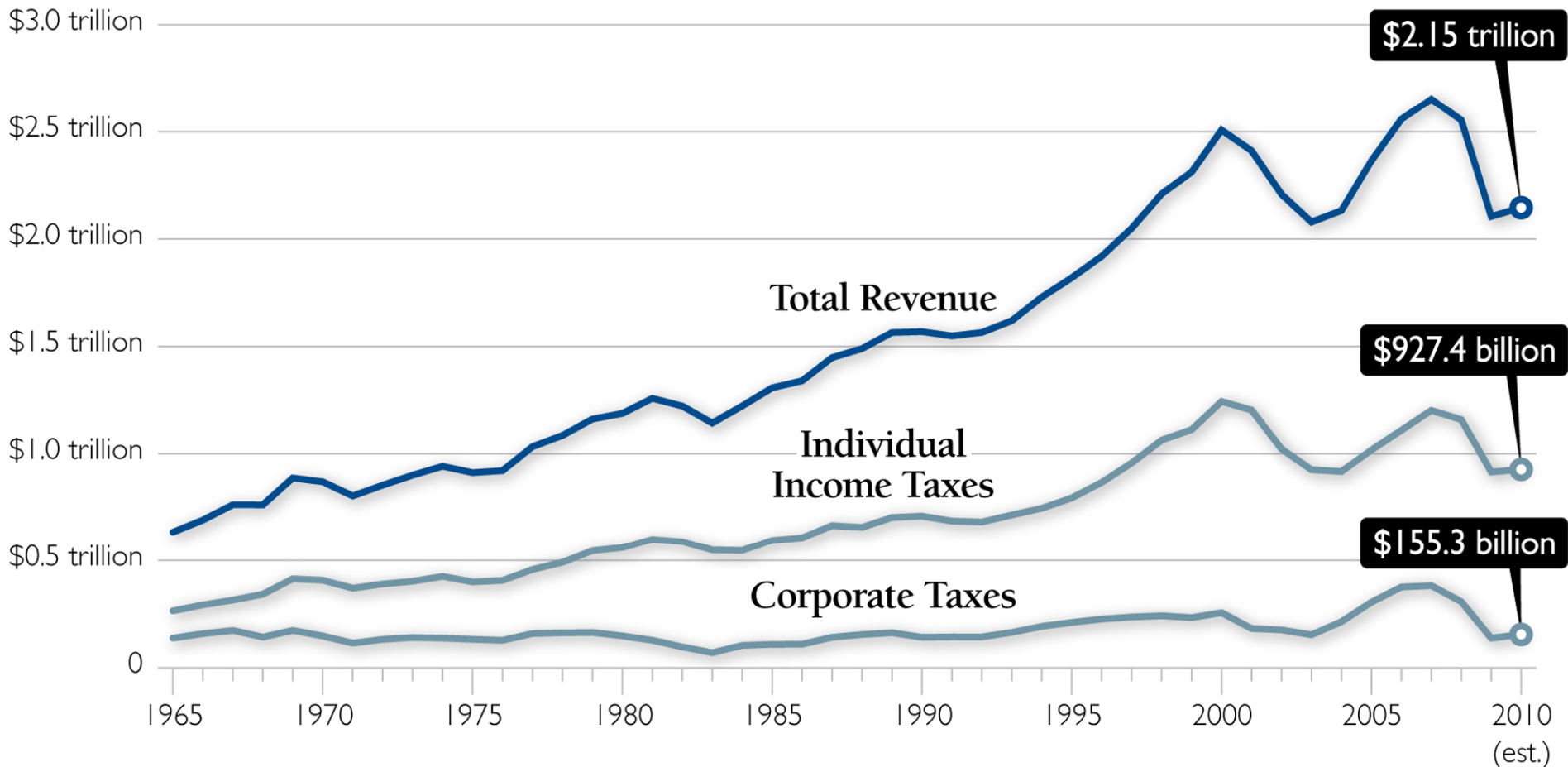


Source: Internal Revenue Service.

Federal Government Revenues Have More Than Tripled Since 1965

Tax revenues have been rising historically despite a recent decline due to the recession. Income, capital gains, and corporate tax cuts in 2001 and 2003 helped revenues surge.

INFLATION-ADJUSTED DOLLARS (2009)

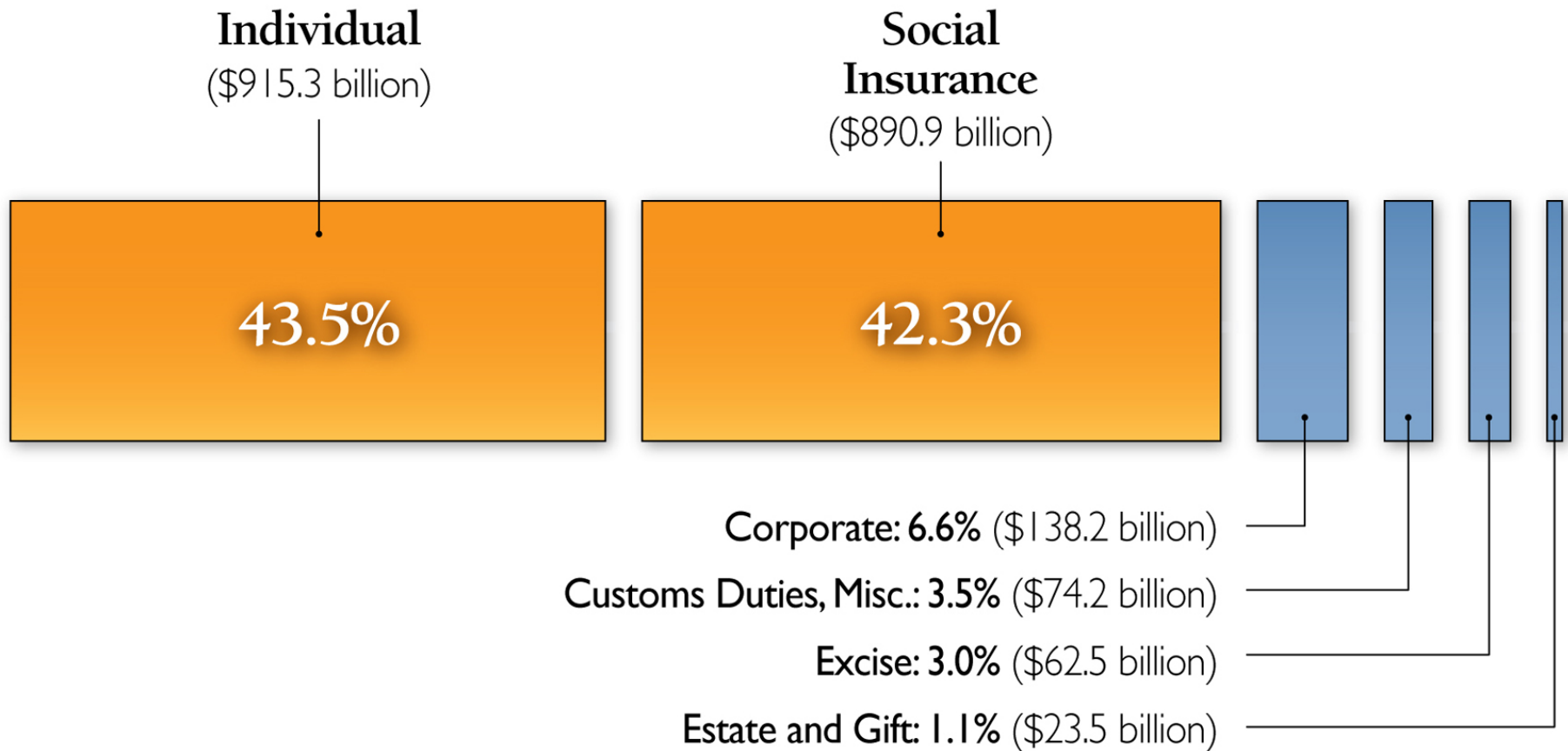


Source: White House Office of Management and Budget.

Federal Revenues by Source

Most federal revenues come from individuals. Personal income taxes provide the largest portion of total tax revenues. Social Security and Medicare payroll taxes are the second-largest source.

PERCENTAGE OF TOTAL FEDERAL REVENUE (2009)

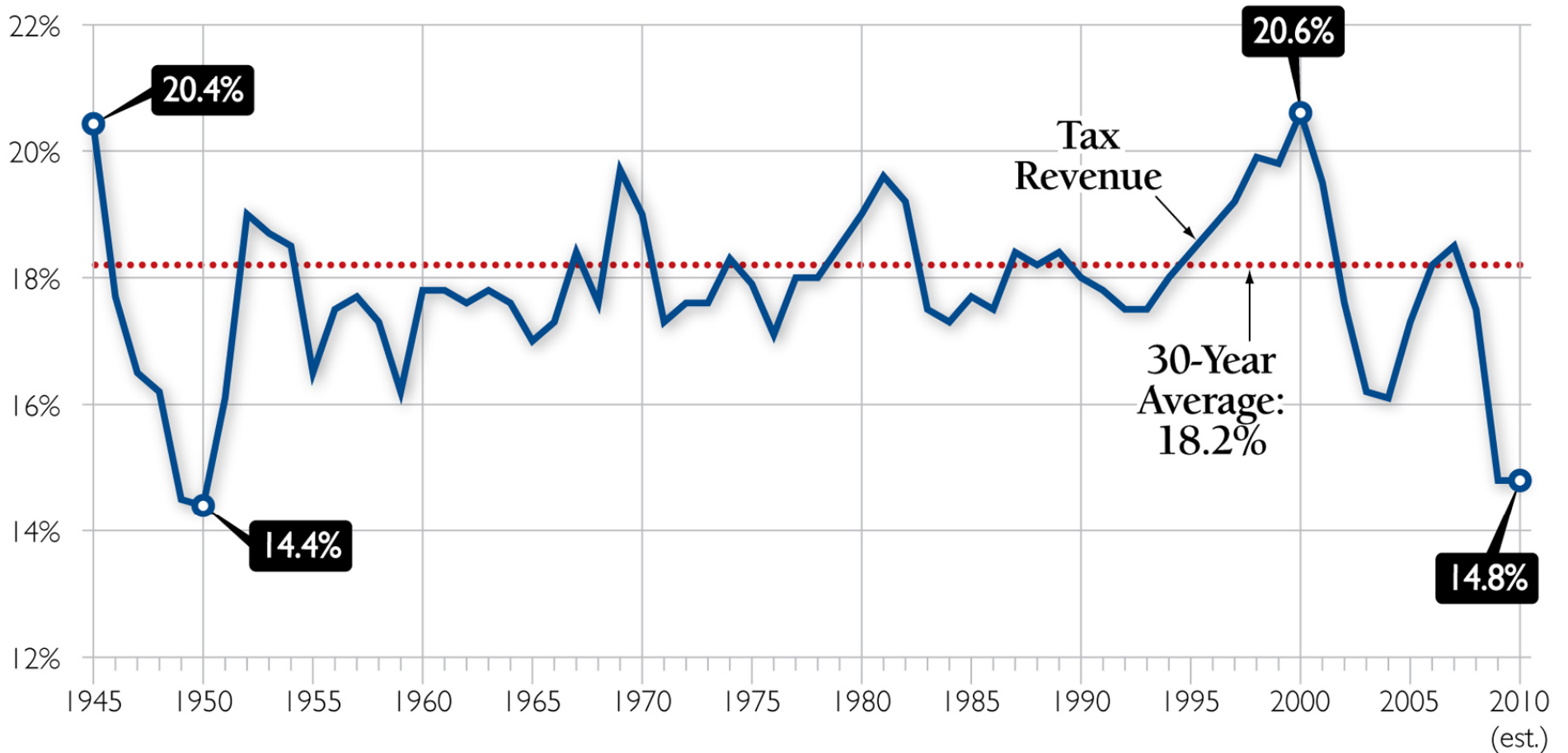


Source: Congressional Budget Office.

Recession Pushes Current Tax Receipts Below Historical Average

The overall tax burden on Americans is measured as a share of gross domestic product (GDP). Since World War II, tax receipts have averaged around 18 percent of GDP. Due mainly to the recession, tax receipts have fallen slightly but are expected to surpass historical levels soon.

TAX RECEIPTS AS A PERCENTAGE OF GDP

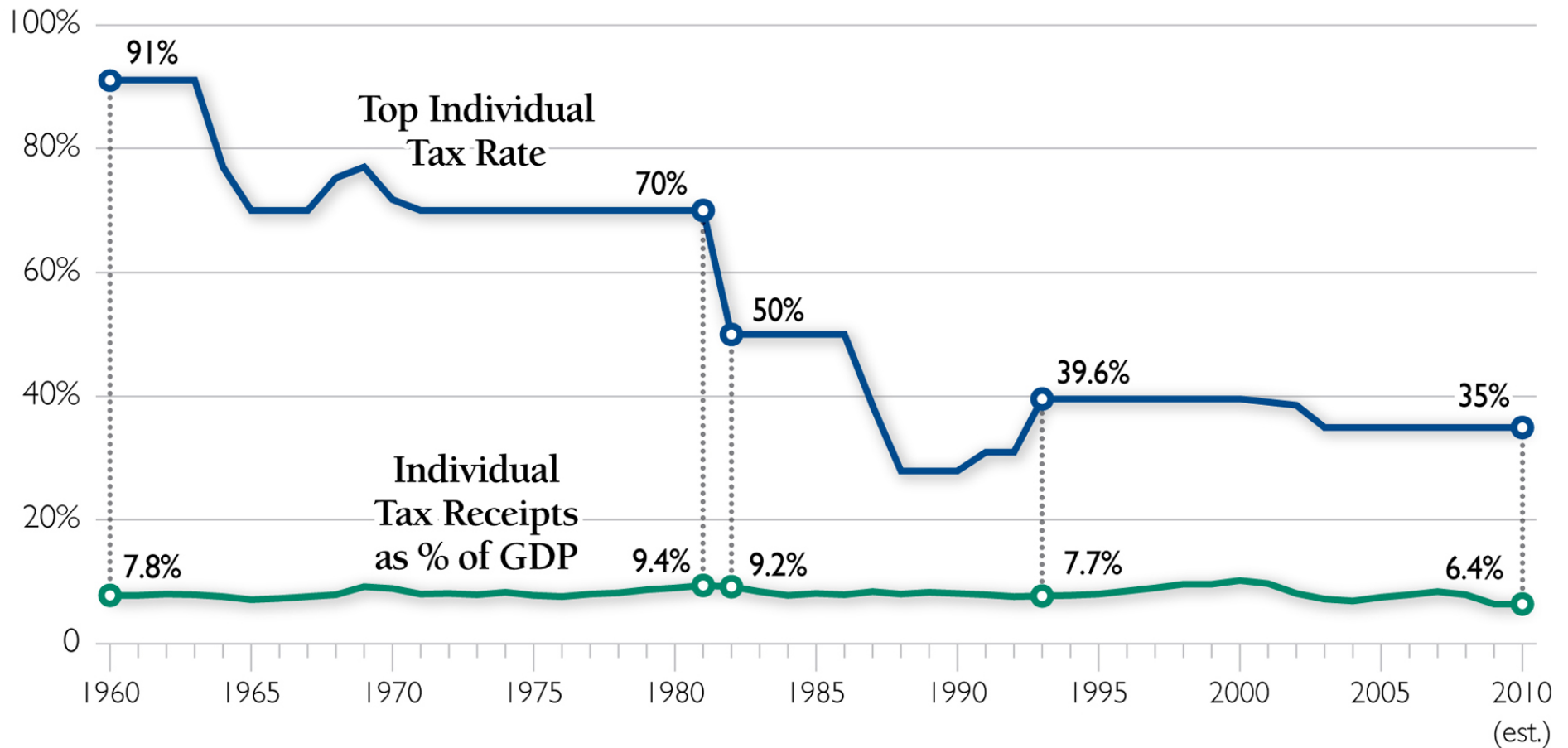


Source: White House Office of Management and Budget.

Income Tax Receipts Stay Constant Even as Tax Rates Decline

Tax cuts can create incentives for individuals to generate more income, which generates more revenues. The most dramatic decline in the top individual income tax rate, from 70 percent to 28 percent, occurred during the Reagan Administration, yet tax receipts remained relatively constant as a share of the economy.

TAX RATES AND RECEIPTS AS A PERCENTAGE OF GDP

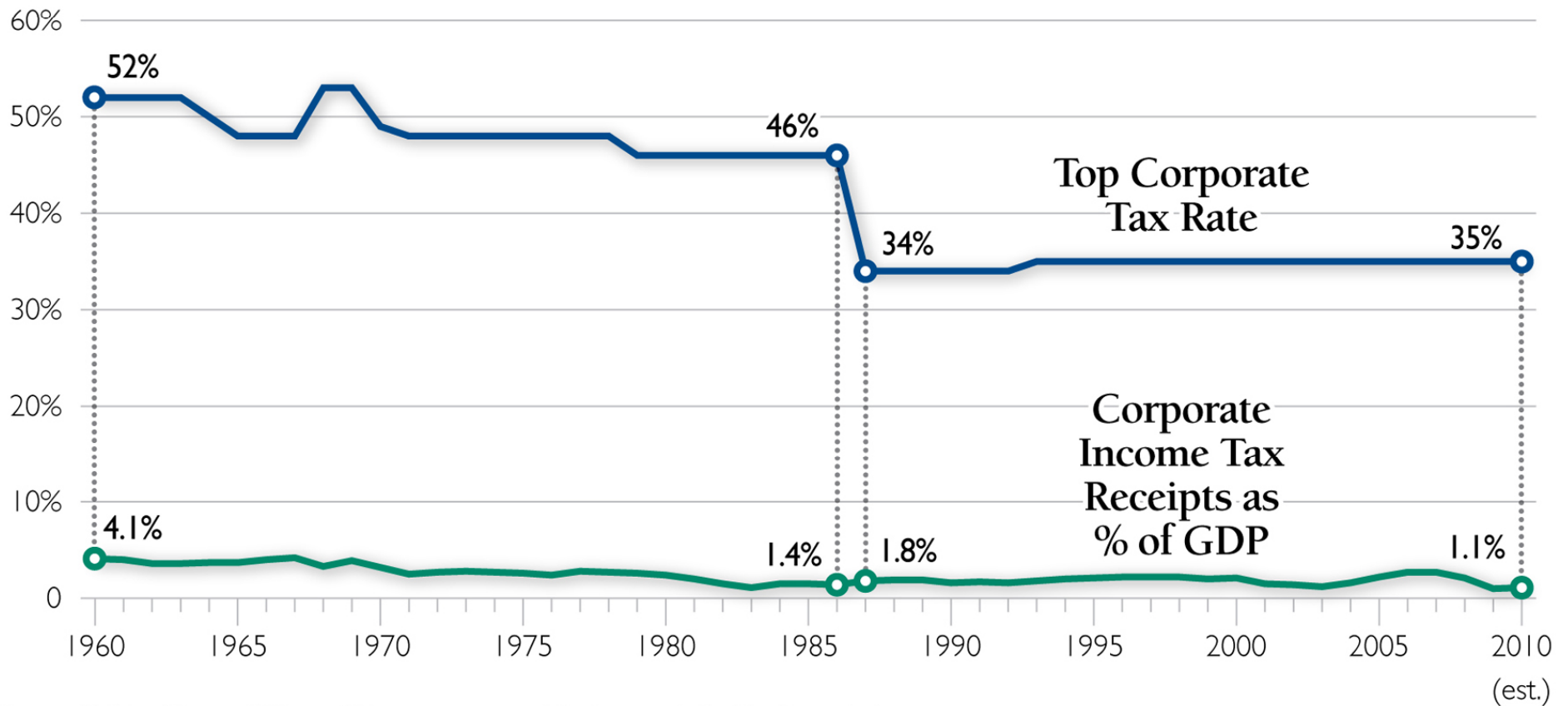


Source: White House Office of Management and Budget and the Tax Foundation.

Corporate Income Tax Receipts Stay Constant Even as Tax Rates Decline

Tax cuts create incentives for businesses to create more income, which generates more revenues. The top corporate tax rate was reduced sharply under President Reagan, from 46 percent to 34 percent, yet receipts actually rose as a share of the economy.

TAX RATES AND RECEIPTS AS A PERCENTAGE OF GDP

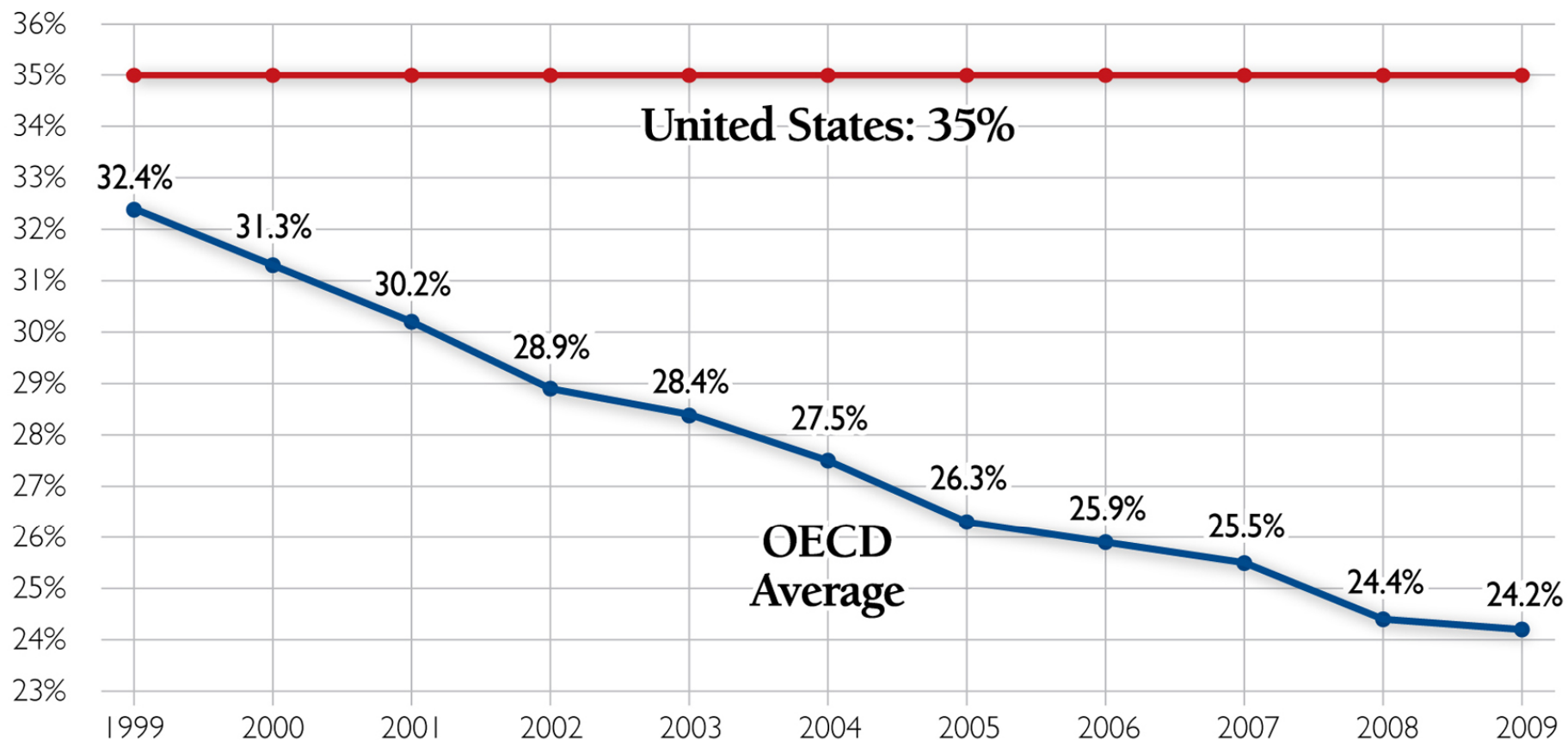


Source: White House Office of Management and Budget and the Tax Foundation.

U.S. Top Corporate Tax Rate Exceeds the OECD Average

High U.S. corporate tax rates make it difficult for businesses to compete internationally. While other countries are reducing corporate tax rates, the U.S. has maintained a rate of 35 percent, the highest of any nation in the Organisation for Economic Co-operation and Development (OECD).

CORPORATE TAX RATES

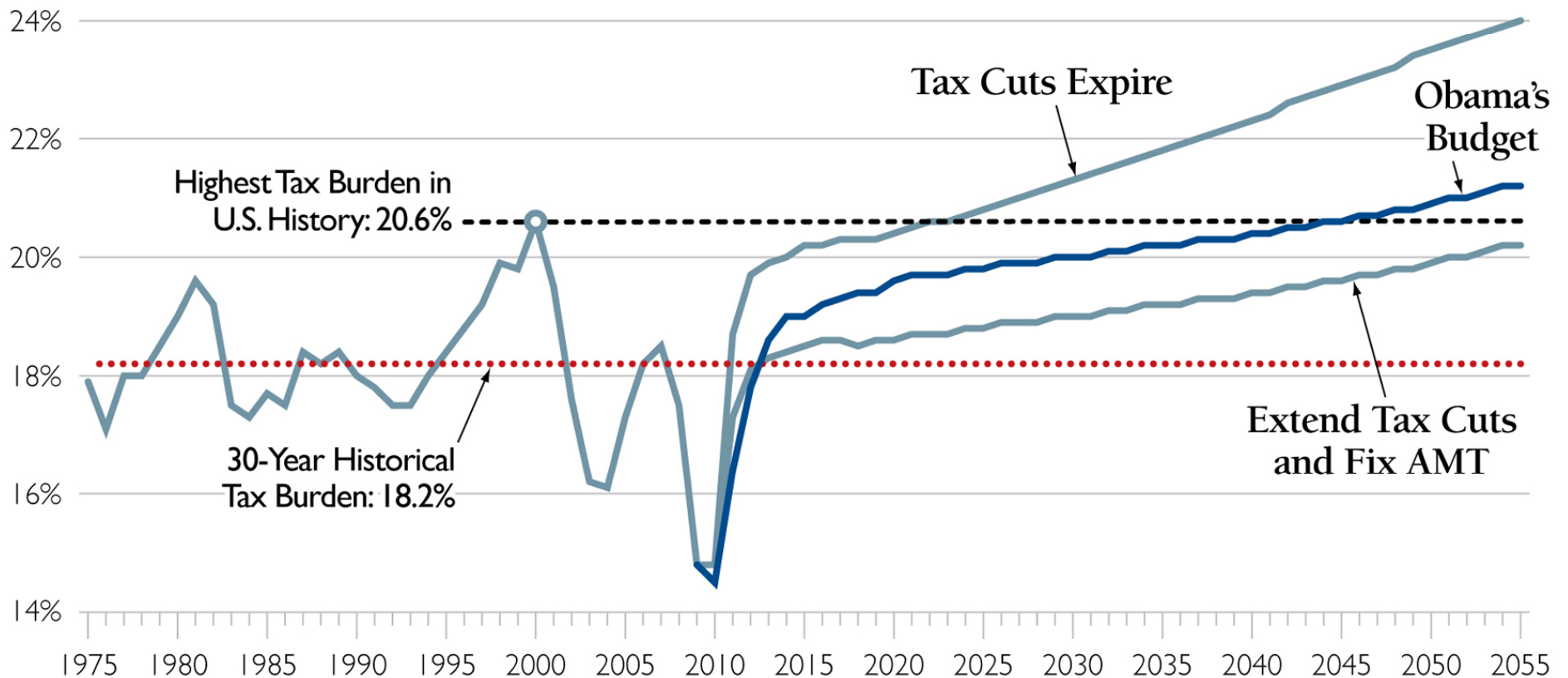


Source: Organisation for Economic Co-operation and Development.

Total Tax Burden Is Rising to Highest Level in History

Taxes are projected to increase rapidly under various policy scenarios. If the 2001 and 2003 tax cuts expire and more middle-class Americans are required to pay the alternative minimum tax (AMT), taxes will reach unprecedented levels. The tax burden will climb even if those tax breaks are extended. President Obama's budget, which cuts some taxes and raises others, also increases the overall tax burden.

TAX REVENUE AS A PERCENTAGE OF GDP

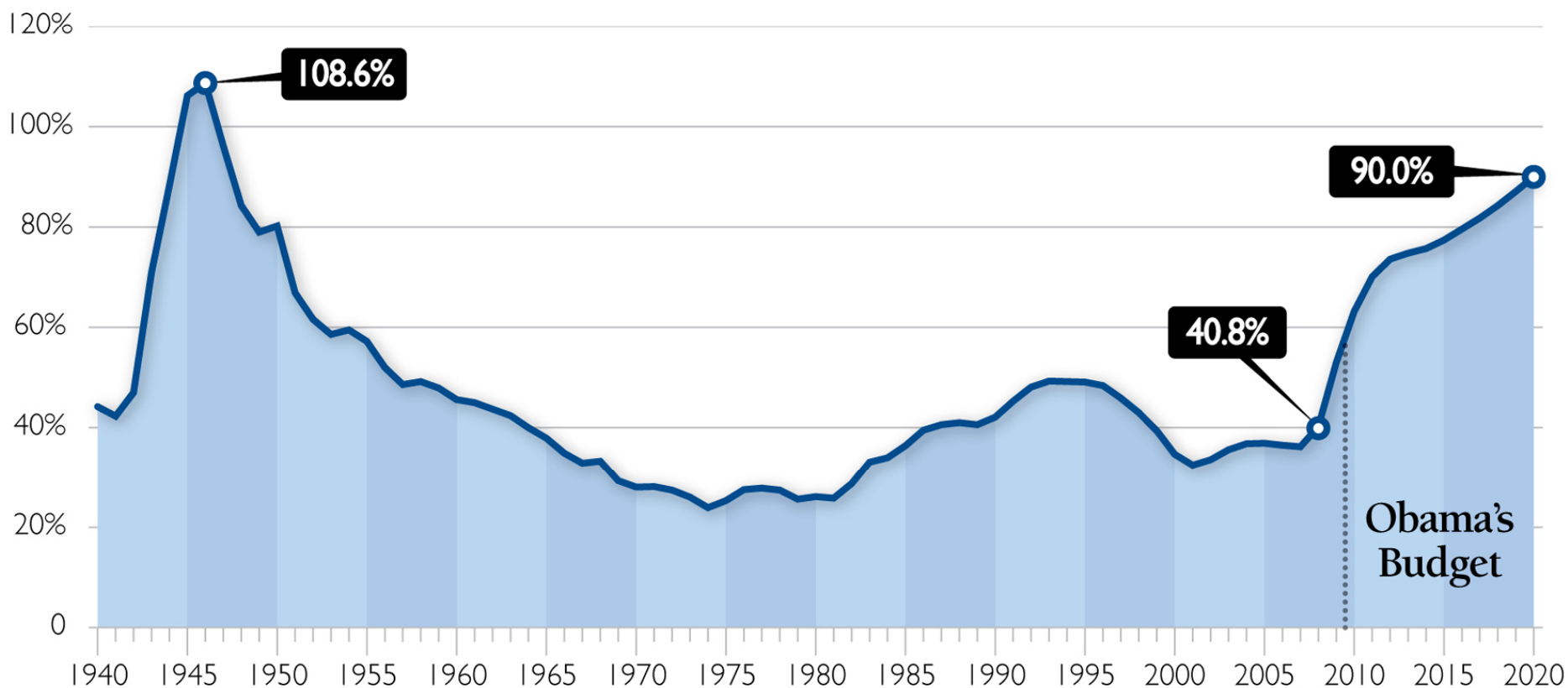


Source: Heritage Foundation calculations based on Congressional Budget Office and White House Office of Management and Budget data.

Obama's Budget Would Send Federal Debt to Levels Not Seen Since World War II

In 2008, publicly held debt as a percentage of the economy (GDP) was 40.8 percent, nearly five points below the post-war average. Under President Obama's budget, this figure would more than double to 90 percent by 2020. Continued structural debt poses serious economic risks.

DEBT AS A PERCENTAGE OF GDP

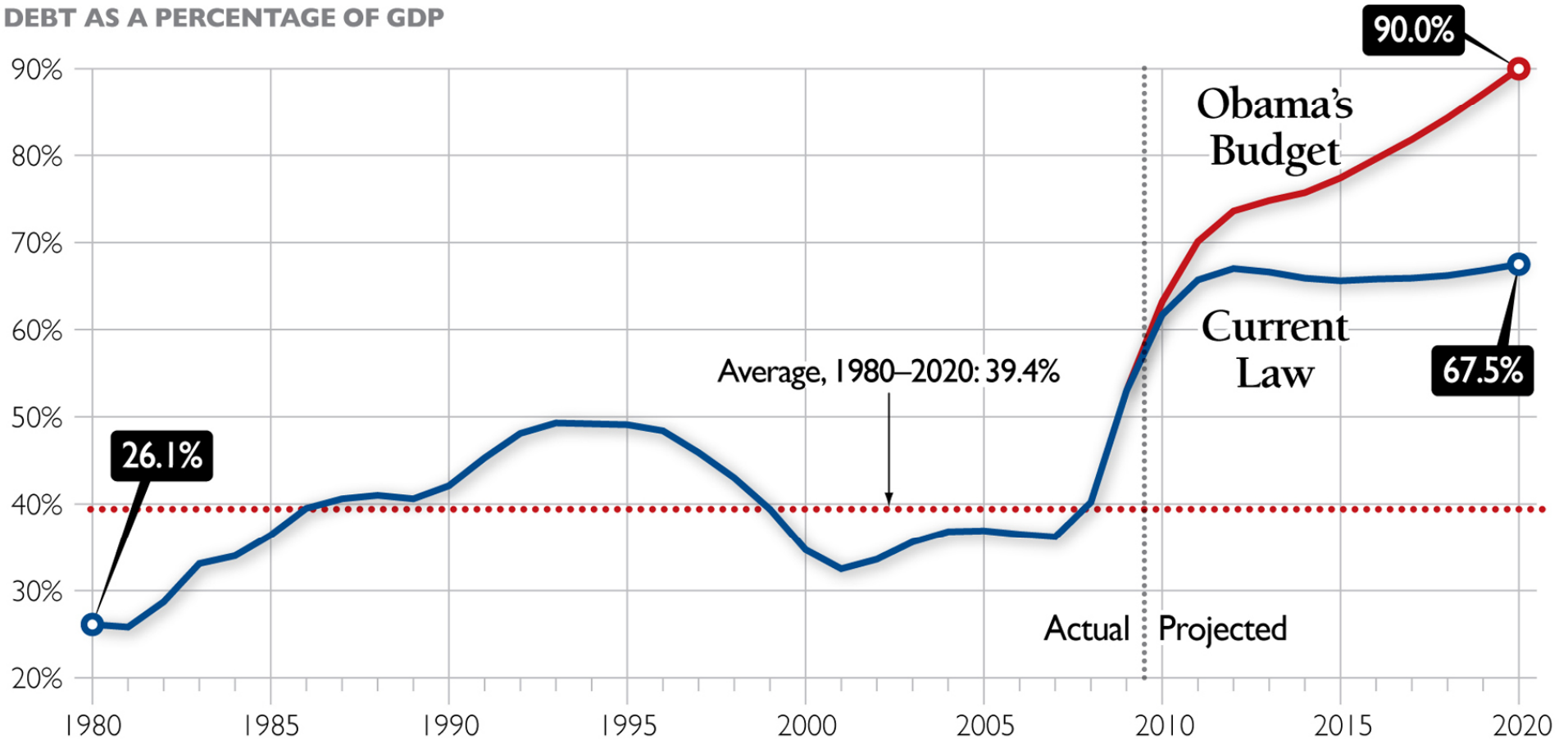


Source: Congressional Budget Office and White House Office of Management and Budget.

Debt in Obama's Budget Exceeds Congressional Budget Office Baseline

Debt as a share of the economy is rising. Whether current law continues or Obama's budget is passed, the debt will be more than two-thirds of annual GDP in just 10 years.

DEBT AS A PERCENTAGE OF GDP

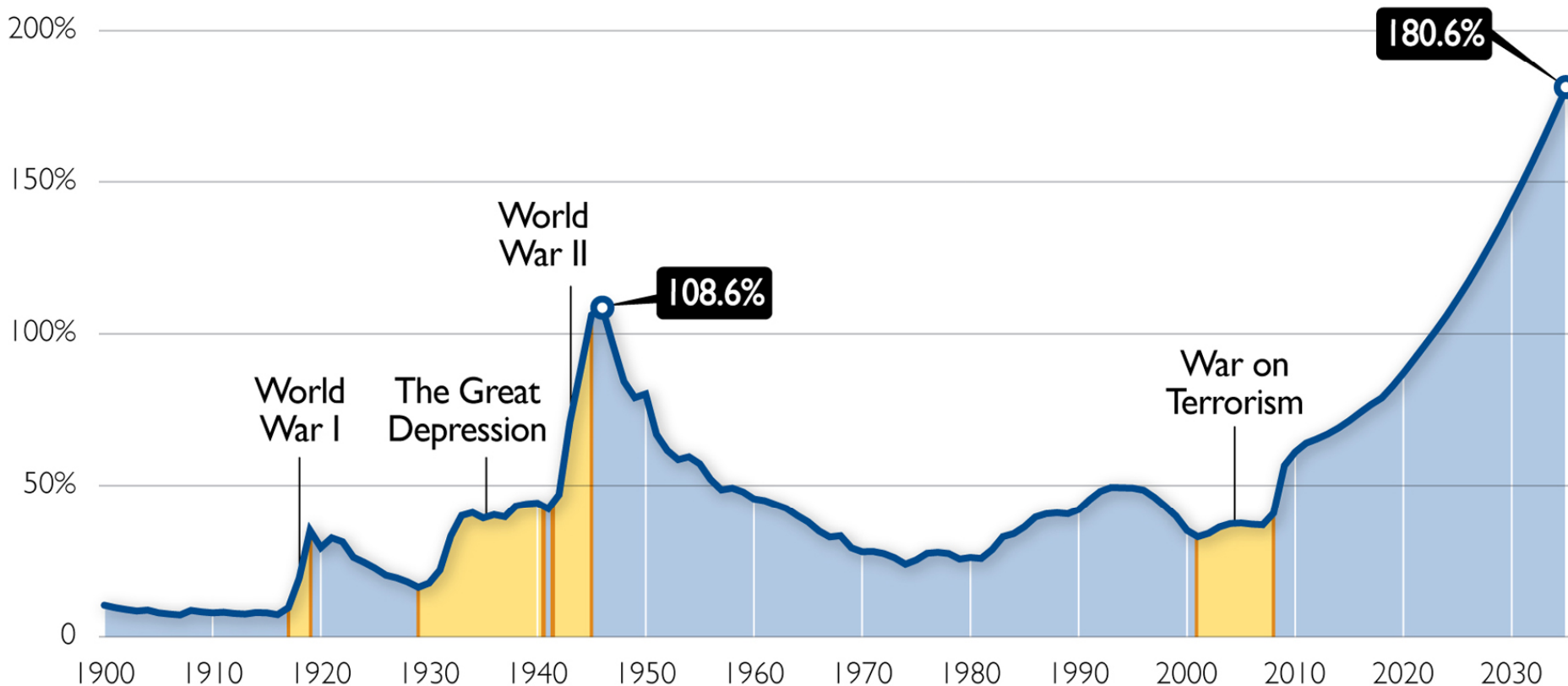


Source: Congressional Budget Office and White House Office of Management and Budget.

National Debt Set to Skyrocket

In the past, wars and the Great Depression contributed to rapid but temporary increases in the national debt. Over the next few decades, runaway spending on Social Security, Medicare, and Medicaid will drive the debt to unsustainable levels.

DEBT AS A PERCENTAGE OF GDP

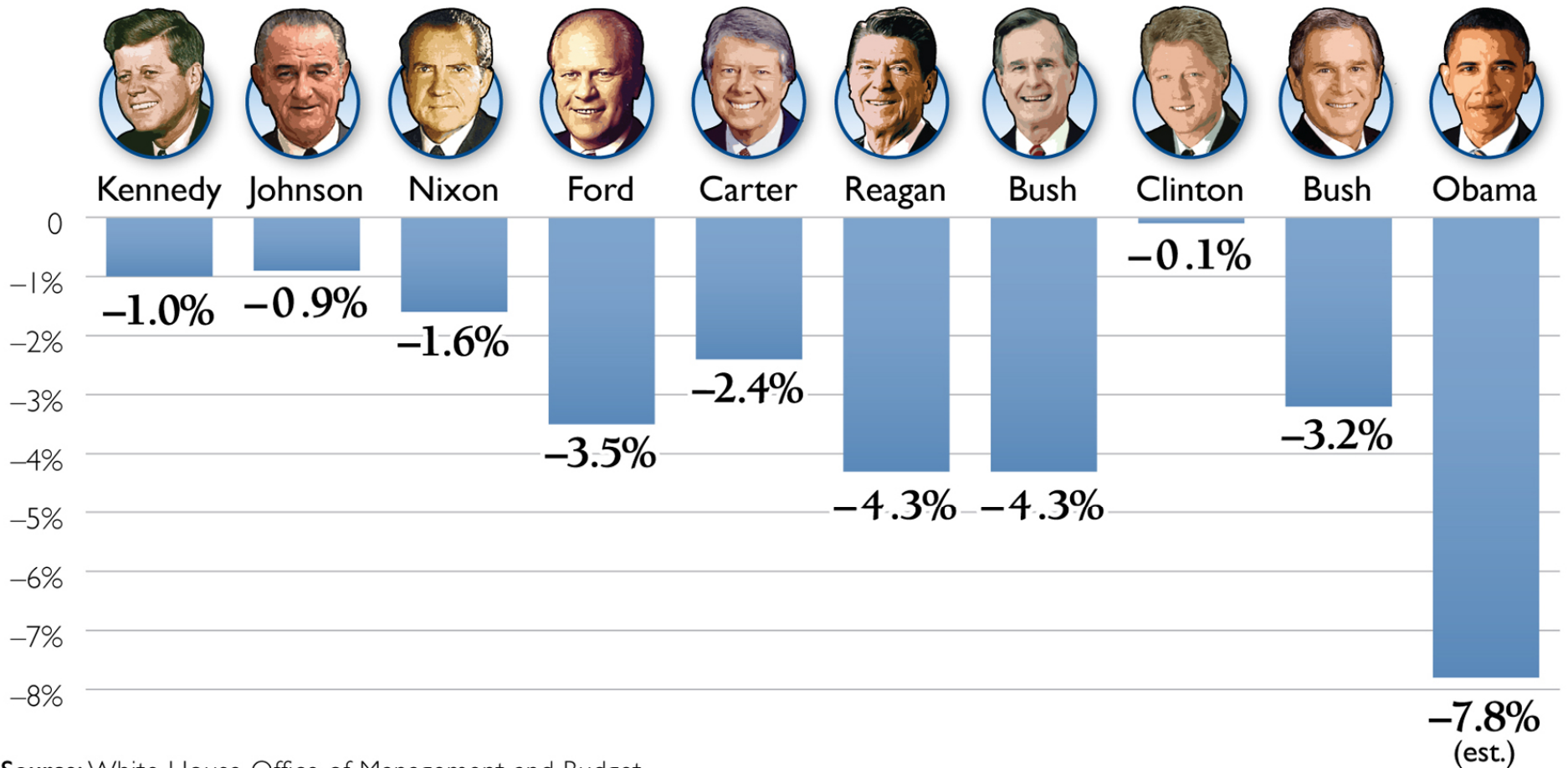


Source: Heritage Foundation compilations of data from U.S. Department of the Treasury, Institute for the Measurement of Worth (Alternative Fiscal Scenario), Congressional Budget Office, and White House Office of Management and Budget.

Obama's Budget Would Create Unprecedented Deficits

The President is responsible for submitting an annual budget to Congress and has the authority to veto legislation including irresponsible spending. Most Administrations ran small but manageable deficits, but President Obama's unprecedented budget deficits pose serious economic risks.

BUDGET DEFICITS AS A PERCENTAGE OF GDP, BY ADMINISTRATION

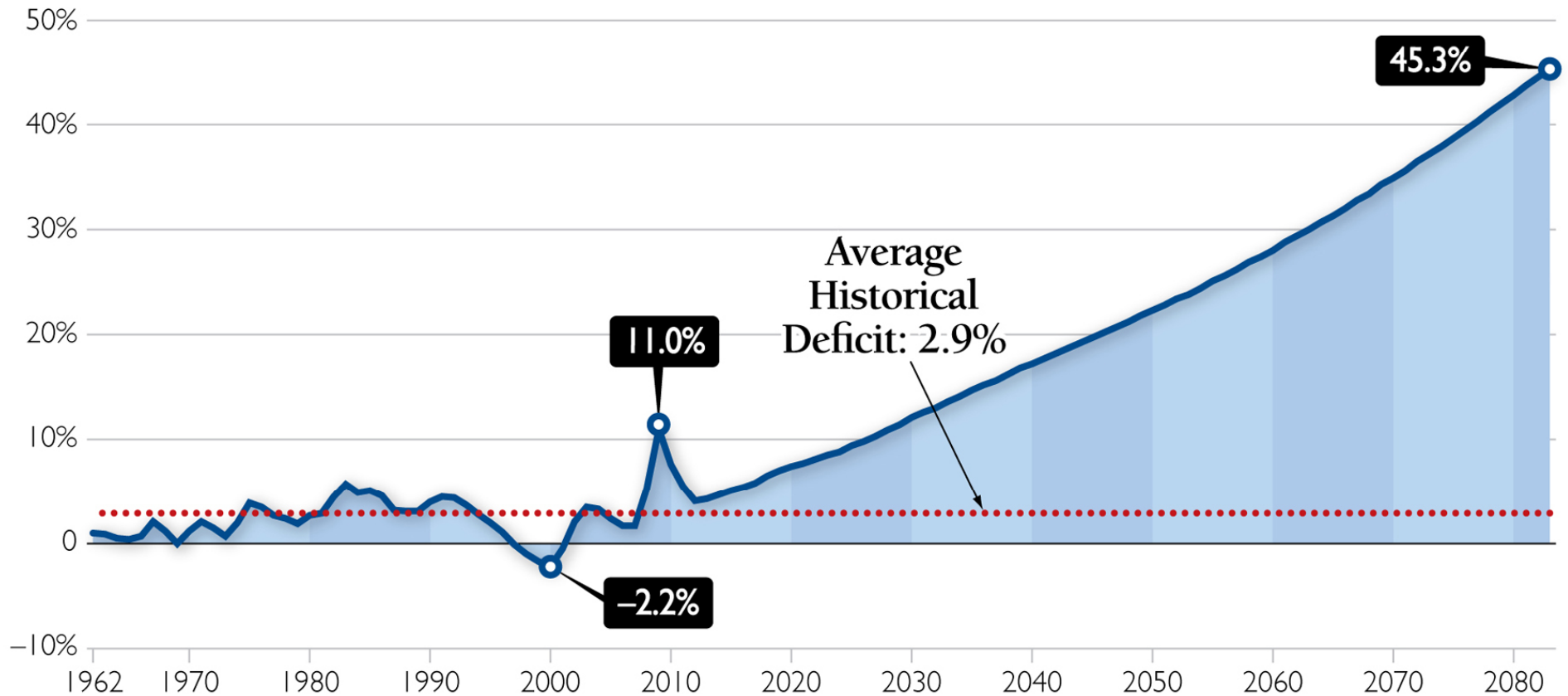


Source: White House Office of Management and Budget.

Federal Budget Deficits Will Reach Levels Never Seen Before in the U.S.

Recent budget deficits have reached unprecedented levels, but the future will be much worse. Unless entitlements are reformed, spending on Social Security, Medicare, and Medicaid will drive deficits to unsustainable levels.

PERCENTAGE OF GDP

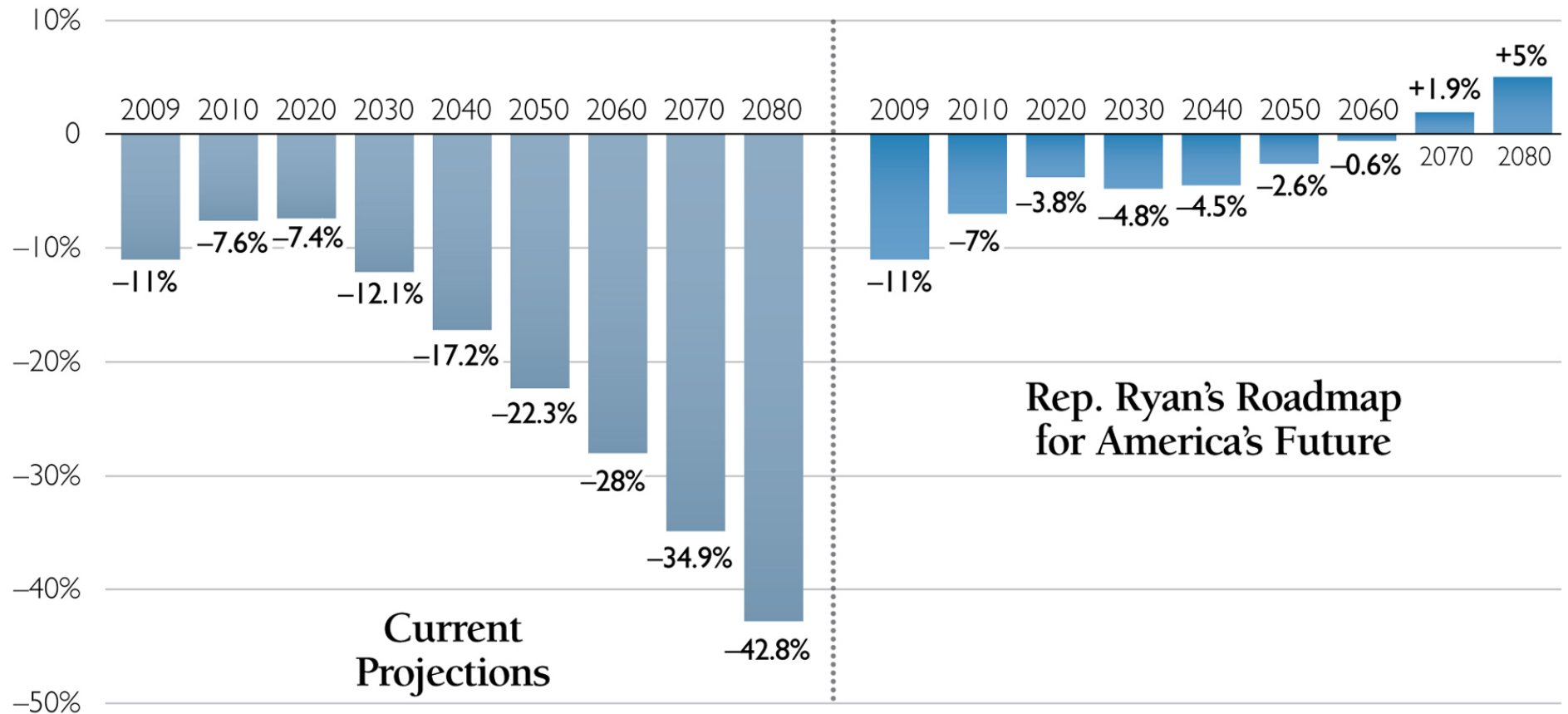


Source: Congressional Budget Office (Alternative Fiscal Scenario).

Entitlement Reform Would Eliminate Long-Term Deficits

In January 2010, Representative Paul Ryan (R-WI) re-introduced the Roadmap for America's Future, legislation that would improve America's long-term budget situation by reforming entitlements. Compared to the current trajectory, the bill would eliminate long-term deficits.

SURPLUS/DEFICIT AS A PERCENTAGE OF GDP

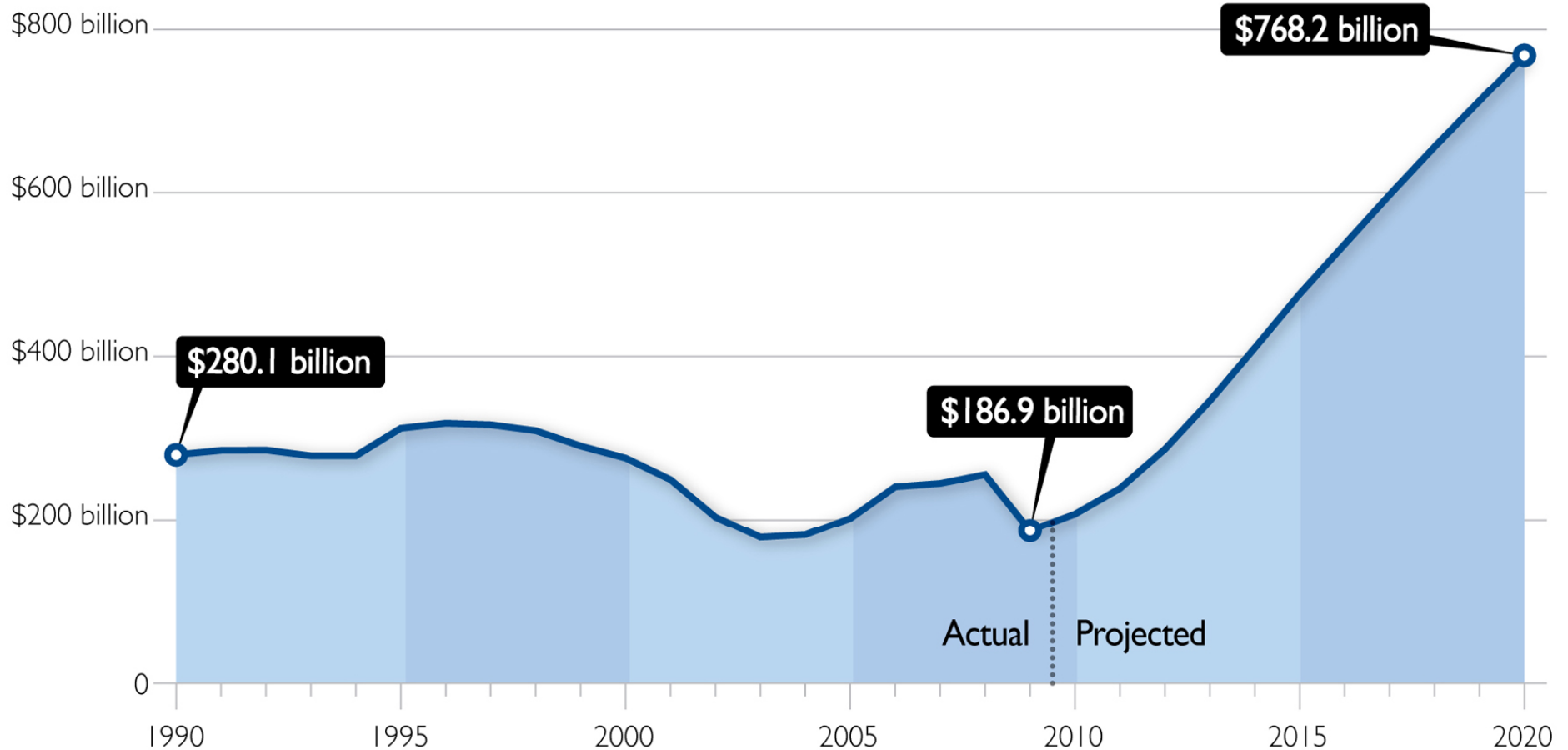


Source: Congressional Budget Office.

Net Interest Spending Will Quadruple over the Next Decade

As the national debt grows, interest payments will consume more and more of the federal budget. Under the President's budget, the national debt would nearly double and real net interest costs would quadruple over the next decade.

INFLATION-ADJUSTED DOLLARS (2009)

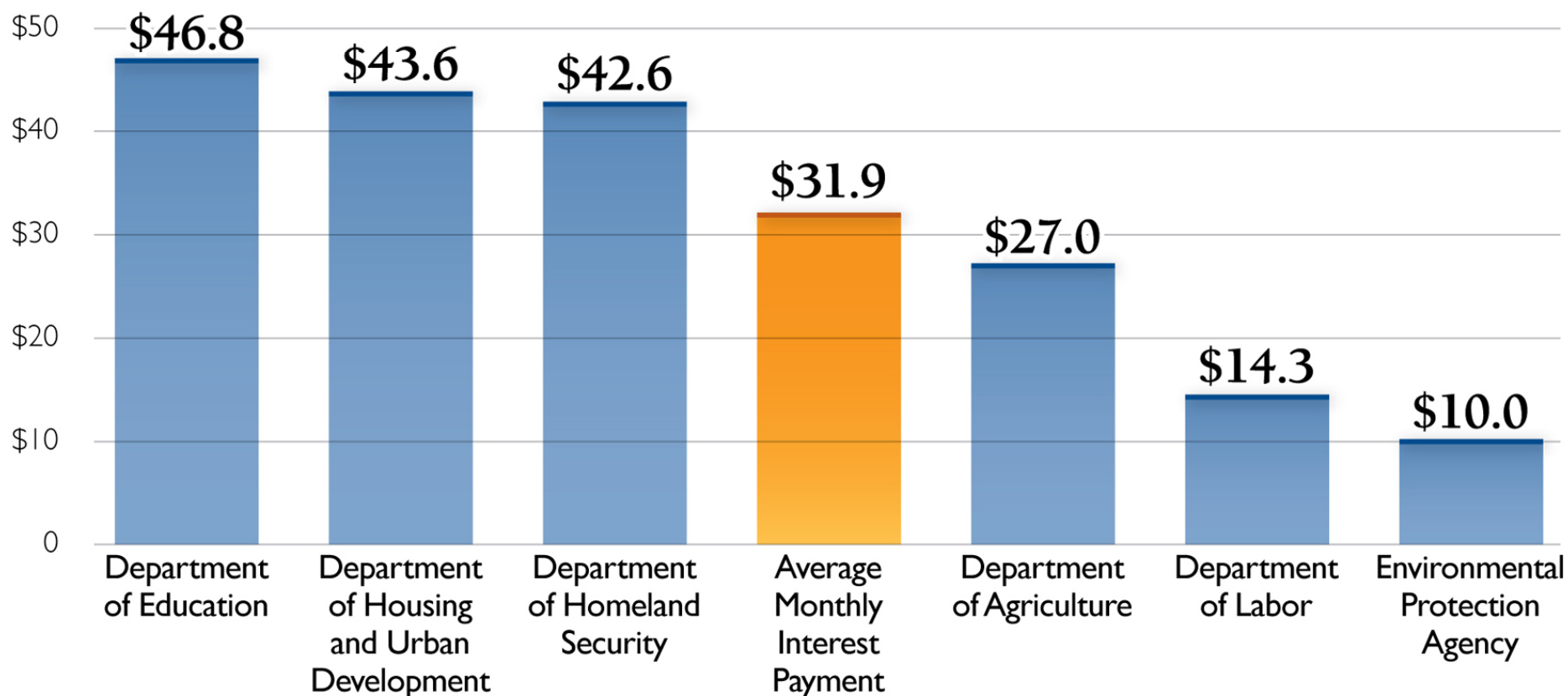


Source: White House Office of Management and Budget.

The Monthly Interest Payment on the National Debt Is More Than Most Program Spending

In 2009, the U.S. spent more on interest payments on the debt in *one month* than it spent on some federal departments for the entire *year*.

2009 SPENDING, IN BILLIONS OF DOLLARS

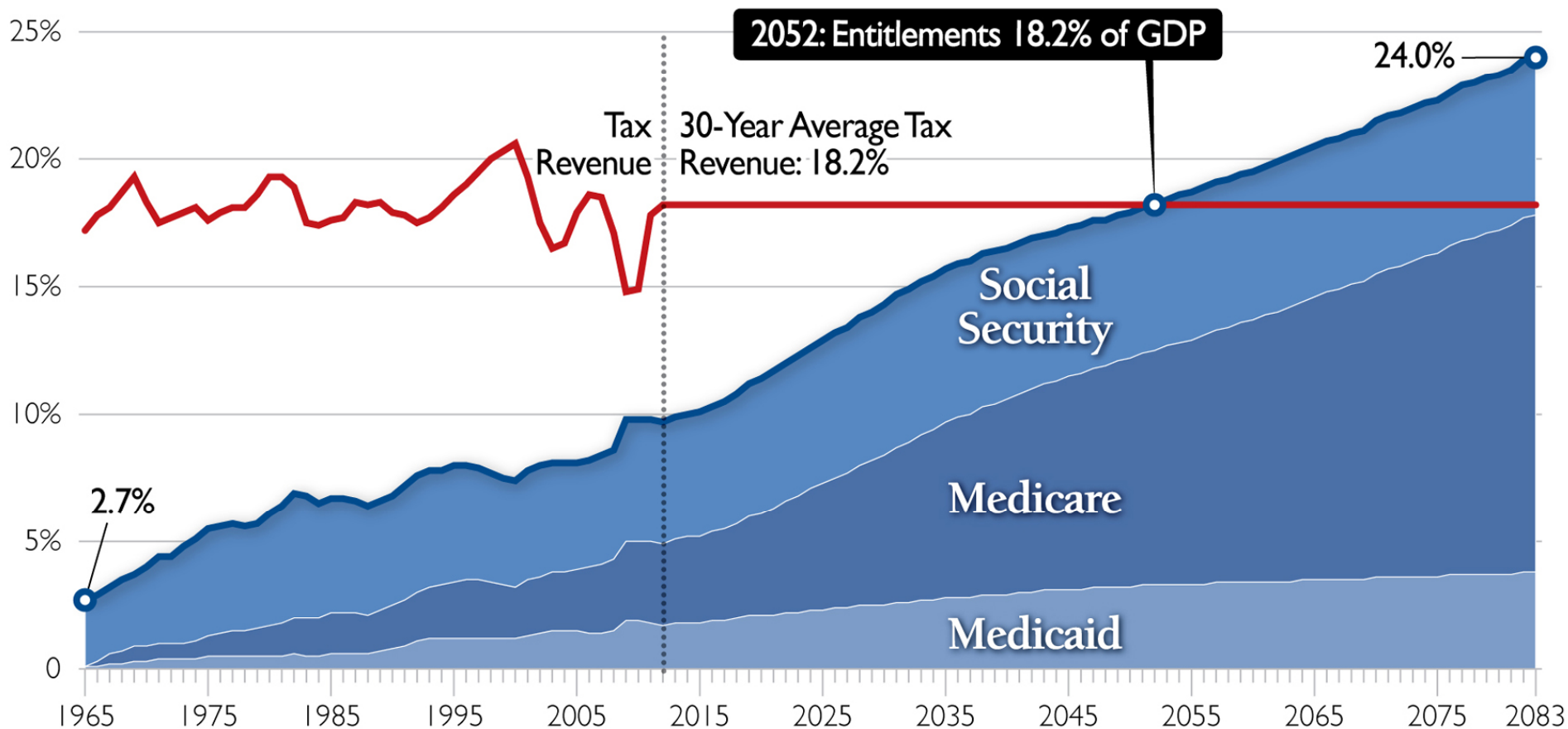


Source: U.S. Department of the Treasury and White House Office of Management and Budget.

Entitlements Will Consume All Tax Revenues by 2052

If future taxes are held at the historical average, spending on Medicare, Medicaid, and Social Security will consume all revenues by 2052. Because entitlement spending is funded on autopilot, no revenue will be left to pay for other government spending, including constitutional functions such as defense.

PERCENTAGE OF GDP

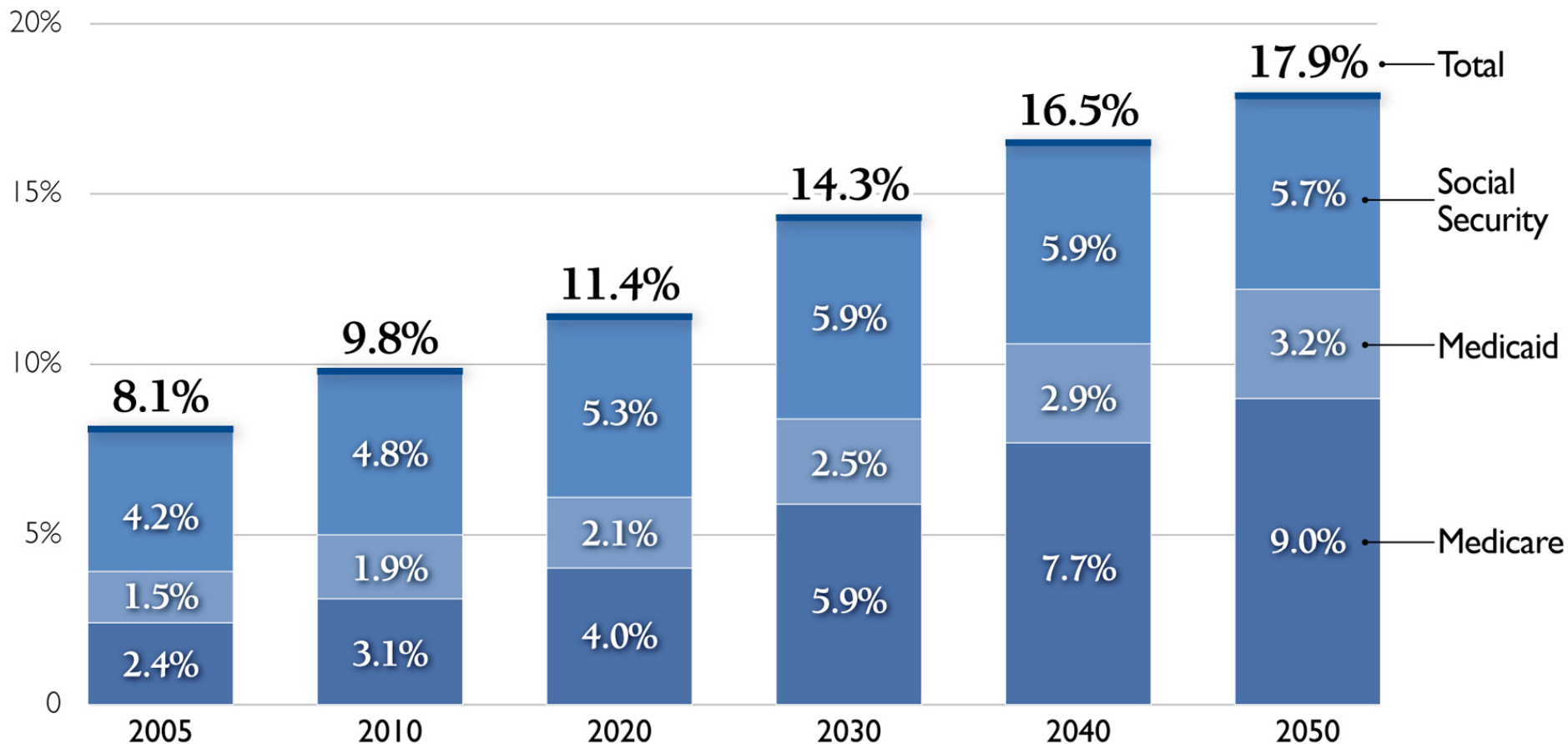


Source: Congressional Budget Office.

Entitlement Spending Will More Than Double by 2050

Social Security, Medicare, and Medicaid spending will soar as 78 million baby boomers retire and health care costs climb. Medicaid spending will more than double, and Medicare spending will more than triple.

PERCENTAGE OF GDP

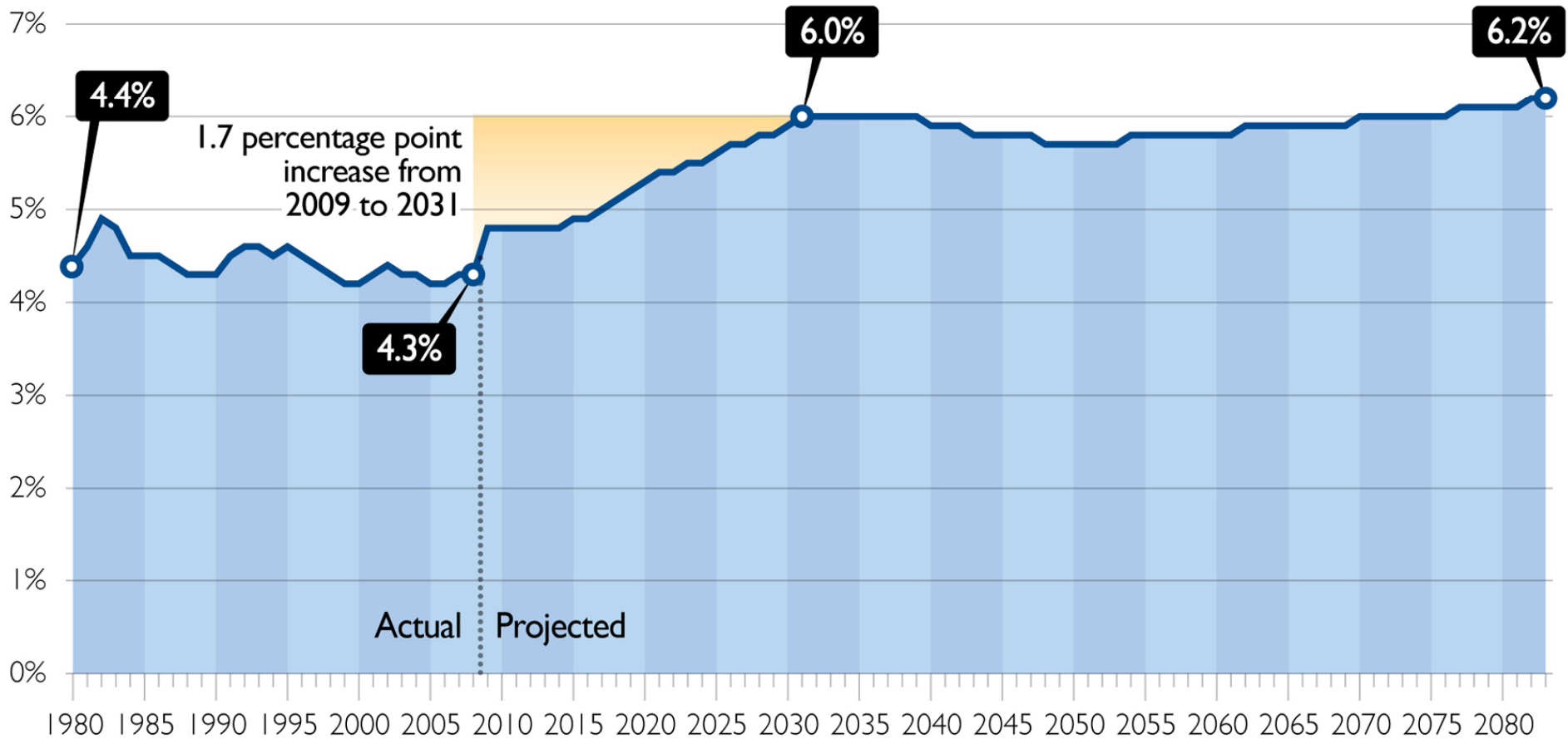


Source: Congressional Budget Office.

Social Security Spending Will Soon Rise Rapidly

Although Social Security spending has remained relatively constant since the early 1980s, the approaching wave of retiring baby boomers will cause Social Security spending to skyrocket.

PERCENTAGE OF GDP

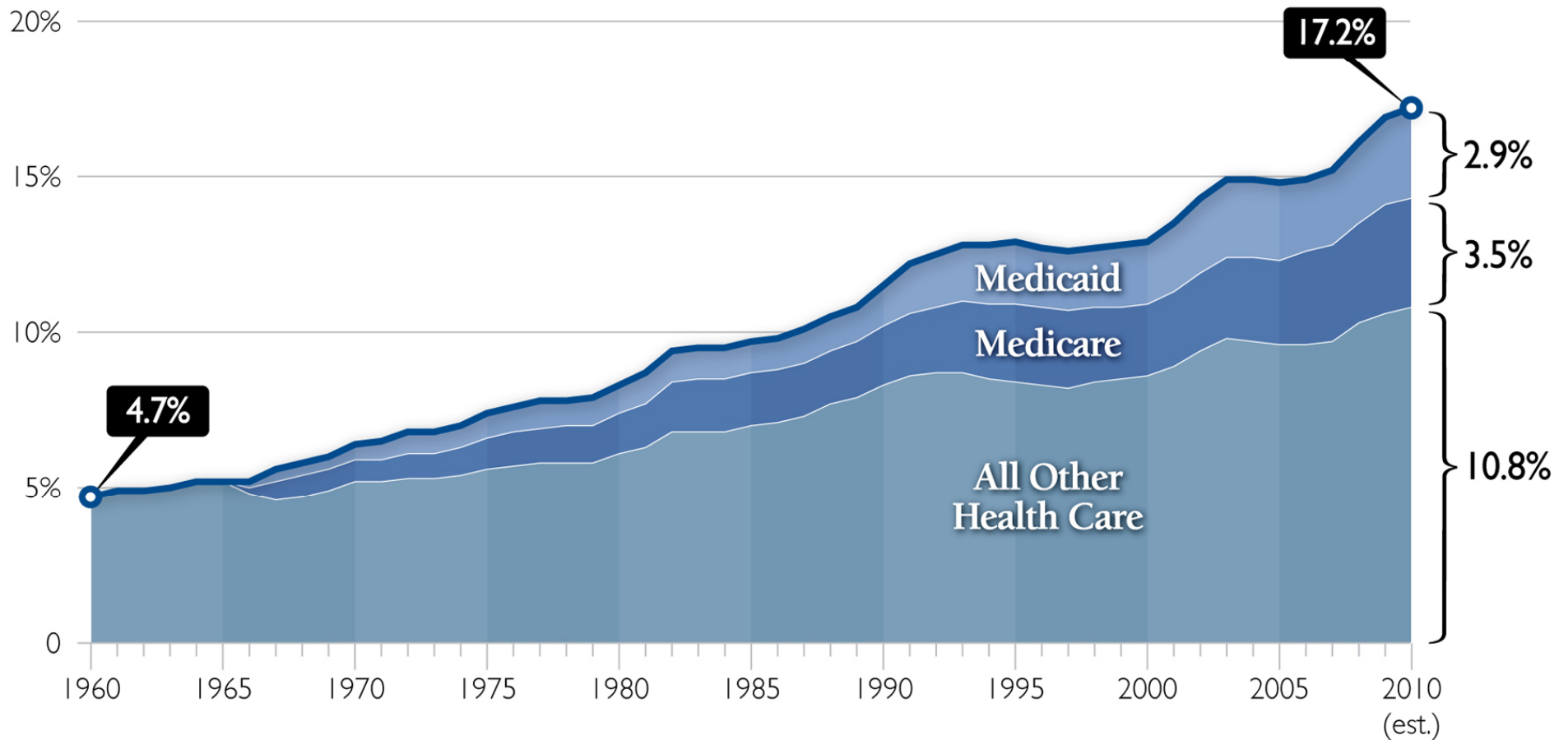


Source: Congressional Budget Office.

Medicare and Medicaid Spending Will Rise with Increasing Health Care Costs

Health care costs are rising rapidly and have been growing faster than the economy over the past few decades. As 78 million baby boomers retire, rising costs will cause Medicare and Medicaid spending to skyrocket.

PERCENTAGE OF GDP

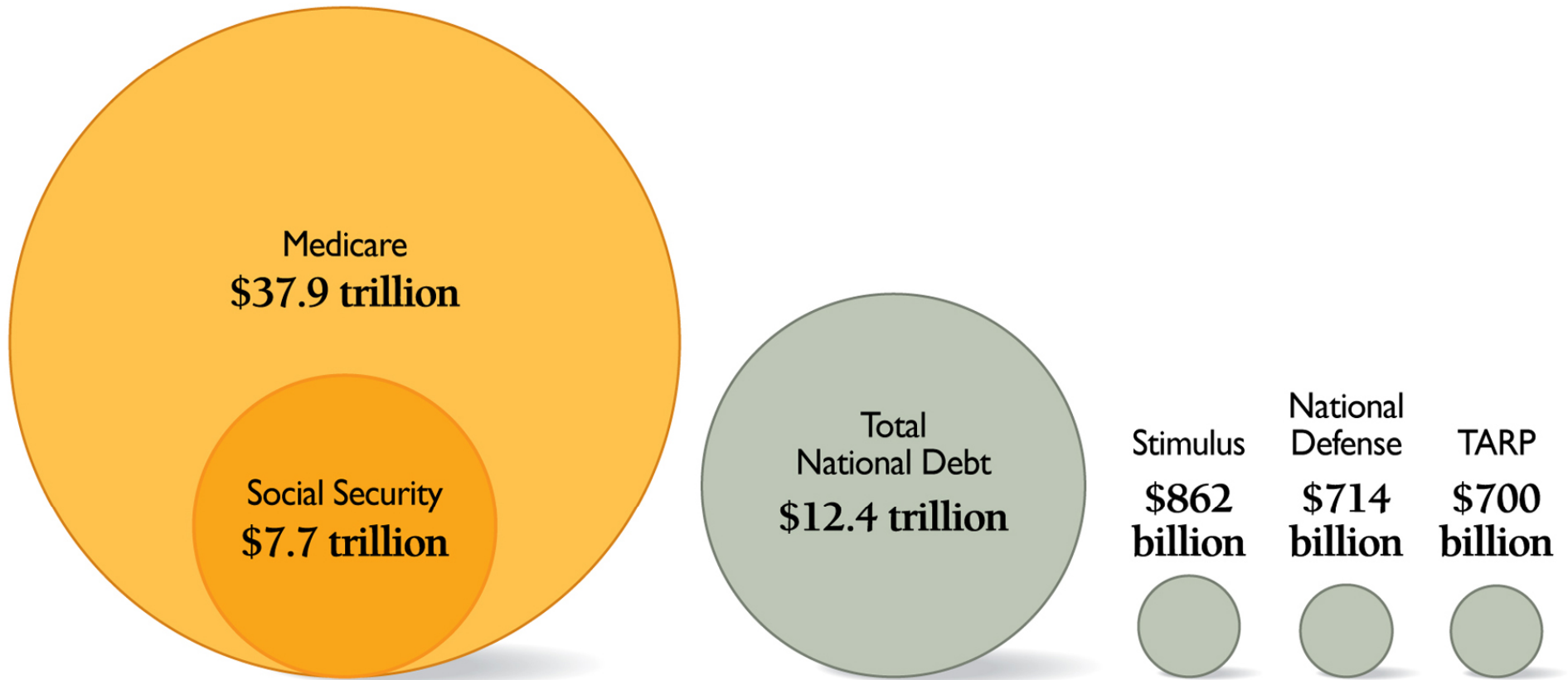


Source: Congressional Budget Office.

Entitlement Debt Dwarfs Other Spending, Including Bailouts

The nation cannot afford the Medicare and Social Security benefits that have been promised to future retirees. These long-term unfunded obligations dwarf spending on other expensive government programs, including the Troubled Asset Relief Program (TARP) and the 2009 economic stimulus bill, and vastly outweigh the entire national debt.

UNFUNDED OBLIGATIONS

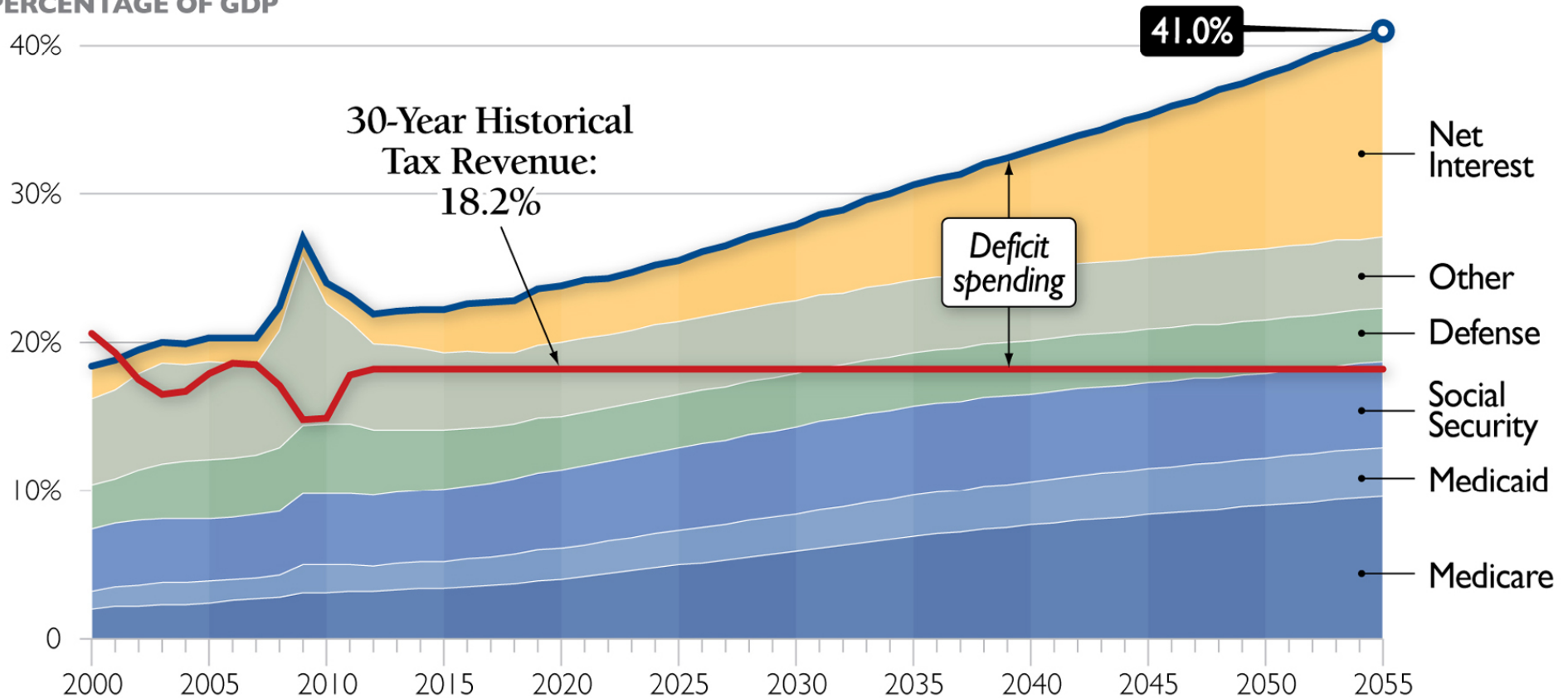


Source: U.S. Department of the Treasury, U.S. Government Accountability Office, and Congressional Budget Office.

Without Entitlement Reform, Federal Spending Could Consume More than Two-Fifths of GDP by 2055

If taxes are held at the historical average in the future, the three major entitlements—Social Security, Medicare, and Medicaid—will push spending levels to unsustainable levels. These programs must be reformed in order to improve the long-term budget outlook.

PERCENTAGE OF GDP

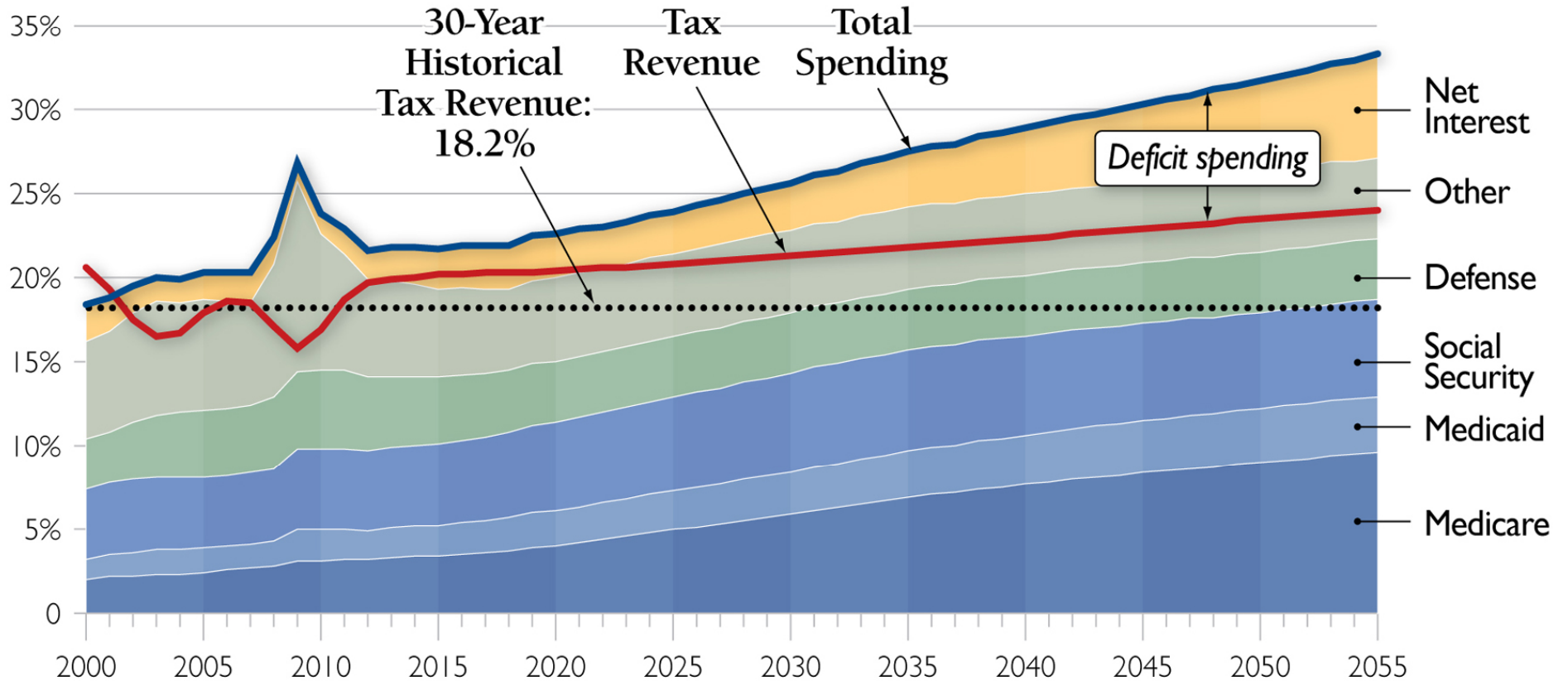


Source: Heritage Foundation calculations based on Congressional Budget Office data.

Repealing Tax Cuts and Not Fixing AMT Will Not Balance the Budget

Even if the 2001 and 2003 tax cuts expire and middle-class taxpayers fall prey to the alternative minimum tax, the budget would not balance because spending is skyrocketing. Medicare, Medicaid, and Social Security are the main drivers of future spending and must be reformed in order to improve the long-term budget outlook.

PERCENTAGE OF GDP

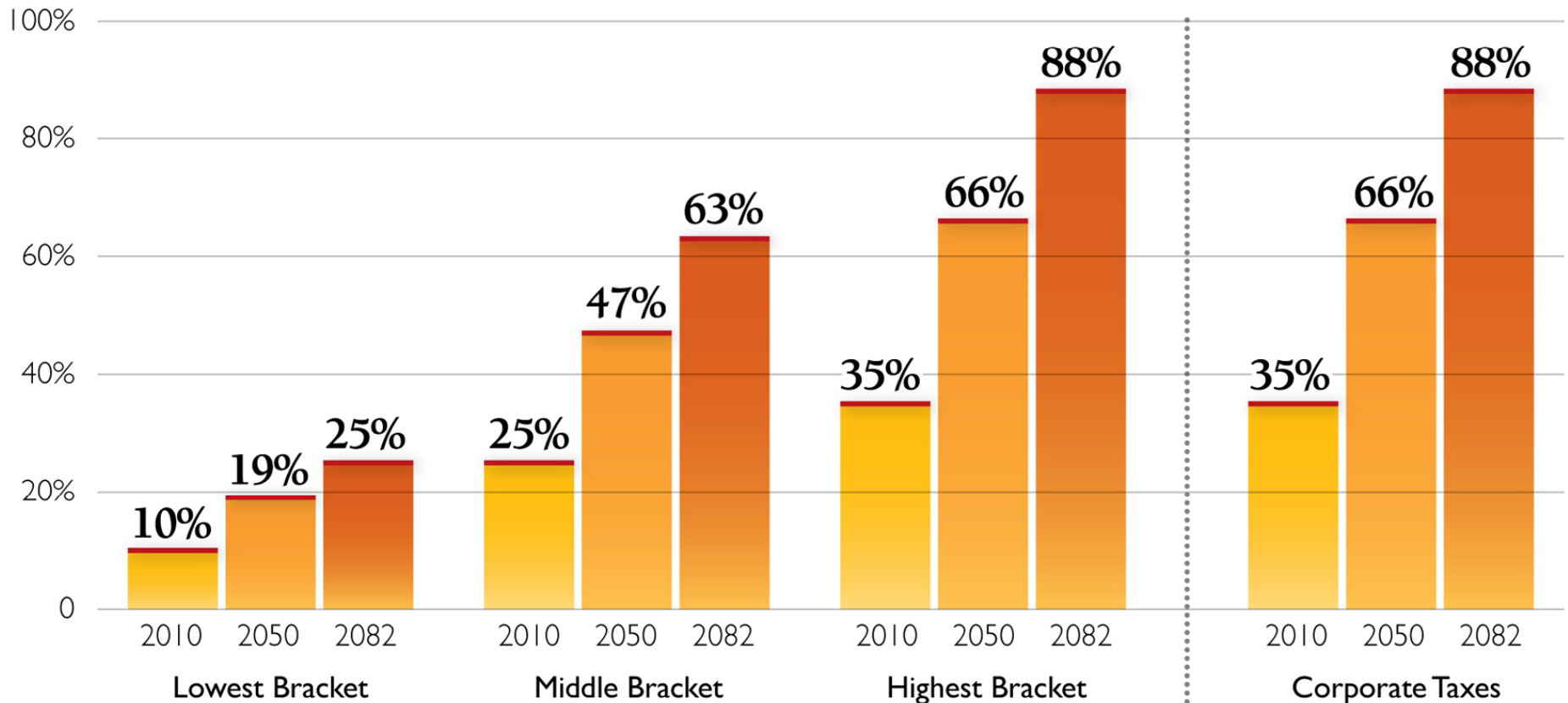


Source: Congressional Budget Office (Extended Baseline Scenario).

Paying for Entitlements with Tax Increases Would Cause Tax Rates to Double

The costs of Medicare, Medicaid, and Social Security are rising substantially. Paying for this spending solely through federal income tax increases would require more than doubling current tax rates, even for the lowest tax bracket.

MARGINAL INCOME TAX RATES

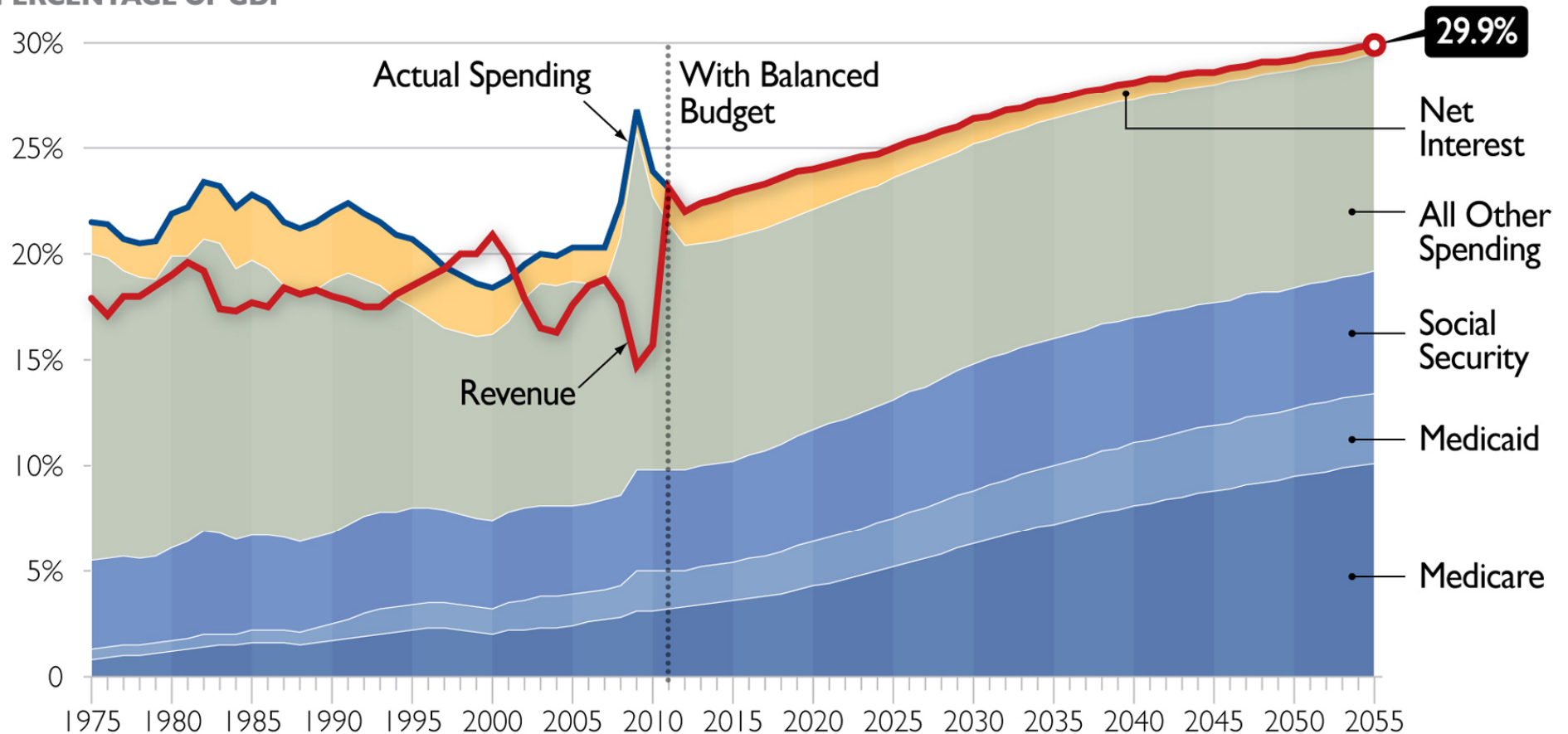


Source: Congressional Budget Office.

Balancing the Budget Would Cause Taxes to Skyrocket

America is running massive deficits, and a balanced budget requirement is often considered a way to rein in red ink. Without spending cuts or entitlement reforms the level of taxes required to balance the budget would reach European levels.

PERCENTAGE OF GDP

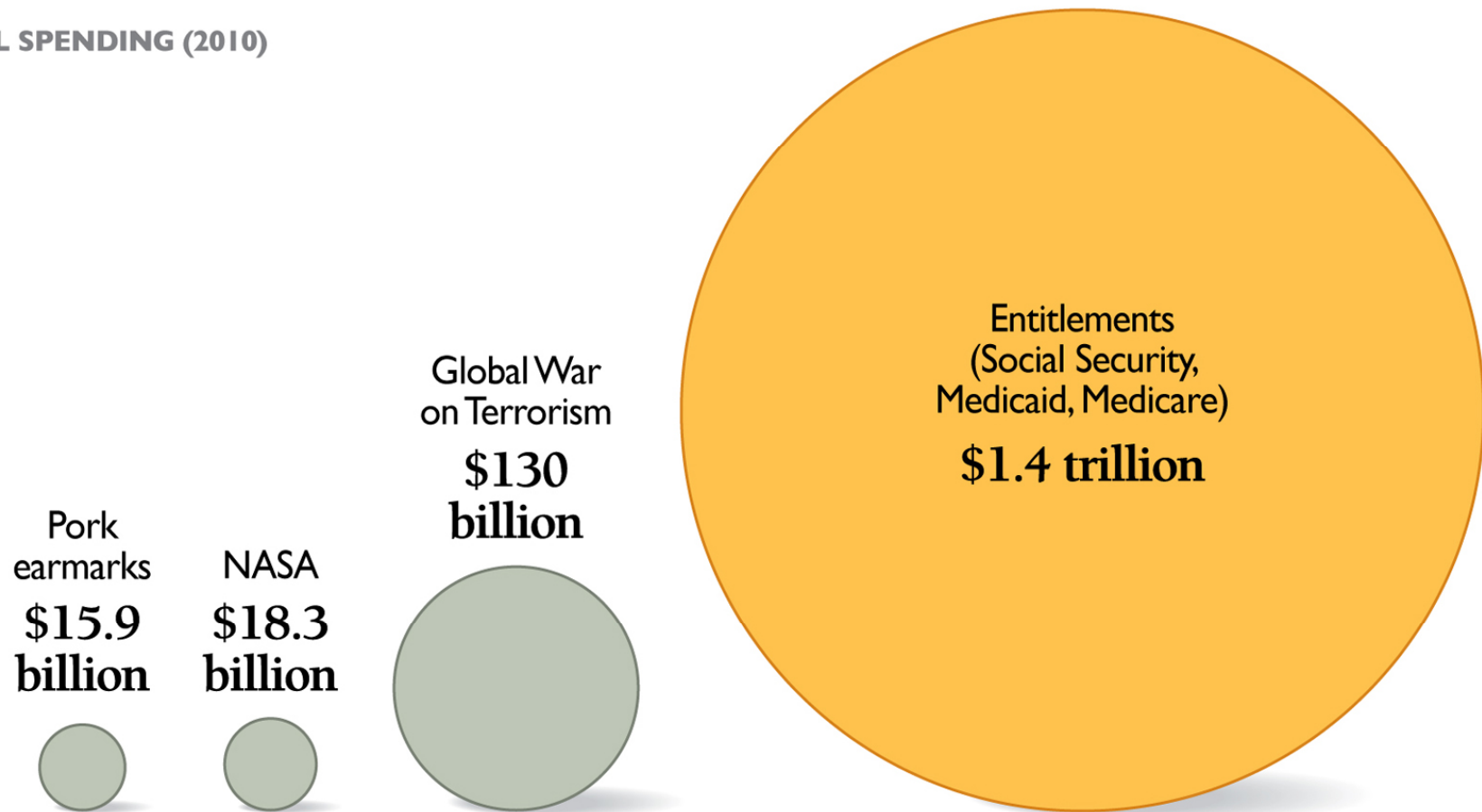


Source: Heritage Foundation calculations based on Congressional Budget Office data (Alternative Fiscal Scenario).

Spending Cuts Alone Will Not Pay for Rising Entitlement Spending

Spending cuts are often considered as a way to pay for unaffordable Social Security and Medicare benefits. But annual spending on entitlements is massive compared to other programs, including defense. Entitlements must be reformed to become affordable.

ANNUAL SPENDING (2010)

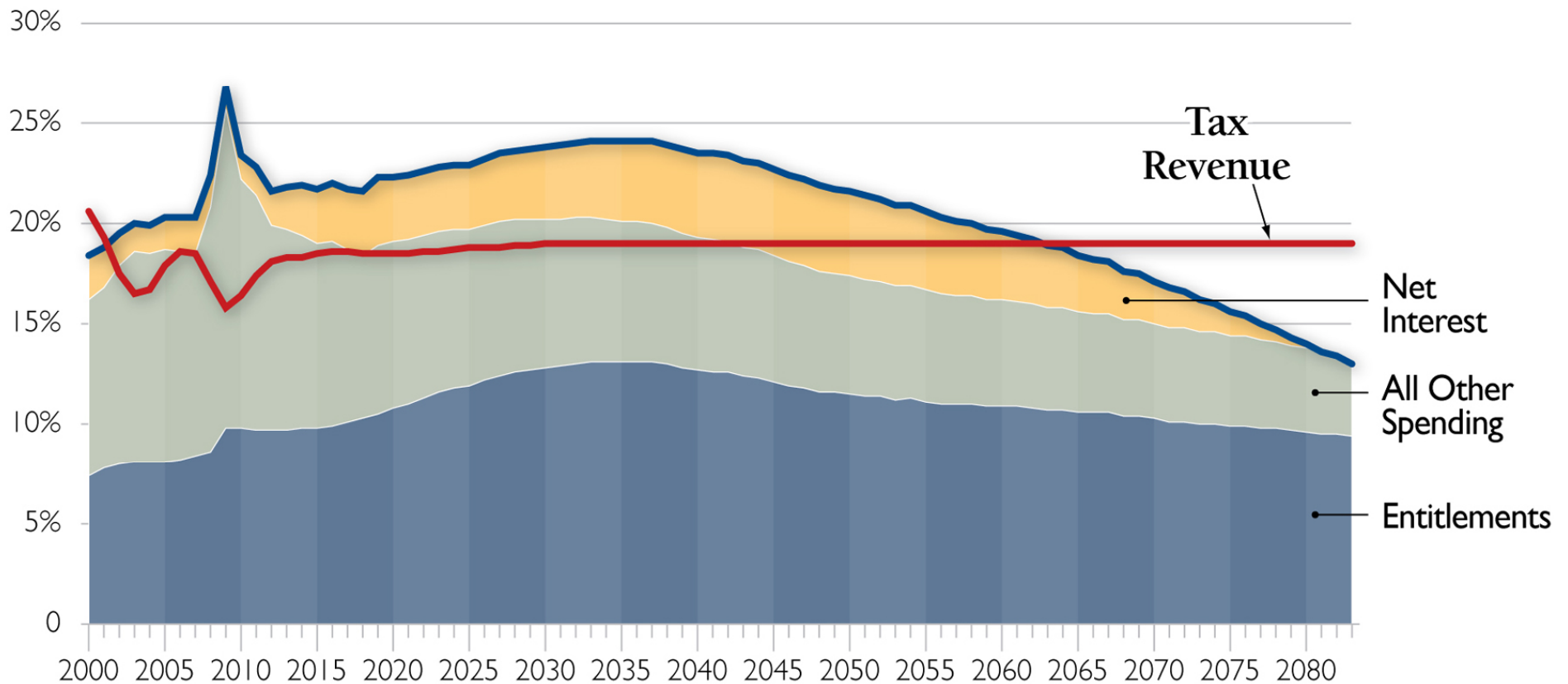


Source: White House Office of Management and Budget.

The Roadmap for America's Future Could Solve the Long-Term Budget Problem

In January 2010, Representative Paul Ryan (R-WI) re-introduced the Roadmap for America's Future, a comprehensive bill that would reform entitlements. According to the non-partisan Congressional Budget Office, this bill would eliminate long-term deficits and place the budget on a sustainable course.

PERCENTAGE OF GDP



Source: Congressional Budget Office.

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