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 2011, the federal government spent $3.6 trillion, amounting to 24 percent of the nation’s Gross Domestic Product (GDP). While the level of 2011 expenditures — as a share of GDP — remains high due to the economic downturn, the composition of the budget largely resembles the patterns of recent years. Of that $3.6 trillion, $2.2 trillion was financed by federal tax revenues, and $83 billion by excess profits on assets held by the Federal Reserve. 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 international security assistance:**
  In 2011, 20 percent of the budget, or $718 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, funding for which totaled $1.59 billion in 2011.

- **Social Security:**
  Another 20 percent of the budget, or $731 billion, paid for Social Security, which provided retirement benefits averaging $1,229 per month to 35.6 million retired workers in December 2011. Social Security also provided benefits to 2.9 million spouses and children of retired workers, 6.3 million surviving children and spouses of deceased workers, and 10.6 million disabled workers and their eligible dependents in December 2011.

- **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 2011, or $769 billion. Nearly two-thirds of this amount, or $486 billion, went to Medicare, which provides health coverage to around 48 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 2011 provided 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.
Two other categories together account for another fifth of federal spending:

- **Safety net programs:** About 13 percent of the federal budget in 2011, or $466 billion, went to support programs that provide aid (other than health insurance or Social Security benefits) to individuals and families facing hardship. Spending on safety programs declined in both nominal and real terms between 2010 and 2011 as the economy continued to improve and initiatives funded by the 2009 Recovery Act began to expire.

  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.

  Such programs keep millions of people out of poverty each year. A Center analysis shows that government safety net programs kept some 25 million people out of poverty in 2010. Without any government income assistance, either from safety net programs or other income supports like Social Security, the poverty rate would have been nearly double in 2010 (28.6 rather than 15.5 percent).

- **Interest on the national debt:**

  "Safety net programs kept some 25 million people out of poverty in 2010."
When thinking about the costs that taxes impose, it is essential to balance those costs against the benefits the nation receives from public services.

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 $10 trillion by the end of fiscal 2011. In 2011, these interest payments claimed $230 billion, or about 6 percent of the budget.

2009-2011 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 — 2009-2011 tax and spending levels diverged from recent patterns. Federal revenues plunged to 15 percent of GDP in 2009 and remained at 15 percent through 2011, 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 24 percent of GDP in 2010 and 2011. 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 2011 largely resembles recent federal spending patterns.

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 19 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 2011 on the most recent historical data released by the Office of Management and Budget (OMB). (The federal fiscal year 2011 runs from October 1, 2010 to September 30, 2011.) 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 International security assistance:**
The largest component of this 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 function 550).

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**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).

- **Transportation:**
  This subcategory consists of the entire transportation function (400).

- **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).

- **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.