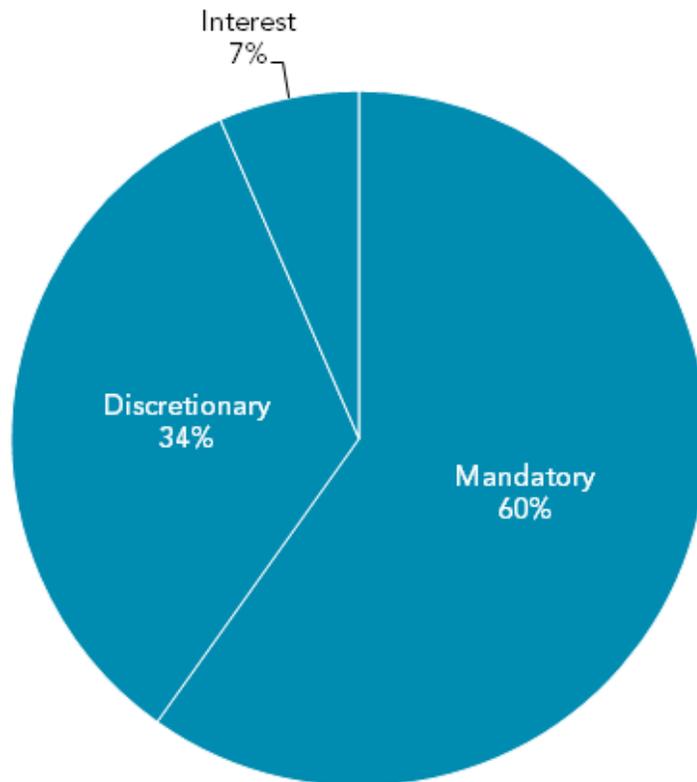


How does the federal government spend its money?

In fiscal year (FY) 2014, about 60 percent of federal spending paid for programs not subject to regular budget review, while just over a third covered discretionary programs for which Congress must regularly appropriate funds. Less than a tenth went for interest on government debt (figure 1).

FIGURE 1
Composition of Total Federal Spending
FY2014

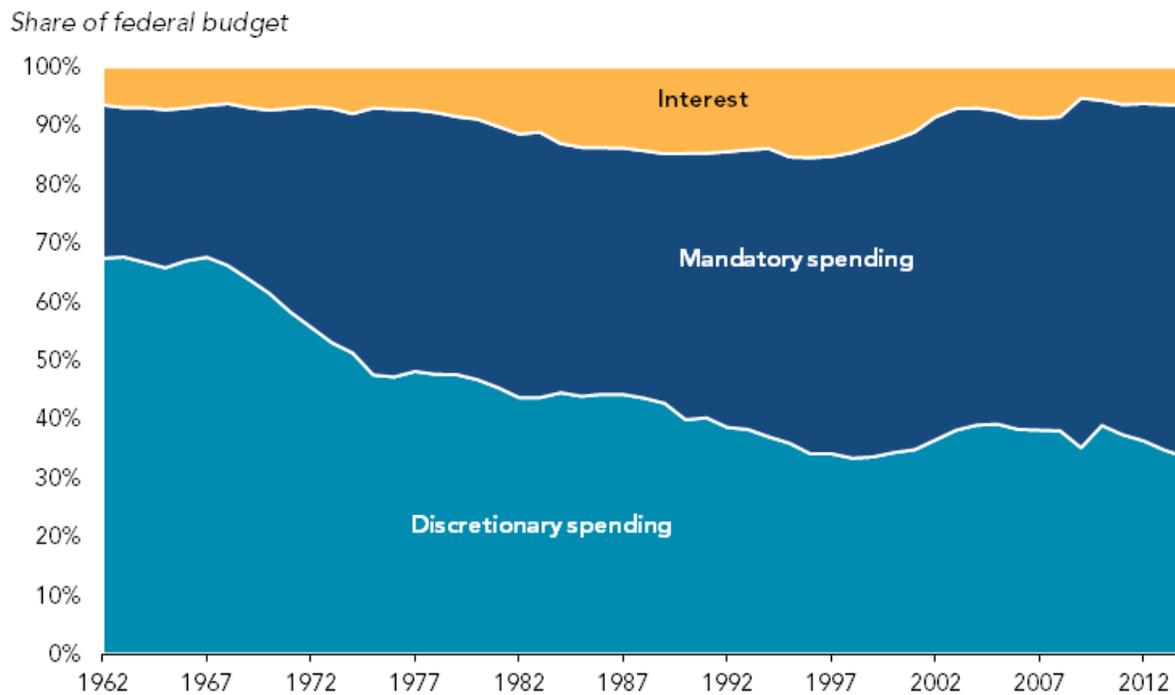


Source: Congressional Budget Office, Updated Budget Projections: 2015 to 2025, March 2015.

MANDATORY SPENDING

Mandatory spending covers outlays that are controlled by laws other than appropriations acts. Almost all such spending is for “entitlements,” for which expenditures depend on individual eligibility and participation; they are funded at whatever level is needed to cover the resulting costs. Mandatory spending has grown from about a quarter of the budget in 1962 to 60 percent in 2014 (figure 2). This is in large part because of new entitlements, including Medicare and Medicaid (both of which started in 1965), the earned income tax credit (1975), and the child tax credit (1997). In addition, rapid growth of both the elderly and disabled populations has contributed to increased Social Security and Medicare spending.

FIGURE 2
Federal Spending by Type
FY1962-2014

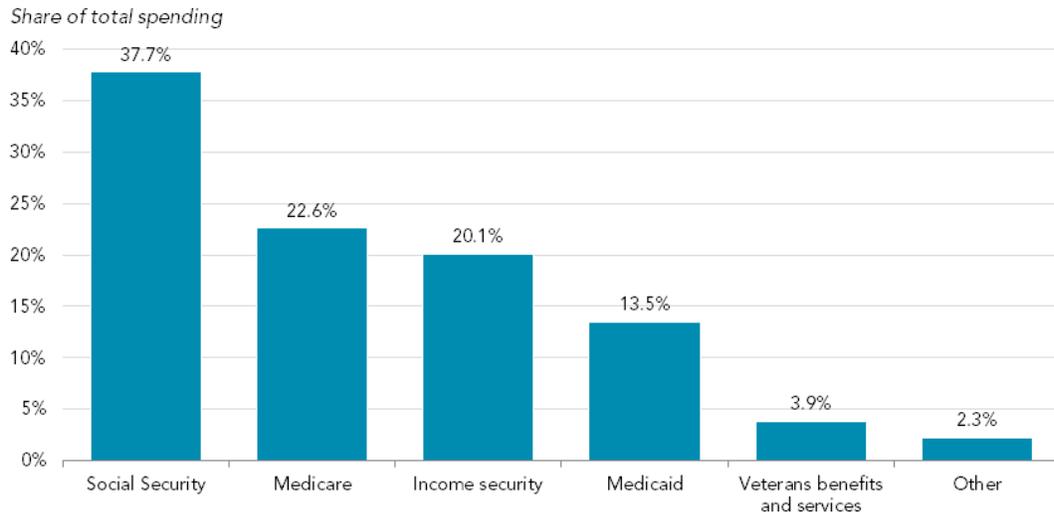


Source: Office of Management and Budget, Fiscal Year 2016, Historical Tables: Table 8.1.

Nearly 60 percent of mandatory spending in 2014 was for Social Security and other income support programs (figure 3). Most of the remainder paid for the two major government health programs, Medicare and Medicaid.

FIGURE 3

Composition of Total Mandatory Spending FY2014



Source: Office of Management and Budget, Fiscal Year 2016, Historical Tables, Table 8.5.

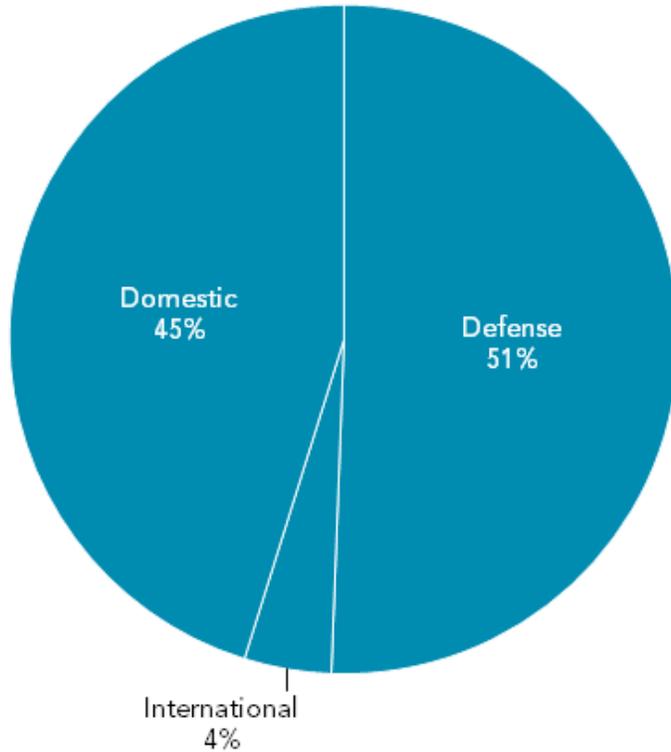
DISCRETIONARY SPENDING

Discretionary spending covers programs that require appropriations by Congress. Unlike mandatory spending, both the programs and the authorized levels of spending require regular renewal by Congress. The share of the budget going for discretionary spending has fallen from two-thirds in 1962 to about one-third now.

Just over half of FY 2014 discretionary spending went for defense, and most of the rest for domestic programs, including agricultural subsidies, highway construction, and the federal courts (figure 4). Only 4 percent of discretionary spending funded international activities, such as foreign aid.

FIGURE 4

Composition of Total Discretionary Spending FY2014



Source: Office of Management and Budget, Fiscal Year 2016, Historical Tables, Table 8.7.

DEBT SERVICE

Interest on the national debt has fluctuated over the past half century along with the size of the debt and interest rates. It climbed from 6 percent of gross domestic product (GDP) in 1962 to more than 15 percent in the mid-1990s, fell to about 7 percent in the early 2000s, and has fallen even more recently, as interest rates have tumbled to historically low levels. While the national debt reached a peacetime high of 74 percent of GDP in 2014, debt service accounted for just 7 percent of federal spending in 2014.

DATA SOURCES

Congressional Budget Office. [*Budget and Economic Outlook: Fiscal Years 2011 to 2021, Historical Budget Data. Table E-9. "Outlays for Mandatory Spending, 1971 to 2012, in Billions of Dollars."*](#)

Office of Management and Budget. *Budget of the United States Government, Fiscal Year 2016, Historical Tables. Table 7.1. "Federal Debt at the End of Year: 1940–2020"; Table 8.1. "Outlays by Budget Enforcement Act Category: 1962–2020"; Table 8.5. "Outlays for Mandatory and Related Programs: 1962–2020"; and Table 8.7. "Outlays for Discretionary Programs: 1962–2020."*