

# MuhlenkampMethods

For the Intelligent Investor

Answers to questions you may not even know you have.

## One Family's Perspective on the U.S. Federal Budget

*This essay was originally published in Muhlenkamp Memorandum Issue 4, April 1988. It was updated in 1992, 2002, and 2006.*

*The essay looks at the federal budget and entitlement programs on a per-person basis, which allows people to review them in terms they understand. It points out that government spending is a concern not just because of debt, but because it removes money from the private sector. It also discusses the growth of entitlements in the federal budget. Between 2002 and 2006 the Office of Budget and Management (which is the source of our data) changed their classification in ways that make it difficult to compare the old numbers with the new numbers. So we've listed the comparison prior to 2002 using the earlier classification in Figure 5.4, and the comparison of 2002 and 2006 using the current classification in Figure 5.5*

When people set out to discuss the federal budget, they often get glassy-eyed after the first few \$100 billion. We have all seen graphic examples of the sums involved, such as the stacks of dollar bills rising to the moon and beyond. Designed to help us understand the magnitude of federal finance, these "visual aids" are often as overwhelming as the raw numbers and don't really help at all.

I find it useful to view the federal budget in terms of cost per person or cost per household. Figure 5.4 does just that and allows me to determine what my family or I pay for each category. For example, in 1992 my family was paying \$520 for deposit insurance. This was money spent to bail out failed banking and savings and loan institutions. Note that the numbers in Figure 5.4 are for federal budgets only and do not include state and local budgets. In 2002, public education spent an additional \$370 billion (\$3,500 per family) at the state and local level. In 2006, public education spent an additional \$431 billion, (\$3,767 per family) at the state and local level.

I have also gone one step further. Where possible, I calculated the dollars involved per intended recipient (very approximate). Thus retirees now average over \$20,000 per household (1988) from Social Security, Medicare, and federal pensions.



We originally visited this subject in our spring 1988 newsletter where we calculated federal spending on a per-capita and per-household basis. We have updated that data in Figure 5.4. The 1992 budget for federal spending was 9% greater than in 1988 (after adjusting for inflation). In turn, the 2002 budget is 16% greater than the 1992 budget, again adjusted for inflation -- and the 2006 budget is 14.67% greater than the 2002 budget, after adjusting for inflation. While many people focus on the federal deficit, we've argued for years that the problem was in the level of government spending. Since every dollar spent by the government is a dollar removed from the free market, a primary source of weakness in the private sector is the increased level of government spending.



Figure 5.4 Federal Budget Programs, 1988-2002

	1988	1992	2002				
Population (Millions)	245	257	288				
# of Households (Millions)	90	95	105				
Consumer Price Index (CPI)	355	424	533				
				\$/CAP	\$/Household	In Millions	
Category (In billions of dollars)	1988	1992	2002	2002	2002	Recipients	\$/Recipient
Social Security	219	288	456	\$ 1,583	\$ 4,343	46.45	\$ 9,817
Medicare	79	119	231	\$ 802	\$ 2,200	40.4	\$ 5,718
Federal Pensions	47	58	83	\$ 288	\$ 790	2.65	\$ 31,321
Income Security*	83	142	230	\$ 799	\$ 2,190		
Veterans	29	34	51	\$ 177	\$ 486		
Defense	290	298	349	\$ 1,212	\$ 3,324		
International Affairs	10	16	22	\$ 76	\$ 210		
Energy	3	5	0	\$ -	\$ -		
Science	11	16	21	\$ 73	\$ 200		
Resources & Environment	15	20	29	\$ 101	\$ 276		
Agriculture	17	15	22	\$ 76	\$ 210	0.8	\$ 27,500
Deposit Insurance	10	3	-1	\$ (3)	\$ (10)		
Commerce & Housing	9	8	0	\$ -	\$ -		
Transportation	27	33	62	\$ 215	\$ 590		
Community	5	7	13	\$ 45	\$ 124		
Education	31	43	71	\$ 247	\$ 676		
Health	44	89	197	\$ 684	\$ 1,876		
Justice	9	14	34	\$ 118	\$ 324		
General Government	9	13	17	\$ 59	\$ 162		
Undistributed Offsetting Receipts	-37	-39	-48	\$ (167)	\$ (457)		
Net Interest	<u>152</u>	<u>199</u>	<u>171</u>	<u>\$ 594</u>	<u>\$ 1,629</u>		
<b>Total Outlays**</b>	<b>1064</b>	<b>1382</b>	<b>2011</b>	<b>\$ 6,983</b>	<b>\$ 19,152</b>		
Revenues	909	1091	1853				
Deficit**	-155	-290	-158				
<b>Total Outlays in \$ 2002</b>	<b>1597</b>	<b>1737</b>	<b>2011</b>				
<i>Increase from previous year shown:</i>		9%	16%				
<b>Total Federal Outlays as a % of GDP</b>	<b>21.2%</b>	<b>22.2%</b>	<b>19.5%</b>				

\* Income Security includes: Unemployment Compensation; Food Stamp; Supplemental Security Income; Temporary Assistance for Needy Families; Earned Income Tax Credit

\*\*May not add up due to rounding

\*\*\* Source: Office of Budget and Management, Historical Tables, Budget of US Government, Fiscal Year 2004



Figure 5.5 United States Government Statements of Net Cost

	2002	2006			
Population	288	299			
# of Households (Millions)	109	114			
Consumer Price Index (CPI)	533	597			
Gross Domestic Product (GDP)	10470	13247			
			\$/Cap	\$/Household	\$/Recipient
<b>Years Ended September 30, 2002 &amp; 2006</b>	<b>Sep-02</b>	<b>Sep-06</b>			
<b>(In billions of dollars)</b>	<b>Net Cost</b>	<b>Net Cost</b>	<b>2006</b>	<b>2006</b>	
Department of Defense	406.5	633.9	\$ 2,120	\$ 5,561	
Department of Health & Human Services	472.9	627.4	\$ 2,098	\$ 5,504	
Social Security Administration	492.6	592.8	\$ 1,983	\$ 5,200	\$ 14,000
Interest on Treasury Securities held by the Public	175.4	221.5	\$ 741	\$ 1,943	
Department of Veterans Affairs	215.8	113.8	\$ 381	\$ 998	
Department of Agriculture	70.9	97.6	\$ 326	\$ 856	\$ 28,500
Department of Education	45.1	92.6	\$ 310	\$ 812	
Department of the Treasury	62.4	81.4	\$ 272	\$ 714	
Department of Transportation	63.8	66.0	\$ 221	\$ 579	
Department of Energy	-7.8	65.8	\$ 220	\$ 577	
Department of Homeland Security	-	56.6	\$ 189	\$ 496	
Department of Labor	64.7	48.2	\$ 161	\$ 423	
Department of Housing and Urban Development	34.1	42.0	\$ 140	\$ 368	
Department of Justice	27.2	27.6	\$ 92	\$ 242	
Office of Personnel Management	0.2	19.7	\$ 66	\$ 173	
National Aeronautics and Space Administration	14.6	19.2	\$ 64	\$ 168	
Department of the Interior	14.3	17.1	\$ 57	\$ 150	
Department of State	10	13.8	\$ 46	\$ 121	
Agency for International Development	8	10.4	\$ 35	\$ 91	
Environmental Protection Agency	7.7	9.6	\$ 32	\$ 84	
Department of Commerce	6.2	8.2	\$ 27	\$ 72	
Federal Communications Commission	5.7	7.6	\$ 25	\$ 67	
Railroad Retirement Board	9.3	7.1	\$ 24	\$ 62	
National Science Foundation	4.2	5.7	\$ 19	\$ 50	
Federal Deposit Insurance Corporation	1.1	1.7	\$ 6	\$ 15	
Small Business Administration	0.8	1.4	\$ 5	\$ 12	
U.S. Nuclear Regulatory Commission	0.2	0.4	\$ 1	\$ 4	
General Services Administration	-0.4	0.4	\$ 1	\$ 4	
National Credit Union Administration	-0.3	0.1	\$ 0	\$ 1	
Tennessee Valley Authority	1.1	-0.5	\$ (2)	\$ (4)	
Export-Import Bank of the United States	1.5	-0.2	\$ (1)	\$ (2)	
Pension Benefit Guaranty Corporation	11.8	-4.3	\$ (14)	\$ (38)	
U.S. Postal Service	16.7	-12.7	\$ (42)	\$ (111)	
All other entities	<u>22</u>	<u>30.5</u>	<u>\$ 102</u>	<u>\$ 268</u>	
<b>Total*</b>	<b>2260</b>	<b>2901</b>	<b>\$ 9,703</b>	<b>\$ 25,450</b>	



**Figure 5.5 United States Government Statements of Net Cost, continued**

Consolidated Revenues	1878	2441
Unmatched Transactions and Balances	<u>17</u>	<u>11</u>
Net Operating Cost (Gov Deficit)	-365	-450
<b>Total Cost in 2006 dollars</b>	<b>2531</b>	<b>2901</b>
<i>Increase from previous year shown:</i>		14.6%
<b>Total Federal Cost as a % of GDP</b>	<b>21.6%</b>	<b>21.9%</b>

\* May not add up due to rounding

Source: Office of Budget and Management, Financial Report of the US Government, Fiscal Years 2002 & 2006

## Coming to Grips

As you can see from Figure 5.4, the major growth segment in the federal budget is entitlements, particularly Social Security and Medicare. We have reached a point where the elderly constitute 13% of our population, but receive over 60% of all federal social spending. Our politicians are well aware of this. Tip O’Neill was well aware of it a decade ago, and Barbara Jordan made a point of it at the Democratic Convention. Few people realize that people who retired six years prior to 1992 had already received every dime they had ever paid into Social Security, and could expect to receive an additional three multiples of their contribution during their remaining lifetimes. (Yes, all of the numbers are adjusted for inflation and company contributions. Details are available upon request.) In 1992, \$14 billion in Social Security benefits went to people with cash incomes over \$100,000 per year. In 2006, the numbers are higher. I’ve yet to hear an argument why anyone with assets over \$1 million or income over \$50,000 should receive more from Social Security than they paid into it.

Although I am encouraged by the changes that I see proposed, considered, and discussed in this fascinating political year, I will remain skeptical of the American public’s desire to reach a solution to our economic problems until I see them come to grips with the simple arithmetic of the federal budget and Social Security.

## 2007 Update

In 2007, very little changed except that many other departments, from Education to Defense to Agriculture, are now vying with entitlements as the fastest growing segments of federal spending.

## Editor’s Note

*Every dollar the government spends, we, the taxpayers, must earn. There is no free lunch.*

