



**KENNESAW STATE  
UNIVERSITY**

COLES COLLEGE OF BUSINESS  
*Bagwell Center for the Study of Markets  
and Economic Opportunity*

# Commentary

**Title:**

*"On What Does the  
Federal Government  
Spend Its Money?"*

**Author(s):**

Luc Noiset, Bagwell Center  
Affiliated Faculty

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The federal government plays a large role in the U.S. economy. It creates and enforces laws and regulations. It collects taxes and borrows from the public, and it spends money to provide various goods, services, and transfer payments. Understanding the myriad of federal laws and regulations and the complexity of a modern tax system are enormous undertakings. Scholars devote their lives to specializing in and understanding only small portions of these complex systems, and citizens who want to be well informed should defer to such experts rather than fixating on the superficial talking heads of TV and social media.

The economic or philosophical reasons for government spending can be deeply debated, but a picture of actual spending itself is very easy to create and understand. It is curious therefore that the talking heads of the media do not regularly present the facts of government spending to their audiences and that the average American citizen, even the relatively well informed, does not know simple basic facts about how the U.S. federal government spends its money. The table below was created to address this shortcoming, at least among the readers of this commentary.

The table lists federal government outlays (actual spending as opposed to appropriations, which are more like *allowed* spending) for fiscal year 2019, just before the pandemic, and fiscal year 2022, in which there are still some remnants of pandemic spending. The data are reorganized from U.S. Treasury tables, based upon the annual Joint Statement from the Secretary of the Treasury and the Director of the Office of Management and Budget. Spending is separated into five categories: *Major Poverty Programs*, *Aged and Disabled Programs*, *Military and Veterans Benefits*, *Interest on the Debt*, and *Other Government Functions*. The numbers are not necessarily perfectly delineated – for example, there are poor old people who receive SNAP, Medicaid, and other transfers, and since there are aged veterans, this spending could logically be put in either the *Aged and Disabled Programs* category or *Military and Veterans Benefits* category.

Nevertheless, the table provides a stark overview of federal spending. In pre-pandemic fiscal year 2019, three categories, *Aged and Disabled Programs*, *Military and Veterans Benefits*, *Interest on the Debt* accounted to 74% of all federal spending, *Poverty Programs* accounted for 15% and *Other Government Functions* accounted for only 12%. These shares have been relatively stable for years. The demographics of the baby-boom generation, America's role as the world's police force and its penchant for military spending, and the fact that the U.S. Treasury is the beneficiary of decades of U.S. economic stability (ensuring low interest rates on U.S. Treasury bonds) suggest that these proportions will remain stable or even increase in coming years.

In fiscal year 2022, two large amounts of so-called pandemic spending remained even two years after the start of the crisis. These show up in the *Other Government Functions* category. First, federal education spending is over five hundred billion dollars higher in fiscal year 2022 than it was in fiscal year 2019 (6.13 times higher in 2022 than in 2019). This is mainly the result of the repayment pause on student loan and some actual student-loan forgiveness. There was also about two hundred billion spent in 2022 by the U.S. Treasury as part of its continued pandemic relief spending. These two bits of spending together, although they provide some evidence of the extent of continued pandemic spending increases, create an anomaly in the shares of spending by category. The share of *Other Government Functions* goes from 12% to 25%, which means lower shares in the other categories (although the share of spending on *Major Poverty Programs* did increase slightly between these years). Again, fiscal year 2022 should be viewed only as evidence of continued pandemic spending increase even two years after the start of the pandemic. It should not be used when discussing the typical shares of spending by category listed above. If one wants to debate how the federal government spends its money in more normal times, the Fiscal Year 2019 column is the better column to use for that discussion.

## Federal Government Outlays - In Millions of Dollars

	Fiscal Year 2019		Fiscal Year 2022		
Major Poverty Programs					
TANF & Other Welfare	15,496		68,344		
Food Stamps (SNAP) & Nutrition	86,738		185,727		
Earned income tax credit	59,209		64,282		
Medicaid <sup>1</sup>	409,421		591,950		
Child. Health Ins.	17,689		16,670		
Total	588,553	13%	926,973	15%	
Aged & Disabled Programs					
Social Security	1,101,833		1,279,128		
Medicare	782,547		982,628		
Total	1,884,380	42%	2,055,908	33%	
Defense & Veterans Benefits					
Defense-Military	653,987		726,571		
Veterans Affairs <sup>2</sup>	199,573		273,867		
Total	853,560	19%	1,000,438	16%	
Interest on the Debt	Total	572,913	13%	717,611	11%
Other Government Functions					
Legislative Branch	4,957		5,752		
The Judiciary	7,987		8,729		
Agriculture <sup>3</sup>	63,383		59,489		
Education <sup>4</sup>	104,364		639,368		
Homeland Security	56,327		80,865		
Interior	13,908		13,917		
Justice <sup>5</sup>	35,107		39,603		
Labor <sup>6</sup>	35,810		51,738		
State	28,000		33,231		
Transportation	80,715		113,729		
Treasury <sup>7</sup>	57,374		380,329		
Environmental Protection Agency	8,064		9,279		
International Assistance Programs	23,569		35,814		
Other	27,640		97,735		
Total	547,205	12%	1,570,578	25%	
Total Federal Outlays	4,446,611	100%	6,271,508	100%	

Source: [https://home.treasury.gov/system/files/136/OUTLAYS\\_BY\\_AGENCY.pdf](https://home.treasury.gov/system/files/136/OUTLAYS_BY_AGENCY.pdf)  
and <https://home.treasury.gov/system/files/136/Table3-10162020.pdf>.

1. Over 50% of Medicaid spending is on disabled and the elderly, and over 20% is on the elderly alone (see <https://www.kff.org/medicaid/issue-brief/10-things-to-know-about-medicaid/>). The aged poor also receive a significant portion of SNAP and other poverty expenditures. This suggests that some of the spending in the *Major Poverty Programs* category could instead reasonably belong in *Aged. & Disabled Programs*.
2. A portion of Veterans Affairs spending is health spending for elderly veterans, which again, could belong in *Aged. & Disabled Programs*.
3. SNAP and Child Nutrition are part of the Agriculture Department. Those amounts are not included in this number since they are listed above.
4. In 2022 this number is at least five times greater than normal due to the pandemic induced student debt interest pause and debt forgiveness.
5. Includes, for example, the FBI and federal prisons.
6. Including unemployment compensation payments.
7. In 2022 this number includes over \$200 billion of continued pandemic relief spending. It does not include interest on the debt and EITC, which are listed separately above.