

# SPECIAL REPORT

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## The President's Fiscal Year 2004 Budget

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### Introduction

President Bush's fiscal year 2004 budget focuses on three major themes:

- Economic growth and job creation primarily through significant individual tax relief and fundamental tax reform.
- Increased security from terrorism and other threats abroad primarily through increased Department of Defense spending.
- Protection of the "homeland" primarily through creation and expansion of the new Department of Homeland Security.

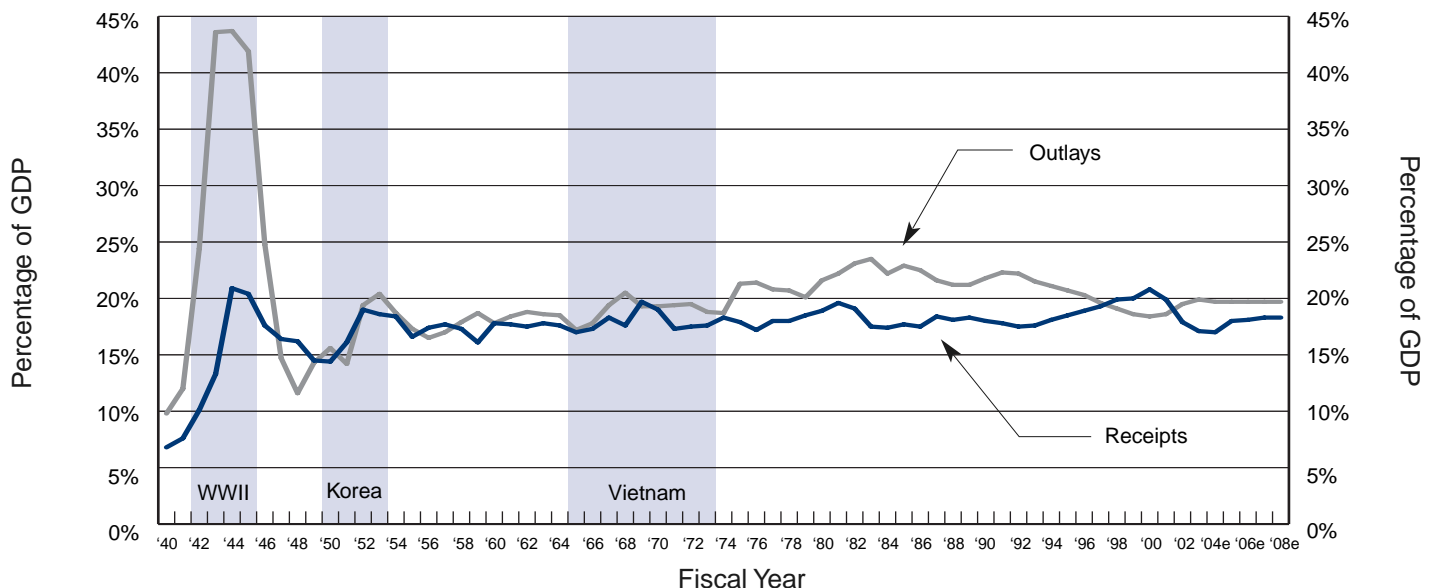
The President's budget also includes proposals

that would considerably increase spending on Medicare, primary education programs, the Environmental Protection Agency, and research and development.

### The Budget Outlook

The President's fiscal year 2004 budget requests \$2.2 trillion in total spending and anticipates \$1.9 trillion in total receipts. In other terms, based on administration forecasts, federal spending will be 19.7 percent of Gross Domestic Product (GDP) and receipts will total 17.0 percent of GDP in fiscal year 2004. Spending of \$2.2 trillion represents a 2.2 percent increase

Figure 1  
Federal Receipts and Outlays as a Percentage of GDP  
Fiscal Years 1940 - 2008



over the administration's most recent estimates for the current fiscal year and a 25.3 percent increase compared to a decade ago, fiscal year 1994, after adjusting for inflation. The \$1.9 trillion in anticipated collections represents a 2.7 percent increase over the administration's most recent estimate for the current fiscal year and a 25.5 percent increase compared to a decade ago. Figure 1 shows federal outlays and receipts as a percentage of GDP since 1940.

The administration's budget shows a current year (fiscal year 2003) net deficit of \$304.2 billion and a net deficit of \$307.4 billion in fiscal year 2004.

The budget shows continued deficits through at least 2008. This is the first budget in eight years that forecasts budget deficits throughout the five year budget window.

The deficits over this period will increase outstanding debt held by the public from an estimated \$3.9 trillion at the end of fiscal year 2003 to an estimated \$5.0 trillion in 2008. Measured as a percentage of GDP, debt held by the public is expected to decline from 36.1 percent of GDP at the end of fiscal year 2003 to 36.4 percent of GDP at the end of fiscal year 2008.

**Table 1**  
*Federal Outlays by Type*  
*Fiscal Years 1962 - 2008*  
*(\$Billions)*

|       | Total Outlays | Discretionary |          |             | Mandatory  |                 |          |          |          | Net Interest |
|-------|---------------|---------------|----------|-------------|------------|-----------------|----------|----------|----------|--------------|
|       |               | Total         | Defense  | Non-Defense | Total      | Social Security | Medicare | Medicaid | Other    |              |
| 1962  | \$ 106.8      | \$ 72.1       | \$ 52.6  | \$ 19.5     | \$ 34.7    | \$ 14.0         | \$ 0.0   | \$ 0.1   | \$ 13.7  | \$ 6.9       |
| 1963  | 111.3         | 75.3          | 53.7     | 21.6        | 36.0       | 15.5            | 0.0      | 0.2      | 12.6     | 7.7          |
| 1964  | 118.5         | 79.1          | 55.0     | 24.1        | 39.4       | 16.2            | 0.0      | 0.2      | 14.8     | 8.2          |
| 1965  | 118.2         | 77.8          | 51.0     | 26.8        | 40.4       | 17.1            | 0.0      | 0.3      | 14.4     | 8.6          |
| 1966  | 134.5         | 90.1          | 59.0     | 31.1        | 44.4       | 20.3            | 0.1      | 0.8      | 13.9     | 9.4          |
| 1967  | \$ 157.5      | \$ 106.5      | \$ 72.0  | \$ 34.5     | \$ 51.0    | \$ 21.3         | \$ 2.7   | \$ 1.2   | \$ 15.5  | \$ 10.3      |
| 1968  | 178.1         | 118.0         | 82.2     | 35.8        | 60.2       | 23.3            | 4.6      | 1.8      | 19.3     | 11.1         |
| 1969  | 183.6         | 117.3         | 82.7     | 34.6        | 66.3       | 26.7            | 5.7      | 2.3      | 18.9     | 12.7         |
| 1970  | 195.6         | 120.3         | 81.9     | 38.3        | 75.4       | 29.6            | 6.2      | 2.7      | 22.5     | 14.4         |
| 1971  | 210.2         | 122.5         | 79.0     | 43.5        | 87.6       | 35.1            | 6.6      | 3.4      | 27.7     | 14.8         |
| 1972  | \$ 230.7      | \$ 128.5      | \$ 79.3  | \$ 49.2     | \$ 102.1   | \$ 39.4         | \$ 7.5   | \$ 4.6   | \$ 35.1  | \$ 15.5      |
| 1973  | 245.7         | 130.4         | 77.1     | 53.3        | 115.3      | 48.2            | 8.1      | 4.6      | 37.1     | 17.3         |
| 1974  | 269.4         | 138.2         | 80.7     | 57.5        | 131.1      | 55.0            | 9.6      | 5.8      | 39.2     | 21.4         |
| 1975  | 332.3         | 158.0         | 87.6     | 70.3        | 174.4      | 63.6            | 12.9     | 6.8      | 67.9     | 23.2         |
| 1976  | 371.8         | 175.6         | 89.9     | 85.7        | 196.2      | 72.7            | 15.8     | 8.6      | 72.4     | 26.7         |
| 1977  | \$ 409.2      | \$ 197.1      | \$ 97.5  | \$ 99.6     | \$ 212.1   | \$ 83.7         | \$ 19.3  | \$ 9.9   | \$ 69.3  | \$ 29.9      |
| 1978  | 458.7         | 218.7         | 104.6    | 114.1       | 240.0      | 92.4            | 22.8     | 10.7     | 78.7     | 35.5         |
| 1979  | 504.0         | 240.0         | 116.8    | 123.2       | 264.0      | 102.6           | 26.5     | 12.4     | 79.9     | 42.6         |
| 1980  | 590.9         | 276.3         | 134.6    | 141.7       | 314.6      | 117.1           | 32.1     | 14.0     | 99.0     | 52.5         |
| 1981  | 678.2         | 307.9         | 158.0    | 149.9       | 370.3      | 137.9           | 39.1     | 16.8     | 107.6    | 68.8         |
| 1982  | \$ 745.7      | \$ 326.0      | \$ 185.9 | \$ 140.0    | \$ 419.8   | \$ 153.9        | \$ 46.6  | \$ 17.4  | \$ 116.9 | \$ 85.0      |
| 1983  | 808.4         | 353.3         | 209.9    | 143.4       | 455.0      | 168.5           | 52.6     | 19.0     | 125.1    | 89.8         |
| 1984  | 851.9         | 379.4         | 228.0    | 151.4       | 472.4      | 176.1           | 57.5     | 20.1     | 107.6    | 111.1        |
| 1985  | 946.4         | 415.8         | 253.1    | 162.7       | 530.6      | 186.4           | 65.8     | 22.7     | 126.2    | 129.5        |
| 1986  | 990.4         | 438.5         | 273.8    | 164.7       | 551.9      | 196.5           | 70.2     | 25.0     | 124.2    | 136.0        |
| 1987  | \$ 1,004.1    | \$ 444.2      | \$ 282.5 | \$ 161.7    | \$ 559.9   | \$ 205.1        | \$ 75.1  | \$ 27.4  | \$ 113.6 | \$ 138.6     |
| 1988  | 1,064.5       | 464.4         | 290.9    | 173.5       | 600.0      | 216.8           | 78.9     | 30.5     | 122.1    | 151.8        |
| 1989  | 1,143.6       | 488.8         | 304.0    | 184.8       | 654.8      | 230.4           | 85.0     | 34.6     | 135.8    | 169.0        |
| 1990  | 1,253.2       | 500.6         | 300.1    | 200.4       | 752.6      | 246.5           | 98.1     | 41.1     | 182.6    | 184.3        |
| 1991  | 1,324.4       | 533.3         | 319.7    | 213.6       | 791.0      | 266.8           | 104.5    | 52.5     | 172.8    | 194.4        |
| 1992  | \$ 1,381.7    | \$ 533.8      | \$ 302.6 | \$ 231.2    | \$ 847.8   | \$ 285.2        | \$ 119.0 | \$ 67.8  | \$ 176.4 | \$ 199.3     |
| 1993  | 1,409.5       | 539.4         | 292.4    | 247.0       | 870.1      | 302.0           | 130.6    | 75.8     | 163.1    | 198.7        |
| 1994  | 1,461.9       | 541.4         | 282.3    | 259.1       | 920.5      | 316.9           | 144.7    | 82.0     | 173.9    | 202.9        |
| 1995  | 1,515.8       | 544.9         | 273.6    | 271.3       | 970.9      | 333.3           | 159.9    | 89.1     | 156.6    | 232.1        |
| 1996  | 1,560.5       | 532.7         | 266.0    | 266.7       | 1,027.8    | 347.1           | 174.2    | 92.0     | 173.4    | 241.1        |
| 1997  | \$ 1,601.2    | \$ 547.2      | \$ 271.7 | \$ 275.6    | \$ 1,054.0 | \$ 362.3        | \$ 190.0 | \$ 95.6  | \$ 162.1 | \$ 244.0     |
| 1998  | 1,652.6       | 552.1         | 270.2    | 281.9       | 1,100.5    | 376.1           | 192.8    | 101.2    | 189.2    | 241.1        |
| 1999  | 1,701.9       | 572.0         | 275.5    | 296.5       | 1,129.9    | 387.0           | 190.4    | 108.0    | 214.6    | 229.8        |
| 2000  | 1,788.8       | 614.8         | 295.0    | 319.9       | 1,173.9    | 406.0           | 197.1    | 117.9    | 229.9    | 223.0        |
| 2001  | 1,863.9       | 649.3         | 306.1    | 343.3       | 1,214.6    | 429.4           | 217.4    | 129.4    | 232.2    | 206.2        |
| 2002  | \$ 2,011.0    | \$ 734.4      | \$ 348.9 | \$ 385.4    | \$ 1,276.6 | \$ 452.5        | \$ 230.9 | \$ 147.5 | \$ 274.7 | \$ 171.0     |
| 2003e | 2,140.4       | 791.4         | 375.7    | 415.7       | 1,349.0    | 474.5           | 244.7    | 162.5    | 305.9    | 161.4        |
| 2004e | 2,229.4       | 818.8         | 389.7    | 429.0       | 1,410.6    | 493.0           | 258.9    | 182.5    | 299.8    | 176.4        |
| 2005e | 2,343.4       | 850.0         | 409.7    | 440.3       | 1,493.4    | 511.6           | 275.9    | 197.0    | 304.9    | 204.0        |
| 2006e | 2,463.7       | 869.8         | 422.8    | 447.0       | 1,593.9    | 533.1           | 304.9    | 215.3    | 316.1    | 224.5        |
| 2007e | \$ 2,576.2    | \$ 891.4      | \$ 436.2 | \$ 455.2    | \$ 1,684.8 | \$ 558.7        | \$ 327.4 | \$ 232.5 | \$ 326.4 | \$ 239.8     |
| 2008e | 2,710.5       | 925.9         | 460.2    | 465.7       | 1,784.6    | 587.2           | 349.4    | 252.5    | 341.4    | 254.1        |

Source: Tax Foundation, Office of Management and Budget.

## Expenditures by Classification

The budget shares of the major categories of federal spending under the President's budget are illustrated by the last five bars in Figure 4, corresponding with fiscal years 2004–2008. Historical data is provided for context. See also Table 1.

Federal outlays are divided into two broad categories, discretionary and mandatory. Discretionary spending is determined by the annual appropriations process, while so-called mandatory outlays are predetermined by statute. Mandatory outlays also include net interest payments that are determined by the level of gross federal debt outstanding and interest rates. To alter mandatory spending levels, the program's authorizing legislation must be amended. Since interest payments on federal debt are a pre-existing legal obligation, they are classified with mandatory outlays in Figure 4.

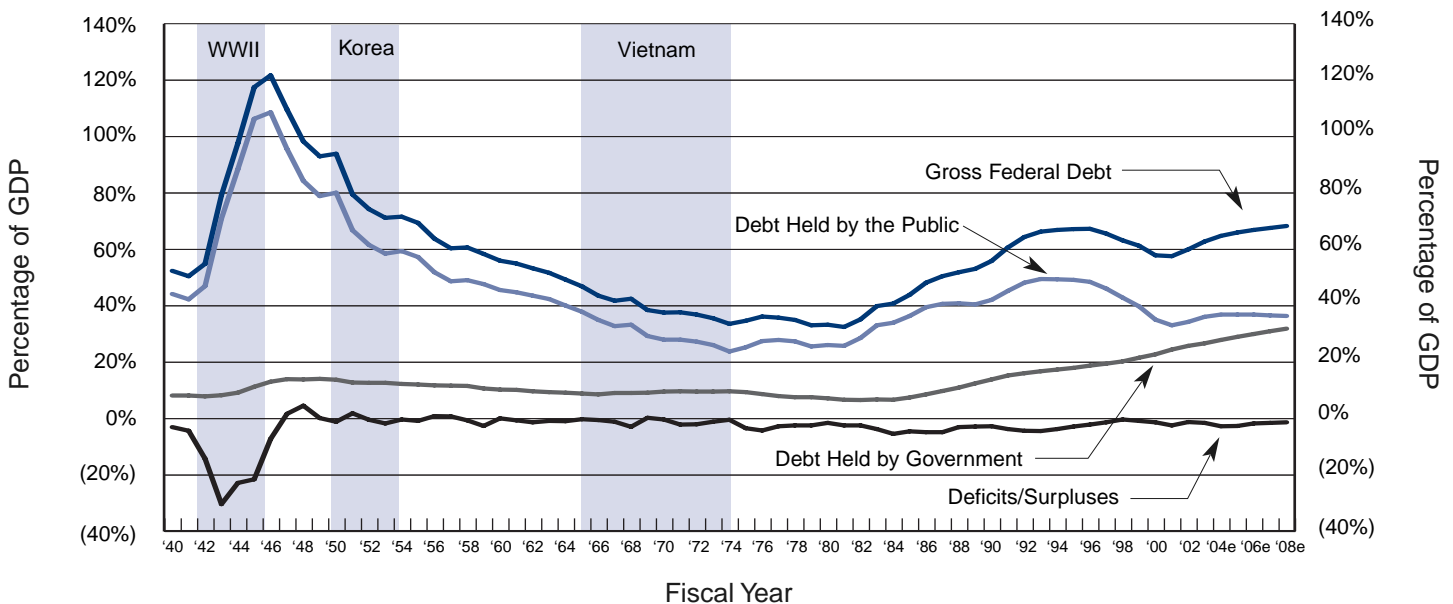
These two broad categories of federal spending are further divided into their major components. Discretionary spending is divided into defense and non-defense outlays. Mandatory outlays are divided into Social Security, Medicare, Medicaid, other mandatory programs, and net interest.

The thick line delineating the two types of spending in Figure 4 illustrates how the composition of federal outlays has changed over the past three decades. Until the late 1960s, more than 70 percent of all federal spending was discretionary, controlled by the annual appropriations process. Entitlement programs enacted in the late 1960s shifted the balance rapidly to greater mandatory spending. For a time it was possible to partially finance the rapid growth of mandatory spending by making offsetting reductions in defense spending, but by the mid-1970s cuts in defense spending were no longer feasible. Figures 1 and 2 show that the budget deficit began to grow rapidly as federal outlays quickly increased as a percentage of GDP.

## Mandatory Expenditures

Under the President's proposal, the share of the budget dedicated to mandatory and net interest outlays would grow from 63.0 percent in FY 2003 to 65.8 percent in FY 2008. Omitting net interest, mandatory programmatic spending is expected to increase from 55.5 percent of total federal spending in fiscal year 2003 to 56.5 percent in 2008. This increase is due in part to President Bush's plan to increase spending levels for Medicare and Medicaid, mostly to subsidize the purchasing of prescription drugs under

**Figure 2**  
Federal Debt Breakdown as a Percentage of GDP  
Fiscal Years 1940 - 2008  
(\$Billions)



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**Table 2**  
**Defense and Non-Defense Outlays**  
**Fiscal Years 1940 - 2008**

| Year  | Outlays (\$Millions) |                         |                             |              | As a Percentage of Total Outlays |                         |                             |              | As a Percentage of GDP |                         |                             |              | Memo: GDP (\$Billions) |
|-------|----------------------|-------------------------|-----------------------------|--------------|----------------------------------|-------------------------|-----------------------------|--------------|------------------------|-------------------------|-----------------------------|--------------|------------------------|
|       | Total Outlays        | Defense-related Outlays | Non-Defense related Outlays | Net Interest | Total Outlays                    | Defense-related Outlays | Non-Defense related Outlays | Net Interest | Total Outlays          | Defense-related Outlays | Non-Defense related Outlays | Net Interest |                        |
| 1940  | \$ 9,468             | \$ 1,660                | \$ 6,909                    | \$ 899       | 100.0%                           | 17.5%                   | 73.0%                       | 9.5%         | 9.8%                   | 1.7%                    | 7.1%                        | 0.9%         | \$ 96.7                |
| 1941  | 13,653               | 6,435                   | 6,275                       | 943          | 100.0                            | 47.1                    | 46.0                        | 6.9          | 12.0                   | 5.6                     | 5.5                         | 0.8          | 114.0                  |
| 1942  | 35,137               | 25,658                  | 8,427                       | 1,052        | 100.0                            | 73.0                    | 24.0                        | 3.0          | 24.4                   | 17.8                    | 5.8                         | 0.7          | 144.2                  |
| 1943  | 78,555               | 66,699                  | 10,327                      | 1,529        | 100.0                            | 84.9                    | 13.1                        | 1.9          | 43.6                   | 37.0                    | 5.7                         | 0.8          | 180.1                  |
| 1944  | 91,304               | 79,143                  | 9,942                       | 2,219        | 100.0                            | 86.7                    | 10.9                        | 2.4          | 43.7                   | 37.9                    | 4.8                         | 1.1          | 209.0                  |
| 1945  | \$ 92,712            | \$ 82,965               | \$ 6,635                    | \$ 3,112     | 100.0%                           | 89.5%                   | 7.2%                        | 3.4%         | 41.9%                  | 37.5%                   | 3.0%                        | 1.4%         | \$ 221.3               |
| 1946  | 55,232               | 42,681                  | 8,440                       | 4,111        | 100.0                            | 77.3                    | 15.3                        | 7.4          | 24.8                   | 19.2                    | 3.8                         | 1.8          | 222.7                  |
| 1947  | 34,496               | 12,808                  | 17,484                      | 4,204        | 100.0                            | 37.1                    | 50.7                        | 12.2         | 14.7                   | 5.5                     | 7.5                         | 1.8          | 234.6                  |
| 1948  | 29,764               | 9,105                   | 16,318                      | 4,341        | 100.0                            | 30.6                    | 54.8                        | 14.6         | 11.6                   | 3.6                     | 6.4                         | 1.7          | 256.4                  |
| 1949  | 38,835               | 13,150                  | 21,162                      | 4,523        | 100.0                            | 33.9                    | 54.5                        | 11.6         | 14.3                   | 4.8                     | 7.8                         | 1.7          | 271.5                  |
| 1950  | \$ 42,562            | \$ 13,724               | \$ 24,026                   | \$ 4,812     | 100.0%                           | 32.2%                   | 56.4%                       | 11.3%        | 15.6%                  | 5.0%                    | 8.8%                        | 1.8%         | \$ 273.4               |
| 1951  | 45,514               | 23,566                  | 17,283                      | 4,665        | 100.0                            | 51.8                    | 38.0                        | 10.2         | 14.2                   | 7.3                     | 5.4                         | 1.5          | 321.0                  |
| 1952  | 67,686               | 46,089                  | 16,896                      | 4,701        | 100.0                            | 68.1                    | 25.0                        | 6.9          | 19.4                   | 13.2                    | 4.8                         | 1.3          | 348.8                  |
| 1953  | 76,101               | 52,802                  | 18,143                      | 5,156        | 100.0                            | 69.4                    | 23.8                        | 6.8          | 20.4                   | 14.1                    | 4.9                         | 1.4          | 373.4                  |
| 1954  | 70,855               | 49,266                  | 16,778                      | 4,811        | 100.0                            | 69.5                    | 23.7                        | 6.8          | 18.7                   | 13.0                    | 4.4                         | 1.3          | 378.0                  |
| 1955  | \$ 68,444            | \$ 42,729               | \$ 20,865                   | \$ 4,850     | 100.0%                           | 62.4%                   | 30.5%                       | 7.1%         | 17.3%                  | 10.8%                   | 5.3%                        | 1.2%         | \$ 395.2               |
| 1956  | 70,640               | 42,523                  | 23,038                      | 5,079        | 100.0                            | 60.2                    | 32.6                        | 7.2          | 16.5                   | 9.9                     | 5.4                         | 1.2          | 427.7                  |
| 1957  | 76,578               | 45,430                  | 25,794                      | 5,354        | 100.0                            | 59.3                    | 33.7                        | 7.0          | 17.0                   | 10.1                    | 5.7                         | 1.2          | 450.7                  |
| 1958  | 82,405               | 46,815                  | 29,986                      | 5,604        | 100.0                            | 56.8                    | 36.4                        | 6.8          | 17.9                   | 10.2                    | 6.5                         | 1.2          | 461.1                  |
| 1959  | 92,098               | 49,015                  | 37,321                      | 5,762        | 100.0                            | 53.2                    | 40.5                        | 6.3          | 18.7                   | 10.0                    | 7.6                         | 1.2          | 492.1                  |
| 1960  | \$ 92,191            | \$ 48,130               | \$ 37,114                   | \$ 6,947     | 100.0%                           | 52.2%                   | 40.3%                       | 7.5%         | 17.8%                  | 9.3%                    | 7.2%                        | 1.3%         | \$ 518.9               |
| 1961  | 97,723               | 49,601                  | 41,406                      | 6,716        | 100.0                            | 50.8                    | 42.4                        | 6.9          | 18.4                   | 9.3                     | 7.8                         | 1.3          | 531.8                  |
| 1962  | 106,821              | 52,345                  | 47,588                      | 6,889        | 100.0                            | 49.0                    | 44.5                        | 6.4          | 18.8                   | 9.2                     | 8.4                         | 1.2          | 568.5                  |
| 1963  | 111,316              | 53,400                  | 50,175                      | 7,740        | 100.0                            | 48.0                    | 45.1                        | 7.0          | 18.6                   | 8.9                     | 8.4                         | 1.3          | 599.7                  |
| 1964  | 118,528              | 54,757                  | 55,572                      | 8,199        | 100.0                            | 46.2                    | 46.9                        | 6.9          | 18.5                   | 8.5                     | 8.7                         | 1.3          | 641.3                  |
| 1965  | \$ 118,228           | \$ 50,620               | \$ 59,017                   | \$ 8,591     | 100.0%                           | 42.8%                   | 49.9%                       | 7.3%         | 17.2%                  | 7.4%                    | 8.6%                        | 1.2%         | \$ 687.9               |
| 1966  | 134,532              | 58,111                  | 67,035                      | 9,386        | 100.0                            | 43.2                    | 49.8                        | 7.0          | 17.8                   | 7.7                     | 8.9                         | 1.2          | 754.2                  |
| 1967  | 157,464              | 71,417                  | 75,779                      | 10,268       | 100.0                            | 45.4                    | 48.1                        | 6.5          | 19.4                   | 8.8                     | 9.3                         | 1.3          | 813.5                  |
| 1968  | 178,134              | 81,926                  | 85,118                      | 11,090       | 100.0                            | 46.0                    | 47.8                        | 6.2          | 20.5                   | 9.4                     | 9.8                         | 1.3          | 868.4                  |
| 1969  | 183,640              | 82,497                  | 88,444                      | 12,699       | 100.0                            | 44.9                    | 48.2                        | 6.9          | 19.3                   | 8.7                     | 9.3                         | 1.3          | 949.2                  |
| 1970  | \$ 195,649           | \$ 81,692               | \$ 99,578                   | \$ 14,380    | 100.0%                           | 41.8%                   | 50.9%                       | 7.3%         | 19.3%                  | 8.1%                    | 9.8%                        | 1.4%         | \$ 1,013.2             |
| 1971  | 210,172              | 78,872                  | 116,459                     | 14,841       | 100.0                            | 37.5                    | 55.4                        | 7.1          | 19.4                   | 7.3                     | 10.8                        | 1.4          | 1,081.4                |
| 1972  | 230,681              | 79,174                  | 136,029                     | 15,478       | 100.0                            | 34.3                    | 59.0                        | 6.7          | 19.5                   | 6.7                     | 11.5                        | 1.3          | 1,181.5                |
| 1973  | 245,707              | 76,681                  | 151,677                     | 17,349       | 100.0                            | 31.2                    | 61.7                        | 7.1          | 18.8                   | 5.9                     | 11.6                        | 1.3          | 1,308.1                |
| 1974  | 269,359              | 79,347                  | 168,563                     | 21,449       | 100.0                            | 29.5                    | 62.6                        | 8.0          | 18.7                   | 5.5                     | 11.7                        | 1.5          | 1,442.1                |
| 1975  | \$ 332,332           | \$ 86,509               | \$ 222,580                  | \$ 23,244    | 100.0%                           | 26.0%                   | 67.0%                       | 7.0%         | 21.3%                  | 5.5%                    | 14.3%                       | 1.5%         | \$ 1,559.8             |
| 1976  | 371,792              | 89,619                  | 255,446                     | 26,727       | 100.0                            | 24.1                    | 68.7                        | 7.2          | 21.4                   | 5.2                     | 14.7                        | 1.5          | 1,736.7                |
| 1977  | 409,218              | 97,241                  | 282,076                     | 29,901       | 100.0                            | 23.8                    | 68.9                        | 7.3          | 20.8                   | 4.9                     | 14.3                        | 1.5          | 1,971.3                |
| 1978  | 458,746              | 104,495                 | 318,793                     | 35,458       | 100.0                            | 22.8                    | 69.5                        | 7.7          | 20.7                   | 4.7                     | 14.4                        | 1.6          | 2,218.6                |
| 1979  | 504,028              | 116,342                 | 345,053                     | 42,633       | 100.0                            | 23.1                    | 68.5                        | 8.5          | 20.1                   | 4.6                     | 13.8                        | 1.7          | 2,503.8                |
| 1980  | \$ 590,941           | \$ 133,995              | \$ 404,413                  | \$ 52,533    | 100.0%                           | 22.7%                   | 68.4%                       | 8.9%         | 21.6%                  | 4.9%                    | 14.8%                       | 1.9%         | \$ 2,732.1             |
| 1981  | 678,241              | 157,513                 | 451,962                     | 68,766       | 100.0                            | 23.2                    | 66.6                        | 10.1         | 22.2                   | 5.1                     | 14.8                        | 2.2          | 3,061.6                |
| 1982  | 745,743              | 185,309                 | 475,402                     | 85,032       | 100.0                            | 24.8                    | 63.7                        | 11.4         | 23.1                   | 5.7                     | 14.7                        | 2.6          | 3,228.6                |
| 1983  | 808,364              | 209,903                 | 508,654                     | 89,808       | 100.0                            | 26.0                    | 62.9                        | 11.1         | 23.5                   | 6.1                     | 14.8                        | 2.6          | 3,440.5                |
| 1984  | 851,853              | 227,413                 | 513,338                     | 111,102      | 100.0                            | 26.7                    | 60.3                        | 13.0         | 22.2                   | 5.9                     | 13.4                        | 2.9          | 3,839.4                |
| 1985  | \$ 946,396           | \$ 252,748              | \$ 564,170                  | \$ 129,478   | 100.0%                           | 26.7%                   | 59.6%                       | 13.7%        | 22.9%                  | 6.1%                    | 13.6%                       | 3.1%         | \$ 4,136.6             |
| 1986  | 990,430              | 273,375                 | 581,037                     | 136,017      | 100.0                            | 27.6                    | 58.7                        | 13.7         | 22.5                   | 6.2                     | 13.2                        | 3.1          | 4,401.4                |
| 1987  | 1,004,082            | 281,999                 | 583,472                     | 138,611      | 100.0                            | 28.1                    | 58.1                        | 13.8         | 21.6                   | 6.1                     | 12.6                        | 3.0          | 4,647.0                |
| 1988  | 1,064,455            | 290,361                 | 622,291                     | 151,803      | 100.0                            | 27.3                    | 58.5                        | 14.3         | 21.2                   | 5.8                     | 12.4                        | 3.0          | 5,014.7                |
| 1989  | 1,143,646            | 303,559                 | 671,106                     | 168,981      | 100.0                            | 26.5                    | 58.7                        | 14.8         | 21.2                   | 5.6                     | 12.4                        | 3.1          | 5,405.5                |
| 1990  | \$ 1,253,165         | \$ 299,331              | \$ 769,487                  | \$ 184,347   | 100.0%                           | 23.9%                   | 61.4%                       | 14.7%        | 21.8%                  | 5.2%                    | 13.4%                       | 3.2%         | \$ 5,735.6             |
| 1991  | 1,324,369            | 273,292                 | 856,629                     | 194,448      | 100.0                            | 20.6                    | 64.7                        | 14.7         | 22.3                   | 4.6                     | 14.4                        | 3.3          | 5,930.4                |
| 1992  | 1,381,655            | 298,350                 | 883,961                     | 199,344      | 100.0                            | 21.6                    | 64.0                        | 14.4         | 22.2                   | 4.8                     | 14.2                        | 3.2          | 6,218.6                |
| 1993  | 1,409,489            | 291,086                 | 919,690                     | 198,713      | 100.0                            | 20.7                    | 65.2                        | 14.1         | 21.5                   | 4.4                     | 14.0                        | 3.0          | 6,558.4                |
| 1994  | 1,461,877            | 281,642                 | 977,303                     | 202,932      | 100.0                            | 19.3                    | 66.9                        | 13.9         | 21.1                   | 4.1                     | 14.1                        | 2.9          | 6,944.6                |
| 1995  | \$ 1,515,802         | \$ 272,066              | \$ 1,011,602                | \$ 232,134   | 100.0%                           | 17.9%                   | 66.7%                       | 15.3%        | 20.7%                  | 3.7%                    | 13.8%                       | 3.2%         | \$ 7,324.0             |
| 1996  | 1,560,535            | 265,753                 | 1,053,729                   | 241,053      | 100.0                            | 17.0                    | 67.5                        | 15.4         | 20.3                   | 3.5                     | 13.7                        | 3.1          | 7,694.6                |
| 1997  | 1,601,250            | 270,505                 | 1,086,761                   | 243,984      | 100.0                            | 16.9                    | 67.9                        | 15.2         | 19.6                   | 3.3                     | 13.3                        | 3.0          | 8,185.2                |
| 1998  | 1,652,585            | 268,456                 | 1,143,010                   | 241,119      | 100.0                            | 16.2                    | 69.2                        | 14.6         | 19.1                   | 3.1                     | 13.2                        | 2.8          | 8,663.9                |
| 1999  | 1,701,891            | 274,873                 | 1,197,262                   | 229,756      | 100.0                            | 16.2                    | 70.3                        | 13.5         | 18.6                   | 3.0                     | 13.1                        | 2.5          | 9,137.7                |
| 2000  | \$ 1,788,773         | \$ 294,495              | \$ 1,271,327                | \$ 222,951   | 100.0%                           | 16.5%                   | 71.1%                       | 12.5%        | 18.4%                  | 3.0%                    | 13.1%                       | 2.3%         | \$ 9,718.8             |
| 2001  | 1,863,895            | 305,500                 | 1,352,227                   | 206,168      | 100.0                            | 16.4                    | 72.5                        | 11.1         | 18.6                   | 3.0                     | 13.5                        | 2.1          | 10,021.5               |
| 2002  | 2,010,975            | 348,555                 | 1,491,469                   | 170,951      | 100.0                            | 17.3                    | 74.2                        | 8.5          | 19.5                   | 3.4                     | 14.4                        | 1.7          | 10,336.6               |
| 2003e | 2,140,377            | 376,286                 | 1,602,650                   | 161,441      | 100.0                            | 17.6                    | 74.9                        | 7.5          | 19.9                   | 3.5                     | 14.9                        | 1.5          | 10,756.8               |
| 2004e | 2,229,425            | 390,419                 | 1,662,611                   | 176,395      | 100.0                            | 17.5                    | 74.6                        | 7.9          | 19.7                   | 3.5                     | 14.7                        | 1.6          | 11,303.1               |
| 2005e | \$ 2,343,399         | \$ 410,092              | \$ 1,729,282                | \$ 204,025   | 100.0%                           | 17.5%                   | 73.8%                       | 8.7%         | 19.7%                  | 3.5%                    | 14.6%                       | 1.7%         | \$ 11,883.6            |
| 2006e | 2,463,663            | 423,192                 | 1,815,942                   | 224,529      | 100.0                            | 17.2                    | 73.7                        | 9.1          | 19.7                   | 3.4                     | 14.5                        | 1.8          | 12,482.6               |
| 2007e | 2,576,203            | 436,437                 | 1,899,922                   | 239,844      | 100.0                            | 16.9                    | 73.7                        | 9.3          | 19.7                   | 3.3                     | 14.5                        | 1.8          | 13,104.2               |
| 2008e | 2,710,517            | 460,546                 | 1,995,900                   | 254,071      | 100.0                            | 17.0                    | 73.6                        | 9.4          | 19.7                   | 3.3                     | 14.5                        | 1.8          | 13,751.5               |

\* Source: Tax Foundation, Office of Management and Budget.

Medicare (see Table 1 and Figure 4).

Net interest payments under the President's plan will increase from 7.5 percent of total spending in fiscal year 2003 to 9.4 percent in 2008. This average of 8.7 percent of annual expenditures is the lowest average for any six-year period since fiscal years 1976 through 1981.

### Discretionary Expenditures

On the discretionary side of the budget, the President's proposal calls for increased expenditures for national defense, from \$375.7 billion in the current fiscal year, 2003, to \$460.2 billion in fiscal year 2008. This increase in spending would actually decrease the budget share taken by defense spending from 17.6 percent of total federal outlays in fiscal year 2003 to 17.0 in fiscal year 2008.

Nondefense discretionary expenditures are expected to increase under the President's budget from \$415.7 billion in fiscal year 2003 to \$465.7 billion in fiscal year 2008. Despite this increase, the percentage of total federal outlays dedicated to nondefense discretionary spending decreases over the period from its current level of 19.4 percent to 17.2 percent of total federal outlays in 2008.

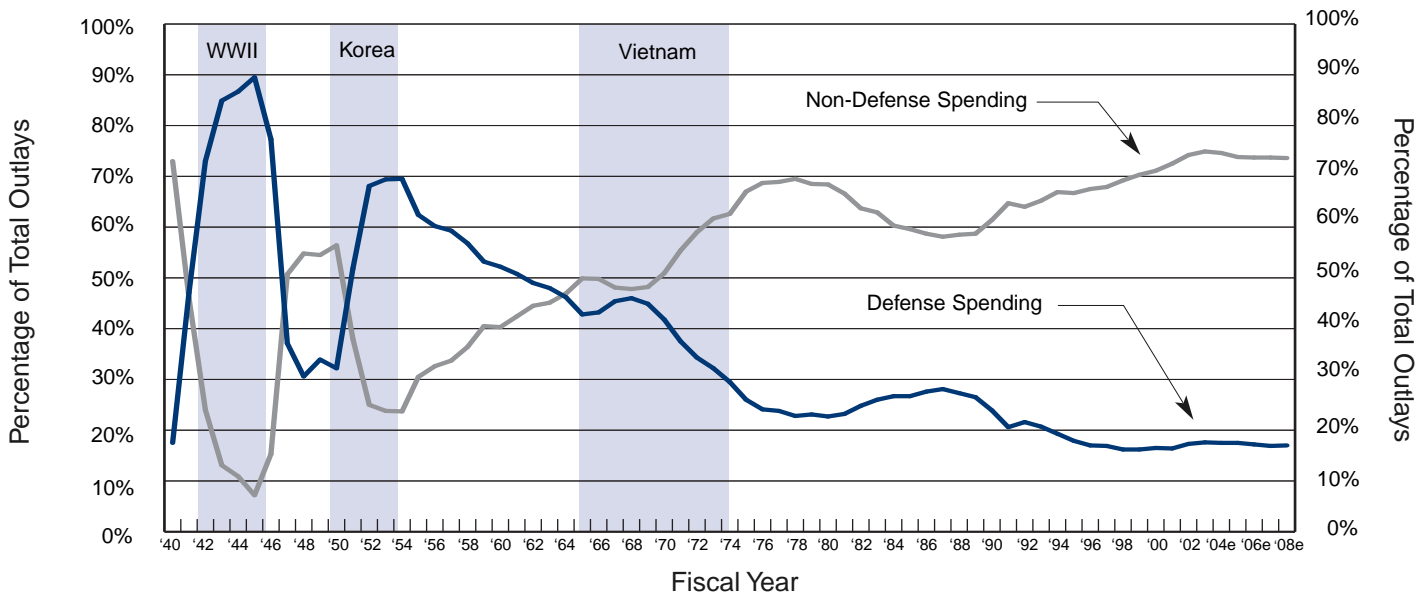
### Expenditures by Agency

The federal government is organized into 29 major agencies and "Other Independent Agencies," a catch-all for small agencies. Some government agencies are huge; the Department of Health and Human Services will spend about \$502 billion in FY 2003, 24.2 percent of all federal outlays. Meanwhile, the Advisory Council on Historic Preservation will spend only around \$4 million, or 0.0002 percent of total federal spending. Table 3 shows the proposed spending for the 29 major agencies between FY 1999 and 2008, both in current dollars and as a percentage of total federal spending.

As measured by net outlays, President Bush's fiscal year 2004 budget calls for lower spending by nine agencies, including the Federal Emergency Management Agency (FEMA) which has been incorporated into the new Department of Homeland Security. Significant declines in spending levels are anticipated within the Department of Labor (down 17.8 percent from fiscal year 2003), the General Services Administration (down 81.1 percent) and the Small Business Administration (down 50.4 percent).

The other 21 agencies are all slated to receive net increases in their budgets. Other

**Figure 3**  
*Defense and Non-Defense Spending as a Percentage of Total Outlays*  
Fiscal Years 1940 - 2008



Independent Agencies is slated to receive the largest increase, a 31.9 percent jump from \$10.8 billion in fiscal year 2003 to \$14.0 billion in fiscal year 2004. The budget also calls for substantial increases in the agencies that manage international assistance programs (a 17.0 percent increase), the Legislative Branch (a 9.5 percent increase) and the Department of Justice (a 9.5 percent increase).

## Federal Collections by Source

The major sources of federal revenue under the President's budget are listed in Table 3 and illustrated in Figure 5.

## Individual Income Taxes

Individual income tax collections have been

a relatively stable source of federal receipts since World War II, averaging 44.8 percent of total federal collections. This figure reached a peak of 49.9 percentage in 1999 driven primarily by strong growth in personal income including capital gains. This percentage is expected to drop over the next couple of years before increasing again to 46.6 percent in fiscal year 2008. The decrease from 1999 is attributable to a slowdown in the growth of personal income, the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), and the President's various tax relief proposals contained in this budget.

## Corporate Income Taxes

Corporate income tax collections are highly cyclical, rising during periods of economic growth and falling when the economy slows.

**Table 3**  
*Distribution of Outlays by Agency*  
*Fiscal Years 1999 - 2008*  
*(Millions of Current Dollars and as a Percentage of GDP)*

|   | Outlays in Current Dollars (\$Millions) |              |              |              |               |               |               |               |
|---|---|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
|   | 1999                                    | 2000         | 2001         | 2002         | 2003 estimate | 2004 estimate | 2005 estimate | 2006 estimate |
| Legislative Branch                            | \$ 2,609                                | \$ 2,911     | \$ 3,034     | \$ 3,218     | \$ 3,961      | \$ 4,336      | \$ 4,172      | \$ 4,254      |
| The Judiciary                                 | 3,790                                   | 4,086        | 4,405        | 4,823        | 5,419         | 5,663         | 5,723         | 5,860         |
| Agriculture                                   | 62,834                                  | 75,663       | 68,144       | 68,731       | 72,773        | 74,124        | 79,616        | 80,354        |
| Commerce                                      | 5,036                                   | 7,807        | 5,015        | 5,314        | 5,790         | 5,778         | 5,933         | 5,879         |
| Defense—Military                              | 261,380                                 | 281,223      | 291,015      | 331,951      | 358,155       | 370,707       | 389,579       | 402,724       |
| Other Defense—Civil Programs                  | \$ 32,014                               | \$ 32,864    | \$ 34,164    | \$ 35,157    | \$ 40,148     | \$ 40,442     | \$ 40,600     | \$ 40,699     |
| Education                                     | 31,326                                  | 33,900       | 35,721       | 46,282       | 59,481        | 58,891        | 62,990        | 66,974        |
| Energy  | 16,048                                  | 15,010       | 16,420       | 17,681       | 19,796        | 21,030        | 22,023        | 22,347        |
| Health and Human Services                     | 359,702                                 | 382,626      | 426,392      | 465,812      | 502,013       | 539,015       | 568,204       | 613,676       |
| Homeland Security                             | n.a.                                    | n.a.         | n.a.         | 17,476       | 28,155        | 27,942        | 28,687        | 27,913        |
| Housing and Urban Development                 | \$ 32,734                               | \$ 30,828    | \$ 33,939    | \$ 31,885    | \$ 37,987     | \$ 36,486     | \$ 36,551     | \$ 37,189     |
| Interior                                      | 7,815                                   | 8,029        | 7,993        | 9,739        | 10,357        | 10,722        | 11,917        | 10,976        |
| Justice                                       | 18,823                                  | 20,064       | 21,433       | 21,112       | 22,156        | 24,271        | 23,483        | 23,453        |
| Labor   | 33,015                                  | 31,876       | 39,755       | 64,704       | 70,746        | 58,118        | 52,762        | 53,798        |
| State   | 6,456                                   | 6,850        | 7,444        | 9,453        | 10,977        | 10,205        | 10,545        | 10,676        |
| Transportation                                | \$ 41,831                               | \$ 45,965    | \$ 54,081    | \$ 56,104    | \$ 52,280     | \$ 53,680     | \$ 54,815     | \$ 55,357     |
| Treasury                                      | 386,150                                 | 390,677      | 389,300      | 370,558      | 368,803       | 391,968       | 442,337       | 484,836       |
| Veterans Affairs                              | 43,168                                  | 47,087       | 45,050       | 50,884       | 56,946        | 61,889        | 66,877        | 66,463        |
| Corps of Engineers                            | 4,191                                   | 4,333        | 4,726        | 4,797        | 4,146         | 4,117         | 4,080         | 4,163         |
| Environmental Protection Agency               | 6,750                                   | 7,238        | 7,391        | 7,450        | 7,958         | 8,270         | 8,263         | 8,199         |
| Executive Office of the President             | \$ 417                                  | \$ 283       | \$ 246       | \$ 451       | \$ 334        | \$ 341        | \$ 345        | \$ 353        |
| Federal Emergency Management Administration   | 4,039                                   | 3,142        | 4,413        | n.a.         | n.a.          | n.a.          | n.a.          | n.a.          |
| General Services Administration               | (46)                                    | 28           | (8)          | (677)        | 424           | 80            | 90            | (8)           |
| International Assistance Programs             | 10,059                                  | 12,093       | 11,777       | 13,342       | 13,020        | 15,235        | 15,585        | 16,879        |
| National Aeronautics and Space Administration | 13,664                                  | 13,442       | 14,095       | 14,430       | 14,599        | 15,255        | 15,854        | 16,511        |
| National Science Foundation                   | \$ 3,283                                | \$ 3,487     | \$ 3,690     | \$ 4,188     | \$ 4,853      | \$ 5,092      | \$ 5,370      | \$ 5,543      |
| Office of Personnel Management                | 47,515                                  | 48,660       | 50,914       | 52,512       | 55,793        | 58,475        | 61,575        | 64,582        |
| Small Business Administration                 | 57                                      | (421)        | (570)        | 493          | 1,553         | 770           | 795           | 813           |
| Social Security Administration                | 419,234                                 | 441,290      | 461,264      | 488,241      | 509,910       | 530,765       | 555,678       | 575,843       |
| Other Independent Agencies                    | 7,034                                   | 10,751       | 13,777       | 15,985       | 10,756        | 14,183        | 13,088        | 14,861        |
| Memo:   |   |              |              |              |               |               |               |               |
| Allowances                                    | n.a.                                    | n.a.         | n.a.         | n.a.         | \$ (1,125)    | \$ (527)      | \$ (1,573)    | \$ (1,378)    |
| Undistributed offsetting receipts             | \$ (159,037)                            | \$ (173,019) | \$ (191,125) | \$ (201,121) | (207,787)     | (217,898)     | (242,565)     | (256,126)     |
| (On-budget)                                   | (99,581)                                | (105,586)    | (114,404)    | (115,009)    | (114,718)     | (119,177)     | (135,002)     | (138,522)     |
| (Off-budget)                                  | (59,456)                                | (67,433)     | (76,721)     | (86,112)     | (93,069)      | (98,721)      | (107,563)     | (117,604)     |
| Total outlays                                 | 1,701,891                               | 1,788,773    | 1,863,895    | 2,010,975    | 2,140,377     | 2,229,425     | 2,343,399     | 2,463,663     |

\* 0.05 percent or less.

Source: Tax Foundation, Office of Management and Budget.



### Excise Taxes

Excise taxes, which include levies on alcohol, gasoline, tobacco, and telephony services, make up a relatively small share of federal government collections, about 3.7 percent in fiscal year 2003. This is a tremendous change from past years. In the 1950s excise taxes accounted for 14.5 percent of federal collections. From that post-World War II peak, excise taxes dropped to an annual average of 11.1 percent of collections during the 1960s, 6.3 percent during the 1970s, 4.9 percent in the 1980s, and 3.9 percent during the 1990s. Under President Bush's budget, the share of total receipts accounted for by excise taxes would drop further, to 3.2 percent in fiscal year 2008.

### Other Collections

The share of total federal receipts raised from other sources has remained relatively constant since the end of World War II, at an annual average of 4.4 percent. These include customs duties and fees, estate and gift taxes, and other miscellaneous taxes and fees.

### Tax Relief and Reform

The President's Fiscal Year 2004 Budget contains

78 specific revenue provisions. In total, they would result in \$441.0 billion in tax relief between FY 2004 and FY 2008, and \$1.3 trillion between FY2004 and FY2013. Additionally, the President's proposals include creation or expansion of three "refundable" tax credits that would result in outlays of \$52.4 billion over the next five years and \$137.2 billion over the next ten years.

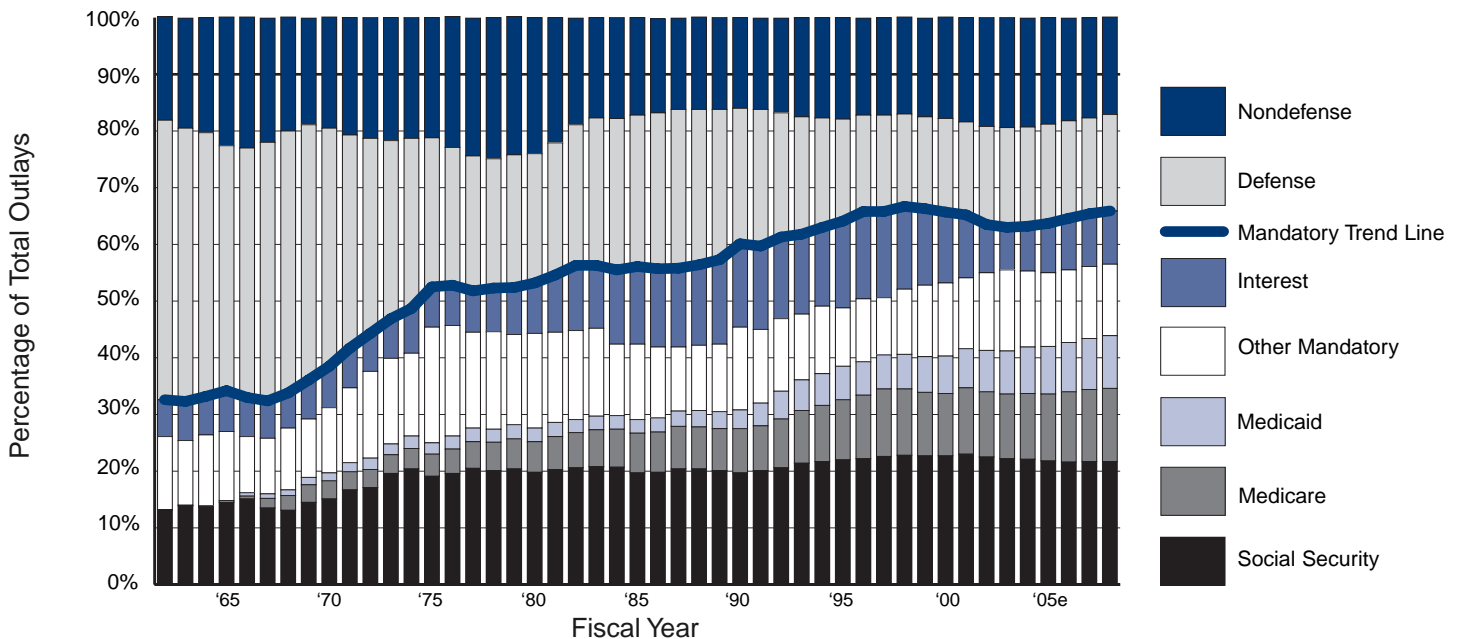
As outlined in several speeches earlier this year including the State of the Union Address, the President's revenue proposals fall into four major categories: acceleration of scheduled tax relief, significant tax reform, tax incentives for specific activities, and extension of existing provisions.

### Acceleration of Scheduled Tax Relief

Several provisions passed as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 are scheduled to phase in over the next six years under current law. The President's budget calls for making several of these provisions effective retroactively to January 1, 2003. Specifically, the President's budget would:

- 1) Drop each of the top four individual income tax rates to the level currently scheduled to be in place between 2006

Figure 4  
Federal Outlays by Type as a Percentage of Total Federal Outlays  
Fiscal Years 1962 - 2008



and 2010. The complete marginal income tax rate schedule would then be 10 percent, 15 percent, 25 percent, 28 percent, 33 percent and 35 percent.

- 2) Increase the child tax credit from its current level of \$600 to \$1,000 per child, the level scheduled to be in effect in 2010.
- 3) Increase the width of the 15-percent tax bracket for married couples filing jointly to twice the size of the 15-percent bracket for single filers. Also increase the size of the standard deduction for married couples filing jointly to exactly double that available for single filers. These two provisions would eliminate the marriage penalty faced by many couples.
- 4) Increase the width of the 10 percent income tax bracket to \$14,000 of income for married couples filing jointly and \$7,000 for single taxpayers, and index the 10-percent tax bracket for inflation beginning in 2004.

These four accelerations would provide taxpayers with a total of \$203.5 billion in tax relief between FY 2004 and FY 2008, according to the administration's projections.

### Significant Tax Reform

The President's budget includes several proposals that would significantly reform and simplify the existing income tax code. The proposal that has received the most attention has been the one to eliminate the double taxation of corporate earnings. Corporate earnings are typically taxed at least twice under current law, once at the corporate level and again at the individual level. The president's proposal would eliminate all but one of these layers of taxation by allowing all shareholders, including corporate shareholders, to deduct the full amount of dividends paid out of after-tax earnings. The proposal would also exempt capital gains resulting from retained earnings from being taxed twice. This proposal would provide taxpayers with \$152.7 billion in tax relief over the next five years according to the administration's estimates.

The second major tax reform proposal put forward by the President is the expansion of tax-advantaged savings accounts. The proposal would simplify and consolidate the rules govern-

ing many of the existing tax-advantaged savings plans—including Individual Retirement Accounts (IRAs), Medical Savings Accounts, Roth IRAs, Education Savings Accounts, 401(k) plans, 403(b) plans, and Qualified 529 Tuition Plans. The President's proposal would also expand the number of taxpayers eligible to make contributions to such plans and expand the activities for which savings can be used.

In short, the President's budget proposes consolidating all existing savings plans into three replacement accounts. First, Employer Retirement Savings Accounts (ERSAs) would replace existing employer-sponsored savings plans. Like existing plans, contributions made to an ERSA would be tax deductible. Taxes on the earnings in these accounts would be deferred until withdrawals are made after the age of 58. Second, Retirement Savings Accounts (RSAs) would replace existing IRAs and Roth IRAs. Like Roth IRAs, contributions to LSAs would not be tax deductible; however, withdrawals—including earnings—could be made tax free.

Finally, the President's proposal would create a new type of tax-advantaged savings account known as Lifetime Savings Accounts (LSAs). Like RSAs and existing Roth IRAs and Qualified 529 Tuition Plans, contributions to LSAs would be made in after-tax dollars and withdrawals would be tax-free. LSAs could be established by any individual and savings could be used for any purpose.

This proposal would actually increase government tax collections by \$13.6 billion over the next five years according to the administration's estimates that assume current 401(k) and IRA account holders would transfer savings from these accounts to the new RSAs, a taxable event.

### New Tax Incentives

The President's proposal contains 29 new tax incentives for specific activities. The most significant would provide a deduction for long-term care insurance premiums. It would be an "above-the-line" deduction, meaning that even taxpayers who do not itemize would benefit. This provision alone would provide taxpayers with \$6.6 billion in tax relief between fiscal years 2004 and 2008. Other significant incentives include an above-the-line deduction for

charitable contributions (\$5.9 billion in tax relief over five years), a provision to allow up to \$500 in unused balances in a health flexible spending arrangement to be carried forward to the next year (\$3.3 billion over five years), a tax credit for developers of affordable single-family housing (\$2.5 billion over five years), and a tax credit for the purchase of certain hybrid and fuel cell vehicles (\$2.4 billion over five years).

The 29 new tax incentives included in the President's budget would provide taxpayers with \$37.6 billion in tax relief and increase outlays by \$33.9 billion between fiscal years 2004 and 2008 according to the Administration's estimates.

### Extension of Existing Provisions

The President's budget includes extension of 21 tax laws that are currently set to expire over the next ten years. Most significantly, the President is proposing permanent extension of the major components of EGTRRA passed in 2001 and currently set to expire after 2010. This would include permanent extension of the marginal individual income tax rate reductions, increased child credit, elimination of the marriage penalty for most couples, and repeal of death and gift

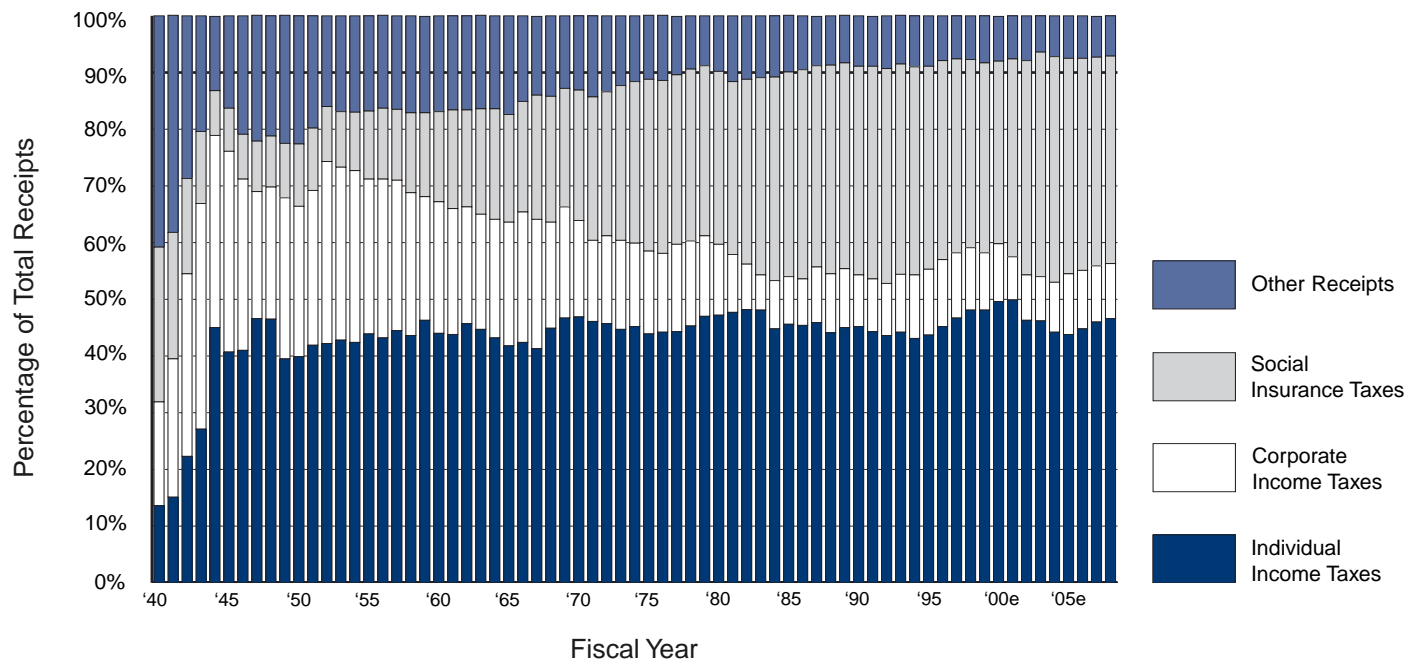
taxes. These extensions would provide taxpayers with \$5.8 billion in tax relief over the next five years, \$502.2 billion in tax relief between fiscal years 2004 and 2013, and increase outlays by \$20.8 billion over the next ten years.

The President's budget also calls for permanent extension of the existing research and experimentation tax credit, a move that would provide taxpayers with \$22.9 billion in tax relief over the next five years. The remaining extensions would provide \$11.6 billion in tax relief.

### The Budget in Perspective

It is important to put the current budget proposal into historical context. To do so, it is necessary to translate current spending and revenue proposals into real terms either by adjusting for inflation or by expressing the proposal in terms of the broader economy. Looking merely at the budget in nominal terms that do not account for inflation or economic growth is misleading and inaccurate. Table 5 contains information about the current budget in the context of the post-WWII era and the past three administrations.

*Figure 5*  
Federal Receipts by Source as a Percentage of Total Federal Receipts  
Fiscal Years 1940 - 2008



*Table 4*  
*Federal Receipts by Source*  
*Fiscal Years 1940 - 2007*  
*(\$Billions)*

|       | Total Receipts | Individual Income Taxes | Corporate Income Taxes | Social Insurance Taxes | Excise Taxes | Others  |
|-------|----------------|-------------------------|------------------------|------------------------|--------------|---------|
| 1940  | \$ 6.5         | \$ 0.9                  | \$ 1.2                 | \$ 1.8                 | \$ 2.0       | \$ 0.7  |
| 1941  | 8.7            | 1.3                     | 2.1                    | 1.9                    | 2.6          | 0.8     |
| 1942  | 14.6           | 3.3                     | 4.7                    | 2.5                    | 3.4          | 0.8     |
| 1943  | 24.0           | 6.5                     | 9.6                    | 3.0                    | 4.1          | 0.8     |
| 1944  | 43.7           | 19.7                    | 14.8                   | 3.5                    | 4.8          | 1.0     |
| 1945  | \$ 45.2        | \$ 18.4                 | \$ 16.0                | \$ 3.5                 | \$ 6.3       | \$ 1.1  |
| 1946  | 39.3           | 16.1                    | 11.9                   | 3.1                    | 7.0          | 1.2     |
| 1947  | 38.5           | 17.9                    | 8.6                    | 3.4                    | 7.2          | 1.3     |
| 1948  | 41.6           | 19.3                    | 9.7                    | 3.8                    | 7.4          | 1.5     |
| 1949  | 39.4           | 15.6                    | 11.2                   | 3.8                    | 7.5          | 1.4     |
| 1950  | \$ 39.4        | \$ 15.8                 | \$ 10.4                | \$ 4.3                 | \$ 7.6       | \$ 1.4  |
| 1951  | 51.6           | 21.6                    | 14.1                   | 5.7                    | 8.6          | 1.6     |
| 1952  | 66.2           | 27.9                    | 21.2                   | 6.4                    | 8.9          | 1.7     |
| 1953  | 69.6           | 29.8                    | 21.2                   | 6.8                    | 9.9          | 1.9     |
| 1954  | 69.7           | 29.5                    | 21.1                   | 7.2                    | 9.9          | 1.9     |
| 1955  | \$ 65.5        | \$ 28.7                 | \$ 17.9                | \$ 7.9                 | \$ 9.1       | \$ 1.8  |
| 1956  | 74.6           | 32.2                    | 20.9                   | 9.3                    | 9.9          | 2.3     |
| 1957  | 80.0           | 35.6                    | 21.2                   | 10.0                   | 10.5         | 2.7     |
| 1958  | 79.6           | 34.7                    | 20.1                   | 11.2                   | 10.6         | 3.0     |
| 1959  | 79.2           | 36.7                    | 17.3                   | 11.7                   | 10.6         | 2.9     |
| 1960  | \$ 92.5        | \$ 40.7                 | \$ 21.5                | \$ 14.7                | \$ 11.7      | \$ 3.9  |
| 1961  | 94.4           | 41.3                    | 21.0                   | 16.4                   | 11.9         | 3.8     |
| 1962  | 99.7           | 45.6                    | 20.5                   | 17.0                   | 12.5         | 4.0     |
| 1963  | 106.6          | 47.6                    | 21.6                   | 19.8                   | 13.2         | 4.4     |
| 1964  | 112.6          | 48.7                    | 23.5                   | 22.0                   | 13.7         | 4.7     |
| 1965  | \$ 116.8       | \$ 48.8                 | \$ 25.5                | \$ 22.2                | \$ 14.6      | \$ 5.8  |
| 1966  | 130.8          | 55.4                    | 30.1                   | 25.5                   | 13.1         | 6.7     |
| 1967  | 148.8          | 61.5                    | 34.0                   | 32.6                   | 13.7         | 7.0     |
| 1968  | 153.0          | 68.7                    | 28.7                   | 33.9                   | 14.1         | 7.6     |
| 1969  | 186.9          | 87.2                    | 36.7                   | 39.0                   | 15.2         | 8.7     |
| 1970  | \$ 192.8       | \$ 90.4                 | \$ 32.8                | \$ 44.4                | \$ 15.7      | \$ 9.5  |
| 1971  | 187.1          | 86.2                    | 26.8                   | 47.3                   | 16.6         | 10.2    |
| 1972  | 207.3          | 94.7                    | 32.2                   | 52.6                   | 15.5         | 12.4    |
| 1973  | 230.8          | 103.2                   | 36.2                   | 63.1                   | 16.3         | 12.0    |
| 1974  | 263.2          | 119.0                   | 38.6                   | 75.1                   | 16.8         | 13.7    |
| 1975  | \$ 279.1       | \$ 122.4                | \$ 40.6                | \$ 84.5                | \$ 16.6      | \$ 15.0 |
| 1976  | 298.1          | 131.6                   | 41.4                   | 90.8                   | 17.0         | 17.3    |
| 1977  | 355.6          | 157.6                   | 54.9                   | 106.5                  | 17.5         | 19.0    |
| 1978  | 399.6          | 181.0                   | 60.0                   | 121.0                  | 18.4         | 19.3    |
| 1979  | 463.3          | 217.8                   | 65.7                   | 138.9                  | 18.7         | 22.1    |
| 1980  | \$ 517.1       | \$ 244.1                | \$ 64.6                | \$ 157.8               | \$ 24.3      | \$ 26.3 |
| 1981  | 599.3          | 285.9                   | 61.1                   | 182.7                  | 40.8         | 28.7    |
| 1982  | 617.8          | 297.7                   | 49.2                   | 201.5                  | 36.3         | 33.0    |
| 1983  | 600.6          | 288.9                   | 37.0                   | 209.0                  | 35.3         | 30.3    |
| 1984  | 666.5          | 298.4                   | 56.9                   | 239.4                  | 37.4         | 34.4    |
| 1985  | \$ 734.1       | \$ 334.5                | \$ 61.3                | \$ 265.2               | \$ 36.0      | \$ 37.1 |
| 1986  | 769.2          | 349.0                   | 63.1                   | 283.9                  | 32.9         | 40.3    |
| 1987  | 854.4          | 392.6                   | 83.9                   | 303.3                  | 32.5         | 42.1    |
| 1988  | 909.3          | 401.2                   | 94.5                   | 334.3                  | 35.2         | 44.1    |
| 1989  | 991.2          | 445.7                   | 103.3                  | 359.4                  | 34.4         | 48.4    |
| 1990  | \$ 1,032.0     | \$ 466.9                | \$ 93.5                | \$ 380.0               | \$ 35.3      | \$ 56.2 |
| 1991  | 1,055.0        | 467.8                   | 98.1                   | 396.0                  | 42.4         | 50.7    |
| 1992  | 1,091.3        | 476.0                   | 100.3                  | 413.7                  | 45.6         | 55.8    |
| 1993  | 1,154.4        | 509.7                   | 117.5                  | 428.3                  | 48.1         | 50.8    |
| 1994  | 1,258.6        | 543.1                   | 140.4                  | 461.5                  | 55.2         | 58.5    |
| 1995  | \$ 1,351.8     | \$ 590.2                | \$ 157.0               | \$ 484.5               | \$ 57.5      | \$ 62.6 |
| 1996  | 1,453.1        | 656.4                   | 171.8                  | 509.4                  | 54.0         | 61.4    |
| 1997  | 1,579.3        | 737.5                   | 182.3                  | 539.4                  | 56.9         | 63.2    |
| 1998  | 1,721.8        | 828.6                   | 188.7                  | 571.8                  | 57.7         | 75.0    |
| 1999  | 1,827.5        | 879.5                   | 184.7                  | 611.8                  | 70.4         | 81.0    |
| 2000  | \$ 2,025.2     | \$ 1,004.5              | \$ 207.3               | \$ 652.9               | \$ 68.9      | \$ 91.8 |
| 2001  | 1,991.2        | 994.3                   | 151.1                  | 694.0                  | 66.2         | 85.6    |
| 2002  | 1,853.2        | 858.3                   | 148.0                  | 700.8                  | 67.0         | 79.0    |
| 2003e | 1,836.2        | 849.1                   | 143.2                  | 726.6                  | 68.4         | 49.0    |
| 2004e | 1,922.0        | 849.9                   | 169.1                  | 764.5                  | 70.9         | 67.6    |
| 2005e | \$ 2,135.2     | \$ 934.6                | \$ 229.3               | \$ 810.9               | \$ 73.3      | \$ 87.1 |
| 2006e | 2,263.2        | 1,014.1                 | 233.8                  | 845.8                  | 75.6         | 93.9    |
| 2007e | 2,398.1        | 1,103.4                 | 237.8                  | 883.6                  | 77.8         | 95.6    |
| 2008e | 2,520.9        | 1,175.3                 | 243.7                  | 922.2                  | 80.0         | 99.7    |

Source: Tax Foundation, Office of Management and Budget.

For example, the President's budget proposes spending \$390.4 billion on defense related activities in FY 2004. This amounts to 17.5 percent of all spending and 3.5 percent of GDP.

- This level is roughly the same as defense spending was in 1996, which amounted to 17.0 percent of all federal spending and 3.5 percent of GDP.
- Defense spending in 1987, the height of the Reagan build up, was 28.1 percent of all federal spending and 6.1 percent of GDP.

The President's budget proposes a fiscal year 2004 budget deficit of \$307.4 billion, which is 13.8 percent of all spending and 2.8 percent of GDP.

- This level is roughly the same as the deficit was in 1994, which amounted to 13.9 percent of all spending and 2.9 percent of GDP.
- Deficit spending in 1983, the highest point during the Reagan administration, was 25.7 percent of all spending and 6.0 percent of GDP.

*Table 5*

*Comparison of President Bush's Budget with Past Presidents' Budgets*

|   | FY '04 Proposal | Post-WWII Average (FY'46 - FY'02) | Clinton Budgets (FY'94 - FY'02) | G.H.W. Bush Budgets (FY'90 - FY'90) | Reagan Budgets (FY'82 - FY'89) |
|---|-----------------|-----------------------------------|---------------------------------|-------------------------------------|--------------------------------|
| Total Receipts as percent of GDP  | 17.0%           | 17.9%                             | 19.4%                           | 17.7%                               | 18.0%                          |
| Total outlays as percent of GDP   | 19.7%           | 19.5%                             | 19.6%                           | 22.0%                               | 22.3%                          |
| Deficit (-)/Surplus as percent of GDP   | - 2.7%          | - 1.6%                            | - 0.1%                          | - 4.3%                              | - 4.3%                         |
| Annual growth in total receipts (average % change from previous fiscal year, FY96 \$) | 2.7%            | 2.9%                              | 4.9%                            | 0.5%                                | 2.5%                           |
| Annual growth in total outlays (average % change from previous fiscal year, FY96 \$)  | 2.2%            | 2.3%                              | 1.5%                            | 1.9%                                | 2.7%                           |
| Defense spending as a percent of total outlays  | 17.5%           | 35.5%                             | 17.1%                           | 21.7%                               | 26.7%                          |
| Non-defense discretionary spending as a percent of total outlays                      | 19.2%           | 19.4%*                            | 17.6%                           | 16.6%                               | 17.1%                          |
| Net interest costs as percent of total outlays  | 7.9%            | 10.5%*                            | 13.9%                           | 14.5%                               | 13.2%                          |
| Other mandatory spending as a percent of total outlays                                | 55.4%           | 41.6%*                            | 51.4%                           | 46.2%                               | 42.9%                          |
| Debt held by public at end of fiscal year as percent of GDP                           | 36.9%           | 44.0%                             | 43.0%                           | 46.3%                               | 36.7%                          |
| Gross Debt at end of fiscal year as percent of GDP                                    | 64.8%           | 56.2%                             | 63.4%                           | 61.8%                               | 45.4%                          |

Source: Office of Management and Budget, Tax Foundation Calculations

\* Includes only data back to 1962 since the distinction between discretionary and mandatory began only in that year.



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