

Is There Room to Cut? Examining Federal Spending Part 1

With the election now behind us, attention turns to Trump’s campaign promises, especially the pledge to reduce the size of government. One of his newly appointed advisors, Elon Musk, has proposed the ambitious goal of cutting at least \$2 trillion from the federal budget, aiming to bring greater efficiency to government operations. While Musk’s track record of innovation and cost cutting suggests he might be up to the challenge, reducing nearly a third of federal spending will neither be easy or universally popular. In this edition of “Three on Thursday”, we take a broad look at federal spending—what it comprises and where efficiencies might be found. This is the first in a series dedicated to exploring opportunities to trim government excess. Below are three charts that offer deeper insights into federal expenditures.

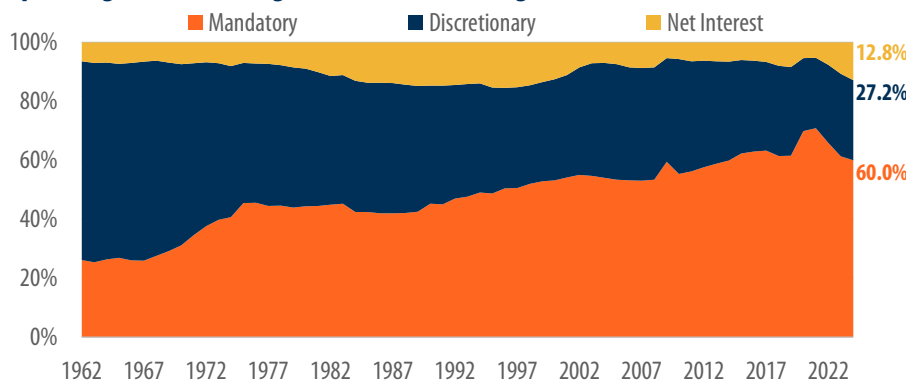
Government Spending by Category – As a Share of Federal Outlays FY 2024

Human Resources	65.7%	Physical Resources	6.5%	Other Functions	4.0%
Education, Training, Employment, & Social Services	4.2%	Energy	0.4%	International Affairs	1.0%
Health	12.4%	Natural Resources and Environment	1.4%	General Science, Space, and Technology	0.6%
Medicare	12.2%	Commerce and Housing Credit	0.8%	Agriculture	0.6%
Income Security	11.0%	Transportation	2.1%	Administration of Justice	1.3%
Social Security	21.0%	Community and Regional Development	1.8%	General Government	0.6%
Veterans Benefits & Services	5.0%	Net Interest	12.8%	Allowances	-0.1%
National Defense	13.1%			Undistributed Offsetting Receipts	-2.1%

Source: Office of Management and Budget, First Trust Advisors. Fiscal Year 2024 data.

In fiscal year (FY) 2024, federal government spending reached \$6.75 trillion. Human Resources accounted for the largest share, making up 65.7% of total federal spending. National Defense followed, representing 13.1% of spending, with Net Interest close behind at 12.8%. Other Functions constituted 4.0% of spending, while Physical Resources made up 6.5%. Lastly, Undistributed Offsetting Receipts—reductions to total spending not allocated to any specific department or agency—accounted for -2.1%.

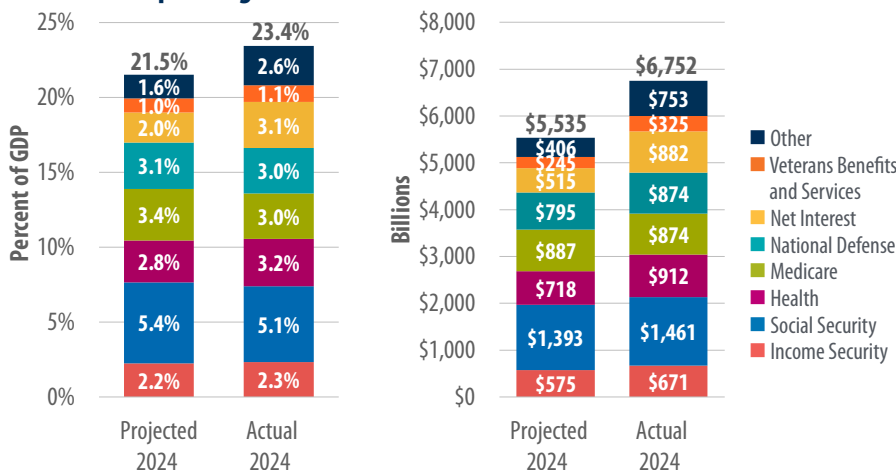
Spending as a Percentage of the Federal Budget



Source: Office of Management and Budget, First Trust Advisors. Fiscal year data 1962-2024.

Over the years, transfer payments to individuals have come to occupy a larger share of federal spending. In 1962, only 26.1% of federal spending was classified as “programmatically” or essentially on autopilot. By FY 2024, that figure had risen to 60.0%. Net interest payments are also considered mandatory, though not programmatic. Combined, total mandatory spending now makes up 72.8% of the federal budget, leaving just 27.2% as discretionary spending—the portion Congress appropriates annually. While defense spending is technically discretionary, it functions more like a mandatory expense. Including defense as mandatory brings the total mandatory spending up to 85.5%, leaving just 15.5% of the budget as truly discretionary.

Government Spending Actual FY 2024 vs. Pre-Pandemic Estimated FY 2024



Source: Office of Management and Budget, Congressional Budget Office (“CBO”), First Trust Advisors. Fiscal year 2024 data. **Projected 2024** are pre-pandemic estimates as-of January 2020.

In January 2020 (pre-pandemic), the CBO projected federal spending to be 21.5% of GDP in FY 2024. Instead, spending reached 23.4%. While pandemic-related spending from 2020 to 2022 grew, these “temporary” expenditures should have been gone by 2024. Yet spending remains elevated, up 51.8% over the past five years—an annualized rate of 8.7%. Compared to the CBO’s pre-pandemic projections for FY 2024, net interest payments are 71.2% higher. The “other” category also saw large increases relative to CBO expectations, up 85%. Within that “other” category energy spending (191.7%), community and regional development (153.1%), education and social services (148.9%), and commerce and housing credit (107.8%) were all substantially above where the CBO projected they would be in FY 2024. Where is this extra spending going? We’ll explore that in an upcoming “Three on Thursday”—but even John Maynard Keynes would argue this extra spending should be rolled back.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.