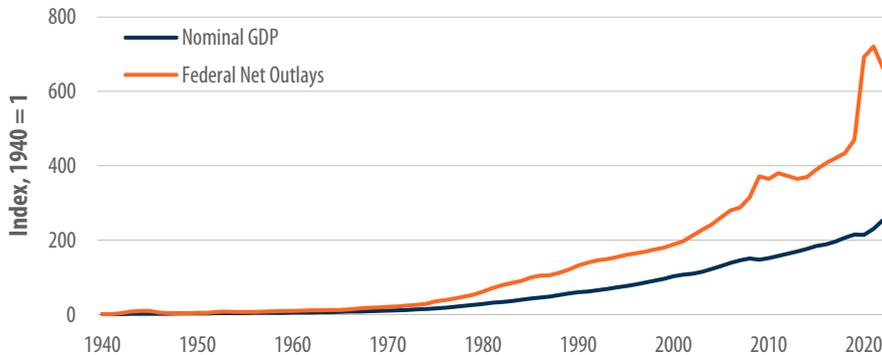


In this week's edition of "Three on Thursday" we look at the composition and evolution of federal spending over history. In conjunction with the Office of Management and Budget ("OMB"), the White House releases the "Historical Tables" – a comprehensive array of data on Federal Government finances spanning as far back as 1789 and extending to the most recent data available for Fiscal Year 2022, with projections included for the President's Budget for 2023-2028. An examination of this data unveil remarkable findings: in Fiscal Year 2022, a staggering 72.1% of federal spending was allocated to payments to individuals, matching the highest share ever recorded. The Federal Government has become not much more than the world's largest money transferring machine. So much spending going directly to individuals makes cutting the budget very difficult politically. For deeper insights into this matter, explore the three charts below.

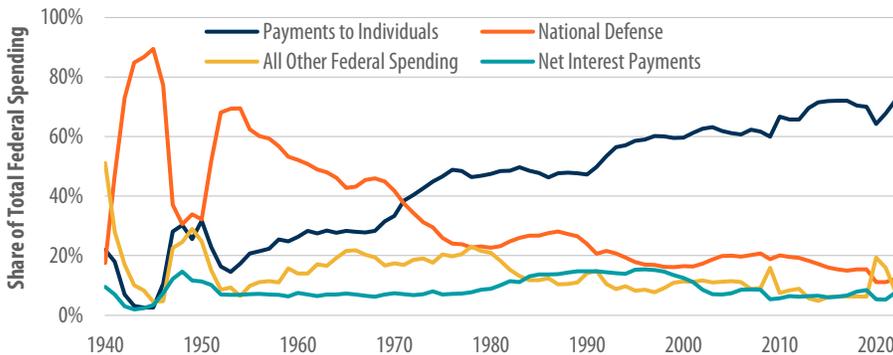
### Government Spending Towers Above GDP Growth



Source: Office of Management and Budget, First Trust Advisors. Fiscal year data 1940-2022.

Since 1940, Nominal GDP has surged nearly 255-fold, while federal spending has skyrocketed by a staggering 663-fold over the same period. Regardless of the party in power, it's evident that government spending consistently expands. WWII marked a clear dividing line in U.S. budget history. Before the war, in 1940, federal spending was 9.6% of GDP. During the war, spending peaked at 42.7% of GDP, and although it decreased post-war, it never fell below 10% of GDP again, growing significantly in each successive decade. As of 2022, it sits at 25.1% of GDP. A major portion of this surge in federal spending stems from a massive 2,184-fold increase in payments for individuals since 1940.

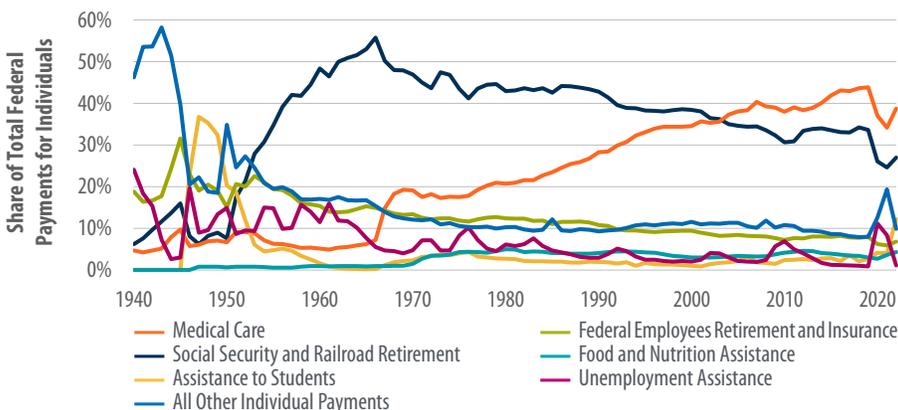
### The Composition of Federal Spending



Source: Office of Management and Budget, First Trust Advisors. Fiscal year data 1940-2022.

The U.S. Federal Government has turned the U.S. into a transfer society, with an incredible \$3.7 trillion or 72.1% of spending in 2022 allocated towards payments for individuals—a record high that matches the share seen just a few years prior in 2016 and 2017. These payments encompass various government programs aimed at providing income support to individuals and families, whether in the form of cash or other benefits. This trend has notably impacted National Defense spending, which has dwindled to a mere 12.2% share of federal spending, marking a steady decline since the mid-1950s. Following closely behind is the category of All Other Federal Spending, accounting for a modest 8.1% of the federal budget. Last, but certainly not least is Federal Net Interest Payments, which made up 7.6% of federal spending in 2022 and is notably projected to climb to 12.0% of spending by 2028 according to the OMB.

### Composition of Federal Payments for Individuals



Source: Office of Management and Budget, First Trust Advisors. Fiscal year data 1940-2022.

So what is causing the massively higher trend in payments for individuals? Medical Care takes the number one spot, accounting for \$1.76 trillion of federal spending in 2022. In 1940, Medical Care made up around 5% of federal payments for individuals, but that has now ballooned to 38.8% as of 2022. Next in line is Social Security and Railroad Retirement, which accounted for \$1.2 trillion of federal spending, or 27% of federal payments for individuals. Just these two areas alone now make up over 65% of federal payments for individuals! Rounding out the top 3 is assistance to students, accounting for \$553 billion of spending in 2022. This category exploded in 2022, rising from 4.0% of spending in 2021 to 12.2% in 2022, much of this having to do with student loan forgiveness.

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.