

**DEPARTMENT OF POLITICAL SCIENCE  
AND  
INTERNATIONAL RELATIONS  
Posc 150**

**THE FEDERAL BUDGET**

- I. CONTENTS:
  - A. The federal budget
  
- II. THE FEDERAL BUDGET:
  - A. Note the discussion pertains to the *federal* budget.
    - 1. State and local finances are not included.
  - B. Popular perceptions and worries.
    - 1. Run-away government spending is wrecking ours and our children's future.
      - i. See for sure: "U.S. National Debt Clock."  
([http://www.brillig.com/debt\\_clock/](http://www.brillig.com/debt_clock/))
    - 2. George W. Bush: if taxes are not lowered "they" will find a way to spend "your" money.
    - 3. Government spending is inefficient and wasteful.
    - 4. The government must conduct its affairs just like a business or family.
  - C. \*Important:
    - 1. People try to perpetuate misconceptions and stereotypes in order to get their way on issues.
      - i. To the extent that the federal budget is misunderstood by the public citizens lose control over one aspect of their government that really affects their lives.
        - 1) The budget is certainly more important to them than any scandal or personal misconduct.
        - 2) This is why the mass media are so frustrating to me.
  
- III. BUDGET BASICS:
  - A. Simple view
    - 1. Revenues:
      - i. Income tax
      - ii. Pay roll
      - iii. Corporate
      - iv. Other taxes, fees
      - v. Note the importance of social security taxes.
      - vi. \*Note what has been growing.
      - vii. Tax cut proposals.
        - 1) Bush, "\$1,083 average tax cut for 92 million Americans..."
        - 2) BUT, *most* will receive far less than \$1,000.
    - 2. Outlays: what tax dollars buy:

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- i. Functions and super-functions.
      - 3. Balance, deficit, surplus
      - 4. National debt.
    - B. For the last 40 years until recently in the Clinton administration (about 1997) the budget has seemed to be out of balance.
      - 1. Trends in spending, revenue, deficits, debts.
      - 2. \*Now the CBO projects additional deficits through 2008.
- IV. A MORE SUBTLE VIEW:
- A. Changes in the composition of the budget
    - 1. The usual way of looking at the budget can be misleading.
    - 2. \*Spending by function and agency does not reveal the total picture.
      - i. Look at the images and texts on the class web page.
        - 1) Read "Political Economy"
  - B. ○Discretionary spending:
    - 1. Congress annually appropriates money for federal activities.
    - 2. Biggest category by far is defense spending.
  - C. ○Mandatory spending:
    - 1. ○Entitlements: recipients or beneficiaries are **entitled** to benefits if they meet eligibility requirements.
      - i. Congress does not annually appropriate money for them in the usual fashion.
      - ii. Costs go up with inflation, changes in demographics, state of the economy, etc.
      - iii. Transfer programs such as Social Security, federal retirements, veterans benefits.
      - iv. Means-tested and non-means tested entitlements
    - 2. The biggest mandatory programs are social security, medicare, medicaid, and interest on the national debt.
      - i. Only the last, medicaid, is devoted to helping the poor.
      - ii. The other two benefit the middle class.
    - 3. Interest on the debt.
  - D. \*Growth in **entitlements** and **mandatory** spending:
    - 1. Major point: since the early 1970s spending on entitlements has increased by leaps and bounds.
    - 2. Contrary to popular belief, spending on **discretionary** programs has remained more or less steady; in fact, for many categories it has decreased.
- V. DIFFERENCES BETWEEN FEDERAL AND HOUSEHOLD OR BUSINESS BUDGETS:
- A. Politicians, editors--nearly everyone in fact--insists on comparing the federal budget with business or household budgets.
  - B. \*How the budget differs from "ordinary" budgets:
    - 1. Ordinary budgets separate investment spending from consumption.

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2. What is recorded in federal budget documents are expenditures
  3. The federal budget does not.
    - i. Expenditures are not broken down into funds for **consumption** and for **assets**.
  4. ○But, should investment be thought of the same way as spending for consumption?
    - i. What government “spending” buys:
      - 1) Human capital
        - a) Education, training, health, psychological and social well-being sufficient to make the labor productive.
      - 2) Infrastructure
      - 3) Research and development
- C. The uses of public debts and deficits.
1. Structural versus fiscal deficits.
  2. Pump priming in recessions.
  3. See Heilbroner and Thurow.
- D. Measuring the debt
1. Gross versus net debt = liabilities minus assets.
  2. Debt as portion of the economy.
  3. Who owns the debt?
    - i. Government (public) versus private holders.

#### VI. NEXT TIME:

- A. Second test
- B. Reading:
  1. Strongly recommended: Jeff Faux and Max Sawicky, “Social Investment and the Budget Debate,” (September 22, 1999 Issue Brief #134) in Cyber Reserve Room or directly: (<http://www.epinet.org/Issuebriefs/IB134.pdf>).
  2. ✳Strongly recommended: “The Federal Budget,” under “Political Economy” in the Cyber Reserve Room.
    - i. These short reading provide some back up to Heilbroner and Thurow and the class discussion.
  3. Recommended: OMB, “A Citizen’s Guide To The Budget,” in Cyber reserve Room or directly  
<http://w3.access.gpo.gov/usbudget/fy2000/guidetoc.html>
  4. Recommended: “National Budget Simulation,” at  
<http://garnet.berkeley.edu:3333/budget/budget.html>
  5. Recommended: CBO, “The Budget And Economic Outlook.”  
<http://www.cbo.gov/showdoc.cfm?index=3019&sequence=0&from=7>
  6. Recommended: CBO, “Glossary of Budgetary and Economic Terms” in Cyber Reserve room or  
<http://www.cbo.gov/showdoc.cfm?index=4032&sequence=14>