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/)
   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:
i. Functions and super-functions.
3. Balance, deficit, surplus

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.
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:
      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