



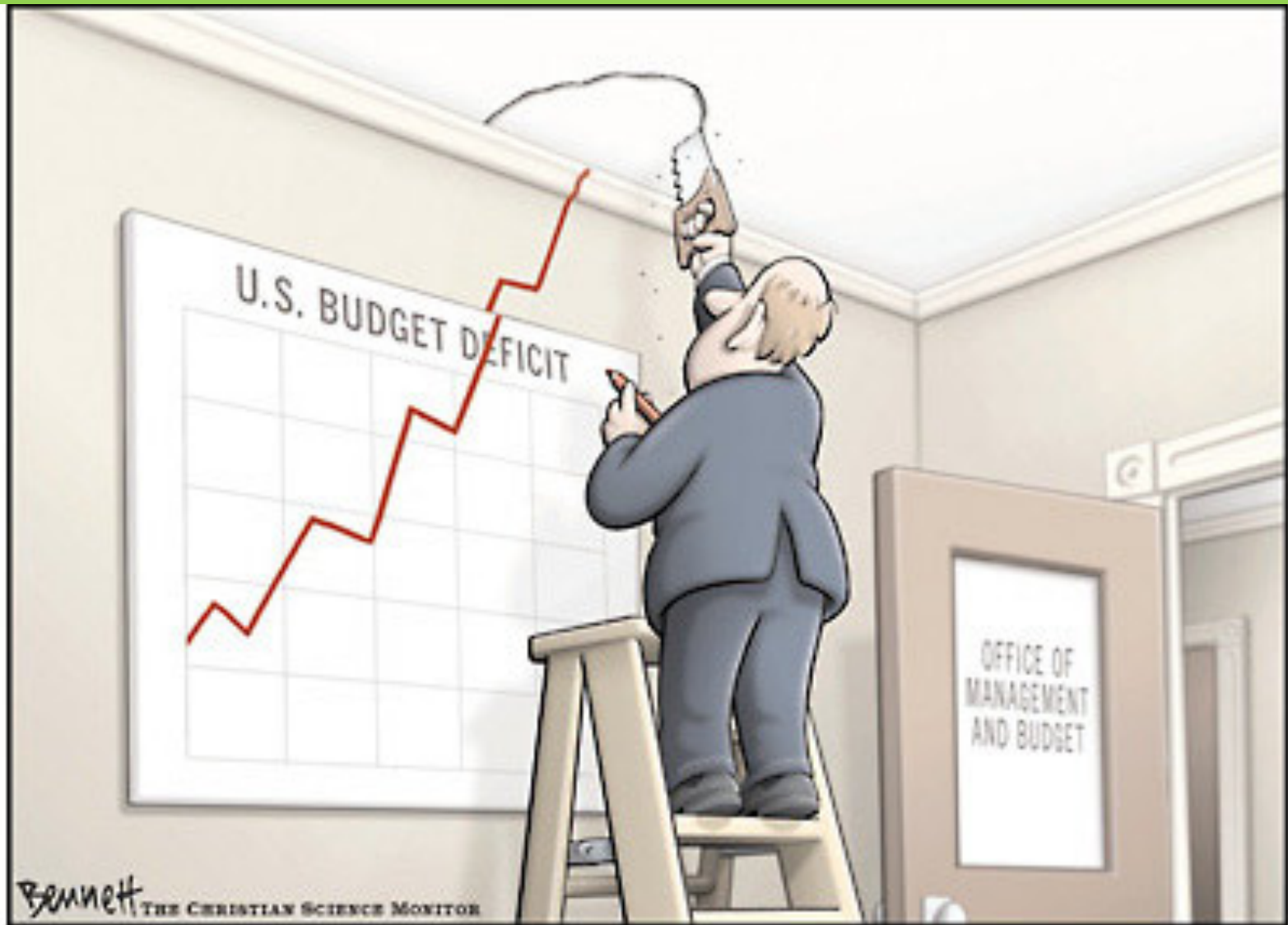
# Learning About the Federal Budget:

## *"Get a Pencil, You're Tackling the Deficit!"*



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# Warm Up



# Fiscal Policy



- What is fiscal policy?
  - a government policy for dealing with the budget (especially through taxation and borrowing).
- What are some different theories concerning fiscal policy?
  - **Keynesian Theory**: an economic theory that believes it is the government's job to smooth out the bumps in business cycles. Intervention would come in the form of government spending and tax breaks in order to stimulate the economy, and government spending cuts and tax hikes in good times, in order to curb inflation.
    - Ex: FDR's "New Deal" programs during the Great Depression.
  - **Supply-Side Theory**: an economic theory that reduction of tax rates encourages more earning, savings, and investment and thereby expands economic activity and the total taxable national income.
    - Also called the "trickle down theory"
    - Ex: Ronald Reagan's "Reaganomics" during the 1980's

# Fiscal Policy



- What are automatic stabilizers?
  - Based on Keynesian ideas, these are government programs that **operate regardless of economic conditions** and are **intended to keep a minimum standard of living** in the US.
    - Unemployment insurance
    - Welfare payments
    - Medicaid
    - Progressive income tax
    - Social Security

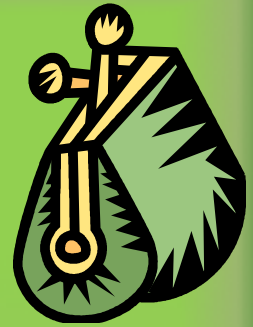


# The Federal Budget



- What is a budget?
  - A blueprint of **how the government will raise and spend money** for the federal government's fiscal year.
- What is the federal government's fiscal year?
  - A period from **October 1** to **September 30** of the following year.
    - 2012 fiscal year: October 1, 2011 – September 30, 2012
- Who proposes the budget?
  - **The President** proposes the budget by the first Monday in February (as required by law)

# Congress and the Budget



- Isn't **Congress** supposed to control the purse strings? (Article I Sec 8)
  - They do. Once the President proposes a budget, Congress passes a **budget resolution** which **totals revenue and sets targets on spending**.
- What does Congress spend the revenue on?
  - **Mandatory Spending**: spending that doesn't need annual approval
  - **Discretionary spending**: spending that needs to be approved by Congress each year. It is set by the various House and Senate Subcommittees



# Spending

## Mandatory Spending

- Social Security
- Medicare
- Medicaid
- Congressional Salaries
- Food stamps

**MEDICARE**  **HEALTH INSURANCE**

1-800-MEDICARE (1-800-633-4227)

NAME OF BENEFICIARY  
**JANE DOE**

MEDICARE CLAIM NUMBER  
**000-00-0000-A**

SEX  
**FEMALE**

IS ENTITLED TO  
**HOSPITAL (PART A)**  
**MEDICAL (PART B)**

EFFECTIVE DATE  
**07-01-1986**  
**07-01-1986**

SIGN HERE → Jane Doe



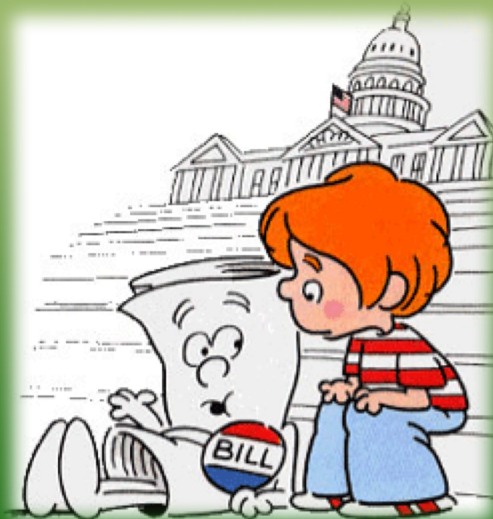
Covered  
by  
Medicare/  
Medicaid (USA)

## Discretionary Spending

- Agriculture
- Commerce, Justice and Science
- Defense
- Energy and Water
- Financial Services
- Homeland Security
- Interior and Environment
- Labor, Health and Education
- Legislative Branch
- Military Construction and Veterans Affairs
- State and Foreign Operations
- Transportation, Housing and Urban Development

# Appropriations Bills

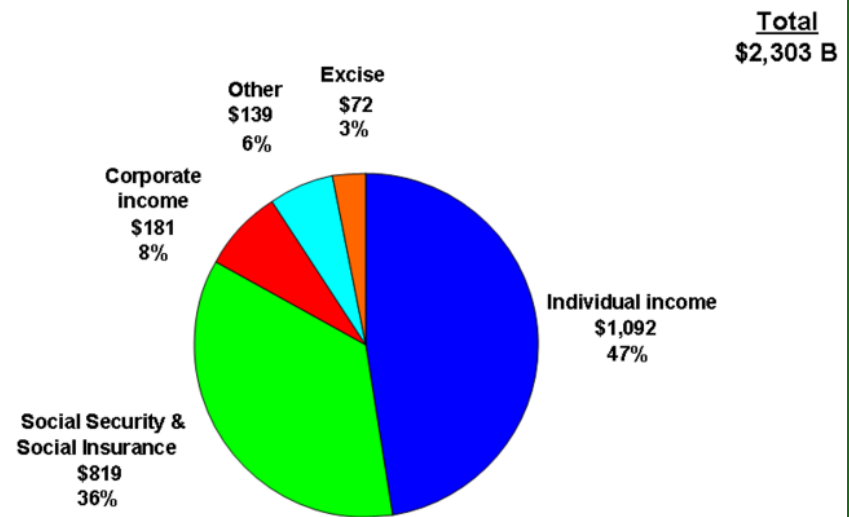
- Before the government can spend **discretionary money**, Congress must pass separate **appropriations bills**.
- These bills follow the **normal bill to law process**.



# Revenue

- Where does the money come from?
  - **Taxes**
    - Individual income taxes
    - Payroll/Social Insurance Taxes
      - Pays for SS, Medicare
    - Corporate profits tax
    - Excise taxes
      - Gasoline, tobacco, etc.
    - Other
      - Estate taxes
      - Entry fees to federal parks

U.S. Federal Tax Receipts – Fiscal Year 2011 (\$ Billions)



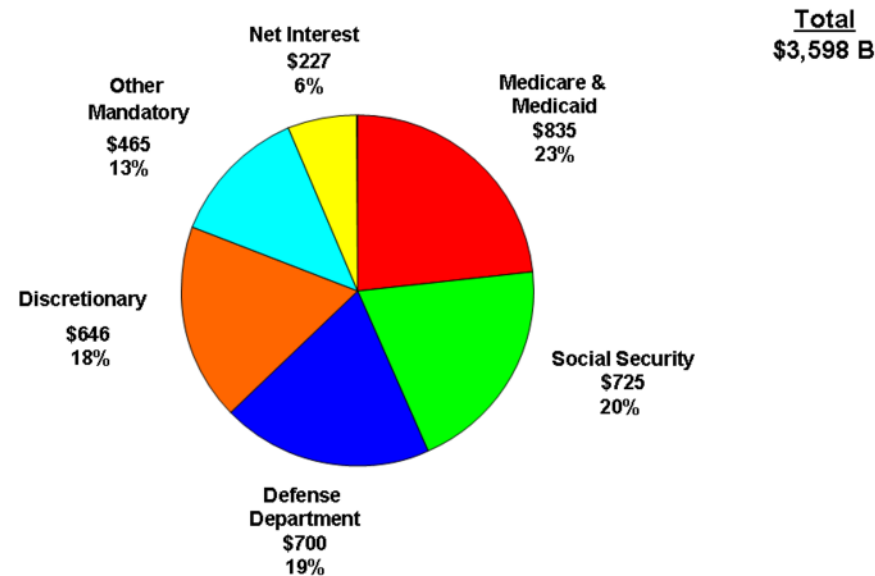
Source Data: CBO Historical Tables



# Expenditures

- What does the government **spend** its money on?
  - Medicare & Medicaid
  - Social Security
  - Defense
    - Departments of Defense and Homeland Security
      - Armed forces
  - Interest
    - Pay interest on money the government has borrowed (debt)

U.S. Federal Spending – Fiscal Year 2011 (\$ Billions)



Source Data: CBO Historical Tables

# Managing the Economy

- What is a **balanced budget**?
  - When **revenue equals expenditures**.
  - Unlike many states, the federal government isn't required to have a balanced budget.
- What is a **surplus**?
  - When the government **spends less than it collects**.



# Managing the Economy

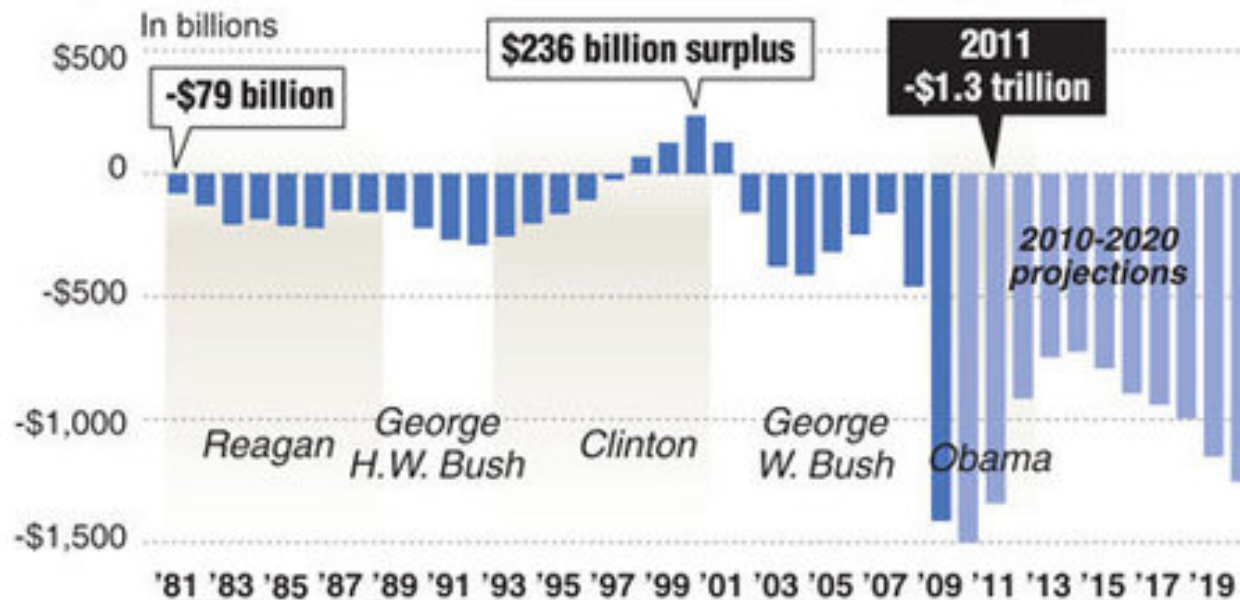
- What is a **deficit**?
  - When the **government spends more than it collects**.
- What happens when the government runs a deficit?
  - It must **borrow money** to pay its bills.
- How does the government borrow money?
  - It sells **bonds**: contracts to repay the borrowed money, plus interest, at a future date.



# Why all this talk of deficits in 2010 - 2011?

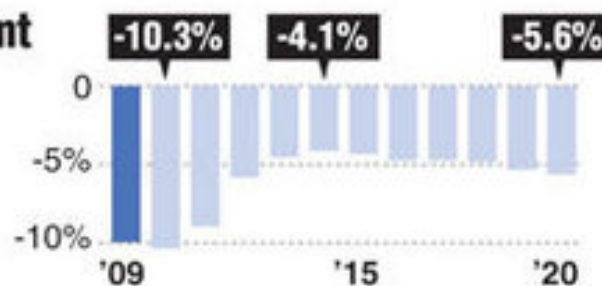
## Federal budget deficit

*A bipartisan commission will look for ways to cut the rising budget deficits.*



### As a percent of GDP

Projected 2010-20



NOTE: Projections based on estimates of the president's budget

© 2010 MCT  
Source: Congressional Budget Office, Office of Management and Budget  
Graphic: Judy Treible

# Where Do These Deficits Come From?

- According to the NY Times:
  - Four broad categories:
    1. The business cycle
      - 2001 Recession
    2. President George W. Bush's policies
      - Tax cuts
      - Medicare prescription drug coverage
      - TARP
    3. Policies from the Bush years that are supported by President Obama.
      - Wars in Afghanistan and Iraq
      - Extension of tax cuts
    4. New policies proposed by President Obama.
      - Stimulus bill





# Bowles-Simpson Commission



- Officially called the “**National Commission on Fiscal Responsibility and Reform**”
- Created by President Obama in early 2010 to identify policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run.
- Chaired by
  - Erskine Bowles, fmr. Chief of Staff for President Clinton and UNC System President
  - Alan Simpson, fmr. Senator
- Released a report on December 1, 2010 which called for:
  - Deep cuts in domestic and military spending
  - Gradual increase in federal gasoline tax
  - Limiting tax breaks
  - Increase Social Security eligibility age
  - Social Security benefit cuts
- Failed to garner enough votes from all 18 commission members to be officially endorsed by the commission. There was a report, but it wasn’t “official”.



# Group Roles



- **Chair**: The Chair moderates group discussion, keeps everyone on task, makes sure that everyone has an opportunity to participate and will present the proposal at a press conference. The Chair's vote counts twice in the event of a tie.
- **Clerk**: The Clerk takes notes of the group's discussion, transcribes the group's proposals onto the poster, and records the group's questions for the press conference.
- **Secretary**: The Secretary solicits votes from each group member and keeps a tally of votes. Also, fills in the boxes (using two separate colors – one for spending and one for revenue) indicating the final spending cuts and revenue increases at the top of the *Get a Pencil. You're Tackling the Deficit Handout*. Assumes the role of Timekeeper if one is unavailable.
- **Researcher**: The Researcher should use the *Explanation of Spending/Revenue Options* and other resources to answer any questions that may arise throughout the discussion. (Note: Do not make any marks or take any notes on the *Explanation of Spending/Revenue Options* handouts – use the bottom of this sheet.)
- **Timekeeper (optional)**: The Timekeeper is responsible for monitoring the time remaining and assisting the Chair in keeping the group on task.