

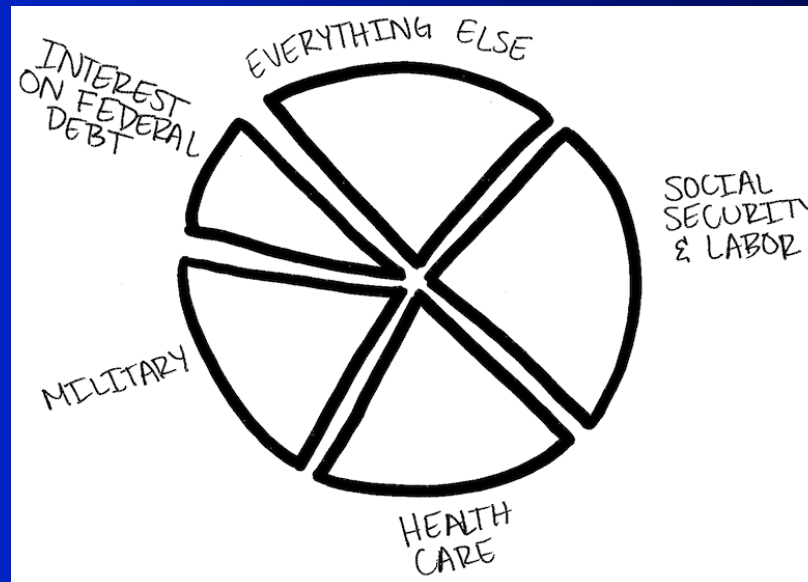
What are The Politics of Taxing and Spending in the Federal Budget?

Chapter 14

EQ #26

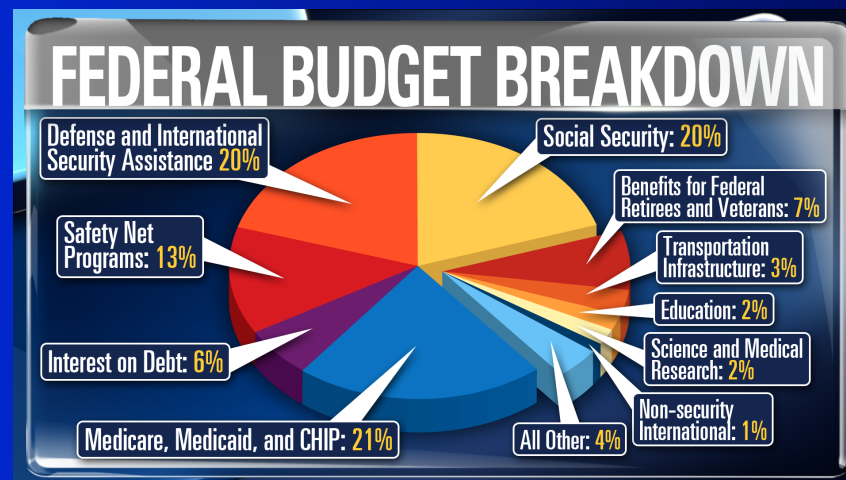
The Federal Budget

- Why should you care about the federal budget?
- How does it affect you?



Why should YOU care about the federal budget?

- The \$4.1 trillion the government spent in 2018 were OUR tax dollars
- We are all stakeholders, no matter our beliefs about how money should be spent!



The Federal Budget- Roles of the P and Congress

The federal budget requires BOTH the P and Congress to become law.

1. The PRESIDENT proposes next year's federal budget to Congress in the Budget Address every February.
2. CONGRESS reviews & revises the P's proposal and ultimately approves / passes a final budget that allocates ALL spending.
3. The PRESIDENT signs it into law.

What do you know?

Pair Share / Write (Use your INB left side space)

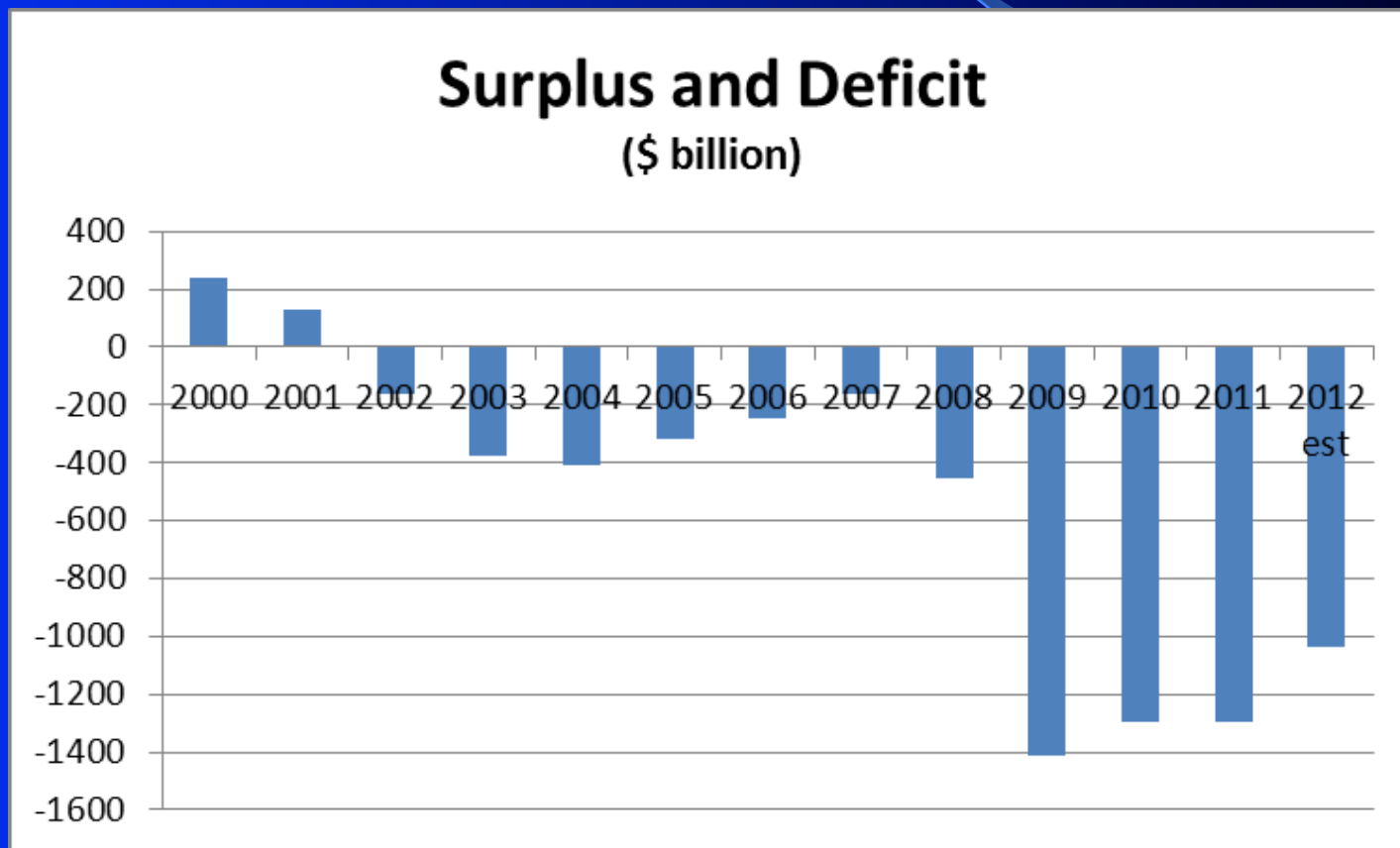
- What is a **budget**?
- A **deficit**?
- A **debt**?

*Think of these terms in relation to your family's spending.

Key Terms to Know!

- **BUDGET**-A policy document (LAW) allocating revenue (taxes) and expenditures (spending).
*2019 budget is \$4.4 trillion!
- **DEFICIT**-An excess of federal expenditures (spending) over federal revenues (taxes or \$ coming in).
- **DEBT**-The sum of all deficits over time
 - Current DEBT is about \$22.7 Trillion and rising

Federal Deficits

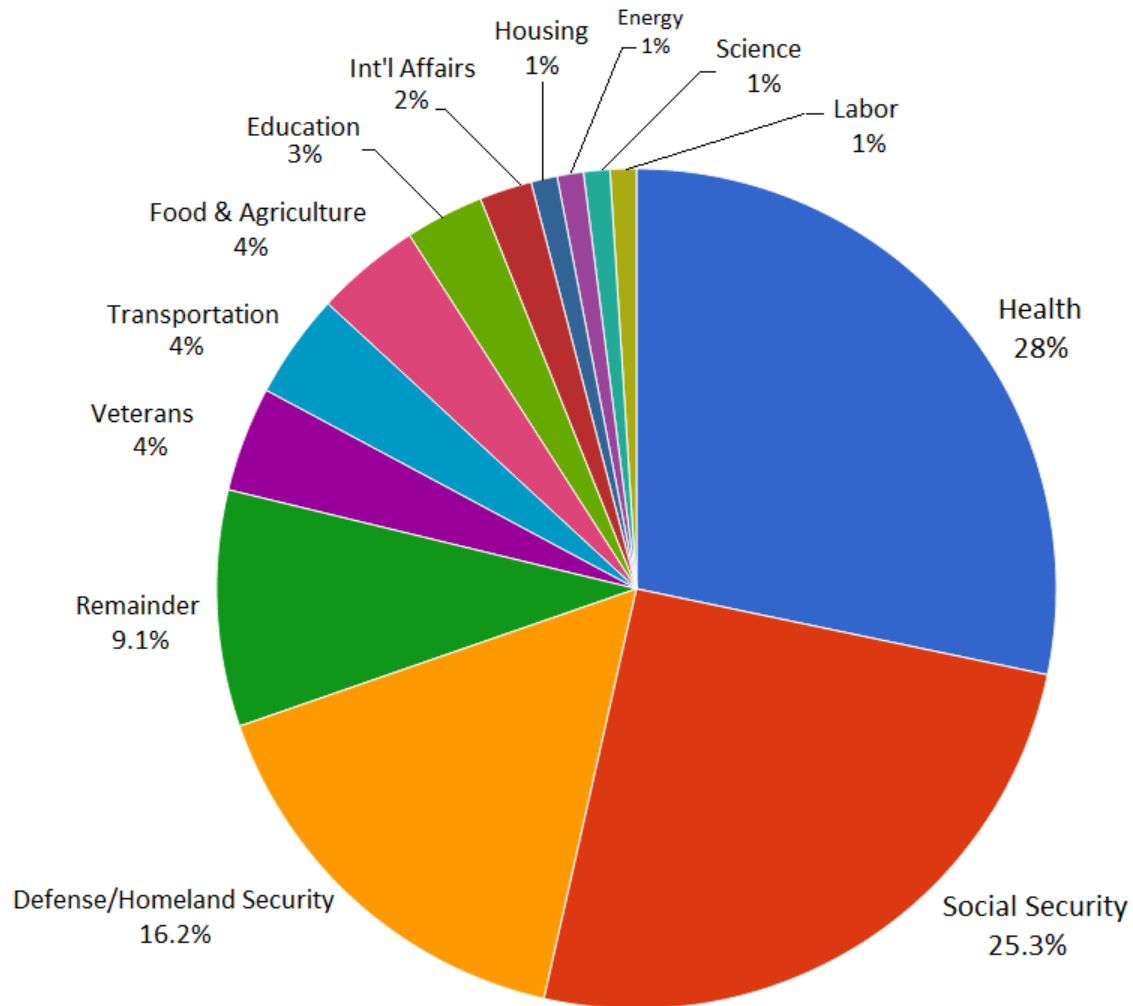


Introduction to Budget Basics

- **EXPENDITURES:** All government spending to carry out laws & programs and for staff who oversee them.
- All tax breaks to citizens & corporations
- **REVENUES:** All sources of money paid by citizens to the government (TAXES).

W
sp

Percent of spending, including discretionary and mandatory



Activity: What would you cut?

- Look at debt clocks.
- In PAIRS, look at recent federal budget projections and decide how to cut it!
- Defend your answers.

Not all spending is the same...

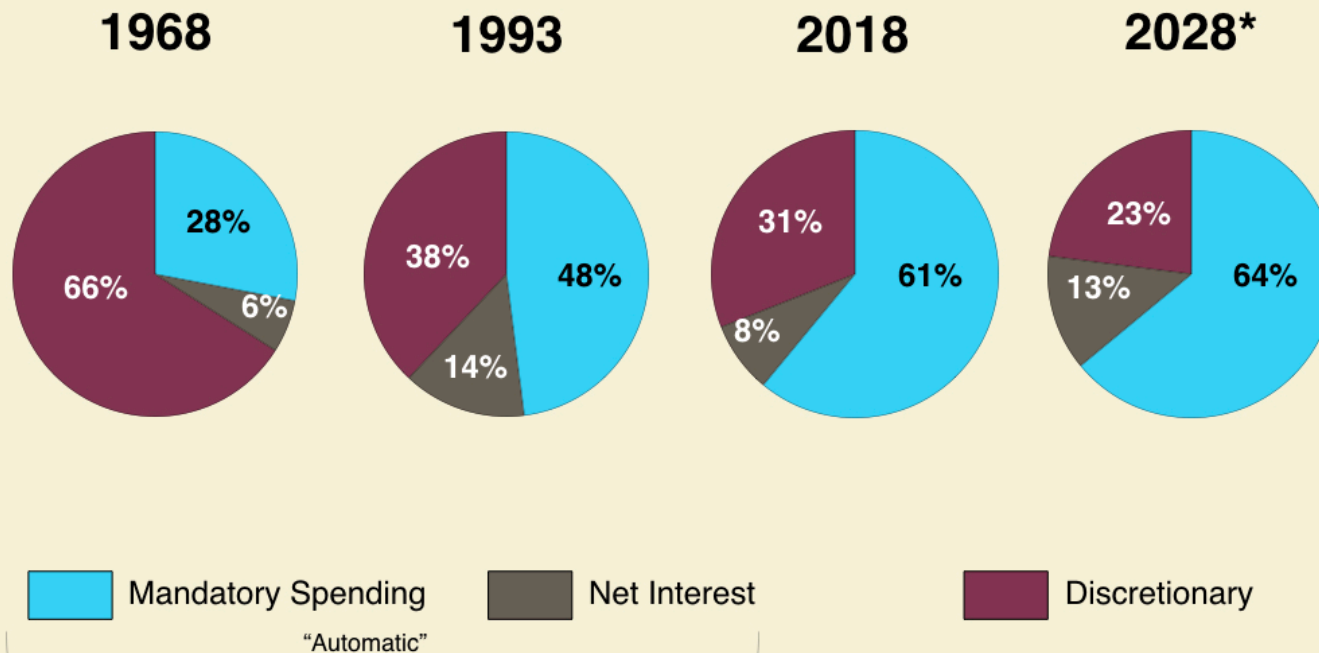
- Why is it so hard to achieve a balanced budget? MANDATORY SPENDING!
- Mandatory Spending-
 - Spending that is written in as law and can't be changed without changing the law
 - Is the majority of the budget
- Discretionary Spending-
 - Spending NOT required by laws directly

Types of Spending

- MANDATORY Spending-
 - Examples-Social Security, Medicare, Medicaid, other social welfare benefits, congress' salaries
- DISCRETIONARY Spending-
 - Examples-Military, education, federal agency budgets, the environment, etc.

Mandatory Spending & Effects

Automatic Expenditures Are Consuming a Growing Share of the Budget

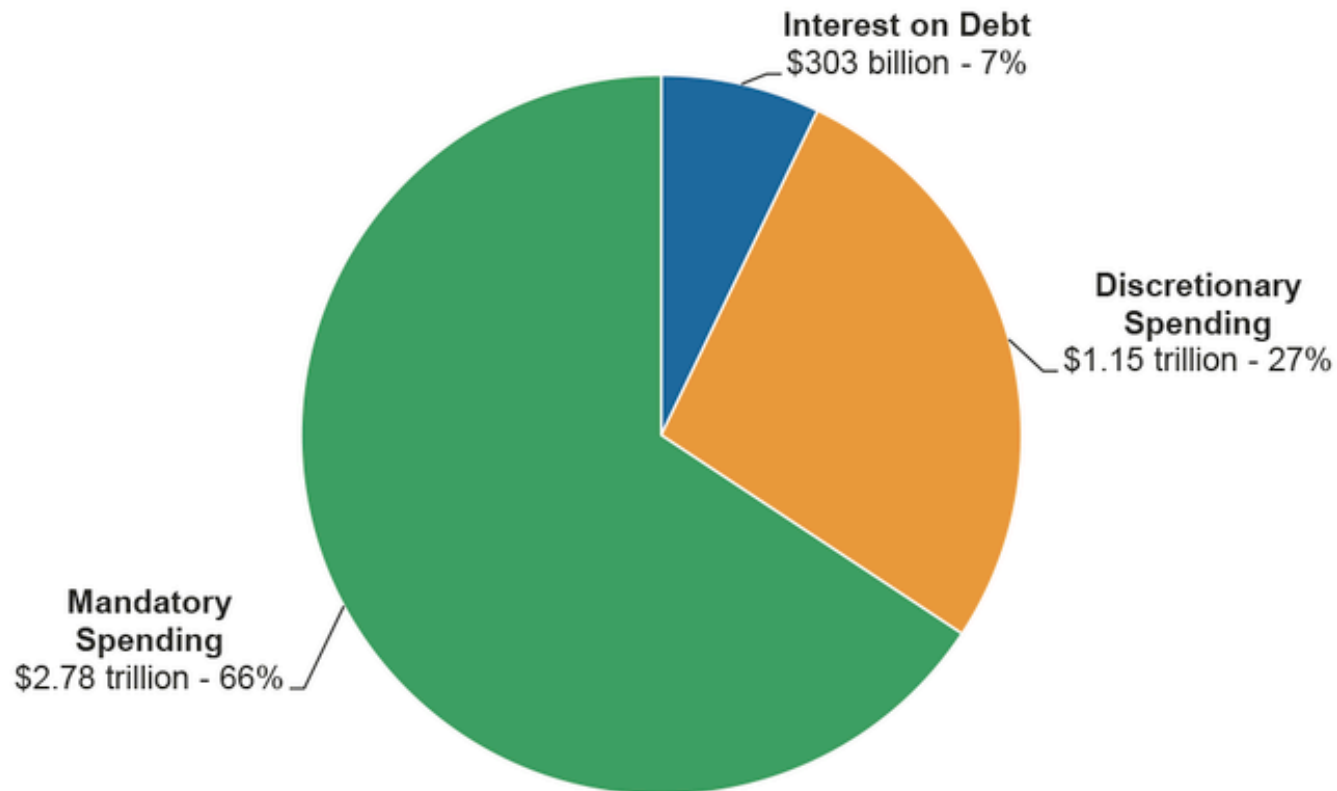


*Projected
Source: Congressional Budget Office, April 2018.

Current Numbers

	<u>2017</u>	<u>2019</u>
Total Revenue-	\$3.6 trillion	\$3.5 t
Total Expenditures-	\$4.2 trillion	\$4.4 t
Deficit-	\$ 600 billion	\$897 b
US Debt-	\$19.9 trillion	\$21.9 t

President's Proposed \$4.2 Trillion Budget: Mandatory and Discretionary Spending and Interest on the Federal Debt (FY 2017)



How did the President get this amount for the budget?

- The President sets the budget amount by
 - Determining MANDATORY spending amounts (mandated by congressional law)
 - And adding in his requested DISCRETIONARY spending (programs he wants to fund based on his political agenda)

Tuesday

- Where do revenues come from?
- Where does the spending go?
- What is an entitlement?

Film Clip

Watch film clip!

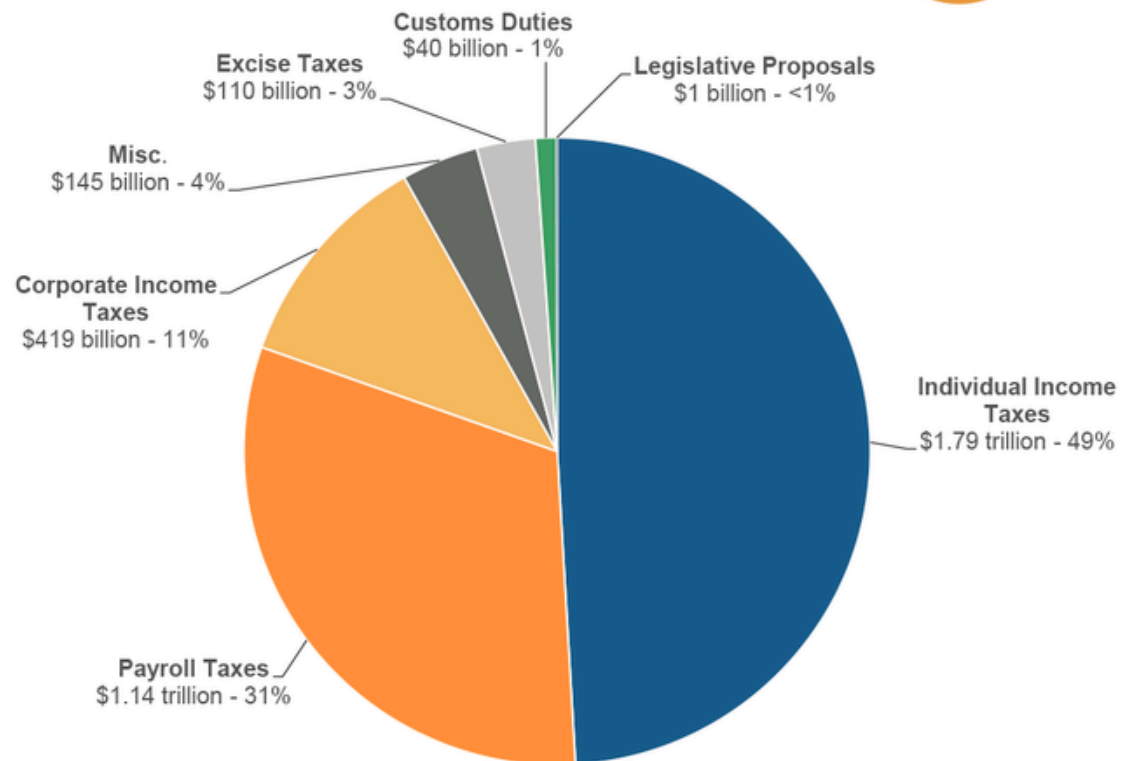
- <https://www.marketplace.org/2017/07/31/economy/video/federal-budget-explained>

Where does the money come from to fund the Budget?

- From REVENUES- Money coming in to government for spending

Sources of Federal Revenue

President's Proposed \$3.6 Trillion in Revenue (FY 2017)



Sources of Federal Revenue

- 1. Individual Income Tax – 49% of revenue
 - These are shares of individual citizens' wages
 - The 16th Amendment (1913) permitted Congress to levy a federal Income Tax.
 - The individual taxpayers provide the largest single revenue source for the government.

How does Income Tax work?

- The House Ways and Means and the Senate Finance Committee write the tax codes that set rules about who pays what to the federal gov't
- This is known as FISCAL POLICY
- In the US, income tax is PROGRESSIVE:
 - We don't all pay the same rate
 - Those with MORE income pay HIGHER *rates* of tax on their income.
 - \$25,000 = 12% but \$75,000=25% (hypothetically)

Sources of Federal Revenue

- 2. Payroll Taxes- 36% of Federal Revenues
- Money is deducted from workers' pay checks.
- For Social Security and Medicare.
- Both employers and employees pay these taxes directly to the government
- **These taxes have grown faster than any other source of federal revenue.**

Sources of Federal Revenue

3. Corporate Income Tax – 7% of federal revenues.

- Is paid directly by businesses based on their profits for the year.
- The more profit, the higher their tax paid.

Other Federal Revenue Sources

4. Excise Taxes –3% of federal revenue

- Are taxes on specific goods and services —such as gasoline.
- These are paid at time of purchase as an added cost.

Sources of Revenue

- 1. Personal Income Tax (49% in 2019)
- 2. Social Security Taxes (31% in 2019)
- 3. Corporate Income Tax (11% in 2019)
- 4. Excise and Other Taxes (7% in 2019)

- When revenue falls short, US Government has to borrow.

Sources of Federal Revenue

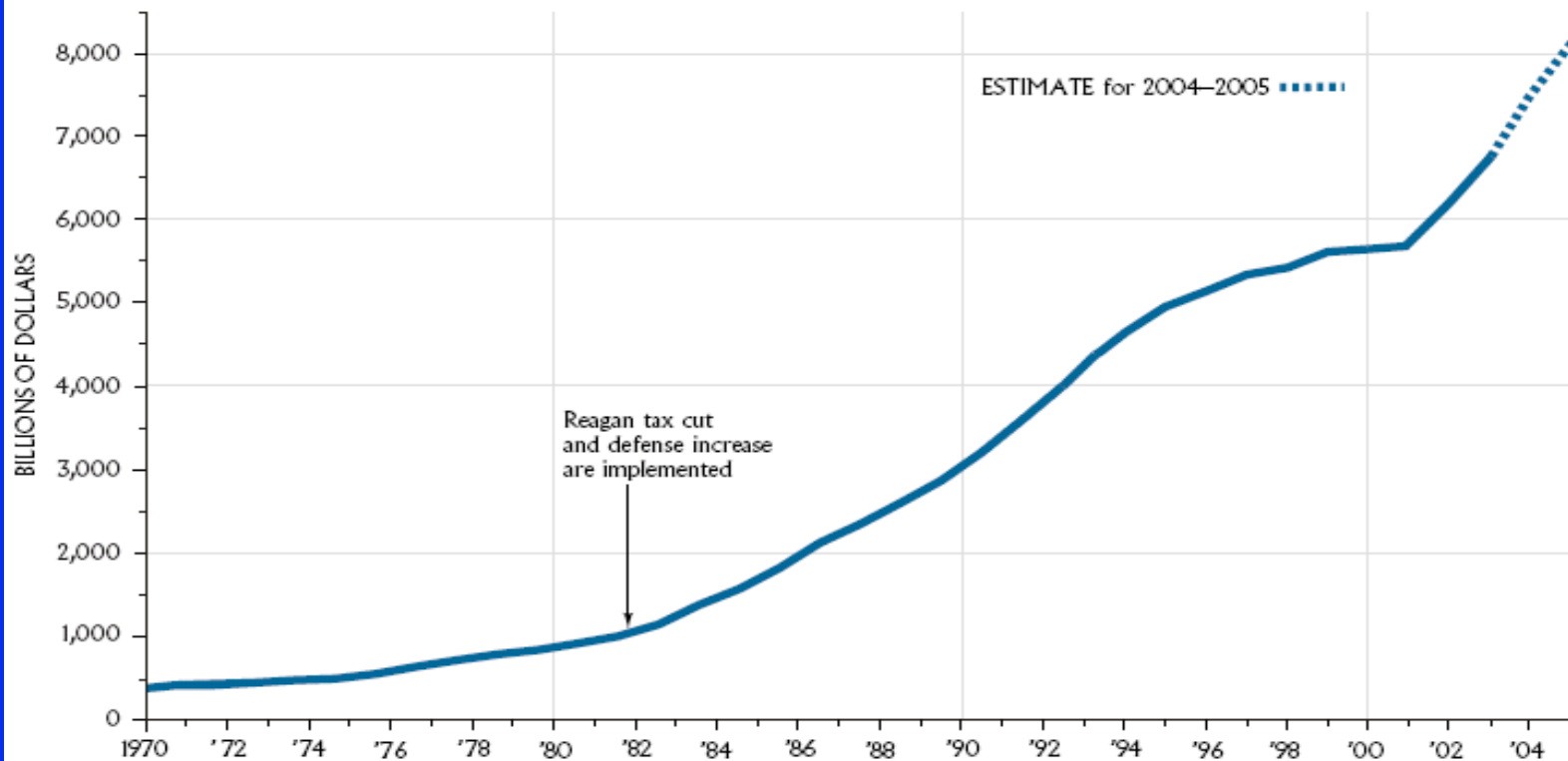
5. Borrowing –

- To make up deficits in revenue, the federal government must borrow money.
- Sources are foreign investors, foreign governments and the American people (the Treasury Department sells bonds and securities).
- The federal debt is the sum of all the borrowed money that is still outstanding (now \$21.9 T)

National Debt Trends

Total National Debt

The national debt climbed steadily throughout the 1980s, leveled off in the 1990s, and rose again in this decade.



Source: Budget of the United States Government, Fiscal Year 2005: Historical Tables (Washington, D.C.: U.S. Government Printing Office, 2004), Table 7.1.

Figure 14.2

Sources of Federal Revenue: Why do we come up short?

***Tax Loopholes:** Any tax break that allows a person to benefit from NOT paying some part of his/her taxes

- Deductions for specific items (children; mortgage)
- Not everyone has the same access to loopholes

***Tax Expenditures:** These same losses in federal revenues as a result of tax breaks, deductions and exemptions are “expenditures” for gov’t.

- Examples: mortgage interest, child credits, exclusion of pension payments

Left Side INB Warm-Up

1. Mandatory / Discretionary Spending
2. Tax loophole / tax expenditure
3. Debt / deficit
4. Revenue / Expenditures

Sources of Federal Revenue

Table 14.1 Tax Expenditures: The Money Government Does Not Collect

Tax expenditures are essentially monies that government could collect but does not because they are exempted from taxation. The Office of Management and Budget estimated that the total tax expenditures in 2005 would be nearly \$750 billion—an amount equal to more than 40 percent of the total federal receipts. Individuals receive most of the tax expenditures, and corporations get the rest. Here are some of the largest tax expenditures and their cost to the treasury:

TAX EXPENDITURE	MAIN BENEFICIARY	COST
Exclusion of company-paid benefits	Families	\$122 billion
Exclusion of company contributions to pension funds	Families	\$121 billion
Deduction of mortgage interest on owner-occupied houses	Families	\$77 billion
Deductions for state and local taxes	Families	\$66 billion
Capital gains	Families	\$50 billion
Deductions for charitable contributions	Families and corporations	\$37 billion
Child credit	Families	\$30 billion
Exclusion of Social Security benefits	Families	\$27 billion
Exclusion for interest earned on state and local government bonds	Families	\$26 billion
Exclusion of interest on life insurance savings	Families	\$22 billion
Deferral of capital gains on home sales	Families	\$21 billion
Exclusion of Individual Retirement Account contributions and earnings	Families	\$20 billion

Government could lower overall tax rates by taxing things it does not currently tax, such as Social Security benefits, pension fund contributions, charitable contributions, and the like. You can easily figure out, though, that these are not popular items to tax, and doing so would evoke strong opposition from powerful interest groups.

Source: Budget of the United States Government, Fiscal Year 2005: Analytical Perspectives (Washington, D.C.: U.S. Government Printing Office, 2004), Table 18.3.

Wednesday

Article Q's (answer in INB)

1. What is a “budget shortfall?” Use your AP Gov’t terms / knowledge to answer.
2. Why is there an even bigger one this year?
3. How is this contributing to our debt?
4. How bad is our debt, historically?

Taxes and Public Policy

- **Tax Reduction:** The general call to lower taxes.
- **Tax Reform:** Rewriting the taxes to change the rates and who pays them.
 - How much to tax is almost always a point of contention among Congress and the public
 - Tax Reform Act of 1986: under Reagan, cut taxes for everyone
 - Obama raised tax rates for the wealthy
 - Congress passed a major tax law in 2018; cut corporate taxes and taxes on wealthy

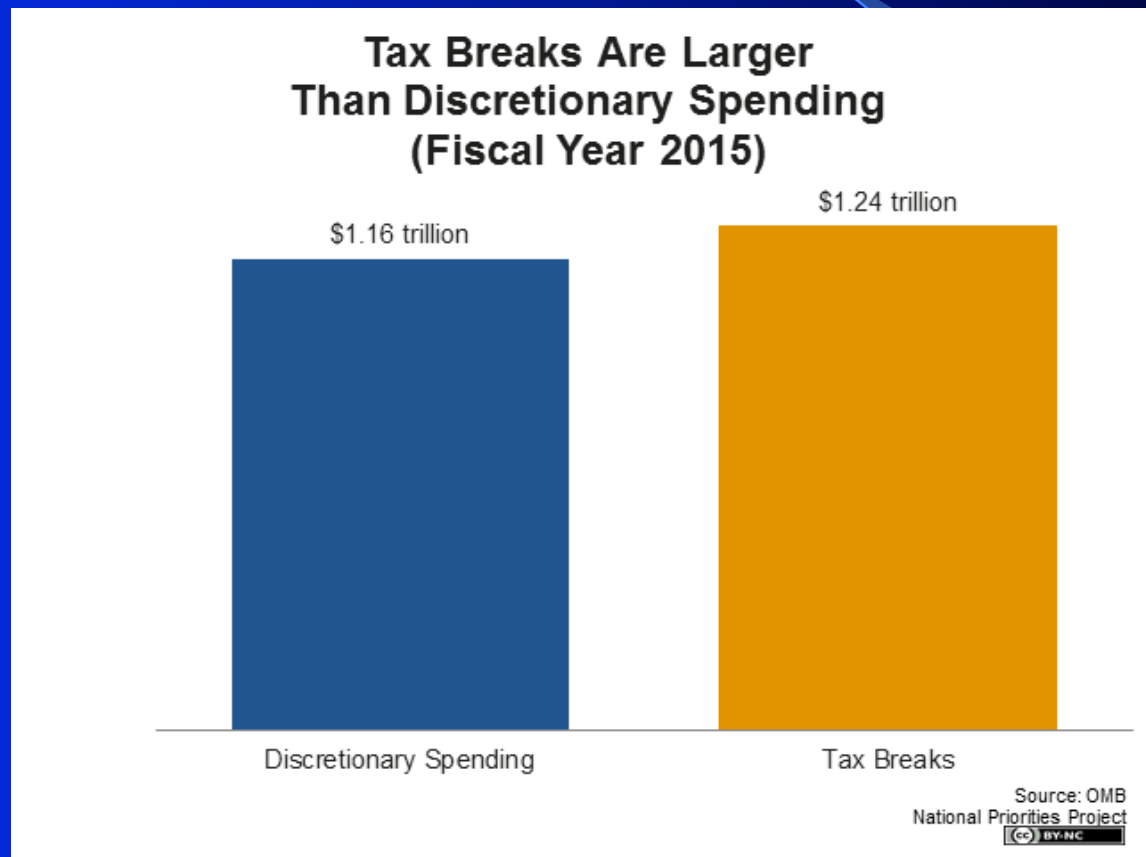
Activity- Where does the \$ Come From?

- Get a computer and find your assigned work partner
- Read the article about Budget Revenues
- Answer the Q's carefully.
- Use colored pencils for your graphs! Draw carefully.

Where does the \$ in the Federal Budget Go?

- Federal spending is set to be \$4.44 Trillion this year
- The President has some control over DISCRETIONARY spending
- But most of the federal budget allocations are MANDATORY spending (set by law)

Discretionary Spending

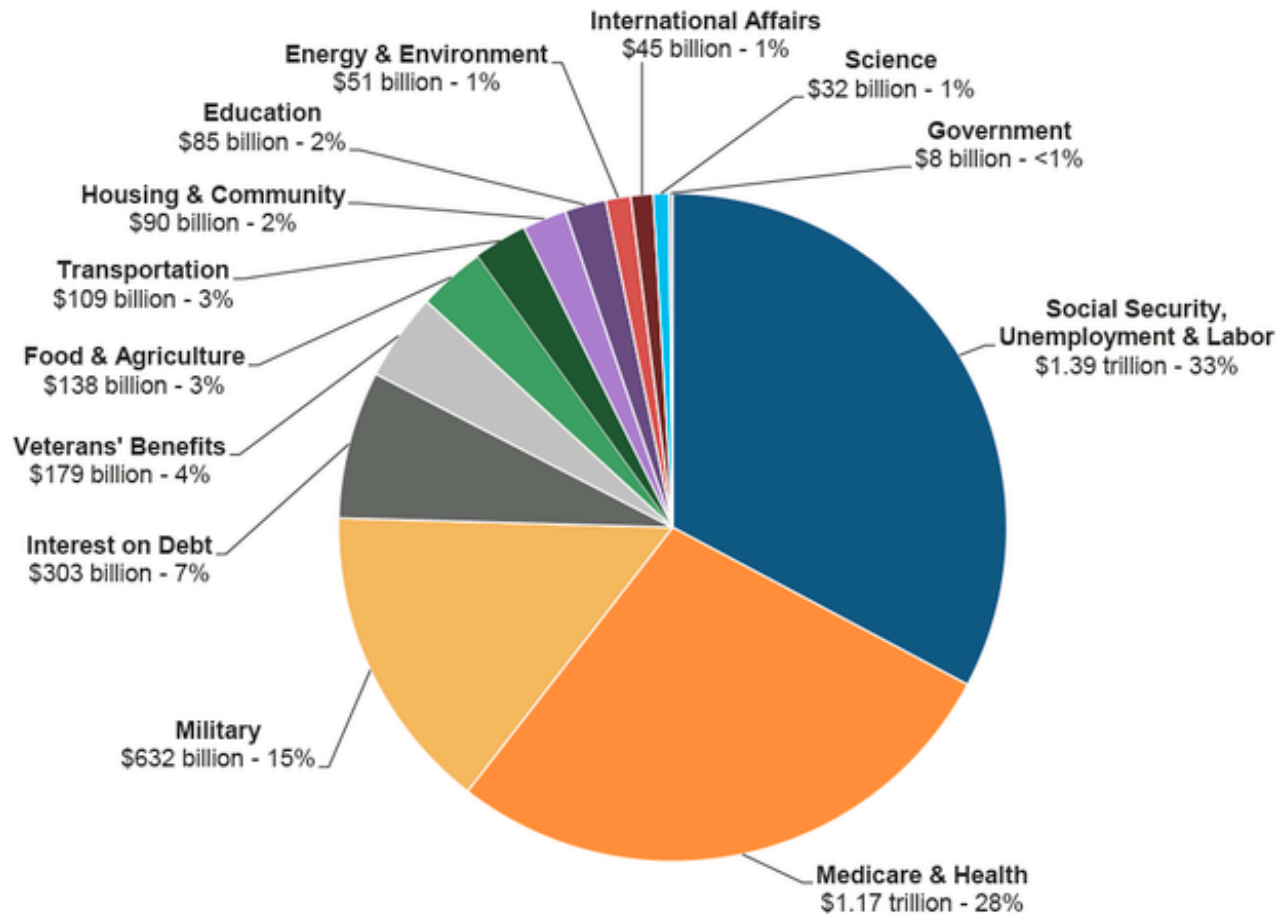


Federal Expenditures

*The biggest part of federal spending today is on SOCIAL SERVICE PROGRAMS (benefits to poor and elderly).

*These are mandated by law.

President's Proposed \$4.2 Trillion Total Spending (FY 2017)



Federal Spending- What are we spending federal dollars?

1. **Social Security-** Is the #1 federal expenditure;
Is MANDATORY
 - Law passed in 1935 to offer income (pension) for retired Americans at age 65.
 - Has expanded to include disability benefits

What is an Entitlement?

- Is any law that mandates payment to individuals
- Citizens who meet requirements are “entitled” to the benefit—regardless of need.
- Turn 65 and you are “entitled” to a Social Security pension AND Medicare, regardless of need.

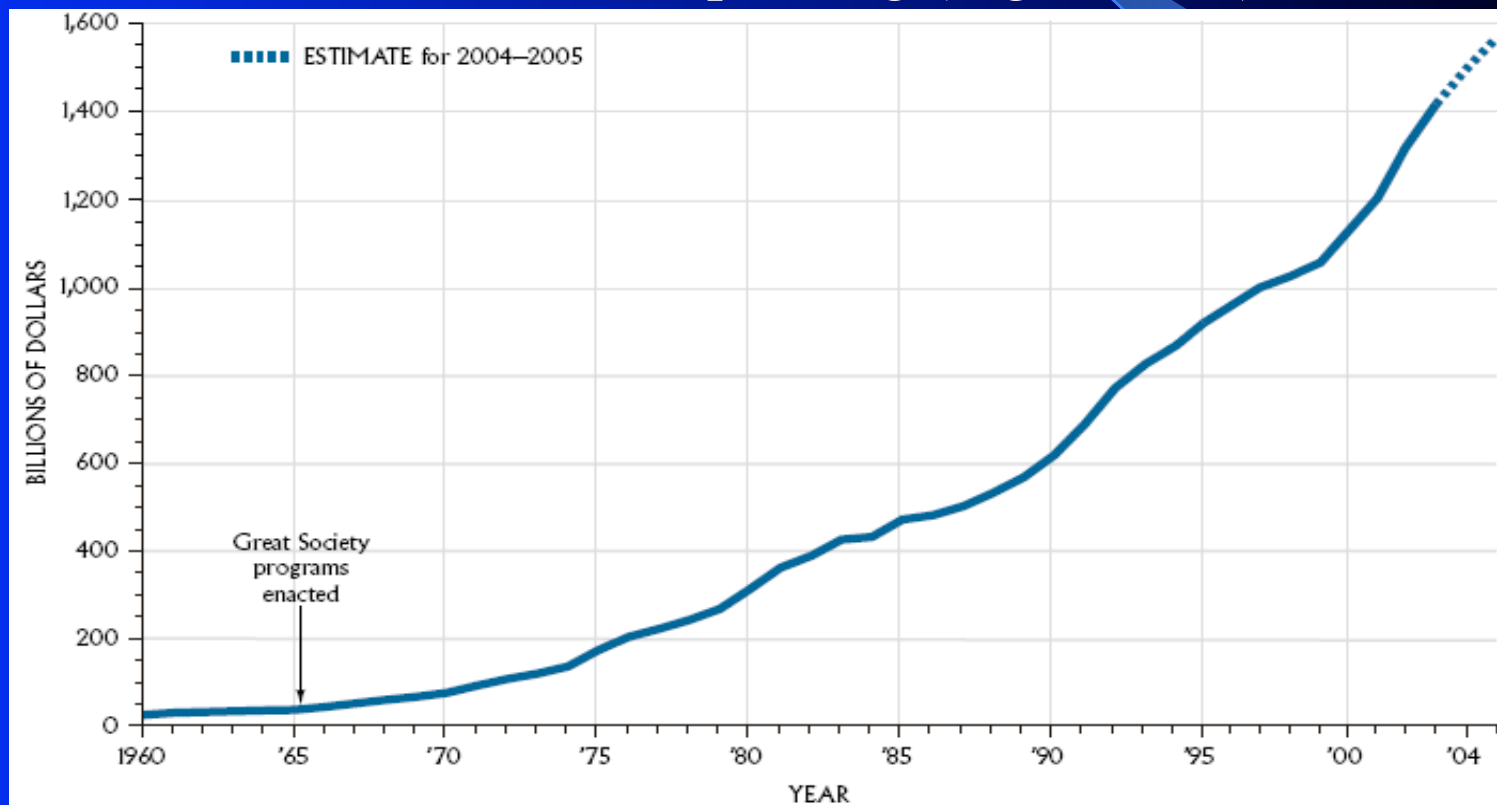
Where Does the \$ Go?

2. HEALTH CARE

- Medicare –Is health care for the elderly at 65
- Medicaid –Is health care for poor
- These benefit programs face financial problems with more recipients living longer.
- Is MANDADORY spending
- Are both entitlements? Explain.

Federal Expenditures

- Trends in Social Service Spending (Figure 14.5)



Source: *Budget of the United States Government, Fiscal Year 2005: Historical Tables* (Washington, D.C.: U.S. Government Printing Office, 2004), Table 3.1

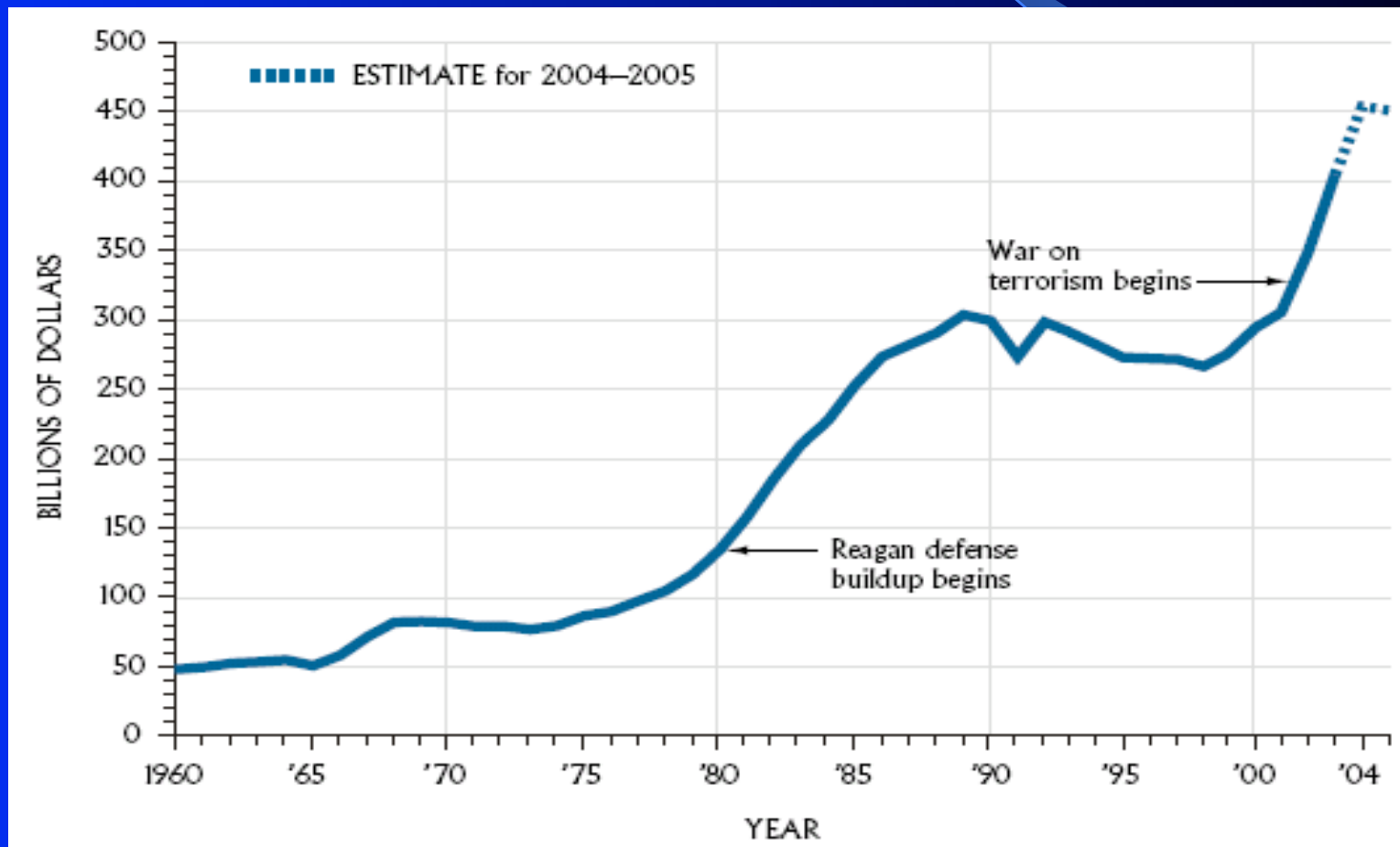
What are the major Federal Expenditures/Spending?

3. National Security/Defense

- Was the biggest expenditure through Reagan
- Defense now constitutes about 16% of all federal expenditures—down from ½ of budget in the 1980's.
- Is DISCRETIONARY spending NOT mandated by law

Federal Expenditures

- Trends in National Defense Spending (Figure 14.4)

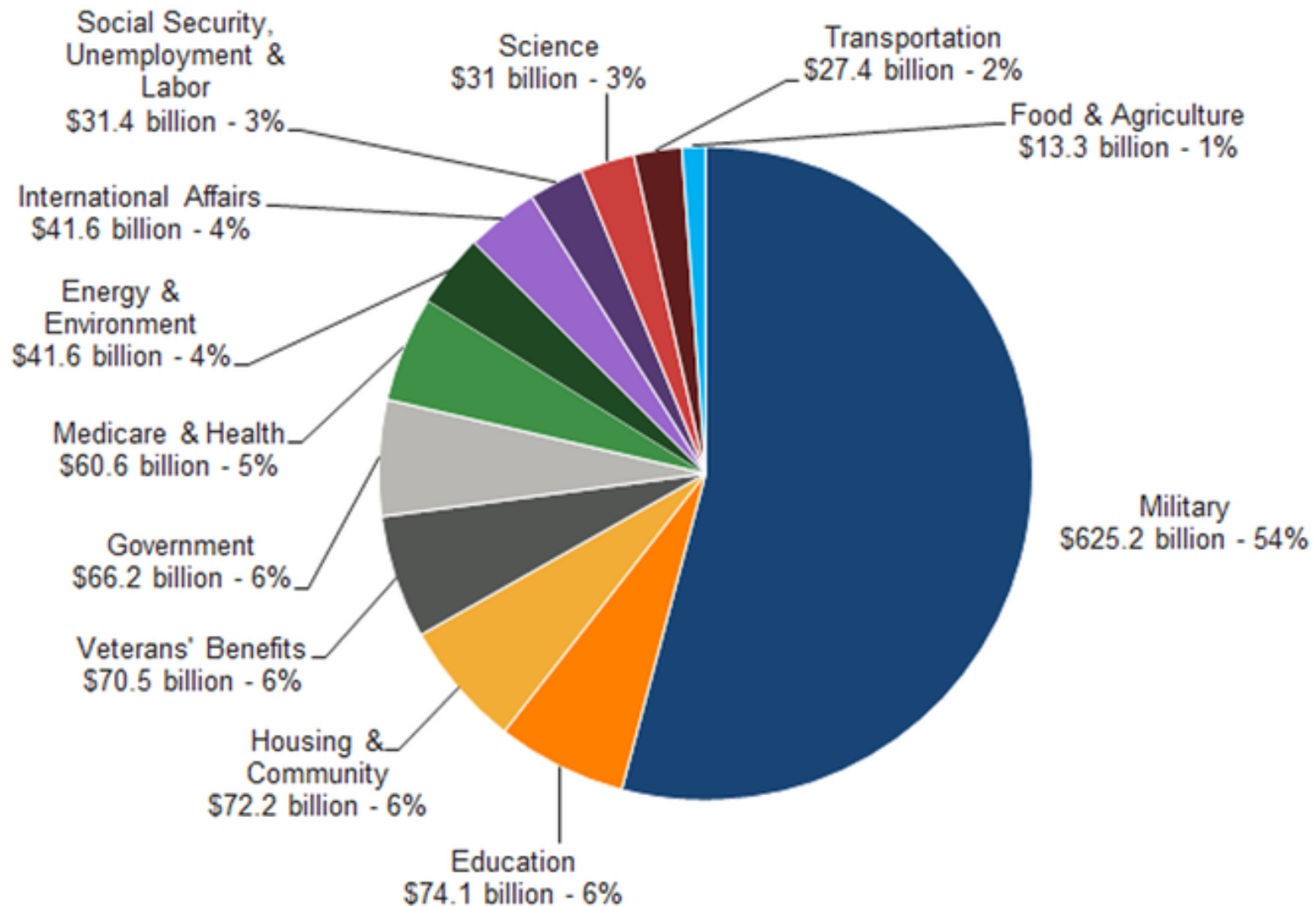


What are the major Federal Expenditures/Spending?

4. EVERYTHING ELSE!-

- Food & Agriculture,
- Education,
- Veterans' benefits,
- Housing,
- Science, technology,
- Transportation & infrastructure... and MORE
- Is DISCRETIONARY spending

President's Proposed \$1.15 Trillion Discretionary Spending Budget (FY 2016)

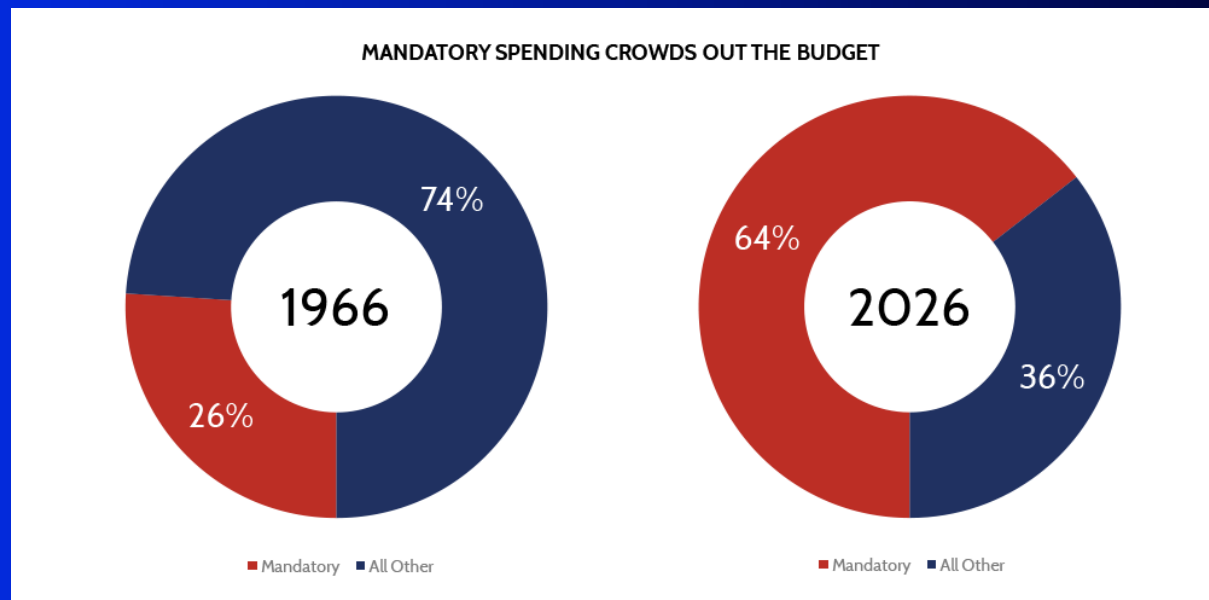


What is Incrementalism?

- **Incrementalism**—Explains why federal budgets rise a little each year
 - A budget is calculated by assuming that expenditures of the previous year will rise for the next year.
 - Agencies assume they will get at least what they got last year...plus a little more.
 - This makes budgets rise slightly each year.

What are “Uncontrollable” Expenditures?

- Any spending that is required by law and can only be limited with a law change
- Is another term for Mandatory spending
- Thus is NOT subject to cuts or changes



Why do Budgets Grow?

Quick Write

- Why is it difficult to cut or balance the federal budget? Use these terms in your answer:
 - Uncontrollable expenditures
 - Loopholes
 - Mandatory spending
 - Entitlements
 - Incrementalism

Film Clips-

The Budget Process

- https://www.youtube.com/watch?v=v67UoLRuH_c
- <https://www.nationalpriorities.org/budget-basics/federal-budget-101/federal-budget-process/>

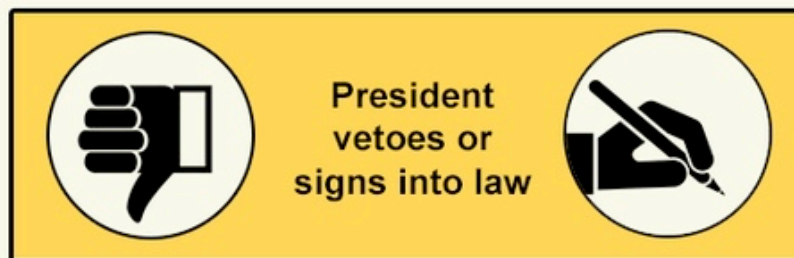
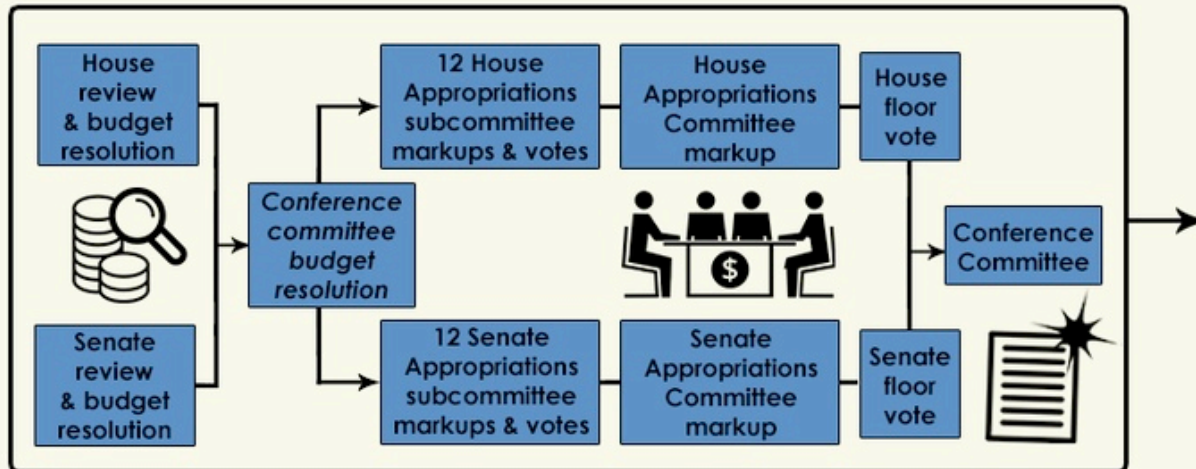
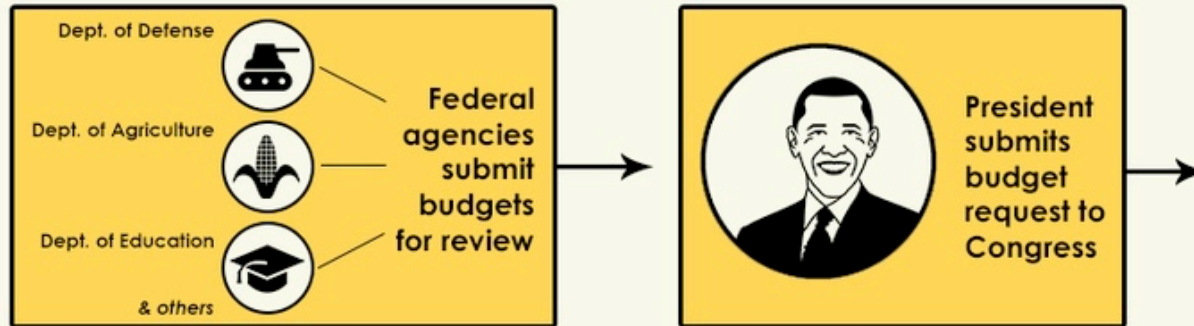
Monday

- Create a flow chart of the Budget Process

What is the Budget Process

- Budgetary Politics: What is at Stake?
 - The budget affects and involves regulatory agencies and cabinet departments in the federal, state and local governments
 - The Players
 - The President proposes/submits the budget, but Congress must approve it (pass it into a law)
 - Almost all committees are involved in the budget.
 - Congress has the “power of the purse” = budget authority.

The Annual Federal Budget Process



Budget Process

- 1 The President gets budget requests from the executive branch departments and with the help of the OMB, creates and submits a budget to Congress
- 2 Congress reviews the budget and sets a final amount to spend (Budget Resolution)
- 3 Congress Sets spending limits by department.
- 4 Congress agrees on and approves a final budget
- 5 The President signs the budget into law

The Budgetary Process

- Step #1: The President Submits a formal Budget Proposal to Congress
 - *Each of the executive cabinet departments submits their budget to the Office of Management and Budget (OMB) who reviews it for feasibility
 - Interest groups and federal agencies (such as the FDA, EPA, DOD) often team up when making budget requests

The Budgetary Process

- Step #1: The President Submits the Budget
 - Based on all of the agency requests and feedback from the OMB, the President formally proposes a budget plan to Congress in February

The Budgetary Process

- Step #2: Congress Reviews the Proposed Budget and Establishes a final budget amount
 - Congress MAY rewrite tax codes now to increase or decrease revenue if needed.
 - Congress passes a budget resolution –the total budget amount for the year NOT to be exceeded

The Budgetary Process

- Step #3: Congress sets spending limits by department, based on the total amount in the budget resolution
- Appropriations Committees in the House and Senate allocate spending
- -Congress MAY make changes to existing laws in order to meet the budget resolution

Budget Process

- Step 4- The House and Senate reconcile differences and create a final, unified budget
 - The House and Senate must agree on ONE final version with the same language.
 - They use the Conference Committee to sort out differences
 - A final majority vote in each house moves the budget forward

Budgetary Process

- Step #5: The President signs the budget bill
 - Once Congress has passed the final budget bill, it requires the President's signature to become law

- Appropriations Committees- In H and S, determine how
- Authorization Bill
- Reconciliation

The Budget Process

1. Budget requests are submitted to the Office of Management and Budget (OMB)
2. Interest groups and agencies make requests
3. Based on requests, the President formally proposes a budget plan to Congress in February
4. The House Ways and Means Committee and the Senate Finance Committee predict revenues for the upcoming year
5. Congress passes a budget resolution—the final amount of expenditures for the year
6. The Appropriations Committees in both houses determine how federal funds will be allotted among agencies
7. Congress must pass the final budget bill and the President must sign it into law

Budget Reform

The Congressional Budget and Impoundment Control Act of 1974

An attempt to reform/improve the process.

- Established a fixed budget calendar—with established deadlines
- Created congressional budget committees in each house,
- Created the Congressional Budget Office (CBO) to advise Congress on the consequences of spending; is a counterweight to the President's OMB.
- A budget resolution sets the bottom line for the budget.

The Budgetary Process

- Congress and the Budget
 - The 1974 Reforms haven't been successful.
 - Between 1974 and 1998, every budget was a deficit budget.
 - Congress misses most of its own deadlines.
 - Congress passes continuing resolutions—a bill that continues the previous budget until a new one is agreed upon—to keep the government going until it passes a new budget.

The Budgetary Process

Annual Federal Deficits (Figure 14.6)

