Creating the Federal Budget:
Congress & The President
What is a Budget?

• It is a plan on how the federal gov’t is going to spend its revenues to meet goals & objectives laid out by the policymakers
• “Roadmap” for the future
• Revenues = dollars that the gov’t gets
• Expenditures = dollars that are spent by the government
Sources of Revenue

- *Individual Income Taxes* (progressive tax) allowed by the adoption of the 16\(^{th}\) Amendment
- *Payroll Taxes* (Social Security, Medicare, Workmen’s Compensation, Unemployment insurance)
- *Corporate Income Taxes*
- *Excise Taxes* = tax on a specific good or service
- *Gov’t fees* = processing fees
## Current Tax Brackets

### Old Vs. New Tax Brackets

<table>
<thead>
<tr>
<th>2017 Brackets</th>
<th>2018 Brackets</th>
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<tbody>
<tr>
<td>Tax rate</td>
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<td>15%</td>
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<td>39.6%</td>
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*Source: Hrblock.com*
Breakdown of Revenues (Fed’s)

Federal Revenues by Source, 2017

- Individual Income Taxes, $1.59 trillion, 48%
- Payroll Taxes, $1.16 trillion, 35%
- Corporate Income Taxes, $297 billion, 9%
- Excise Taxes, $84 billion, 2%
- Other, $186 billion, 6%

Source: OMB, National Priorities Project

nationalpriorities.org
Expenditures ~ Where does the Gov’t spend your tax money?

Where Your 2017 Tax Dollar Went

- Health 29.8c
- Interest on Federal Debt 14.2c
- Veterans Benefits 6c
- Food & Agriculture 4.1c
- Housing & Community 2.2c
- Energy & Environment 1.4c
- International Affairs 1.3c
- Science 1c
- Transportation 0.8c
- Pentagon & Military 23.8c
- Unemployment & Labor 7.4c
- Education 4c
- Government 3.9c

nationalpriorities.org
Deficits and Surpluses

**Deficit** = when expenditures (spending) exceeds revenues (income), the government must borrow money to cover operating costs (each year of the budget)

**Surplus** = when revenues (income) exceeds expenditures (spending), the government has excess money

**National debt** = grand total of all of the $$$ borrowed the US gov’t ~ over $22 Trillion & growing (each citizen = $67,000)

*People’s wants often outweigh their income ~ this is also true of the government!*

Gov’t Income vs. Spending

Total Revenues and Outlays
Percentage of Gross Domestic Product

Outlays: Average Outlays, 1968 to 2017 (20.3%)

Revenues: Average Revenues, 1968 to 2017 (17.4%)

Source: Congressional Budget Office.
How did we get to this point in our history?
National Debt hits $22 Trillion

The Budget Process

- **Office of Management & Budget (OMB)** ~ helps POTUS to draft a budget that reflects his priorities
- Delivered to Congress
- Congress prepares its own budget with help from the Congressional Budget Office (CBO)
- It is sent to the Budget Committees in the House & Senate
- Key committees: House Ways & Means, Senate Finance
- Remember ~ Congress’s priorities are **not** always the same as POTUS’s
Fixed Costs (Mandatory)

Uncontrollable Expenditures:
• Controlled by how many people are entitled to benefits

Entitlement Programs:
• Social Security
• Medicare/Medicaid

Other things like:
• Military Retirement
• Federal Employee Pensions
• Health care for retired military & federal employees

Interest on the national debt ~ this must be paid!

**These programs are difficult to control or alter. “The 3rd rail in politics.”
Discretionary Spending

• Levels of spending are determined by Congress each year
• Military spending is a high priority
• Public Health
• Social Services
Why not a balanced budget?

Difficult choices:

• Raise Taxes???
• Cut spending programs???
• Reform Social Security???
• Reform Medicare/Medicaid???
• Cut the Military???

Result = current national debt = $22 Trillion
What happens if POTUS & Congress can’t agree on a budget?

- **Continuing resolutions** = allows federal departments to continue spending at the previous years’ levels (temporary solution)
- **Government shutdowns** = all non-essential departments can be shutdown
- President Clinton vs. The Republican controlled Congress (mid-1990s)
- President Obama vs. The Republicans in Congress
- President Trump’s recent shutdown of the gov’t
Final Thoughts

• Is there a way to reign in our debt?
• What decisions have to be made to do this?
• Are these ideas politically popular?
• Does the national debt really matter? Now? In the future?