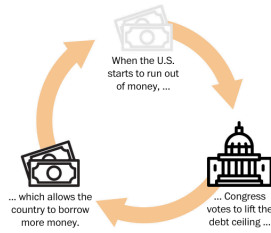




## BORROWING

- The government **borrow**s money when tax revenue does not reach the amount needed to cover federal expenditures
  - Treasury Dept. sells bonds
  - Borrows money from itself
- Money borrowed by the federal government and the interest owed makes up the **national debt**
- Congress does establish a **debt ceiling**
  - Limit how much loot the government can borrow
- Tax revenue decreases during a economic downturn
  - Spending will often increase when revenue declines




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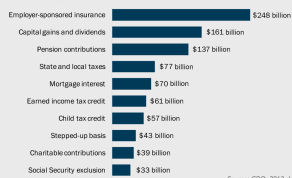
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## TAXES AND PUBLIC POLICY

- Tax expenditures** is tax revenue that is lost as a result of exemptions
  - Taxpayers may deduct charitable contributions, interest on mortgage
  - Businesses deductions
- Tax cuts** are very popular with voters, but typically cause **increases in the deficit**

10 Largest Individual Tax Expenditures




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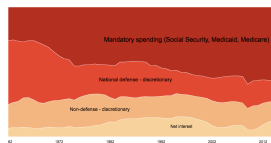
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## FEDERAL EXPENDITURES

- Federal government spending has **steadily increased** since the 1930s
  - Size of the federal government has increased as voters look to the government to do more things
- Defense spending** substantially increased throughout the 20<sup>th</sup> century
  - WWI, WWII, Cold War, 9/11
- New Deal (1930s) & Great Society (1960s) dramatic increase in social programs often called **entitlements**
  - Problem- More beneficiaries than workers
  - Costs of these programs can't be easily cut
- \*\*\*Tax cuts are popular, but oftentimes does not come with cuts to spending \*\*\*




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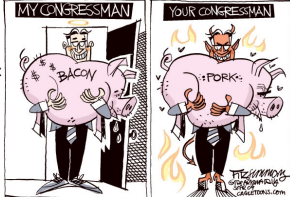
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## FEDERAL EXPENDITURES

- Most federal budgets experience **incremental increases** each year
  - Exceptions?
- Idea that **federal spending** is “**uncontrollable**”
  - About 2/3 of **federal spending** is **automatic**
    - Interest on debt
    - **Federal entitlements** (Medicare, Social Security, VA, etc.)
- “Congress must generate a budget that addresses both **discretionary and mandatory spending**, and as entitlement costs grow, discretionary spending opportunities will decrease unless tax revenues increase or the budget deficit increases. “
- “**Pork barrel legislation** and **logrolling** affect lawmaking in both chambers.”



## THE BUDGETARY PROCESS

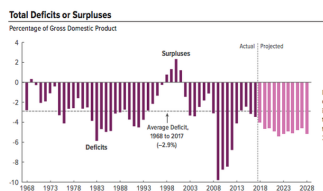
- **Shocking truth- the budgetary process is extremely political**
- **Process: President submits a budget to Congress for approval**
  - **Office of Management & Budget** helps prepare the budget
- **House & Senate each have budget committees** that develop their own budget proposals
  - **Budget resolution** is the compromise budget agreed by both chambers
  - **Budget reconciliation** involves changing any laws to make the numbers work
  - **Authorization bills** establish or change government programs
  - **Appropriations bills** fund programs
- Various groups attempt to influence this process

### Process in real life:

- President has proposed a budget and Congress just ignores it
- Congress does not agree on a budget to pass
- Deadline approaches and threat of **government shutdown** becomes real
- Congress ends up passing **continuing resolutions**
  - Laws that basically allow agencies to spend at last years levels

## UNDERSTANDING BUDGETING

- Increase in the size and scope of the federal government has led to increases in federal spending
- Politics of scarcity means there are not enough funds to meet all of the demands placed on the government
- Public policy is pulled in two directions:
  - Want low taxes, but also want various services



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**Trump's Big 'Win': The Largest Budget Deficit With A Strong Economy**

**Chuck Jones** Senior Contributor @ [TheStreet](#)

From technology companies, healthcare innovation and the retail sector

Deficits as a percentage of gross domestic product are projected to increase over the next few years and then begin to stabilize. They exceed their 50-year average throughout the 2010-2029 period.



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