AP GOV THE BUDGET

THE POLITICS OF TAXING AND SPENDING REVIEWED!

Government in America (Pearson) Chapter 13

American Government: Institutions & Policies

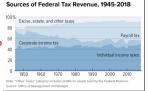
(Wilson) Chapter 18

FEDERAL REVENUE & BORROWING

- The federal budget includes where the government gets the money & what it decides to spend the money on
- "The implied and enumerated powers in the Constitution allow Congress to pass a federal budget, raise revenue, and coin money"
 - coin money"

 Revenues: source of money
 - If there is more revenue than expenditures = surplus
 - Expenditures: how money will be spent
 - If there are more expenditures than revenues = deficit
- Most revenue raised by the federal government is raised by taxes (#1 source is from personal federal income taxes)
 - Back in the day = * No fed income tax *
 - Sixteenth Amendment (1913): allowed Congress to establish a income tax





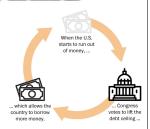
FEDERAL REVENUE

- Income taxes
 - The federal income tax is progressive
 - » higher incomes are taxed at a <u>higher rate</u>
 - Alternative model: Flat tax
 - » Everyone pays the same tax rate
- Corporate taxes:
 - While the % corporations are suppose to pay may be high, oftentimes many find ways to avoid paying
- Social Insurance Taxes: Social Security and Medicare taxes are withheld from an employees paycheck



BORROWING

- The government borrows 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



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

To Largest Individual Tax Expenditures

Embles consent insurance
Certain grain and divisions
Person contributions
State and local taxes
Mortgage information
Earned isome tax reads
1570 billion
Chief tax reads
1570 billi

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 20th 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 ***



FEDERAL EXPENDITURES

- Most federal budgets experience incremental increases each year
 - Exceptions?
- Idea that federal spending is "uncontrollable"
 - About 2/3 of federal spending is
 - · 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."





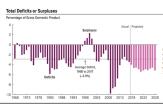
- is extremely political
- Process: President submits a budget• to Congress for approval
 - Office of Management & Budget helps prepare the budget
- House & Senate each have budget committees that develop their own budget proposals
 - **Budget resolution is the** compromise budget agreed by both chambers
 - **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

Shocking truth- the budgetary process Shocking truth- the budgetary process is extremely political Process in real life:

- President has proposed a budget and Congress just ianores 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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