

Lecture 15: Chapter 4

Section 4E: The Federal Budget

The federal budget is very similar to a personal budget though some defining terms are different.

Definition 1. Receipts are income.

Definition 2. Outlays are expenses.

Definition 3. Net Income = receipts - outlays

Definition 4. If Net Income > 0 , then there is a **surplus**. If Net Income < 0 , then there is a **deficit**.

If you have a deficit, then you have spend more money than you have collected.

When you do this you incur **debt**.

Example 1. Suppose your net income last year was \$10,000. You spent \$3500 on tuition, \$500 on books, \$3000 on food, and \$4000 on everything else. Did you have a deficit or surplus?

Solution:

Example 2. The federal debt is $\$7.93 \cdot 10^{12}$. If there are $2.97 \cdot 10^8$ people in the United States, how much money does the government owe you?

Solution:

The Federal Budget

The following table is the federal budget in billions of dollars.

Year	1996	1997	1998	1999	2000	2001	2002	2003
Total Receipts	1453	1579	1722	1827	2025	1991	1853	1782
Total Outlays	1560	1601	1653	1703	1789	1863	2011	2156
Net Income	-107	-22	69	124	236	127	-158	-374

As you can see the federal budget fluctuates rapidly and is nearly impossible to predict. It was believed in 2001 that the next decade would yield a 5.6 trillion dollar surplus which in 2003 changed to a multi-trillion dollar deficit.

Federal Income/Expenses

The government receives most of its funds from income tax, social security taxes, excise tax (alcohol, tobacco, gas, etc.), issuing bonds, and corporate tax.

Consider the Pie graphs on page 288 for a better representation of the total receipts and outlays of the government.

There are two types of outlays:

- 1) **Mandator outlays** are mandatory expenses unless Congress explicitly changes them. These include Social security, medicare, and interest on the national debt.
- 2) **Discretionary outlays** are decided on a year to year basis. Each year congress and the president must approve these outlays: including defense, education, transportation, housing, NASA, scientific research, etc.

Debt and Social Security

There are two types of national debt, firstly there is **publicly held debt** that represents money the government must repay to individuals and institutions that bought Treasury issues (T-bills, bonds, etc).

There is also **gross debt** which includes both the publicly held debt and money that the government owes to its own trust funds, such as the Social Security trust fund.

Currently the government has borrowed **every** penny it ever deposited into its trust funds. Thus there is no money in any of the trust funds, including Social Security.