

Federal Budget: Key Terms and Concepts

Quick Check!

Go through all of the following terms and vocabulary right now! Put a “check” in the box next to the term or concept if you know it (or feel relatively comfortable with the definition or concept). Leave the ones you don't know blank.

Vocabulary and Concepts: Federal Budget

- Balanced Budget
- Deficit
- Deficit Spending
- Discretionary Spending
- Entitlement
- Excise Tax
- GDP (Gross Domestic Product)
- Mandatory Spending (on what?)
- National Debt
- Revenue
- Social Security
- Surplus
- The Bush Tax Cuts
- Percentage of Debt to GDP

Questions you'll need to be able to answer by the end of this week:

- What does a “conservative” economic plan look like?**
What basic features of a budget would a Republican design and/or vote for?
- What does a “liberal” economic plan look like?**
What basic features of a budget would a Democrat design and/or vote for?

WHAT ROLE SHOULD THE GOVERNMENT PLAY IN THE ECONOMY?

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Although it is generally agreed there is a role for the government to redistribute income in favor of the poor, provide public goods and services, and deal with externalities, there is considerable disagreement over how far the government should go in these areas, and what additional areas the government should be responsible for. Some people feel that "big government" is already a problem, that government is doing too much. Others believe that the government sector of the economy is being starved and that government should be allowed to do more. What is the appropriate role for government is a basic question, and one that involves a great deal more than economics.

Conservative View

On the one hand, conservatives believe that the government's role should be severely limited. They feel that economic and political freedom is likely to be undermined by excessive reliance on government. Moreover, they tend to question the government's ability to solve social and economic problems. They believe that faith in the government's power to solve these problems is unreasonable. They call for more and better information about what government can reasonably be expected to do and do well. They point to the slowness of the government bureaucracy, the difficulty in controlling huge government organizations, the problems political considerations can breed, and the difficulties in telling whether government programs are successful or not. On the basis of these considerations, they argue that the government's role should be carefully limited.

Liberal View

Conservatives tend to question the government's ability to solve important social and economic problems, but liberals tend to question the market's ability to solve these problems. They point to the important limitations of the market system, and they claim that the government can do a great deal to overcome these limitations. Government can regulate private economic activity. It can also provide goods and services that the private businesses produce too little of. Liberals tend to be less concerned than conservatives about the effects on personal freedom of greater governmental intervention in the economy. They point out that the price system also involves a form of coercion by awarding goods and services to those who can pay the price. In their view, people who are awarded only a small amount of goods and services by the market are forced into discomfort and malnutrition.

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What Is the Federal Budget?

The federal budget is:

- **A plan for how the government spends taxpayers' money.**

What activities are funded? How much should we spend for defense, national parks, the FBI, Medicare, and meat and fish inspection?

- **A plan for how the government pays for its activities.**

How much revenue does it raise through different kinds of taxes--income taxes, excise taxes (taxes applied to various products, including alcohol, tobacco, transportation fuels and telephone services), and social insurance payroll taxes?

- **A plan for government borrowing or the repayment of borrowed funds.**

If revenues are greater than spending, the government runs a surplus. If expenses are greater than revenues (as is currently the case), the government runs a deficit.

- **Something that affects the nation's economy.**

*Some types of spending--such as improvements in education and support for science and technology—
increase productivity and raise incomes in the future.*

Taxes, on the other hand, reduce incomes, leaving people with less money to spend.

- **Something that is affected by the nation's economy.**

*When the economy is doing poorly, people are earning less and unemployment is high. In this atmosphere,
revenues decrease and the deficit grows.*

- **An historical record.**

*The budget reports on how the government has spent money in the past, and how that spending was
financed.*

*The federal budget, of course, is not the only budget that affects the economy or the American people. The
budgets of state and local governments have an impact as well. State and local governments are
independent of the federal government, and they have their own sources of revenue (taxes and borrowing).*