

Chapter 16: Financing Government

Section 3

Lecture Notes

AMERICAN GOVERNMENT

PEARSON

► Objectives

1. Identify the key elements of federal spending.
2. Define controllable and uncontrollable spending.
3. Explain how the President and Congress work together to create the federal budget.

▶ Key Terms

- **entitlement:** benefits that must be paid under federal law to everyone who meets the eligibility requirements
- **controllable spending:** items in the federal budget that the government can increase or decrease spending on each year

▶ Key Terms, cont.

- **uncontrollable spending:** budget expenses that are either fixed by federal law or are largely out of the government's control from year to year
- **continuing resolution:** emergency legislation passed by Congress to fund federal agencies whose budget appropriations have not been approved by the required deadline

▶ Introduction

- How is federal spending determined?
 - The various federal agencies submit budget proposals to the Office of the President, which reviews and alters them before presenting a complete budget to Congress.
 - Congress makes further adjustments to the budget until appropriations bills are approved and sent to the President to be vetoed or signed into law.

▶ Spending Priorities

- The federal government spends over \$700 billion a year on entitlement programs.
- These are benefits that must be paid under federal law to people who meet eligibility requirements.
- Social Security, Medicare, Medicaid, and food stamps are major examples.

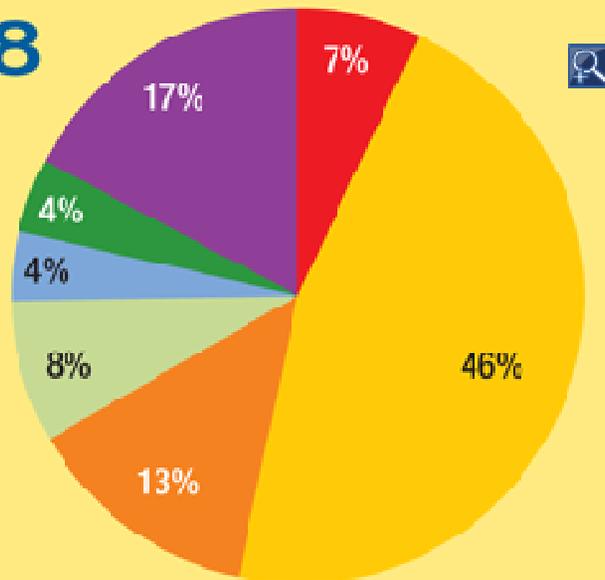


▶ Spending Priorities, cont.

- The Department of Defense spent more than \$550 billion on national defense in 2008.
 - This figure does not include all defense-related federal expenditures.
- Treasury Department payments on the public debt are now the fourth-largest category of federal spending.
- Look at the charts on the following slide. What trends in federal spending can you identify?

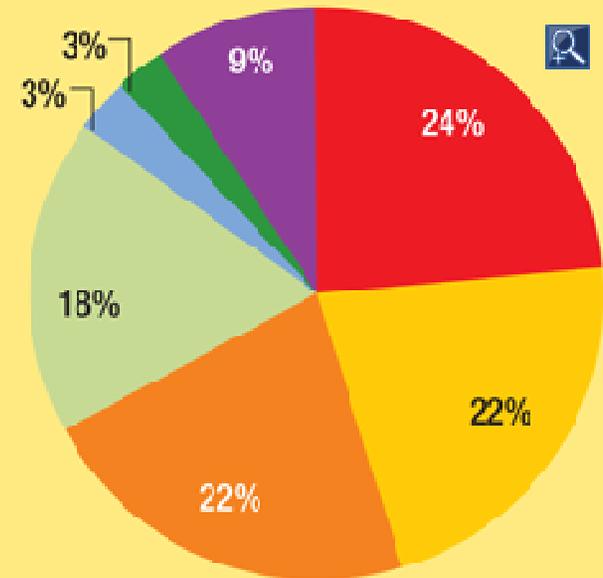
Federal Spending Comparison

1968



Total outlays
\$178,134,000

2008



Total outlays
\$2,978,664,000

Health and Human Services Defense Social Security Administration Treasury Agriculture Veterans Affairs Other

SOURCE: Office of Management and Budget



▶ Controllable Spending

- Congress and the President can decide how much to spend on many specific items in the federal budget.
 - Such controllable spending includes national parks, highway projects, military equipment, educational aid, and civil service pay.
- This spending is also called discretionary spending.

▶ Uncontrollable Spending

- Many public programs have uncontrollable spending limits that neither Congress nor the President can change.
 - This includes the interest due on the vast federal debt.
 - Most entitlements—Social Security benefits, food stamps, and so on—are also largely uncontrollable. Congress can only redefine the eligibility standards or reduce the amount of benefits.
 - Nearly 80% of all federal spending now falls into the uncontrollable category.

► Overview of the Federal Budget

- Checkpoint: How is the budget both a financial and political statement?
 - Financially, the budget is a detailed estimate of federal income and expenditures for the upcoming year.
 - Politically, the budget is also a declaration of the President's public policy plans, some of which will be accepted, altered, or rejected by Congress over a period of several months.

▶ The President

- At least eighteen months before a fiscal year, each federal agency prepares detailed estimates of its spending needs for that year.
- These plans are submitted to the President's Office of Management and Budget (OMB).
- The OMB reviews and adjusts these budget proposals.
- The President then sends the final budget request to Congress on the first Monday in February.

► Congress

- The House and Senate Budget Committees study the budget proposal with the help of the Congressional Budget Office (CBO).
 - The CBO is Congress's independent version of the OMB.
- The Budget Committees each submit a Budget Resolution that is debated and voted on in each house.
- The two Budget Resolutions are merged into one version that Congress votes on by May 15th.

▶ Congress, cont.

- The House and Senate Appropriations Committees use the income and spending guidelines in the Budget Resolution to help them decide how to divide money among federal agencies.
 - Each Appropriations Committee creates 13 spending bills in each house of Congress, which are then resolved in 13 separate spending bills for federal agencies.
- Congress votes on the final version of each spending bill.

► Congress, cont.

- Appropriations subcommittees hold many public hearings to examine agency requests and take testimony from lobbyists and others about specific spending plans.

– Why do you think these hearings are open to the public?



▶ Approving the Budget

- The total cost of all appropriations bills cannot be greater than the maximum limit set by the Budget Committees.
- Each appropriations bill approved by Congress goes to the President to be vetoed or signed into law.
- If, as often happens, an appropriations bill is not approved by October 1, Congress must pass a continuing resolution to fund any affected agencies to ensure their continued operation.

▶ Review

- Now that you have learned about how federal spending is determined, go back and answer the Chapter Essential Question.
 - How should the federal budget reflect Americans' priorities?