

CHAPTER 4 PROJECT

The Federal Budget—Where Do My Taxes Go?

When it comes to spending money, the United States government is similar to a family. There are bills to pay, and in order to pay these bills, the government must generate revenue and create a budget to allocate those funds. The main source of revenue for the government comes from collecting taxes. When the government spends exactly as much as it generates in revenue, we say that the government has a balanced budget. In this project, you will examine the 2019 US federal budget and compare it to a family budget and the 1999 US federal budget.

The following table⁶ lists the main expenditure categories for the fiscal year 2019.

US Federal Government 2019 Budget	
Expenditure Category	Approximate Amount Spent (US dollars)
Social Security	1 trillion
Medicare and Medicaid	1.1 trillion
Defense	697 billion
Nondefense	661 billion
Interest on Debt	375 billion
Other	567 billion
Total	4.40 trillion

1. The entire revenue from federal taxes in fiscal year 2019 was approximately equal to 3.5 trillion dollars. Determine the difference between the total expenditures and the revenues in 2019.
2. Since the government spent more than the revenue brought in, we call the difference you found in part a. the *fiscal deficit* for 2019. The fiscal deficit is typically given as a positive value. Economists often compare the fiscal deficit to the entire economic output of the nation. The economic output is the total amount of money produced by the economy, which is known as the Gross Domestic Product (GDP). Perform an internet search and find the United States 2019 GDP.
3. What percentage of the 2019 GDP was the federal deficit in 2019? (Round your answer to the nearest tenth.) This number is known as the deficit-to-GDP rate. Would it be better for the country to have a higher or lower deficit-to-GDP rate? Explain your reasoning.
4. There is a lot of discussion among economists about what is considered an acceptable deficit-to-GDP rate. The general consensus is that a number under 2% is acceptable as a rate that isn't too concerning. If all the US expenditures remained the same in 2019, what would the revenue (in dollars) have to be to attain a 2% deficit-to-GDP rate? Without increasing economic output (that is, keeping the GDP the same), how could the government generate more revenue?
5. Some amounts in the budget cannot be changed. For example, Social Security must be paid to everyone that is entitled to receive it. On the other hand, the amounts for other certain categories are set by Congress and can be negotiated. Perform an internet search on discretionary expenses versus non-discretionary expenses. Write down the definition of each expense and provide an example of each expense in the federal budget.
6. If the total revenue and GDP remain the same, what change to the budget would be necessary to attain a 2% deficit-to-GDP rate? What specific area(s) would you target for making the change? Explain your reasoning.
7. Let's compare the deficit to the actual revenues. What percentage of the 2019 total revenue is the 2019 deficit?

⁶ "Policy Basics: Where Do Our Federal Tax Dollars Go?" Center on Budget and Policy Priorities, Updated April 9, 2020, <https://www.cbpp.org/research/federal-budget/where-do-our-federal-tax-dollars-go>.

8. Now, suppose that a family of four has an income of \$63,000 per year. If this family had the same deficit to revenue rate that the federal government had in 2019, how much would they have to borrow every year to pay their bills?
9. List some methods that the family (and the federal government) could use to balance its budget. In both cases, list some discretionary and non-discretionary expenses that could be adjusted.

In 1999, things were a bit different for the US economy. The 1999 budget had expenditures totaling 1.7 trillion dollars and revenues of 1.826 trillion. Back then, the government was bringing in more money than it spent. In cases like this, we call the difference between revenue and expenditure a *surplus*.

10. Calculate the 1999 federal surplus in billions of dollars by finding the difference between the expenditures total and the revenues.
11. Perform an internet search to find the United States 1999 GDP.
12. Determine the surplus-to-GDP ratio in 1999.
13. What was the percentage change in government spending between 1999 and 2019?
14. Now, determine the percentage change in GDP between 1999 and 2019.
15. Argue how the difference between the percentage change of government spending and the percentage change in GDP can be used to partially explain the emergence of large deficits in the federal budget.
16. Calculate the percentage of the revenue that was the surplus in 1999.
17. Suppose that our family of four had the surplus-to-revenue ratio that the federal government had in 1999. How much would they have saved at the end of the year?