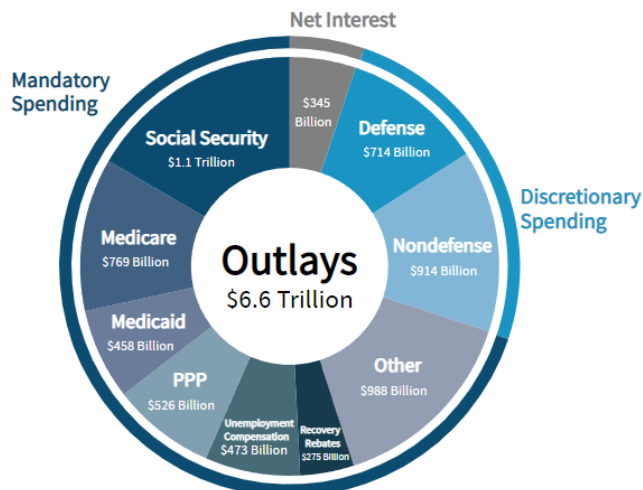
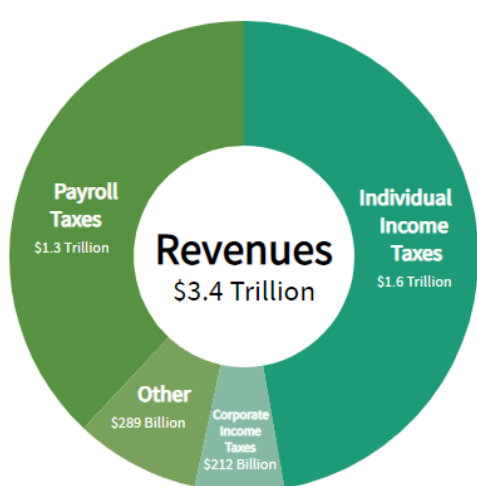
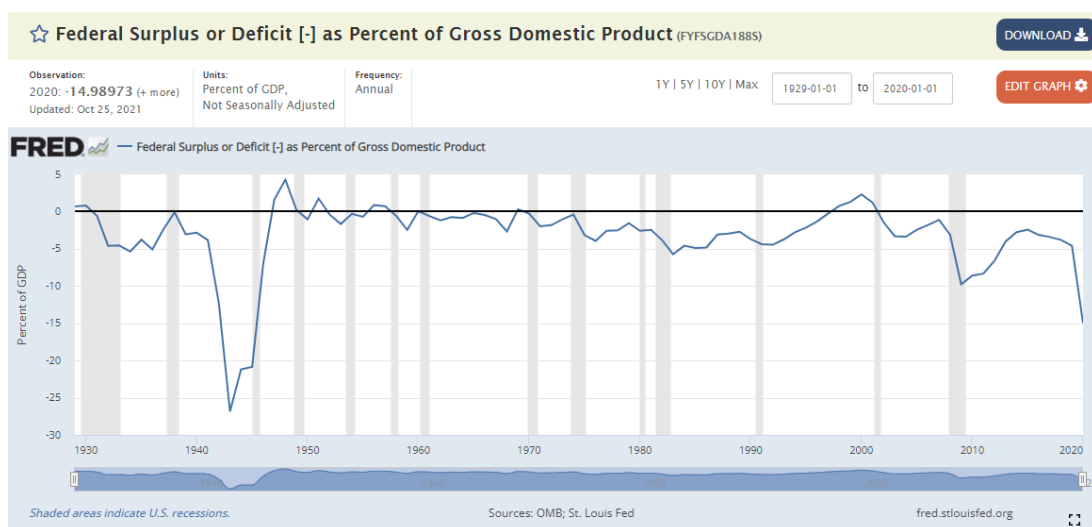


LECTURE 14: THE GOVERNMENT BUDGET II

- I. Outlays (spending)
 - a. There are two major types of government spending: mandatory and discretionary.
 - b. Mandatory is spending the government has to spend due to statutory criteria and do not have set limits. These are called entitlements—government benefits with guaranteed access assuming you meet the criteria.
 - i. Social Security, Medicare, welfare, food stamps are all examples of entitlements.
 - c. Discretionary spending is the spending the government decides on with explicit numbers attached. When Congress decides on a budget, this is what they're deciding on. It includes defense and nondefense spending and there are roughly equal shares of each.
 - i. Nondefense spending includes funding for NASA, the National Institutes of Health, veterans' health care, transportation, etc.
 - d. Both mandatory and discretionary spending include *transfers*—money the government spends on others but doesn't get anything in return. Medicare, farm subsidies, unemployment insurance are all transfers. Buying fighter jet, building a road, and doing medical research at NIH are not transfers.
- II. Of debt and deficits
 - a. The government spends more than it takes in from taxes. This is called a deficit (when spending for a year exceed revenue for a year).
 - b. The government borrows money to make up the difference (these are government bonds) and this borrowed money makes up the total debt. How much the government owes in total.
 - c. One final kind of spending to count: interest paid on the debt accumulated.
- III. On balance
 - a. So what kind of numbers are we talking about? Here's the information for 2020, [from the Congressional Budget Office](#).



- i. In 2020, mandatory spending was about 70% of the budget.
- ii. Covid of course made 2020 an unusual year but under ordinary circumstances, mandatory spending is still most of the budget—[61% in 2019](#).
- b. In 2020, the U.S. federal budget deficit was about \$3.2 trillion; almost *half* what the government spent had to be borrowed. How different is this from previous years?
- c. [Here's a chart](#) showing the federal deficit as a percent of GDP (thus avoiding inflation issues). By that measure, the likes of the 2020 deficit hasn't been seen since World War 2.



- d. Note how often the government runs a deficit. The government hasn't run a surplus since the late 1990s. Why is that?

- i. This is an application of our public choice section. The reality is that people who benefit from this spending vote and the future generations who have to pay the costs are too young to vote or aren't even born yet. [And the clock is ticking.](#)
- e. None of this, by the way, includes unfunded liabilities: especially future Social Security and Medicare payments (but also pensions and debt). Remember, these are entitlements and, by law, the government must pay them, even if it has to borrow yet more money.
- f. One final note to leave on: [total debt as a percent of GDP](#). Note that when the number's falling, it's largely due to GDP increasing, [not the debt being paid off](#). Also, this data only goes back to 1966.

