
The Federal Budget and Social Security

I. INTRODUCTION

A. KEY TERMS

1. Budget
 - ▶ *A financial plan for the use of money, personnel, and property.*
 - ▶ *The federal budget for 2010 is \$3.6 trillion.*
2. Balanced budget
 - ▶ *When expenditures equal revenues in a fiscal year.*
3. Budget deficit
 - ▶ *When expenditures exceed revenues in a fiscal year.*
 - ▶ *The 2009 federal budget deficit reached a record \$1.42 trillion, or more than \$4,700 for every man, woman, and child in the United States.*
 - ▶ *The total federal debt now exceeds \$12 trillion.*

B. POLICY TOOLS FOR INFLUENCING THE ECONOMY

1. Monetary policy
 - ▶ *Monetary policy is controlled by the Federal Reserve Board.*
 - ▶ *Monetary policy includes regulating the money supply, controlling inflation, and adjusting interest rates.*
2. Fiscal policy
 - ▶ *Fiscal policy is controlled by the executive and legislative branches. The president proposes the federal budget and Congress passes it.*
 - ▶ *Fiscal policy includes raising and lowering taxes and government spending programs.*

II. SOURCES OF FEDERAL INCOME

A. INDIVIDUAL INCOME TAX

1. The Sixteenth Amendment (1913) permitted Congress to levy an income tax.
2. Income taxes can be progressive or regressive:
 - ▶ *A progressive tax is proportionate to income. As a taxpayer's income increases, so does the tax rate.*
 - ▶ *A regressive tax is levied at a flat rate without regard to the level of a taxpayer's income or ability to pay. As a result, poor citizens pay a higher percentage of their income compared with wealthier citizens.*
3. Individual income taxes generate approximately 46 percent of federal tax revenue.

B. CORPORATE TAXES

1. Corporations pay a tax that ranges from 15 percent to 35 percent of taxable income.
2. Corporate income taxes generated approximately 12 percent of federal tax revenue.

C. SOCIAL INSURANCE TAXES

1. Employers and employees each pay a Social Security tax equal to 6.2 percent of the first \$106,800 of earnings.
2. For Medicare, employees pay a 1.45 percent tax on their total annual income. Employers must match the amounts withheld from their employees' paychecks.
3. The social insurance taxes are regressive because they are levied at a fixed rate without regard to the level of a taxpayer's income.
4. Social insurance taxes now generate approximately 36 percent of federal tax revenue.

D. EXCISE TAXES

1. An excise tax is a tax on the manufacture, sale, or consumption of a good or service.

2. Federal excise taxes are currently imposed on the sale of gasoline, tobacco, alcohol, airline tickets, and many other goods and services.
3. Excise taxes currently generate approximately 2.7 percent of federal tax revenue.

E. ESTATE AND GIFT TAXES

1. An estate tax is a levy imposed on the assets of someone who dies. A gift tax is a levy imposed on a gift from a living person to another.
2. Estate taxes currently generate 1.2 percent of federal tax revenue.

F. CUSTOM DUTIES

1. Custom duties or tariffs are taxes levied on goods brought into the United States from abroad.
2. Prior to the income tax, custom duties were the federal government's most important source of income. They currently generate just 1.1 percent of federal tax revenue.

III. FEDERAL EXPENDITURES

A. UNCONTROLLABLE SPENDING

1. Congress and the president have no power to directly change uncontrollable spending.
2. Over 60 percent of all federal spending now falls into the uncontrollable category.
3. Entitlement programs
 - ▶ *A federal entitlement is a program that guarantees a specific level of benefits to persons who meet requirements set by law.*
 - ▶ *Social Security, Medicare, Medicaid, food stamps, unemployment insurance, and veterans' pensions and benefits are the largest entitlement programs.*
 - ▶ *Entitlement programs are by far the largest portion of uncontrollable spending in the federal budget. Social*

Security, Medicare, and Medicaid are now responsible for approximately 44 percent of all federal expenditures.



Be sure you understand that entitlement programs represent the largest portion of uncontrollable spending in the federal budget. Entitlements thus represent a formidable barrier to achieving a balanced budget.

4. Borrowing

- ▶ *The federal debt now exceeds \$12 trillion.*
- ▶ *Approximately 5 to 9 percent of all federal expenditures go to paying interest on the debt. It is important to note that the amount of money spent servicing the debt depends on interest rates. If interest rates rise, then the amount required to service the debt will also rise.*

B. DISCRETIONARY SPENDING

1. Discretionary spending programs are not required by law.
2. Defense, education, agriculture, highways, research grants, and government operations are all examples of discretionary programs.
3. Defense currently accounts for approximately 20 percent of the total federal budget.

III. THE BUDGETARY PROCESS

A. THE PRESIDENT AND THE BUDGET

1. The president initiates the budget process by submitting a proposed budget to Congress.
2. The Office of Management and Budget (OMB) has the primary responsibility for preparing the federal budget.
3. The budget reflects the priorities and goals of the president's policy agenda.

B. CONGRESS AND THE BUDGET

1. The Congressional Budget and Impoundment Control Act of 1974
 - ▶ *Designed to reform the congressional budgetary process and regain power previously lost to the executive branch.*
 - ▶ *Created a fixed budget calendar.*
 - ▶ *Established a budget committee in each house of Congress.*
 - ▶ *Created the Congressional Budget Office (CBO) to advise Congress by forecasting revenues and evaluating the probable consequences of budget decisions.*
2. The president's budget is sent to both the House and Senate Appropriations Committees, which hold hearings on key items.
3. All tax proposals are referred to the House Ways and Means Committee and to the Senate Finance Committee.
4. Congress is required to pass thirteen major appropriations bills by the beginning of the federal government's fiscal year on October 1.

C. BUDGET BARRIERS TO ACHIEVING A BALANCED BUDGET

1. Entitlement programs now account for over 60 percent of the total federal budget. This limits what the president and Congress can do to achieve a balanced budget.
2. Federal agencies assume that their annual budgets will increase by a small amount each year. This process of small but regular increases is called incrementalism. Because it is built into the budgetary process, it is very difficult to make spending cuts.
3. The fragmented federal system enables interest groups to successfully resist tax increases and defend favored programs.

D. CONSEQUENCES OF BUDGET DEFICITS

1. Budget deficits require huge interest payments. In 2008, the federal government paid \$249 billion just to service the debt.
2. Budget deficits will place a heavy burden on future generations.
3. Budget deficits make it difficult to fully fund key policy goals.

I. SOCIAL SECURITY

A. BACKGROUND

1. Franklin D. Roosevelt signed the Social Security Act into law in 1935.
2. In 1965, Congress added Medicare to the Social Security program. Medicare is designed to assist the elderly with medical costs.
3. Social Security and Medicare are the most expensive programs in the federal budget. Along with Medicaid, they currently comprise approximately 44 percent of all federal expenditures.

B. DEMOGRAPHIC TRENDS THAT THREATEN THE FUTURE OF THE SOCIAL SECURITY PROGRAM

1. When the Social Security program began, there were 25 workers for every 1 beneficiary. Today the ratio is 3.3 workers for every 1 beneficiary.
2. The Baby Boom generation includes 76 million people born between 1946 and 1964. As the Baby Boom generation begins to retire, the number of workers who fund Social Security will decline while the number of people eligible for Social Security benefits will increase.
3. As a result of improved health care, average life expectancy is increasing. This will put additional pressure on the Social Security system.



AP U.S. Government and Politics exams have thus far not devoted any multiple-choice or free-response questions to foreign policy and national security. In contrast, they have devoted a number of questions to Social Security. It is very important for you to study the demographic forces that are combining to threaten the solvency of the Social Security system.

Civil Liberties

I. INTRODUCTION

A. KEY TERMS

1. Civil liberties
 - ▶ *Civil liberties are legal and constitutional rights that protect individuals from arbitrary acts of government.*
 - ▶ *Civil liberties include freedom of speech, freedom of religion, and freedom of the press, as well as guarantees of a fair trial.*
2. Civil rights
 - ▶ *Civil rights are policies designed to protect people against arbitrary or discriminatory treatment by government officials or individuals.*
 - ▶ *Civil rights include laws against racial and gender discrimination.*

B. THE BILL OF RIGHTS

1. The Constitution, as originally written, contained a number of specific rights and restrictions on government authority. For example, the new government could not grant titles of nobility or require a religious oath for holding a federal office.
2. When Anti-Federalists objected to the absence of a bill of rights, the Federalists pledged that the First Congress would draw up a list of safeguards to protect basic rights and freedoms.
3. Led by James Madison, the First Congress passed ten amendments popularly known as the Bill of Rights. When the states ratified these amendments in 1791, they became part of the Constitution.