ENGAGE
PROMOTING WOMEN'S ECONOMIC SECURITY

A GUIDE TO THE FEDERAL BUDGET DEBATE

KEY TERMS FROM THE NEWS

For talk about the "Budget Process"

Federal Budget	A set of targets for government revenue, spending, and borrowing for the upcoming fiscal year. It is also used to describe the actual amount of revenue, spending, and borrowing that happened in a previous year.
Fiscal Year	A fiscal year lasts 12 months; the government's runs from October 1st to September 30th. The government uses fiscal years for its budget instead of the standard January-December calendar, so that newly-elected Members of Congress can participate in setting the budget for their first term in office.
Budget Resolution	A joint piece of legislation passed by the House and Senate that outlines total government spending, revenue, and deficit targets for the next 5-10 years.
Appropriations	Congress passes individual appropriations bills that "appropriate," or distribute, government money across different departments and agencies, funding everything from US soldier's salaries with the Defense Department to food and drug safety with the Department of Health and Human Services.
Reconciliation	A fast-track process for passing legislation related to the budget. Reconciliation begins with a budget resolution that tells Congress how much it should increase or decrease types of spending or revenue to meet the budget targets. The final bill compiles all of the funding decisions into a single piece of legislation, which can be debated for no more than 20 hours. Once the reconciliation debate is over, a Vote a Rama begins, where Congress can offer unlimited amendments – the process only stops when Members are too tired to continue. The final bill then only requires a simple majority to pass. (218 votes in the House and 51 in the Senate – if the Senate is tied at 50/50, the VP is the tie-breaker.)
Byrd Rule	A Senate rule stating that reconciliation can only be used for legislation that affects government spending or revenue. In theory, it should also limit the bill's effect on the deficit. A "Byrd Bath" is the process by which Congress determines if a bill violates the Byrd rule.
Government Shutdown	If Congress does not fund the government for the next fiscal year by October 1st, the government shuts down.
Continuing Resolution	A piece of legislation used to avoid a shutdown. It keeps the government temporarily running, usually at the previous year's spending levels, while Congress continues to work on appropriating funding.
Omnibus Bill	A complicated piece of legislation that finalizes all funding decisions not set by October 1st. It functions like an all-in-one appropriations bill.

Author: Sophie Evans, Policy Director of Engage | sophie@engagewomen.org

For conversations on "Government Spending"

Discretionary Spending	This type of spending funds major government functions like defense, transportation, education, etc. It is called "discretionary" because Congress gets to use its discretion to decide how much money should be spent on each program during the appropriations process.
Mandatory Spending	Mandatory spending is automatically included in the federal budget without passing through the appropriations process. It refers to the programs the government must fund each year, like Medicare, Medicaid, Social Security, and Unemployment Insurance. The government does not get to use its discretion here because these programs have already been paid for by taxpayers. We pay specific "payroll" taxes over the course of our lives in order to receive benefits once we reach a certain age, as with any other insurance.
Interest Payments	Just like when we borrow money, the government has to pay interest on its outstanding debt, aka all of the money it has borrowed and not yet paid back. The interest payment is determined by the interest rate and the amount of debt. Interest payments are not formally included in mandatory spending, but they are just as binding.

For conversations on "Government Revenue"

Tax Revenue	The government's main source of income. The government determines the tax rates people pay, but the total amount of tax revenue it receives depends on both tax rates and the amount of taxable income produced by individuals and corporations. So, tax revenue depends on tax rates and the state of the economy – i.e. are we in a recession with high unemployment or a boom with new job opportunities.
Income Tax	Taxes individuals pay on their income.
Payroll tax	Taxes employers and employees pay based on the employee's wages. These taxes are designed to fund certain types of mandatory spending like Social Security, Medicare, and Unemployment Insurance.
Corporate Income Tax	Taxes corporations pay on their profits.
Excise Tax	Taxes everyone pays on certain goods and services like alcohol, cigarettes, and airline travel.
Tax Reform	Changes to the different tax rates, which, on the whole, do not change the total amount of taxes the government receives. Some tax rates go up, others go down. Tax cuts, on the other hand, lower some tax rates without raising others. They reduce the amount of money the government receives. If government spending stays the same, tax cuts will increase the deficit but tax reform will not.

Author: Sophie Evans, Policy Director of Engage | sophie@engagewomen.org

For talk about "Balancing the Budget"

"As you run water into a bathtub ("run a deficit"), the accumulated volume of water in the tub ("the debt") rises. Alternatively, if you let water out of the tub ("run a surplus"), the level of the water ("the debt") falls. Analogously, budget deficits raise the national debt, whereas budget surpluses lower it. However, getting rid of the deficit (shutting off the flow of water) does not eliminate the accumulated debt (drain the tub). It just stops the debt from growing."

- *Macroeconomics: Principles and Policy*

The debt ceiling is a line Congress draws on the side of tub as the maximum level the water can reach. It does this believing that there is a maximum amount of water (debt) that is safe to have in the tub. The problem is that we do not know how big the federal bathtub is. So, while we know there is an overflow point (an amount of debt that hurts the economy), we're not sure how far away we are from it. But we will know when we are getting close because the cost of keeping the tap on (the interest rates on Treasury bonds) will increase as the water starts to do damage.

Deficit	If the government spends more than it takes in one year, it runs a deficit. The deficit is the amount the government must borrow in order to pay for all of its chosen programs in a given fiscal year. The government borrows money by selling US Treasury bonds.
Surplus	If the government takes in more than it spends, it runs a surplus. In the past, surpluses have been used to pay off some of the national debt.
National Debt	The total value of what the government owes at a given time. It is the sum of all past budget deficits minus any surpluses. The national debt needs to be thought about in terms of the size of the US economy, otherwise the numbers are incomprehensibly high.
Debt Ceiling	An arbitrary limit set by Congress on how high the national debt can be. It restricts the amount the government can borrow. However, the debt ceiling exists separately from the budget process, so occasionally Congress passes budgets that require borrowing that goes beyond the debt ceiling. In that case, Congress must immediately raise the debt ceiling or government spending will be drastically cut across the board.
Pay for	A source of funding used to pay for new government spending that was not included in that year's appropriations process. In other words, Congress takes money from existing programs to "pay for" the new one. Informally, people also talk about how the government should "pay for" its programs – this is just a reference to the overall budgeting process of balancing taxes, spending, and borrowing.
Waste in the Budget	An amount of money someone thinks the government should not have spent based on their personal ideas about what is worthwhile spending.

Author: Sophie Evans, Policy Director of Engage | sophie@engagewomen.org

ENGAGE
PROMOTING WOMEN'S ECONOMIC SECURITY

BUDGET Q & A

What is the budget process?
The federal budget process starts with the President outlining proposed tax revenue and spending across government functions like defense, education, transportation, and law enforcement. This type of government spending is called "discretionary" – you can see exactly what this means along with definitions for every other budget term above.

After the President sends the recommended budget to Congress, Members get to work on a budget resolution that sets official targets for government spending, revenue, and the deficit. These targets serve as the government budget for the next 5 to 10 years. Congress then passes individual appropriations bills that "appropriate," or distribute, government money across different departments and agencies, funding everything from US soldier's salaries with the Defense Department, to highways with the Department of Transportation, to food and drug safety with the Department of Health and Human Services.

What did the federal budget look like in 2020?
In 2020, the government received **$3.4 trillion** in revenue, the vast majority of which came from individual taxpayers.

- **$1.6 trillion** came from income taxes;
- **$1.3 billion** from payroll taxes;
- **$212 billion** from corporate income taxes;
- **$87 billion** from taxes on certain goods and services like alcohol, cigarettes, and airline travel; and
- **$202 billion** from customs, estate taxes, etc.

In 2020, the government spent **$6.5 trillion**. This difference in revenue and spending resulted in a deficit of **$3.1 trillion**. A deficit is just the amount the government must borrow to pay for all of its spending in a given year.

- **$2.5 trillion** of that was the typical mandatory spending on Medicare, Medicaid, Social Security, and the like.
- **$1.6 trillion** was typical discretionary spending, which was split roughly in half between defense and all other government functions.
- **$300 billion** was spent on interest payments on its outstanding debt.

At this point the budget is pretty similar to that of 2019. But, as we all know too well, 2020 was not a typical year. The government spent another **$2.1 trillion** on Covid-19 relief, roughly:

- $**500 billion** of which was on paycheck protection to prevent businesses from having to fire employees;
- **$500 billion** on unemployment;
- **$300 billion** on stimulus checks;
- and the remaining **$800 billion** on tax credits, food assistance, student loans, etc.

Author: Sophie Evans, Policy Director of Engage | sophie@engagewomen.org

ENGAGE
PROMOTING WOMEN'S ECONOMIC SECURITY

A Word on Sources:
There is a lot of talk about the federal budget out there, but the vast majority of it is opinion-based. Engage wanted to create a guide that was purely factual so that everyone could have a reliable place to learn about the basics, regardless of political affiliation. With that in mind, we used only well-respected, non-partisan information from sources like:

The Bipartisan Policy Center

The Brookings Institution

The Center on Budget and Policy Priorities

The Congressional Budget Office

The Tax Policy Center, a joint venture by the Urban Institute and Brookings Institution

The United States Senate Glossary

William Baumol, Alan Blinder, and John Solow. *Macroeconomics: Principles and Policy*. 2020.

- Alan Blinder, Princeton professor and former vice chairman of the Federal Reserve, also has tons of explanatory (and funny!) pieces in the *Wall Street Journal*, for those of you who don't want to read a textbook.

Author: Sophie Evans, Policy Director of Engage | sophie@engagewomen.org