A People's Guide to The Federal Budget

National Priorities Project

October 2011

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Introduction – Why a People’s Guide?

For a number of years as part of the President's annual budget request the White House’s Office of Management and Budget (OMB) included “A Citizen's Guide to the Federal Budget." OMB released the last Citizen's Guide in February, 2001 to accompany the Fiscal Year 2002 budget request. According to that last version, "we know you care a lot about how the Government spends your money. That’s why A Citizen’s Guide to the Federal Budget was created...We hope to make the budget more accessible and understandable."

Since 2001 taxpayers have had to fend for themselves in efforts to make the budget more accessible and understandable. Yet we still care a lot about how the government spends our money, perhaps now more than ever. National Priorities Project (NPP) believes that all people affected by federal spending priorities should have the ability and opportunity to shape our nation's budget. To that end, NPP strives to make complex federal budget information transparent and accessible so people can prioritize and influence how their tax dollars are spent.

So, how much do you know about the federal budget? If your answer is “not much,” you’re not alone. Virtually no one knows everything about how the government will spend the $3.7 trillion dollars that the Obama Administration has proposed spending in FY2012, or even how our elected officials in Washington will decide who will get how much as they slice up the federal budget pie.

That's why at NPP the question is not "why a guide to the federal budget?" but "why not?”

NPP's “A People's Guide to The Federal Budget” provides an overview of the various parts of the federal budget and the budget process. It discusses in greater detail how the government raises revenues and spends money. And it highlights critical issues such as the deficit and debt.

Why Should We Care About the Federal Budget?

First, that $3.7 trillion the government is planning to spend in FY2012 is mostly your money. We contribute about 60 percent of the government’s total revenues each year (not including borrowing) through individual income taxes and payroll deductions for such things as Social Security and Medicare. This means we are all stakeholders in the government’s decisions about how this money will be spent.

Second, it is important to remember that there is a flow-through of money from the federal government to the states and back down to the individual. Federal funding comes back into our communities in many ways, much of it in the form of actual funds, often funneled through state and local agencies or programs. Each year the federal government provides hundreds of billions of dollars to states through grants and assistance programs. Programs like the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provide assistance to individuals and families, while others like the Community Development Block Grant (CDBG) program allow communities to fund important public and private infrastructure. Many of these programs are critical to states and their citizens, particularly now, as the current difficult economic climate is forcing states to make tough budget choices.

Federal funds also land in our communities by supporting government services and the enforcement of safety regulations for things like food quality, drinking water, and clean air.

As stakeholders, it is our right and our obligation to see that our tax dollars are spent in ways that truly reflect our priorities. To do that we need to know where that money is going, and how budget decisions are made. We need to be smart about the federal budget.

What Is the Federal Budget?

Ideally, the federal budget is a reflection of our values and our vision for the role of our government. There are a number of steps that contribute to the development of the annual budget, starting with the President.

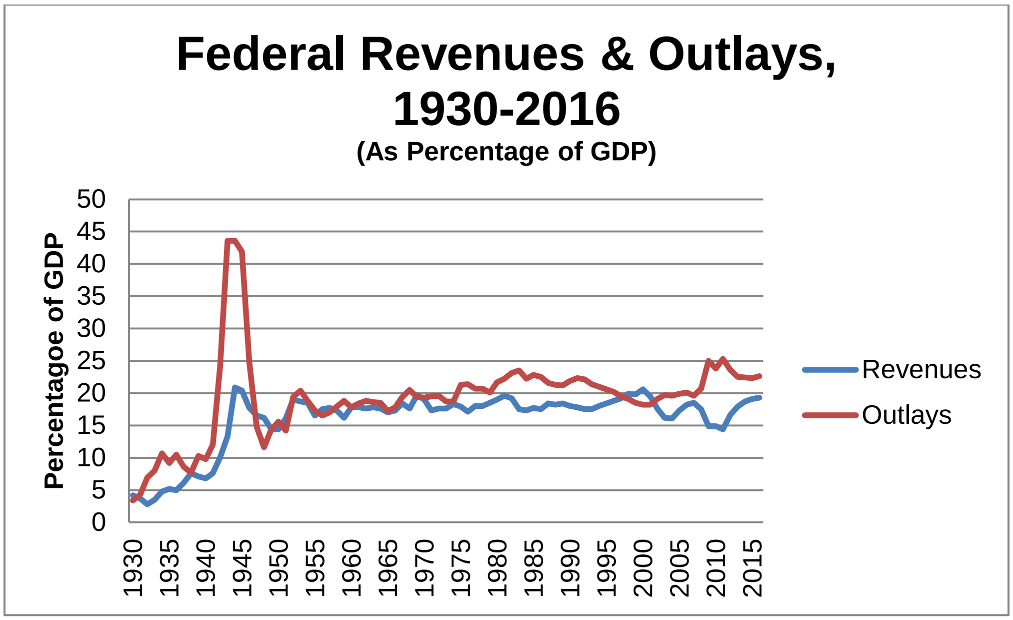
As part of the Fiscal Year 2012 budget request, the Obama Administration proposed roughly $3.7 trillion in total federal spending. According to OMB, this accounts for roughly two-thirds of all government spending in the United States – federal, state and local. Federal government spending now accounts for 24 percent of the total U.S. gross domestic product (GDP), but this was not always the case.

Historical Patterns in Federal Spending

In the 1920s, the federal government spent less than $120 billion in today's dollars (i.e., adjusted for inflation). This was only around ten percent of the GDP. Federal spending did not play much of a role in the economy. The government did play an important role through other means, though. For example, the government gave public land to railroad companies in order to speed the "opening of the west," and set low mining fees on public lands to encourage mining.

Federal spending increased significantly around 1933 in response to the Great Depression during President Franklin D. Roosevelt's "New Deal." But the most significant increases came during World War II. In 1944, outlays reached an all time high of 44 percent of the GDP (see chart below). Other than during World War II, the peak of federal spending was in 1983 during the Reagan military build-up. During the

1990s, federal spending did not keep pace with the expansion in the economy, or population growth, so federal spending fell as a percentage of GDP. By the end of the decade, federal spending was at a low not seen for almost 35 years. More recently, federal spending has increased due to significant increases in military spending, rising health care costs, more people retiring and collecting Social Security, and a greater demand for “safety net” programs such as unemployment compensation and food security programs.



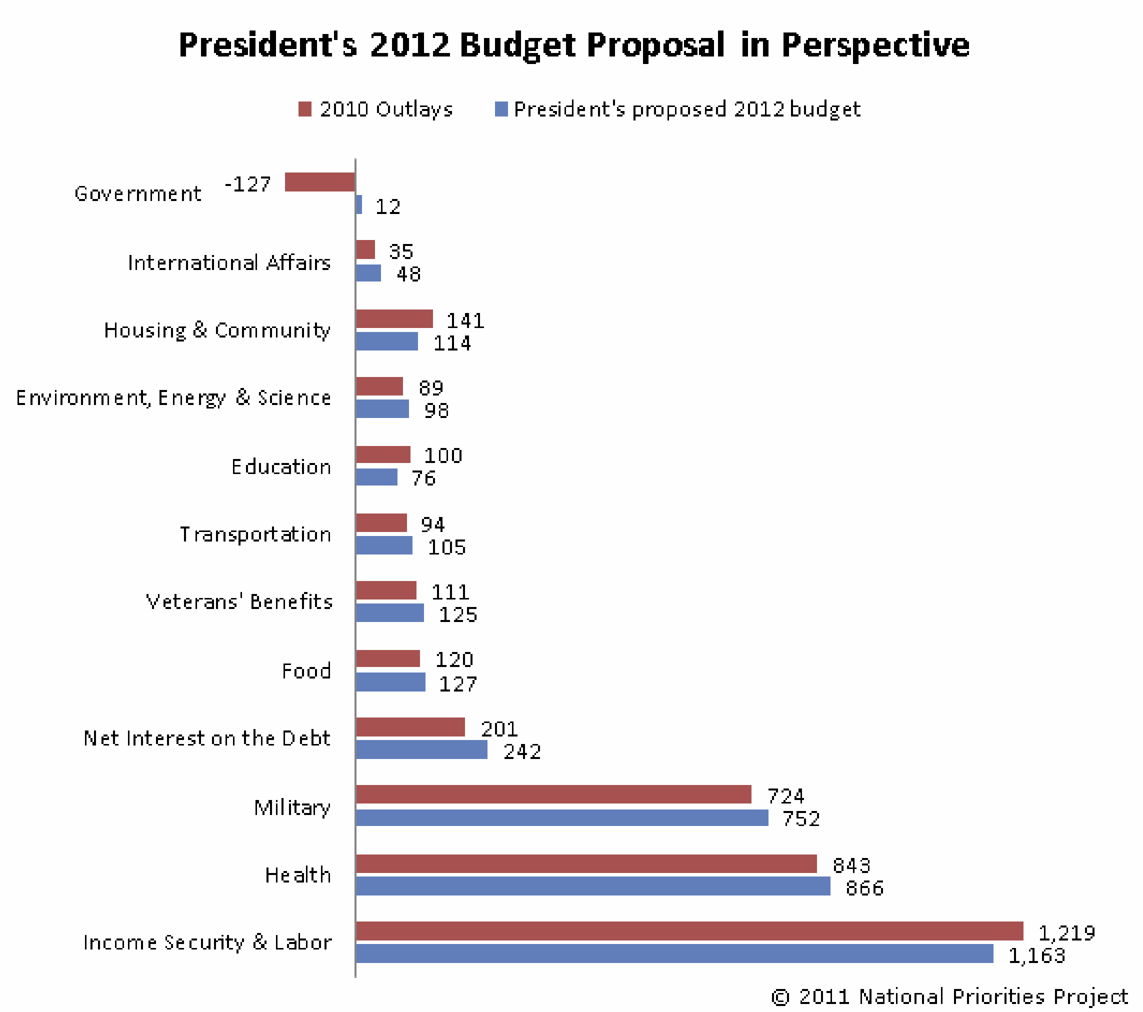
Today's Federal Spending

Here are some examples of how the government spends your money:

As mentioned, federal spending today accounts for more than 24 percent of GDP. About one-third of that spending, estimated at $1.2 trillion in FY2012, is devoted to Social Security (19 percent of total federal spending) and Medicare (12 percent) – programs aimed at senior citizens, the disabled and children and spouses of deceased workers (see chart below).

Spending on “national defense” amounts to roughly 18 percent of total federal spending. This does not include, however, foreign military financing grants, other military assistance, or other military-related expenditures. NPP does include these expenditures when it calculates “military spending,” which pushes the total up over 19 percent of all federal spending.

The high deficits in the 1980s accelerated the accumulation of federal debt. Servicing this debt now consumes approximately 6 percent of spending, or a projected $242 billion in FY2012.

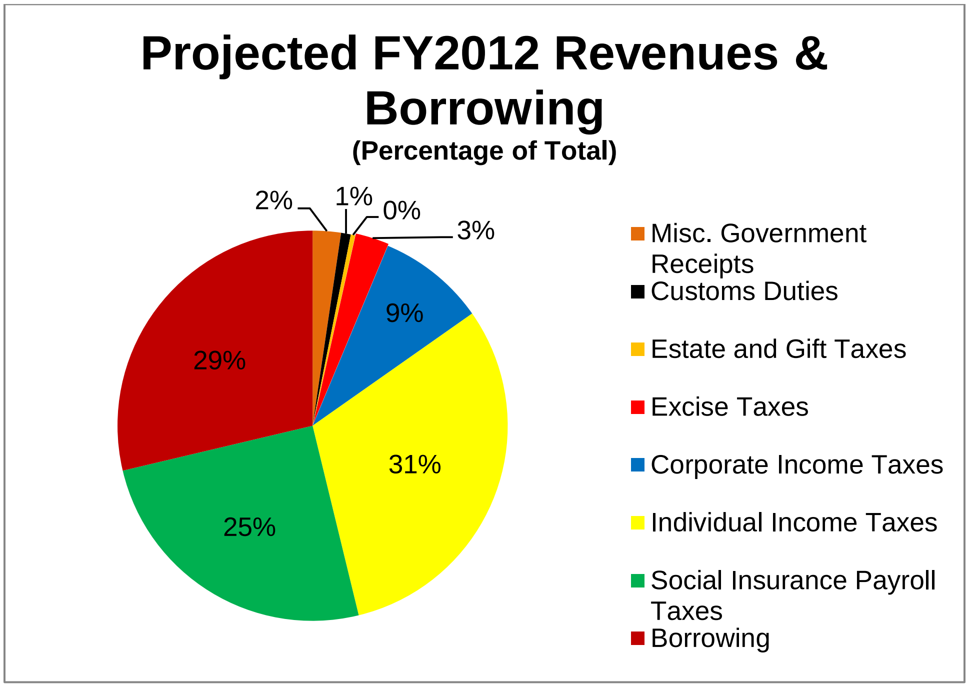


The federal government contributes very little to education, contributing only about 11 percent of total education spending in the country (local, state and federal) on elementary and secondary education, according to the Department of Education. Total education spending, including higher education, consumes less than 3 percent of the federal budget.

"The Federal Role in Education," U.S. Department of Education
http://www2.ed.gov/about/overview/fed/role.html

Where the Money Comes From – Revenues

Total federal revenues for Fiscal Year 2012 are projected to be about $2.6 trillion. The largest portion, 43 percent, comes from individual income taxes. The next largest share, at 35 percent, comes from collections for social insurance programs like Medicare and retirement receipts for Social Security and other pensions. The remainder is made up of corporate income taxes, excise taxes, estate and gift taxes, customs duties, federal reserve deposits, and some miscellaneous receipts. In years where revenues fall short of planned spending the government has to borrow the difference, as shown in the chart below. This borrowing reduces the percentages of total "revenues" made up by the other sources of federal income.



The U.S. Constitution (Article I, Section 8) grants Congress the power to "collect taxes, duties, imposts and excises." Early federal government taxation was mostly in the form of excise taxes on goods such as alcohol and tobacco. Although a tax on personal income existed briefly during the Civil War, it wasn't until 1913, with the ratification of the

XVI Amendment to the Constitution, that income taxes became permanent. At that time less than 1 percent of people paid income taxes.

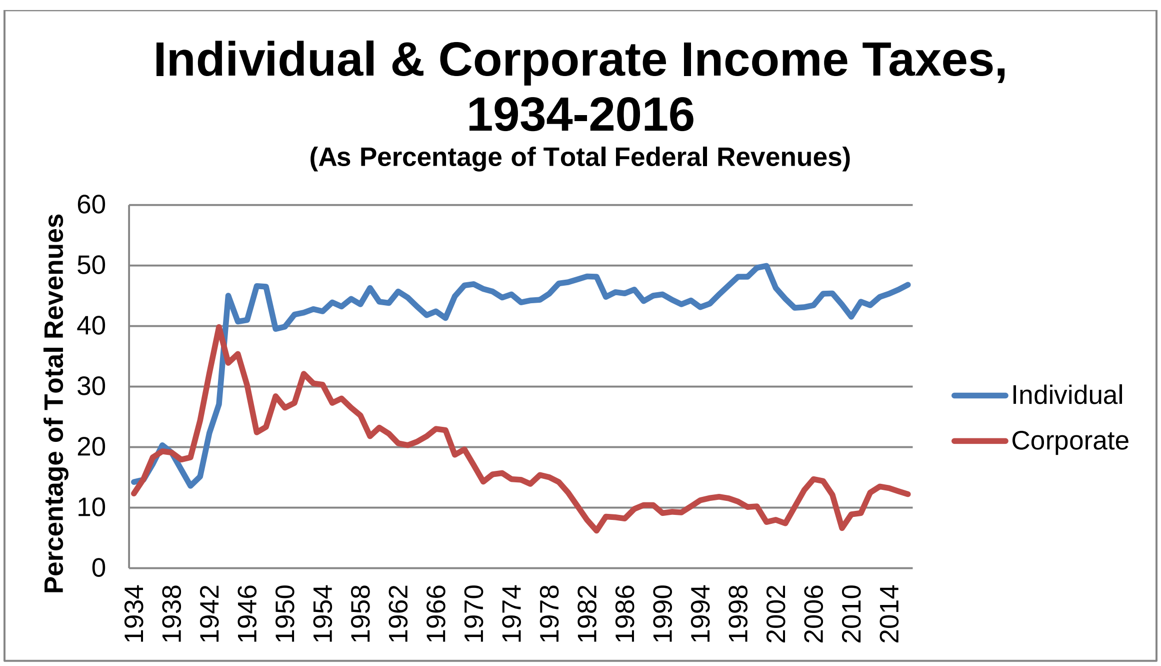
During World War I, tax policy was driven by a need for more revenues and the top income tax rate rose from 7 percent to 77 percent. From that time on, many changes were made to the tax code regarding exemptions, deductions, and rates of taxation. During World War II, more fundamental changes happened: the number of people subject to the income tax increased ten-fold due to the growth in employment. In addition, the payroll deduction for individual income taxes was created in 1943.

Nowadays, more than 100 million tax returns are filed each year. The federal income tax is designed to be progressive. That is, the wealthy are meant to pay a larger percentage of their earnings than middle- or low-income earners. Due to the many loopholes in the tax code, however, this is often not the way it actually works.

Taxes to finance the Social Security system were established in 1935 in the form of a payroll deduction. Over time, more benefits have been added to the list of those funded directly by employers and employees, including Medicare, which provides health care coverage for senior citizens. Taxes to fund this system have been increased at different points in time, and now stand at 15.3 percent of income. Employers and employees each pay 6.2 percent for Social Security and 1.45 percent for Medicare. However, the Social Security tax only applies to the first $106,800 of income. This makes the Social Security tax regressive since higher-income taxpayers pay a lower percentage of their income than lower-income taxpayers.

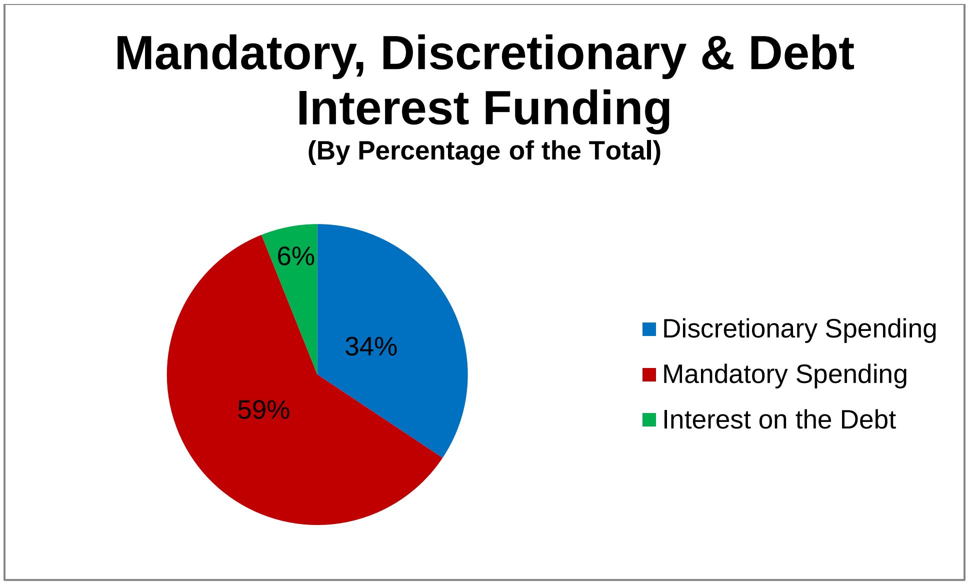
About three-quarters of taxpayers pay more in payroll taxes (Social Security and Medicare) than they do in individual income taxes. This is because all wage earners regardless of income contribute to Social Security and Medicare, while some low-income earners don't make enough to be subject to income taxes, or are taxed at a very low rate. [NOTE: as part of the December 2010 deal to extend the Bush-era tax cuts for two years, the employee contribution to Social Security was reduced by 2 percent through the end of 2011.]

Other taxes such as corporate income taxes have contributed less and less to total tax revenues over time. As the chart below indicates, the burden of taxation has increasingly been shifted from corporations to the individual. Between 1960 and 2010 corporate income taxes dropped from 23 percent of total federal revenues to 7 percent. Individual income taxes, on the other hand, have stayed relatively stable. Other types of taxes – such as excise and customs taxes – have made up the difference.



Where the Money Goes – Spending

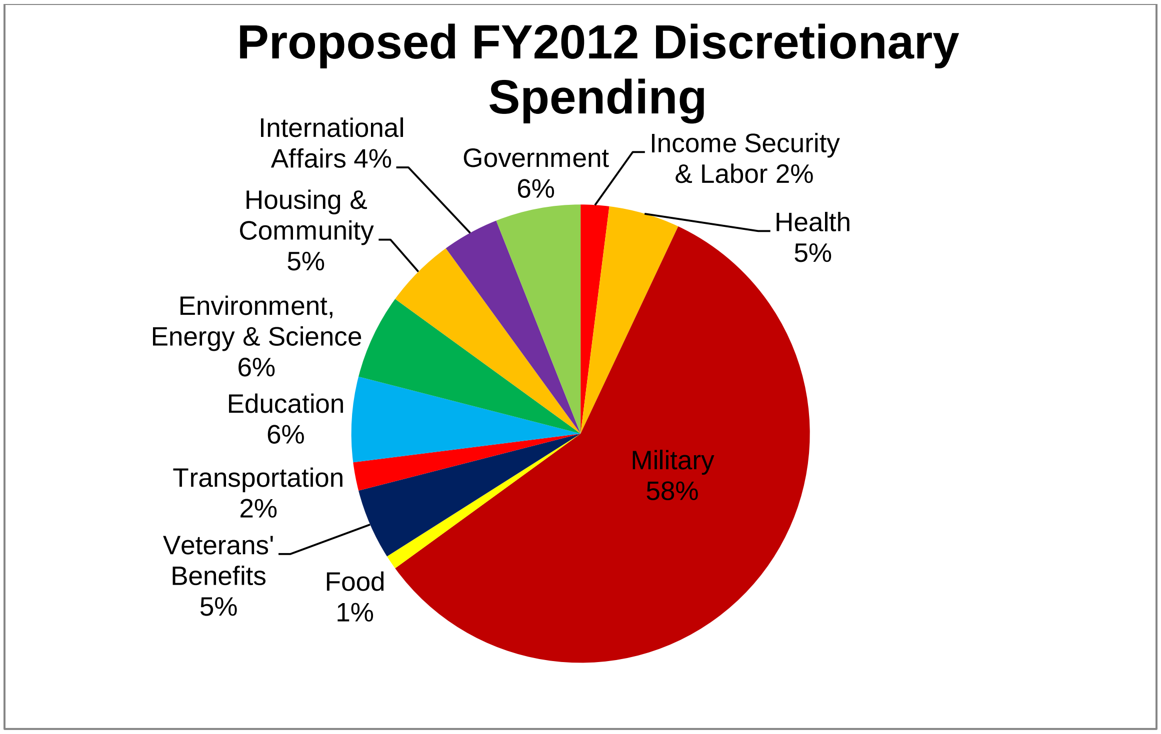
The federal budget can basically be divided into two types of spending according to how Congress allocates the money: discretionary and mandatory. A third, much smaller part is interest on the national debt. Within mandatory and discretionary spending, there are a number of subcategories, as shown in the chart on the right. (More on that later.)



Discretionary spending refers to the portion of the budget which goes through the annual appropriations process each year. In other words, Congress directly sets the level of spending on programs which are discretionary. Congress can choose to increase or decrease spending on any of those programs in a given year.

The *discretionary budget* is about one-third of total federal spending. The chart below indicates how the Administration proposed dividing up discretionary spending in FY2012 as part of its annual budget request.

We often see discretionary and mandatory charts, like the ones below, portrayed as stand-alone documents. They tell important stories about federal spending, but it's important to remember they tell only parts of the full story. For a more complete view of total federal revenues and expenditures, see "Where the money comes from…where the money goes" below.



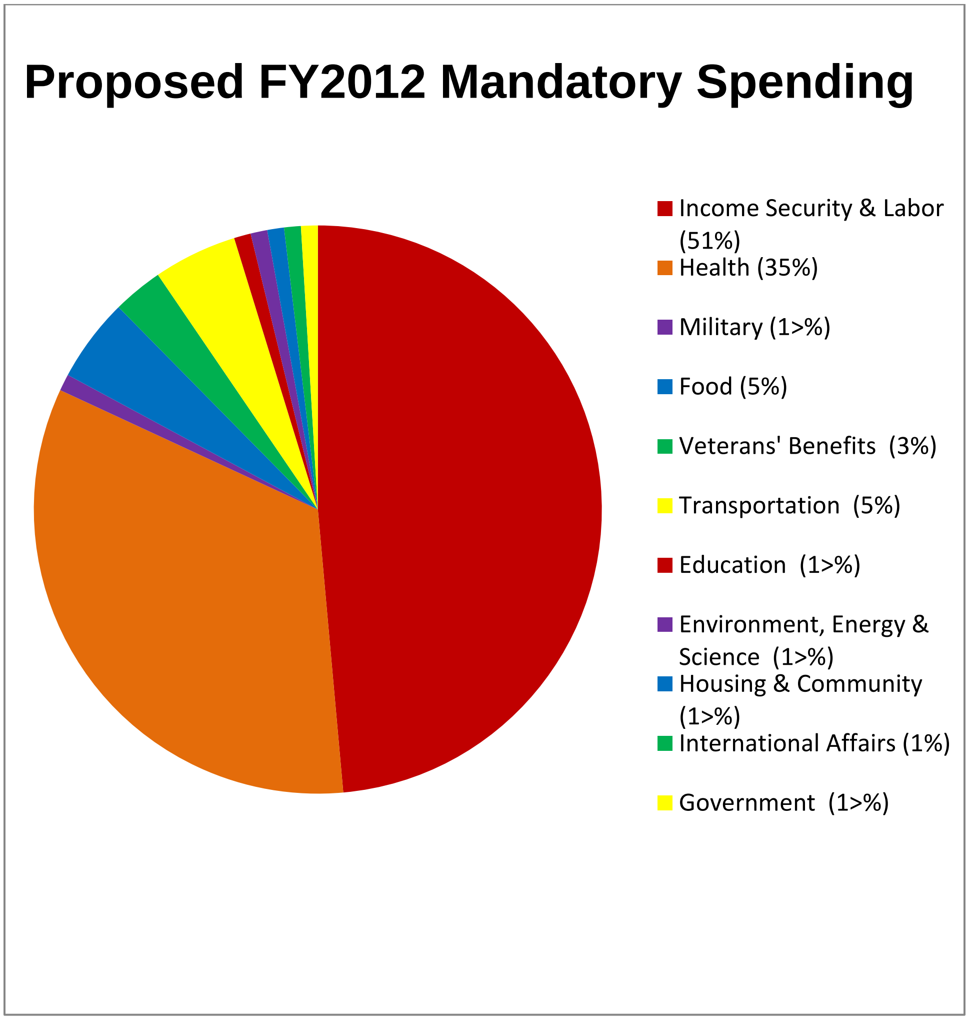
Fifty-eight percent of the proposed discretionary budget for FY2012 is for "military spending," which as defined by NPP includes programs other than the Defense Department commonly thought of as part of the military such as foreign military sales and international security assistance. Other types of discretionary spending include education, energy and the environment, many health programs, and housing assistance.

Mandatory spending includes programs, mostly entitlement programs, which are funded by eligibility rules or payment rules. For example, Congress decides to create a program, in this case the Supplemental Nutrition Assistance Program (SNAP), formerly the Food Stamps program. It then determines who is eligible for the program and any other criteria it may want to lay out. The amount of money appropriated for the program each year is then determined by estimates of how many people are eligible and will actually apply for SNAP.

Unlike discretionary spending, Congress does not decide each year to increase or decrease the Food Stamp budget. Instead, it periodically reviews the eligibility rules and may change them in order to exclude or include more people. For example, one way to cut Social Security spending would be to raise the retirement age, thereby reducing the number of eligible beneficiaries.

Mandatory spending makes up about two-thirds of the total federal budget. By far the largest mandatory program is Social Security which makes up one-third of mandatory spending, and an estimated 18 percent of total projected spending in FY2012. Social

Security spending continues to grow as the age demographic of the country shifts towards an older population. The chart below shows the breakdown of different types of mandatory spending proposed for FY2012.



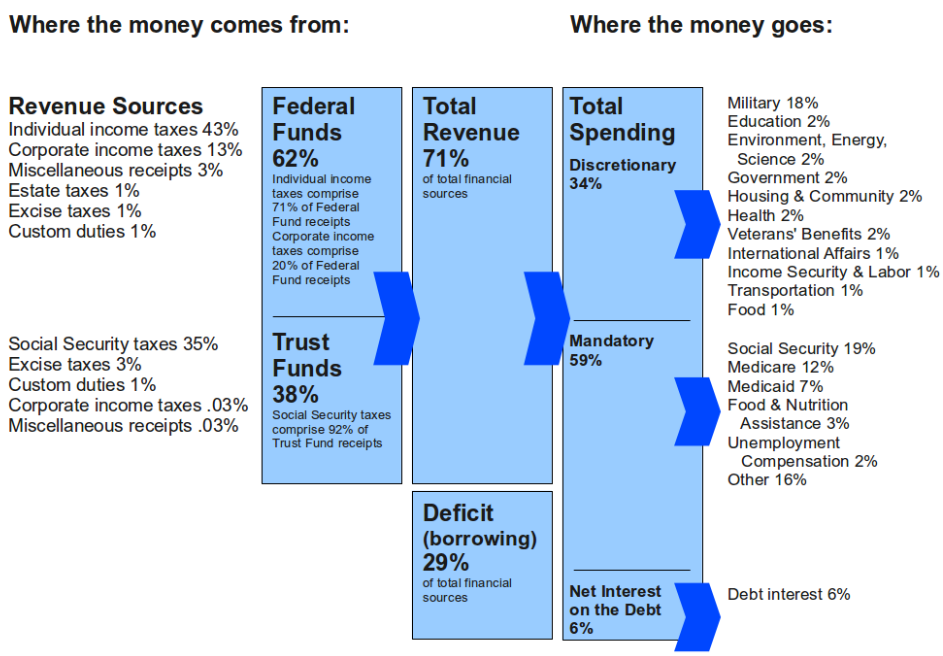
How Are Government Funds Divided? Trust Funds and Federal Funds

The federal budget consists of two main pots of money: trust funds and federal funds.

Trust funds are designated as such by law. Trust fund monies are generated from sources such as payroll taxes, and are earmarked for specific programs. For example, a portion of the Federal Insurance Contributions Act (FICA) tax which is deducted from an employee's salary (employers also make a contribution) goes into the Social Security trust fund. Money from this trust fund is then used to pay benefits to Social Security recipients.

The larger trust funds finance payments for Social Security, Medicare and unemployment compensation. Other trust funds finance federal employee retirement, veterans retirement, highway construction and airport development. There is no set definition of what types of federal programs should be paid for through a trust fund, and there are a number of cases where a trust fund finances an activity, while a very similar activity is financed through federal funds – transportation infrastructure is one such example. There are over 200 trust funds.

Federal Funds constitute all other government funds. At roughly two-thirds of federal revenues, the Federal Fund aggregates revenues from a number of sources. The largest share of Federal Fund revenues comes from individual income taxes, so the Federal Funds breakdown can be used to examine how an individual income tax dollar is spent. Corporate income, excise, estate and gift taxes, other special collections, and borrowing also finance Federal Fund activities.



How Does the Government Create a Budget?

The President sends his budget plan to Congress each February for the coming fiscal year, which starts on October 1st of that year. But the budget request is only a proposal. Only after Congress enacts, and the President signs, spending bills do we have an actual budget.

There are basically five steps in the federal budget process:

Step 1: President Submits a Budget Proposal;
Step 2: House and Senate Pass a Budget Resolution;
Step 3: House and Senate Subcommittees "Markup" Appropriation Bills;
Step 4: House and Senate Vote on Appropriation Bills and Reconcile Differences;
Step 5: President Signs each Appropriation Bill and the Budget is Enacted.

The President's Budget Proposal

The President's budget is a proposal for the coming fiscal year which starts on October 1st and runs through September 30th of the following year. For example, FY2011 began on October 1, 2010 and ended September 30, 2011.

This proposal follows a lengthy preparation process based on the Administration's priorities.

Initially, the President and Cabinet members decide policy priorities for each federal agency. Based on these priorities, the Office of Management and Budget (OMB), which is part of the Executive Branch and serves as the White House's accountant, so to speak, gives guidelines to each federal agency instructing them how to prepare their strategic plans and budgets. The agencies then submit their budget requests and write documents defending them, known as "budget justifications." These budget documents are also submitted to the appropriations committees of the House and Senate that oversee that agency's funding.

OMB evaluates these documents and prepares the budget request, which the President then releases, usually on the first Monday in February. It's important to remember that this is just a proposal. Congress has yet to have its say.

Action in Congress

Once the Administration's budget request has been released, Congress begins months of activities reviewing all aspects of the request. Generally Congress adds funding in certain areas or for certain programs and reduces it in others. In theory, Congress could ignore the President's request entirely and start from scratch. As a practical matter, however, this rarely happens. Either way, whatever Congress does the President has to sign it for it to become law. If Congress proposes funding for programs the White House opposes, the President can veto the bill, and the Congressional process starts over. In many instances the mere threat of a presidential veto is enough to get Congress to drop, or at least modify, any offending provisions.

Here's how the process works once the budget gets to Congress:

House and Senate pass a budget resolution – After the President submits his budget, the House and Senate each traditionally prepare "budget resolutions." A budget resolution is not a binding document, but is more like a blueprint. It provides a framework for Congress for making budget decisions about spending and taxes. It sets overall annual spending limits for federal agencies, but does not set specific spending amounts for particular programs. After the two chambers pass their budget resolutions, a joint conference is formed to iron out differences between the two versions which is then voted on by each chamber. NOTE: because the budget resolution is not a binding document, the budget process can move forward even if a final version is not adopted by both the House and Senate. Because they are not laws, budget resolutions do not require a presidential signature.

House and Senate subcommittees 'markup' appropriation bills – Based on the budget resolution, the Appropriation Committee of each chamber sets allocations for each of its subcommittees (12 in the House and 12 in the Senate), known as "302 allocations." If no final version of the budget resolution has been enacted, then it falls to the members of the appropriations committee to set overall spending limits.

Each appropriations subcommittee takes the budget requests and the justification materials submitted by the agencies under their jurisdiction, conducts hearings and does follow-ups with agencies to obtain answers to questions about the agency requests. Based on all of this information, each subcommittee chair writes a first draft of the subcommittee's appropriation bill. This is called the "chairman's mark." The subcommittee then considers, amends, and finally votes on its bill and after passage, the bill goes to the full Appropriations committee. The full committee reviews and sends it to the full House or Senate for floor consideration.

House and Senate Vote on Appropriation Bills and Reconcile Differences – The individual appropriation bills are debated and voted on by their respective chambers. After both versions of a particular appropriation bill are passed in their respective chambers, a conference committee is set up to resolve differences between the House and Senate versions. The House and Senate then both vote on the conference report – the compromise version – for each bill. Each one is then signed by the President.

President Signs each Appropriation Bill and the Budget is Enacted – The President must sign each appropriation bill after it has passed Congress. When he has signed all of the bills, the budget process is complete. Rarely, however, is work finished on all 12 appropriations bills by October 1st – the start of the new fiscal year.

If the budget process is not completed by October 1st, Congress must pass a "continuing resolution" (CR) in order for the agencies which are not yet funded to carry on their functions. These resolutions simply continue funding for these agencies and programs at current levels until the budget for that agency for the next fiscal year is enacted. For example, as part of the budget process for FY2011, Congress enacted six continuing resolutions that funded the government for roughly half the fiscal year. The completed budget – also adopted as a CR (the eighth) – wasn't enacted until April 2011.

Supplemental Appropriations

Because of the length of the federal budget process, from time to time the government has to respond to unanticipated situations for which there is no funding. These situations are referred to as "contingencies," and they include such things as natural disasters and wars. In these cases the government has to allocate additional resources and do so in a timely manner. This funding is allocated through legislation known as a "Supplemental Appropriation."

Generally requested by the President, supplemental appropriations are enacted outside the normal budget process, usually in an expedited manner to provide funding needed before the enactment of appropriations through the normal process. Supplemental spending gives Congress flexibility to meet unexpected funding needs. Because it occurs outside the traditional budget process, however, and due to its emergency nature which often makes it "must pass" legislation, supplemental spending allows lawmakers to get around budgetary enforcement rules and to deliberately underfund programs in regular appropriation legislation – a budget gimmick sometimes used to make program funding look smaller than it really is.

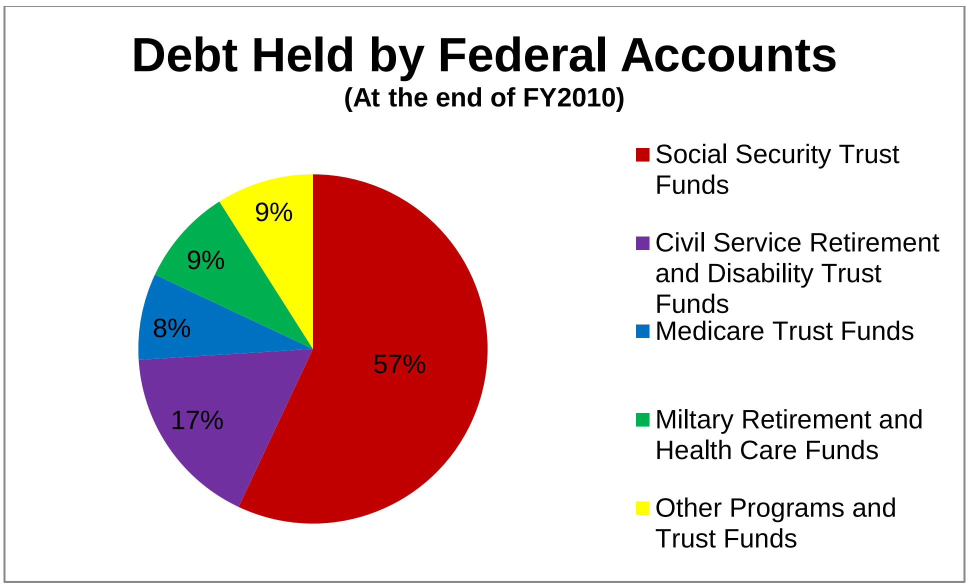
Debt, Deficits and Surpluses

Each year, money comes into the Treasury as revenues from such things as individual and corporate income taxes, payroll taxes for Social Security and Medicare, estate taxes, gift taxes, customs tariffs on imported goods, and excise taxes. The government then spends money on a vast array of federal programs — education, housing assistance, job training, the military, healthcare, and entitlement programs like Social Security and unemployment benefits. When revenues (money coming in) are higher than expenditures (money going out), you have a surplus. Much more frequently, however, is when expenditures exceed revenues. In this case you have a deficit.

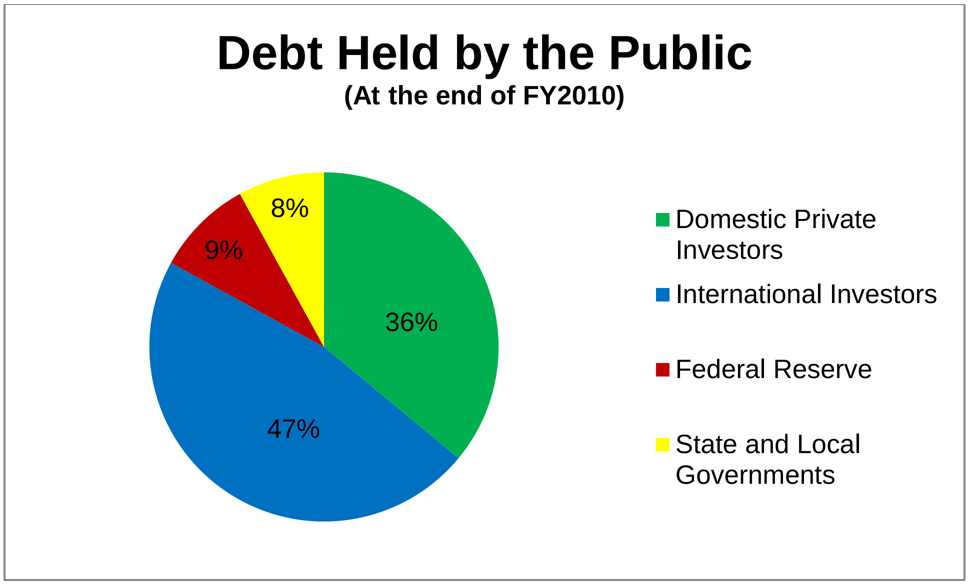
The "National Debt" is the accumulated total of annual deficits and surpluses. In other words, debt is the result of past deficits. Additional deficits add to the debt, while any surpluses reduce the debt.

Why Are We Talking About the Deficit?

To finance its deficit the government has to borrow funds, similar to when individuals use a credit card to finance purchases that exceed their budget. This accumulated borrowing is the national debt. There are two kinds of debt – Debt Held by the U.S. Government and Debt Held by the Public.



Debt Held by the U.S. Government is debt purchased by other government accounts (for example the Social Security, Medicare, and transportation trust funds) using their surpluses. The largest portions of government debt are held by Social Security (which holds 57 percent of this type of debt) and the Civil Service Retirement Trust Fund (which holds 17 percent). When these trust funds have surpluses, they invest in treasury securities because these types of assets are considered risk-free. When these accounts take in less money than they need to pay benefits, then the trust funds cash in these securities.



Debt Held by the Public is debt that has been financed through the use of Treasury bills sold to individuals, corporations or foreign governments. Of the public-owned portion of the debt, 47 percent is held internationally by both private investors and central banks of other countries, 36 percent by private domestic investors, 9 percent by the Federal Reserve and 8 percent by state and local governments.

NOTE: The Federal Reserve's holdings are counted in the public debt portion because the Federal Reserve is independent of the government. The “Fed” buys and sells treasury securities as part of its open market operations, which is one way that it controls interest rates in the economy.

According to the Government Accountability Office (GAO), of the countries that hold the 47 percent of the U.S. public debt, China holds the most ($1.1 trillion), followed by Japan ($800 billion), Middle East oil exporting countries ($173 billion), Russia ($168 billion), Brazil ($164 billion) and Taiwan ($152 billion).

There is increasing public debate about the drawbacks of both types of debt. For example, there are concerns about borrowing too heavily from the Social Security trust fund as “baby boomers” begin to retire, placing greater demands on the program. Meanwhile, there is growing concern about debt that is held by foreign countries and what impact it might have on the U.S. economy, and even on U.S. foreign policy.

Because the federal debt measures the government’s accumulated annual deficits, it is difficult to determine what action or event was the “cause” for each dollar of debt. But the debt has skyrocketed in recent years, almost doubling from $7.9 trillion at the end of FY2005 to $15.5 trillion at the end of FY2011. Key factors contribution to this increase in the debt were the recession which resulted in a loss of revenues, the Toxic Asset Relief Program (TARP) which assisted ailing financial institutions, the federal economic stimulus package, the wars in Iraq and Afghanistan, and the Bush tax cuts.

Conclusion

Understanding the federal budget isn't easy. But it is essential, especially now, where critical decisions about all areas of our government's activities are being examined more closely than ever before. In the coming weeks, months and years our elected representatives in Washington will be making choices that will impact not just us, but our children, and our children's children. We need to be in this debate, and be in it for the long haul, if we are to build the kind of government, and the kind of nation, that truly reflects our values.

Glossary of Budget Terms

Appropriations Bill – This bill allocates the funds approved by an authorization bill to individual federal agencies. It specifies how much money can be spent on a given program, and grants the government authority to enter into legal obligations that are later paid in outlays. Reviewed by the corresponding subcommittees of the Appropriations committees in both the House and Senate, appropriations bills must also be approved by the full House and Senate before being signed by the President.

Appropriations Process – The annual process through which Congress creates the discretionary budget.

Authorization Bill – This bill gives a government agency the legal authority to fund and operate its programs, sets maximum funding levels, and includes policy guidelines. The bill must be adopted by the full House and Senate before being signed by the President. Government programs can be authorized on an annual, multi-year, or permanent basis. Specific amounts authorized are ceilings on the amounts that subsequently may be appropriated in an appropriations bill, but not as minimums; either the House or Senate may recommend appropriating lower amounts or nothing at all.

Balanced Budget Amendment – An amendment to the U.S. Constitution that would require the federal government to enact a budget where expenditures do not exceed revenues in any fiscal year. Several versions have been offered in recent years, and most allow waivers when both houses of Congress agree by votes larger than a simple majority. Most versions also require the President to submit balanced budgets to Congress each year.

Budget Authority – The legal power given to a federal agency to spend money through "obligations" (I.e. enter into a binding contract).

Budget Control Act of 2011 – The agreement reached by President Obama and Congress in August 2011 to raise the federal debt ceiling. See also "Sequestration" and "Super Committee."

Budget Resolution – A resolution passed by each house of Congress that serves as a framework for budget decisions. It sets overall spending limits but does not decide funding for specific programs.

Chairman's Mark – The first draft of legislation introduced by the chairman of a committee or subcommittee that is then debated and amended by committee colleagues. This ability to decide the starting point for all further work on a piece of legislation is an important part of the chair's power.

Conference Committee – Members of the House and Senate who work together to reconcile differences in their respective versions of a bill. Both the House and Senate must pass identical versions of any legislation before it can be signed into law by the President.

Conference Report – The final product of conference committee work, the report documents the changes made by conferees (I.e. what is taken out of which bill, etc).

Congressional Budget Office (CBO) – CBO is the non-partisan branch of Congress that provides analysis and materials related to the federal budget process, and objective analyses needed for economic and budgetary decisions related to programs covered by the federal budget.

Continuing Resolution (CR) – Legislation that permits a government agency to continue to operate at existing funding levels if a new appropriations bill to fund its operations has not been adopted by the start of the fiscal year (October 1st).

Debt – Accumulated total of annual deficits and surpluses over the years.

Debt Ceiling – The legal (statutory) limit set by Congress on the amount of total debt that the federal government can assume. If the debt amount exceeds the debt ceiling limit, the government is unable to borrow additional funds to support continued operations, triggering a government shutdown and default on existing loans. Congress has the legal authority to raise the debt ceiling limit as needed.

Deficit – When spending exceeds revenues in a given year.

Direct Spending – Also referred to as mandatory or entitlement spending, Direct Spending is directly controlled through eligibility requirements and benefit payments mandated in laws other than appropriations bills. Unlike discretionary spending, direct spending can occur without the annual approval of Congress and the White House. Examples include Social Security and the food stamp program.

Disbursements – Actual payments made by the U.S. Treasury to recipients of a federal agency's Obligations.

Discretionary Spending/Budget – Spending that is newly appropriated each year through Congress's annual appropriations process. This spending makes up roughly one-third of the federal budget.

Entitlement Programs – Programs such as Social Security and the Special Nutrition Assistance Program (SNAP) that pay benefits to anyone who applies for benefits and meets the eligibility requirements for that specific program.

Excise, Estate and Gift Taxes – Specific revenue sources that are related to specific activities. Excise taxes are taxes placed on the sale of (usually) luxury items but also on specific consumer items like cigarettes, liquor, and gasoline. Estate taxes are taxes paid on your inheritance (primarily from relatives). Gift taxes are taxes imposed on any transfer of property that occurs without payment.

Federal Funds – All government funds besides trust funds. Federal funds include money from individual and corporate income taxes and accounts for roughly two-thirds of all federal expenditures.

Federal Securities – Federal Securities represent financial obligations taken on by the federal government – like treasury bills and savings bonds – that require repayment at some point in the future.

Government Accountability Office (GAO) – GAO is an independent, nonpartisan agency that works for Congress. GAO operates as an auditor of the federal government, and investigates how the federal government spends taxpayer dollars. The head of GAO is the Comptroller General of the United States.

Gross Domestic Product (GDP) – The combined dollar value of all the spending by individuals, businesses, and government along with the value of products exported to foreign countries, while subtracting the value of all of the products imported from other countries.

Gross Federal Debt – Includes only debt owed by the federal government; the nation's actual debt (as opposed to "Net Federal Debt").

Income Security & Labor – Refers to programs like job training, disability, retirement, unemployment insurance and Social Security that promote employment and income security.

Mandatory Spending – Spending that is essentially automatic, and therefore bypasses the annual appropriations process. It includes entitlement programs like Social Security, Medicare, and the Supplemental Nutrition Assistance Program (SNAP) – formerly the Food Stamp Program – where benefits are received by those who meet specific eligibility requirements. (e.g. if you're over 65, you can collect Social Security). Spending levels can fluctuate up or down depending on the number of people eligible for payment under these programs. Mandatory spending accounts for roughly two-thirds of the federal budget.

Multiplier Effect – When an increase in spending leads to an even larger increase in economic activity.

Net Federal Debt – Includes both debt and assets, and therefore appears smaller than the actual "Gross" debt.

Office of Management and Budget (OMB) – Part of the Executive Branch, OMB gives guidelines to federal agencies instructing them how to prepare their strategic plans and budgets. It also serves as the President's “accounting firm.”

Obligations – The result of an agency's Budget Authority, Obligations are awards in the form of grants, contracts or loans made by a federal agency to specific recipients. An obligation means that although the government may not have actually cut a check yet, the funds are committed and can't be spent elsewhere.

Outlays – Actual money spent in a given fiscal year. Outlays can come from three sources: new budget authority, multi-year budget authority, or funds obligated in a previous year but not yet spent.

President's Budget – The annual spending proposal released by the White House each February which contains the Administration’s priorities as reflected in the specific funding requests of various federal agencies. It is the starting point for the annual Congressional budget process.

Progressive (tax system) – A system designed so that individuals with higher incomes pay a larger percentage in taxes than those with lower incomes.

Receipts – See “Revenues.”

Regressive (tax system) – A system where those with lower incomes pay a larger percentage of their income in taxes than those with higher incomes.

Revenues – Funds flowing into the U.S. Treasury from such things as individual and corporate income taxes, payroll taxes and user fees (also referred to as receipts).

Sequestration – A series of automatic federal spending cuts that occur when the government fails to achieve a set of pre-determined goals. In the current context, sequestration refers to the set of automatic across-the-board cuts mandated by the Budget Control Act of 2011 that will go into effect if Congress fails to enact $1.2 trillion in deficit reduction initiatives by December 23, 2011.

Social Insurance – Payments made by the government for programs such as Social Security and Medicare.

"Super Committee" – The Joint Select Committee on Deficit Reduction, known as the "Super Committee," was created by the Budget Control Act of 2011. The Super Committee is comprised of six Senators and six House members evenly divided between Democrats and Republicans. They are tasked with finding a minimum of $1.2 trillion in additional cuts over ten years. If the Super Committee fails to meet this target by November 23, 2011, or if Congress fails to enact the Super Committee proposal by December 23, 2011, then it triggers “sequestration.”

Surplus – When revenues exceed spending in a given year.

Trust Funds – Pots of money that are earmarked for specific purposes and which generally have a dedicated revenue source. There are over 200 trust funds, the largest of which is Social Security and include Medicare and railroad retirees' pensions.