

# 1. What /s the Budget?

The Federal budget is:

- a plan for how the Government spends your money.

*What activities are funded? How much does it spend for defense, national parks, the FBI, Medicare, and meat and fish inspection?*

- a plan for how the Government pays for its activities.

*How much revenue does it raise through different kinds of taxes--income taxes, excise taxes, and social insurance payroll taxes?*

- a plan for Government borrowing or repayment of borrowing.

*If revenues are greater than spending, the Government runs a surplus. When there is a surplus, the Government can reduce the national debt.*

- something that affects the Nation's economy.

*Some types of spending--such as improvements in education and support for science and technology--increase productivity and raise incomes in the future.*

*Taxes, on the other hand, reduce incomes, leaving people with less money to spend.*

- something that is affected by the Nation's economy.

*When the economy is doing well, people are earning more and unemployment is low. In this atmosphere, revenues increase and the deficit shrinks.*

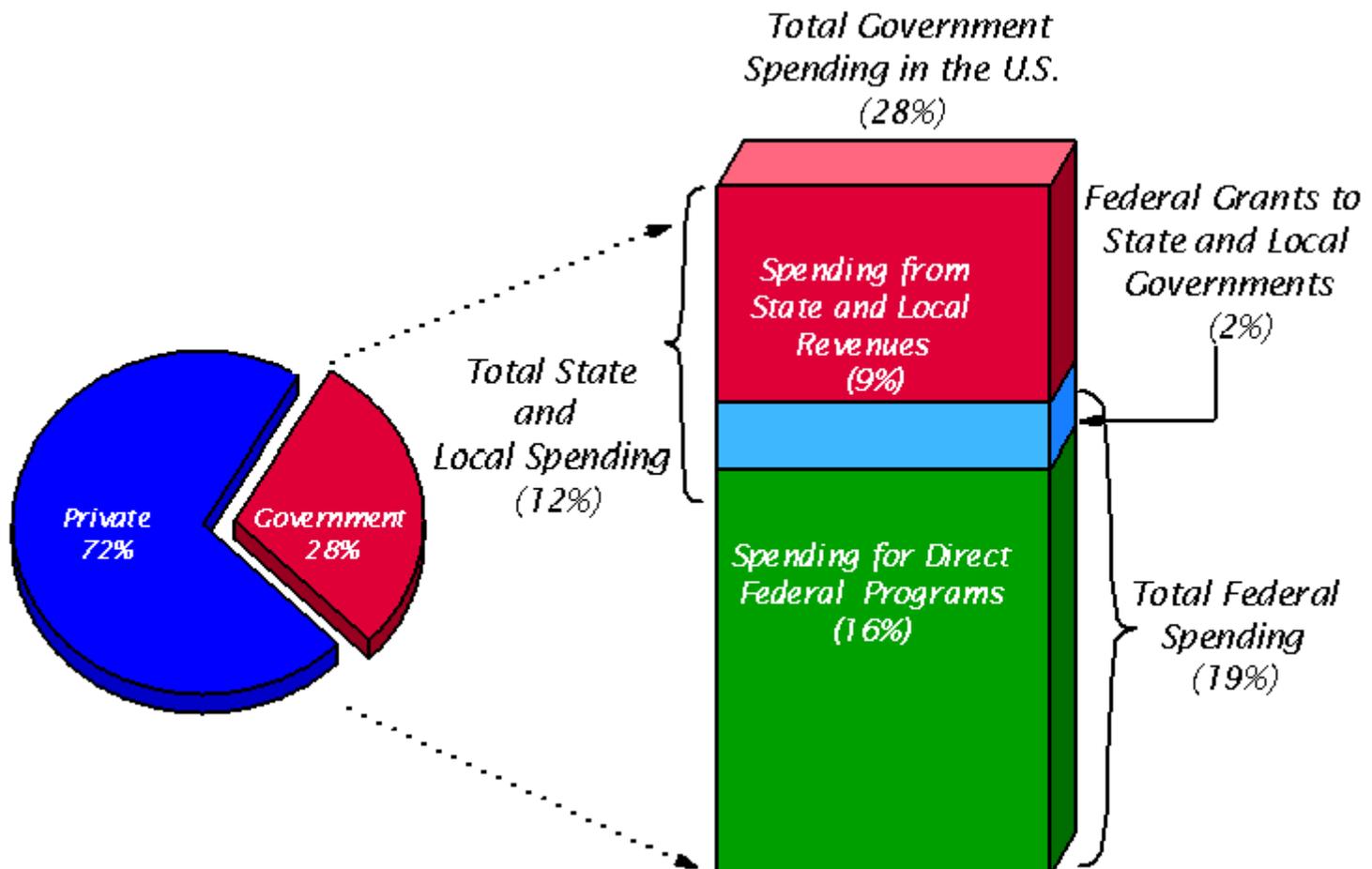
- an historical record.

*The budget reports on how the Government has spent money in the past, and how that spending was financed.*

The 2001 Budget is a document that embodies the President's budget proposal to Congress for fiscal 2001, the *fiscal year* that begins on October 1, 2000. It reflects the President's priorities and proposes that Social Security be protected and solvency of the trust funds extended. With enactment of these reforms, as well as strengthening of Medicare, additional resources would be made available for national needs, including health care initiatives and a tax cut.

The Federal budget, of course, is not the only budget that affects the economy or the American people. The budgets of State and local governments have an impact as well. While Federal Government spending was a little less than 19 percent of the Gross Domestic Product (or GDP, which measures the size of the economy) in 1999, State and local governments spending was about another nine percent (see Chart 1-1).

**Chart 1-1. Government Spending as a Share of GDP, 1999**

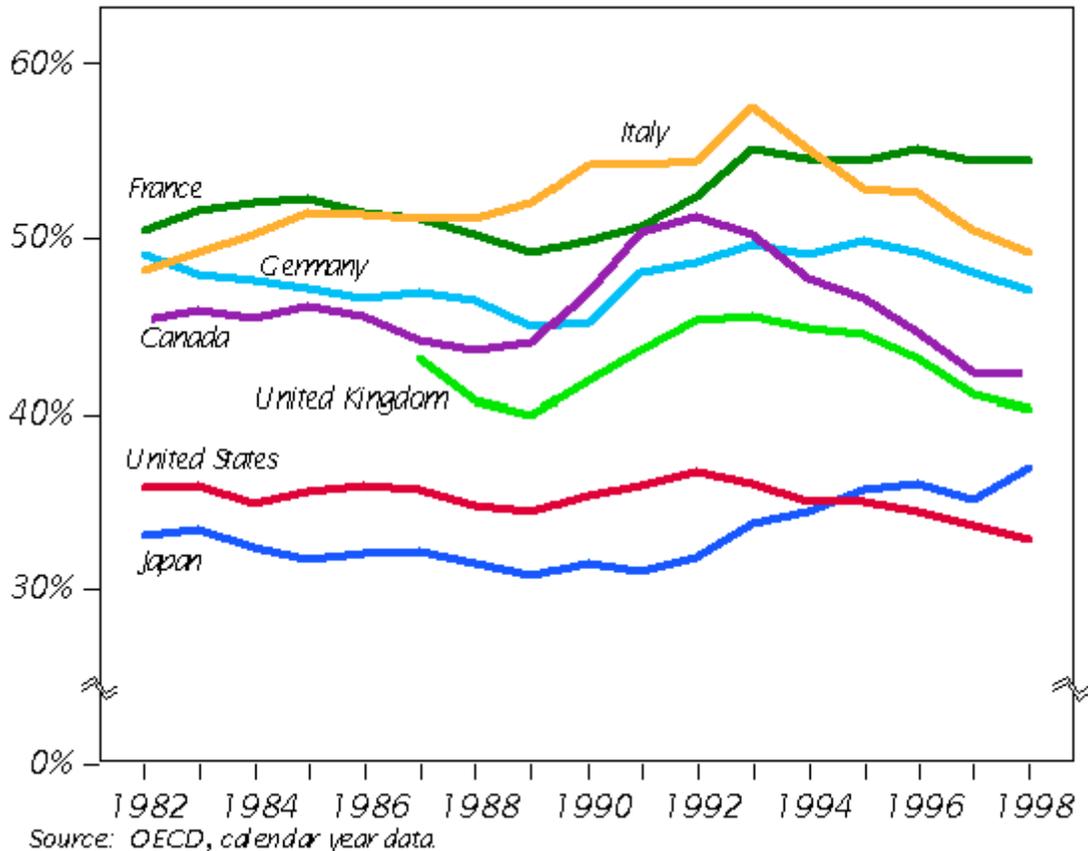


Note: Numbers do not add due to rounding.

*Total Government spending accounts for less than one-third of the national economy. Federal spending is about two-thirds of this amount, or about 19 percent of GDP.*

State and local governments are independent of the Federal Government, and they have their own sources of revenue (taxes and borrowing). But the Federal Government supplements State and local revenues by making grants to them. Of the \$1,072 billion that State and local governments spent in 1999, \$220 billion came from Federal grants.

**Chart 1-2. Total Government Outlays as a Percent of GDP**



*The United States allocates a smaller portion of its GDP to government spending than any other nation shown.*

As shown in Chart 1-2, compared to six other industrialized nations, the United States allocates the smallest share of its GDP to government spending (Federal, State, and local combined).

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