The Government and the Economy

Fiscal Policy

The means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy and the “sister strategy” to →

Monetary Policy: the ways in which a central bank influences the money supply

-The president proposes the fiscal year’s budget with Congress’ approval

(the fiscal year differs from the traditional calendar year and runs from the beginning of 1 October – 30 September)

Methods of Taxation

Three Methods

1. Progressive tax: based on the taxpayer's ability to pay; places a lower tax rate on low-income earners than on those with a higher income

-The federal government's income tax is progressive, as are many state income tax systems

Single-filing taxpayer's "brackets" in 2021 →

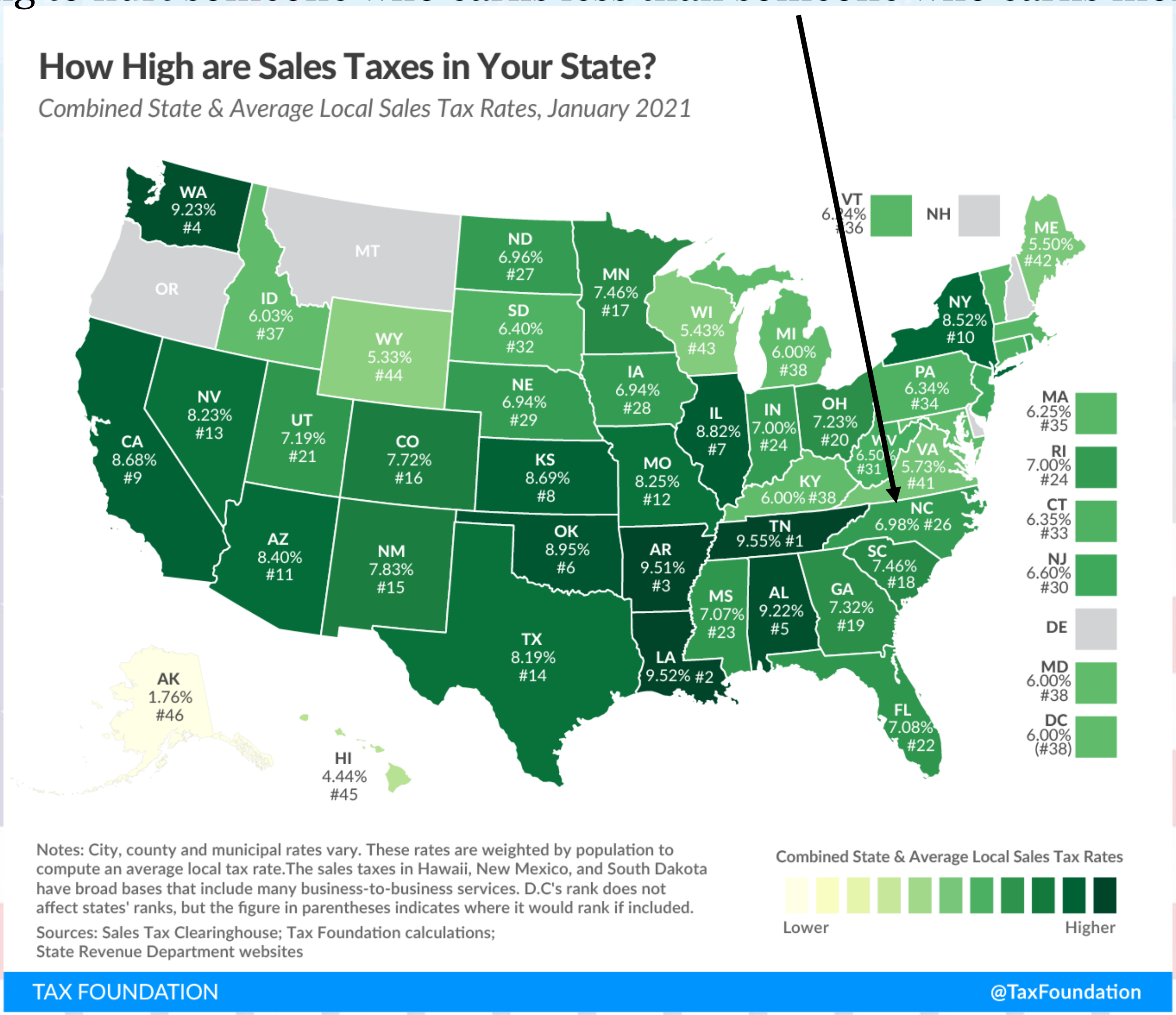
Tax rate	Taxable income bracket	Tax owed
10%	$0 to $9,875	10% of taxable income
12%	$9,876 to $40,125	$987.50 plus 12% of the amount over $9,875
22%	$40,126 to $85,525	$4,617.50 plus 22% of the amount over $40,125
24%	$85,526 to $163,300	$14,605.50 plus 24% of the amount over $85,525
32%	$163,301 to $207,350	$33,271.50 plus 32% of the amount over $163,300
35%	$207,351 to $518,400	$47,367.50 plus 35% of the amount over $207,350
37%	$518,401 or more	$156,235 plus 37% of the amount over $518,400

-Supporters of the progressive tax method argue it eases the burden for the poor

-Critics of the progressive tax method argue that it disincentivizes success and hard work

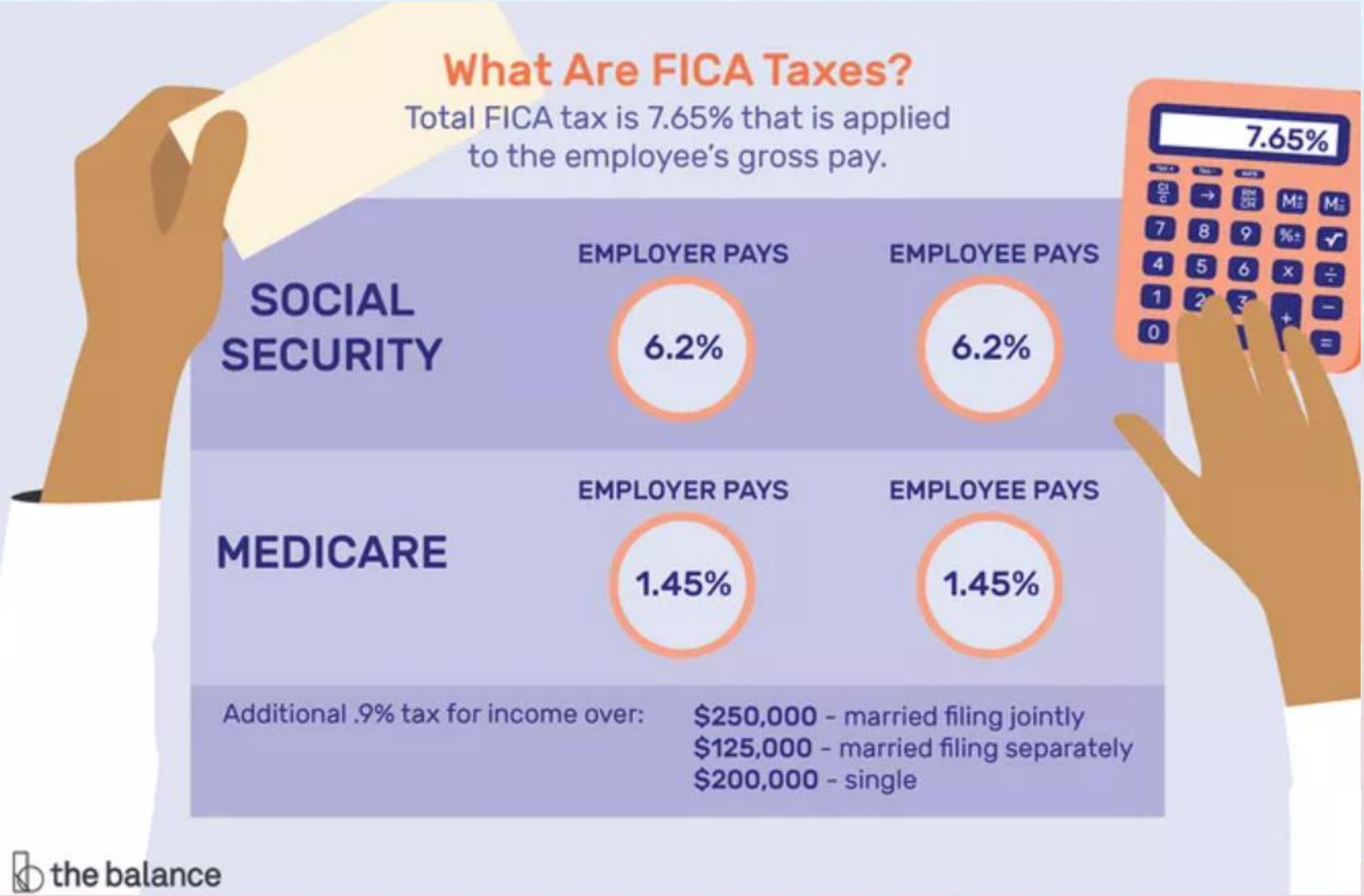
2. Regressive tax: takes a larger chunk of disposable income from low-wage earners than from high-wage earners

-A sales tax is an example of a regressive tax (6.98% of a $100 grocery bill is going to hurt someone who earns less than someone who earns more)



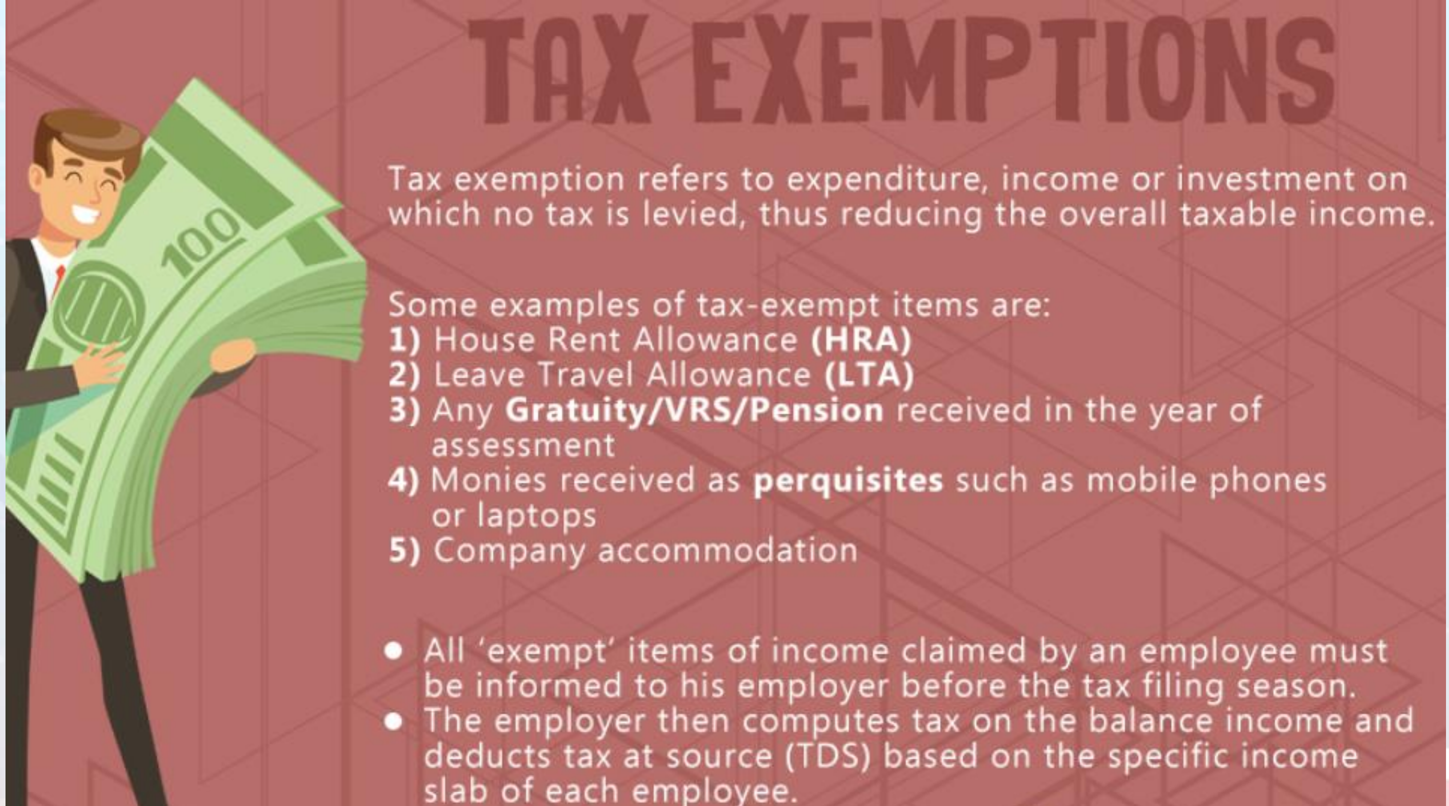
3. Flat tax: imposes the same percentage tax on everyone regardless of income

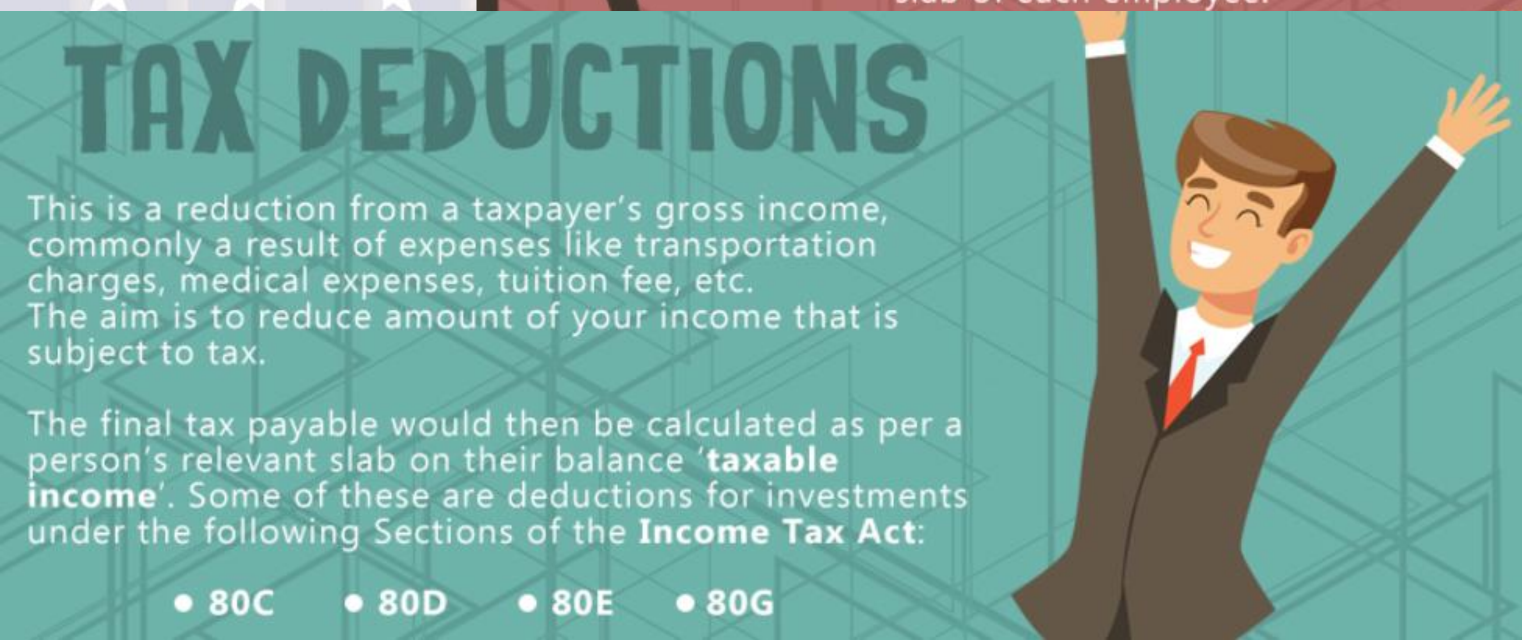
-The payroll tax that funds Social Security and Medicare is often considered a flat tax because all wage earners and their employers pay the same percentage*



*There is a cap on this at earnings over a certain income level

Taxable income:





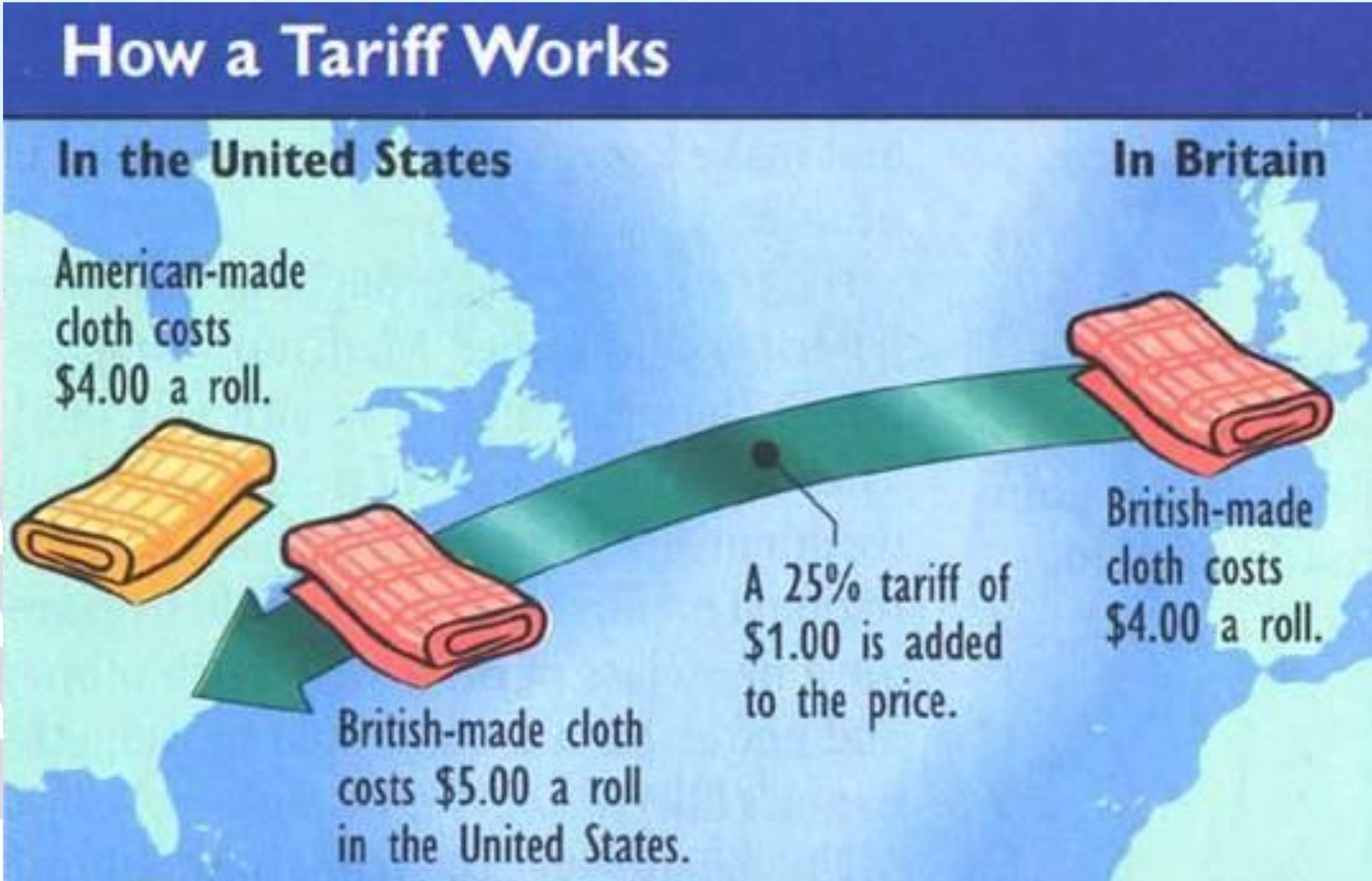
Other Types of Taxation

-Excise tax: placed upon certain items such as gas, alcohol, and tobacco products – luxury items that you voluntarily buy

-Estate tax: imposed on assets left to inheritors; does not apply to the transfer of assets to a surviving spouse

-Gift tax: applied to an individual giving anything of value to another person (limit is $16,000 per year – meaning if it's more than that amount, it's taxed)

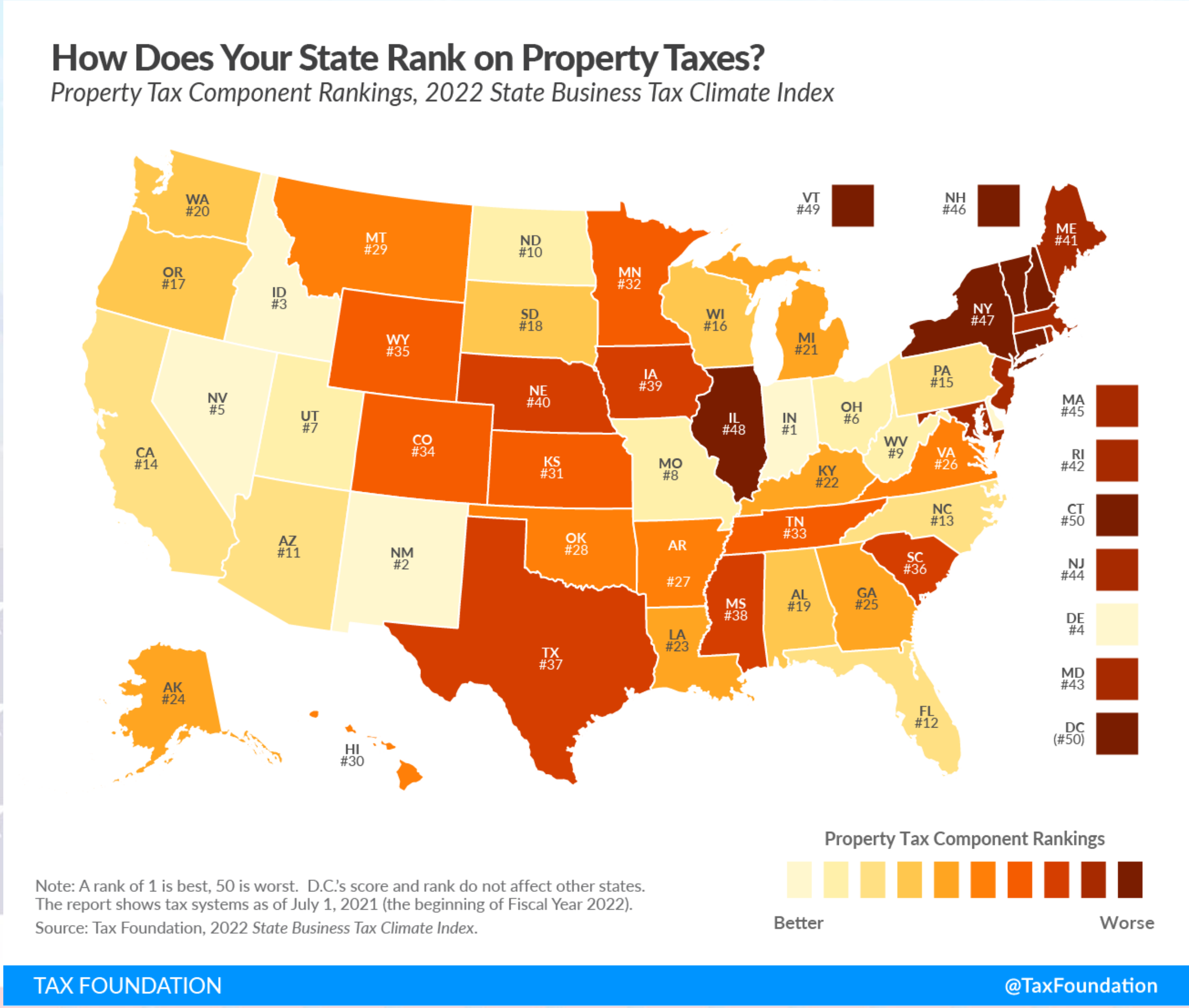
-Tariffs: taxes on imported goods; applied to bring revenue into the country and to encourage the purchase of domestic products over foreign


How a Tariff Works
In the United States
In Britain
American-made cloth costs $4.00 a roll.
British-made cloth costs $4.00 a roll.
A 25% tariff of $1.00 is added to the price.
British-made cloth costs $5.00 a roll in the United States.

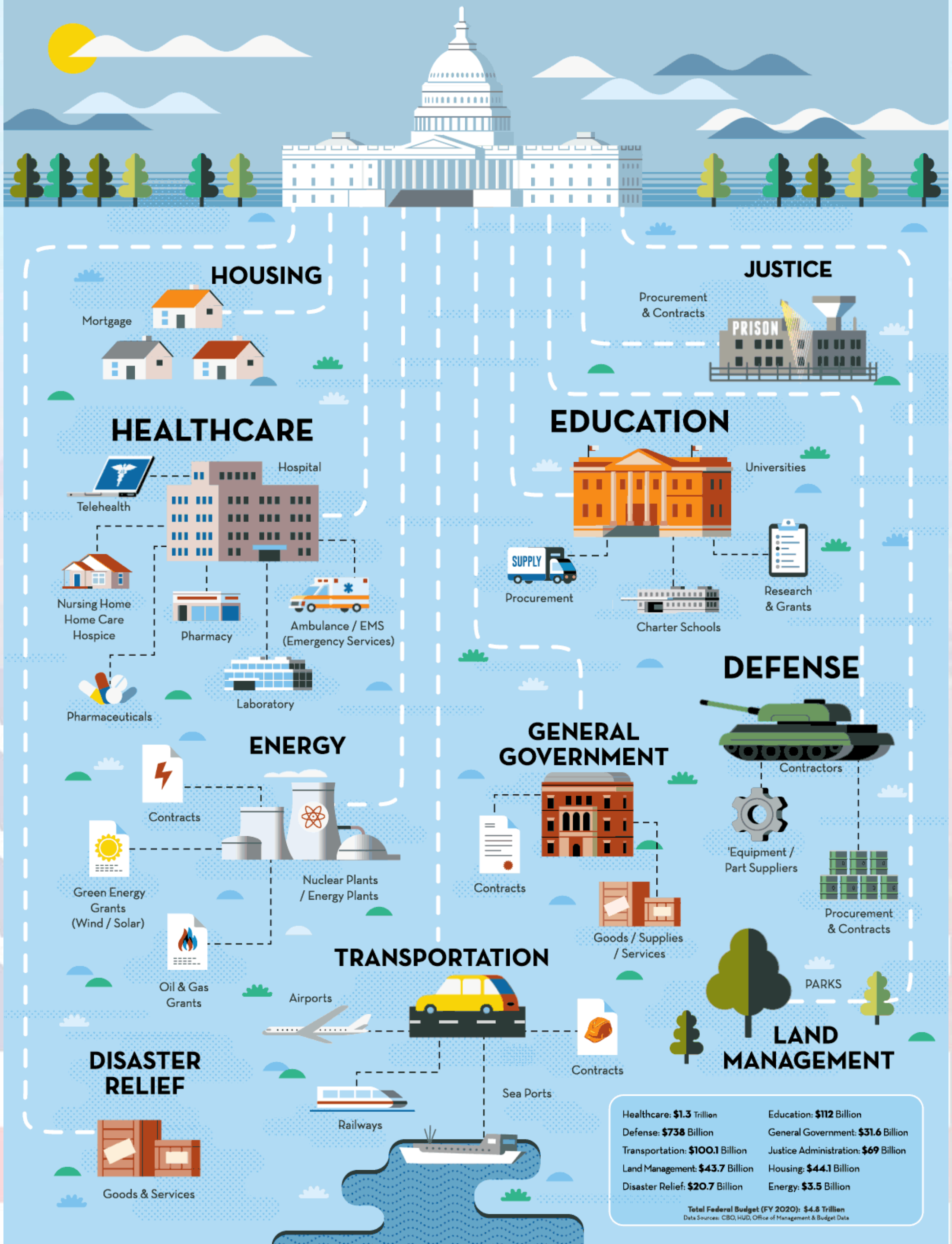
Property Taxes

Primary revenue for local governments (second largest) and used to pay for county funding

-Based on estimated value and considered a "stable source of revenue" since the local government will always see an exchanging of owners of the same property year after year



Government Expenditures

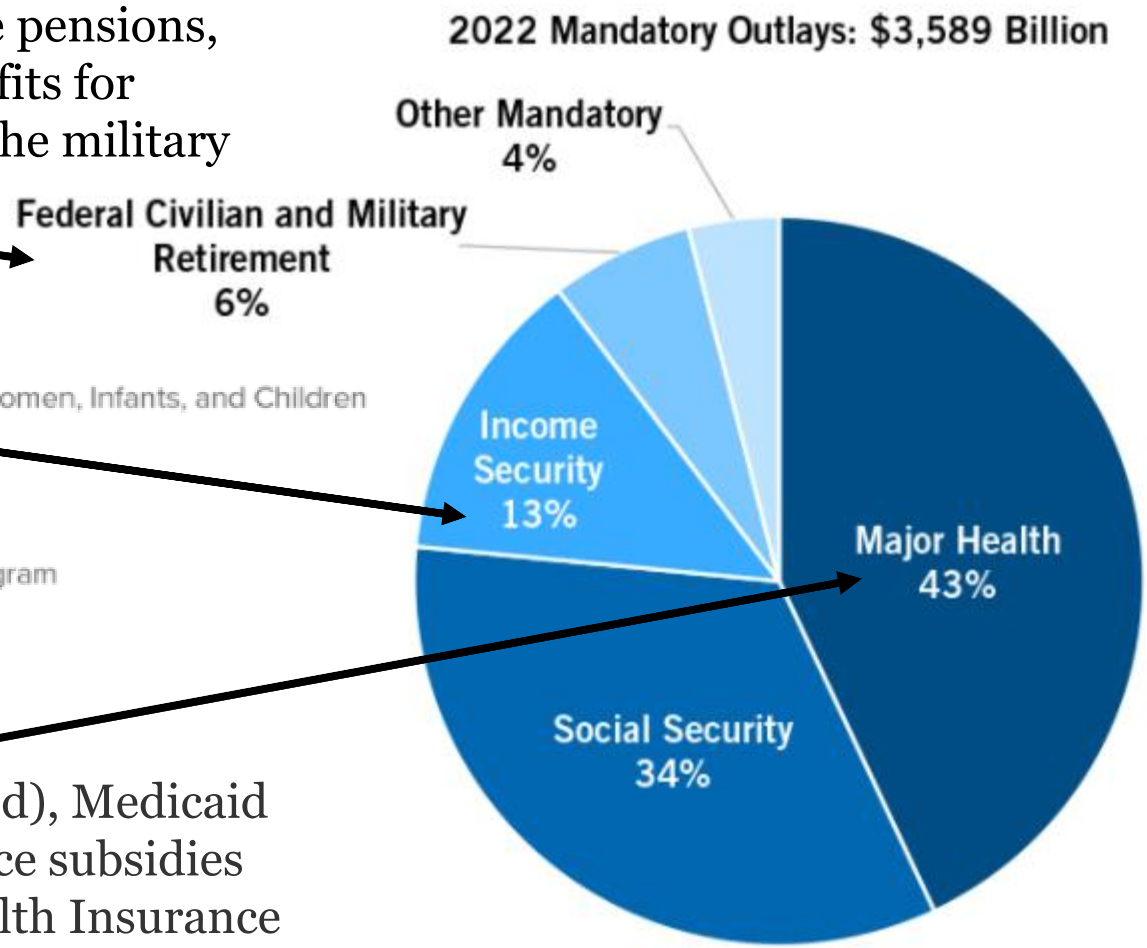


Mandatory Spending

The government taxes citizens and corporations to create revenue ("earns") so that it can make expenditures (spend)

-Mandatory spending: programs governed by provisions of permanent law; do not need approval each year through legislation

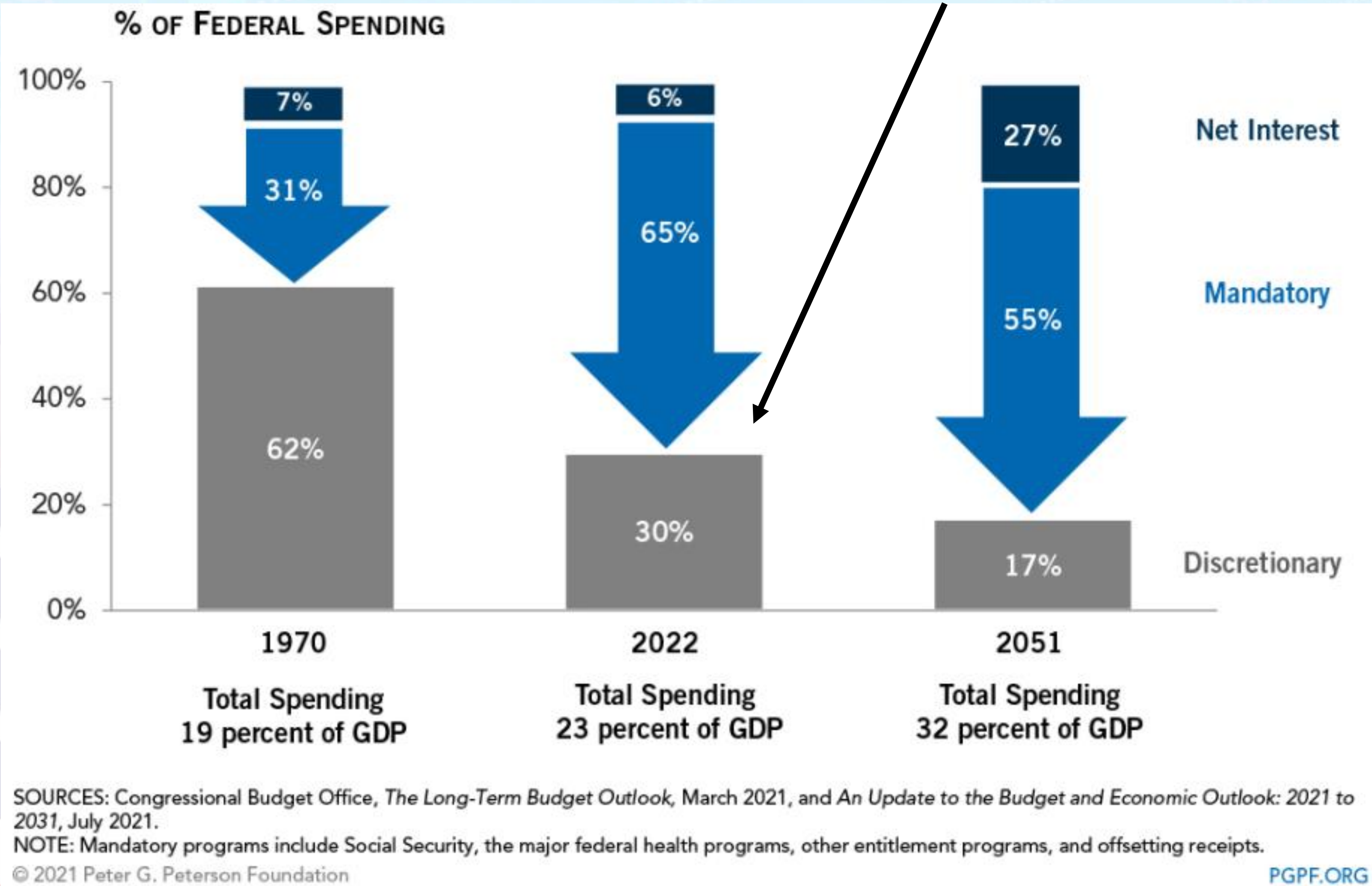
Veterans' programs that provide pensions, income support, and other benefits for those who previously served in the military



SNAP = Supplemental Nutrition Assistance Program
WIC = Special Supplemental Nutrition Program for Women, Infants, and Children
CTC = Child Tax Credit
EITC = Earned Income Tax Credit
AOTC = American Opportunity Tax Credit
TANF = Temporary Assistance for Needy Families
LIHEAP = Low Income Home Energy Assistance Program

Medicare (elderly and disabled), Medicaid (low-income), health insurance subsidies (low-income), Children's Health Insurance Program (low-income children and parents)

The percentage of mandatory money being spent is increasing



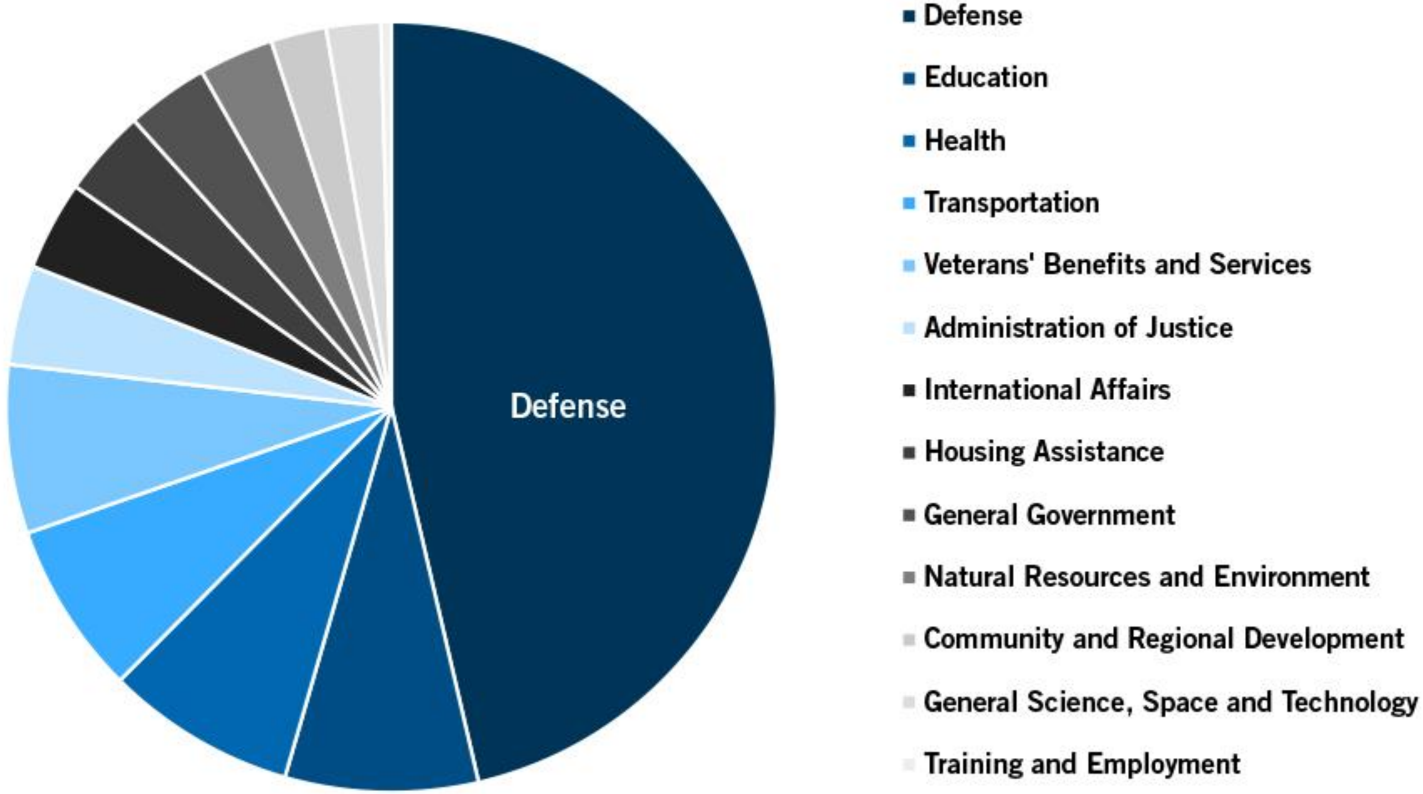
And is only projected to increase…

Discretionary spending: determined on a yearly basis by Congress and the president through enactment of appropriation legislation

PETER G. PETERSON FOUNDATION

Defense spending accounts for about half of total discretionary spending

2022 Discretionary Outlays: $1,615 Billion



SOURCE: Congressional Budget Office, *The Budget and Economic Outlook: 2021 to 2031*, February 2021.
NOTES: Health includes funding for agencies that provide healthcare services or engage in health research, such as the National Institutes of Health, Centers for Disease Control and Prevention, and Indian Health Service. General government includes central executive and legislative functions as well as the administrative costs of Social Security, Medicare, and income security programs. Energy is included in Transportation and Agriculture is included in Natural Resources and Environment. Veterans' benefits primarily consists of medical and hospital care.

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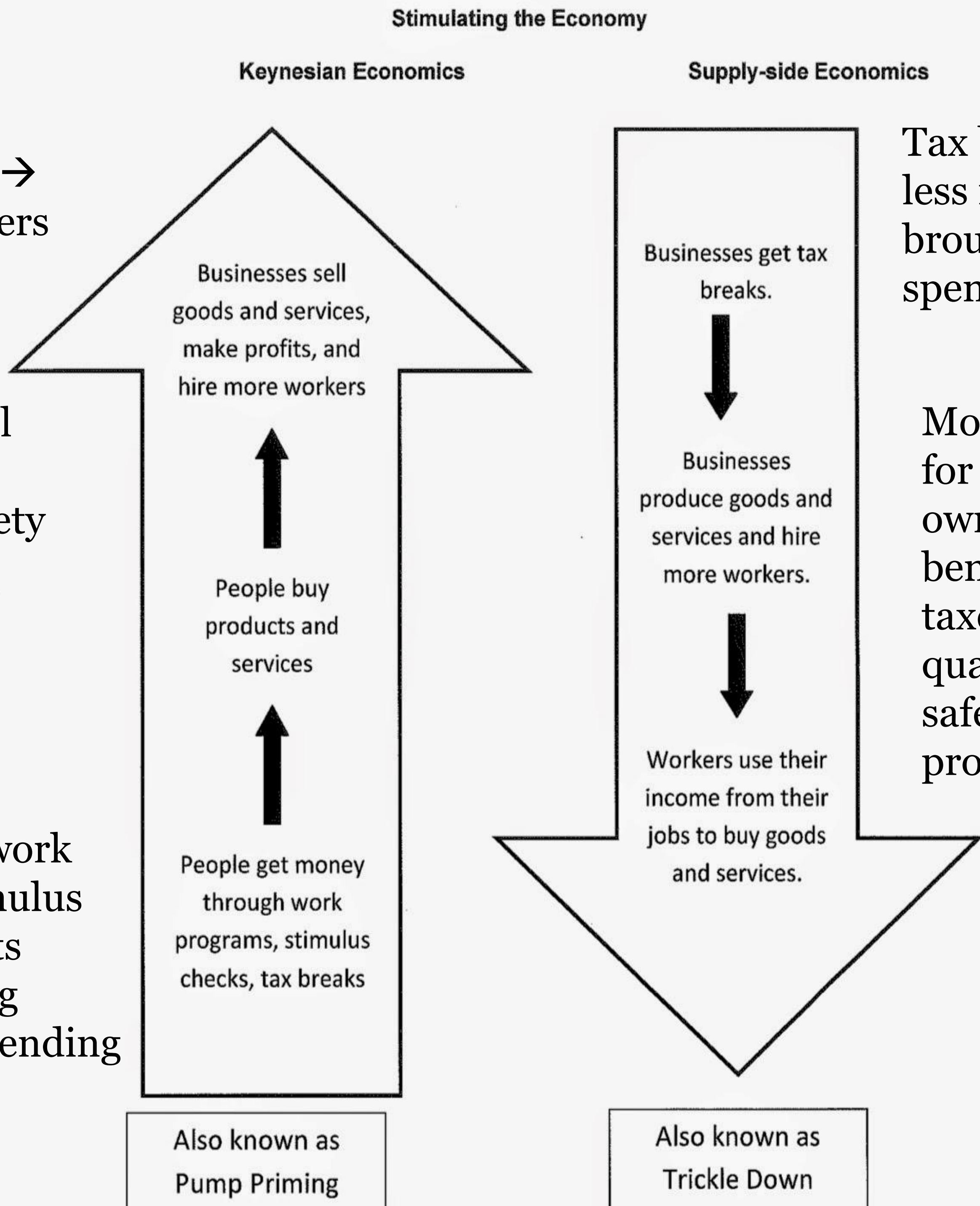
Creates →
consumers

More beneficial for those who need social safety net programs, employment, temporary assistance, etc.

Creating jobs (work programs), stimulus checks, etc. costs money, meaning either deficit spending or tax increases



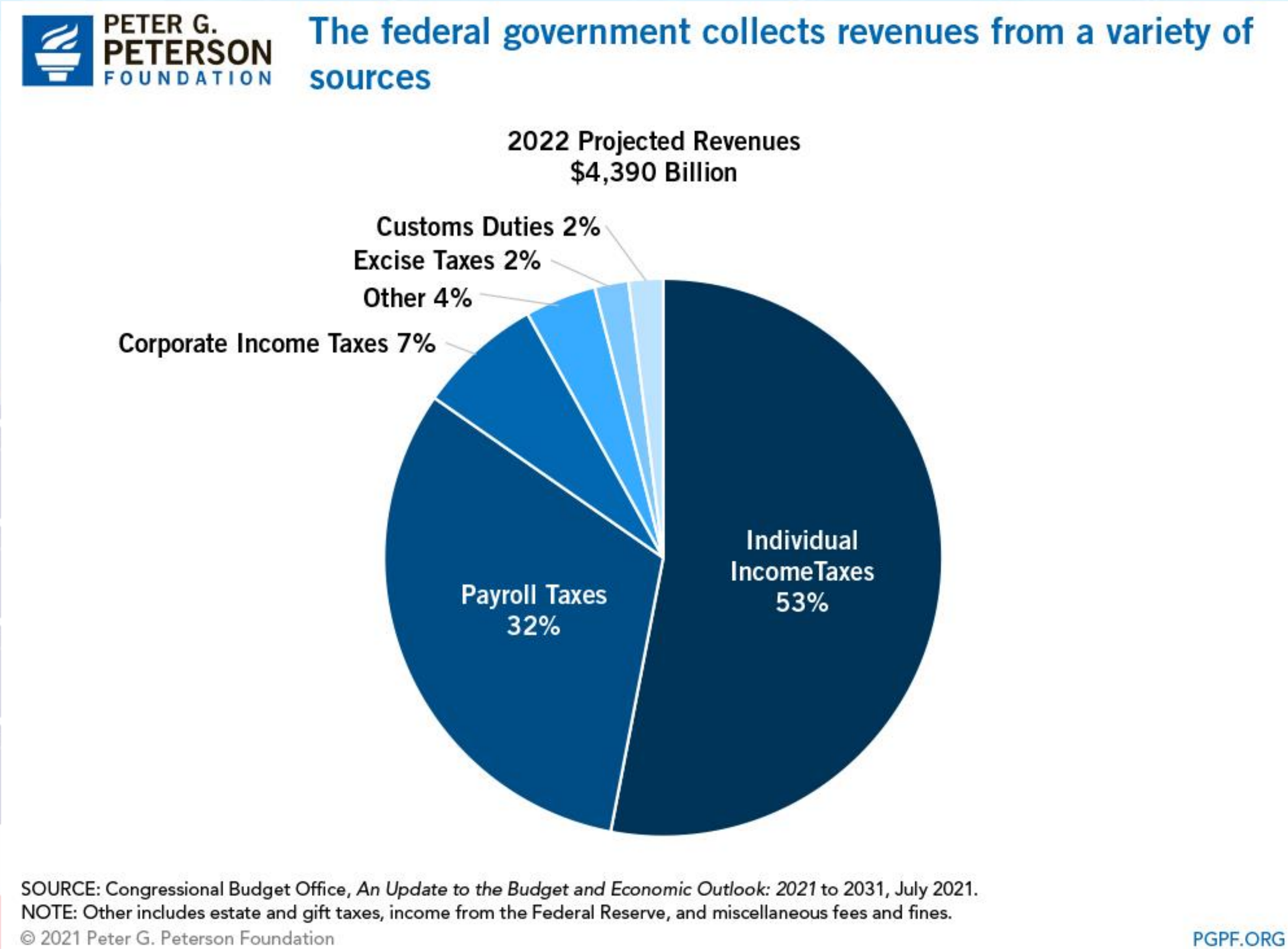
Tax breaks mean less revenue is brought in to be spent

More beneficial for those who own businesses, benefit from low taxes, and do not qualify for social safety net programs

← Creates
consumers

Government Revenue

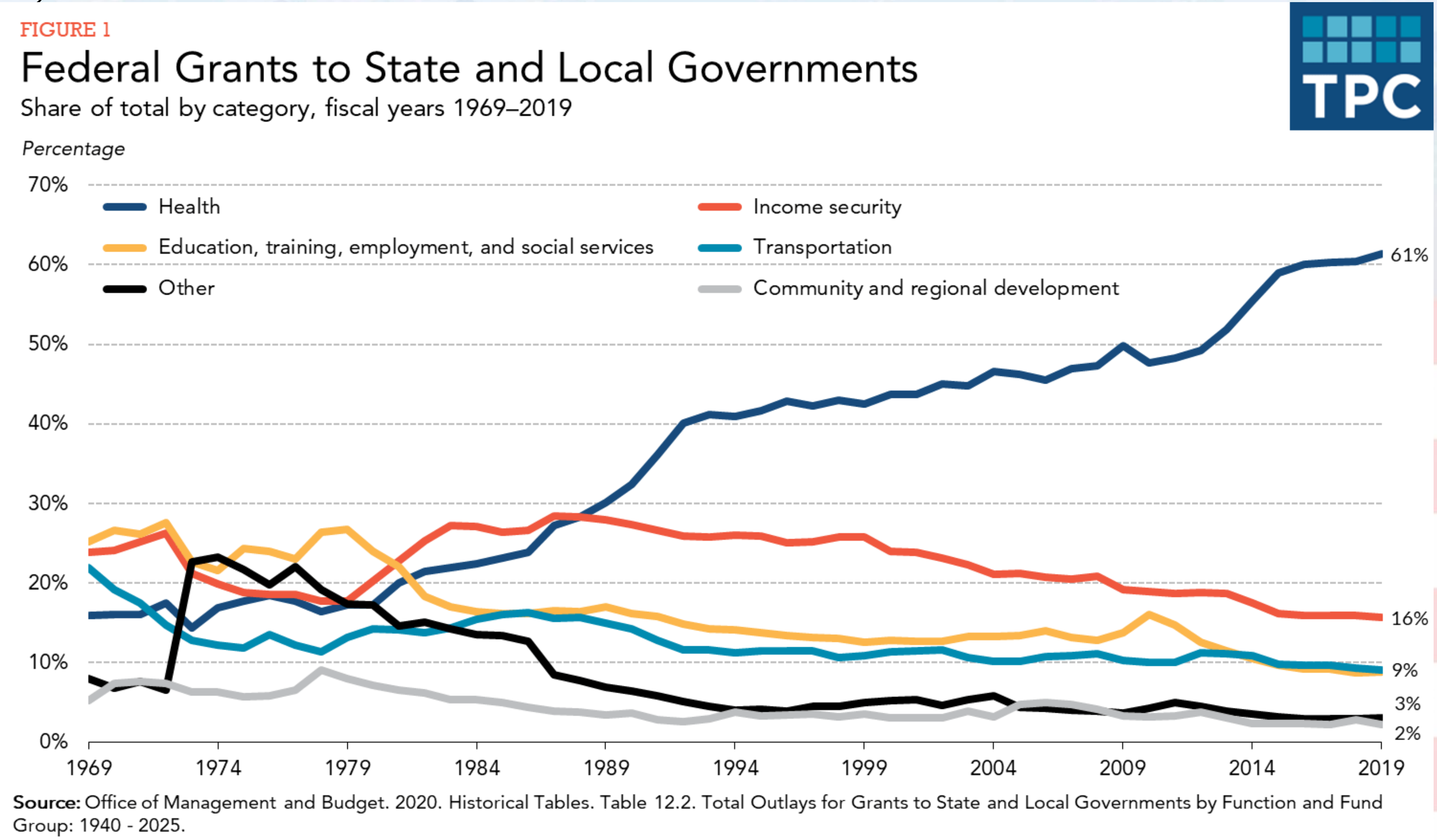
The sources from which the government brings in money to make yearly expenditures



Methods of Revenue Sharing

- Intergovernmental revenue (federal grant-in-aid): money that one level of government receives from another level; national government gives money for social safety net programs, highway construction, hospitals

- Selling excess land or property, tolls, fines, fees, licenses, disposal fees, permit fees, lotteries

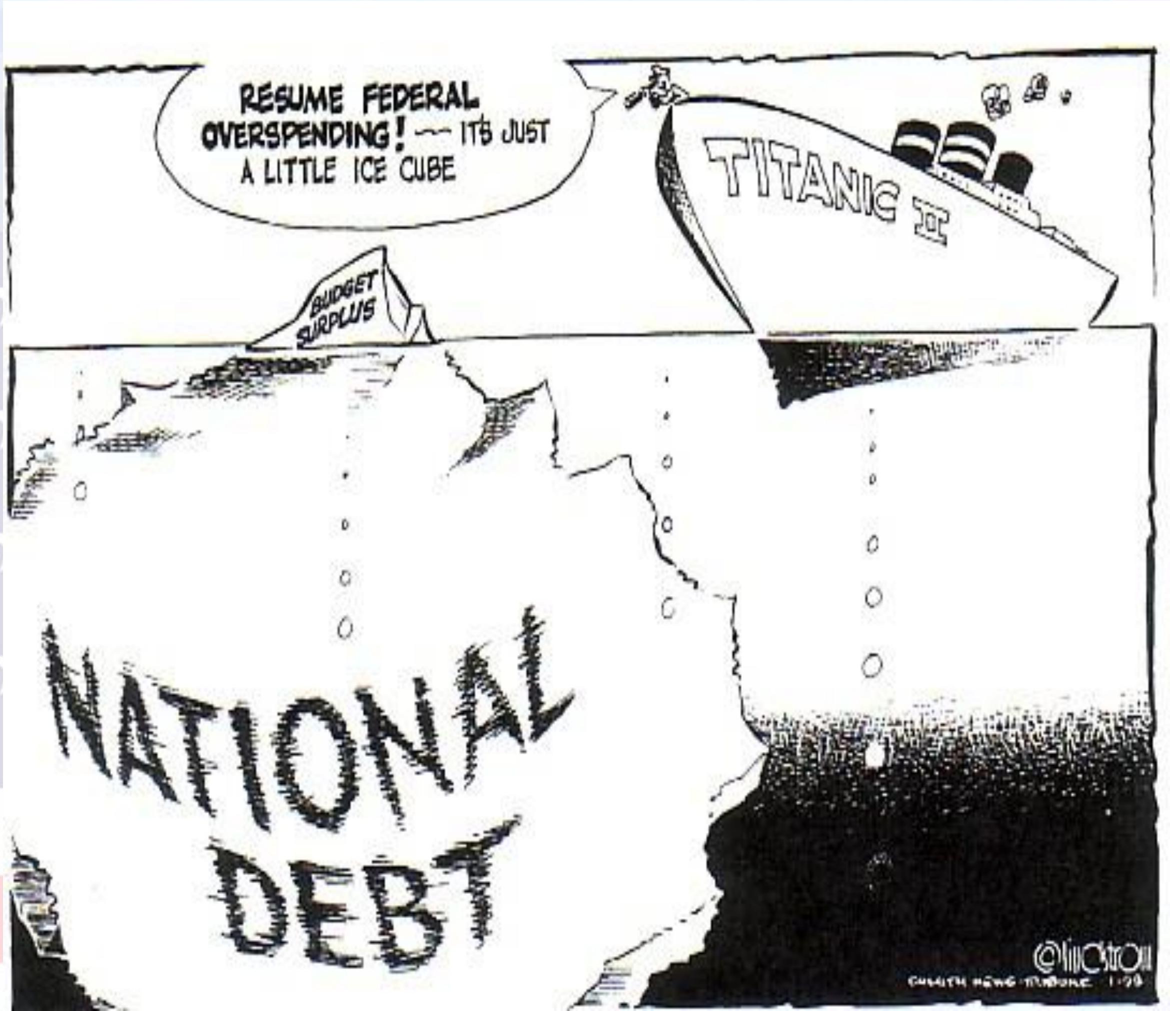


Budget Deficit versus Debt

"Debt" derives from the Latin for "owe," while "deficit" comes from the word for "lacking", or "fail"—literally, the opposite of "to do"

The deficit is when the net money taken in is less than the money received

Debt is often an accumulation of years of deficit that has been made up for by borrowing



Monetary Policy

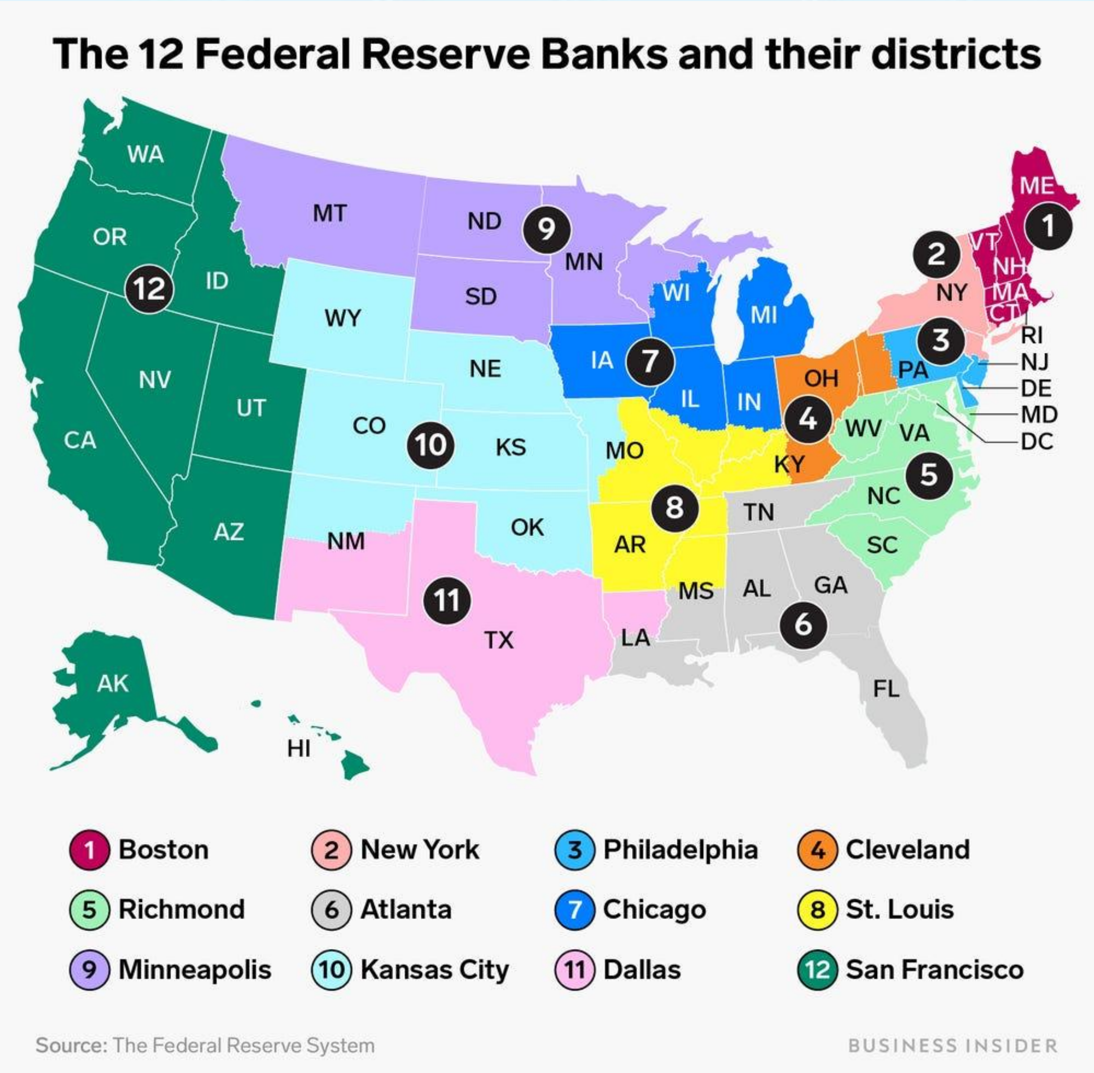
The management of the money supply and interest rates by central banks

-Regulated by the Federal Reserve (also known as the Central Bank or "The Fed") created in 1913 in response to the economic panics leading up to the early 1900s

-The 12 banks of the Federal Reserve circulate the money for all the banks around the country

-The decisions regarding the supply of money is described as "tight" or "easy" monetary policy

-Board members adjust interest rates, the reserve requirement (basically they can add or remove money from circulating around the country)



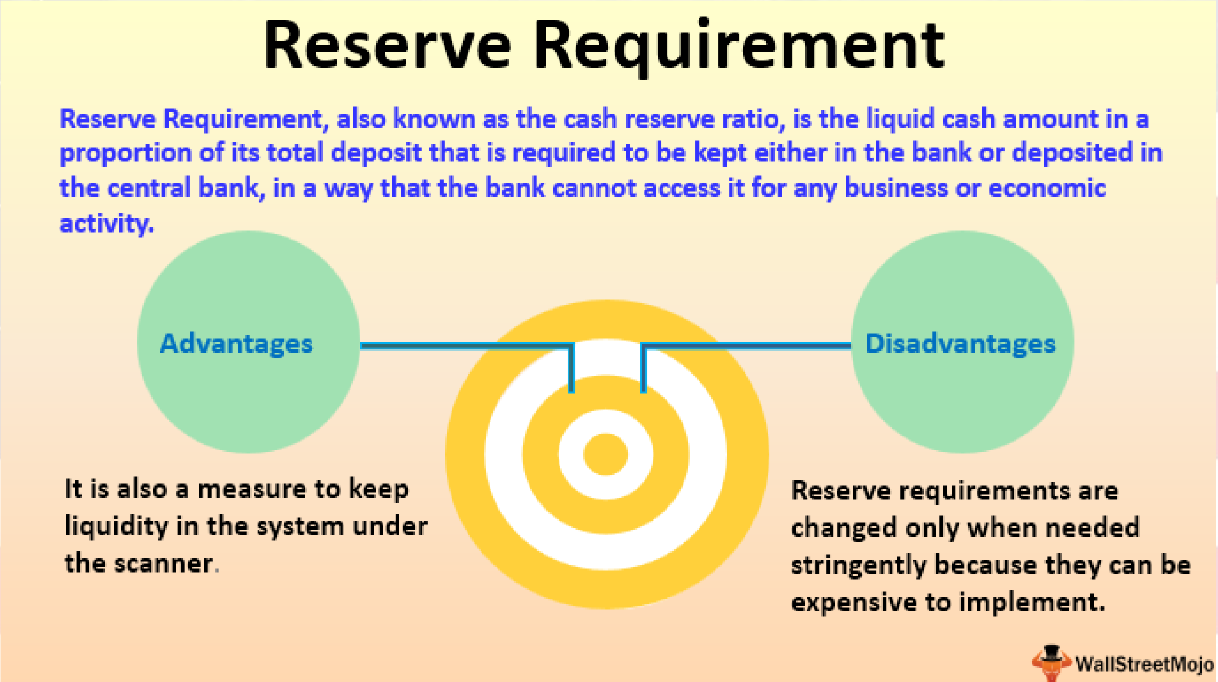
Reserve Requirements

The amount of money the Fed requires banks to "keep" either inside the location or at its district bank

-The money held on "reserve" in the bank allows them to meet their customer's demands (taking out loans or deposits)

-Raising reserve requirements ("tight money policy") means less money is available for loans, which discourages spending (this is done to keep us coasting through periods of expansion or peaks)

-Lowering reserve requirements ("easy money policy") means more money is available for loans, which encourages spending (done to stimulate the economy in periods of contraction, recession, or depression)



Interest Rates

The interest rate charged to commercial banks and other financial institutions for short-term loans they take from the Federal Reserve Bank

Raising interest rates ("tight monetary policy") decreases the money circulating throughout the country because people will often wait to buy goods that they need loans for until they come back down to control periods of expansion or peaks

-Lowering interest rates ("easy monetary policy") increases the money supply because people are incentivized to take out loans to purchase goods to stimulate the economy during contraction, recessions, or depressions