

Making Sense of the Federal Budget

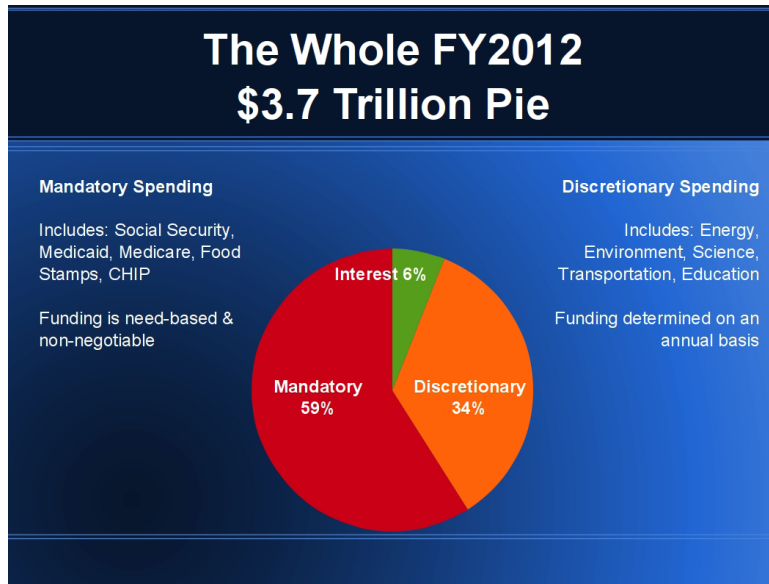
On the first Monday in February, the President of the United States releases a proposed budget for the coming year—a blueprint for spending federal dollars on everything from health care to education to food stamps to international affairs.

It has enormous implications for states and local communities. Through the federal budget, the federal government sends funds to states to support community programs and benefits. The federal government spends money on:

- education
- job training
- community development
- children's insurance
- food and drug safety
- housing
- Medicare, Medicaid, Social Security and Unemployment Insurance.

The federal budget—which is \$3.7 trillion for the current fiscal year (2012)—is divided primarily into two major spending categories: **Mandatory** and **Discretionary**. A third, much smaller category is interest on the national debt.

Mandatory Spending: This spending is automatically budgeted without Presidential or Congressional action, based on existing laws that govern specific programs or functions such as Medicare, Medicaid, the Supplemental Nutrition Assistance Program (formerly Food Stamps), Social Security and other retirement funds. Mandatory spending accounts for roughly two-thirds of total federal spending.



The proposed FY 2012 budget for Mandatory spending is \$2.144 trillion.

Discretionary Spending: This is the portion of the federal budget the President must request and Congress must approve *each year*. Discretionary spending accounts for about a third of the full federal budget (and about half of where our federal income tax dollars go). The Discretionary part of the budget houses money for international affairs, the military, and many education and environmentally-focused programs.

The proposed FY 2012 budget for Discretionary spending is \$1.247 trillion. For more information about the Discretionary Budget, see *Slicing Up the Discretionary Pie*.

Interest on the Debt: This refers to the cost of borrowing money for the years when government expenditures exceeded revenues. The debt, estimated to reach \$14 trillion this year, is different from the budget deficit—the two words are mistakenly used interchangeably when referring to the federal budget. “Deficit” refers to expenditures exceeding revenues in a one-year period. The “debt” is the cumulative value of all the previous deficits and surpluses.

For FY 2012, interest on the debt is estimated to be \$247 billion.

For more about the Federal Budget, go to <http://nationalpriorities.org/en/resources/webinars/federal-budget-101/>



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