1. What *Is* 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.

  If spending is greater than revenues, the Government runs a deficit. To finance deficits, the Government has to borrow money. Government borrowing adds to 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.

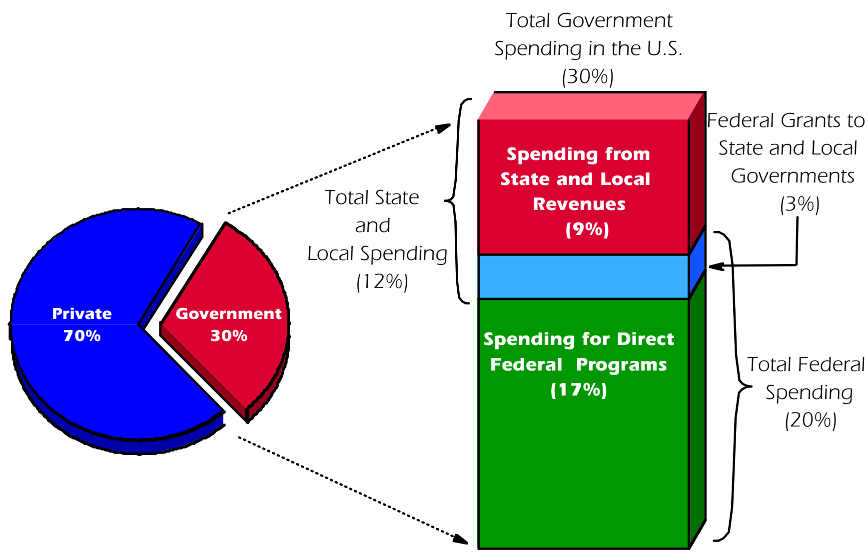
  When the economy is doing well, people are earning more and unemployment is low. In this atmosphere, revenues increase and the deficit shrinks.

- an historical record.

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

The 1999 budget is a document that embodies the President's budget proposal to Congress for fiscal 1999, the *fiscal* year that begins on October 1, 1998. It reflects the President's priorities and the first proposed balanced budget in nearly three decades.

Chart 1–1. Government Spending as a Share of GDP, 1997



Note: Numbers do not add due to rounding.

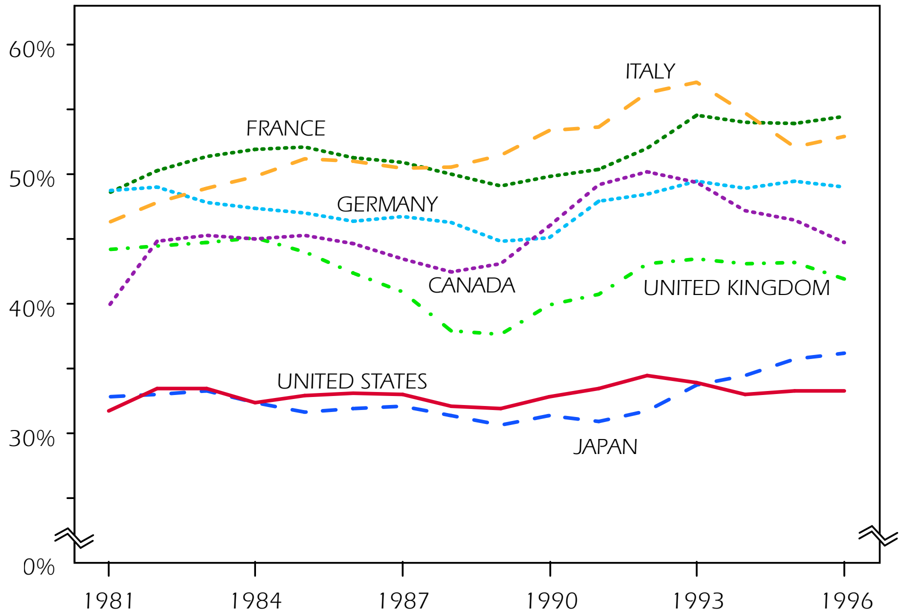
Total Government spending accounts for about one-third of the national economy. Federal spending is about two-thirds of this amount, or 20 percent of GDP.

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 about 20 percent of the Gross Domestic Product (or GDP, which measures the size of the economy) in 1997, State and local governments spending was about another nine percent (see Chart 1–1).

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 $971 billion that State and local governments spent in 1997, $221 billion came from Federal grants.

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

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



Source: OECD, calendar year data.

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