Government Spending

**Government Purchases versus Transfer Payments**
- The government spends trillions of dollars a year
  - $GDP = C + I + G + Xn$
- The $G$ in our formula refers to Government purchases
- It does NOT refer to transfer payments.

What is a transfer payment?

Transfer payments is the government taking money from one group and giving it to another group in the economy.
Transfer Payments Include

- Social Security
  - Transferring between the generations
- Veteran Benefits
  - Transferring money to veterans
- Unemployment Benefits
  - Transferring from the employed to the Unemployed.

Government Purchases vs. Transfers

- Approximately half is “transfer payments”
  - The largest transfer payment is social security
  - These payments eventually end up in the “C” part GDP (after they are spent)
- Approximately half is “government purchases”
  - The largest government purchase is defense
  - These end up in the “G” part of GDP

Federal and State and Local Purchases Relative to GDP, 1960-2000

Total government purchases have been declining since the late 1960s and in 1995 constitute 16 percent of GDP
Federal and State and Local Transfer Payments as a Percentage of GDP, 1960-2000

Federal transfer payments have risen sharply since the mid-1960s, while state and local transfer payments have also grown substantially since the early 1970s.

Total government transfer payments have risen from just 6 percent of GDP in 1960 to more than 15 percent today.

Graphing in “G”

To keep the graph as simple as possible, we are assuming the government spends a constant amount of money regardless of the level of disposable income.
How much is $G$?

Answer: 400

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