

Government Spending

Government Purchases versus Transfer Payments

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

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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

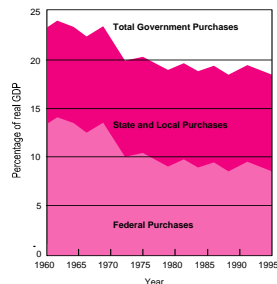
- Social Security
 - Transferring between the generations
- Veteran Benefits
 - Transferring money to veterans
- Unemployment Benefits
 - Transferring from the employed to the Unemployed.

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

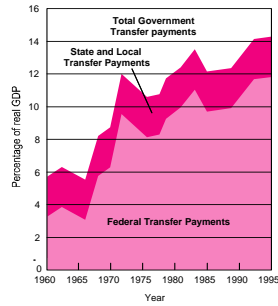
Total government purchases have been declining since the late 1960s and in 1995 constitute 16 percent of GDP



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.

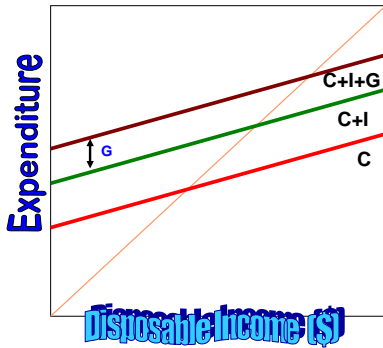
Total government transfer payments have risen from just 6 percent of GDP in 1960 to more than 15 percent today



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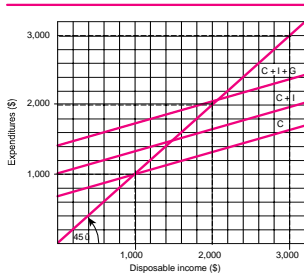
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Graphing in "G"



Graphing the C + I + G + Xn Line

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



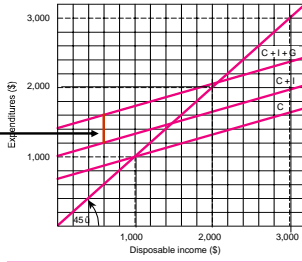
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Graphing the $C + I + G + X_n$ Line

How much is G ?

Answer: 400



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