


# BUDGETING: CHANGE YOUR DESTINY

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# Agenda

What is a Budget?

Why Budgeting is important

- A History Lesson
- The American Dream

What Budgeting can achieve

How to Budget

# What is a Budget?

## BUDGET AND RECONCILIATION

Mar-21

|                          | BUDGET     | ACTUAL     | Difference |
|--------------------------|------------|------------|------------|
| <b>INCOME</b>            |            |            |            |
| Work                     | \$200.00   | \$0.00     | -\$200.00  |
| Internship               | \$650.00   | \$900.00   | \$250.00   |
| Allowance from mom & dad | \$200.00   | \$300.00   | \$100.00   |
| TOTAL INCOME             | \$1,050.00 | \$1,200.00 | \$150.00   |
| <b>EXPENSES</b>          |            |            |            |
| Gas                      | \$100.00   | \$77.00    | -\$23.00   |
| Cell phone               | \$115.00   | \$115.00   | \$0.00     |
| Groceries                | \$40.00    | \$33.00    | -\$7.00    |
| Auto expenses            | \$40.00    | \$0.00     | -\$40.00   |
| Credit cards             | \$50.00    | \$75.00    | \$25.00    |
| Laundry                  | \$10.00    | \$5.00     | -\$5.00    |
| Hair cuts                | \$100.00   | \$124.00   | \$24.00    |
| Weed                     | \$53.75    | \$76.43    | \$22.68    |
| Entertainment            | \$100.00   | \$100.00   | \$0.00     |
| Miscellaneous            | \$150.00   | \$206.00   | \$56.00    |
| TOTAL EXPENSES           | \$758.75   | \$811.43   | \$52.68    |
| NET SAVINGS/LOSS         | \$291.25   | \$388.57   | \$97.32    |

# THE FRENCH REVOLUTION: A HISTORY LESSON ON BUDGETING



# RULERS OF FRANCE: 1643-1774

## A Story of Sex, Wars, and Buildings



Louis XIV



1<sup>st</sup> Duke D'Orleans  
(Louis XIV's brother)



2<sup>nd</sup> Duke D'Orleans  
(Regent of France)



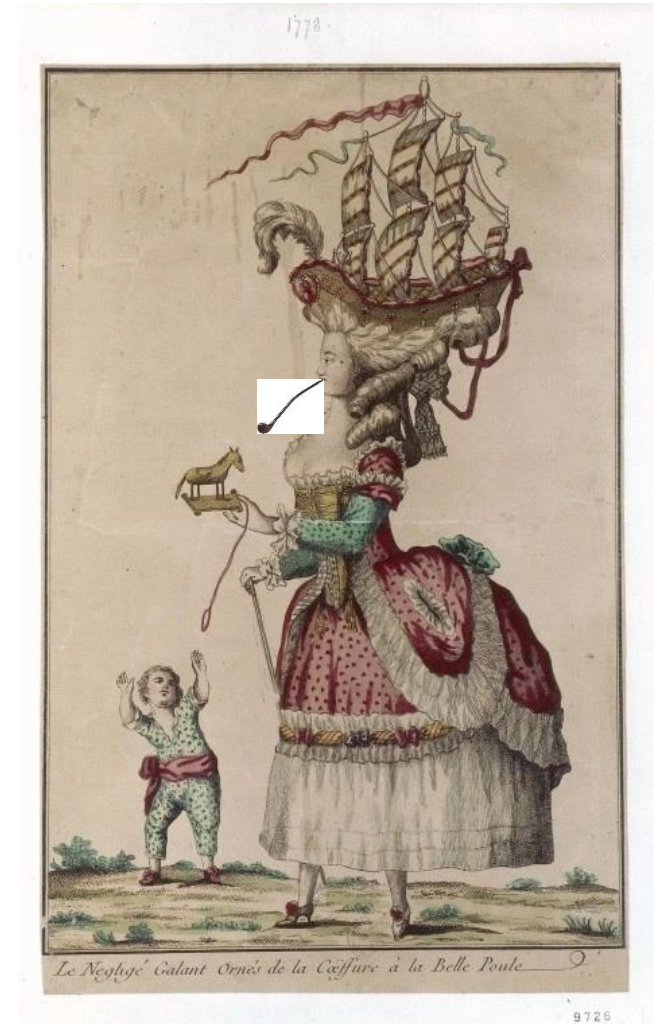
Louis XV



# Chateau of Marly



# LOUIS XVI and MARIE ANTOINETTE







WHY?

# Rich People Dominated Society

## Socio-Economic Data, 1789

| Land Ownership by Social Category on the Eve of the French Revolution |        |          |             |           |
|---|--------|----------|-------------|-----------|
|   | Clergy | Nobility | Bourgeoisie | Peasantry |
| Land in France owned by each group                                    | 6–10%  | 20–25%   | 30%         | 40–45%    |
| Each group as a percentage of the total population                    | 2%     | 1.5%     | 8.4%        | 82–87%    |



In the US, the top 1% richest control  
30% of the country's wealth



Peasants  
were sad



## Financial Problems in France, 1789

### a Urban Commoner's Budget:

- Food 80%
- Rent 25%
- Tithe 10%
- Taxes 35%
- Clothing 20%
- **TOTAL 170%**

# Because popular will always prevails





# Inspired by American Revolution

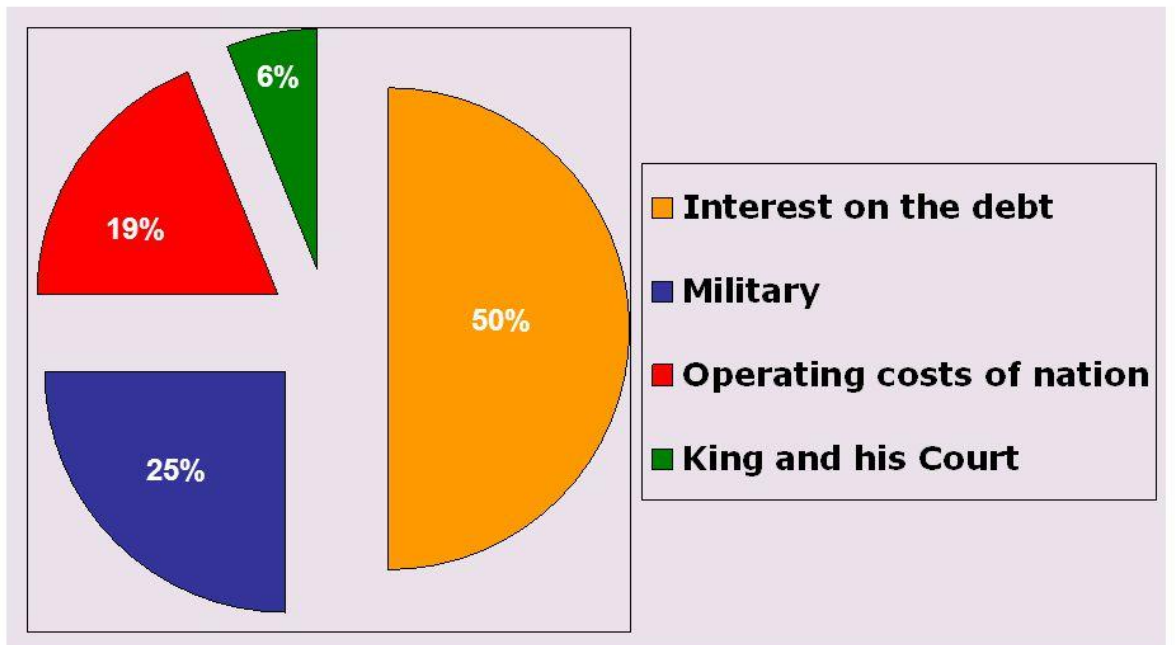


# WHY? NO MONEY!

Spending was  
over 60% above  
revenues

If you can't pay  
the army, things  
get tough.

**By 1788 the national budget  
broke down like this**



That's all fine and good for a bunch of dead French guys who wore high heels, but what does that have to do with me?

Well, they didn't have a budget.

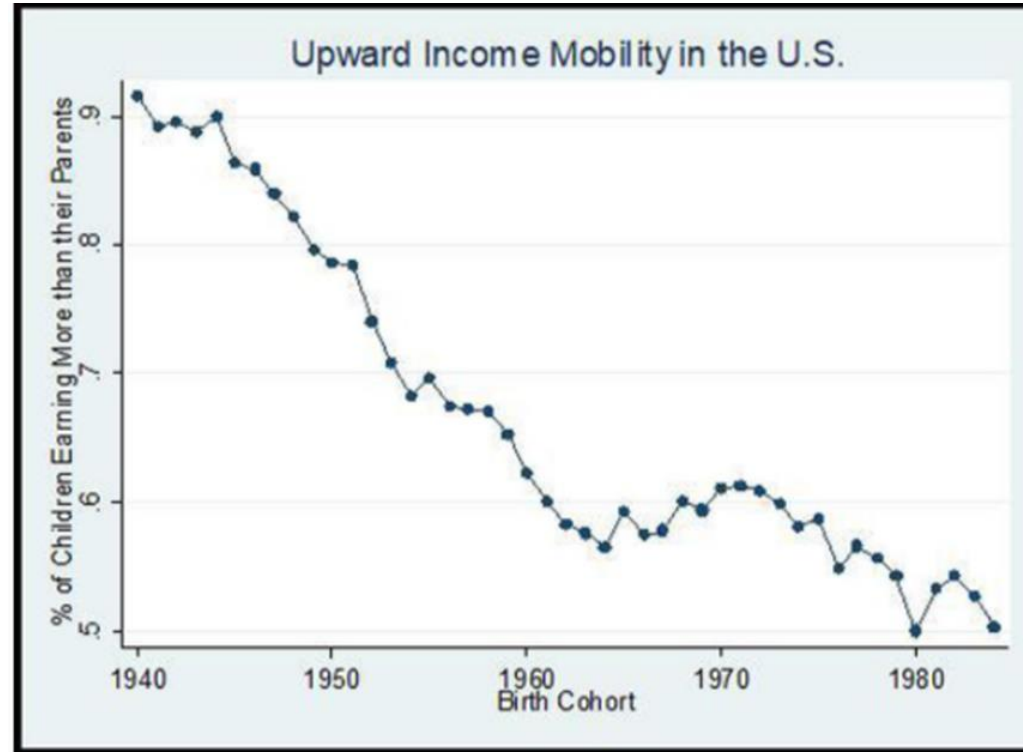
**The American Dream:** “that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement" (Adams, 1935, p. 214-215).

Interpreting Adams's words, one may conclude that achieving higher levels of net worth should simply be the result of an individual's effort or intelligence, yet experts would dispute these conclusions.

- It does not appear that the hours of work or the effort expended are correlated with wealth and income (McNamee & Miller, 2004).
- Nor does it appear that intelligence, as measured by IQ scores, has a significant impact on net worth (Zagorsky, 2007; Griesdorn & Durband, 2016).

# SOCIAL MOBILITY:

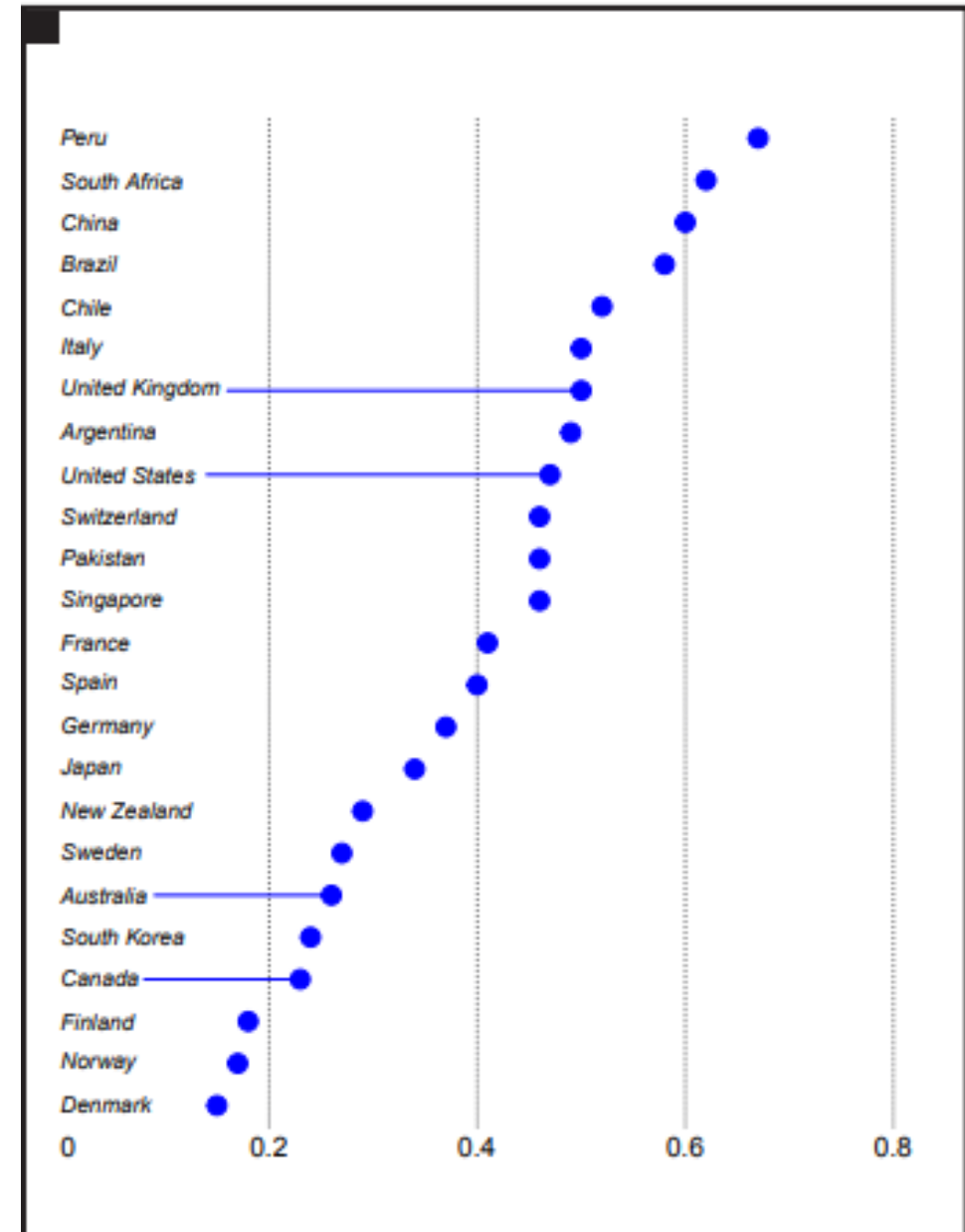
*“Every child had a pretty good shot  
To get at least as far as their old man got” (Billy Joel, Allentown)*



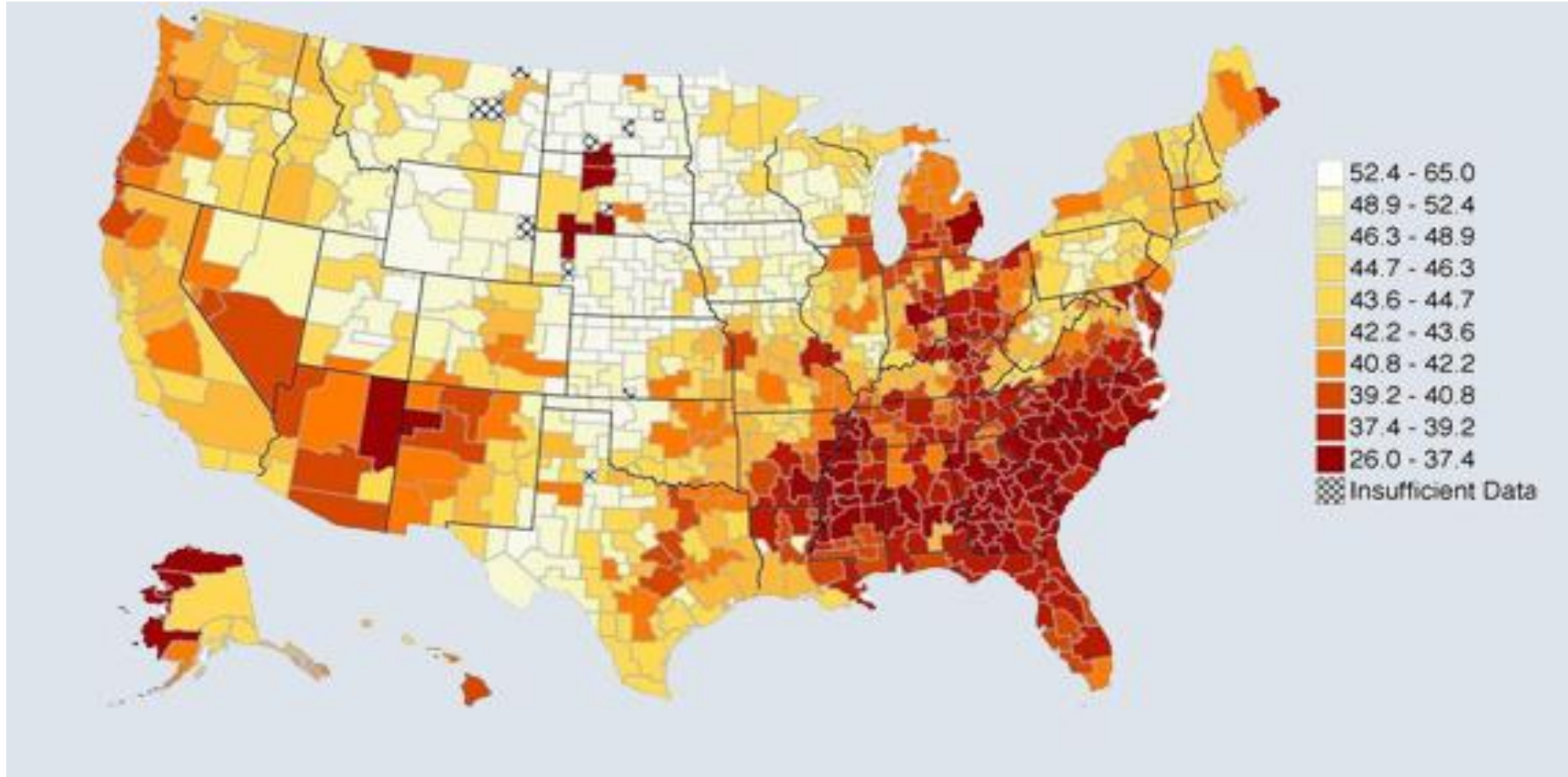


This is the  
American Dream!  
At least we're  
better than other  
countries at this  
mobility thing!

FIGURE 1. Countries Ranked by the Strength of the Tie Between Father and Son Earnings



# Economic Mobility: Measuring the American Dream



Source: Raj Chetty, Brookings Institute

# So Why are Wealthy People Rich?

- Rich parents
- Gender
- Race
- They own a home
- Married
- They are pretty

The conclusion from several studies is that those with a higher net worth are likely to be older, male, white, married, and homeowners.

(Pfeffer, 2010; Ruel & Hauser, 2013; Campbell & Kaufman, 2006; Griesdorn & Durband, 2016).

What if I'm not a white guy from a rich family?  
What if I'm ugly? Am I destined to be poor?

- **EDUCATION**
- **MANAGING YOUR MONEY:**
  1. **SAVING AND INVESTING MONEY**
  2. **BUDGETING**

(Tamborini, Kim, & Sakamoto, 2015; O'Neill, Xiao, & Ensle, 2017)

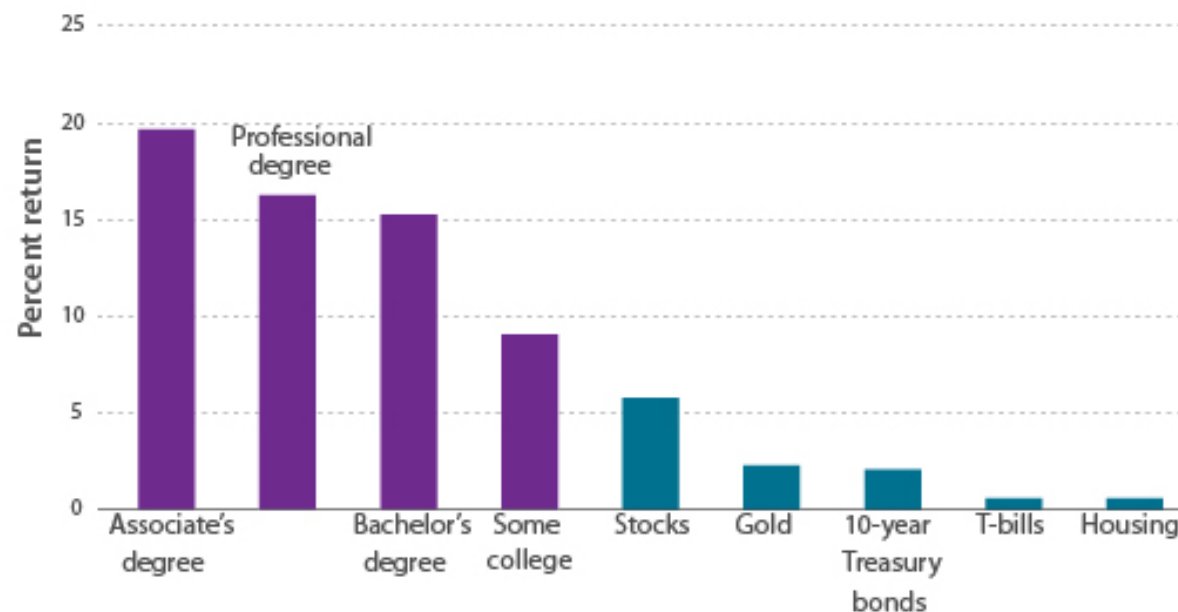
# EDUCATION: Your highest return!

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FIGURE 11.

## Returns to Education Compared to Other Investments

The average returns to earning a degree are high, and even the returns to starting college and not finishing are still higher than the returns to any other traditional investment



Source: CPS (2009, 2010–12); Damodaran (2013); Federal Reserve Economic Data (2013); National Center for Education

Statistics ([NCES] 2012, 2013); National Mining Association (2012); Shiller (2013); authors' calculations.

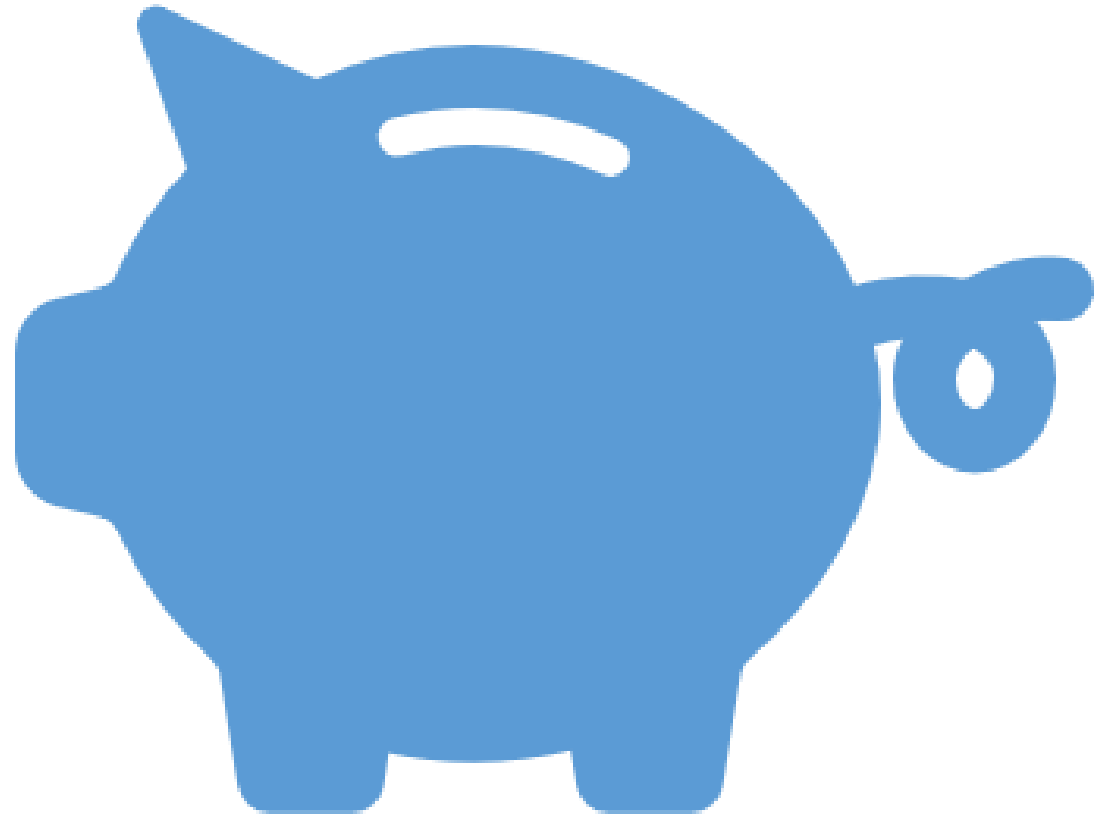
Note: Sample is civilian, natural-born U.S. citizens.  
Earnings data come from the CPS (2010–12) and tuition data come from NCES (2012, 2013). Data for other assets reflect real returns between 1928 and 2012. See the technical appendix for a full description of the calculations.



# SAVING AND INVESTING MONEY

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- Save 10% of your pre-tax income
- Invest it



# BUDGETING

- Keep track of how you spend your money.
  - How well you meet your budget, match actual expenses to budgeted expenses, is a measure of performance.
  - Helps curb potentially bad habits. Your decisions are in your face.



# WHAT BUDGETING CAN ACHIEVE:

## ROB WESTERVELT

# BUDGETING MADE EASY: ROB PATRICK