CHAPTER 16

Financing Government

Essential Question
How should the federal budget reflect Americans' priorities?

GOVERNMENT ONLINE
On the Go

To study anywhere, anytime, download these online resources at PearsonSuccessNet.com
- Political Dictionary
- Audio Review
- Downloadable Interactivities

Lesson Goals

SECTION 1

Students will . . .

- examine how taxes affect wages by calculating withholding and net pay using a sample paycheck.
- discuss how and why government raises money.
- examine sources of government funding using scenarios about the types of federal taxes.

SECTION 2

Students will . . .

- analyze the annual deficits and surpluses and the public debt by interpreting graphs.
- describe the federal borrowing process.
- analyze key events in the history of the public debt by examining a timeline.

SECTION 3

Students will . . .

- distinguish between controllable and uncontrollable spending categories on a federal budget circle graph.
- understand the difficulty of setting budget priorities by completing a ranking activity.

SECTION 4

Students will . . .

- discuss the nation's current economic situation and the tools available to the government to address it.
- analyze monetary and fiscal policy tools, using a transparency.
- analyze graphs of economic performance on the government's main economic goals and suggest policy actions.

Pressed for Time

Discuss how the Federal Government acquires revenue. Then have students brainstorm the types of programs and government activities this revenue funds and list them on the board. Help students understand controllable and uncontrollable spending by categorizing each item on the board as one or the other. Review the government's budget-creation process. Then conduct the Section 3 Core Worksheet activity.

FOLLOW UP Have students write a summary of the process by which their group resolved the steps in each task in the activity. Students should keep in mind the chapter's Essential Question: **How should the federal budget reflect Americans' priorities?,** and should include in their summary how their group's choices were informed by the priorities of their constituents.

DIFFERENTIATED INSTRUCTION KEY

Look for these symbols to help you adjust steps in each lesson to meet your students' needs.

L1 Special Needs
L2 Basic
ELL English Language Learners
LPR Less Proficient Readers
L3 All Students
L4 Advanced Students

GUIDING QUESTION

How is the Federal Government financed?

Financing Government		
Constitution	**Tax Revenue**	**Non-tax Revenue**
• grants Congress power to tax • taxes may not violate other provisions • tax only for public purposes • no export taxes • direct taxes must be equally apportioned among States by population • income tax may be laid without regard to population • indirect taxes must be same rate throughout country • Federal Government may not tax State or local governmental activities	• individual income taxes • corporate income taxes • social insurance taxes • excise taxes • estate taxes • gift taxes • customs duties	• Federal Reserve interest charges • other interest, tolls, fees • sale or lease of public lands • fines imposed by federal courts • "conscience fund" • seigniorage from minting coins • stamps sold to collectors

Get Started

LESSON GOALS

Students will . . .

- examine how taxes affect wages by calculating withholding and net pay using a sample paycheck.
- discuss how and why government raises money.
- examine sources of government funding using scenarios about the types of federal taxes.

SKILLS DEVELOPMENT

PROBLEM SOLVING

Before students do this section's Core Worksheet, which contains tax calculations, you may wish to review the information on problem solving in the Skills Handbook, p. S17.

SECTION 1

Taxes and Other Revenue

Guiding Question

How is the Federal Government financed? Use a chart like the one below to keep track of the main ideas about financing government.

Financing Government		
Constitution	Tax Revenue	Nontax Revenue
• •	• •	• •

Political Dictionary

- fiscal policy
- progressive tax
- payroll tax
- regressive tax
- excise tax
- estate tax
- gift tax
- customs duty
- interest

Objectives

1. Explain how the Constitution gives Congress the power to tax and places limits on that power.
2. Identify the most significant federal taxes collected today.
3. Describe nontax sources of revenue.

Image Above: Taxpayers finalize their federal income tax forms.

This chapter is mostly about fiscal policy—a subject that has a tendency to make most people's eyes glaze over.[1] It is, nonetheless, a matter of very considerable importance to everyone in the United States.

A government's **fiscal policy** consists of the various means it uses to raise and spend money and thereby influence the nation's economy. No one needs to be told that the rate at which government takes in money and the level at which it spends that income have a very substantial impact on economic conditions. In simplest terms, it comes to this: A cut in taxes means more money in the hands of consumers, and their increased spending power means more jobs. An increase in taxes takes money away from consumers and so tends to slow the economy and reduce inflation.

In this section, we turn to taxes. Later, we shall look at borrowing—another source of governmental income—how the government spends what it takes in, and, finally, how the government's fiscal policy affects the economy.

The Power to Tax

No one really likes taxes—except, perhaps, late-night television personalities who often find fodder for their monologues in that subject. They are far from the first to joke about taxes, however. More than two centuries ago, Benjamin Franklin famously said that "in this world nothing can be said to be certain, except death and taxes."

The Constitution underscores the central importance of the power to tax by listing it first among all of the many powers granted to Congress. The Constitution gives to Congress the power

FROM THE CONSTITUTION

To lay and collect Taxes, Duties, Imposts and Excises to pay the Debts and provide for the common Defence and general Welfare of the United States. . . .
—Article I, Section 8, Clause 1

1 The word *fiscal* comes from the Latin word *fiscus*, meaning originally a reed basket and later a purse or treasury. In ancient Rome, the *fiscus* was the public treasury, the emperor's purse.

Focus on the Basics

FACTS: • Article I gives Congress the power to levy taxes to operate the Federal Government. • The Constitution states that Congress may tax only for public purposes, may not tax exports, must apportion direct taxes equally among the States, and must set indirect taxes at the same rate across the country. • Progressive taxes impose higher rates for higher incomes. • Regressive taxes apply the same rate to all, regardless of income.

CONCEPTS: enumerated and implied powers, limited government, federalism

ENDURING UNDERSTANDINGS: • The power to tax is used not only to raise revenue to operate the government, but also to regulate and even discourage some activities.

First and foremost, Congress exercises the taxing power in order to raise the money needed to operate the Federal Government. However, Congress does sometimes exercise that power for purposes other than the raising of revenue. Usually, that other purpose is to regulate, even discourage, some activity that the government believes to be harmful to the general public.

Thus, much of the Federal Government's regulation of narcotics and other dangerous drugs is based on the taxing power. Federal law provides that only those who hold a valid license can legally manufacture, sell, or otherwise deal in those drugs—and licensing is a form of taxation. The government also regulates a number of other things by licensing—including, for example, the sale and purchasing of certain firearms, prospecting on public lands, and the hunting of migratory birds.

In 1912, Congress used its taxing power to destroy a part of the domestic match industry. It did so by levying a tax of two cents a hundred on matches made with white or yellow phosphorus. Those highly poisonous substances were harmful to workers who produced the matches. Matches made from other substances commonly sold for a penny a hundred at the time. So, as a result, the two-cent tax drove phosphorus matches from the market.

The Supreme Court first upheld the use of the taxing power for nonrevenue purposes in *Veazie Bank* v. *Fenno*, 1869. In 1861, Congress had created a national paper money system to provide a single, sound currency for the country. Private bank notes, which also circulated as money, soon interfered with the government's new "greenbacks." So, in 1865, Congress imposed a 10 percent tax on the issuing of those private notes—and they soon disappeared.

Constitutional Limitations The power to tax is not unlimited. As with all of its other powers, Congress must exercise the taxing power in accord with every provision in the Constitution. Thus, for example, Congress cannot levy a tax on church services—clearly, such a tax would violate the 1st Amendment. In more specific terms, the Constitution puts four expressed limits—and one very significant implied limit—on the power to tax.

First, it declares that Congress is given the power to tax in order to "pay the Debts and provide for the common Defence and general Welfare of the United States." That is, taxes can be levied *only* for public purposes, not for the benefit of some private interest.

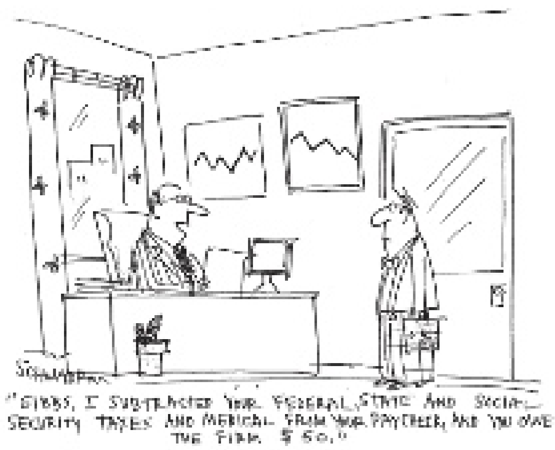
The second expressed limit is the prohibition of export taxes. Article I, Section 9, Clause 5 declares that "No Tax or Duty shall be laid on Articles exported from any State." Thus, customs duties (tariffs) can be applied only to imports—goods brought into the United States. They may not be applied to exports, goods sent out of the country. Recall, this restriction was a part of the Commerce Compromise made by the Framers at Philadelphia in 1787.

While Congress cannot tax exports, it can and does *prohibit* the export of certain items. It does so under its expressed power to regulate foreign commerce, usually for reasons of national security. For example, Congress has banned the export of computer software that allows people to encrypt files in a code no government can crack.

✓ Checkpoint
How does the Constitution limit the power to tax?

levy
v. to charge, impose

encrypt
v. to encode, especially to prevent unauthorized access



Analyzing Political Cartoons Taxes fund the programs and services the public expects from the government. Yet, some criticize the financial burden placed on taxpayers to provide government funding. ***How does this cartoon illustrate this issue?***

BEFORE CLASS

Assign the section, the graphic organizer in the text, and the Reading Comprehension Worksheet (Unit 4 All-in-One, p. 185) before class.

L2 Differentiate Reading Comprehension Worksheet (Unit 4 All-in-One, p. 187)

BELLRINGER

Distribute the Bellringer Worksheet (Unit 4 All-in-One, p. 189), which shows a sample paycheck and earnings statement for Chris Torres, a weekend employee. Have students follow the directions to complete Chris's earnings statement and paycheck.

L2 ELL Differentiate Help students with the earnings statement terminology by writing the following terms and definitions on the board: ***deductions:* amounts subtracted from pay; *gross pay:* total pay before any deductions are subtracted; *net pay:* remaining pay after deductions are subtracted.**

Teach

To present this topic using online resources, use the lesson presentations at **PearsonSuccessNet.com.**

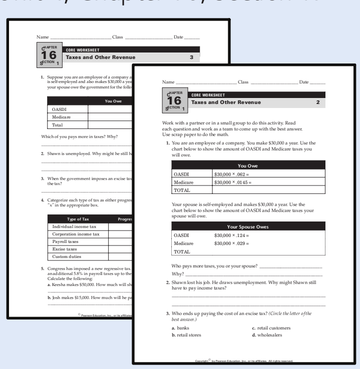
REVIEW BELLRINGER

Display Transparency 16A, Earnings Statement, which shows the completed earnings statement and paycheck from the Bellringer Worksheet. Go over the calculation of gross pay, deductions, and net pay. Students should have found the rates of 6.2% for OASDI and 1.45% for Medicare in their text. Make sure students recognize that net pay on the earnings statement is the amount that they should write on the paycheck. This is the employee's take-home pay. Ask: **Which deductions are federal withholdings?** *(Federal Income Tax, OASDI, Medicare)* **Why does the government require employees to pay OASDI and Medicare taxes?** *(so that the government can provide financial aid and medical care to the elderly and to people with disabilities)*

Differentiated Resources

The following resources are located in the All-in-One, Unit 4, Chapter 16, Section 1:

- **L2** Prereading and Vocabulary Worksheet (p. 181)
- **L3** Reading Comprehension Worksheet (p. 185)
- **L2** Reading Comprehension Worksheet (p. 187)
- **L3** Bellringer Worksheet (p. 189)
- **L3** Core Worksheet (p. 190)
- **L2** Core Worksheet (p. 191)
- **L2** Extend Activity (p. 193)
- **L3** Quiz A (p. 194) **L2** Quiz B (p. 195)



Answers

Checkpoint Taxes can be levied only for public purposes, exports cannot be taxed, direct taxes must be equally apportioned among the States, and all indirect taxes must be set at the same rate across the country.

Analyzing Cartoons The taxpayer is so heavily taxed that his salary cannot actually pay for all taxes due.

DISCUSS TYPES OF TAXES

Have students look at the earnings statement. Tell them that the federal income tax is a *progressive tax,* or a tax that applies a higher rate to higher incomes. The social insurance taxes—OASDI (Social Security) and Medicare on the statement—are *regressive taxes,* or taxes that apply the same rate to everyone.

Point out that no tax for unemployment compensation appears on the earnings statement. Explain that this is a type of payroll tax. However, the federal tax and almost all State taxes to support this joint program are paid completely by the employer. Nothing is deducted from the employee's pay. The amount the employer pays for this tax is based on wages paid to employees.

Remind students that in addition to these payroll taxes, the government imposes several others, including excise taxes, estate and gift taxes, and custom duties—all of which produce revenue. However, the government also imposes taxes for reasons other than to raise revenue. For example, the government places an excise tax on tobacco to discourage people from smoking. It requires licenses to hunt migratory birds to limit the number birds taken, to protect the species from overhunting.

L1 L2 **Differentiate** Write the definitions of the terms *progressive tax* and *regressive tax* on the board. Have students label the taxes on their Bellringer Worksheet with the appropriate type of tax and have them include the definitions on their worksheet.

Checkpoint
How does a direct tax differ from an indirect tax?

Third, direct taxes must be equally apportioned, or evenly distributed, among the States. The Constitution originally provided that

FROM THE CONSTITUTION

No Capitation, or other direct, Tax shall be laid, unless in Proportion to the Census of Enumeration herein before directed to be taken.

—Article I, Section 9, Clause 4

This restriction was a part of the Three-Fifths Compromise the Framers made at the Philadelphia Convention. In effect, delegates from the northern States insisted that if slaves were to be counted in the populations of the southern States, those States would have to pay for them.

Recall that a direct tax is one that must be borne by the person upon whom it is levied. Examples include a tax on land or buildings, which must be paid by the owner of the property; or a capitation tax—a head or poll tax—laid on each person. Other taxes are indirect taxes, levies that may be shifted to another for payment—as, for example, the federal tax on liquor. That tax, placed initially on the distiller, is ultimately paid by the person who buys the liquor.

borne
v. carried as a burden

The direct tax restriction means, in effect, that any direct tax that Congress levies must be apportioned among the States according to their populations. Thus, a direct tax that raised $1 billion would have to produce just about $120 million in California and close to $10 million in Mississippi, because California has about 12 percent of the nation's population and Mississippi nearly 1 percent.

Wealth is not evenly distributed among the States, of course. So, a direct tax laid in proportion to population would be grossly unfair; the tax would fall more heavily on the residents of some States than it would on others. As a result, Congress has not imposed a direct tax—except for the income tax—outside the District of Columbia since 1861.

grossly
adv. very badly, glaringly

An income tax is a direct tax, but it may be laid without regard to population:

FROM THE CONSTITUTION

The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

—16th Amendment

Congress first levied an income tax in 1861, to help finance the Civil War. That tax, which expired in 1873, was later upheld by the Supreme Court in *Springer* v. *United States*, 1881. A unanimous Court found that that income tax was an indirect rather than a direct tax.

However, a later income tax law, enacted in 1894, was declared unconstitutional in *Pollock* v. *Farmers' Loan and Trust Co.*, 1895. There, the Court held that the 1894 law imposed a direct tax that Congress should have apportioned among the several States. The impossibility of taxing incomes fairly in accord with any plan of apportionment led to the adoption of the 16th Amendment, in 1913.

The fourth and final limit, in Article I, Section 8, Clause 1, declares that "all Duties, Imposts and Excises shall be uniform throughout the United States." That is, all of the indirect taxes levied by the Federal Government must be set at the same rate in all parts of the country.

The Implied Limitation The Federal Government cannot tax the States or any of their local governments in the exercise of their governmental functions. That is, federal taxes cannot be imposed on those governments when they are performing such tasks as providing public education, furnishing healthcare, providing police protection, or building streets and highways.

Recall, the Supreme Court laid down that rule in *McCulloch* v. *Maryland* in 1819, when it declared that "the power to tax involves the power to destroy." If the Federal Government could tax the governmental activities of the States or their local units, it could conceivably tax them out of existence and so destroy the federal system.

The Federal Government can and does tax those State and local activities that are of a nongovernmental character, however. For

Myths and Misperceptions

TAX BRACKETS Tax brackets are widely misunderstood. Many people believe that if a pay raise bumps them up to the 15 percent tax bracket, then they will have to pay 15 percent of their entire income in taxes. In fact, they will pay the higher rate only on the amount above the previous bracket. To help students understand the use of tax brackets in the text feature "Progressive Taxes," write these brackets on the board: **Income $0–$8,000 = 10% bracket; Income $8,001–$32,000 = 15% bracket.** Ask: **Lori earns $8,000. How much income tax will she pay?** *($8,000 × 0.1 = $800)* **Lori gets a raise, so the next year she earns $9,000. How much income tax will she pay?** *($8,000 × 0.1 = $800; $1,000 × 0.15 = $150; $800 + $150 = $950 total income tax)* Income taxes are progressive—rates increase as total income increases, but the higher rates apply only to the "extra," not total, earnings.

Answers

Checkpoint A direct tax is paid by the individual on whom it is levied while an indirect tax is paid by another, usually the consumer.

example, in 1893, South Carolina created a State monopoly to sell liquor, and it claimed that each of its liquor stores was exempt from the federal saloon license tax. But in *South Carolina* v. *United States*, 1905, the Supreme Court held that the State was liable for the tax, because the sale of liquor is not a necessary or usual governmental activity. Today, most State and many local governments are engaged in a variety of businesslike enterprises.

Current Federal Taxes

Oliver Wendell Holmes once described taxes as "what we pay for civilized society." Society does not appear to be much more civilized today than it was when Justice Holmes made that observation in 1927. However, "what we pay" has certainly gone up. In 1927, the Federal Government's tax collections altogether came to less than $3.4 billion. Compare that figure with the figures in the chart on this page.

Income Tax You will recall that the income tax was authorized by the 16th Amendment, in 1913. It is the largest source of federal revenue today. It first became the major source in 1917 and 1918. And, except for a few years in the midst of the Depression of the 1930s, it has remained so.

Several features of the income tax fit its dominant role. It is a flexible tax, because its rates can be adjusted to produce whatever amount of money Congress thinks is necessary. The income tax is also easily adapted to the principle of ability to pay. It is a **progressive tax**—that is, the higher one's income, the higher the tax rate. The tax is levied on the earnings of both individuals and corporations.

Individual Income Tax The tax on individuals' incomes regularly produces the largest amount of federal revenue. For fiscal year 2009, the individual income tax was expected to provide more than $1.2 trillion.

The tax is levied on each person's taxable income—that is, one's total income in the previous year less certain exemptions and deductions. On returns filed in 2009, covering income received in 2008, most taxpayers had a personal exemption of $3,650, and another

GOVERNMENT ONLINE
Update
To learn more about federal tax revenue, visit PearsonSuccessNet.com

How Government Works

Taxes At-a-Glance

The Federal Government acquires most of its revenue through taxes. The OMB reported that the government received $2.5 trillion in tax revenue for 2008. ***Who bears the greatest burden in providing funding for the Federal Government?***

Individual Income Tax
A tax levied on each person's total income during the previous year, less exemptions and deductions.

46% of tax revenue $1.14 trillion

Payroll Tax
A tax applied to a percentage of a person's salary, matched by the employer, to fund specific social insurance programs conducted by the government.

36% of tax revenue $900 billion

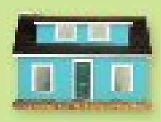
Corporation Income Tax
A tax levied on all the earnings of a business, less its operating costs and authorized deductions.

12% of tax revenue $304 billion

Excise Taxes
A tax placed on the manufacture, sale, or use of goods and/or for services rendered.

2.7% of tax revenue $67 billion

Estate/Gift Taxes
Taxes applied to the estate of a recently deceased person and to sizeable monetary gifts between living individuals.



1.2% of tax revenue $29 billion

Custom Duties
Taxes levied on goods imported into the United States from other countries.

1.1% of tax revenue $27 billion

SOURCE: Office of Management and Budget

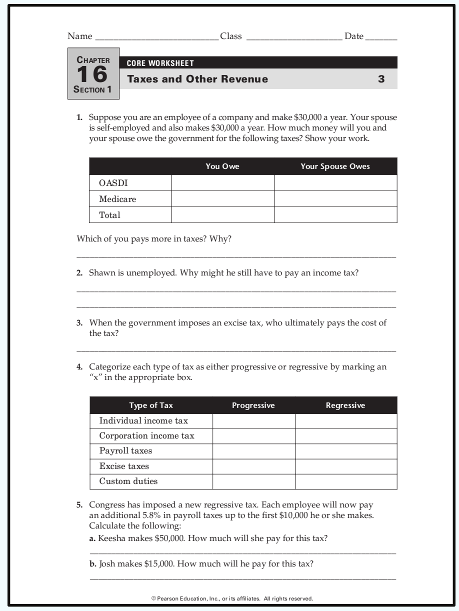
Political Cartoon Mini-Lesson

Display Transparency 16B, Tax Cuts, when you discuss income taxes. This cartoon illustrates the general public attitude toward tax cuts. Ask: **Whom do the people represent?** *(taxpayers)* **What is the significance of the people's clothing?** *(The clothes show people in different walks of life, such as business people, construction worker, and teacher.)* **What is the message in the cartoon?** *(Everyone wants his or her taxes cut.)* **What problems does this attitude create for politicians who make tax policy?** *(It is difficult to make tax policies that everyone views as fair. Cutting taxes would please everyone, but would cost the government needed revenue. However, raising taxes would be politically risky, because the increase would displease whatever group has to pay it. As a result, candidates for office often promise tax cuts but seldom tax increases.)*

DISTRIBUTE CORE WORKSHEET

Distribute the Chapter 16 Section 1 Core Worksheet (Unit 4, All-In-One, p. 190), which provides scenarios and prompts allowing students to delve more deeply into the types of taxes imposed by the Federal Government. Pair students or divide the class into small groups to complete the worksheet. As students do so, circulate and answer questions to keep them on track.

L2 ELL Differentiate For these students, distribute the adapted Core Worksheet (Unit 4 All-in-One, p. 191), which uses easier vocabulary and provides help with the calculations.



Name ______________ Class ______________ Date ______

CHAPTER 16 SECTION 1

CORE WORKSHEET

Taxes and Other Revenue 3

1. Suppose you are an employee of a company and make $30,000 a year. Your spouse is self-employed and also makes $30,000 a year. How much money will you and your spouse owe the government for the following taxes? Show your work.

	You Owe	Your Spouse Owes
OASDI		
Medicare		
Total		

Which of you pays more in taxes? Why?

____

2. Shawn is unemployed. Why might he still have to pay an income tax?

____

____

3. When the government imposes an excise tax, who ultimately pays the cost of the tax?

____

4. Categorize each type of tax as either progressive or regressive by marking an "x" in the appropriate box.

Type of Tax	Progressive	Regressive
Individual income tax		
Corporation income tax		
Payroll taxes		
Excise taxes		
Custom duties		

5. Congress has imposed a new regressive tax. Each employee will now pay an additional 5.8% in payroll taxes up to the first $10,000 he or she makes. Calculate the following:
   a. Keesha makes $50,000. How much will she pay for this tax?
   ____
   b. Josh makes $15,000. How much will he pay for this tax?
   ____

REVIEW THE CORE WORKSHEET

Have students share their worksheet answers with the class. Tell students that the government receives most of its revenue from income taxes paid by individual citizens. However, these funds go toward programs that benefit the whole population. Have students create a list of five government programs or services that benefit Americans. *(examples: national defense, national parks, school funding, college scholarships, grants for medical research, community health centers, aid for people with disabilities, low-cost housing for people living in poverty, airport security, Social Security aid for the elderly, food stamps, disaster relief)* Ask: **Do you think the value of these programs justifies the amount of money that you must pay in taxes?**

Tell students to go to the Online Update to learn more about federal tax revenue.

Answers

Taxes At-a-Glance individuals

EXTEND THE LESSON

L2 Differentiate Distribute the Extend Activity "Taxes" (Unit 4 All-in-One, p. 193) to lower-level students. It asks them to use the Internet to find information about income taxes.

L3 Differentiate Have students use the library or Internet to research some of the licenses the government issues in order to regulate activities. Then, have them create a collage illustrating the variety of activities that the government regulates through licenses.

L4 Differentiate Some people in the United States maintain that the federal income tax is unconstitutional, and that by taxing individual wages and earnings, the national government is overstepping its bounds. Have students research, either online or in the library, what some of these anti-tax arguments are, and write a paragraph explaining why they agree or disagree with this position.

Checkpoint What programs do payroll taxes support?

of the same amount for each dependent. The personal exemption is adjusted to account for inflation each year. Deductions are allowed for a number of things, including the cost of some medical care, most State and local taxes (except sales taxes), interest paid on home mortgages, and charitable contributions.

By April 15 of any given year, everyone who earned taxable income in the preceding calendar year must file a tax return—a declaration of that income and of the exemptions and deductions he or she claims. The returns are filed, by mail or online, with the Internal Revenue Service. The IRS now receives more than 120 million returns each year; more than 60 million of them are e-filed.

At President George W. Bush's urging, Congress passed major tax-cut legislation in 2001, 2002, and again in 2003. As a result, all taxable income earned in 2008 was taxed (in 2009) at one of six rates (brackets). Those rates range from 10 percent in the lowest bracket on up to 35 percent on the highest incomes. Thus, in the lowest bracket in 2009, a single person paid 10 percent of his or her taxable income up to $8,350. Taxpayers in the highest bracket sent 35 percent of their taxable income above $372,950 to the IRS.

Most people who pay income taxes do so through withholding, a pay-as-you-go plan. Employers are required to withhold a certain amount from each employee's paycheck and send that money to the IRS. When the employee files a tax return, he or she receives a refund if the employer withheld more money than the employee owed in taxes, or must pay an additional amount if too little was withheld. Those who earn income from sources not subject to withholding (for example, rent or royalties) must estimate the tax they will owe and make quarterly payments on that amount through the year.

Corporation Income Tax Each corporation must pay a tax on its net income—that is, on all of its earnings above the costs of doing business. The corporate tax is the most complicated of all federal taxes because of the many deductions allowed. Nonprofit organizations such as churches and charitable foundations are not subject to the corporation income tax.

For 2009, the corporate tax rates ran from 15 percent on the first $50,000 of taxable earnings up to a top rate of 35 percent on taxable incomes of more than $10 million.

Social Insurance Taxes The Federal Government collects huge sums to finance three major social welfare programs: (1) the Old-Age, Survivors, and Disability Insurance (OASDI) program—the basic Social Security program, established by the Social Security Act of 1935; (2) Medicare—healthcare for the elderly, added to the Social Security program in 1965; and (3) the unemployment compensation program—benefits paid to jobless workers, a program also established by the Social Security Act in 1935.

OASDI and Medicare are supported by taxes imposed on nearly all employers and their employees, and on self-employed persons. These levies are often called **payroll taxes** because the amounts owed by employees are withheld from their paychecks. For 2009, employees paid an OASDI tax of 6.2 percent on the first $106,800 of their salary or wages for the year, and their employers had to match that amount. The self-employed were taxed at 12.4 percent on the first $106,800 of their income.

For Medicare, employees pay a 1.45 percent tax on their total annual income. Employers must match the amounts withheld from their employees' paychecks. The self-employed pay the full 2.9 percent Medicare tax on their annual incomes.

The unemployment insurance program is a joint federal–State operation that makes payments to workers who lose their jobs for reasons beyond their control. The program now covers most workers in this country. Each State and the District of Columbia, Puerto Rico, and the Virgin Islands have their own unemployment compensation laws. The amount of a worker's weekly benefits, and how many weeks these benefits last, are determined by State law.

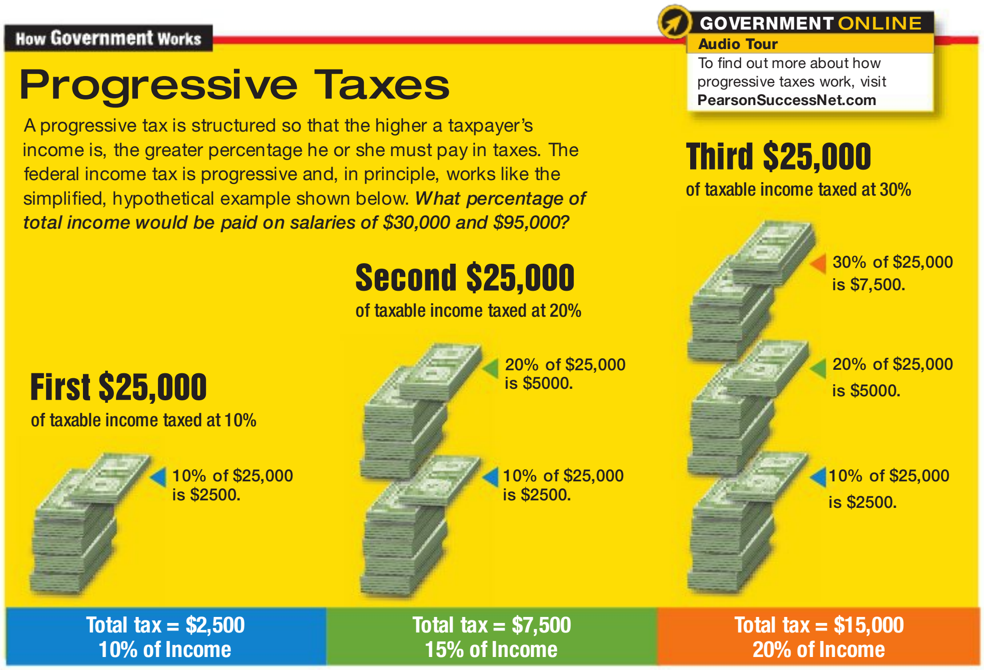
The unemployment compensation program is financed by both federal and State taxes. The federal tax is 6.2 percent of the first $7,000 an employer pays to each employee in a year. Each employer is given a credit of up to 5.4 percent against that tax for unemployment

Background

STATE INCOME TAXES All citizens are required to pay federal income taxes, but individual State governments may also levy personal and corporate income taxes against their residents. A number of States have chosen not to have individual income taxes, including Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. In addition, Tennessee and New Hampshire apply only limited personal income taxes, taxing dividend and interest income but not earned wages. While individual States do have the power to tax their residents, they are also bound by certain limitations. States cannot impose taxes for the purpose of impeding interstate commerce, and they cannot impose taxes that discriminate among taxpayers on the basis of age, race, religion, gender, or nationality. States also cannot use the payment of taxes as a criterion for voting eligibility.

Answers

Checkpoint OASDI, Medicare, and unemployment compensation



taxes that the employer pays to the State. So, the federal tax usually amounts to 0.8 percent on taxable wages.

Notice that these social insurance taxes for OASDI, Medicare, and unemployment compensation are not progressive taxes. They are, instead, **regressive taxes**—taxes levied at a fixed rate, without regard to the level of a taxpayer's income or his or her ability to pay them. In fact, the regressive OASDI and Medicare taxes now take more money out of the paychecks of many low- and middle-income workers than does the progressive federal income tax.

The IRS collects these social insurance taxes. The money is then credited to trust accounts maintained by the Treasury, and Congress appropriates funds for the social insurance programs as they are needed.

Excise Taxes An **excise tax** is a tax laid on the manufacture, sale, or consumption of goods and/or the performance of services. The Federal Government has imposed and collected excise taxes since Congress acquired its taxing power in 1789.

Today, federal excise taxes are imposed on a long list of items, including gasoline, oil, tires, tobacco, alcohol, firearms, telephone services, airline tickets, and more. Many excise taxes are called "hidden taxes" because they are collected from producers who then figure them into the price that the retail customer finally pays. Some are called "luxury taxes" because they are imposed on goods not usually considered necessities. And some excise taxes are known as "sin taxes," particularly those laid on tobacco, alcohol, and gambling.

Estate and Gift Taxes An **estate tax** is a levy imposed on the assets (the estate) of someone who dies.[2] A **gift tax** is one imposed on a gift from one living person to another. Congress first provided for the estate

2 An inheritance tax is another form of the so-called death tax. It is not levied on the entire net estate but, instead, on the portion inherited by each heir. Most States impose inheritance, not estate, taxes; most States also levy gift taxes.

Tell students to go to the Audio Tour to find out more about how progressive taxes work.

Assess and Remediate

L3 Collect the Core Worksheet and assess students' work.

L3 Assign the Section 1 Assessment questions.

L3 Section Quiz A (Unit 4 All-in-One, p. 194)

L2 Section Quiz B (Unit 4 All-in-One, p. 195)

Have students complete the review activities in the digital lesson presentation and continue their work in the **Essential Questions Journal.**

Debate

"There is no such thing as a good tax." — Winston Churchill

Use this quote and the Debate strategy (p. T25) to start a class debate on the merits of taxation. Ask students who agree with the quote to explain what happens to social services (such as public schools, road maintenance, and police and fire departments) in the absence of taxes. Are these programs and services cut? If not, how do they propose funding them? Ask students who disagree with the quote to explain how the tax burden should be distributed among the population, what limits they believe should be imposed on taxation, and how much involvement individual citizens should be given in determining tax policy.

Answers

Progressive Taxes $30,000 salary: 11.7 percent; $95,000 salary: 18.4 percent

REMEDIATION

If Your Students Have Trouble With	Strategies For Remediation
Listing the revenue sources of the Federal Government (Question 1)	Have students make an outline of the section using the headings.
Explaining the difference between progressive and regressive taxes (Question 2)	Review this section's "Progressive Tax" feature and lead a discussion on the two types of taxes.
Determining the three social welfare programs supported by payroll taxes (Question 3)	Have students reread the first paragraph of the "Social Insurance Taxes" portion of the section.
Listing the four constitutional limitations to taxation (Question 4)	Have students reread the direct quotes from the Constitution in the section and rewrite them in their own words.
Describing their opinion on the equity of direct and indirect taxes (Question 5)	Remind students of the definition of the two taxes (introduced in Chapter 11), and lead a discussion on the advantages and disadvantages of both.
Explaining their opinion on using taxes for regulatory purposes (Question 6)	Have students create a Pros and Cons chart to list the positive and negative aspects of regulating through taxes.
Identifying reasons for withholding monies from paychecks instead of lump sum payments (Question 7)	Conduct a debate on paycheck withholding vs. annual payments.

Answers

Checkpoint any three of the following: interest, tolls, fees, sale or lease of public lands, federal court fines, seigniorage, postage stamps

Checkpoint What are three examples of federal nontax revenues?

bequest *n.* something left, handed down, passed on

dutied *adj.* subjected to a tax by the government

tax in 1916. It added the gift tax in 1932 to plug a loophole in the estate tax that allowed people to avoid the estate tax by giving away money or other property before death.

The first $3.5 million of an estate is exempt from the federal tax in 2009. So, in fact, most estates are not subject to the federal levy. Deductions are allowed for such things as State death taxes and bequests to religious and charitable groups. Anything a husband or wife leaves to the other is taxed, if at all, only when the surviving spouse dies.

Any person may now make up to $12,000 in tax-free gifts to any other person in any one year. Gifts that spouses make to each other are not taxed, regardless of value.

The estate and gift taxes are separate federal taxes, but they are levied at the same rates. For 2009, those rates range from 18 percent, on an estate or gift with a net value of under $20,000, to a maximum of 45 percent on an estate or gift worth more than $3.5 million.

Customs Duties **Customs duties** are taxes laid on goods brought into the United States from abroad. Customs duties are also known as tariffs, import duties, or imposts. Congress decides which imports will be dutied and at what rates. Most imports are dutied; but some are not—for example, Bibles, coffee, bananas, and up to $800 of a tourist's purchases abroad. Once the major source of income for the Federal Government, custom duties now only produce just over 1 percent of government revenue taken in each year.

Nontax Revenues

Large sums of money reach the federal treasury from a multitude of nontax sources. These miscellaneous receipts now total nearly $50 billion a year and come from dozens of places. A large portion comes from the earnings of the Federal Reserve System, mostly in interest charges. **Interest** is a charge for borrowed money, generally a percentage of the amount borrowed. The interest on other loans, canal tolls, and fees for such items as passports, copyrights, patents, and trademarks also generate large sums. So do the sale or lease of public lands and such other items as the fines imposed by the federal courts.

The Treasury Department maintains a "conscience fund" for the money that people send in to ease their minds over their past taxpaying mistakes. Another little-known source of nontax money is *seigniorage*—the profit the United States Mint makes on the production of coins. The U.S. Postal Service sells more than $100 million in mint-condition stamps to collectors each year, and collectors spend untold millions more at local post offices.

Essential Questions Journal To continue to build a response to the chapter Essential Question, go to your **Essential Questions Journal.**

SECTION 1 ASSESSMENT

1. **Guiding Question** Use your completed chart to answer this question: How is the Federal Government financed?

Key Terms and Comprehension

2. What is the difference between a **progressive tax** and a **regressive tax?**
3. **Payroll taxes** support which three major social welfare programs?
4. **(a)** What are the four constitutional limitations on the power to tax? **(b)** What is the one implied limitation on that power?

Critical Thinking

5. **Demonstrate Reasoned Judgment** Which do you think is more fair, a direct or an indirect tax? Explain.
6. **Draw Conclusions** Do you think it is appropriate for the Federal Government to use taxes for regulatory purposes? Why or why not?
7. **Identify Central Issues** Why do you think the Federal Government requires employers to withhold money from each paycheck instead of allowing taxpayers to pay their taxes in one annual payment?

Quick Write

Cause-and-Effect Writing: Ask Questions To determine what our national priorities are today or once were, one must reflect on the conditions of the time. Select an administration in office between 1952 and today. Write five questions that you think will help you determine what might have influenced the Federal Government in its allocation of funds for that period. Think about subjects such as the economy, national security, and the environment.

Assessment Answers

1. The Constitution gives Congress the power to tax to pay for the operation of government, defense, and national welfare, but only in accord with other constitutional provisions. Revenue comes from taxes (individual income, corporation income, social insurance, excise, estate, gift, and custom duties) and nontax sources (such as interest, tolls, fees, sale or lease of public lands, and federal court fines).

2. A progressive tax imposes a higher rate on people with higher incomes; a regressive tax places an equal rate on everyone, regardless of income.

3. OASDI (Old Age, Survivor, Disability Insurance), Medicare, unemployment compensation

4. (a) (1) may tax only for the public purposes; (2) no taxes on exports; (3) direct taxes must be distributed evenly among the States; (4) indirect tax rates must be uniform throughout country **(b)** The Federal Government cannot tax State or local governmental functions.

5. The income tax is the only direct tax the Federal Government has imposed since 1861, because a direct tax laid in proportion to population, as required by the Constitution, would be grossly unfair. A direct tax would fall more heavily on the residents of some States than on others.

6. Possible answer: Yes; the Federal Government is responsible for protecting the public's best interests.

7. Withholding provides the government with monies throughout the year and spreads out the tax burden on individuals.

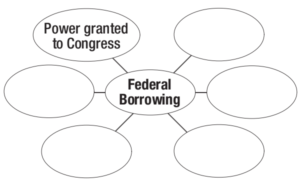
QUICK WRITE Students' questions should target budget priorities, such as national security, healthcare, and the environment.

SECTION 2

Borrowing and the Public Debt

Guiding Question

What effect does borrowing have on the federal budget and the nation's economy? Use a concept web like the one below to keep track of the main ideas about the government's influence on the economy.



Political Dictionary

- deficit
- surplus
- demand-side economics
- supply-side economics
- public debt

Objectives

1. Describe federal borrowing.
2. Explain how the Federal Government's actions can affect the economy.
3. Analyze the causes and effects of the public debt.

Image Above: Work Projects Administration (WPA) workers build sidewalks during the Great Depression.

In *Hamlet*, Shakespeare wrote, "Neither a borrower nor a lender be." That advice may make good sense in many situations. However, it most certainly has *not* been followed by the government of the United States, which has been both a borrower and a lender for more than 200 years now.

Borrowing

The Constitution gives Congress the power "[t]o borrow Money on the credit of the United States" in Article I, Section 8, Clause 2. Congress first exercised that power in 1790, and it has done so hundreds of times since then. For the better part of 150 years, the power to borrow was seen as a way for the government to (1) meet the costs of crisis situations, most notably wars, and/or (2) pay for large-scale projects that could not be financed out of current income—for example, the construction of the Panama Canal in the early 1900s.

Beginning with the Depression years of the 1930s, the Federal Government has borrowed, regularly and heavily, for yet another purpose: to finance budget deficits. In nearly every one of the last 80 years, it has spent more than it has collected from taxpayers. That is, the government has run up a **deficit** (the shortfall between income and outgo) in each of those years—and it has borrowed to make up the difference.

Indeed, the government's financial books did not show a **surplus,** more income than outgo, in any fiscal year from 1969 to 1998.[3] For fiscal year 2009, which extends from October 1, 2008 to September 20, 2009, the government expects to spend just over $3 trillion—and it will take in some $500 billion less than that stupendous sum. It will have to borrow to cover that shortfall.

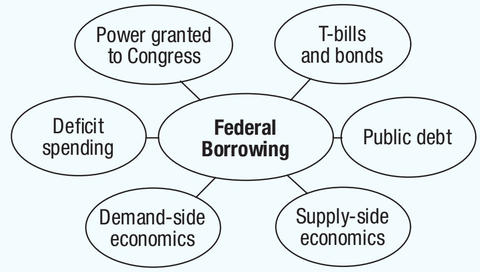
The Depression and Deficit Spending The collapse of the stock market in October 1929 triggered the Great Depression of the 1930s. To meet that catastrophe, deficit financing became a constant element of federal fiscal policy.

A few statistics begin to suggest the depths of that economic calamity, and the miseries that accompanied it. Two million Americans were unemployed in

3 From 1930 to 2009, the Federal Government ended only 11 fiscal years "in the black"—that is, with a budget surplus: fiscal years 1947, 1948, 1951, 1956, 1957, 1960, 1969, 1998, 1999, 2000, and 2001.

GUIDING QUESTION

What effect does borrowing have on the federal budget and the nation's economy?



Get Started

LESSON GOALS

Students will . . .

- analyze the annual deficits and surpluses and the public debt by interpreting graphs.
- describe the federal borrowing process.
- analyze key events in the history of the public debt by examining a timeline.

BEFORE CLASS

Assign the section, the graphic organizer in the text, and the Reading Comprehension Worksheet (Unit 4 All-in-One, p. 196) before class.

L2 **Differentiate** Reading Comprehension Worksheet (Unit 4 All-in-One, p. 197)

Focus on the Basics

FACTS: • Article I gives Congress the power to borrow money, which allows the government to meet the costs of crisis situations and finance large-scale projects through deficit spending. • The public debt is the government's total outstanding indebtedness, including money borrowed and not yet repaid, plus accrued interest. • Years of deficit spending have resulted in a monumental public debt.

CONCEPTS: enumerated and implied powers

ENDURING UNDERSTANDINGS: • Federal Government revenue seldom exceeds its spending, requiring it to borrow heavily almost every year. • The ever-increasing public debt raises concerns about the burden on future taxpayers.

SKILLS DEVELOPMENT

ANALYZE GRAPHIC DATA

To practice analyzing graphic data in this section, use the Chapter 16 Skills Worksheet (Unit 4 All-in-One, p. 200). You may wish to teach the skill before or after reviewing the Bellringer. For L2 and L1 students, assign the adapted Skill Activity (Unit 4 All-in-One, p. 201).

BELLRINGER

Display Transparency 16C, Annual Deficits/Surpluses and Public Debt, which shows a graph of federal receipts and outlays and a graph showing the growth of the public debt. Write on the board: **(1) Approximately how much was the annual deficit in 1945? (2) About how much was the public debt in 1945? (3) Approximately how much is the estimated annual surplus in 2012? (4) About how much is the estimated public debt in 2012? (5) Using the Public Debt chart, estimate how much the public debt was when your parents were your age. How much less was it then than the debt is now? Answer in your notebook.**

Teach

To present this topic using online resources, use the lesson presentations at **PearsonSuccessNet.com.**

REVIEW BELLRINGER

Review with students the answers to the Bellringer questions. *(1. about $450 billion 2. about $260 million 3. about $45 billion 4. nearly $11.5 trillion 5. Answers will vary, but students should recognize that the public debt now is much larger than when their parents were their age.)* Ask: **Do you think it is fair to put the responsibility of paying back the public debt on future generations? Why or why not?**

L2 ELL Differentiate Write these terms and definitions on the board: ***interest*** **(fee that a borrower owes to the lender),** ***deficit*** **(amount that spending is greater than income),** ***surplus*** **(amount that income is greater than spending),** ***public debt*** **(total amount that the Federal Government owes).** Discuss each term and how it relates to government spending. Have students write the terms and definitions in their notebook.

DISCUSS

Ask: **If the government needs more money to operate than it takes in, how does it acquire extra funds?** *(The government borrows by issuing securities, such as Treasury notes and bills, to investors—mostly individuals, banks, investment companies, and other financial institutions.)* **Why do investors lend to the U.S. Government?** *(because Treasury securities are very safe and investors receive interest on the amount they lend)*

Answers

Surpluses and Deficits possible response: wars, because they are expensive and do not add anything productive to the economy

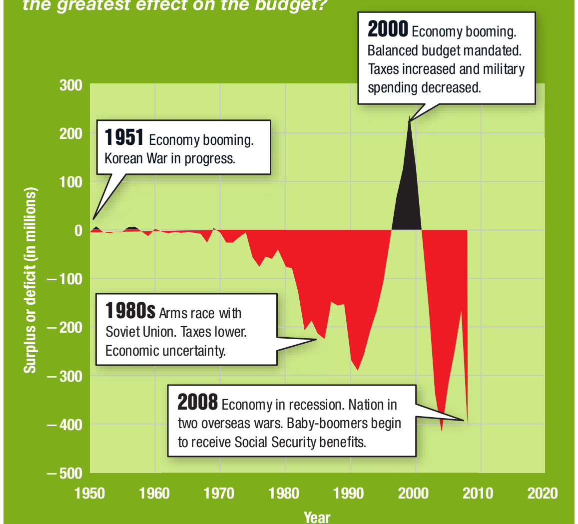
1929. By 1935, that number had climbed to 13.5 million. One fourth of the nation's labor force was out of work—and millions more were working for, literally, pennies a day. By 1935, 18 million people, including children and the aged, were completely dependent on emergency public relief programs. Between 1929 and 1932, more than 5,000 banks—one of every five in the country—had failed, and their customers' deposits had vanished. By 1932, net farm income had plunged to 20 percent of its level in 1929.

Few States had made any provision for such a crisis, and those that had were overwhelmed. So, too, were private charities. Poverty and need had become national problems overnight.

stimulate
v. encourage, spur, whip up

Surpluses and Deficits

The federal budget is created one year before it is implemented and hinges on estimates of federal revenue. Events during the fiscal year, however, can greatly affect actual government spending. ***What factor mentioned below do you think had the greatest effect on the budget?***



SOURCE: Office of Management and Budget

In the elections of 1932, the American voters overwhelmingly rejected the tentative efforts of President Herbert Hoover and a Republican-controlled Congress to solve the nation's economic woes. Mr. Hoover and his advisors were committed to the traditional view of the place of government in the economy. They held that government had only a very limited power to deal with what they believed was a private economic crisis. Government, they thought, should ensure a stable money supply; beyond that, the success or failure of businesses was a matter best left to the workings of the free market.

The voters turned, instead, to the Democrats. Franklin D. Roosevelt won the presidency in a landslide and his party captured huge majorities in both houses of Congress.

Keynesian Economics Almost immediately, the President and Congress launched the New Deal—a series of government spending and jobs programs designed to stimulate the economy and put Americans back to work. That response to the Depression was built largely on the economic theories advanced by British economist John Maynard Keynes. The New Deal was based on the Keynesian view that government can and should influence the economy by large increases in public spending in times of high unemployment.[4]

Keynesians argue that even if government must borrow to support that increased spending, the higher employment that results will soon produce higher tax revenues. This element of Keynesian economics is sometimes called **demand-side economics.**

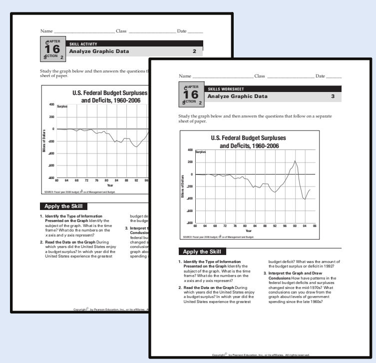
Keynesian economic thinking continues to influence federal fiscal policy. However, President Ronald Reagan (1981–1989) and more recently George W. Bush (2001–2009) insisted that lower taxes, not greater spending, provide the best route to a stronger economy. This view, which is sometimes called **supply-side economics** or "Reaganomics," is based on the assumption that tax cuts increase the supply of money in private hands and so stimulate the economy.

4 John Maynard Keynes' economic theories were most fully developed in his work *The General Theory of Employment, Interest, and Money,* published in 1936.

Differentiated Resources

The following resources are located in the All-in-One, Unit 4, Chapter 16, Section 2:

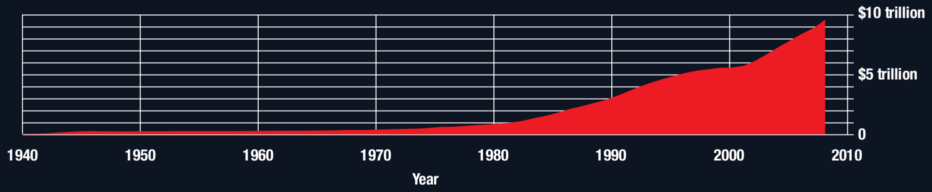
- L3 Reading Comprehension Worksheet (p. 196)
- L2 Reading Comprehension Worksheet (p. 197)
- L3 Core Worksheet (p. 198)
- L2 Core Worksheet (p. 199)
- L3 Skills Worksheet (p. 200)
- L2 Skill Activity (p. 201)
- L3 L4 Extend Worksheet (p. 202)
- L3 Quiz A (p. 203) L2 Quiz B (p. 204)



GOVERNMENT ONLINE
Update
To learn more about the public debt and its current estimate, visit **PearsonSuccessNet.com**

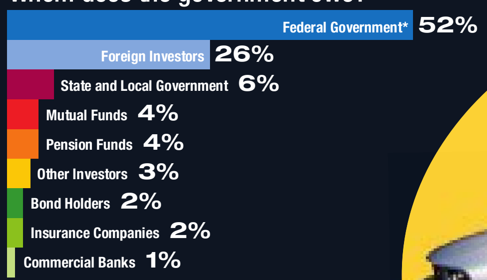
The Public Debt

The sale of bonds is an efficient way for the government to get funding. However, with each sale, the public debt increases. In fact, it is estimated that the debt currently grows at a rate of $1 billion dollars a day. ***To which group of investors does the Federal Government owe the most?***



SOURCE: Office of Management and Budget

Whom does the government owe?



* Borrowed from Social Security and federal pension funds

SOURCE: Treasury Department, Financial Management Service

To pay off the public debt today, every American would have to pay **$31,654,** or enough to buy a mid-range sports car.

A downturn in the nation's economy in 2007 and 2008 prompted President Bush and Congress to take two extraordinary steps to meet the financial crisis. The first step was an "economic stimulus plan" in which most federal income tax payers received a check from the IRS of $600 (for single filers) or $1,200 (for those filing a joint return) totaling some $170 billion. The second was a massive intervention in the collapsed home mortgage market in which Congress gave the Treasury Department some $700 billion to "bail out" distressed home lenders. Both of these steps were purely Keynesian in nature.

How Borrowing Occurs Congress must authorize all federal borrowing. The actual borrowing is done by the Treasury Department, which issues various kinds of securities to investors. These investors are principally individuals and banks, investment companies, and other financial institutions. The securities usually take the form of Treasury notes or bills, often referred to as T-bills, for short-term borrowing, and bonds for long-term purposes. They are, in effect, IOUs—promissory notes in which the government agrees to repay a certain sum, plus interest, on a certain date.

The Federal Government is regularly able to borrow money at lower rates of interest than the rates charged to private borrowers. This is true largely because investors, both citizens of the United States and from other countries, can find no safer securities than those issued by the United States. If the United States could not pay its debts, no one else would be able to do so, either. Federal

✔ Checkpoint
How does the federal government borrow money?

Political Cartoon Mini-Lesson

Your computer-savvy students might enjoy analyzing Transparency 16D, White House Budget, as part of a discussion of deficits and the public debt. The cartoon shows a budget deficit being transferred to future generations electronically. Ask: **When do you see an image like this on your computer screen?** *(when downloading, or transferring a file from one computer to another)* **What file is being transferred in this cartoon?** *(a file containing a budget deficit)* **Who is receiving the file?** *(The caption says the file is going to Congress, but it is really being transferred to future generations.)* **How much deficit is the White House budget adding to the public debt?** *($407 billion)* **What is the message of this cartoon?** *(The huge deficit in the President's budget will add to the debt burden to be paid by future generations of taxpayers.)*

DISTRIBUTE CORE WORKSHEET

Distribute the Chapter 16 Section 2 Core Worksheet (Unit 4 All-In-One, p. 198). Have students review the chronology and answer the questions.

L2 **ELL** **Differentiate** Distribute the adapted Core Worksheet (Unit 4 All-in-One, p. 199).

REVIEW WORKSHEET ANSWERS

Have volunteers share their answers to the Core Worksheet questions. Ask: **What do you think the government can do to control the public debt?** *(enact balanced budget legislation, reduce some social services, require the government to operate using only the revenue it receives, increase taxes)*

EXTEND THE LESSON

L1 **L2** Use this example to help students understand surpluses and deficits: **You have $10 to spend on a movie ticket and popcorn. When you get to the theater, you find that the ticket costs $7 and the popcorn, $5, for a total $12. Do you have a budget deficit or surplus? How do you know?** *(deficit; you have less money than you need)* **What choices do you have?** *(You can give up the popcorn and just buy the ticket, borrow $2 to get the popcorn, or find a way to earn the extra $2.)* **What are the government's choices when it has a budget deficit?** *(The government can spend less, borrow, or bring in more money by raising taxes.)*

L3 **L4** Have students complete the Extend Worksheet (Unit 4, All-in-One, p. 202), which contains excerpts on the tax cut debate. Discuss students' answers as a class.

Tell students to go to the Online Update to learn more about the public debt.

Assess and Remediate

L3 Collect the Core Worksheet and assess students' work.

L3 Assign the Section 2 Assessment questions.

L3 Section Quiz A (Unit 4 All-in-One, p. 203)

L2 Section Quiz B (Unit 4 All-in-One, p. 204)

Have students complete the review activities in the digital lesson presentation and continue their work in the **Essential Questions Journal.**

Answers

The Public Debt The Federal Government owes most to individual Americans, because it has borrowed the most from Social Security and federal pension funds.

Checkpoint The Treasury Department issues various securities that are invested in by individuals, banks, and other financial institutions.

REMEDIATION

If Your Students Have Trouble With	Strategies For Remediation
Determining the effects of government borrowing (Question 1)	Review the data on the "Surpluses and Deficits" graphic in this section.
Understanding the difference between the deficit and public debt (Question 2)	Compare the graph of annual deficits to the graph of accumulated debt to illustrate the difference.
Describing government borrowing (Question 3)	Have students create a concept web illustrating the main points described in "How Borrowing Occurs."
Explaining how the government can create a budget surplus (Questions 4, 6)	Define surplus and remind students of the concept of a balanced budget.
Determining their opinion on deficit financing (Question 5)	Create a list of government programs that people expect and lead a discussion on how these programs can be cut or funded without deficit financing.
Understanding the ramifications of deficit spending (Question 7)	Review the graphic on public debt.

Answers

Checkpoint all the money the government has borrowed and not yet repaid, plus accrued interest

Checkpoint What makes up the public debt?

securities are also attractive because the interest they earn cannot be taxed by any of the States or their local governments.

The Public Debt

Borrowing produces a debt, of course. The public debt is the result of the Federal Government's borrowing over time. More precisely, the **public debt** is the total outstanding indebtedness of the Federal Government. It includes all of the money the government has borrowed and not yet repaid, plus the accrued interest on that borrowing.[5]

accrue
v. to increase in amount or value over time

ceiling
n. upper limit

The Federal Government has built up a huge debt over the years. Indeed, in the years since the first federal budget was formulated in 1789, the government has recorded a surplus in only 19 years. Recall, the Federal Government first went into debt during George Washington's administration. Still, it took 192 years—from 1789 to 1981—for the public debt to reach $1 trillion. As you can see from the graph on the previous page, the debt has exploded over the past three decades and now (2009) tops $10 trillion.

The amounts involved here are absolutely mind-boggling. In 1981, as the debt approached $1 trillion, President Reagan said that he found "such a figure—a trillion dollars—incomprehensible." He then drew this verbal picture: "[I]f you had a stack of $1,000 bills in your hand only four inches high, you would be a millionaire. A trillion dollars would be a stack 67 miles high." Mr. Reagan's stack would have to be nearly 700 miles high to equal the national debt today!

There is no constitutional limit on the amount that may be borrowed, and so there is no constitutional limit on the public debt. Congress has put a statutory ceiling on the debt, but simply raises that ceiling whenever fiscal realities seem to call for it.

The debt has always been controversial, and its rapid rise in recent years has fueled the fire. The annual interest on the debt is the amount that must be paid each year to those from whom the government has borrowed. That interest came to some $250 billion in 2008 and will be even higher for 2009. Approximately one in every ten dollars the Federal Government now spends goes just to service—to pay the interest on—the debt.

Most of those who are concerned about the size of the debt are worried about its impact on future generations of Americans. They say that years of shortsightedness and failure to operate government on a pay-as-you-go basis has produced monumental debt and interest obligations that will have to be met by tomorrow's taxpayers.

5 The Treasury Department's Bureau of the Public Debt acts as the Federal Government's borrowing agent. It issues Treasury bills, notes, and bonds and manages the U.S. Savings Bond Program.

SECTION 2 ASSESSMENT

Essential Questions Journal To continue to build a response to the chapter Essential Question, go to your **Essential Questions Journal.**

1. **Guiding Question** Use your completed concept web to answer this question: What effect does borrowing have on the federal budget and the nation's economy?

Key Terms and Comprehension

2. What is the difference between an annual **deficit** and the **public debt?**
3. **(a)** How does the Federal Government borrow money? **(b)**Why can it do so at a lower interest rate than can private borrowers?
4. How does the Federal Government create a budget **surplus?**

Critical Thinking

5. **Demonstrate Reasoned Judgment** Do you think deficit financing is an acceptable method to fund the Federal Government? Explain why or why not.
6. **Analyze Information** Why do you think that for many years Congress and the President have chosen to borrow money rather than to balance the federal budget?
7. **Draw Conclusions** What do you think are the long-term consequences of ongoing deficit spending?

Quick Write

Cause-and-Effect Writing: Gather Details Using magazines, newspapers, and that fiscal year's federal budget, conduct research on the presidential administration you selected for the Section 1 Quick Write. Did any of the questions you developed reflect the conditions and priorities of the time? How did the Federal Government respond to those priorities? Record the results of your research relating to each of your questions in your notebook.

Assessment Answers

1. Borrowing over more than 200 years has run up a huge public debt, requiring even more borrowing just to pay the interest on the debt. The monumental debt and interest obligations will have to be paid by future taxpayers.

2. The annual deficit is the amount that spending exceeds revenue for one year. The public debt is the accumulation of annual deficits, or the total indebtedness of the Federal Government.

3. **(a)** The Treasury Department issues securities, such as bonds or Treasury bills, to investors. **(b)** because investors consider U.S. Government securities to be the safest investment available

4. by spending less on government programs and operations to reduce outgo, or by raising taxes to increase income; either way, the government must take in more than it spends to produce a surplus

5. Students should note that deficit financing provides services the public expects, but also creates a debt burden on future generations.

6. Students should note that balancing the budget would require making unpopular decisions, such as raising taxes or cutting government programs. Politicians risk getting voted out of office for such decisions. Borrowing is politically safer.

7. Students should recognize that ongoing deficit spending results in an ever-increasing debt burden on future generations and a drag on the economy. The money spent on debt interest could be spent more productively in other ways.

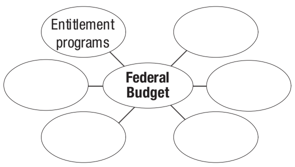
QUICK WRITE Students should research the answers to the questions on their note cards.

SECTION 3

Spending and the Budget

Guiding Question

How is federal spending determined? Use a concept web like the one below to keep track of how the federal budget is determined.



Political Dictionary

- entitlement
- controllable spending
- uncontrollable spending
- continuing resolution

Objectives

1. Identify the key elements of federal spending.
2. Define controllable and uncontrollable spending.
3. Explain how the President and Congress work together to create the federal budget.

Image Above: An elderly patient receives medical care through federally funded Medicare.

The Federal Government will spend more than $3 trillion in fiscal year 2009. If you were to place three trillion $1 bills end to end, they would stretch out some 270 million miles, which is more than the distance from Earth to the sun and back again. In this section, you will see how the Federal Government spends that vast amount of money, and how it plans for that spending through the budget process.

Federal Spending

For more than half of our national history—from independence in 1776 to the mid-1930s—the government's income and spending were so comparatively small that they had little real impact on the nation's economy. That situation changed, dramatically, with the coming of the Great Depression of the 1930s and then World War II in the early 1940s.

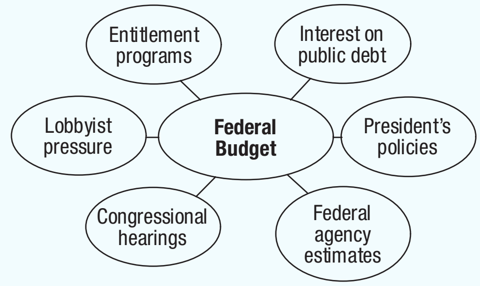
Today, the Federal Government takes hundreds of billions of dollars from some segments of the national economy. It then pumps those many billions back into other segments of the economy—all with huge effects on the economy as a whole, of course.

Spending Priorities Look at the right-hand side graph on the next page. As you can see, the Department of Health and Human Services now spends more money than any other federal agency—over $700 billion a year, in fact. Most of this department's spending goes for Medicare, Medicaid, and other entitlement programs.

Entitlements are benefits that federal law says *must* be paid to all those who meet the eligibility requirements, such as being above a certain age or below a certain income level. OASDI (the Old Age, Survivors, and Disability Insurance program)—often called "Social Security"—is the largest entitlement program today, and, recall, is funded by the social insurance taxes withheld from the paychecks of American workers. Other major examples include Medicare, Medicaid, food stamps, unemployment insurance, and veterans' pensions and benefits. The government guarantees assistance for all who qualify for those benefits. In effect, the law says that the people who receive those benefits are entitled (that is, have a right) to them.

GUIDING QUESTION

How is federal spending determined?



Get Started

LESSON GOALS

Students will . . .

- distinguish between controllable and uncontrollable spending categories on a federal budget circle graph.
- understand the difficulty of setting budget priorities by completing a ranking activity.

BEFORE CLASS

Assign the section, the graphic organizer in the text, and the Reading Comprehension Worksheet (Unit 4 All-in-One, p. 205) before class.

L2 Differentiate Reading Comprehension Worksheet (Unit 4 All-in-One, p. 207)

Focus on the Basics

FACTS: • The largest categories of federal spending are entitlements, defense, and interest on the public debt. • The Constitution gives Congress the power to control federal financing. • The President initiates the budget, which then goes to Congress. • Various House and Senate committees review and revise the budget into final appropriations bills sent to the President to sign into law.

CONCEPTS: enumerated and implied powers, separation of powers, limited government, balance of power

ENDURING UNDERSTANDINGS: • The budget is a major political statement of the public policies of the U.S. • The budget is a joint effort of the President and Congress. • Lobbying by special interest groups influences the budget and thereby influences public policy.

SKILLS DEVELOPMENT

DECISION MAKING

Before students do the Core Worksheets in this section, have them turn to the Skills Handbook, p. S18, to review information on decision making.

BELLRINGER

Display Transparency 16E, Government Spending 2007, which contains a pie graph showing outlays of the federal budget. Have students answer the questions on the transparency.

L2 **ELL** **Differentiate** Have students work in pairs to complete the Bellringer activity.

Teach

To present this topic using online resources, use the lesson presentations at **PearsonSuccessNet.com.**

REVIEW BELLRINGER

Have students share their answers to the Bellringer questions. Write the answers on the board. *(1. Discretionary spending is controllable—Congress and the President can decide how much to spend on these programs in any given year. Mandatory spending is uncontrollable. These budget items are written into law and must be paid unless the law is changed. Congress and the President cannot alter these costs. 2. Medicare, Medicaid, Social Security, other Health and Human Services programs, interest on the debt 3. defense and security and other services and programs 4. More is spent on mandatory programs.)*

DISCUSS

Remind students of this chapter's Essential Question: **How should the federal budget reflect Americans' priorities?** Ask: **If the budget is supposed to reflect Americans' priorities, why is the budget so difficult to create?** Point out that Americans don't agree on spending priorities. For example, social service spending for programs such as food stamps or Medicaid makes up a significant portion of the budget. Some people believe that the size of those programs represents unnecessary federal spending, while others believe that the Federal Government has a responsibility to provide for the needy in our society. Any federal budget decision requires taking into account both of these positions, which are conflicting, but both represent American priorities.

Tell students to go to the Online Update to learn more about Federal Government revenue spending.

Answers

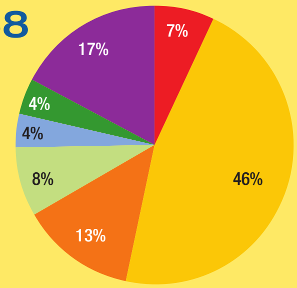
Federal Spending Comparison Defense is the largest expenditure in 1968 because the Vietnam War and the cold war were in progress. Healthcare costs and the beginning of the baby-boomer access to Medicare made Health and Human Services the highest spender in 2008.

GOVERNMENT ONLINE
Update
To learn more about Federal Government revenue spending, visit **PearsonSuccessNet.com**

Federal Spending Comparison

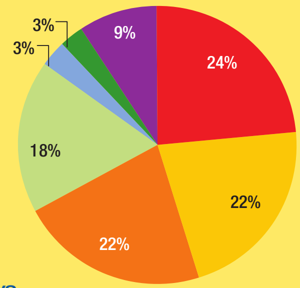
The manner in which the Federal Government spends its revenue hinges on the events of the time as well as the priorities of the American public. ***What trends in federal spending can you determine from these charts?***

1968



Total outlays
$178,134,000

2008



Total outlays
$2,978,664,000

Health and Human Services | Defense | Social Security Administration | Treasury | Agriculture | Veterans Affairs | Other

SOURCE: Office of Management and Budget

stoke
v. strengthen, stir up

OASDI is administered by an independent agency, the Social Security Administration (SSA). The department's outlays on OASDI make SSA the third-largest government spender.

Outlays for national defense now account for a much larger share of the budget than they have over the past decade. The Department of Defense (DoD) spent more than $550 billion in 2008. It will likely spend even more in 2009, and the department's spending will continue to grow as the war on global terrorism wears on.

The defense-spending percentage in the graph is somewhat misleading. It does not include the defense-related expenditures of several other federal agencies, notably the nuclear weapons development work of the Department of Energy and many of the functions of the Department of Homeland Security.

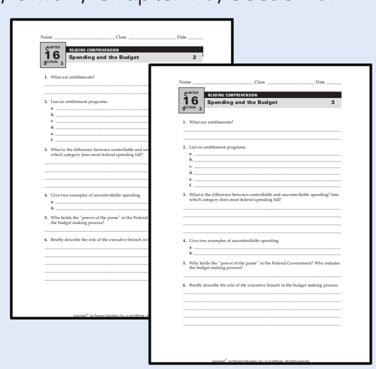
Interest on the public debt is now the fourth-largest category of federal spending. Stoked by years of deficit financing, it has consumed a larger and still larger part of the federal budget over the last several years. In the graph above, interest on the debt is included in the Treasury Department's spending. For fiscal year 2008, the net interest on the debt came to more than $250 billion.

Controllable and Uncontrollable Spending What the Federal Government spends can be described in terms of **controllable spending** and **uncontrollable spending.** Most specific items in the federal budget are controllable. That is, Congress and the President can decide each year just how much will be spent on many of the things that the Federal Government does—for example, on national parks, highway projects, aid to education, military hardware, civil service pay, and so on. Economists often use the term "discretionary spending" to describe spending on those budget items about which Congress and the President can make choices.

Differentiated Resources

The following resources are located in the All-in-One, Unit 4, Chapter 16, Section 3:

- **L3** Reading Comprehension Worksheet (p. 205)
- **L2** Reading Comprehension Worksheet (p. 207)
- **L3** Core Worksheet A (p. 209)
- **L3** Core Worksheet B (p. 210)
- **L3** Quiz A (p. 211)
- **L2** Quiz B (p. 212)



Much federal spending is uncontrollable, however. It is because "mandatory spending" was built into many public programs when Congress created them; thus, neither Congress nor the President have the power to change the funding directly.

Take the interest on the public debt as a leading example of uncontrollable spending. Paying the interest due cannot be avoided. That interest amounts to a fixed charge; once the Federal Government borrows the money, the interest on that loan must be paid when it comes due—and at the rate the government promised to pay.

Social Security benefits, food stamps, and most other entitlements are also largely uncontrollable. Once Congress has set the standards of eligibility for those programs, it really has no control over just how many people will meet those standards. Thus, Congress does not—really cannot—determine how many people covered by Social Security will become eligible for retirement benefits each year.

Those expenditures are not completely uncontrollable, however. Congress could redefine eligibility standards, or it could reduce the amount of money each beneficiary is to receive. But clearly those actions would be politically difficult.

In general, the percentage of federal spending that is uncontrollable has grown in recent years, while the percentage of controllable spending has decreased. In fact, the Office of Management and Budget estimates that nearly 80 percent of all federal spending today falls into the uncontrollable category. These trends cause concern to those officials who are responsible for maintaining control of the budget.

The Federal Budget

The Constitution gives to Congress the fabled "power of the purse"—the very significant power to control the financing of the Federal Government and all of its operations:

FROM THE CONSTITUTION

No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law. . . .

—Article I, Section 9, Clause 7

Congress—and only Congress—has the power to provide the enormous sums that the government consumes each year. In short, it is Congress that decides *how much* the government can spend and, just as important, for exactly *what* it can spend that money.

Still, despite the fact that Congress holds the power of the purse, it is the President who initiates the process by which the Federal Government spends its money. The chief executive does so by submitting (proposing) a budget to Congress soon after that body begins each of its yearly sessions.[6]

Remember, the federal budget is a hugely important document. It is, of course, a financial statement—a lengthy and detailed estimate of federal income and proposed outgo for the upcoming fiscal year. But it is also much more than that, and much more than a dry listing of so many dollars from this and so many dollars for that. The budget is a major political statement, a declaration of the public policies of the United States. Put another way, the federal budget is the President's work plan for the conduct of the government and the execution of its public policies.

The annual budget-making process is a joint effort of the President and both houses of Congress. The President prepares the budget and submits it to Congress. Congress then reacts to the President's budget proposals, over a period of several months. It usually enacts most of those proposals, many of them in some altered form, in a number of appropriations measures.

The President and the Budget The process of building the budget is a lengthy one. In fact, it begins at least eighteen months before the start of the fiscal year for which the budget is intended. First, each federal agency prepares detailed estimates of its spending needs for that twelve-month period. Each agency then submits its spending plans to the President's budget-making agency, the Office of Management and Budget (OMB). (See Chapter 15, Section 2.)

6 The word *budget* comes from the French *bougette*, meaning a small pouch or bag with its contents. In the eighteenth century, the budget was the bag in which the British chancellor of the exchequer (the treasurer) carried financial documents.

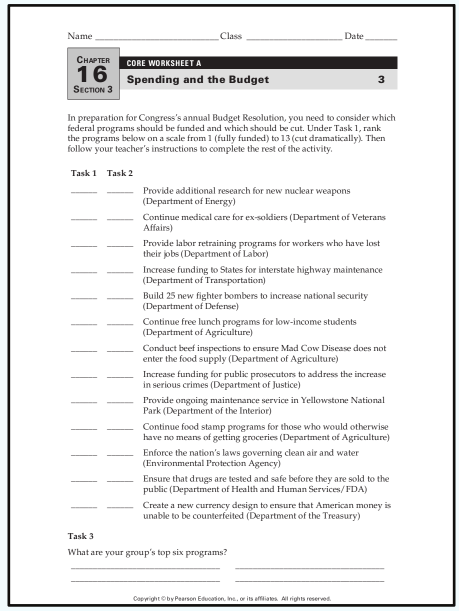
Checkpoint
How is the budget both a financial and political statement?

Background

SPENDING WORRIES Uncontrollable spending on government programs such as Social Security and Medicare has increased sharply in recent years. Expenditures are predicted to rise even more dramatically as the baby boom generation reaches retirement age, leading to worries about whether these programs can continue to meet their financial obligations. Politicians from across the political spectrum—including President George W. Bush—have offered plans to "save social security," using methods that range from cutting benefits to borrowing money for the establishment of personal investment accounts.

PRIORITIZE SPENDING OPTIONS

Distribute the Chapter 16 Section 3 Core Worksheet A (Unit 4 All-In-One, p. 209), which has students work through the budgeting process. Have each student complete Task 1, according to their own opinion. Then distribute Core Worksheet B (Core Unit 4 All-in-One, p. 210) and assign each student to one of the districts. Explain that they are now acting as representatives of different congressional districts. Ask them to read the description of their district on the worksheet. Then have the students return to Core Worksheet A and revise their spending priority rankings based on this new information. They should record their new rankings in the Task 2 column.


Name ______________ Class ______________ Date ______

CHAPTER 16 SECTION 3

CORE WORKSHEET A

Spending and the Budget 3

In preparation for Congress's annual Budget Resolution, you need to consider which federal programs should be funded and which should be cut. Under Task 1, rank the programs below on a scale from 1 (fully funded) to 13 (cut dramatically). Then follow your teacher's instructions to complete the rest of the activity.

Task 1	Task 2	
____	____	Provide additional research for new nuclear weapons (Department of Energy)
____	____	Continue medical care for ex-soldiers (Department of Veterans Affairs)
____	____	Provide labor retraining programs for workers who have lost their jobs (Department of Labor)
____	____	Increase funding to States for interstate highway maintenance (Department of Transportation)
____	____	Build 25 new fighter bombers to increase national security (Department of Defense)
____	____	Continue free lunch programs for low-income students (Department of Agriculture)
____	____	Conduct beef inspections to ensure Mad Cow Disease does not enter the food supply (Department of Agriculture)
____	____	Increase funding for public prosecutors to address the increase in serious crimes (Department of Justice)
____	____	Provide ongoing maintenance service in Yellowstone National Park (Department of the Interior)
____	____	Continue food stamp programs for those who would otherwise have no means of getting groceries (Department of Agriculture)
____	____	Enforce the nation's laws governing clean air and water (Environmental Protection Agency)
____	____	Ensure that drugs are tested and safe before they are sold to the public (Department of Health and Human Services/FDA)
____	____	Create a new currency design to ensure that American money is unable to be counterfeited (Department of the Treasury)

Task 3

What are your group's top six programs?

______________ ______________

______________ ______________

NEGOTIATE SPENDING PRIORITIES

After students revise their priorities, have them work in groups of four to determine which programs to fund. Groups should have a representative from each district and needs to produce a list of the top six programs they wish to fund. Ask them to record their list under Task 3 on their worksheet. Then have the groups share with the class their list and explain why they allocated their priorities in that manner.

Next, tell the groups that for Task 4, they have two options: they can choose to fund only two of the six programs on their list, or they can choose to raise taxes and fund all six programs. Once the groups have finished making this choice, have volunteers share their results with the class, explaining their reasoning. Ask students to discuss the difficulties in coming up with a unified spending list.

Answers

Checkpoint It is the President's work plan for the government as well as an estimate of federal income and outgo.

L2 **Differentiate** Assign congressional districts A and B to struggling students.

L3 **L4** **Differentiate** Assign congressional districts C and D to stronger students.

EXTEND THE LESSON

L2 **ELL** **Differentiate** Pair English Language Learners with more advanced students to create a graphic organizer that details the steps involved in the creation of federal budget.

L3 **L4** **Differentiate** Have students select the agency that was the highest priority on their Core Worksheet and research that agency's budget allocation from its initial request, the amount allocated by the President, and the final amount approved by Congress. Then, in a short essay, have students describe what they think may have influenced any changes made in the steps toward final approval.

Tell students to go to the Interactivity to learn more about the budget creation process.

Assess and Remediate

L3 Have students write a brief summary of the class activity and how it illustrates why the federal budget process is so difficult.

L3 Collect Core Worksheets and assess students' class participation, using the Rubric for Assessing Individual Performance in a Group (Unit 4, All-in-One, p. 288).

L3 Assign the Section 3 Assessment questions.

L3 Section Quiz A (Unit 4 All-in-One, p. 211)

L2 Section Quiz B (Unit 4 All-in-One, p. 212)

Have students complete the review activities in the digital lesson presentation and continue their work in the **Essential Questions Journal.**

How Government Works

GOVERNMENT ONLINE
Interactive
To learn more about the budget creation process, visit **PearsonSuccessNet.com**

Creating the Federal Budget

Individually and as one body, the House and Senate spend eight months determining the final allocation of federal funds. ***Why are both the legislative and executive branches involved in this process?***

1 Presenting the Budget

On the first Monday in February, the President proposes a budget outlining his or her policy and funding priorities and estimating spending, income, and borrowing for the coming fiscal year.

- President submits budget request to Congress.

2 Creating a Budget Resolution

Using the President's budget as a guide, the House and Senate work individually and then together to determine the size of the budget, estimate revenue, and set discretionary spending levels.

- House and Senate Budget Committees conduct hearings on a Budget Resolution.
- House and Senate debate and vote on their committees' Budget Resolution.
- Conference Committee works to resolve and merge each chamber's resolution into one final resolution.
- Congress votes on final version of the Budget Resolution.

3 Setting Appropriations

Guided by the Budget Resolution, the House and Senate work individually and then in conference to divide monies among federal agencies. Appropriations measures set out the budgets of the federal agencies in detail and provide the legal authority to spend their funds.

- House and Senate Appropriations Committees develop 13 separate spending bills each.
- Conference Committee settles on one bill for each of the 13 appropriation measures.
- Congress votes on final version of each appropriation bill.

4 Approving the Final Budget

As each appropriation bill is approved by Congress, it is presented to the President to veto or sign into law.

- President signs or vetoes the appropriation bills. If a bill is not approved by October 1st, Congress must pass a continuing resolution for unfunded agencies to ensure their continued operation.

The OMB reviews all of the many agency proposals, often in budget hearings at which agency officials must defend their dollar requests. Following the OMB's review, revised and usually lowered spending plans for all of the agencies in the executive branch are fitted into the President's overall program. They become a part of the budget document—a part of the political statement—the President sends to Capitol Hill.[7]

Congress and the Budget Remember, Congress depends upon and works through its standing committees. The President's budget proposals, therefore, are referred to the Budget Committee in each chamber. There, in both the House and Senate committees, those money requests are studied and dissected with the help of the Congressional Budget Office (CBO).

The CBO is a staff agency created by Congress in 1974. It provides both houses of Congress and their committees with basic budget and economic data and analyses. The information that the CBO supplies is independent of the information provided by the OMB, which, recall, is the President's budget agency.

The President's budget is also sent to the House and Senate Appropriations Committees.[8] Their subcommittees hold extensive hearings in which they examine agency requests, quiz agency officials, and take testimony from a wide range of interested parties. Lobbyists for most of the interest groups discussed earlier (in Chapter 9) are actively involved in those hearings. They testify, bring grass-roots pressures to bear, and otherwise work to promote the interests of the organizations they represent. (And campaign contributions from these groups often find their way to members of those subcommittees—in particular, to their chairmen and ranking members.)

The two Appropriations Committees shape measures that later are reported to the

7 Congress enacts a separate budget to cover its own expenses. The federal courts' spending requests are prepared by the Administrative Office of the United States Courts and sent directly to Congress.

8 All tax proposals included in the budget are referred to the House Ways and Means Committee and to the Senate's Finance Committee.

Teacher-to-Teacher Network

ALTERNATE LESSON PLAN To help students understand the federal budget, give them a summary budget showing the major categories of entitlement and discretionary spending and figures for what the Federal Government spends on each. Then give students the major categories of federal revenue and how much money the government receives. Ask them to balance the budget without raising taxes. They must justify what they did, and then evaluate if they would raise revenue instead of just cutting spending.

To see this lesson plan, go to Teacher Center at PearsonSuccessNet.com

Answers

Creating the Federal Budget Although Congress has the "power of the purse," the Constitution requires that any bill created in Congress needs to be presented and approved by the President. The budget creation process illustrates the constitutional principle of checks and balances.

floor of each house. Those measures are the bills that actually appropriate the funds on which the government will operate.

The two Budget Committees propose a concurrent resolution on the budget to their respective chambers. That measure, which must be passed by both houses by May 15, sets overall targets for federal receipts and spending in the upcoming fiscal year. The estimates are intended to guide the committees in both houses as they continue to work on the budget.

The two Budget Committees propose a second budget resolution in early September. Congress must pass that resolution by September 15, just two weeks before the beginning of the next fiscal year. That second budget resolution sets binding expenditure limits for all federal agencies in that upcoming year. No appropriations measure can provide for any spending that exceeds those limits.

Congress passes thirteen major appropriations bills each year. Recall, each of these measures must go to the White House for the President's action. Every year, Congress hopes to pass all thirteen of the appropriations measures by October 1—that is, by the beginning of the Federal Government's fiscal year.

It seldom does so, however. Congress must then pass emergency spending legislation to avoid a shutdown of those agencies for which appropriations have not yet been signed into law. That legislation takes the form of a **continuing resolution.** When signed by the President, the measure allows the affected agencies to continue to function on the basis of the previous year's appropriations. Should Congress and the President fail to act, many agencies of the Federal Government would have to suspend their operations.

Singer and songwriter John Legend testifies before a House Appropriations hearing on funding for the arts. ***Why do you think the congressional appropriation hearings are open to the public?***

binding
adj. creating a legal obligation to do something

Essential Questions Journal To continue to build a response to the chapter Essential Question, go to your **Essential Questions Journal.**

SECTION 3 ASSESSMENT

1. **Guiding Question** Use your completed concept web to answer this question: How is federal spending determined?

Key Terms and Comprehension

2. **(a)** What are **entitlement** programs? **(b)** List three examples of those government programs.
3. Why is **controllable spending** sometimes referred to as "discretionary spending?"
4. What is the purpose of a **continuing resolution?**
5. Describe the basic steps involved in creating the federal budget.

Critical Thinking

6. **Identify Central Issues (a)** What programs do you think are considered high priorities by most Americans? **(b)** How are these priorities taken into account during the creation of the federal budget?
7. **Predict Consequences (a)** What might occur if the OMB accepted all agency funding requests without holding budget hearings? **(b)** What would be the advantages and disadvantages if this were to occur?

Quick Write

Cause-and-Effect Writing: Identify Causes and Effects Using your research for the Section 2 Quick Write, create a graphic organizer to help you determine how government spending priorities were affected by the needs of the nation at the time and identify possible explanations for the government's actions. Were programs created? Were taxes affected? Did the actions remedy the problem? Keep in mind that there can be multiple causes and effects.

REMEDIATION

If Your Students Have Trouble With	Strategies For Remediation
Explaining the budgetary process (Questions 1, 5)	Review the "Federal Budget" graphic in this section.
Listing entitlement programs (Questions 2, 6)	Have students review the content under "Spending Priorities" and create a list of programs that are American priorities.
Understanding controllable spending (Question 3)	Have students create a graphic organizer capturing the main points under "Controllable and Uncontrollable Spending."
Explaining a continuing resolution (Question 4)	Review with students the budget process and what results if a budget is not approved in time.
Determining the ramifications of the OMB accepting all agency budget requests (Question 7)	Have students brainstorm the positive and negative effects of this scenario.

Answers

Caption Open hearings allow interested parties to give testimony, bringing grass-roots pressures to bear.

Assessment Answers

1. Most federal spending is uncontrollable and must be paid, such as entitlements and interest on the public debt. Congress and the President can decide how much to spend on controllable items. Their decisions on discretionary spending are influenced by the President's policies, federal agency estimates, congressional hearings and revisions, and lobbyist pressure.

2. (a) programs in which federal law requires payments to be made to all citizens who meet the eligibility requirements **(b)** OASDI (social security), Medicare, Medicaid, food stamps, unemployment insurance, veterans' benefits

3. because Congress and the President can decide how much money to allocate—they can use their discretion

4. to allow government agencies whose budgets have expired to continue operating until new appropriations are approved

5. Each federal agency submits spending estimates to the OMB, which revises these plans and fits them into the overall budget. The President sends this proposed budget to Congress. Budget Committees set overall revenue and spending targets. Appropriations Committees hold hearings and fashion final bills. Congress votes on the final bills and sends them to the President to sign or veto.

6. (a) Answers will vary. **(b)** through lobbying efforts and through the President and Congress members, who represent citizens' interests

7. (a) Answers should include wasteful spending and a ballooning public debt. **(b)** People might be happy initially, but the uncontrolled public debt might crash the economy.

QUICK WRITE Organizers should show the effects of national needs on spending priorities.

LESSON GOALS

- Students will analyze news programs by selecting stories to air from a newspaper.

Teach

SURVEY

Ask students what television news programs they watch and list them on the board. Have students explain why they choose to watch that specific program. Is it because it covers local stories? Is it unbiased? Is it sensational? Is it the most popular program? Ask: **Which of these programs do you think is the best in delivering the news?** Record the results on the board.

SELECT NEWS STORIES

Divide the class into four groups and provide each group with a section of this morning's newspaper: international news, local news, sports, or entertainment. Have each group select five stories from their section that they think should be covered in that morning's television news program. Then, divide the class into new groups so that one individual from each section is a member of the new group. Assign each group to either a local or national program. Have groups select eight stories to cover and determine in which order they will be aired.

DEFEND THE SELECTIONS

Have each group share the results of their discussion and explain the reasoning for their choices. Ask: **How did limiting the number of stories to air affect their selection process? What stories got cut and why? How did their group's designation as a local or national news program affect their decision making?**

Assess and Remediate

You may wish to have students answer the What Do You Think questions.

Answers

1. Sample answer: The producers may differ in their opinion of the story's importance to their audience or to the producers' political agenda.
2. sample answer: to shape viewer opinion in one direction or another
3. Summaries should reflect an understanding of the differing goals of local and national news programs and should express an opinion on program quality.

CITIZENSHIP 101

Analyzing Television News Programs

"Welcome to the Channel Four Evening News. Tonight's top story is the slashing of the interest rate by the Fed for the second time in as many weeks to address the nation's economic downturn. But first, some early speculation about the Academy Awards. . . ."

Television news programs are one of the major ways that most Americans keep up with local, national, and world events. These news programs are a valuable resource for people who want to stay aware of current events, but they also have the potential to influence public opinion.

Whenever you watch a television news program, you should think critically about how the information is presented to you.

1. **Think about the choice of stories.** There are more news events in any given day than a single news program can hope to cover. The producers of news shows have to choose which stories to report, and how long to spend on each story. By keeping track of which stories are covered, and for how long, you can get a sense of the priorities of the television news program.
2. **Pay attention to headlines and pictures.** Television news programs often use pictures and headline graphics to shape viewer reactions. For each news story, look closely at the headline graphics. Which words are the biggest? Are there any visual elements that are used just for entertainment or shock value?
3. **Compare with news coverage on other stations.** It can sometimes be very interesting to watch multiple television news programs on the same day, to see how they handle the news differently. Are they covering the same stories? Do they describe those stories the same way? Does one program include information about the news story that another program leaves out?
4. **Look for signs of bias.** You will often hear people talk about a "liberal bias" or a "conservative bias" in certain television news programs. Whatever their intentions may be, all news programs have to make choices in terms of what stories to report and how to report them, and sometimes these choices might be informed by political opinions.

What do you think?

1. What does it mean when one television news program spends more time on a story than does another news program?
2. Other than time constraints, why would a television news program choose to leave information out of a particular story?
3. **You Try It** Watch the coverage of one local and one national television news station and compare their coverage of the same day's news. Then, write a brief summary of your investigation and indicate which of the two you think is the more useful and informative news broadcast.

GOVERNMENT ONLINE
Citizenship Activity Pack
For activities on analyzing television news programs, go to **PearsonSuccessNet.com**

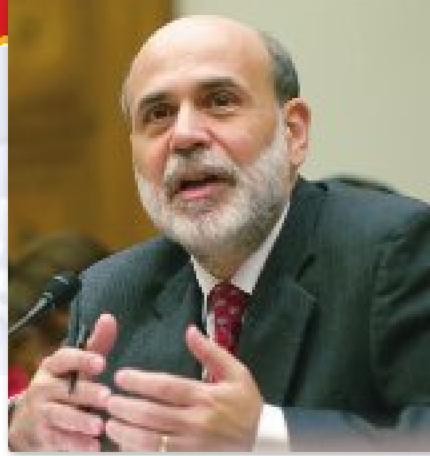
472

Citizenship Activity Pack

L1 **L2** If your students need extra support, use the Citizenship Activity Pack lesson *How to Analyze Television News Programs.* It includes a lesson plan for you and worksheets to help students analyze news for content, structure, and point of view. Breaking News scenario cards supply each team with details of a breaking story to guide their own newscast. Students may also access the Citizenship Activity Pack online for activities on How to Analyze Television News Programs at **PearsonSuccessNet.com.**

SECTION 4

Fiscal and Monetary Policy



Guiding Question

How does the Federal Government achieve its economic goals? Use a table like the one below to keep track of the methods used by the government to meet its broad economic goals.

Types of Economic Policy		
Goal	Fiscal Policy	Monetary Policy
• Full employment	•	•
•	•	•

Political Dictionary

- gross domestic product
- inflation
- deflation
- recession
- fiscal policy
- monetary policy
- open market operations
- reserve requirement
- discount rate

Objectives

1. Describe the overall goals of the Federal Government's actions in the economy.
2. Explain the features and purposes of fiscal policy.
3. Explain the features and purposes of monetary policy.

Image Above: Federal Reserve Chairman Ben Bernanke testifies on monetary policy at a congressional hearing.

"It's the economy, stupid." That slogan has become a watchword in electoral politics. It first appeared during the presidential campaign of 1992, on a sign that hung on the wall of political advisor James Carville's office in Bill Clinton's campaign headquarters. Mr. Clinton, the Democratic Party's nominee, faced a daunting challenge in that election: How could he possibly convince the voters that he, not incumbent George H.W. Bush, should sit in the White House?

Mr. Bush, the 41st President of the United States, brought a substantial record to the contest—a record highlighted by the end, at long last, of the cold war and a stunning victory in the Persian Gulf War. Mr. Clinton, and Carville and Paul Begala, his chief campaign advisors, were convinced that the key to success in November lay in the domestic, not the foreign policy realm. The nation's economy was in shambles and, to their minds, the incumbent President was vulnerable on that score, and events proved them right.

The successful management of the economy is vital not only to a President's political survival. It has a very direct and immediate effect on the well-being of every man, woman, and child in this country. In this section, we explore the Federal Government's key economic goals and the principal mechanisms with which it attempts to achieve those ends.

Overall Economic Goals

The American economy is enormously complex. The nation's **gross domestic product** (GDP)—the total value of all final goods and services produced in the country each year—is now some $14 trillion. Over recent decades, the American people have come to expect that the government will actively and effectively control the behavior of this gigantic beast. The fortunes of presidencies, of members of Congress, and of political parties rise and fall in no small part on the basis of the economy's performance. In response to popular demand, the Federal Government seeks to achieve three main goals in the economic realm: full employment, price stability, and economic growth.

Full employment, as you might guess, means that there are enough jobs available to employ all those who are able and willing to work. The Bureau of Labor Statistics, in the Department of Labor, compiles employment and

GUIDING QUESTION

How does the Federal Government achieve its economic goals?

Types of Economic Policy		
Goal	Fiscal Policy	Monetary Policy
• Full employment • Price stability • Economic growth	• Increase government spending or cut taxes to stimulate economic activity • Cut government spending or raise taxes to slow economic activity	• Increase money supply to stimulate economic and employment growth • Decrease money supply to slow inflation • Fed can increase money supply by buying back government securities, decreasing reserve requirement, or lower discount rate • Fed can decrease money supply by selling securities, increasing reserve requirement, or raising discount rate

Get Started

LESSON GOALS

Students will . . .

- discuss the nation's current economic situation and the tools available to the government to address it.
- analyze monetary and fiscal policy tools, using a transparency.
- analyze graphs of economic performance on the government's main economic goals and suggest policy actions.

Focus on the Basics

FACTS: • Since the Great Depression, Americans have grown to expect the Federal Government to take action to influence the economy. • The Federal Government has three broad economic goals: full employment, price stability, and economic growth. • Fiscal policy influences the economy by adjusting taxes and government spending. • Monetary policy influences the economy by using open market operations, reserve requirements, and the discount rate to adjust the supply of money in circulation.

CONCEPTS: enumerated and implied powers, separation of powers

ENDURING UNDERSTANDINGS: • The Federal Government uses fiscal and monetary policy as tools to promote full employment, price stability, and economic growth.

SKILLS DEVELOPMENT

DRAW INFERENCES AND CONCLUSIONS

Before distributing this section's Core Worksheet to students, have them review the information in the Skills Handbook, p. S19, about drawing inferences and conclusions.

BEFORE CLASS

Assign the section, the graphic organizer in the text, and the Reading Comprehension Worksheet (Unit 4 All-in-One, p. 213) before class.

L2 Differentiate Reading Comprehension Worksheet (Unit 4 All-in-One, p. 214)

BELLRINGER

Write on the board: **What is our current economic situation? What tools can the government use to address the situation? Answer in your notebook.**

Teach

To present this topic using online resources, use the lesson presentations at **PearsonSuccessNet.com.**

REVIEW BELLRINGER

Ask for volunteers to read their responses to the Bellringer questions. Make sure the tools suggested are applicable to the current situation.

DISCUSS ECONOMIC POLICY TOOLS

Ask: **When the Fed buys back securities from banks or sells securities to banks, what are these operations called?** *(open market operations)* Display Transparency 16F, Government's Economic Tools, which is a diagram of the uses of fiscal and monetary policies. Ask: **What actions might the government consider in a recession?** *(increasing government spending, cutting taxes, buying back securities, decreasing reserve requirement, reducing discount rate)* **What is the reserve requirement?** *(the amount of money that the Fed requires banks to hold in reserve)* **How does lowering the reserve requirement increase the amount of money in circulation?** *(Banks must hold less in reserve, freeing up more money for loans. Increased borrowing puts more money into circulation.)* **What actions might the government consider if prices rise too fast?** *(cutting government spending, increasing taxes, selling securities, increasing reserve requirement, raising discount rate)* **What is the discount rate?** *(the rate of interest a bank must pay to borrow money from a Federal Reserve Bank)* **How does raising the discount rate decrease the money supply?** *(Higher interest rates make borrowing more expensive for banks and their customers. As a result, borrowing decreases—resulting in less money flowing into the economy.)*

Answers

Checkpoint Increased prices due to inflation can reduce the purchasing power of consumers.

Caption fiscal policy

✓ Checkpoint How can inflation affect the economy?

unemployment data. Its reports are a major indicator of the nation's economic health.

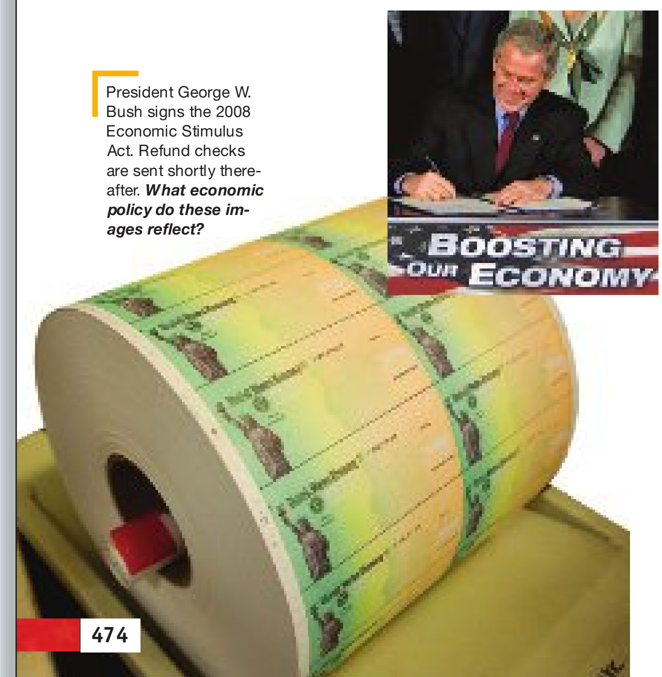
Price stability refers to the absence of significant ups and downs in the prices of goods and services. A general increase in prices throughout the economy is called **inflation.** A general decrease in prices is known as **deflation.** The Consumer Price Index (the CPI), also reported by the Bureau of Labor Statistics, tracks trends in the prices of consumer goods.

Both inflation and deflation have harmful effects on the economy. Higher prices due to inflation rob consumers of purchasing power because their dollars buy less than they once did. Deflation makes it difficult for people and businesses to borrow money because the assets they use to borrow against decline in value. Deflation also hurts farmers and other producers, who receive less for their products. This makes it difficult for them to pay their loans, which in turns hurts banks and investors.

A growing economy is one in which the GDP constantly increases. That growth helps produce a higher standard of living. When there is an absence of growth and the economy shrinks, a **recession** occurs.

dampen
v. to deaden or check

tamp
v. to push down, press



President George W. Bush signs the 2008 Economic Stimulus Act. Refund checks are sent shortly thereafter. ***What economic policy do these images reflect?***

Fiscal Policy

Fiscal policy is a major tool with which the Federal Government seeks to achieve its broad economic goals. Fiscal policy consists of the government's powers to tax and spend to influence the economy.

Earlier in this chapter, you read about the generating of revenue and the making of spending decisions through the federal budget process. In addition to deciding how to raise and how to spend money, policymakers must consider what effects their taxing and spending decisions will have on the overall economy. Federal spending represents about 20 percent of the nation's GDP. How money is collected and spent can have a real effect throughout the economy—on employment, on prices, and on growth.

As a general matter, an increase in government spending means heightened economic activity; spending cuts tend to dampen that activity. Tax increases take money out of people's pockets and can slow economic growth. Tax cuts can boost economic activity.

For the better part of 150 years, the Federal Government did not make vigorous use of fiscal policy. Federal income and outgo represented just a bare fraction of GDP. As recently as 1930, that fraction amounted to just over 3 percent of GDP. The Federal Government simply stood by as ups and downs rippled through the economy. Those ups and downs were seen as an inevitable and even a healthy feature of a free enterprise system.

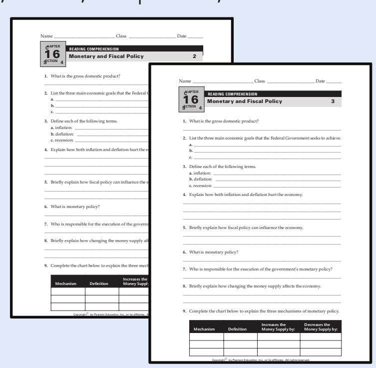
The Great Depression of the 1930s was a particularly severe downturn. Recall that, in the midst of that crisis, British economist John Maynard Keynes advocated an increase in governmental spending and a decrease in taxes to help end the economic misery. Over time, Keynes's ideas have gained wide acceptance. Now, during a downturn, policymakers usually seek to expand the economy with greater spending and/or lower taxes. Thus, when President George W. Bush took office in 2001, a slowdown loomed and he urged massive tax cuts. He hoped that by putting more money in people's pockets, he could help the economy rebound.

Fiscal policy can also be used to slow inflation. In theory, cuts in government spending and/or tax increases can tamp down inflation across the entire economy.

Differentiated Resources

The following resources are located in the All-in-One, Unit 4, Chapter 16, Section 4:

- **L3** Reading Comprehension Worksheet (p. 213)
- **L2** Reading Comprehension Worksheet (p. 214)
- **L3** Core Worksheet (p. 215)
- **L3** Quiz A (p. 217)
- **L2** Quiz B (p. 218)
- **L3** Chapter Test A (p. 219)
- **L2** Chapter Test B (p. 222)



▸▸ **Analyzing Political Cartoons** Influencing the economy can be an extremely delicate matter. A small action can result in an unexpected outcome requiring a change in policy that may lead to unexpected results. ***How does this cartoon illustrate the complexity of monetary policy?***

Fiscal policy does have its limits. For one thing, it takes time for policy changes—for example, an increase or reduction in spending—to have a measurable effect on the economy. Timing the delivery of hikes or cuts is a very tricky matter. So policymakers often resort to other means to influence economic activity.

Monetary Policy

Monetary policy is the most significant of those other means by which the Federal Government can influence the nation's economy. **Monetary policy** involves the money supply (the amount of currency in circulation) and the availability of credit in the economy.

The Federal Reserve Board (the Fed) is responsible for the execution of the government's monetary policy. Its seven members are appointed by the President and Senate to serve overlapping 14-year terms. The Board directs the work of the Federal Reserve System as an independent agency created by Congress. It was established to function as the nation's central bank.

Congress intended the Fed to impose some order on a patchwork banking system that had become increasingly prone to panics.[9] Panics occur when depositors lose confidence in banks and rush to recover their funds. If enough customers do so, a bank can be overrun and driven out of business. A panic can spread to infect other banks and, conceivably, an entire banking system. The Fed was designed to avert such a calamity. It serves as a source of emergency funding to prevent panics.

Again, the key function of the Fed is to frame monetary policy. By taking steps to increase the money supply, it can provide a short-term boost to the economy, leading to economic growth and an increase in employment. The Fed can produce the opposite

patchwork
n. something made up of many different parts

prone
adj. likely, subject or liable to

9 *Panic* comes from the Latin *panicus,* meaning "terrified"; also from, Pan, the Greek god of nature, thought to inspire fear.

DISTRIBUTE CORE WORKSHEET

Distribute the Chapter 16 Section 4 Core Worksheet (Unit 4 All-in-One, p. 215), which shows data about the performance of the U.S. economy in three areas. Divide the class into groups to complete the worksheet.

L2 **Differentiate** Group students with higher-level students to help them interpret the data shown.

L2 **ELL** **Differentiate** Review each graph as a class and discuss the information shown.

REVIEW CORE WORKSHEET

Have groups share their proposal for addressing economic concerns. Tell students that in 2008 President George W. Bush approved a tax rebate and the Fed dropped the discount rate several times to help stabilize the economy. Display the Bellringer transparency again and ask: **Did the Bush Administration use fiscal or monetary policy, or both?** *(both—tax rebates are fiscal policy; reducing the discount rate is a monetary policy)* **What economic goals did the Bush policies target?** *(Both cutting taxes and reducing the discount rate promote full employment and economic growth.)* **How might these government actions affect inflation?** *(Both actions would be expected to increase inflation. Reducing inflation requires the opposite actions—increasing taxes and raising the discount rate.)* **Why is making economic policy challenging?** *(Actions to improve some aspects of the economy may worsen others. Also, it takes some time for actions to influence the economy, and it is difficult to determine whether changes in the economy resulted from the government's actions or from other factors.)*

EXTEND THE LESSON

L1 **L2** **Differentiate** List on the board each fiscal and monetary policy option discussed in the text. Have students draw a cause-and-effect diagram for each government action.

L4 **Differentiate** Have students research an effort by the Federal Government to influence the economy using fiscal policy or monetary policy between 1970 and 2000. Then, have them determine whether those efforts were successful and write a brief summary of their conclusions.

Background

INFLATION AND FISCAL POLICY The government's fiscal tools—taxing and spending—influence the economy by affecting demand for goods and services. When overall demand rises, prices rise. This is inflation—a general increase in prices throughout an economy. When demand declines, prices decline. The Federal Government is a huge consumer. Its spending represents about 20 percent of the economy. When the government wants to reduce inflation, it can decrease its own spending. This drop in demand for products slows price increases. The government can also increase taxes to control inflation. Higher taxes leave less money for consumers to spend—decreasing demand and inflation. Fiscal policy is not a popular way to control inflation. Cuts in government spending can mean less money for education, highways, and other programs, and no one likes to pay higher taxes.

Answers

Analyzing Political Cartoons Addressing one economic issue can result in a larger problem with another.

Assess and Remediate

L3 Collect the Core Worksheets and assess students' work.

L3 Assign the Section 4 Assessment questions.

L3 Section Quiz A (Unit 4 All-in-One, p. 217)

L2 Section Quiz B (Unit 4 All-in-One, p. 218)

Have students complete the review activities in the digital lesson presentation and continue their work in the **Essential Questions Journal.**

REMEDIATION

If Your Students Have Trouble With	Strategies For Remediation
Understanding how fiscal and monetary policy can influence the economy (Questions 1, 4)	Create a flowchart illustrating how specific government actions affect elements of the economy.
Understanding gross domestic product (Question 2)	Have students create a graphic illustrating how to calculate a nation's GDP.
Understanding the difference between inflation and deflation (Question 3)	Have students look up each term in the glossary or other sources and write their definition in their own words.
Explaining how economic goals are critical to economic stability (Question 5)	Have students brainstorm a list of reasons why these goals are critical to a stable economy.
Determining government involvement in the economy (Questions 6, 7)	Create a list of the actions the government can take and brainstorm possible results if the government did not take action.

Answers

Checkpoint buy back government securities, decrease reserve requirements, cut discount rate

Checkpoint
In what ways can the Fed increase the money supply?

effect by decreasing the supply of money and consequently slowing inflationary pressures.

The Fed can alter the money supply through three major mechanisms. Its tools for that purpose are open market operations, reserve requirements, and the discount rate.

Open Market Operations When the Fed seeks to alter the money supply, it does not simply send out trucks that carry bundles of cash to or from member banks. Its operations are far more sophisticated. It operates through what are called **open market operations**—a process that involves the buying or selling of government securities, such as bonds, from and to the nation's banks. By buying these government securities back from the banks, the Fed provides money to banks, which can then make loans to individuals and to businesses. If its aim is to decrease the money supply, the Fed sells government bonds through its open market operations. As it receives money from the banks that buy those securities, money is removed from circulation. Subsequently, the banks have less money to loan or invest, and so business activity slows.

Reserve Requirements The Fed can also influence or alter the amount of money in circulation by changing the reserve requirements that all banks and similar financial institutions must meet. The **reserve requirement** is the amount of money that the Federal Reserve Board determines banks must keep "in reserve" in their vaults or on deposit with one of the 12 Federal Reserve Banks. Those funds cannot be used to make loans or for any other purpose. They remain, instead, out of circulation, available for use in the event of sudden, unexpected demand.

If the Fed sees a need to lower the money supply, on the other hand, it can require that banks increase the amount they have in reserve. Or the reserve requirement can be relaxed by the Fed to increase the amount of money in circulation.

Discount Rate The third mechanism available to the Fed involves the discount rate. The **discount rate** is the rate of interest a bank must pay when it borrows money from a Federal Reserve Bank. Interest, recall, is the cost borrowers incur and must repay in order to borrow money. If the Fed raises the discount rate, banks find it more difficult to obtain money. Banks must then charge higher interest rates to their customers; borrowing decreases and less money flows into the economy. Cutting the discount rate has the opposite effect.

SECTION 4 ASSESSMENT

Essential Questions Journal To continue to build a response to the chapter Essential Question, go to your **Essential Questions Journal.**

1. **Guiding Question** Use your completed table to answer this question: How does the Federal Government achieve its economic goals?

Key Terms and Comprehension

2. What is the **gross domestic product?**
3. What is the difference between **inflation** and **deflation?**
4. How can the use of **fiscal policy** and **monetary policy** influence the overall national economy?

Critical Thinking

5. **Identify Central Issues (a)** What are the three main economic goals the government aims to achieve? **(b)** Why do you think these goals are critical to a healthy economy?
6. **Drawing Conclusions** Should the Federal Government have the authority to take actions that can alter the nation's economy? Why or why not?
7. **Predict Consequences** Why might policymakers hesitate to use fiscal policy to influence the nation's economy?

Quick Write

Cause-and-Effect Writing: Create an Outline Review your notes and graphic organizer from Section 3 to clarify the cause-and-effect relationships between the issues and the data you found. What issues seemed to be important to Americans at the time? Did the federal budget and government actions reflect those concerns? Create an outline of the relationships with supporting data to help you determine how best to present the information—chronologically or by order of importance—to your audience.

Assessment Answers

1. The Federal Government uses fiscal and monetary policy to adjust taxes, government spending, and the money supply to achieve its goals of full employment, price stability, and economic growth.

2. the total value of all final goods and services produced by a nation in a year

3. Inflation is a general increase in prices throughout an economy, while deflation is a general decrease in prices.

4. Fiscal policy adjusts the level of taxes and government spending to increase economic activity or slow inflation. Monetary policy uses open market operations, reserve requirements, and the discount rate to adjust the money supply in order to stimulate economic growth or slow inflation.

5. (a) full employment, price stability, economic growth **(b)** Full employment, stable prices (and therefore stable purchasing power), and a growing economy promote a high standard of living for the nation's citizens, leading to a stable nation.

6. Yes, because government actions can promote economic stability by reducing the extremes in the economy's ups and downs; OR No, because the free market will make the necessary economic adjustments more efficiently without government interference

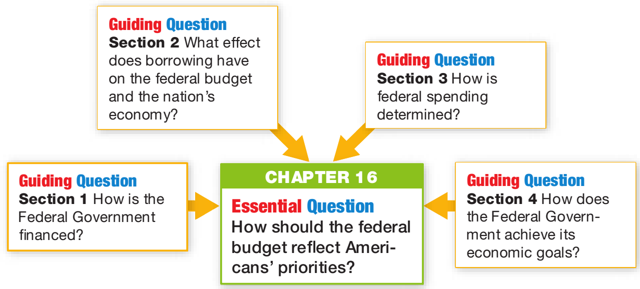
7. Fiscal policy takes a long time to work. How the government taxes and spends can also have unintended consequences on the overall economy—affecting employment, prices, and growth. Cutting programs and raising taxes are politically unpopular.

QUICK WRITE Outlines should show a chronological or a rank-order organization.

Quick Study Guide

GOVERNMENT ONLINE
On the Go
To review anytime, anywhere, download these online resources at **PearsonSuccessNet.com**
Political Dictionary, Audio Review

CHAPTER **16**

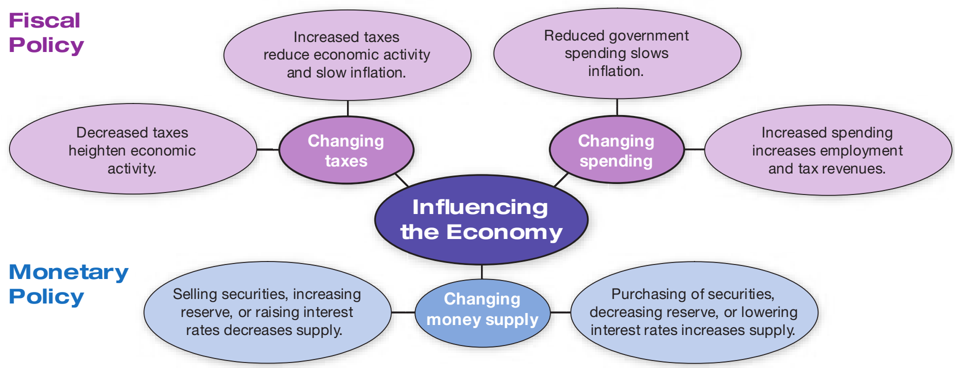


Political Dictionary

- **fiscal policy** p. 456
- **progressive tax** p. 459
- **payroll tax** p. 460
- **regressive tax** p. 461
- **excise tax** p. 461
- **estate tax** p. 461
- **gift tax** p. 461
- **customs duty** p. 462
- **interest** p. 462
- **deficit** p. 463
- **surplus** p. 463
- **demand-side economics** p. 464
- **supply-side economics** p. 464
- **public debt** p. 466
- **entitlement** p. 467
- **controllable spending** p. 468
- **uncontrollable spending** p. 468
- **continuing resolution** p. 471
- **gross domestic product** p. 473
- **inflation** p. 474
- **deflation** p. 474
- **recession** p. 474
- **fiscal policy** p. 474
- **monetary policy** p. 475
- **open market operations** p. 476
- **reserve requirement** p. 476
- **discount rate** p. 476

Sources of Government Revenue

Income tax	Progressive tax on the income of both individuals and corporations
Social insurance tax	Regressive tax withheld from employee paychecks to support social programs
Excise tax	Regressive tax on the manufacture, sale, or consumption of goods and/or on services rendered
Estate tax	Tax on the assets of someone who dies
Gift tax	Tax on a gift of money or property
Custom duty	Tax on goods imported into this country
Interest	Monies paid on charges to governmental loans
Licenses and fees	Monies paid for licenses, passports, patents, fines, etc.
Seigniorage	Income gained from production of coins and paper money
Borrowing	Monies gained through the sale of bonds



Have students download the digital resources available at Government on the Go for review and remediation.

STUDY TIPS

Making Audio Study Guides For auditory learners, there is no better way to review and absorb information than an audio study guide. In fact, most types of learners can benefit from listening to information while they are performing other tasks. Even if students are not actively paying attention to the content, they will still retain some of it. Tell students they can make their own audio study guide by using a computer, a CD burner, or an MP3 player and audio software. Students can record their own voices reading summaries of text information or lectures, asking questions and then providing the answers, reciting terms or key dates followed by their definitions or meanings, and more. The audio files can be listened to while traveling to school, waiting in line, exercising, or during any "down time."

ASSESSMENT AT A GLANCE

Tests and Quizzes
Section Assessments
Section Quizzes A and B, Unit 4 **All-in-One**
Chapter Assessment
Chapter Tests A and B, Unit 4 **All-in-One**
Document-Based Assessment
Progress Monitoring Online
Exam*View* Test Bank

Performance Assessment
Essential Questions Journal
Debate, p. 461
Assessment Rubrics, **All-in-One**

For More Information

To learn more about the federal budget, refer to these sources or assign them to students:

L1 **De Capua, Sarah.** *Paying Taxes.* Children's Press, 2002.

L2 **Grote, Joann A.** *The Internal Revenue Service.* Chelsea House, 2001.

L3 **Boortz, Neal and John Linder.** *The FairTax Book: Saying Goodbye to the Income Tax and the IRS.* HarperCollins Publishers, 2006.

L4 **Bittle, Scott and Jean Johnson.** *Where Does the Money Go?: Your Guided Tour to the Federal Budget Crisis.* HarperCollins Publishers, 2008.

Chapter Assessment

COMPREHENSION AND CRITICAL THINKING

SECTION 1

1. **(a)** Taxes must be for public purposes only; export taxes are prohibited; direct taxes must be equally apportioned among States by population; and all indirect taxes must be levied at the same rates nationwide. **(b)** Students might suggest that these provisions help limit the power of government and preserve federalism by ensuring that federal taxes are applied equally to all States. Students might also note that the Framers included the export-tax restriction as part of the Commerce Compromise and the direct-tax restriction as part of the Three-Fifths Compromise.
2. **(a)** individual income tax, corporation income tax, social insurance taxes, excise tax, estate/gift taxes, and customs duties **(b)** individual income tax **(c)** Excise tax is paid practically on a daily basis because the retail price of many consumer purchases contains some form of excise tax.
3. Answers will vary, but should show an understanding that federal regressive taxes do require some individuals to pay more proportionally, but that the progressive income tax requires those with more income to pay more than those with less.

SECTION 2

4. **(a)** The government borrows money through the sale of federal securities, such as Treasury notes, bills, and bonds. **(b)** Answers will vary, but should note that monies borrowed by the government are often used to fund programs that benefit the public. **(c)** Answers will vary, but should note that government borrowing increases the public debt, which future taxpayers will have to pay.
5. **(a)** the total amount of money the government owes, including interest **(b)** Yes, the huge and increasing debt puts a drag on the economy and unfairly transfers the burden of payment to future generations. OR No, the government's need to raise revenue to fund necessary programs and provide for national security is more important than the increasing debt.

SECTION 3

6. **(a)** Controllable spending refers to items for which Congress and the President can decide how much to spend. Uncontrollable spending refers to spending that neither Congress nor the President has the power to change. **(b)** uncontrollable **(c)** Entitlement programs are structured to ensure that the programs continue to run from administration to administration, and that those eligible for the programs continue to get the services needed.
7. **(a)** Through the work of the OMB, the President makes the initial proposal for the federal budget to Congress. The President also signs the finished legislation. **(b)** Through their budget and appropriations committees, both houses of Congress review the President's budget and fashion bills to appropriate funds. Both houses vote on these bills. **(c)** Yes. The budget process is a negotiation between the President and both houses of Congress to arrive at a final spending plan. OR No. Although Congress creates the appropriation bills, the President can veto any appropriations, which gives the President the power to control the results of the budgetary process.
8. **(a)** Yes, because an amendment would force the government to balance the budget, which it won't do on its own; OR No, because an amendment would take away the flexibility needed to raise funds

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CHAPTER 16

Chapter Assessment

GOVERNMENT ONLINE
Self-Test
To test your understanding of key terms and main ideas, visit **PearsonSuccessNet.com**

Comprehension and Critical Thinking

Section 1

1. **(a)** What are the four limits on the power to tax as set out in the Constitution? **(b)** Why do you think these limitations were included by the Framers?
2. **(a)** What are the different types of taxes? **(b)** Which federal tax raises the most revenue? **(c)** Which tax are you most likely to pay on a regular basis? Why?
3. Do you think the current federal taxation system is equitable? Why or why not?

Section 2

4. **(a)** How does the government borrow money? **(b)** Who benefits from this borrowing system? **(c)** Who, if anyone, is disadvantaged by government borrowing?
5. **(a)** What is the public debt? **(b)** Do you think the concern about the size of the public debt is justified? Why or why not?

Section 3

6. **(a)** What is the difference between controllable and uncontrollable spending? **(b)** How would you classify entitlement programs? **(c)** Why do you think Congress structured the financing of these programs in this manner?
7. **(a)** What is the President's role in the budget-making process? **(b)** What is Congress's? **(c)** Is this process a joint effort between the President and Congress? Explain.
8. **(a)** Should the Constitution be amended to require a balanced budget each year? **(b)** What might be the results of such an amendment?

Section 4

9. **(a)** What are the principal economic goals of the Federal Government? **(b)** What methods are used by the government to meet these goals? **(c)** Should the government be involved in the economy? Why or why not?
10. **(a)** What agency is responsible for implementing monetary policy? **(b)** What tools are available to this agency to influence the nation's economy? **(c)** Which of these tools do you think might produce the quickest results? Why do you think so?
11. **Analyzing Political Cartoons (a)** Who do the characters in this cartoon represent? **(b)** What comment is being made through the doctor's diagnosis?

Writing About Government

12. Use your Quick Write exercises from this chapter to write a cause-and-effect essay on the relationship between the actions of the government and the nation's priorities. Make sure that your thesis statement is clearly stated, your ideas are well-organized and your argument is supported. See pp. S3–S5 in the Skills Handbook.

Apply What You've Learned

13. **Essential Question Activity** Take a poll of 10 to 15 individuals in your community. Ask:
    (a) What issues are priorities for Americans today? Which one is the most important to you?
    (b) Within the last six months, has the Federal Government taken any action to address that issue? If so, what?
    (c) Which federal programs or services do you think could be cut back or abolished to help deal with the issue? Would you be willing to pay additional taxes to cover the cost? If not, how should the government pay for it?
    (d) Do you think the Federal Government is responsive to the priorities of Americans? Why or why not?
14. **Essential Question Assessment** Using the results of your poll, create a chart illustrating the top priorities of Americans today to help you answer the Essential Question: **How should the federal budget reflect Americans' priorities?** Then, write a letter to your congressperson expressing the issues that are the top concerns and suggesting methods the government could use to address the issues.

Essential Questions Journal To respond to the chapter Essential Question, go to your **Essential Questions Journal.**

478 Chapter 16 Assessment

Document-Based Assessment

CHAPTER 16

Addressing the Rising Cost of Healthcare

The costs of entitlement programs and the constraints they place on the federal budget have been debated at great length. Most Americans agree that these programs are critical to the public's well-being, however. As the documents below illustrate, keeping these programs going without undermining others is proving to be a very difficult fiscal challenge.

Document 1

In the United States a large and growing portion of both federal and state expenditures is for subsidized health insurance. In 1975, federal spending on Medicare and Medicaid was about 6 percent of total non-interest federal spending. Today, that share is about 23 percent. Because of rising costs of health care and the aging of the population, the CBO projects that, without reform, Medicare and Medicaid will be about 35 percent of non-interest federal spending in 2025. This trend implies increasingly difficult tradeoffs for legislators and taxpayers, as higher government spending on health care spending will. . . require reductions in other government programs, higher taxes, or larger budget deficits.

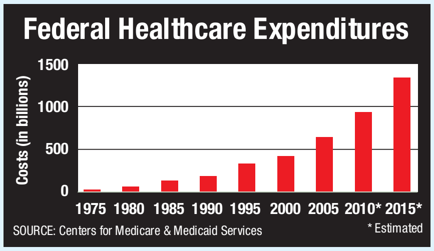
—Ben S. Bernanke, Chairman, Federal Reserve, 2008

Document 2

If the major entitlement programs grow as forecast, our children will be forced to choose between massive tax increases, near-elimination of all government programs outside of entitlements (including defense and essential services), or some combination. . . . Because of these rising entitlement obligations, ensuring long-term fiscal stability requires much more than addressing current spending and deficits, important as that is. Also necessary is finding a means of controlling the costs of the major entitlement programs, without compromising their essential functions.

—Katherine Baicker, Council of Economic Advisors, 2005

Document 3



Use your knowledge of financing government and the documents above to answer Questions 1–3.

1. What is the main point of Document 3?
   A. Controllable expenditures are becoming uncontrollable.
   B. Entitlement programs are too costly.
   C. Revenue from healthcare has increased.
   D. Subsidized healthcare costs have risen considerably over time.
2. What concerns are discussed in both Document 1 and Document 2?
3. **Pull It Together** Considering the expense of the entitlement program, do you think that the Federal Government should continue to provide subsidized healthcare? Why or why not?

GOVERNMENT ONLINE
Documents
To find more primary sources on the cost of healthcare, visit **PearsonSuccessNet.com**

DOCUMENT-BASED ASSESSMENT

1. D
2. Both documents are concerned with the fact that without reform, the cost of entitlement programs will have dire effects on other programs and the federal budget.
3. Possible response: Yes, the Federal Government should continue to subsidize healthcare, because our society has a responsibility to provide the necessities of life to citizens in need. Also, in the end, those with insurance will be forced to pay for those without insurance through their own premiums. OR No, the federal government should not continue to subsidize healthcare, because buying insurance should be the responsibility of the individual—not the government.

L2 Differentiate Students use all the documents on the page to support their thesis.

L3 Differentiate Students include additional information available online at **PearsonSuccessNet.com.**

L4 Differentiate Students use materials from the textbook, the online information at **PearsonSuccess Net.com,** and do additional research to support their views.

Go Online to PearsonSuccessNet.com for a student rubric and extra documents.

quickly in crisis situations **(b)** A balanced budget would require painful cuts in some programs and the elimination of some altogether. It would also likely require large tax increases.

SECTION 4

9. **(a)** full employment, price stability, and economic growth **(b)** altering taxes, the money supply, and spending **(c)** Answers will vary, but should take into account the pros and cons of government involvement.
10. **(a)** the Federal Reserve Board **(b)** The Fed can alter the supply of money in circulation by buying or selling federal securities, changing the required reserve amount, and adjusting the discount rate. **(c)** Economic policies take time to show results especially in times of economic slumps since people are less likely to spend money even if they have it.
11. **(a)** Uncle Sam (the U.S.) and the Fed chairman Ben Bernanke **(b)** that the American economy is seriously ill

WRITING ABOUT GOVERNMENT

12. Essays should follow the organization students outlined in an earlier step, show clear cause-and-effect relationships, and be well supported with appropriate details.

APPLY WHAT YOU'VE LEARNED

13. Student polls should summarize opinions on economic priorities and government actions to address these priorities.
14. Letters should state the priorities that the student found to be of greatest importance, and the methods of addressing the issues should be reasonable and practical.

Introduce the Chapter

Essential Questions:

UNIT 4

What makes a good President?

CHAPTER 17

How should the United States interact with other countries?

ACTIVATE PRIOR KNOWLEDGE

Have students examine the image and quotation on these pages. Ask: **How does this image reflect Americans' aspiration for peace?** *(A visiting foreign dignitary shows the American desire to use diplomacy to promote international interaction and peace while the ritual of reviewing the troops is a symbolic illustration of the U.S. military's strength and power to maintain peace.)* In this chapter, students will learn about U.S. foreign policy and its role in national security. Have students further explore U.S. foreign policy and national defense by completing the Chapter 17 Essential Question Warmup activity in their **Essential Questions Journal.** Discuss their responses as a class.

BEFORE READING

L2 ELL **Differentiate** Chapter 17 Prereading and Vocabulary Worksheet (Unit 4 All-in-One, p. 234)

SUCCESSNET STUDENT AND TEACHER CENTER

Visit **PearsonSuccessNet.com** for downloadable resources that allow students and teachers to connect with government "on the go."

DIGITAL LESSON PRESENTATION

The digital lesson presentation supports the print lesson with activities and summaries of key concepts.

SKILLS DEVELOPMENT

INNOVATE AND THINK CREATIVELY

You may wish to teach thinking creatively and innovating as a distinct skill within Section 2 of this chapter. Use the Chapter 17 Skills Worksheet (Unit 4 All-in-One, p. 253) to help students learn to think creatively and to innovate. The worksheet asks students to read an excerpt about the redeployment of U.S. troops in Iraq, identify the problem, brainstorm solutions, and understand the factors involved. For L2 and L1 students, assign the adapted Skill Activity (Unit 4 All-in-One, p. 254).

WebQuest online The chapter WebQuest challenges students to answer the chapter Essential Question by asking them about foreign policy and national security.

Block Scheduling

BLOCK 1: Teach the Section 1 and Section 2 lessons, but instead of the Section 1 skit, complete the first Section 1 Extend activity in class. Omit the Section 2 Extend activities and Debate.

BLOCK 2: Teach the Section 3 and Section 4 lessons, omitting the Bellringers, Debates, and Extend activities.