

## Key to Ability Levels

<b>BL</b>	Below level	<b>AL</b>	Above level
<b>OL</b>	On level	<b>ELL</b>	English Language Learners

## Key to Teaching Resources

	Print Material		DVD
	CD-Rom		Transparency

Levels				Resources	Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess
BL	OL	AL	ELL						
<b>FOCUS</b>									
BL	OL	AL	ELL	 Daily Focus Skills Transparencies		69	67, 75	68, 76	
<b>TEACH</b>									
BL	OL		ELL	 Guided Reading Activities*		p. 28	p. 29	p. 30	
BL	OL	AL	ELL	 Economic Content Vocabulary Activities*		p. 10	p. 10	p. 10	
	OL	AL		 Critical Thinking Activities		p. 15			
BL	OL		ELL	 Reading Essentials and Note-Taking Guide*		p. 82	p. 85	p. 88	
		AL		 Enrichment Activities		p. 10			
	OL	AL		 Free Enterprise Activities			p. 15		
BL	OL	AL	ELL	 Primary and Secondary Source Readings				p. 29	
BL	OL	AL	ELL	 Economic Cartoons		pp. 15, 20			
BL	OL	AL	ELL	 Math Practice for Economics		p. 15			
BL	OL	AL	ELL	 Economics Forms and Financial Pages Transparencies, Strategies, and Activities			p. 9		
BL	OL	AL	ELL	 Reinforcing Economic Skills			p. 19		
BL	OL		ELL	 High School Reading in the Content Area Strategies and Activities	✓	✓	✓	✓	✓
BL	OL	AL	ELL	 High School Writing Process Transparencies	✓	✓	✓	✓	✓
BL	OL	AL	ELL	 Writer's Guidebook	✓	✓	✓	✓	✓
BL	OL	AL	ELL	 StudentWorks Plus CD-ROM	✓	✓	✓	✓	✓
BL	OL	AL	ELL	 Vocabulary PuzzleMaker CD-ROM	✓	✓	✓	✓	✓

\*Also available in Spanish



- Interactive Lesson Planner
- Interactive Teacher Edition
- Fully editable blackline masters
- Economics & You videos

- Differentiated Lesson Plans
- Printable reports of daily assignments
- Standards tracking system

Levels				Resources	Chapter Opener	Section 1	Section 2	Section 3	Chapter Assess	
BL	OL	AL	ELL							
<b>TEACH</b> <i>(continued)</i>										
BL	OL	AL	ELL	Economics & You Video Program DVD— <i>Government Spending</i>	✓	✓	✓	✓	✓	
BL	OL	AL	ELL	Graph Coach CD-ROM	✓	✓	✓	✓	✓	
<b>Teacher Resources</b>				Differentiated Instruction Strategies	✓	✓	✓	✓	✓	
				Success with English Learners	✓	✓	✓	✓	✓	
				Presentation Plus! CD-ROM	✓	✓	✓	✓	✓	
<b>ASSESS</b>										
BL	OL	AL	ELL	Section Quizzes and Chapter Tests		p. 121	p. 122	p. 123	pp. 125, 129	
BL	OL	AL	ELL	Authentic Assessment Strategies and Activities			p. 15			
BL	OL	AL	ELL	ExamView® Assessment Suite CD-ROM		10-1	10-2	10-3	Ch. 10	
BL	OL	AL	ELL	Interactive Tutor Self-Assessment CD-ROM		10-1	10-2	10-3		
<b>CLOSE</b>										
BL			ELL	Reteaching Activities*		p. 10	p. 10	p. 10		
BL	OL		ELL	Reading and Study Skills Foldables		p. 57		p. 57		
BL	OL	AL	ELL	Graphic Organizer Transparencies			p. 7	p. 7		

\*Also available in Spanish

### Activity

Using Skillbuilder  
Interactive Workbook  
CD-ROM

## Interpreting Maps

### Technology Product

Glencoe's *Skillbuilder Interactive Workbook CD-ROM* provides self-paced instruction, practice, and assessment of key skills your students need in social studies, including interpreting maps. The *Skillbuilder Interactive Workbook*

- lets students learn, practice, and assess their knowledge of social studies skills;
- lists key terms and a glossary where appropriate;
- includes a **Management System** to create class rosters and monitor student progress.

### Objectives

The *Skillbuilder Interactive Workbook* help students

- learn and practice reading maps;
- identify areas for reinforcement.

### Steps

Provide students with the following information:

- Select **Interpreting Maps** from the Main Menu page. Then select one of the options.
- The **Instruction** option on the Activities page provides a step-by-step tutorial to learn the skill being taught, along with an audio component.
- The **Guided Practice** section presents comprehension questions to review the material covered in the Instruction section. Questions include multiple choice, true/false, fill-in-the-blank, and drag-and-drop types.
- The **Assessment** section includes 10 questions that test student mastery of the skill.

Have students complete the activity and use the Management System to monitor their progress.

			
	Student	Teacher	Parent
Beyond the Textbook	•	•	•
Chapter Overviews	•	•	•
ePuzzles and Games	•		•
Concepts in Motion	•		•
Multi-Language Glossaries	•		•
Online Student Edition	•	•	•
Self-Check Quizzes	•		•
Student Web Activities	•		•
Study Central™	•		•
Time Current Events	•	•	•
Teaching Today		•	
Vocabulary eFlashcards	•		•
Web Activity Lesson Plans		•	





- **Timed Readings Plus in Social Studies** helps students increase their reading rate and fluency while maintaining comprehension. The 400-word passages are similar to those found on state and national assessments.
- **Reading in the Content Area: Social Studies** concentrates on six essential reading skills that help students better comprehend what they read. The book includes 75 high-interest nonfiction passages written at increasing levels of difficulty.
- **Reading Social Studies** includes strategic reading instruction and vocabulary support in Social Studies content for both ELLs and native speakers of English.  
[www.jamestowneducation.com](http://www.jamestowneducation.com)

Reading List Generator CD-ROM

GLENCOE BOOKLINK 3

Use this database to search more than 30,000 titles to create a customized reading list for your students.

- Reading lists can be organized by students' reading level, author, genre, theme, or area of interest.
- The database provides Degrees of Reading Power™ (DRP) and Lexile™ readability scores for all selections.
- A brief summary of each selection is included.

**Leveled reading suggestions for this chapter:**

**For students at a Grade 10 reading level:**

- **National Defense**, by James Fallows

**For students at a Grade 11 reading level:**

- **Child Welfare: Opposing Viewpoints**, by Carol Wekesser

**For students at a Grade 12 reading level:**

- **Education**, by Mary E. Williams

\* **Review suggested books before assigning them.**



National Council on Economic Education

## Voluntary Standards Emphasized in Chapter 10

**Content Standard 16** There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also redistribute income.

**Content Standard 20** Federal government budgetary policy and the Federal Reserve System's monetary policy influence the overall levels of employment, output, and prices.

## Resources Available from NCEE

- Virtual Economics®: An Interactive Center for Economic Education Version 3.0
- Civics and Government: Focus on Economics, Second Edition
- Capstone: The Nation's High School Economics Course
- Focus: Institutions and Markets

To order these materials, or to contact your State Council on Economic Education about workshops and programs, call 1-800-338-1192 or visit the NCEE Web site at [store.ncee.net](http://store.ncee.net).

# Government Spending

## The BIG Idea

As students study the chapter, remind them to consider the chapter-based Big Idea. The **Essential Question** in the chapter launch activity below ties in to the Big Idea and helps students think about and understand important chapter concepts. In addition, the Hands-On Chapter Project relates the content from each section to the Big Idea. The steps in each section build on each other and culminate in the Wrap-Up Activity on the Visual Summary page.



To generate student interest and provide a springboard for class discussion, access the Economics & You Topic 15 video, **Government Spending**, at [glencoe.com](http://glencoe.com) or on the video DVD.



### Dinah Zike's Foldables

are three-dimensional, interactive graphic organizers that help students practice basic writing skills, review key vocabulary terms, and identify main ideas. Have students complete this chapter's Foldable activity or activities in *Dinah Zike's Reading and Study Skills Foldables* booklet. **OL**

### Economics ONLINE

Introduce students to chapter content and key terms by having them access **Chapter 10 —Chapter Overviews** at [glencoe.com](http://glencoe.com).

## Why It Matters

Have you ever wondered what the government does with the money withheld from your paycheck? As you travel from home to school over the next three days, list all the examples you see of goods and services provided by federal, state, or local government. Try to determine which level of government funded them and who benefits from them the most. Share your list with the class.

## The BIG Idea

All levels of government use tax revenue to provide essential goods and services.

Spending for national defense is a responsibility of the federal government.



**Economics ONLINE Chapter Overview** Visit the *Economics: Principles and Practices* Web site at [glencoe.com](http://glencoe.com) and click on **Chapter 10—Chapter Overviews** to preview chapter information.

## Activity: Launching the Chapter

**Identifying** Have students brainstorm a list of the goods and services provided by the federal, state, and local (county or city) levels of government. Write their ideas on the board in three separate columns—one for each governmental level. **Essential Question:** **What are two spending categories that are common to each level of government?**

(Possible answer: law enforcement and education) Have students write a paragraph explaining what they think are the top spending priorities of each of the three levels of government. **OL**

## GUIDE TO READING

### Section Preview

In this section, you will learn that the role of the federal government has grown, making it a vital player in the economy.

### Content Vocabulary

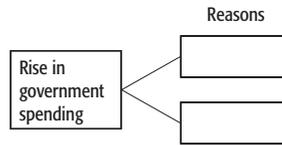
- pork (p. 261)
- public sector (p. 262)
- private sector (p. 263)
- transfer payment (p. 263)
- grant-in-aid (p. 263)
- subsidy (p. 264)
- distribution of income (p. 264)

### Academic Vocabulary

- constituents (p. 261)
- reluctant (p. 265)

### Reading Strategy

**Listing** As you read the section, complete a graphic organizer similar to the one below by listing reasons for the increase in government spending since the 1940s.



## ISSUES IN THE NEWS

—George Will, *Washington Post*

### Grand Old Spenders

Conservatives have won seven of 10 presidential elections, yet . . . per-household federal spending [is] more than \$22,000 per year, the highest in inflation-adjusted terms since World War II. Federal spending . . . has grown twice as fast under President Bush as under President Bill Clinton, 65 percent of it unrelated to national security.

In 1991, the 546 pork projects . . . cost \$3.1 billion. In 2005, the 13,997 pork projects cost \$27.3 billion, for things such as improving the National Packard Museum in Warren, Ohio (Packard, an automobile brand, died in 1958).

Washington subsidizes the cost of water to encourage farmers to produce surpluses that trigger a gusher of government spending to support prices . . . [and] . . . almost \$2 billion is spent each year paying farmers *not* to produce. ■



The amount of net spending by all levels of government—federal, state, and local—amounts to an ever-increasing portion of our GDP, the dollar measure of all final goods and services produced in a country in a year. It wasn't always this way, but sometimes politicians have a hard time saying "no" when it comes to taking care of their **constituents** and the interests of their home districts.

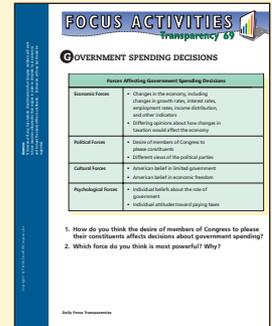
A recent political trend, as discussed in the news article above, is the increasingly popular use of pork in the federal budget. **Pork** is a term used by some to describe a line-item budget expenditure that circumvents normal budget-building procedures. Because most pork projects provide generous benefits to a small number of individuals or businesses, taxpayers generally would not otherwise approve the projects.

**pork** a line-item budget expenditure that circumvents normal budget procedures and benefits a small number of people or businesses

## Focus

### Bellringer

#### Daily Focus Transparency 69



## GUIDE TO READING

### Answers to Graphic:

**Reasons:** increased size of government; larger government role in the economy; more goods and services provided; growth of population; greater acceptance of government involvement in the economy; increasing transfer payments

## Resource Manager

R Reading Strategies	C Critical Thinking	D Differentiated Instruction	W Writing Support	S Skill Practice
<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Act. Prior Know., p. 264</li> <li>• Academic Vocab., p. 265</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• Guid. Read. Act., p. 28</li> <li>• Read. Ess. &amp; Note-Taking Guide, p. 82</li> </ul>	<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Speculating, p. 263</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• Math Prac. for Econ., p. 15</li> <li>• Quizzes and Tests, p. 121</li> </ul>	<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Adv. Learners, p. 262</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• Reteach. Act., p. 10</li> <li>• Econ. Cartoons, p. 20</li> <li>• Enrichment Act., p. 10</li> </ul>	<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Expository Writing, p. 263</li> <li>• Personal Writing, p. 264</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• Writer's Guidebook</li> </ul>	<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Analyzing Graphs, p. 262</li> <li>• Compare/Contrast, p. 266</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• Reading and Study Skills Fold., p. 57</li> <li>• Econ. Content Vocab. Act., p. 10</li> </ul>

# Teach

## D Differentiated Instruction

**Advanced Learners** Have students select an economic program started by the government in the 1930s. Ask students to research and prepare a multimedia report on the program. Students should address the program's purpose, costs, and overall impact. **AL**

## S Skill Practice

**Analyzing Graphs** Have students use a history textbook to make a list of U.S. presidents, including their dates in office, since 1960. **Ask: Government spending as a percentage of GDP declined by the greatest amount during the administration of which president? (Bill Clinton)** **OL**

### Economic Analysis

**Answer:** Yes, in the late 1970s and the 1990s.

## Differentiated Instruction

**public sector** that part of the economy made up of local, state, and federal governments

## Government Spending in Perspective

**MAIN Idea** The government spends its revenues on goods, services, and transfer payments.

**Economics & You** Do you wonder how the taxes you pay are spent? Read on to learn about government expenditures.

Spending by the **public sector**—the part of the economy consisting of federal, state, and local governments—was relatively low prior to the Great Depression. Since then, attitudes have shifted and spending has increased sharply.

### Spending Since the 1930s

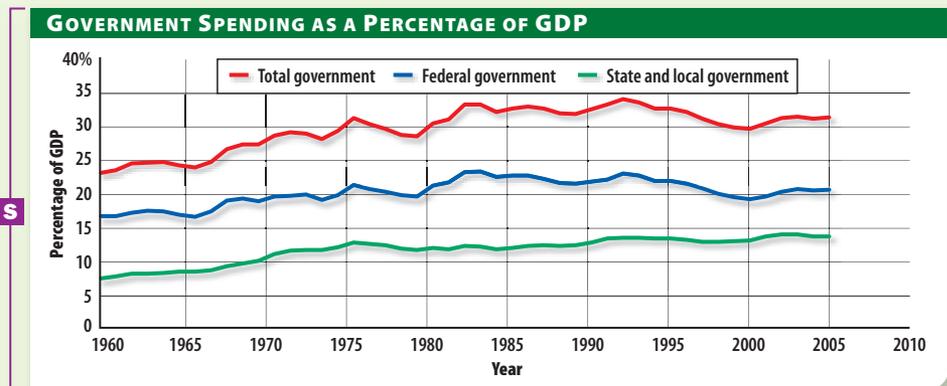
The growth in government spending since the 1930s had two main causes. First, a major change in public opinion gave government a larger role in everyday economic affairs. This change, in turn, was a response to President Franklin D. Roosevelt's New

Deal, which used large-scale government projects to fight the Great Depression. The Tennessee Valley Authority (TVA), for example, brought low-cost electricity to millions of people in the rural South during the mid-1930s.

Second, massive government spending funded the United States involvement in World War II. This resulted in more people working, as factories converted to war production. Most people, some of whom faced unemployment during the 1930s, seemed to become more comfortable with the government's larger role in the domestic economy.

As shown in **Figure 10.1**, expenditures by all levels of government—federal, state, and local—have grown ever since. From about 23 percent of GDP in 1960, they have increased to over 31 percent today. In fact, public-sector spending has grown so large that all levels of government combined now spend more than all of the privately owned businesses in the United States.

**Figure 10.1** ▶ Government Spending

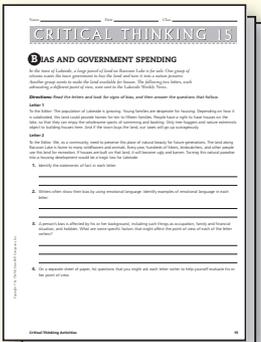


Source: *Economic Report of the President, 2006*

▶ Spending by all levels of government has grown considerably since 1959. Between 2000 and 2005 alone, government expenditures have consumed an additional 5.4 percent of GDP, a \$674 billion increase.

**Economic Analysis** Does the graph show any period of decreased government spending?

Graphs in Motion  
See StudentWorks™ Plus  
or [glencoe.com](http://glencoe.com).



Critical Thinking Activities, p. 15

## Bias and Government Spending

- Objective:** Identify signs of bias in letters about government spending.
- Focus/Teach:** Ask students to list reasons why a local government might buy a parcel of land. Write their ideas on the board. Then have students complete the activity.
- Assess:** Discuss the answers as a class.
- Close:** Ask students to revise each letter so that the content appears less biased.

### Differentiated Instruction Strategies

- BL Ask:** Which letter is the most persuasive? Why?
- AL** Direct students to write a letter to the newspaper suggesting a compromise to the Raccoon Lake issue.
- ELL** Help students list biased language that people commonly use (for example, "nobody likes that kind of food").



**R** Reading Strategy

**Activating Prior Knowledge**

**Ask:** What is one way that the government has supported agriculture? (Possible answers: deficiency payments; Conservation Reserve Program) **OL**

**W** Writing Support

**Personal Writing** Direct students to consider the No Child Left Behind legislation. Instruct students to write an essay describing how the requirements of No Child Left Behind have affected them. Ask students to include in their essays their opinions about the legislation, including whether they think it has had a positive or negative impact. **OL**

**Caption Answer:** Schools will allocate resources toward covering the content on the tests. Other subjects will then be downgraded or dropped, affecting the production of educational materials used in those areas.



**Allocation of Resources** States require students to take graduation exams because of federal legislation. **How can such laws affect the economy?**

**Impact of Government Spending**

**MAIN Idea** Government spending has a direct impact on our economy.

**Economics & You** Have you considered attending a public college because a private one seems out of reach? Read on to find out how government spending affects your life.

The enormous size of the public sector gives it the potential to affect people's daily lives in many ways. It can affect resource allocation, the distribution of income, production in the private sector, and the tax burden on people.

**Affecting Resource Allocation**

Government spending decisions directly affect how resources are allocated. If the government spends its revenues on missile systems in rural areas, for example, rather than on social welfare programs in urban areas, the shift of resources stimulates economic activity in rural areas.

**R** Public sector spending can indirectly affect allocation of resources. In agriculture, the decision to support the prices of cotton, milk, grains, or peanuts keeps the factors of production working in those industries.

If the government withdraws the **subsidies** for these crops, farmers would produce less of each and resources would be released for employment in other industries.

**W** Government is so involved in the economy that even seemingly modest decisions can have an enormous impact on the things we produce. For example, because of the No Child Left Behind legislation, the government now requires schools to conduct extensive testing in reading and math.

As a result, some schools have increased the amount of time they spend on these subjects and therefore have decreased the amount of time spent on other subjects. The decision to downgrade or even drop other subjects diminishes the demand and eventually the production of textbooks and educational supplies used in those areas, while increasing the demand for resources needed for reading and math.

**Redistributing Income**

Government spending also influences the **distribution of income**, or the way in which income is allocated among families, individuals, or other groups. Increasing or decreasing transfer payments, for example, can directly affect the incomes of needy families who receive financial support from the government.

**subsidy** government payment to encourage or protect a certain economic activity (also see page 122)

**distribution of income** way in which the nation's income is divided among families, individuals, or other designated groups

**Hands-On Chapter Project**

Step 1

**Analyzing Government Spending**

In this project, students will analyze government spending at the federal, state, and local levels.

**Step 1: Examining the Impact of Government Spending.** Students will examine the different ways that government spending affects people's daily lives.

**Directions:** Organize the class into six different groups. Assign the federal government to two of the groups, the state government to two of the groups, and the local (city or county) government to two of the groups. Students should then identify specific examples that illustrate how spending by their assigned government impacts resource allocation, the distribution of income, private sector production, and the tax burden on citizens. Have students research the examples they identified to gain an in-depth

understanding of how government spending impacts those categories. Ask students to create a poster illustrating their findings. Display each group's completed poster in the classroom. Group members should be able to explain the images and text included on their posters.

**Summarizing** Have students write a short paper assessing the positive and negative effects of spending by their assigned level of government. **OL**

(Chapter Project continued in Section 2.)

Government decisions about where to make expenditures indirectly affect many people's incomes. The decision to buy fighter planes from one factory rather than another has an impact on the communities near both factories. The decision to spend billions on rebuilding Iraq and Afghanistan increased the incomes of those working in the national defense industries but not those who work in inner cities or other areas that lack such factories.

### Competing With the Private Sector

When the government produces goods and services, it often competes with the private sector. In higher education, many public colleges and universities compete with more expensive private ones. The cost difference often is due to the subsidies public institutions receive from their states.

In the area of health care, the government runs a system of hospitals for military veterans, which are funded with taxpayer

dollars. At the same time, these facilities compete with hospitals in the private sector that offer similar services.

### Increasing the Tax Burden

Finally, the growth of government spending has not gone unnoticed by the average American. The increased tax burden that is needed to support the expenditures has attracted enormous attention in recent years. Most people would like to reduce their taxes, but most people are also **reluctant** to give up the many benefits that government provides.

In short, spending by all levels of government, which amounts to about one-third of our GDP, has a large and often controversial impact on the American economy. Finding the money to pay for these expenditures is a difficult task. Yet many people seem to want even more of these goods, services, and transfer payments.

**Reading Check Explaining** How does government spending affect the distribution of income?

R

#### Skills Handbook

See page R44 to learn about **Detecting Bias**.

SECTION

1

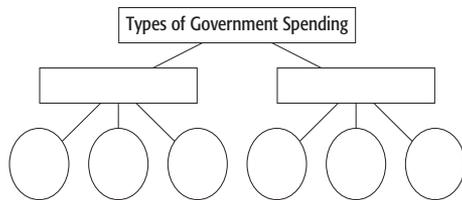
## Review

### Vocabulary

1. **Explain** the significance of pork, public sector, private sector, transfer payment, grant-in-aid, subsidy, and distribution of income.

### Main Ideas

- Identifying** In which three ways might government spending impact the economy?
- Listing** Use a graphic organizer like the one below to list two kinds of government spending and provide three examples of each.



### Critical Thinking

- The BIG Idea** Describe two reasons for the growth of government spending since the 1930s.
- Analyzing Visuals** Look at Figure 10.1 on page 262. How does the spending by state and local governments compare to federal spending? What might explain any differences?
- Explaining** Why are people often reluctant to support a reduction in government spending?
- Detecting Bias** How does the "pork" spending described by the columnist on page 261 illustrate a conflict between political and economic goals?

### Applying Economics

8. **Transfer Payments** Do you think that transfer payments, such as unemployment compensation, are a successful or unsuccessful way to accomplish the goal of economic security? Explain your answer.

## R Reading Strategy

**Academic Vocabulary** Have students use a dictionary or thesaurus to find words that have similar meanings as *reluctant*. Have students reword the bracketed sentence in the text, substituting one of the synonyms that they identified. **OL**

### Reading Check Answer:

Increasing or decreasing transfer payments affect the incomes of needy families. Government spending decisions may increase the incomes of people in certain industries while decreasing others.

## Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 1, and then assign the Section 1 Review as homework or as an in-class activity.

## Close

### Identifying Central Issues

Have students write a paragraph describing the central issues discussed in this section. **OL**

## Review

SECTION

1

## Answers

- All definitions can be found in the section and the Glossary.
- Possible answer:** affecting resource allocation, redistributing income, increasing the tax burden
- Goods and services:** ships; parks; staff salaries. **Transfer payments:** Social Security; unemployment compensation; aid for people with disabilities.
- greater public acceptance of government involvement in everyday economic affairs; large-scale increase in defense spending for World War II and later military commitments
- Federal government spending is consistently higher than state and local government spending. The federal government provides more goods and services and operates larger transfer payment programs.
- People do not want to lose the benefits provided by the government.
- Spending on "pork" projects wins support for elected officials but is an inefficient use of government resources.
- Answers will vary but should be supported with logical arguments and facts about specific programs.

Teach

**S** Skill Practice

**Comparing and Contrasting**

**Ask:** How do you think a mathematician's work with the NSA 30 years ago was similar to and different from a mathematician's work with the NSA today? (Possible difference: Communists were the primary concern while today terrorists are. Possible similarity: At both times they worked to strengthen national security.) **OL**

**BusinessWeek ONLINE**

To find up-to-date news and analysis on the economy, business, technology, markets, entrepreneurs, investments, and finance, have students search feature articles and special reports on the BusinessWeek Web site, [www.businessweek.com](http://www.businessweek.com).

**Examining the Newsclip**

**Answers:**

1. protecting U.S.; breaking enemies' secret codes
2. Internet giants may offer higher salaries.

**Additional Support**

In the United States, the government sector competes with the private sector for scarce resources. This does not just mean the resources to build interstate highways or ensure food safety. In fact, there is a particularly scarce resource the government is trying to lure from the private sector—brains.

**The NSA: Security in Numbers**

The job offers arrived in plain envelopes. For decades, the mathematicians who accepted them stole off to Washington and the hush-hush National Security Agency, the nation's top techno-spy center. Through the cold war, NSA math whizzes matched wits with the Soviets. Each side protected its own secret codes while trying to break the other's.

**S** Math is more important than ever at the NSA. Chances are, the world's growing rivers of data contain terrorist secrets, and it's up to the agency's math teams to find them. But to land the best brains, the NSA must compete with free-spending Web giants such as Google and Yahoo! This is leading the agency to open up its recruiting process.

"We have to look at new and innovative ways to find talent," says Cynthia Miller-Wentt, chief of the NSA's recruitment office. . . . There's a second hitch: Unlike the tech companies it must compete with,



the NSA can hire only U.S. citizens. This is a severe constraint. About half of the estimated 20,000 math graduate students at U.S. universities are foreigners. They're off bounds, as are the bountiful math brains in India, China, Eastern Europe, and elsewhere.

The NSA's pitch? First the agency appeals to the recruits' patriotism. But there's also a lifestyle lure. NSA officials say a good number of mathematicians prefer a suburban Maryland life and a government job with predictable hours to the more frantic pace and market gyrations of an Internet company. . . .

—Reprinted from *BusinessWeek*

**HOW MATH TRANSFORMS INDUSTRIES**

**Marketing**

**Umbria:** The Colorado startup assigns numeric values to "picks" and "pans" of products that pop up on blogs and podcasts.

**Consulting**

**IBM:** Big Blue is building math profiles of 50,000 consultants so that computers can pick the perfect team for every assignment. Other tools eventually will be able to track their progress, hour by hour, and rate their performance.

**Advertising**

**Efficient Frontier:** The Silicon Valley startup calculates response rates and return on investment for every advertisement of online ad campaigns. It provides a broad shift from hunch-based campaigns to mathematical targeting.

Source: *BusinessWeek*

**Examining the Newsclip**

1. **Summarizing** What work do mathematicians perform for the NSA?
2. **Analyzing** Why is it difficult for the NSA to compete with the Internet giants in hiring mathematicians?

**Activity: Technology Connection**

**Working for the NSA** Have students visit the National Security Agency's Web site (<http://www.nsa.gov/>). Instruct students to use the site to investigate a specific job available with NSA. Ask students to research the responsibilities of an NSA employee in the position they selected and find out how a high school student would go about preparing for that particular career path. Students might include information on the following:

- salary and benefits
- education requirements
- opportunities for students, such as internships or scholarships
- application and hiring process

Have students present their findings in a multimedia presentation. Encourage students to include in their presentations the reasons why the career path they researched would or would not appeal to them. **OL**

## GUIDE TO READING

### Section Preview

In this section, you will learn that governments provide money for many services and programs.

### Content Vocabulary

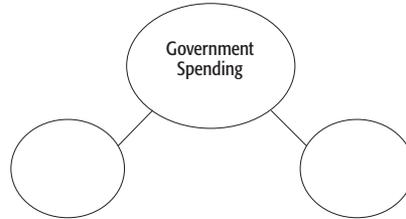
- federal budget (p. 267)
- fiscal year (p. 268)
- appropriations bill (p. 268)
- budget deficit (p. 269)
- budget surplus (p. 269)
- mandatory spending (p. 269)
- discretionary spending (p. 270)
- Medicare (p. 270)
- Medicaid (p. 271)
- balanced budget amendment (p. 271)
- intergovernmental expenditures (p. 272)

### Academic Vocabulary

- ambiguity (p. 267)
- coincide (p. 268)

### Reading Strategy

**Describing** As you read the section, complete a graphic organizer similar to the one below by describing the different types of government spending.



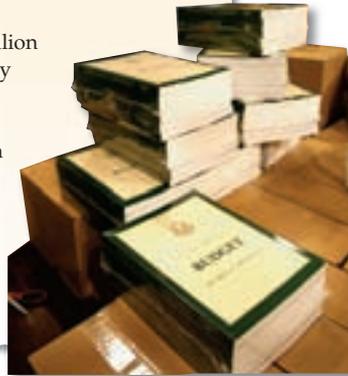
## ISSUES IN THE NEWS

—Los Angeles Times

### The President's Budget Plan

President Bush on Monday sent Congress a proposed \$2.77 trillion budget for 2007 that would boost Defense and Homeland Security while trimming the growth of Medicare and other social service programs . . . [and] . . . leave a deficit of \$354 billion next year—the fourth-largest ever in dollar terms—which would settle down to around \$200 billion for the subsequent four years. . . .

Departments that would gain the most under Bush's budget include the Pentagon, which would see spending rise 7%, and the Department of Homeland Security, where a 6% increase would go largely to immigration enforcement, air travel security and the Federal Emergency Management Agency. ■



When it comes to the numbers presented in the **federal budget**—the annual plan outlining proposed revenues and expenditures for the coming year—there is often a fair amount of **ambiguity**. As the news article above shows, the federal budget offers only a rough estimate of the actual revenues and expenditures.

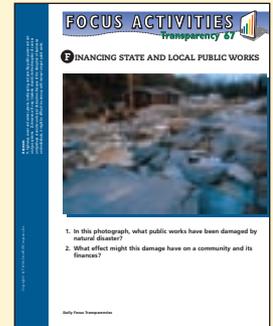
For example, the economy could suddenly slow down or speed up, affecting the amount of tax revenues collected. In addition, events might occur that require unanticipated spending. This was the case after the terrorist attacks on September 11, 2001, and the subsequent wars in Afghanistan and Iraq.

**federal budget**  
annual plan outlining proposed expenditures and anticipated revenues

## Focus

### Bellringer

#### Daily Focus Transparency 67



## GUIDE TO READING

### Answers to Graphic:

**Federal:** Social Security, defense, income security, Medicare, health, interest on debt

**State and Local:** intergovernmental expenditures, public welfare, insurance trust and retirement, education, utilities, public safety and health

## Resource Manager

R Reading Strategies	C Critical Thinking	D Differentiated Instruction	W Writing Support	S Skill Practice
<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Making Connections, p. 269</li> <li>• Reading Charts, p. 273</li> <li>• Organizing, p. 275</li> <li>• Act. Prior Know., p. 276</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• Guid. Read. Act., p. 29</li> <li>• Read. Ess. &amp; Note-Taking Guide, p. 85</li> </ul>	<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Compare/Contrast p. 268</li> <li>• Predicting, p. 270</li> <li>• Speculating, p. 274</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• Econ. Forms and Fin. Pages Trans., Strat. and Act., p. 9</li> </ul>	<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Visual/Spatial, p. 272</li> <li>• Logical/Math., p. 273</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• Free Enterprise Act., p. 15</li> <li>• Daily Focus Trans. 67, 75</li> <li>• Reinforcing Econ. Skills, p. 19</li> </ul>	<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Expository Writing, p. 270</li> <li>• Persuasive Writing, p. 271</li> <li>• Personal Writing, p. 274</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• High School Writing Process Trans.</li> </ul>	<p><b>Teacher Edition</b></p> <ul style="list-style-type: none"> <li>• Using Circle and Bar Graphs, p. 269</li> <li>• Making Gen., p. 272</li> <li>• Ident. Main Idea, p. 274</li> <li>• Making Inferences, p. 276</li> </ul> <p><b>Additional Resources</b></p> <ul style="list-style-type: none"> <li>• Graph. Org. Trans., p. 4</li> <li>• Authentic Assess., p. 15</li> </ul>

## Teach

## C Critical Thinking

## Comparing and Contrasting

Have students make a list of how their family's purchasing decisions are similar to and different than the government's budget-making process. (Possible similarities: both spend money on a variety of different items; both try to base spending decisions on projected income. Possible differences: the federal government receives income from a variety of different sources as opposed to one or two incomes; many people are involved in the federal budget-making process whereas one or two people usually make a family's budget decisions.)

OL

## Caption Answer:

subcommittees of the House of Representatives

## Additional Support

**Economics ONLINE**

**Student Web Activity** Visit the *Economics: Principles and Practices* Web site at [glencoe.com](http://glencoe.com) and click on Chapter 10—Student Web Activity for an activity on the federal budget.

**fiscal year** 12-month financial planning period that may not coincide with the calendar year

**appropriations bill** legislation authorizing spending for certain purposes

## Federal Government Expenditures

**MAIN Idea** The federal government establishes a budget and allocates funds accordingly.

**Economics and You** Has your family created a budget to control income and expenses? Read on to learn how the federal government makes its budget decisions.

**C** The federal budget spans a **fiscal year**—a 12-month financial planning period that may or may not **coincide** with the calendar year. The government's fiscal year starts on October 1 and expires on September 30 of the following calendar year.

## Establishing the Federal Budget

The president's Office of Management and Budget (OMB), part of the executive branch, is responsible for preparing the federal budget. However, the president's budget is only a request, and Congress can approve, modify, or disapprove it. By law, the budget must be sent to both houses of Congress by the first Monday in February.

Once the House of Representatives receives the president's budget request, it breaks down the budget into 13 major

expenditure categories and assigns each to a separate House subcommittee. Each of the subcommittees then prepares an **appropriations bill**, an act of Congress that allows federal agencies to spend money for a specific purpose. Subcommittees hold hearings, debate, and vote on each bill. An approved bill is sent to the full House Appropriations Committee. If it passes there, the bill is sent to the entire House for a vote.

The Senate acts on the budget after the House has approved it. The Senate may approve the bill as sent by the House, or it may draft its own version. If differences exist between the House and the Senate versions, a joint House-Senate conference committee tries to work out a compromise bill. During this process, the House and the Senate often seek advice from the Congressional Budget Office (CBO). The CBO is a nonpartisan congressional agency that evaluates the impact of legislation and projects future revenues and expenditures that will result from the legislation.

If the House and Senate both approve the compromise bill, they send it to the president for signature. Because Congress literally took apart, rewrote, and put back together the president's budget, the final

## Public Hearings

Secretary of State Condoleezza Rice discusses the State Department's budget with an appropriations committee. **Which part of Congress holds hearings?**



268 UNIT 3 Economic Institutions and Issues

## Activity: Collaborative Learning

**Assessing** Organize the class into five groups and explain that each group should pretend to be a congressional subcommittee reviewing budget priorities. Ask subcommittees to discuss and rank the following programs in descending order, with the highest priority first. Have subcommittee members try to reach

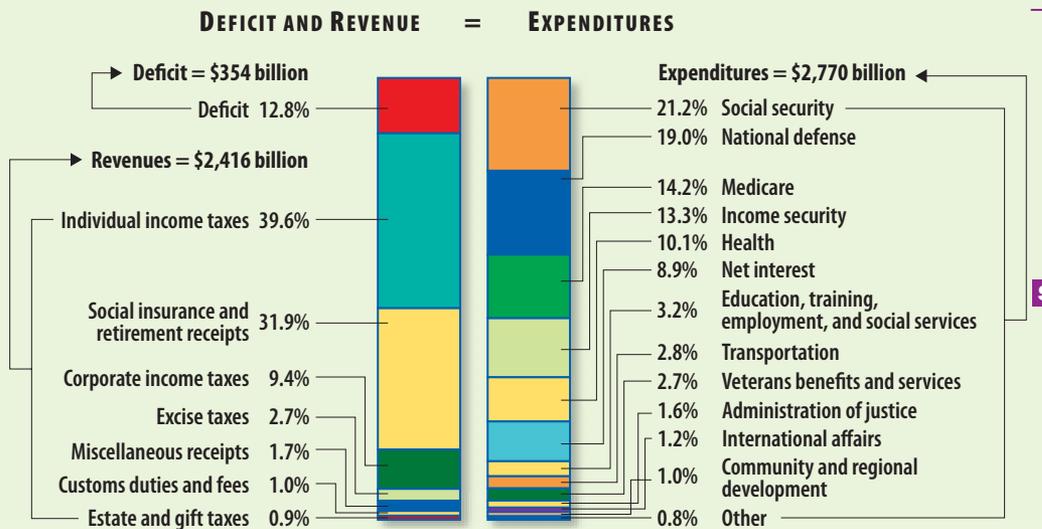
consensus, although it is not absolutely necessary. After discussion is completed, ask representatives from each subcommittee to share their lists with the class and explain their reasoning.

- national defense
- health care
- food for starving people in a nation involved in a civil war

- research on the environment
- space explorations
- housing for the homeless in the United States
- food stamps
- scholarships for needy students to attend college **OL**

▶ In its budget, the federal government projected revenues of \$2,416 billion and planned on spending \$2,770 billion in fiscal year 2007. The difference of \$354 billion, or 12.8 cents of every dollar spent, would be borrowed from investors.

**Economic Analysis** *What is the largest mandatory spending item in the budget? The largest discretionary item?*



Sources: Department of the Treasury, Office of Management and Budget, 2006

version may not resemble the original proposal. In many cases, a bill may have changed considerably, with items added to the president's original budget.

If the budget was altered too much, the president can veto the bill and force Congress to come up with a budget closer to the original version. However, once signed by the president, the budget becomes the official document for the next fiscal year that starts on October 1.

The federal budget shown in **Figure 10.2** is called the fiscal year 2007 budget because 9 of the 12 calendar months fall within the year 2007. The figure shows \$2,416 billion (over \$2 trillion) of revenues and \$2,770 billion of spending, leaving a **budget deficit**—an excess of expenditures

over revenues—of \$354 billion. If expenditures were less than revenues, the result would be a **budget surplus**.

### Social Security

The individual expenditures in the federal budget can be grouped into broad categories. The largest is for payments to aged and disabled Americans through the Social Security program. Retired persons receive benefits from the Old-Age and Survivors Insurance (OASI) program. Those unable to work receive payments from disability insurance (DI) programs.

Spending for Social Security is sometimes called **mandatory spending**, or **R** spending authorized by law that continues

**budget deficit**  
a negative balance after expenditures are subtracted from revenues

**budget surplus**  
a positive balance after expenditures are subtracted from revenues

**mandatory spending** federal spending authorized by law that continues without the need for annual approvals by Congress

## S Skill Practice

### Using Circle and Bar Graphs

Ask students to use the information in Figure 10.2 to create two circle graphs. Have students compare the original figure with the graphs they created and then write a paragraph explaining which format they believe presents the data most effectively, and why. **OL**

## R Reading Strategy

### Making Connections

**Ask:** *Aside from mandatory spending, how else can Social Security be classified?* (transfer payment) If students have trouble answering the question, have them review Section 1. **BL**

### Economic Analysis

**Answer:** Social Security; national defense

## Additional Support

## Extending the Content

**The National Debt** Hefty budget deficits in recent years have pushed the national debt of the United States to record levels. In 2006 the total federal debt topped the staggering figure of \$8.5 trillion. That amount averages out to \$28,504 per American. Some observers, however, maintain that the debt's effects on the economy are not as bad as a decade earlier. They point out that the percentage of the federal spending allocated to debt

financing has declined in recent years. For example, in 2005 interest paid on the debt represented 15 percent of federal outlays. In contrast, financing the debt represented more than 20 percent of federal spending each year of the 1990s. The peak year was 1997, when interest payments accounted for 22.2 percent of U.S. government outlays.

**C** Critical Thinking

**Predicting Ask:** What is an example of a future event that could increase defense expenditures? (Possible answers: United States invades Iran; North Korea accelerates its nuclear weapons program.)

What is an example of a future event that could decrease defense expenditures? (Possible answers: United States withdraws troops from Iraq; North Korea dismantles its nuclear weapons program.)

**BL**

**W** Writing Support

**Expository Writing** Have students research the origins of one of the programs listed on this page. Ask them to write a paper explaining when, why, and how the program began.

**AL**

**Did You Know?**

In 2004 there were 57,586 budget analyst jobs in the United States. Anticipating a 10-year job growth rate, *Money Magazine* and *Salary.com* forecast that there will be 65,340 budget analyst jobs in 2014.

**Differentiated Instruction**

**discretionary spending** spending for federal programs that must receive annual authorization

**Medicare** federal health-care program for senior citizens, regardless of income

without the need for annual approvals by Congress. This is because the total Social Security payments in any given year are dependent on the number of people eligible for Social Security and the level of benefits already approved by Congress.

**National Defense**

For much of the late 1900s, national defense comprised the largest category of spending, although it is now second to Social Security. National defense includes

military spending by the Department of Defense and defense-related atomic energy activities, such as the development of nuclear weapons and the disposal of nuclear wastes.

Defense expenditures are called **discretionary spending**—spending that must be approved by Congress in the annual budgetary process. Unlike Social Security payments, which normally go up as the population gets older, annual defense expenditures can go up, down, or remain the same, depending on the will of the president and Congress.

**Income Security**

Income security consists of a wide range of programs that includes retirement benefits for both federal civilian employees and retired military. Other programs are designed to support people unable to fully care for themselves.

Federal programs pay for child care, foster care, and adoption assistance. Those unable to support themselves receive Supplemental Security Income (SSI), subsidized housing, federal child support, Temporary Assistance for Needy Families (TANF), and food stamps. Most income security expenditures are mandatory and therefore not authorized annually.

**Medicare**

**Medicare**, a health-care program available to all senior citizens regardless of income, began in 1966 and is another mandatory program. It provides an insurance plan that covers major hospital costs. Medicare also offers optional insurance that provides additional coverage for doctor and laboratory fees, outpatient services, and some equipment costs.

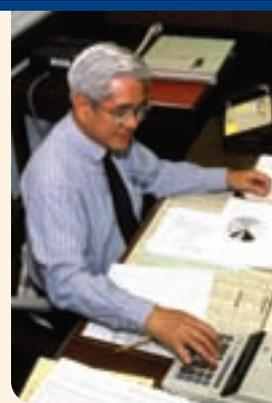
In recent years, Medicare expenditures have risen dramatically as the population has aged and the cost of caring for the elderly has gone up. Given the increasing cost of medicine and current population trends, increases in this category of expenditure are expected to continue.

**CAREERS**

**Budget Analyst**

**The Work**

- \* Research, analyze, develop, and execute annual budgets or financial plans
- \* Seek new ways to improve a company's efficiency and increase profits
- \* Review financial requests, examine past and current budgets, and research developments that can affect spending



**Qualifications**

- \* Keen analytical skills and knowledge of mathematics, statistics, accounting, and computer science
- \* Strong oral and written communication skills to present—and defend—budget proposals
- \* Ability to work well under deadlines
- \* Bachelor's degree, with most firms and government employers requiring a master's degree

**Earnings**

- \* Median annual earnings: \$56,040

**Job Growth Outlook**

- \* Average

Source: *Occupational Outlook Handbook*, 2006–2007 Edition

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**The Federal Budget**

**Objective:** Understand the factors that influence budget-making decisions.

**Focus/Teach:** Ask students to list the different programs that require government funding and then rank them according to importance. Then have students complete the activity.

**Assess:** Go over the answers as a class.

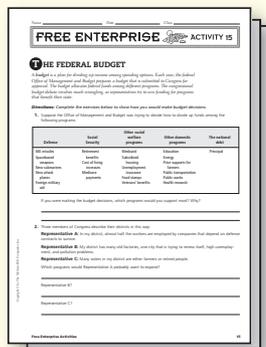
**Close:** Ask students to write a paragraph describing the difficulties of preparing the annual budget.

**Differentiated Instruction Strategies**

**BL** Have students select four programs in the table and then write a sentence that explains each program's purposes.

**AL** Ask students to create a fictional fourth representative (Representative D), and then describe his or her district.

**ELL** Ask students which programs representatives may want to expand.



Free Enterprise Activities, p. 15

**Health**

Health-care services for low-income people, disease prevention, and consumer safety account for a significant part of the federal budget. **Medicaid**, for example, is a joint federal-state medical insurance program for low-income persons. Because the payments have already been determined by Congress, this is one of the mandatory expenditure programs. Other mandatory programs include health-care services for working and retired federal employees.

Some programs in this category are discretionary. The Occupational Safety and Health Administration (OSHA), which monitors occupational safety and health in the workplace, is one such program. Other discretionary programs include AIDS and breast cancer research, substance abuse treatment, and mental health services.

**Net Interest on Debt**

When the federal government spends more than it collects in taxes and other revenues, it borrows money to make up the difference. The government has to pay interest on this debt, and the interest currently makes up the sixth-largest category of federal spending.

The amount of interest paid is a mandatory expenditure that varies with changes in interest rates and the size of the federal debt. The federal government is still running deficits and therefore adding to its total debt. If interest rates rise, then this will become an increasingly larger category in the federal budget.

**Other Expenditure Categories**

Other broad categories of the federal budget include education, training, employment, and social services; transportation; veterans' benefits; administration of justice; and natural resources and the environment. They include both mandatory and discretionary spending.

**✓Reading Check** **Summarizing** What steps are involved in establishing the federal budget?



**State Government Expenditures**

**MAIN Idea** At the state level, expenditures include public welfare and higher education.

**Economics and You** If you want to attend college, have you found money available for financial aid? Read on to learn where these funds come from.

Individual states, like the federal government, also have expenditures. Like the federal government, states must approve spending before distributing funds.

**Medicaid** People with disabilities are among those eligible for Medicaid if they cannot afford health care. **Why is Medicaid a mandatory expenditure?**

**The Budget Process**

At the state level, the process of creating a budget and getting approval for spending can take many forms. For example, some states such as Kentucky have bi-annual budgets, or budgets that cover two years at a time. In most states, the process is loosely modeled after that of the federal government. Unlike the federal government, however, some states have a **balanced budget amendment**—a constitutional provision requiring that annual spending not exceed revenues.

**Medicaid** joint federal-state medical insurance program for low-income people

**balanced budget amendment** constitutional amendment requiring government to spend no more than it collects in taxes and other revenues, excluding borrowing

**W Writing Support**

**Persuasive Writing** Ask students to research the arguments for and against a balanced budget amendment in their state. Instruct them to write a speech arguing why their state should or should not adopt such an amendment. If their state already has a balanced budget amendment, direct students to write a speech about why their state should keep or repeal the amendment. Have students deliver their speeches to the class. **OL**

**Caption Answer:** Payments have already been determined by Congress.

**✓Reading Check Answer:**

The president's OMB prepares a federal budget request. House subcommittees debate and vote on different expenditure categories. The House Appropriations Committee and then the full House approve a budget bill. The Senate then approves or drafts its own version of the bill. After both the House and Senate agree on a version of the bill, they send it to the president to sign.

**Leveled Activities**

**BL Reinforcing Economic Skills, p. 19**

**Reinforcing Economic Skills** Activity 19

**COGNIZING BIAS**

Read the article and answer the questions that follow it.

1. Research the Heritage Foundation. How might the author's affiliation give you cause for concern?

2. What opinion does the author state?

3. What statements of fact does the author state?

4. Based on the research, what is the author's point of view regarding the federal government's role?

**OL Authentic Assessment Strategies and Activities, p. 15**

**Authentic Assessment** Activity 15

**GOVERNMENTAL BUDGETS**

**PROCEDURE**

State	Revenue	Expenditure
Alabama	1,200	1,200
California	1,400	1,400
Florida	1,100	1,100
Illinois	1,300	1,300
Michigan	1,000	1,000
New York	1,500	1,500
Texas	1,200	1,200
Washington	1,100	1,100

1. Divide students into groups. They are responsible for creating a state budget for next year. The state budget will be approximately \$100 billion. Students will determine revenue and expenditure.

2. Assign each group a state to research. They will determine the state's revenue and expenditure.

3. Each group will create a budget for their state. They will determine the state's revenue and expenditure.

4. Each group will present their budget to the class. They will explain their revenue and expenditure.

**AL Economic Forms and Financial Pages Trans., Strat. and Act., p. 9**

**ECONOMIC FORMS** Teaching Strategy 5

**MAP OF THE UNITED STATES**

**OBJECTIVE**

**ANSWERS TO STUDENT PAGE**

**State Spending per Employee and**

## D Differentiated Instruction

**Visual/Spatial** Have students create a collage-type poster illustrating the different categories of spending by their state government. Tell students that they may use pictures clipped from magazines, their own drawings, or a combination of both. **OL**

## S Skill Practice

### Making Generalizations

**Ask:** How do you think state governments benefit from supporting higher education?

(Possible answer: A well-educated population is better able to support itself.) **OL**

### Caption Answer:

intergovernmental expenditures, public welfare, insurance trust, retirement

**✓Reading Check** **Answer:** It makes states keep annual spending from exceeding annual revenues. If revenue drops, states must cut expenses accordingly.

## Hands-On Chapter Project

### Step 2

## Analyzing Government Spending

### Step 2: Describing the Major Categories of Government Spending.

Students will create brochures describing the goods and services provided by government.

**Directions:** Have students reassemble into the six groups that were formed in Step 1. Ask each group to research the major categories of expenditures made by their assigned level of government. Next have

**intergovernmental expenditures** funds that one level of government transfers to another level for spending

Under this provision, states often must cut spending when revenues drop. A reduction in revenues may occur if sales taxes or state income taxes fall because of a decline in the general level of economic activity.

### Intergovernmental Expenditures

As **Figure 10.3** on the opposite page shows, the largest category of state spending is **intergovernmental expenditures**—funds that one level of government transfers to another level for spending. These funds come from state revenue sources such as sales taxes, and they are distributed to counties, cities, and other local communities to cover a variety of educational and other municipal expenditures.

### D Public Welfare

The second largest category of state expenditures is public welfare. These payments take the form of cash assistance, payments for medical care, spending to maintain welfare institutions, and other welfare expenditures.

### Insurance Trust and Retirement

Many states have their own insurance and retirement funds for state employees. The money in these funds is invested until

employees retire, become unemployed, or are injured on the job. Contributions to these funds make this category a significant expenditure. Their main beneficiaries are teachers, legislators, highway workers, police, and other state employees.

### Higher Education

State governments have traditionally taken responsibility for the large task of funding state colleges and universities. In most states, the tuition that students pay covers only a portion of higher education expenses. States usually budget funds to pay the remainder of the cost. On average, higher education is the fifth-largest state expenditure.

### Other Expenditures

The expenditures in the remaining state budget categories are relatively small. As **Figure 10.3** shows, states spend money on a wide range of activities including corrections; utilities such as electricity, gas, and water; hospitals; and parks and recreation. Highways and road improvements are possible exceptions because they may require larger amounts of state money.

**✓Reading Check** **Explaining** How does a balanced budget amendment work?

**Higher Education** States usually fund part of the expenses for state colleges and universities. **What are other large categories of state expenditures?**



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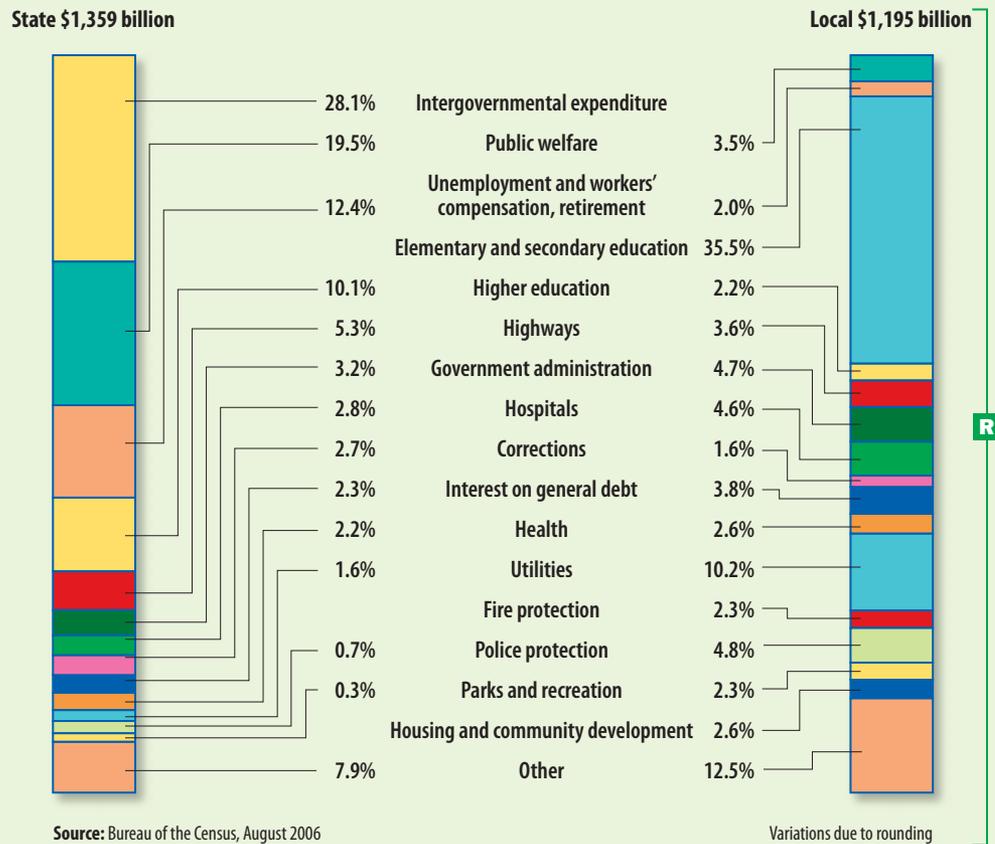
students create a brochure explaining the goods and services provided by their government. Brochures should advertise the merits of their government's programs with a positive and engaging tone. Encourage students to include graphics and statistical charts in their brochures. Have students provide one brochure to each of the other groups. Encourage students to ask questions about the information provided in the other groups' brochures.

**Making Decisions** Have students write a short paper ranking the importance of the different goods and services provided by their assigned level of government. **OL**

(Chapter Project continued in Section 3.)

▶ Both state and local expenditures consist of a myriad of categories. Intergovernmental expenditures and public welfare use up almost half of state budgets, while education is the main expenditure for local governments.

**Economic Analysis** How do expenditures for public welfare, education, and utilities compare between state and local governments?



Source: Bureau of the Census, August 2006

**D Differentiated Instruction**

**Logical/Mathematical** Have students use the chart to calculate the dollar amounts that state and local governments spend on education (all levels) and police protection. (state: \$137.26 billion, \$9.51 billion; local: \$450.52 billion, \$57.36 billion) **OL**

**R Reading Strategy**

**Reading Charts Ask:** What is the largest state government expense category that is not an expenditure of local government? (intergovernmental expenditure) What is the largest local government expense category that is not an expenditure of state government? (elementary and secondary education) **BL**

**Economic Analysis**

**Answer:** State governments spend more on public welfare, less on education, and less on utilities than local governments.

**Additional Support**

**Activity: Hands-On Economics**

**Considering Budgetary Issues**

Organize the class into groups of five to seven students each. Tell groups that they each will be performing a skit depicting a city council meeting that addresses some type of budgetary issue (for example, considering ways to cut expenditures to match a drop in revenues, or reviewing a proposal to grant tax breaks and other concessions to a business considering

locating a factory in town). Inform students that to research this topic they may wish to observe council meetings in person or via cable television (if a local access station provides such coverage). Have students perform their skits for the class. **AL**

**Teacher Tip**

**Gathering Information**

You might suggest that students prepare for their skits by interviewing council members and reviewing council meeting minutes. Copies of minutes are available at city hall or the city's Web site.



# Teach

## C Critical Thinking

**Speculating** Ask: Considering how much the United States spends on education, why do you think the math scores of U.S. students rank below the scores of students in other nations? (Possible answers: other subjects receive greater emphasis in American schools; other nations place more importance on learning math.) **OL**

## S Skill Practice

**Identifying the Main Idea** Ask: On what does your local government spend money? (Answers will vary but will likely include education, utilities, and law enforcement.) **BL**

## W Writing Support

**Personal Writing** Ask students to write an essay describing their opinions about local government spending on their own education. Students might consider how and where the money is allocated. Tell students to include specific examples in their essays. **OL**

## Additional Support

### Footnote the Bill for Public Education

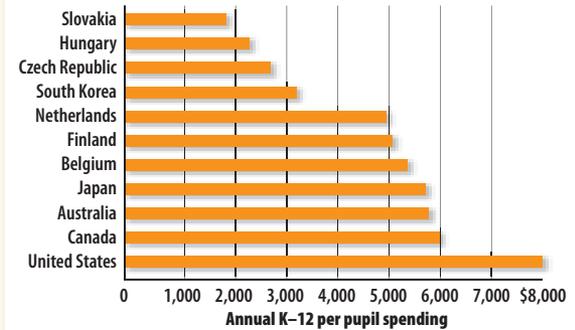
Nearly 50 million students are enrolled in public elementary and secondary schools in the United States. Property taxes and intergovernmental revenues are the largest funding sources for these schools.

How much does your education cost in taxpayer dollars? For the 2002–2003 school year, expenditures per student averaged \$8,044 in the United States. New Jersey had the highest expenditures with \$12,568 per student. Utah was at the lowest end of the range, with expenditures at \$4,838 per student.

As the world becomes more economically interdependent, you will face increasing global competition for jobs after you graduate. While the United States spends on average more on education to prepare you and other students, this spending is no guarantee of success. When students all over the world participated in a math achievement test, U.S. students ranked

lower in the test than did those of other countries. Perhaps money can buy schools, but it cannot buy student learning.

#### INTERNATIONAL EDUCATION SPENDING



Source: National Center for Education Statistics

### Local Government Expenditures

**MAIN Idea** Local governments spend money mainly on education, utilities, and public safety.

**Economics and You** Have you ever wondered who pays for textbooks or extracurricular activities at your school? Read on to find out about the responsibilities of local governments.

Local governments include counties, parishes, townships, municipalities, tribal councils, school districts, and other special districts. The different categories of expenditures made by these local governments are illustrated in Figure 10.3 on the previous page.

#### The Budget Process

At the local level, power to approve spending often rests with the mayor, the city council, the county judge, or some

other elected representative or body. The methods used to approve spending and the dates of the fiscal year itself are likely to vary considerably from one local government to the next.

Generally, the amount of revenues collected from property taxes, city income taxes, and other local sources is relatively small and limits the spending of local agencies. Some local governments are even bound by state requirements to avoid deficit spending.

#### Elementary and Secondary Education

Local governments have primary responsibility for elementary and secondary education. Expenditures budgeted in this category include administrators' and teachers' salaries, wages for maintenance and cafeteria workers, textbooks, and other supplies. School districts also pay

## Activity: Interdisciplinary Connection

**Civics** Instruct students to select a city, town, or county in another state. Have students use print or online resources to research the local government of the city, town, or county that they selected. Ask students to write a paper comparing their own local government with the one they researched. Instruct students to include statistics as part of their comparisons (for example, money spent on education, annual revenue collected, number of students

in public schools, number of government employees, and so on). In a class discussion, have volunteers share opinions on how their local government compared. What major differences and similarities did students find?

**OL**

for the construction and upkeep of all school buildings. Schools account for more than one-third of all local government spending, making it the largest item in most local budgets.

**Utilities**

Public utilities serve communities by providing services such as sewerage, electricity, natural gas, and water. For most local governments, spending on these utilities amounts to the second-largest expenditure and consumes about 10 percent of local spending.

In the typical community, the majority of expenditures on utilities are for schools, libraries, civic centers, and administrative buildings. Street lighting and traffic lights account for other expenditures.

**Public Safety and Health**

Most communities maintain a full-time, paid police force. Many have fire departments with paid, full-time firefighters as

well. However, some communities, especially those with smaller populations and limited budgets, maintain volunteer fire departments to keep the cost down. On the other hand, some communities, especially larger cities, own and staff their own hospitals.

Spending for health and safety in general tends to be about equal for each local government. However, the spending on these categories varies greatly from one state to another.

**Other Expenditures**

Highways, roads, and street repairs absorb most of the remaining spending. This category includes the repair of potholes, the installation and repair of street signs, snow removal, and other street-related items that are not covered by state budgets.

**Reading Check Synthesizing** Which local expenditures would you categorize as mandatory spending, and why?



**Skills Handbook**  
See page R47 to learn about Making Predictions.

**R Reading Strategy**

**Organizing** Have students create a graphic organizer showing the major local government spending categories, including a section for “other expenditures.” Ask students to include an example for each category. **OL**

**Reading Check Possible**

**Answer:** elementary and secondary education and utilities; local governments have primary responsibility for these services, which are necessities in every community

SECTION 2

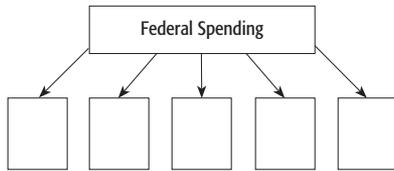
**Review**

**Vocabulary**

- 1. Explain** the significance of federal budget, fiscal year, appropriations bill, budget deficit, budget surplus, mandatory spending, discretionary spending, Medicare, Medicaid, balanced budget amendment, and intergovernmental expenditures.

**Main Ideas**

- 2. Listing** Use a graphic organizer like the one below to list the five largest federal government expenditures.



- 3. Discussing** What is the focus of state budgets?
- 4. Describing** How do local governments spend their funds?

**Critical Thinking**

- 5. The BIG Idea** Describe the difference between mandatory and discretionary spending.
- 6. Making Predictions** People are living longer, and families have fewer members. How will the combination of these two factors affect future transfer payments such as Social Security?
- 7. Making Generalizations** If you were to argue for reduced spending at the state and local levels, which categories would you choose?
- 8. Analyzing Visuals** Look at Figure 10.3 on page 273. Why do state expenditures not include elementary and secondary education? Do they not pay for it? Explain.

**Applying Economics**

- 9. Local Government Spending** Conduct research on the budget procedures for your local city or county government. Write an essay describing how the budget is created and who has spending authority.

**Assess**

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 2, and then assign the Section 2 Review as homework or as an in-class activity.

**Close**

**Questioning** Have students write a fifteen-question quiz covering the main ideas of this section. Ask students to exchange quizzes and answer the questions written by their partners. **OL**

**Review**

SECTION 2

**Answers**

- All definitions can be found in the section and the Glossary.
- Social Security; national defense; income security; Medicare; health
- intergovernmental expenditures and public welfare
- Local governments spend their funds on elementary and secondary education, utilities, public safety and health, and other expenditures such as highways, roads, and street repairs.
- Mandatory spending includes funding for programs authorized by law and those that do not need annual approvals by Congress. Discretionary spending requires annual congressional approval.
- Answers will vary, but students should recognize that more recipients and fewer workers paying into the system could drain the resources of Social Security and other transfer payment programs in future years.
- Answers will vary but will likely include categories that are not considered to be necessities, such as parks and recreation.
- Local governments have primary responsibility for elementary and secondary education. States do pay for these levels of education indirectly, through intergovernmental expenditures.
- Answers will vary but should reflect an understanding of the budget-making process of students' local government.

## Focus

### S Skill Practice

**Making Inferences** Ask: *Why does the government buy defense products from private companies? (Possible answer: It is more efficient to buy from companies that specialize in certain areas of manufacturing.)*

OL

## Teach

### R Reading Strategy

**Activating Prior Knowledge** Ask: *Why do you think the U.S. Navy was interested in Boeing seaplanes in 1917? (The U.S. entered World War I that year.)*

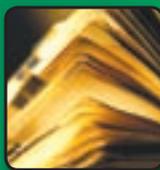
OL

### Analyzing the Impact

**Answers:**

1. Defense revenues account for over half of Boeing's revenues.
2. Students will likely identify the terrorist attacks of 9/11, the invasion of Afghanistan, and the invasion of Iraq.

## Additional Support



# CASE STUDY

## Boeing Going Strong

### Wide Range of Products

The United States government spends billions of dollars for defense every year; in 2005 alone, that amount exceeded \$500 billion. One of the companies the government has turned to for its defense needs is aircraft manufacturer Boeing. Employees at Boeing have built helicopters and passenger planes, fighter planes and missiles, satellites and spacecraft. They have sent astronauts to the moon and brought countries together aboard the International Space Station.



### NEWS FLASH

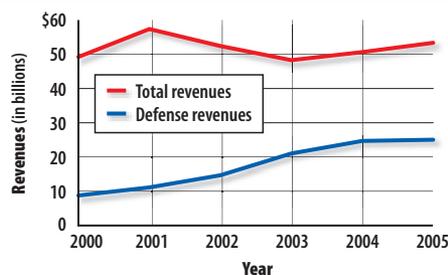
#### Fighting Terrorism

In 2002, Boeing was awarded a contract by the U.S. Department of Transportation to provide explosive detection systems in 438 U.S. airports.

### Boeing's Defense Link

William Boeing, founder and owner, started the company in 1916 with the incorporation of the Pacific Aero Products Company. That same year, Boeing produced its first airplane, the B&W

BOEING DEFENSE AND TOTAL REVENUES



Source: www.defensenews.com

Seaplane. Just a year later the company began its relationship with the government through test flights for the U.S. Navy. The Navy responded by ordering 50 seaplane trainers for a total of \$116,000. Almost 90 years later in 2003, the Navy purchased 210 Super Hornets for a staggering \$8.6 billion.

### Ahead of the Pack

Over time, Boeing has become the world's leading aerospace producer and the largest manufacturer of commercial jetliners and military aircrafts combined. From its small beginnings, the company now has customers in nearly 150 countries, with 150,000 workers in 48 states and 67 countries. While Boeing sells its products to both governments and private customers, defense revenues make up more than half of total revenues—and help Boeing to be the second-largest defense company in the United States.

### Analyzing the Impact

1. **Summarizing** Why is defense spending important to Boeing?
2. **Drawing Conclusions** What world events may have contributed to the increase in defense revenues from 2000 to 2005?

## Extending the Content

**Lockheed Martin** The top five U.S. aerospace businesses in the United States are Boeing, United Technologies, Lockheed Martin, Northrop Grumman, and Honeywell International. These companies, along with several others, frequently compete for large U.S. government contracts. Despite its number three ranking on the previous list, Lockheed Martin is currently the largest defense company in the United States. In 2006, the

company beat out Boeing and Northrop Grumman for a multibillion-dollar NASA project to build a new spacecraft to replace the space shuttles. Lockheed Martin will receive \$3.9 billion through 2013 to develop the Orion crew exploration vehicle and build two spacecrafts for space station deliveries. The company could receive an additional \$4 billion through 2019 for follow-up purchases and services.

## GUIDE TO READING

### Section Preview

In this section, you will learn that deficit spending has helped create a national debt.

### Content Vocabulary

- deficit spending (p. 278)
- national debt (p. 278)
- balanced budget (p. 278)
- trust funds (p. 278)
- per capita (p. 279)
- crowding-out effect (p. 281)
- “pay-as-you-go” provision (p. 282)
- line-item veto (p. 282)
- spending cap (p. 282)
- entitlement (p. 283)

### Academic Vocabulary

- mandate (p. 282)
- instituted (p. 282)

### Reading Strategy

**Discussing** As you read the section, list the various attempts by government to reduce the federal deficit and the national debt, then discuss the results.

Attempt	Result

## ISSUES IN THE NEWS

—The Kentucky Post

### Expensing Our Wars

[T]he chairman of the Senate Budget Committee, Judd Gregg, a Republican from New Hampshire, is considering treating the cost of the wars in Iraq and Afghanistan as a regular budget item.

The Bush administration has spent \$440 billion so far on those wars, \$120 billion of it this fiscal year, and the meter is running at the rate of \$4.5 billion a month in Iraq and \$800 million a month in Afghanistan.

The wars have been funded in a series of five emergency spending measures [that] are intended to deal with sudden, unexpected and short-term emergencies like [hurricane] Katrina. The bills are passed outside the regular appropriations process and are carried off budget, [which] tends to minimize the apparent cost. ■



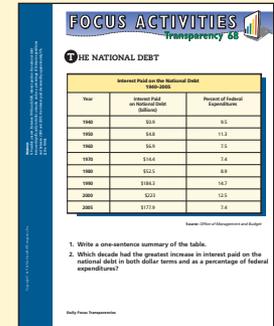
In the past 45 years, the federal budget has shown a surplus only five times. The first was in 1969, and the last four occurred in the years 1998 to 2001. Federal budget deficits in most years have added to the total amount of debt that the government owes. Since 2001 more than \$2 trillion in debt has been added, bringing the total national debt to about \$8.5 trillion.

Deficits occur for a number of reasons. For one, tax reductions are politically popular. For another, most people are in favor of the government spending more money on them. Finally, expenses such as wars and natural disasters are difficult to predict. However, as we read in the news article, expenditures don’t go away simply because they are not recorded in the budget.

## Focus

### Bellringer

#### Daily Focus Transparency 68



## GUIDE TO READING

### Possible Answers to Graphic:

**Attempt:** legislation. **Result:** weaker economy, unpopular program cuts, failure

**Attempt:** tax increases. **Result:** four years of budget surpluses until Congress cut taxes and increased spending

**Attempt:** reduced spending. **Result:** tax cuts and unplanned defense spending led to large deficits

## Resource Manager

### R Reading Strategies

- Teacher Edition**
- Previewing, p. 278
  - Reading Graphs, p. 280
  - Inferring, p. 282

- Additional Resources**
- Guid. Read. Act., p. 30
  - Read. Ess. & Note-Taking Guide, p. 88

### C Critical Thinking

- Teacher Edition**
- Detecting, p. 278
  - Analyzing, p. 280
  - Predicting, p. 283
  - Sequencing, p. 284

- Additional Resources**
- Econ. Content Vocab. Act., p. 10

### D Differentiated Instruction

- Teacher Edition**
- Visual/Spatial, p. 279
  - Verbal/Linguistic, p. 282

- Additional Resources**
- Reading and Study Skills Fold., p. 57
  - Reteach. Act., p. 10

### W Writing Support

- Teacher Edition**
- Narrative Writing, p. 278
  - Persuasive Writing, p. 281

- Additional Resources**
- High School Reading in the Content Area Strat. and Act.

### S Skill Practice

- Teacher Edition**
- Reading Graphs, p. 279
- Additional Resources**
- Daily Focus Trans. 68, 76
  - Graph. Org. Trans., p. 7

# Teach

## R Reading Strategy

**Previewing** Have students preview the headings in this chapter and then write a paragraph describing what they think they will learn from reading the text. **OL**

## C Critical Thinking

**Detecting Ask:** *Why do you think the wars in Iraq and Afghanistan have been financed through “supplemental requests”? (Possible answer: Not including the war expenses in the budget helps mask the costs of these conflicts from the public.)*

**OL**

## W Writing Support

**Narrative Writing** Have students write a short story describing what the country might be like in the year 2100 if the trend of federal deficits is not reversed. **OL**

**deficit spending** annual government spending in excess of taxes and other revenues

**national debt** total amount borrowed from investors to finance the government’s deficit spending

**balanced budget** annual budget in which expenditures equal revenues

**trust fund** special account used to hold revenues designated for a specific expenditure such as Social Security, Medicare, or highways

## R From Deficits to Debt

**MAIN Idea** Because of deficit spending, the national debt has increased dramatically.

**Economics and You** Do you recall news stories about the nation’s budget deficit? Read on to learn how deficits are created.

Historically, a remarkable amount of **deficit spending**—or spending in excess of revenues collected—has characterized the federal budget. Sometimes the government plans deficit spending. At other times, the government is forced to spend more than it collects because unexpected developments cause a drop in revenues or a rise in expenditures.

### Predicting the Deficit

The government projected a \$354 billion deficit for fiscal year 2007. Whether this is the actual amount at the end of the fiscal year, however, depends on the way expenditures are reported and the state of the economy.

For example, no money was budgeted for the wars in Afghanistan and Iraq in the fiscal year 2007 budget. Instead, the president and Congress made nearly \$100 billion of “supplemental requests” to cover the anticipated war costs. These war expenditures will ultimately be reflected in the amount of money the government spends, but they did not appear in the budget when it was first released.

Second, changes in the economy affect budget projections. Strong economic growth could cause the deficit to shrink because of

higher tax collections and lower unemployment claims. Likewise, a downturn in the economy could result in lower tax collections and higher unemployment insurance payments.

### Deficits Add to the Debt

**Panel A** of **Figure 10.4** on the opposite page shows the history of the federal budget deficit since 1965. When the federal government runs a deficit, it must finance the revenue shortage by borrowing. It does this by selling U.S. Treasury notes and other securities to the public. If we add up all outstanding federal notes, bonds, and other debt obligations, we have a measure of the **national debt**—the total amount borrowed from investors to finance the government’s deficit spending.

As **Panel B** in **Figure 10.4** shows, the national debt grows whenever the government runs a deficit by spending more than it collects in revenues. If the federal budget runs a surplus, then some of the borrowed money is repaid and the amount of total debt goes down, as it did from 1998 to 2001. If the federal government achieves a **balanced budget**—an annual budget in which expenditures equal revenues—the national debt will not change.

### A Growing Public Debt

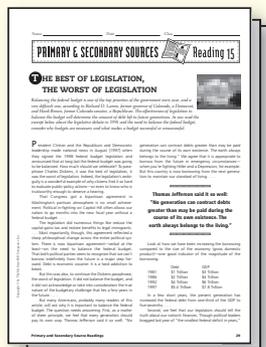
The national debt has grown almost continuously since 1900, when the debt was \$1.3 billion. By 1929 it had reached \$16.9 billion, and by 1940 it was \$50.7 billion. By mid-2006 the total national debt had reached about \$8.5 trillion.

Some of this debt is money that the government owes itself. For example, approximately \$3.5 trillion of this debt is in government **trust funds**—special accounts used to fund specific types of expenditures such as Social Security and Medicare. When the government collects the FICA or payroll tax, it puts the revenues in these trust accounts. The money is then invested in government securities until it is paid out.

## Did You Know?

**Deficits Anyone?** European countries that want to become members of the European Union (EU) and adopt the euro as their currency have to take their deficits seriously. To be eligible, they must be able to control their economies—and that includes their budgets. In order to be accepted into the “euro zone,” a nation is expected to keep its budget deficit at less than 3 percent of its GDP and its public debt at less than 60 percent of its GDP.

## Differentiated Instruction



Primary and Secondary Source Readings, p. 29

## The Best of Legislation, The Worst of Legislation

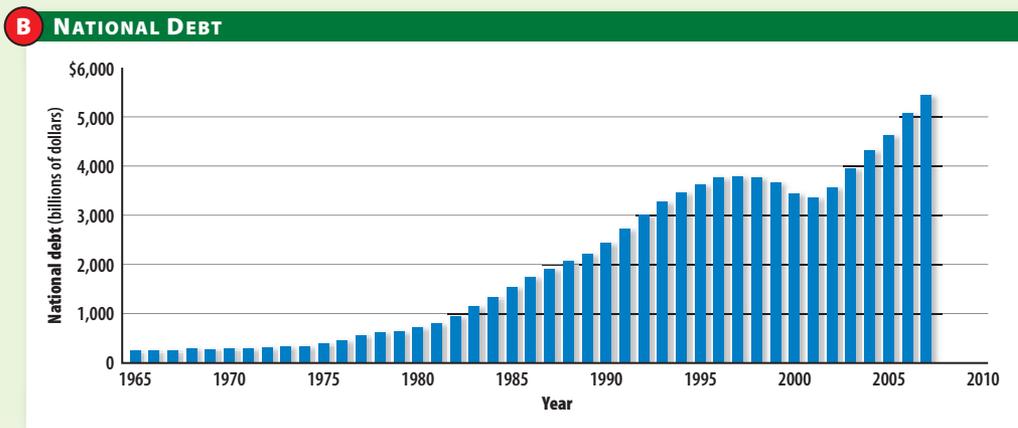
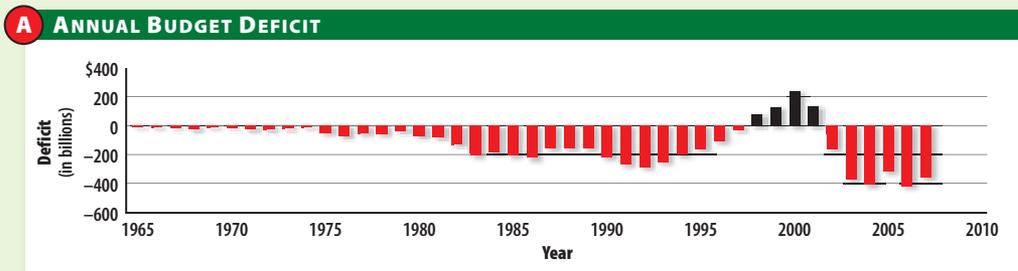
- Objective:** Understand the potential consequences of budget deficits.
- Focus:** Ask students to rank on a scale of 1 to 10 how concerned they are about the national debt.
- Teach:** Instruct students to read the passage and then answer the questions that follow.
- Assess:** Discuss students’ answers as a class.
- Close:** Ask students to expand their response to question 5 into a speech to be delivered to the class.

### Differentiated Instruction Strategies

- BL** Have students write a paragraph explaining the difference between budget deficits and the federal debt.
- AL** Ask students to list additional information that they would like to know to help them evaluate the reading.
- ELL** Have students use a dictionary to look up any unfamiliar words.

▶ Panel A shows the annual budget deficit since 1962. Panel B shows the national debt during the same time period. The government ran a surplus from 1998 to 2001 which allowed it to pay off some of the national debt.

**Economic Analysis** Why has the deficit increased so rapidly since 2002?



Sources: Congressional Budget Office, 2006; Economic Report of the President, 2006

Because trust fund balances represent money the government owes to itself, most economists tend to disregard this portion of the debt. Instead, they view the public portion of the debt—which amounted to nearly \$5 trillion in mid-2006—as the economically relevant part of the debt.

Figure 10.5 on the next page presents two alternative views of the total national debt held by the public. Panel A shows the debt as a percentage of GDP. In Panel B, the national debt is computed on a per capita, or per person, basis.

**Public vs. Private Debt**

Despite the size of the public debt, several important differences between public and private debt mean that the country can never go bankrupt. One is that we owe most of the national debt to ourselves—whereas private debt is owed to others.

Another difference is repayment. When private citizens borrow, they usually make plans to repay the debt by a specific date. When the government borrows, it gives little thought to repayment and simply issues new bonds to pay off the old bonds.

per capita per person basis; total divided by population

**S Skill Practice**

**Reading Graphs** Ask: How is the information in the two graphs related? (The amounts in Panel A add to or subtract from the amounts in Panel B.) **BL**

**D Differentiated Instruction**

**Visual/Spatial** Have students draw a picture or cartoon illustrating the concepts of public debt and private debt. Instruct students to trade their cartoons with a partner. Ask students to then interpret the images in their partners' drawings. **OL**

**Economic Analysis**

**Answer:** tax rates decreased while expenditures on homeland security and the wars in Iraq and Afghanistan caused federal spending to increase

**Leveled Activities**

**BL Guided Reading Activities, p. 30**

**OL Reteaching Activities, p. 10**

**AL Graphic Organizer Transparencies, p. 7**

**GUIDED READING Activity 10-3**

**EFFECTS, SURPLUSES, AND THE NATIONAL DEBT**

Directions: Complete the following readings on your textbook. Then use the information under the headings to help you write each answer. Use another sheet of paper if necessary.

- How deficits are used.
- Deficit adds to the debt—what is the role of the annual budget in loan the federal debt?
- Stimulating Public Debt—Why do most economists view it as a dangerous form of debt?
- Public vs. Private Debt—How much of the public debt is owed to yourself?
- Impact of the National Debt.
  - Spending Excesses—What happens to the purchasing power of individuals as a consequence of the national debt?
  - Reducing Economic Incentives—How can government spending reduce economic incentives?
  - Crowding Out—What is the crowding out effect?
  - Reducing Income—How do federal debt and the crowding out affect the distribution of income?
- Reducing Debt—How can the debt?
  - Spending Excesses—What was the 1980 Budget Enforcement Act's main goal?
  - Spending Excesses—What feature of the Omnibus Budget Reconciliation Act of 1980 helped to reduce the 1980 budget deficit?
  - Reducing Spending—What is the connection between entitlements and mandatory spending in the federal budget?

**RETEACHING Activity 10-3**

**GOVERNMENT SPENDING**

Directions: Complete the chart below by identifying the major areas of expenditures for federal, state, and local governments.

Expenditures	Federal	State	Local

**Graphic Organizer**

**K-W-L-H Chart**

**Strategies**

The K-W-L-H chart is used to activate students' prior knowledge and prepare them for new learning. After reading and writing about the topic, students complete the K-W-L-H chart and use the information to help them learn more about the topic.

Know	Want to Know	Learned	How

**Using K-W-L-H Charts in the Social Studies Classroom**

**World History**

Directions: Read the article about the Silk Road and complete the K-W-L-H chart.

**World Geography**

Directions: Read the article about the Silk Road and complete the K-W-L-H chart.

**Economics**

Directions: Read the article about the Silk Road and complete the K-W-L-H chart.

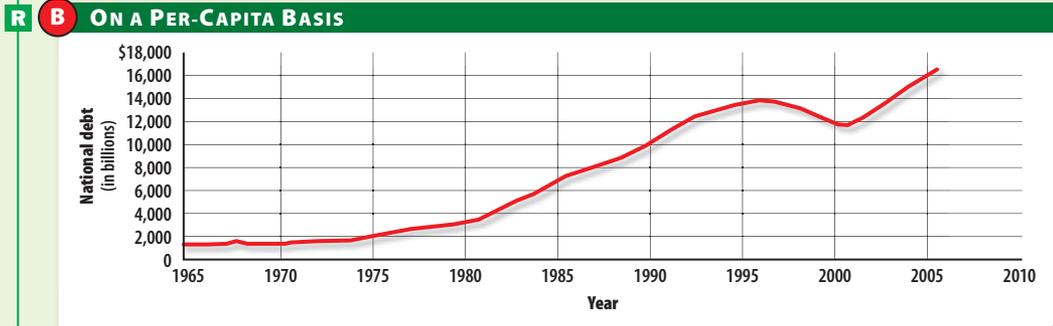
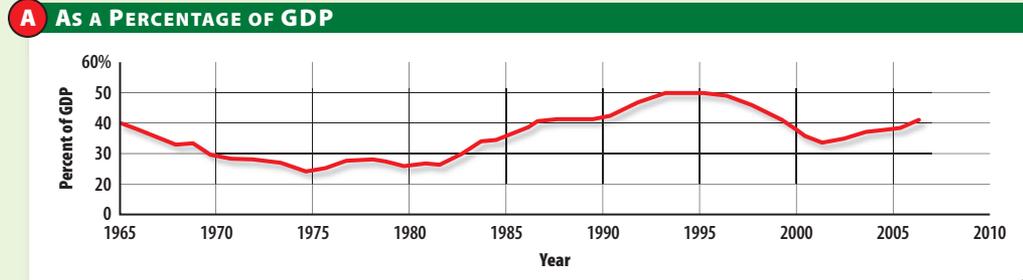
**Civics and Government**

Directions: Read the article about the Silk Road and complete the K-W-L-H chart.

**Figure 10.5** ▶ **Two Views of the National Debt**

▶ The national debt as a percent of GDP has ranged from about 34 to almost 50 percent since 1965. The amount owed per person increased most years during the same period.

**Economic Analysis** *What has happened to the size of the national debt since 2001?*



Source: Congressional Budget Office

A third difference has to do with purchasing power. When private individuals repay debts, they give up purchasing power because they have less money to buy goods and services. The federal government does not give up purchasing power, because the taxes collected from some groups are simply transferred to other groups. The exception is the 15 to 20 percent of the public debt owned by foreigners. When payments are made to investors outside the United States, some purchasing power is temporarily diverted from the U.S. economy.

**Reading Check** **Contrasting** What are the differences between public and private debt?

### Impact of the National Debt

**MAIN Idea** The national debt affects the distribution of income and transfers purchasing power from the private to the public sector.

**Economics and You** Do you hear your parents talk about interest rates? Read on to learn how the national debt affects interest rates.

Even though we owe most of the national debt to ourselves, it affects the economy by transferring purchasing power, reducing economic incentives, causing a crowding-out effect, and redistributing income.

## R Reading Strategy

**Reading Graphs** **Ask:** How is the debt situation today better than it was in the mid-1990s?

(The debt today is a lower percentage of the GDP.) **How is it worse?** (The per-capita debt is higher.) **BL**

## C Critical Thinking

**Analyzing** Instruct students to use reliable print or online resources to analyze the public debt owed to foreigners. Ask students to prepare a statistical summary of this portion of the debt. Students should include the different companies and nations, along with the corresponding amounts, to which the government owes money. **OL**

### Economic Analysis

**Answer:** It has increased.

### Reading Check

**Answer:** Public debt is debt that the government owes to itself. Private debt is debt that the government owes to others.

## Additional Support

## Extending the Content

**Budget Deficits Around the World** The United States is not the only country facing the issue of increasing national debt. Several other nations face budget deficits that have a greater impact on their economies than the U.S. deficit has on the American economy. In 2005, the U.S. budget deficit as a percent of GDP was 3.8%. That same year, Hungary (6.1%), Portugal (6.0%), Japan (5.2%), Greece (4.4%), and Italy

(4.3%) ran deficits that were a greater percentage of their GDPs. On the other hand, Norway and New Zealand had surpluses in 2005 that totaled 15.8% and 5.8% of their respective GDPs.



John Cole / Scranton Times-Tribune

**National Debt**

The more the government borrows today, the more future generations will have to repay. **What other effects does the national debt have on the nation?**

**Transferring Purchasing Power**

The national debt can cause a transfer of purchasing power from the private sector to the public sector. In general, when the public debt increases, taxes increase and people have less money for themselves.

Purchasing power can also be transferred from one generation to another. If the government borrows today and leaves the repayment to future taxpayers, then today's adults will consume more and their children less. The accumulation of debt by one generation can thus reduce the economic well-being of the next.

**Reducing Economic Incentives**

Government can reduce economic incentives if it appears to spend money in a careless manner. A community, for example, may use a federal grant to purchase expensive equipment that its citizens would not want to pay for themselves. If the taxpayers that benefit from a project would not fund it themselves, other taxpayers would not want their taxes to go to such projects.

**Crowding Out**

When the federal government uses deficit spending, it must borrow money in financial markets. This borrowing can drive

interest rates up, forcing all borrowers to pay more for the temporary use of funds.

Because the government borrows so much, it competes with businesses and individuals such as potential home buyers for available money. This competition can cause a **crowding-out effect**—the higher-than-normal interest rates caused by heavy government borrowing. If private borrowers cannot afford the higher interest rates, they are squeezed out of the market.

**Redistributing Income**

Finally, the national debt and the tax structure can impact the distribution of income. Suppose that the government taxes upper-income individuals and spends the money on the poor. This would redistribute income from the rich to the poor. The opposite would happen if the poor were taxed and the money spent on the rich. In either case, the people paying less in taxes would benefit from the tax policy.

This is not a purely hypothetical situation. The individual income tax cuts made since 2001 have made income taxes *less* progressive, shifting some of the tax burden from higher- to lower-income groups.

**✓ Reading Check Analyzing** How does the transfer of purchasing power between generations affect you?

**crowding-out effect**

higher-than-normal interest rates and diminished access to financial capital faced by private borrowers when they compete with government borrowing in financial markets

**W Writing Support**

**Persuasive Writing** Have students research the income redistributing effects of the government's taxation policies, noting both the intended effects (what the politicians say they will do) and the actual effects. Ask students to write a speech advocating what they believe is the best tax policy. Students should include facts and examples about how the policy would benefit the nation. **AL**

**Caption Answer:** transfers purchasing power, reduces economic incentives, increases interest rates, redistributes income

**✓ Reading Check Answer:** Students may say that it reduces their well-being and livelihood.

**Activity: Interdisciplinary Connection**

**History** Point out to students that the federal government has been paying off a debt since 1789. Most years, just the interest on the debt has been in the millions. Have volunteers consult an almanac to find out how much the federal government paid in interest on the debt for every tenth year between 1800 and 1900. Then have them use the information to create a time line to display in the classroom. (1800: \$3 million, 1810: \$3 million, 1820:

\$5 million, 1830: \$2 million, 1840 [information unavailable], 1850: \$4 million, 1860: \$3 million, 1870: \$129 million, 1880: \$96 million, 1890: \$36 million, 1900: \$40 million) Also ask students to hypothesize about why the interest on the debt increased by 4300 percent between 1860 and 1870. (Students will likely answer that the debt increased by that amount because of the costs of the Civil War and Reconstruction.) **OL**

**Additional Support**

## D Differentiated Instruction

**Verbal/Linguistic** Have students use print or online resources to find out more information about one of the legislative efforts described on this page. Ask students to use their findings to write a report expanding upon the text's description of their selected topic. **AL**

## R Reading Strategy

**Inferring Ask:** What can you infer about how American voters felt about the federal debt in 1985? (Students will likely point out that many Americans were concerned about the debt, leading Congress to pass the GRH legislation.) **OL**

### Economic Analysis

**Possible Answers:** tax increases and program cuts generally spark voter opposition; politicians find ways around spending limitations

▶ The publicly held portion of the national debt reached \$5 trillion in 2006 and continues to rise. Attempts to reduce the debt by legislation alone have failed. The only other ways to reduce it are by raising taxes or reducing federal spending.

**Economic Analysis** Why is it difficult for legislators to increase revenues or reduce spending?

### WILL WE EVER SHRINK THE NATIONAL DEBT?

A \$1 bill is about 6 inches (15.2 cm) long. If 5 trillion of these bills were laid end to end, they would form a chain 474 million miles (764 km) long—more than enough to stretch from the surface of the earth to the surface of the sun and back—two and a half times!



**“pay-as-you-go” provision** requirement that new spending proposals or tax cuts must be offset by reductions elsewhere

**line-item veto** power to cancel specific budget items without rejecting the entire budget

**spending cap** limits on annual discretionary spending

### Skills Handbook

See page R35 to learn about **Identifying the Main Idea**.

## D Reducing Deficits and the Debt

**MAIN Idea** Congress has tried a number of measures to reduce deficits and the national debt.

**Economics and You** Did your parents teach you how to avoid overspending? Read on to learn about attempts to limit the nation's debt.

In order to control the size of the national debt, we have to first address the federal budget deficit. Concern over deficit spending since the 1980s has led to a number of attempts to control it.

## R Legislative Failures

One of the first significant attempts to control the federal deficit took place when Congress tried to **mandate** a balanced budget. The legislation was formally called the Balanced Budget and Emergency Deficit Control Act of 1985, or Gramm-Rudman-Hollings (GRH) after its sponsors.

Despite high hopes, GRH failed for two reasons. First, Congress discovered that it could get around the law by passing spending bills that took effect two or three years

later. Second, the economy started to decline in 1990, triggering a suspension of budget cuts when the economy was weak.

In 1990 Congress passed the Budget Enforcement Act (BEA). The BEA's main feature was a **“pay-as-you-go” provision**—a requirement that new spending proposals or tax cuts must be offset by reductions elsewhere in the budget. If no agreement on the reductions could be reached, then automatic, across-the-board spending cuts would be **instituted**. Congress soon discovered that cutting spending was more difficult than it thought, so it suspended the provision in order to increase spending.

In 1996 Congress gave the president a **line-item veto**—the power to cancel specific budget items without rejecting the entire budget—but the Supreme Court declared it unconstitutional. This was followed by the Balanced Budget Agreement of 1997, which featured rigid **spending caps**—legal limits on annual discretionary spending—to assure that Congress balanced the budget by 2002. However, the caps required politically unpopular cuts in many programs such as health, science, and education, so the caps were also abandoned.

## Hands-On Chapter Project

### Step 3

## Analyzing Government Spending

**Step 3: Analyzing Government Budgets.** Students groups will analyze the recent budgets of their assigned level of government.

**Directions:** Have students return to their project groups. Ask each group to research the annual budgets of their assigned government over the past 10 years. Instruct students to prepare a graph illustrating their government's budget

surpluses and/or deficits in the past decade. Next, have groups prepare a report explaining the reasons for the budget figures (for example, increased federal spending on defense, state balanced budget amendment, state requirement prohibiting deficit spending, and so on).

Have each group present its findings to the class using visual aids such as a poster-sized chart or multimedia presentation. After the presentations, discuss the major

trends that have shaped federal, state, and local spending in recent years.

**Making Connections** Ask students to write a short paper discussing how recent budget trends at the federal, state, and local level have impacted people in their community. **OL**

(Chapter Project continued in Visual Summary.)

### Raising Revenues

President Clinton's Omnibus Budget Reconciliation Act of 1993 was an attempt to trim \$500 billion from the deficit over a five-year period. The act featured a combination of spending reductions and tax increases that made the individual income tax more progressive—especially for the wealthiest 1.2 percent of taxpayers.

Higher tax rates, along with strong economic growth, combined to produce four consecutive years of federal budget surpluses. By 2001 Congress expected annual surpluses for another 10 years. Rather than pay down the debt, however, Congress cut tax rates while also increasing spending.

### Reducing Spending

Another way to control the deficit is by reducing federal spending. This can be more difficult than it sounds because spending is subject to unexpected change.

For example, the 2001 terrorist attacks led to unplanned government spending on homeland security and wars in Afghanistan

and Iraq. Because this was also the first year of President Bush's tax cuts, and because economic activity was low, the federal government had fewer tax revenues to spend. As a result, record federal budget deficits returned in 2002.

In addition, spending was difficult to reduce because the federal budget had so many **entitlements**—broad social programs with established eligibility requirements to provide health, nutritional, or income supplements to individuals. People are entitled to draw benefits if they meet the eligibility requirements. Although most entitlements are classified as mandatory spending, Congress can revise them. Still, this is difficult to do for members of Congress because the programs are so popular.

In the end, Congress has a difficult task ahead. Any action to reduce budget deficits and the national debt will depend on the willpower of Congress to make unpopular and difficult choices.

**entitlement** program or benefit using established eligibility requirements to provide health, nutritional, or income supplements to individuals

**Reading Check** **Describing** What events in 2001 have added to the national debt?

## SECTION 3

## Review

### Vocabulary

- Explain** the significance of deficit spending, national debt, balanced budget, trust fund, per capita, crowding-out effect, pay-as-you-go provision, line-item veto, spending cap, and entitlement.

### Main Ideas

- Describing** What is the difference between the national debt and the federal deficit?
- Listing** Use a graphic organizer like the one below to list five ways the national debt can affect the economy.

National Debt: Possible Effects on the Economy	
1.	
2.	

- Identifying** What were the results of government efforts to reduce deficits?

### Critical Thinking

- The BIG Idea** Why is it so difficult to rein in the national debt? Use examples to explain your answer.
- Analyzing Visuals** Look at Figure 10.5 on page 280. Why do you think the national debt as a percentage of GDP has not risen at the same rate as the debt per capita?
- Determining Cause and Effect** How can the federal debt affect worker incentives?
- Drawing Conclusions** Which do you think is a better way to reduce budget deficits: pay-as-you-go provisions or line-item vetoes? Explain your answer in a brief paragraph.

### Applying Economics

- Deficit Spending** If you were given the task of reducing entitlement programs to limit deficit spending, which ones would you select to reduce or alter? Write a short essay that includes the reasons for your choices.

## C Critical Thinking

**Predicting Ask:** Do you think that the federal government will reduce the national debt in the next 15 years? Explain. (Students answering yes may say that different leadership may make that possible. Students answering no may say that efforts to decrease spending will be controversial.) **OL**

**Reading Check Possible Answer:** terrorist attacks on the U.S., invasion of Afghanistan

## Assess

Use the Interactive Tutor Self-Assessment CD-ROM to review Section 3, and then assign the Section 3 Review as homework or as an in-class activity.

## Close

### Making Connections

Ask students to find a recent newspaper article about the federal budget, and write a short essay explaining how the article relates to this section. **OL**

## Review

## SECTION 3

## Answers

- All definitions can be found in the section and the Glossary.
- The national debt is the cumulative amount of funds borrowed by the federal government. The deficit is the amount of government spending that exceeds government revenue in a given year.
- transfer purchasing power; reduce economic incentives; increase interest rates; crowd private borrowers out of financial markets; redistribute income
- Aside from the brief success of Clinton's Omnibus Budget Reconciliation Act, government efforts to reduce deficits have failed.
- Possible answer:** Voters generally do not like tax increases. Cuts to entitlement programs, such as Medicare, are also unpopular. Global events, such as the rise of the terrorist threat, create new spending priorities.
- GDP growth has limited the increase of the debt's percentage of the GDP.
- Workers who believe that larger portions of their income will go to taxes to pay the interest on the debt will be less likely to work harder to earn more money.
- Answers will vary but should reflect knowledge of pay-as-you-go provisions and line-item vetoes.
- Answers will vary, but students should demonstrate an understanding of entitlement programs.

## Teach

### C Critical Thinking

**Sequencing** Have students consult a reliable Web site containing biographical information about Alice Rivlin. Ask students to create a time line that includes important dates in her life (for example, birth, publication of books, appointment to White House OMB). Instruct students to include at least ten dates in their time lines. **OL**

#### Examining the Profile

##### Answers:

1. balanced federal budgets and a low national debt
2. Rivlin believes that to attract business, states should engage in an aggressive effort to improve their infrastructure and their education systems.

### Additional Support

#### Teacher Tip

**Ordering Books** Some of Alice Rivlin's books may not be available at libraries in your area. You may wish to use interlibrary loan to order one or more of her books several weeks before assigning this activity.

# Profiles in Economics



## Alice Rivlin (1931–) C

- founding director of the Congressional Budget Office
- director of the White House Office of Management and Budget
- vice chair of the Federal Reserve Board

### Ms. Economics

At a time when few women had full-time jobs, fewer went to college, and almost none pursued economics, Alice Rivlin discovered the subject and found her niche. Rivlin is well known for her insistence on solid analysis, innovative thinking, and a steadfast insistence on “fiscal sanity”—balanced federal budgets and a low national debt. These traits served her well as the founding director of the Congressional Budget Office. Rivlin likened the job to an entrepreneurship, because she had to find ways to provide Congress with nonpartisan projections on the impact of proposed legislation on the nation’s budget and debt.

*Alice Rivlin is an outspoken critic of budget deficits. She argues that spending cannot be brought under control until Congress is willing to take action. While the problems are large, Rivlin believes that “we will find ways to solve them.”*

### Balancing the Federal Checkbook

Rivlin believed that Reaganomics had a negative effect on the U.S. economy. In 1992 she published *Reviving the American Dream: The Economy, the States, and the Federal Government*, which outlined her plan for “fiscal sanity” and the responsibilities of national and state governments. She believes that competition between states to attract corporations leads to too many tax breaks, resulting in too few tax dollars to implement needed—and often federally mandated—social programs. Instead states should engage “in an aggressive effort to improve their infrastructure and improve their education systems in order to attract business.”

The book influenced then-presidential candidate Bill Clinton, for whom she became Director of the White House Office of Management and Budget. In this position she oversaw a transition from federal debt to surplus in just two years. This success led her to membership on the Federal Reserve Board. Today Rivlin looks for ways to fight budget deficits as a Senior Fellow at the Brookings Institution, an economics and policy think tank located in Washington, D.C.

#### Examining the Profile

1. **Summarizing** How does Rivlin define “fiscal sanity”?
2. **Determining Cause and Effect** According to Rivlin, what is the best way for states to attract business?

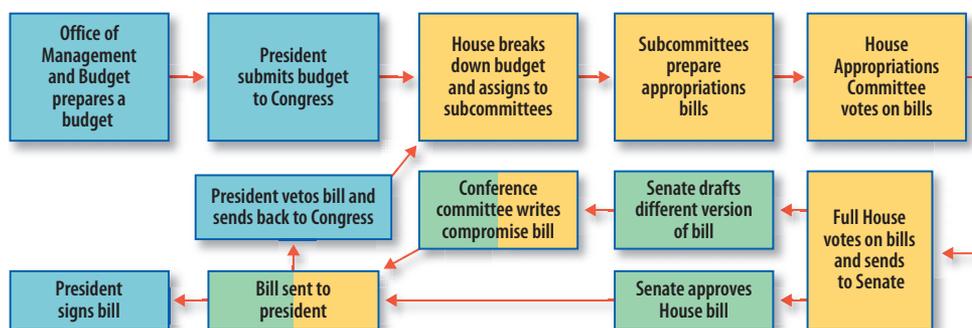
## Activity: Collaborative Learning

**Identifying Central Issues** Organize the class into small groups. Assign a different book that Alice Rivlin wrote or co-wrote to each of the groups (for example: *Reviving the American Dream*, *Restoring Fiscal Sanity*, *Caring for the Disabled Elderly*, *Systematic Thinking for Social Action*, and *The Role of the Federal Government in Financing Higher Education*). Instruct each group to prepare an oral

report highlighting the main arguments of its assigned book. Students should include a visual component, such as a chart or graphic organizer, in their reports. Have each group present its report to the class. After the presentations, discuss as a class Alice Rivlin’s economic and political philosophy. **AL**



- ▶ **Federal Budget Process** Each year, the president sends a federal budget to Congress. The budget undergoes a lengthy approval process until it is signed into law.



- ▶ **Major Budget Categories** The major budget categories vary for federal, state, and local governments. The focus of the federal government is on nationwide programs and expenditures. States pass on much of their budget to local governments and spend the rest on state-level programs. Local governments focus their expenditures on local needs.

#### Federal government

- Social Security
- National defense
- Income security
- Health care

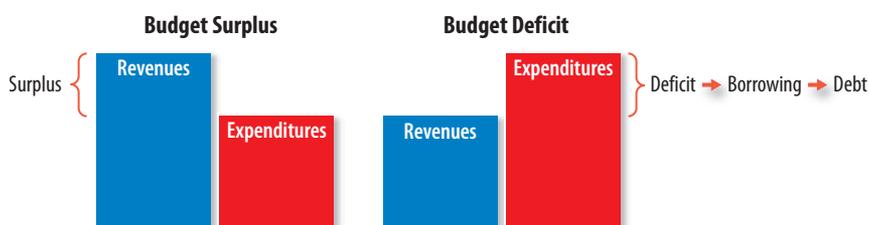
#### State governments

- Intergovernmental expenditure
- Public welfare
- Insurance trust and retirement
- Higher education

#### Local governments

- Elementary and secondary education
- Utilities
- Public safety and health

- ▶ **Surpluses, Deficits, and Debt** When revenues exceed expenditures, governments enjoy a budget surplus. If revenues are less than expenditures, governments are faced with a budget deficit. They then have to borrow money to meet expenditures and incur debt.



**Analyzing** Review with students the constitutional principle of checks and balances. Then have students reread the flowchart of the federal budget process on this page. **Ask:** How does the federal budget process demonstrate the principle of checks and balances? (OMB works with the president to prepare a budget; committees in both the House and Senate review the president's proposed budget and then draft versions; Congress sends compromise bill to the president, who vetoes or signs the bill.) **OL**

**Identifying** Direct students to travel around their area and identify examples of federal, state, and local spending (at least five examples for each). Possible ideas include an interstate highway, a state park, and an elementary school. Instruct students to create a collage illustrating their findings. Students may use photographs they have taken or their own drawings. **OL**

## Analyzing Government Spending

**Step 4: Complete the Analysis.** Students will summarize what they learned in the previous steps.

**Directions:** Have students write a paper summarizing how spending by their group's assigned level of government affects them personally. Students will work alone on this activity—each student will write a summary paper. Students should include in their papers concepts they learned in each of the previous

steps. Ideas that could possibly appear in a paper include tests that a student took to measure No Child Left Behind progress, a state-funded highway that a student frequently uses, and textbooks supplied by their local government. Students should conclude their reports with an evaluation, based in part on personal experience, of the overall effectiveness of their assigned level of government in using tax revenue to provide goods and services. **OL**

## Hands-On Chapter Project

### Step 4: Wrap Up



This easy-to-use software includes extensive question banks and allows you to create fully customized tests that can be administered in print or online.

### Review Content Vocabulary

- 1.–10. Students' sentences will vary but should demonstrate understanding of how the terms are related.

### Review Academic Vocabulary

11. e                    12. d  
13. b                    14. c  
15. a                    16. f

### Review the Main Ideas

17. One type of government spending is for goods and services, such as aircraft, ships, and staff salaries. The other type of spending is transfer payments, such as welfare, for which the government receives neither goods nor services in return.
18. Government-subsidized colleges compete with private institutions for students. Government hospitals compete with private facilities for patients.
19. to insure that projects benefiting their own constituents receive funding
20. to prevent a budget deficit by requiring that annual spending not exceed revenues
21. **Federal:** national defense, Social Security, Medicare, income security, health, interest on the debt.  
**State:** intergovernmental expenditures, public welfare, higher education.

### Review Content Vocabulary

Write a sentence about each pair of terms below. The sentences should show how the terms are related.

- public sector, private sector
- transfer payment, grant-in-aid
- distribution of income, deficit spending
- federal budget, fiscal year
- appropriations bill, balanced budget amendment
- deficit spending, national debt
- deficit spending, crowding-out effect
- entitlement, balanced budget
- mandatory spending, discretionary spending
- spending cap, budget deficit

### Review Academic Vocabulary

Each of the sentences below contains a synonym for one of the following terms. Match the sentence to the term.

- a. constituents  
b. reluctant  
c. coincide  
d. ambiguity  
e. mandate  
f. instituted
- States have a requirement to provide public schools.
  - The federal budget leaves some uncertainty about actual expenditures.
  - The state legislature was hesitant when it came to reducing spending for roads.
  - The fiscal year often does not correspond with the calendar year.
  - The representative was concerned about maintaining the support of the voters in his district.
  - Some states have passed balanced budget amendments.

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- Local:** elementary and secondary education, utilities, highways, roads, street repairs.
- education, utilities, and public safety and health
  - The deficit amount in the federal budget is added to the national debt each year.
  - Gramm-Rudman-Hollings, Budget Enforcement Act, line-item veto, Balanced Budget Agreement of 1997
  - because recipients have the right to the benefits if they meet the eligibility requirements

### Review the Main Ideas

#### Section 1 (pages 261–265)

- Explain the two kinds of government spending.
- Describe the way the government competes with the private sector.
- Explain why politicians insert “pork” items into other legislation.

#### Section 2 (pages 267–275)

- Identify the purpose of a balanced budget amendment.
- Identify the categories of federal, state, and local spending by using a graphic organizer like the one below.

Categories of Spending		
Federal	State	Local

- List the three major categories of spending by local governments.

#### Section 3 (pages 277–283)

- Discuss the relationship of the federal deficit to the federal debt.
- List four legislative attempts to deal with the problem of federal budget deficits.
- Explain why entitlements are so named.

### Critical Thinking

- The BIG Idea** Why is it more difficult for politicians to reduce mandatory spending than discretionary spending?
- Comparing and Contrasting** What is the difference between transfer payments and government spending on goods and services?

### Critical Thinking

- It is authorized by law and does not require annual approval from Congress. Such spending includes many benefits that people do not want to lose. Discretionary spending must be approved by Congress and can be more easily reduced.
- The government receives goods and services when it spends money for those items. It receives no goods and services in exchange for transfer payments.

- 28. Drawing Conclusions** Review the discussion on attempts to reduce the deficit on pages 282 and 283. Use a chart similar to the one below to outline the main features and weaknesses of these legislative attempts. Can you find a common reason why these attempts have failed? What do you think would need to be done to avoid future failures?

Legislation	Features	Weaknesses

- 29. Determining Cause and Effect** How does a balanced budget amendment affect the budget process?
- 30. Making Inferences** Do you think transfer payments are the best way to distribute tax revenue? How would the tax collection system have to change if the government levels that actually spend the money had to collect the taxes themselves?

### Applying Economic Concepts

- 31. Human Capital** Which of the categories in Figure 10.3 on page 273 reflect an investment in human capital?
- 32. Government Spending** Make a list of ways you and your family benefit from government expenditures. Provide at least one example each for the federal, state, and local government.

### Math Practice

- 33.** A neighbor spent \$25,000 a year for 10 years and had an annual income of \$20,000 during this period. What is the neighbor's total debt?

### Analyzing Visuals

- 34. Classifying Information** Examine the major types of federal expenditures in Figure 10.2 on page 269. Classify each as to whether they are entitlement or nonentitlement programs.

### Thinking Like an Economist

- 35. Critical Thinking** An economist likes to think in terms of trade-offs and opportunity costs. If you wanted to make changes to a balanced state budget in any given year, what would be the opportunity cost of lowering taxes? Of increasing discretionary spending?

### Writing About Economics

- 36. Persuasive Writing** Which of the two types of government spending has the most impact on the economy? Explain your answer in a two-page paper.

### Interpreting Cartoons

- 37. Critical Thinking** What is the topic of the cartoon below? What point is the cartoonist making about the topic? How does he do it? Do you think the cartoon is effective?



Paul Combs, Editorial Cartoonist / The Tampa Tribune.

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- 28. Gramm-Rudman-Hollings:** mandated a balanced budget; Congress avoided the law with later spending bills  
**Budget Enforcement Act:** new spending must be offset by reductions elsewhere in the budget  
**line-item veto passed:** president can cancel specific budget items; Supreme Court declares it unconstitutional  
**Balanced Budget Agreement of 1997:** rigid spending caps; caps required cuts that were not enacted

- 29.** Balanced budget amendments may require states to amend their budgets to reduce spending to match revenues.  
**30.** Answers will vary but should demonstrate an understanding of transfer payments and tax collection.

### Applying Economic Concepts

- 31.** intergovernmental expenditure, public welfare, unemployment and workers' compensation, retirement, education, hospitals, corrections, health

### Economics ONLINE

Have students visit the Web site at [glencoe.com](http://glencoe.com) to review Chapter 10 and take the **Self-Check Quiz**.

- 32.** Answers will vary but should demonstrate an understanding of how citizens benefit from such spending.

### Math Practice

- 33.** \$50,000

### Analyzing Visuals

- 34.** Entitlement: Social Security; Medicare; income security; health; education, training, employment, and social services; veterans' benefits. Nonentitlement: national defense, net interest, transportation, justice administration, international affairs, community development.

### Thinking Like an Economist

- 35.** Answers will vary but should mention opportunity costs and trade-offs.

### Writing About Economics

- 36.** Answers will vary but should show sound reasoning.

### Interpreting Cartoons

- 37.** The topic is government spending. The cartoonist is saying that out-of-control government spending is wasting taxpayer dollars. The government is portrayed as a fat pig demanding more taxes to devour.