

Government Spending

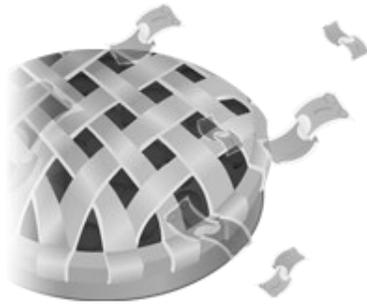
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Budget Business

If you could track your family's spending, you would see that money is spent on lots of things: housing, food, transportation, electricity, laundry soap, maybe even a vacation. Many people create a household **budget**, which is a plan for spending. Creating a budget involves looking at the things you need, the things you want, and how much money you are bringing in. You figure out how much you can afford to spend and what things you must do without. Usually, budgeting involves making choices: How much money should be spent on rent? Groceries? Gasoline? The cell phone bill? People find they must make cuts in some areas—buying generic cereal instead of brand name, or going without a smart phone—because other areas can't be cut so easily.



The Government's Budget



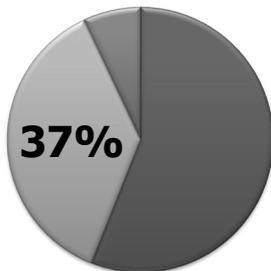
Just as it takes money to run a household, it takes money to run the government. The government must buy everything from fighter jets to ink for printing dollar bills to hand soap for the bathrooms at the Kennedy Space Center. And like people, the government also makes choices about how to spend its money: How much money should go for nuclear waste cleanup? The Department of Defense? Researching new energy sources? Supporting state education programs? Border patrol? Farmers? Each year, the U.S. government maps out how much money it expects to bring in and how much money it plans to spend. This overall plan is called the **federal budget**.

Mandatory Spending

Something *mandatory* is something you have to do. You don't get a choice. When Congress and the president are deciding how to budget the nation's money, there are some things they must spend money on. This is called **mandatory spending** – spending that is required by law. There is no choice about this spending, because lawmakers in the past have said it must happen. It would take a new law to change it. Programs that get mandatory spending include things like Social Security and Medicare for older Americans, and assistance for low-income families, the disabled, and military veterans.



In 2011, 56% of the federal spending was mandatory and 37% was discretionary. Seven percent was interest on loans.



Discretionary Spending

Discretionary is the opposite of mandatory. When something is at your *discretion*, that means it is your choice. **Discretionary spending** is spending that Congress decides on each year. Some of the things that receive discretionary spending might surprise you: The entire national defense budget is funded through discretionary spending. The list also includes things like air traffic control, nuclear energy, the federal justice system, and national parks.

The Budgeting Process

Every year, the president and Congress go through a back-and-forth process of deciding what next year's budget should be. All the government agencies and departments submit a budget request saying how much money they need and want. The president makes a list of his own spending priorities, and so does Congress. They debate, negotiate, and finally compromise to create a budget that says how much money each government program will receive.

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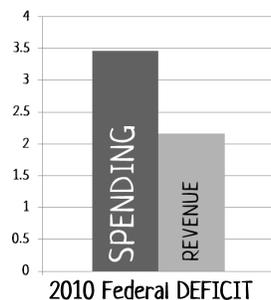
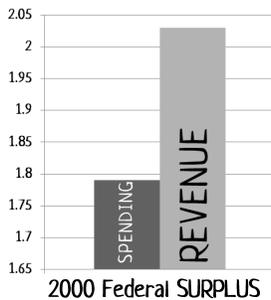
Government Debt

The fact is, the taxes the government collects from citizens and businesses don't always cover all of the government's expenses. That means the government must borrow money to meet its needs. It does this in a special way. Have you ever participated in a bake sale or a car wash to raise money? The way the government borrows money is kind of similar. But instead of selling cupcakes or candy bars, the government sells IOUs that say, "We promise to pay all your money back, plus some extra."

People buy these IOUs, which are called **securities**, because they know they will get more money back than they put in. What they are really doing is lending money to the government in exchange for a small fee, which is called **interest**. Because the U.S. government has a trustworthy reputation for paying people back, these securities are very popular. They are bought by people and businesses all over the world, and even by foreign governments.



In 1935, the government sold this savings bond for \$750. The buyer could redeem it after 10 years for \$1000. How much interest did the buyer receive?



A Balancing Act

Most people agree it would be best if our government didn't have to borrow any money. When you hear people talking about "balancing the budget," they are talking about creating a budget where the government does not spend more money than it brings in. When the government does spend more money than it brings in, that's called a **deficit** (DEF-ih-sit). Operating at a deficit for many years can have negative effects:

- The more money the government borrows, the more money it must spend paying interest to the people it borrowed from. That's money that can't be used to buy Coast Guard rescue equipment or pay forest rangers.
- The more the government depends on borrowed money, the more it is vulnerable to people suddenly deciding not to lend anymore. This could happen if people lose confidence that they will get their money back.

Ideally, most would like to see the government operate at a **surplus**, bringing in more money than it spends.

It's All About Priorities

You've seen where the government's money goes. But is it going where it *should* go? That question is at the heart of the biggest ongoing debate in the nation: How citizens' tax dollars should be spent. What should be included in the national budget? What should be cut out? People's opinions on these questions are shaped by what role they believe the government should play...



- ⇒ In the economy. How much should government try to make sure people and businesses thrive? Should it give money to industries that are struggling? Spend money on projects that create jobs? Educate people?
- ⇒ In keeping people safe. What should the government do beyond defending against attack? Should it make rules about food safety? Air pollution? Should it research cures for diseases? Give aid to poor, unstable countries?
- ⇒ In helping people prosper. How much should government be a safety net for citizens? What problems should government help people with? Medical care? Finding a job? Inability to work because of disability or old age?

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A. True or False? Mark each statement as True (T) or False (F). If the statement is false, cross out the wrong part and correct it on the line.



STATEMENT

CORRECTION

- ____ 1. People agree about how the government should spend its money.
- ____ 2. By relying on borrowed money, the government is at risk if people stop lending.
- ____ 3. There are negative effects if the government operates at a surplus.
- ____ 4. "Balancing the budget" means the government borrows more money than it spends.
- ____ 5. People generally believe it's good for the government to borrow money.
- ____ 6. When people lend money, they usually charge a fee called interest.
- ____ 7. The government sells IOUs called cupcakes.
- ____ 8. The government can meet all its spending needs by collecting taxes.
- ____ 9. Mandatory spending is spending that Congress decides on each year.
- ____ 10. Social Security and Medicare spending are both required by law.

B. Cause and Effect. Find the best match for each cause and effect. Be careful: Read them all first!

EFFECTS

- A. Sometimes the government must borrow money.
- B. U.S. securities are popular all over the world.
- C. There is a huge national debate about government spending.
- D. People and governments must make choices about spending money.
- E. The government must spend money paying interest to lenders.

CAUSES

- ____ 1. Money is limited.
- ____ 2. There would be severe consequences if the government ran out of money.
- ____ 3. The U.S. has a trustworthy reputation for paying back loans.
- ____ 4. The government usually operates at a deficit.
- ____ 5. People have different ideas about how the government should spend its money.

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