

## Government Spending

**Time Needed:** One class period

**Materials Needed:**

Student worksheets

Projector for optional PowerPoint

**Copy Instructions:**

Reading (*two pages; class set*)

Worksheets (*three pages; class set*)

**Learning Objectives.** Students will be able to:

- Describe what a budget is.
- Compare the national budgeting process to the personal budgeting process.
- Explain the difference between a surplus and a deficit.
- Explain why and how the government borrows money.
- Analyze federal spending data.
- Make cuts to a fictional personal budget.
- Identify reasons for people's differing views about government spending.

### STEP BY STEP

- ANTICIPATE** by asking students if they ever have to make choices about what to spend money on. Ask students to volunteer examples of the kinds of things people might have to make choices about. Pose this question: Does the government have to make choices about the money it spends?
- DISTRIBUTE** one reading page to each student.
- READ** the reading with the class, pausing to discuss as appropriate. (Answer to savings bond question on Page 2: The buyer received \$250 in interest.)
- CHECK** for understanding by doing the A/B/Both active participation activity with the class. Use either the projection master or the Power Point presentation.
- DISTRIBUTE** the worksheet activities to the class.
- REVIEW** the directions.
- ALLOW** students to complete the activities. If you have an interactive white board, you may wish to project the *Trim That Budget!* and *Where Does the Government's Money Go?* activities and complete them as a class. (There are blank ones in the Power Point.) If you have a projector but no IWB, consider projecting the diagrams as an explanation tool for the activity.
- REVIEW** the answers to the worksheet activities if you wish.
- CLOSE** by asking students to create one quiz question about the lesson and write it on a scrap of paper. Have students turn to a partner and take turns asking and answering the questions they wrote.

# Government Spending

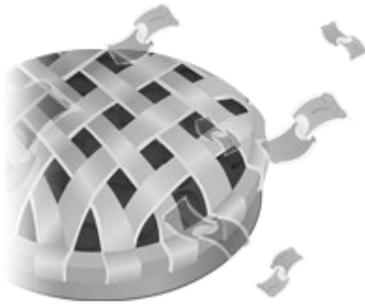
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## Budget Business

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



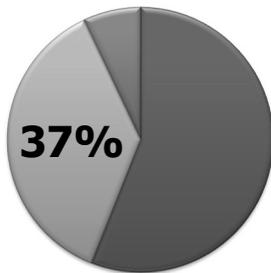
Just as it takes money to run a household, it takes money to run the government. The government must buy everything from fighter jets to ink for printing dollar bills to hand soap for the bathrooms at the Kennedy Space Center. And like people, the government also makes choices about how to spend its 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.

# Government Spending

Name: \_\_\_\_\_

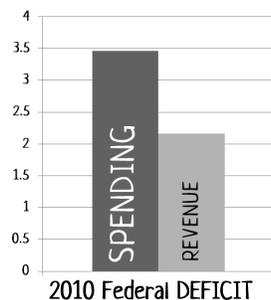
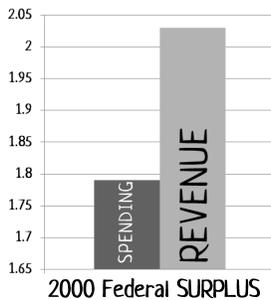
## Government Debt

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?

# Government Spending

Name: \_\_\_\_\_

**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.

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**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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# Government Spending

Name: \_\_\_\_\_

**C. Trim That Budget!** Based on last month's spending, Sasha needs to trim \$500 per month from her budget. Look at Sasha's budget and decide what she should cut and why.

Rent \$750  
 Groceries  
 • Food for meals \$230  
 • Snacks/junk food \$70  
 Eating out  
 • Weekly pizza delivery \$100  
 • Lunchtime fast food \$120  
 • Coffee shop coffees/pastries 3x per week \$80  
 • Daily soda from the convenience store \$60  
 Gas \$150  
 Insurance on vehicle \$130  
 Utilities (Electricity, natural gas, water) \$165  
 Internet service \$35  
 Cable deluxe package (with all the movie channels) \$100  
 Cell Phone \$95  
 Land Line Telephone \$40  
 Internet movies \$8  
 Regular movies 4x per month (including snacks) \$80  
 Music downloads (25 songs) \$32  
 Savings \$300

Budget Item	Amount	Why Can Sasha Cut This?
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
	\$	
<b>TOTAL:</b>		



**D. Not As Simple As It Seems.** Things can sometimes seem unnecessary if you don't have all the information. How would your decisions about Sasha's budget change if the following were true?

1) Sasha is in Big Brothers/Big Sisters, and she meets her little sister for fast food several times a week. She also takes her elderly uncle to dinner every weekend so he can get out of the house.

What items would you add back, and what would you cut?

2) Sasha's dream is to be a movie critic. She goes to the theater and writes reviews to submit to newspapers. She also watches older movies at home to expand her background knowledge.

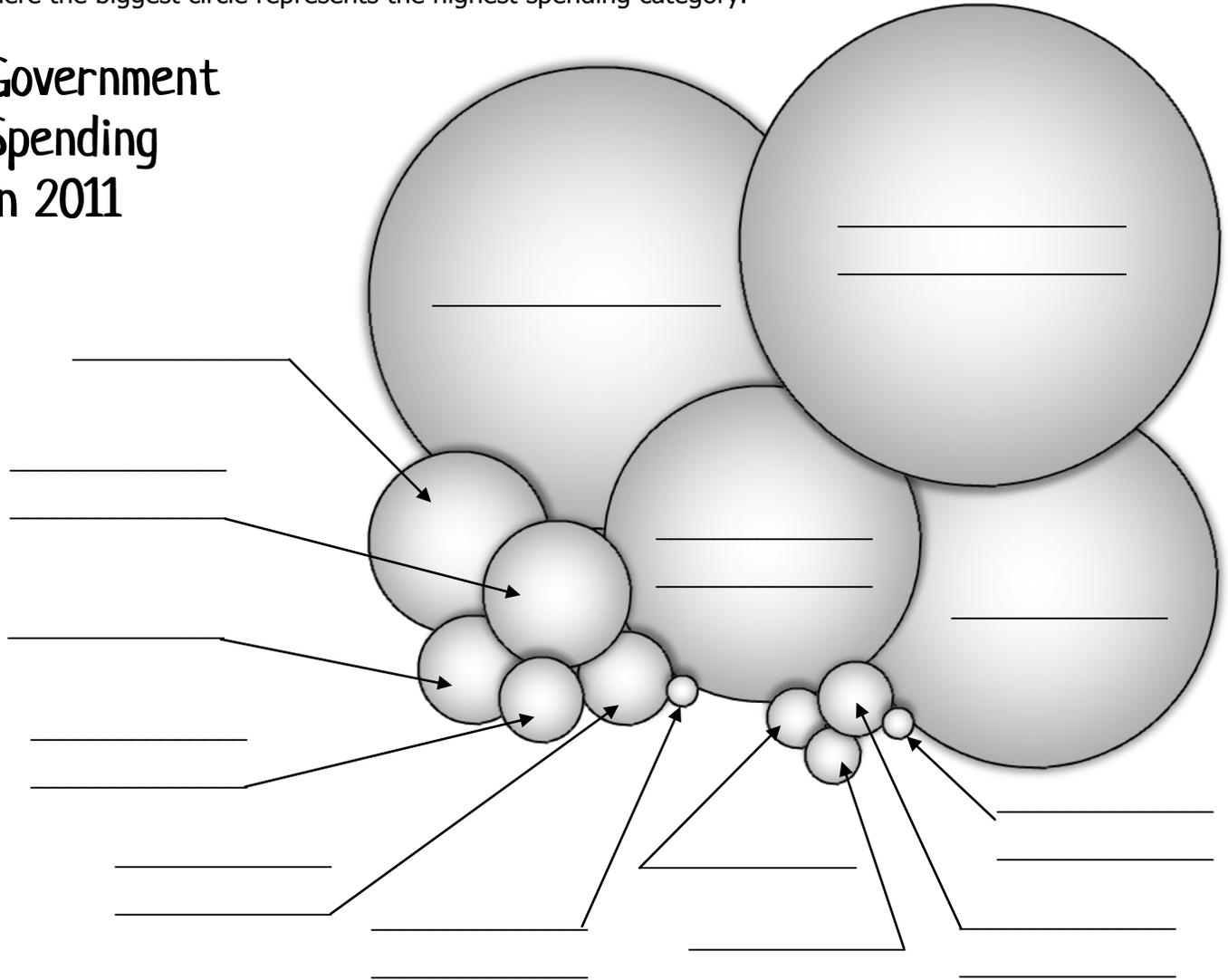
What items would you add back, and what would you cut?

# Government Spending

Name: \_\_\_\_\_

**E. Where Does the Government's Money Go?** Study the chart at the bottom of the page to see where the government's money went in 2011. Write each spending category on the graphic organizer, where the biggest circle represents the highest spending category.

## Government Spending in 2011



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**Government Spending in 2011 (in billions)**

\$725 Social Security (Benefits for older Americans and the disabled)	\$167 Other (Includes environment, energy, science, agriculture, community development, and lots more!)
\$699 Defense	\$144 Government Retirement (Retirement benefits for federal employees and military personnel)
\$560 Medicare (Health care for Americans 65 and older)	\$128 Veterans Benefits (Includes health and other services)
\$475 Income Security (Unemployment benefits, food assistance, tax credits, etc.)	\$116 Education, Training, Employment, Social Services
\$275 Medicaid (Health care for low-income people)	\$91 Transportation
\$227 Interest (Interest paid on money the government borrows)	\$84 Health
	\$54 Administration of Justice (Federal courts, prisons, etc.)
	\$48 International Affairs (Includes aid to foreign countries)

# Government Spending

**\*\* TEACHER GUIDE \*\***

	A	B	Both
Budgets are for	Households	Governments	Both
Making a budget can include	Choices	Spending cuts	Both
Mandatory spending includes money for	Defense	Social Security	Both
Discretionary spending is	Congress's choice	Required by law	Both
Those who get a say in the federal budget include	The president	Congress	Both
Securities are	IOUs	A way to make money	Both
The world sees U.S. government securities as	Risky	Trustworthy	Both
Most people think the government should operate at a	Surplus	Deficit	Both
Borrowed money must be paid back with	Securities	Interest	Both
When it comes to government spending, people usually	Agree	Disagree	Both
The government gets money from	Citizens' tax dollars	Borrowing	Both
The government spends money on things like	Science research	Courts	Both

**Directions:** Project the chart. Uncover each statement one at a time. Have the class answer A, B, or Both as a chorus. Listen for a mix of answers that indicates confusion. Discuss each answer before moving on.

# Government Spending

Name: **\*\* TEACHER GUIDE \*\***

**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.

T/F	STATEMENT	CORRECTION
<u>F</u>	1. People <del>agree</del> about how the government should spend its money.	<u>disagree</u>
<u>T</u>	2. By relying on borrowed money, the government is at risk if people stop lending.	
<u>F</u>	3. There are <del>negative</del> effects if the government operates at a surplus.	<u>positive (or, surplus/ deficit)</u>
<u>F</u>	4. "Balancing the budget" means the government spends more money than it <del>borrow</del> s.	<u>brings in</u>
<u>F</u>	5. People generally believe it's <del>good</del> for the government to borrow money.	<u>bad (or not good)</u>
<u>T</u>	6. When people lend money, they usually charge a fee called interest.	
<u>F</u>	7. The government sells IOUs called <del>cupcakes</del> .	<u>securities</u>
<u>F</u>	8. The government <del>can</del> meet all its spending needs by collecting taxes.	<u>cannot</u>
<u>F</u>	9. <del>Mandatory</del> spending is spending that Congress decides on each year.	<u>Discretionary</u>
<u>T</u>	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		CAUSES
A. Sometimes the government must borrow money.	<b>B E C A U S E</b>	<u>D</u> 1. Money is limited.
B. U.S. securities are popular all over the world.		<u>A</u> 2. There would be severe consequences if the government ran out of money.
C. There is a huge national debate about government spending.		<u>B</u> 3. The U.S. has a trustworthy reputation for paying back loans.
D. People and governments must make choices about spending money.		<u>E</u> 4. The government usually operates at a deficit.
E. The government must spend money paying interest to lenders.		<u>C</u> 5. People have different ideas about how the government should spend its money.

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Budget Item	Amount	Why Can Sasha Cut This?
	\$	<i>Answers will vary, but should add up to at least \$500.</i>
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	\$	
	\$	
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	\$	
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1) Sasha is in Big Brothers/Big Sisters, and she meets her little sister for fast food several times a week. She also takes her elderly uncle to dinner every weekend so he can get out of the house.

What items would you add back, and what would you cut?

*Answers will vary; students should add back some eating out expenses and cut elsewhere*

2) Sasha's dream is to be a movie critic. She goes to the theater and writes reviews to submit to newspapers. She also watches older movies at home to expand her background knowledge.

What items would you add back, and what would you cut?

*Answers will vary; students should add back some movie and cable tv expenses and cut elsewhere*

# Government Spending

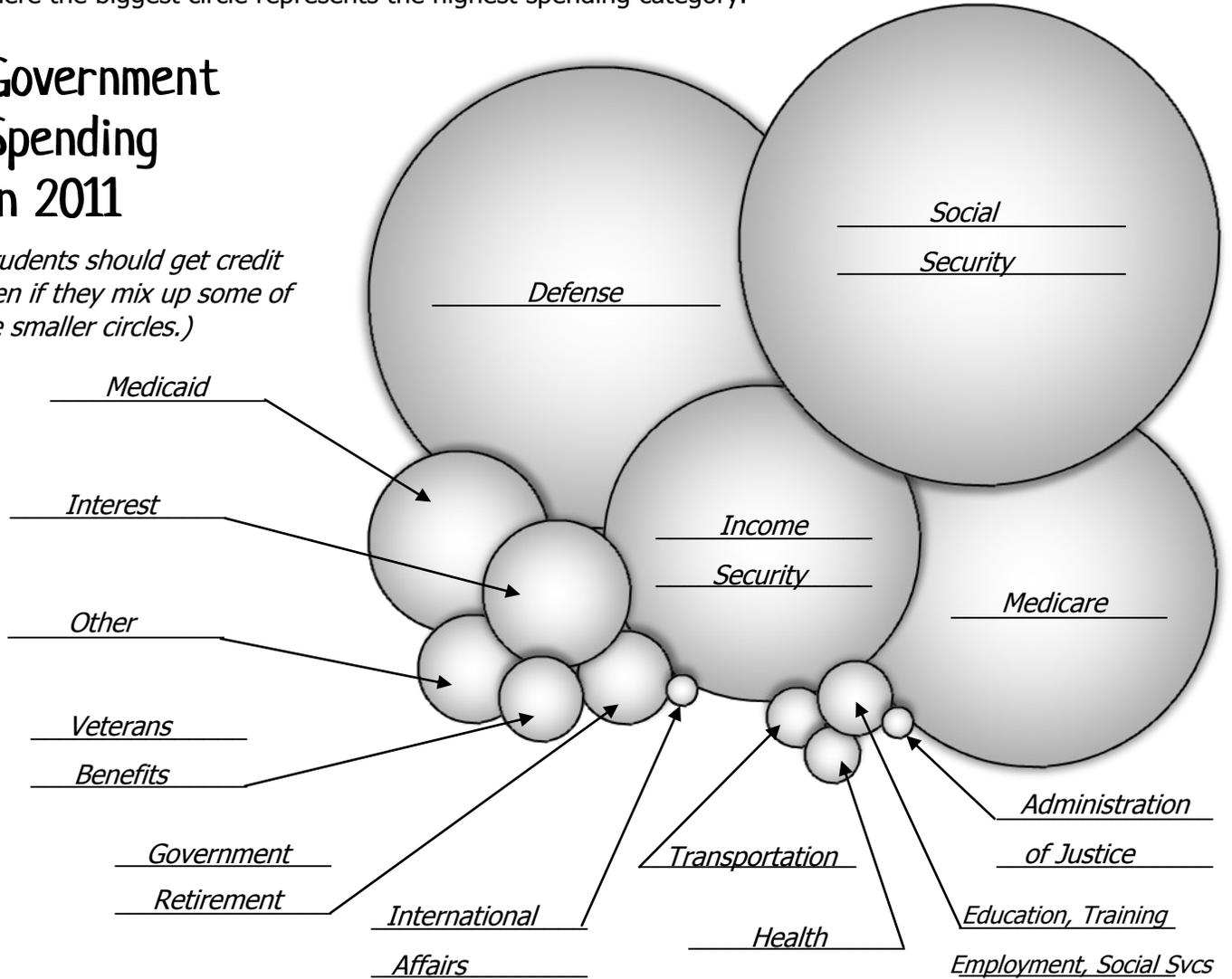
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*(Students should get credit even if they mix up some of the smaller circles.)*



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