

GOVERNMENT BORROWING LESSON:

YOU MAKE THE U.S. BUDGET: STUDENT HANDOUT

Note to Students: In the film *Ten Trillion and Counting*, you learned that the U.S. government's total debt totals more than \$10 trillion. This debt does not include the unfunded promises of social programs such as Social Security, which is held in the Social Security Trust Fund and which many believe will also need additional funding to cover future obligations. The debt is an accumulation of budget deficits from previous years and interest owed on the debt. As with your personal budget, when spending exceeds income, borrowing is the only solution.

If big lenders such as China stop lending money, the United States faces the challenge of cutting programs and facing additional economic hardships. Currently, many believe the U.S. is on a crash course toward economic hardship because of its relationship of debt-to-GDP level. The CIA *World Factbook* ranks countries according to their debt-to-GDP percentages. The U.S. percentage is 60.8, putting it at number 23 out of the 126 countries listed. In order to borrow, the U.S. government issues Treasury bills and bonds, among other securities. President Obama has proposed cutting the U.S. budget deficit in half over the years to come, which could slow the growth in total debt from its recent pace. You can read President Obama's budget by clicking the following link. Note that summary tables are on page 114. www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf

Your Mission: Your group has been assigned to see if you can even do better than the president's proposals. Also, for your budget category, you will need to prioritize and conduct research on one area of the budget. In your group, discuss and answer the following:

1. **Budget Plan.** The proposed U.S. budget includes more than \$3 trillion in spending annually. In your group, answer the questions below and assign percentages to each of the six budget categories listed below. If you decide to spend more than you bring in through taxation, your government will need to borrow by selling more bonds.
 - a. Do you think it is important to create a budget that has less spending than tax revenues collected? Explain.
 - b. What are some economic and political reasons why it is difficult to cut spending from the current high levels?
 - c. Deficit spending happens when a government spends more than what it has coming in from taxation. Under what circumstance do you think this could be a good strategy?
 - d. Will you increase taxes to help collect more money? If so, what will be your plan for your tax increase?
 - e. Will you decrease taxes? Regardless, what are possible advantages to decreasing taxes even when spending is high?
 - f. In what areas will you allocate money to stimulate the economy? Explain.

2. **Create a Budget.** In your group, discuss your priorities and rationale for allocating resources to each of the following six categories. When you have reached a consensus, detail what percentage of the total budget you will spend on each of six budget categories listed below.

Budget Category	Percentage of Total Budget:
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Education

Energy

Defense

Health Care

Infrastructure

Social Programs

Total Spending: =100%

- a. Will you have a budget deficit or surplus?

 - b. What criteria did you use to decide which areas received the most or least amount of the budget?
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3. **Research** your specific budget area with your team and prepare a presentation for your class. Explain the main spending priorities and programs within the budget proposal made by the president for your budget category. The link is www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf.
 4. The following White House link has important links to budgets for different departments and programs: www.whitehouse.gov/omb/. Other useful Web sites you can use for research include:

Education: www.ed.gov/about/overview/fed/10facts/index.html

Energy: www.energy.gov/index.htm

Defense: www.defenselink.mil/comptroller/budgetindex.html

<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2034rank.html>

Health Care: www.hhs.gov/news/budgetblueprint.html

Infrastructure: www.dot.gov/new/index.htm

www.whitehouse.gov/omb/budget/fy2004/transportation.html

www.whitehouse.gov/omb/assets/fy2010_factsheets/fy10_homeland_security.pdf

Social Programs: www.ssa.gov/pgm/links_governance.htm

Explain the main spending priorities and programs within the budget proposal made by the president for your budget category:

5. What are some reasons why your budget category should receive the highest percentage of spending possible?

6. As you research your budget area, identify what decisions you would make to eliminate spending. Explain below any ideas for spending cuts that you propose.

7. Present your proposal to the class and help debate what budget would be acceptable to everyone.