The Bridge Decision

Weigh the economic effects of a federal spending choice

9-12.EC.9 "Examine the economic implications of fiscal policy in the United States including federal taxation, spending, and the national debt."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two possible economic benefits of the bridge grant and circle one possible cost of raising federal income taxes. Then number the effects of borrowing on the deficit, national debt, and interest costs in the order they occur.

Who Pays for a New Bridge?

1. A freight bridge outside a small city closes after inspectors find cracked supports. Trucks take longer routes, raising delivery costs for stores and factories. Congress considers a federal grant to help the state replace the bridge. This would be federal spending, even though the state would manage construction. During construction, contractors could hire workers and buy steel. Once the bridge reopens, shorter routes could lower shipping costs. But the grant would use money that could fund another public need. The economic case depends on whether the benefits of the bridge outweigh those costs.

2. Lawmakers must decide how to pay for the grant. Raising federal income taxes could bring in enough revenue to cover the grant without increasing the annual budget deficit. Yet households with less after-tax income may cut purchases, which can reduce demand at local businesses. If Congress instead pays for the grant by borrowing, the federal government sells Treasury securities to investors. Borrowing allows construction to begin without an immediate tax increase, but it increases the deficit for that year if other revenue and spending stay the same. A deficit adds to the national debt.

3. The federal government must pay interest on its debt, so borrowing today can leave less room in future budgets for other priorities or require higher taxes later. Borrowing may still make sense if a safer, faster bridge creates lasting economic gains worth more than its costs. Conditions also matter: when unemployment is high, new construction jobs may help put idle resources to work. When the economy is already running near capacity, extra spending may push up prices or draw workers away from other projects. Fiscal policy involves weighing these effects, not just choosing the cheapest way to open the bridge.

2 ANSWER WITH EVIDENCE

Use the passage

1. How could the grant affect employment during construction and shipping costs after the bridge reopens?

2. If higher federal income taxes fully cover the grant, what is one budget benefit and one possible drawback for businesses?

3. If Congress borrows to pay for the grant, how could that choice affect the annual deficit, national debt, and future budgets?

4. Why might the grant have different effects when unemployment is high than when the economy is near capacity?

3 YOUR TURN

Your own words

A senator proposes federal grants to replace aging school ventilation systems. In 4 to 6 sentences, recommend paying with higher federal income taxes or borrowing, explain one likely economic benefit and one cost of your choice, and state how the choice could affect the national debt.

ANSWER KEY

The Bridge Decision

HIGH SCHOOL · 9-12.EC.9

PART 1 · READ AND MARK

Underline two possible economic benefits of the bridge grant and circle one possible cost of raising federal income taxes. Then number the effects of borrowing on the deficit, national debt, and interest costs in the order they occur. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How could the grant affect employment during construction and shipping costs after the bridge reopens?	**Contractors could hire workers during construction, and shorter routes could lower shipping costs after reopening.**
2	If higher federal income taxes fully cover the grant, what is one budget benefit and one possible drawback for businesses?	**The grant would not increase the annual deficit, but households might spend less, reducing demand at local businesses.**
3	If Congress borrows to pay for the grant, how could that choice affect the annual deficit, national debt, and future budgets?	**With other revenue and spending unchanged, borrowing increases the annual deficit. The deficit adds to the national debt, and interest payments can leave less room in future budgets or require higher taxes.**
4	Why might the grant have different effects when unemployment is high than when the economy is near capacity?	**When unemployment is high, construction can put idle workers and resources to work. Near capacity, the spending may push up prices or draw workers away from other projects.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I would pay for the ventilation grants with a temporary increase in federal income taxes large enough to cover the new spending. Installing new systems would create work for contractors and could improve air quality in schools. Higher taxes would leave some households with less money to spend, which could slow sales at local businesses. Because the added tax revenue would cover the grants, this project would not increase the annual deficit. It would not add to the national debt, although deficits from other policies could still increase that debt.

Accept either funding choice if the response explains a plausible benefit, a cost, and the debt effect accurately. A tax-funded grant need not add to the debt if new revenue covers its cost; borrowing can add to the debt through a larger deficit.