Budget Choices

Trace how fiscal policy shapes deficits, surpluses, and debt.

GE.7.4 "Explain how the use of fiscal policy affects budget deficits or surpluses and the national debt."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Circle each change in federal taxes or spending. Underline the sentences that show how a deficit or surplus affects the national debt.

A Slowdown and a Budget

1. On a rainy morning, the owner of a small Ohio machine shop cancels an order because customers have stopped buying new equipment. Similar slowdowns across the country can lead Congress and the president to use fiscal policy, changes in federal taxes or spending meant to influence the economy. Suppose lawmakers fund more repairs to federal highways while keeping tax rules unchanged. Contractors may hire workers, but federal spending rises before the new jobs bring in much tax revenue. If spending was already greater than revenue, the yearly budget deficit grows. The government generally borrows to cover that gap.

2. Instead of paying for highway repairs, lawmakers could temporarily lower income taxes during the same slowdown. Families would keep more of their pay and might buy more goods, but the government would collect less revenue at first. With spending unchanged, the annual deficit would also grow if the budget began in deficit. These choices may help people and businesses now, yet larger deficits add to the national debt, the total amount the federal government owes from past borrowing. Even if hiring improves later, that debt does not vanish when the temporary policy ends.

3. A few years later, strong sales lift tax receipts, and lawmakers let the tax reduction expire. If revenue then exceeds spending for the year, the government has a budget surplus. It can use that surplus to pay down some debt, though earlier borrowing may leave a large balance. Lawmakers could also reduce spending during a strong economy to make a surplus more likely. Neither choice guarantees one: revenue may fall unexpectedly, or interest payments on existing debt may keep spending high. A deficit or surplus describes one year's budget; national debt reflects borrowing still owed across many years.

2 ANSWER WITH EVIDENCE

Use the passage

1. If lawmakers fund highway repairs while taxes stay the same and the budget starts in deficit, what happens to the yearly deficit and borrowing?

2. How can a temporary income tax cut increase the national debt even if federal spending stays the same?

3. After the tax cut expires, why might the government still owe debt even if it has a budget surplus?

4. Lawmakers reduce spending to try to create a surplus. What is one reason this might fail, and how would it affect the budget?

3 YOUR TURN

Your own words

Suppose federal revenue is $4.0 trillion, spending is $4.2 trillion, and existing debt is $28.0 trillion. Choose either a $0.2 trillion spending increase or a $0.2 trillion tax cut to address a slowdown, then write three sentences explaining your choice, the new yearly deficit, and the new debt if the full deficit is borrowed and nothing else changes.

Budget Choices

PART 1 · READ AND MARK

Circle each change in federal taxes or spending. Underline the sentences that show how a deficit or surplus affects the national debt. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	If lawmakers fund highway repairs while taxes stay the same and the budget starts in deficit, what happens to the yearly deficit and borrowing?	**Spending rises, so the yearly deficit grows and the government generally borrows more to cover it.**
2	How can a temporary income tax cut increase the national debt even if federal spending stays the same?	**The government collects less revenue, which increases the deficit. Borrowing to cover the larger deficit adds to the national debt.**
3	After the tax cut expires, why might the government still owe debt even if it has a budget surplus?	**A surplus can pay down some debt, but borrowing from earlier years may leave a balance.**
4	Lawmakers reduce spending to try to create a surplus. What is one reason this might fail, and how would it affect the budget?	**Revenue might fall unexpectedly, leaving it at or below spending. Alternatively, interest payments might keep spending high enough to prevent a surplus.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I would cut taxes by $0.2 trillion to leave households more money to spend during the slowdown. Revenue would fall to $3.8 trillion, so the yearly deficit would be $0.4 trillion with spending at $4.2 trillion. Borrowing that entire deficit would raise the national debt from $28.0 trillion to $28.4 trillion.

For Your Turn, either policy choice produces a $0.4 trillion deficit and $28.4 trillion in debt under the stated assumptions. Accept explanations that correctly connect the chosen tax or spending change to the deficit and borrowing.