# From Deficit to Surplus

Trace the policies and conditions behind a balanced federal budget.

**USH.C.8.4.B** "Explain how President Clinton's economic policies of taxation, limits on discretionary spending, and economic conditions contributed to a balanced budget."

NAME _____ DATE _____

## 1 READ AND MARK

Read it twice

**YOUR JOB** Underline tax-policy details, circle limits on discretionary spending, and number the economic changes that raised revenue. Use your marks to trace how these forces helped produce a budget surplus.

### How the Budget Turned Around

1. Imagine the federal budget as two columns: money coming in and money going out. In the early 1990s, the government spent more than it collected, creating yearly deficits. President Bill Clinton signed a 1993 budget law that raised the top income tax rate on the highest earners and increased some corporate taxes. The law also expanded tax credits for many lower-income workers, so it did not raise every household's taxes. Higher tax rates on some income helped bring in more revenue. Yet changing tax law alone did not guarantee a balanced budget: the amount of taxable income also mattered.

2. On the spending side, Clinton worked within limits on discretionary spending, the part of the budget Congress sets each year for programs such as research and transportation. Spending caps, first adopted before his presidency, remained in place and were extended during the 1990s. The 1997 budget agreement also sought to slow spending growth. These limits did not mean every program lost funding or that all federal spending stopped rising. Large programs such as Social Security operated under different rules. Holding down growth in discretionary spending made it easier for rising revenue to catch up with total spending.

3. Meanwhile, the economy grew strongly for much of the 1990s. Businesses expanded, more people worked, and wages and profits rose. This growth increased taxable income, so the government collected more revenue even without another tax-rate increase. A booming stock market also produced taxable capital gains when investors sold shares at a profit. By fiscal year 1998, federal revenue exceeded federal spending, producing a budget surplus for the first time in nearly three decades. Tax changes, restrained discretionary spending, and economic growth worked together; none by itself explains why the budget moved from deficit to surplus.

## 2 ANSWER WITH EVIDENCE

Use the passage

1. How could the 1993 tax law help increase revenue without raising every household's taxes?

2. How did limits on discretionary spending help close the gap between revenue and spending?

3. Explain how two economic changes in the passage increased federal revenue.

4. Why does the passage say that no single factor explains the 1998 budget surplus?

## 3 YOUR TURN

Your own words

Suppose the economy had slowed sharply in the late 1990s, but tax rules and discretionary spending limits stayed the same. In four sentences, explain how federal revenue and the chances of a budget surplus might have changed.

ANSWER KEY

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HIGH SCHOOL · USH.C.8.4.B

## PART 1 · READ AND MARK

Underline tax-policy details, circle limits on discretionary spending, and number the economic changes that raised revenue. Use your marks to trace how these forces helped produce a budget surplus. Accept any marking that follows this job and points at the right text.

## PART 2 · ANSWERS

| # | QUESTION | ANSWER |
|---|---|---|
| 1 | How could the 1993 tax law help increase revenue without raising every household's taxes? | **It raised the top income tax rate on the highest earners and increased some corporate taxes, while expanding tax credits for many lower-income workers.** |
| 2 | How did limits on discretionary spending help close the gap between revenue and spending? | **The limits held down growth in spending set each year by Congress, making it easier for rising revenue to catch up with total spending.** |
| 3 | Explain how two economic changes in the passage increased federal revenue. | **More people working and rising wages and profits increased taxable income. Investors also owed taxes on capital gains when they sold shares at a profit.** |
| 4 | Why does the passage say that no single factor explains the 1998 budget surplus? | **Tax changes brought in revenue, spending limits restrained some costs, and economic growth increased taxable income. Together, these helped revenue exceed spending.** |

## PART 3 · YOUR TURN (SAMPLE ANSWER)

If the economy had slowed, fewer workers might have earned taxable wages and company profits might have fallen. With less taxable income, the 1993 tax rules could have brought in less revenue than they did. Limits on discretionary spending could still restrain some costs, but they would not automatically replace lost tax revenue. A surplus might have been smaller, or the government might have remained in deficit.

Accept answers that accurately connect higher taxes on some income, restrained discretionary spending, and economic growth to the budget outcome. For Part 3, students should explain why unchanged policies would not guarantee a surplus if taxable income fell.