

Tools for Teaching the Arkansas High School Economics with Personal Finance Course

Session 13:

Revenues, Outlays, and Debt of the Federal Government

Session Description

Students will learn that the federal government receives income from taxes and other sources and provides goods, services, and transfer payments. In addition, students will learn key concepts and terms regarding the federal budget.

Standards and Benchmarks (see page 13.10)

Talking Points

1. The typical sources of revenue for the federal government are personal income taxes, Social Security taxes, Medicare taxes, unemployment taxes, corporate income taxes, and other taxes (custom duties, excise taxes, tariffs, and so on), and borrowing. To see the previous year's revenue, go to <http://www.usgovernmentrevenue.com/breakdown>.
2. Typically, the main spending (outlays) of the federal government are Social Security and Medicare payments, national defense and foreign aid, social programs, physical/ human/community development, net interest on debt, law enforcement, and general government. To see the previous year's spending, go to https://www.usgovernmentspending.com/breakdown_2023USrt_24rs1n.
3. If government revenue is greater than its outlays, the government has a budget surplus.
4. If government revenue is less than its outlays, the government has a budget deficit.
5. If the government has a deficit, it must borrow funds (i.e., increase its debt).
6. The debt of the federal government (public debt) is the total amount owed by the federal government as a result of its current and past borrowing.
7. The main historical causes for accumulated public debt have been
 - wars,
 - unanticipated downturns in the economy (recessions),
 - tax cuts with no offsetting cuts in outlays, and
 - increases in outlays with no offsetting increases in revenues.

8. Foreign investors hold just less than one-third of US public debt, which represents a loss of wealth as interest payments leave the country.
9. For every debt in an economy, someone else has a credit—an IOU—a valuable asset.
10. If a borrower defaults—that is, is unable to pay their loan—the lender loses wealth (the IOU becomes worthless).

Resources

NOTE: See p. v for instructions on how to set up an [Econ Lowdown](#) account and assign resources found in the Resource Gallery to your students.

Online Modules

Allow time for students to complete the modules:

- Fiscal Policy: The Basic of Taxation and Government Spending (30:00)
https://www.econlowdown.org/resource-gallery/fiscal_policy_basics
- Government Budgets (60:00)
https://www.econlowdown.org/resource-gallery/government_budgets

Reading Q&A

Allow time for students to read the essays and answer the questions:

- *Page One Economics*®—Individual Income Tax: The Basics and New Changes
<https://www.econlowdown.org/resource-gallery/individual-income-tax-the-basics-and-new-changes>
- *Page One Economics*®—Making Sense of the National Debt
<https://www.econlowdown.org/resource-gallery/making-sense-of-the-national-debt>

Lessons

Allow time for students to complete the lessons:

- Lesson 13A: Where Will You Cut the Budget? (see p. 13.4 in this session)
- Use these handouts with any of the government debt and deficit resources
 - Handout 13A: Calculating Government Surpluses, Deficits, and Debt (see p. 13.7 in this session; Answer Key on p. 13.8)
 - Handout 13B: A Brief History of US Public Debt (see p. 13.9 in this session)
- *The Budget and Economic Outlook: 2015 to 2025* (Congressional Budget Office)
<https://www.cbo.gov/publication/49892>
 - Select Appendix G
<https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/49892/49892-breakout-AppendixG.pdf>
 - View Table G-1 on pages 158 and 159, “Revenues, Outlays, Deficits, Surpluses, and Debt Held by the Public Since 1965”

Lesson 13A:

Where Will You Cut the Budget?

Objective

Students will choose which areas of the federal budget to cut and defend their choices.

Time Required

One to three class periods

Materials

- Handout 13A.1, one copy for each student
 - Signs matching items A through J on Handout 13A.1
 - Tape
-

Preparation

- Prepare signs and post them around the room.
-

Procedure

1. Distribute *Handout 13A.1: Where Will You Cut the Budget?*
 2. Allow students the opportunity to read through the spending categories and ask questions. Direct the students to rank the categories according to the directions on Handout 1.
 3. Ask the students to move and stand under the sign that indicates the category they would cut first from the federal budget. Encourage students to share why they made this choice.
 4. Have the students move to their second choice and share. Do this several times.
 5. Have the students return to their first choice. Divide the students into small groups based on this choice.
-

6. Assign each group to conduct research about what would happen if funding were cut from the particular category they chose, specifically who would benefit and who would lose. Instruct the groups to prepare an argument to share with the class defending their choice.
-

Closure

7. Invite groups to share their arguments.
8. Optional: Invite students to debate their arguments.

Visual 13A.1: Where Will You Cut the Budget?

Directions: Assume you are a member of Congress. You must recommend budget cuts. Consider the spending categories below and rank them in order of importance (designated by the letters), with 10 being the last item to cut. Be prepared to defend your decisions:

- A. National defense
- B. International affairs
- C. General science, space, and technology
- D. Energy
- E. Environmental protection
- F. Transportation
- G. Education, training, employment, and social services
- H. Social Security
- I. Health care and Medicare
- J. Veterans benefits

Cut first: 1. _____

2. _____

3. _____

4. _____

5. _____

6. _____

7. _____

8. _____

9. _____

Cut last: 10. _____



Handout 13A: Calculating Government Surpluses, Deficits, and Debt

Directions: Calculate the budget surplus or deficit for each year below. Assume that any deficit requires the government to borrow an amount equal to the deficit and that any surplus is exclusively used to reduce the debt.

NOTE: Figures are hypothetical and in billions of dollars.

Year	Revenue	Outlays	Surplus (+) or deficit (-)	Debt
Prior to 2003				50
2003	100	90	_____	_____
2004	110	115	_____	_____
2005	125	125	_____	_____
2006	120	130	_____	_____
2007	130	135	_____	_____
2008	150	145	_____	_____
2009	155	170	_____	_____

Handout 13A: Calculating Government Surpluses, Deficits, and Debt— Answer Key

Directions: Calculate the budget surplus or deficit for each year below. Assume that any deficit requires the government to borrow an amount equal to the deficit and that any surplus is exclusively used to reduce the debt.

NOTE: Figures are hypothetical and in billions of dollars.

Year	Revenue	Outlays	Surplus (+) or deficit (–)	Debt
Prior to 2003				50
2003	100	90	+10	40
2004	110	115	–5	45
2005	125	125	0	45
2006	120	130	–10	55
2007	130	135	–5	60
2008	150	145	+5	55
2009	155	170	–15	70

Handout 13B: A Brief History of US Public Debt**US Debt in Given Years from Historical Events**

Year	Public debt	Budget status	Event
1791	\$75M	Deficit	Revolutionary War
1816	127M	Deficit	War of 1812
1837	0	Balanced	Jackson administration
1860	64M	Deficit	War with Mexico
1866	2.7B	Deficit	Civil War
1915	3.0B	Deficit	50 Years of relative prudence
1919	27.4B	Deficit	World War I
1930	16.2B	Deficit	Roaring Twenties
1940	43.0B	Deficit	Great Depression
1946	269.4B	Deficit	World War II
1960	290.2B	Deficit	Korean War
1980	930.2B	Deficit	Vietnam War/War on Poverty
1983	1.4T	Deficit	1981-82 Recession
1988	2.6T	Deficit	Tax cuts
2000	5.7T	Surplus	Surplus (debt decreased)
2010	14T	Deficit	Tax cuts, wars, bailouts, and stimulus

NOTE: M, million; B, billion; T, trillion. To see the current national debt, go to the National Debt Clock at <https://www.usdebtclock.org/>.

Standards and Benchmarks

Arkansas Economic Standards

Content Standard E.4: Students will understand the growth, stability, and interdependence within a national economy. This includes the current and future state of the economy using economic indicators and monetary and fiscal policies for a variety of economic conditions.

- **E.4.ECON.2:** Identify various causes and impacts of inflation, deflation, and stagflation, including the role of federal fiscal policies.
- **E.4.ECON.6:** Examine fiscal policy tools used by the executive and legislative branches of the government, including taxation, spending, regulation, and printing of currency.
- **E.4.ECON.7:** Determine how the federal budget (i.e., spending and taxation) creates surpluses or deficits and impacts the national debt.