

Government Spending

Government expenditures are used to maintain transportation systems and protect the environment.

Economics & You



If you borrow money because you spend more than you earn, you run a deficit. In **Chapter 10**, you will learn how federal deficits and surpluses impact the U.S. economy. To learn more about government spending, view the Chapter 16 video lesson:

Government Spending

ECONOMICS
Online



Chapter Overview Visit the *Economics: Principles and Practices* Web site at epp.glencoe.com and click on **Chapter 10—Chapter Overview** to preview chapter information.

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CONTENTS

The Economics of Government Spending

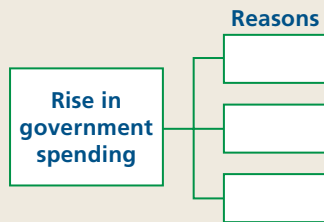
Study Guide

Main Idea

The role of the federal government has grown, making it a vital player in the economy.

Reading Strategy

Graphic Organizer As you read the section, complete a graphic organizer similar to this one by listing reasons for the increase in government spending since the 1940s.



Key Terms

per capita, public sector, private sector, transfer payment, grant-in-aid, distribution of income

Objectives

After studying this section, you will be able to:

1. **Explain** why and how government expenditures have grown since the 1940s.
2. **Describe** two kinds of government expenditures.
3. **Describe** how government spending impacts the economy.

Applying Economic Concepts

Transfer Payments Read to find out how transfer payments serve as one of the tools used to promote the goal of economic security.

Cover Story

Raising the Stakes in the Budget Game

The \$1.35 trillion tax cut Congress passed last month was supposed to leave ample room for such goodies as higher defense and education spending, a prescription drug benefit, and even some buybacks of government IOUs. It's quickly becoming clear, however, that the wish lists of the White House, Congress, and federal agencies may need a heavy edit.




House Budget chair,
Rep. Jim Nussle

Congress is already on track to spend more than the White House wants: Last week, a Republican-controlled House Appropriations committee volunteered \$150 million more for payments to apple farmers and an added \$814 million for a natural resources bill. Meanwhile, a senate-passed education bill calls for \$15 billion above the White House's request. . . .

—U.S. News & World Report, June 25, 2001

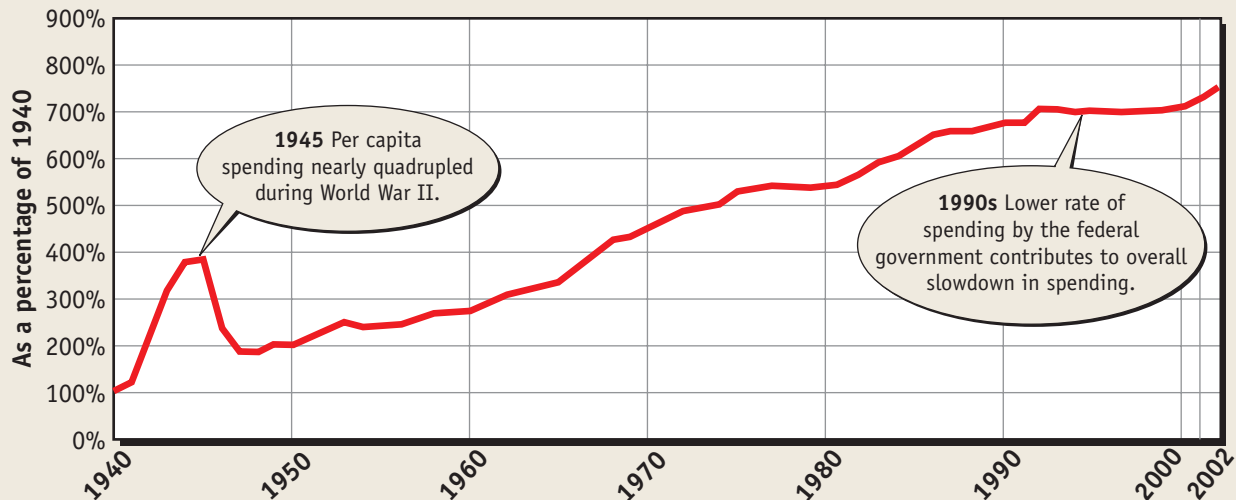
Government is big business in America. In fact, all levels of government in the United States spend more than all privately owned businesses combined. Government is a major player in our economy due to its enormous expenditures.

Government Spending in Perspective

 In 2003, total expenditures by federal, state, and local governments collectively amounted to nearly \$3 trillion. On a **per capita**, or per person, basis, this amounts to almost \$10,300 for every man, woman, and child in the United States.

Spending in the **public sector**—the part of the economy made up of federal, state, and local governments—did not begin to rise significantly until the 1940s. Several reasons account for this increase. The first was the huge amount of spending required because of World War II. The second reason was the change in public opinion that gave government a larger role in everyday economic affairs. After the

Total Government Expenditures Per Capita, Adjusted for Inflation



Source: Bureau of Economic Analysis and the Department of the Census, various forms

Using Graphs Total expenditures at all levels of government have increased significantly over time. Even when adjusted for inflation, per capita expenditures have increased by nearly 800 percent since 1940. **Does the graph show any extended period of decreased government spending?**

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Great Depression, government was called upon to regulate banks, public utilities, and many other activities.

A third reason was the success of large-scale public works projects like the TVA, which brought low-cost electricity to millions in the rural South during the mid-1930s. The events of the 1930s and early 1940s set the stage for the unprecedented growth of government spending shown in **Figure 10.1**.

Over time, many Americans have accepted increased government expenditures as the inevitable consequence of progress. Still, some people question how many goods and services government should provide—and, therefore, the level of revenue collection required to support these expenditures.

Others question what services the government should provide and what services the **private sector**—the part of the economy made up of private individuals and privately-owned businesses—should provide.

Two Kinds of Spending

 In general, government makes two broad kinds of expenditures. The first is the purchase of goods and services. As **Figure 10.2** shows, all levels of government combined consume nearly one-third of the nation's output. The second is in the form of payments to disadvantaged Americans and other designated groups.

Goods and Services

The government buys many goods, such as tanks, planes, ships, and even space shuttles. It needs office buildings, land for parks, and capital goods for schools and laboratories. The government also needs to purchase supplies and hire people to work in its agencies and staff the military. Payments for these services include the wages and salaries paid to these workers.

The government uses goods, services, and other resources to provide the public goods and services that most Americans enjoy. In general, the more the government provides, the more goods and services it consumes in the first place.

Transfer Payments

The second kind of government expenditure is a **transfer payment**—a payment for which the government receives neither goods nor services in return. Transfer payments to individuals include Social Security, welfare, unemployment compensation, and

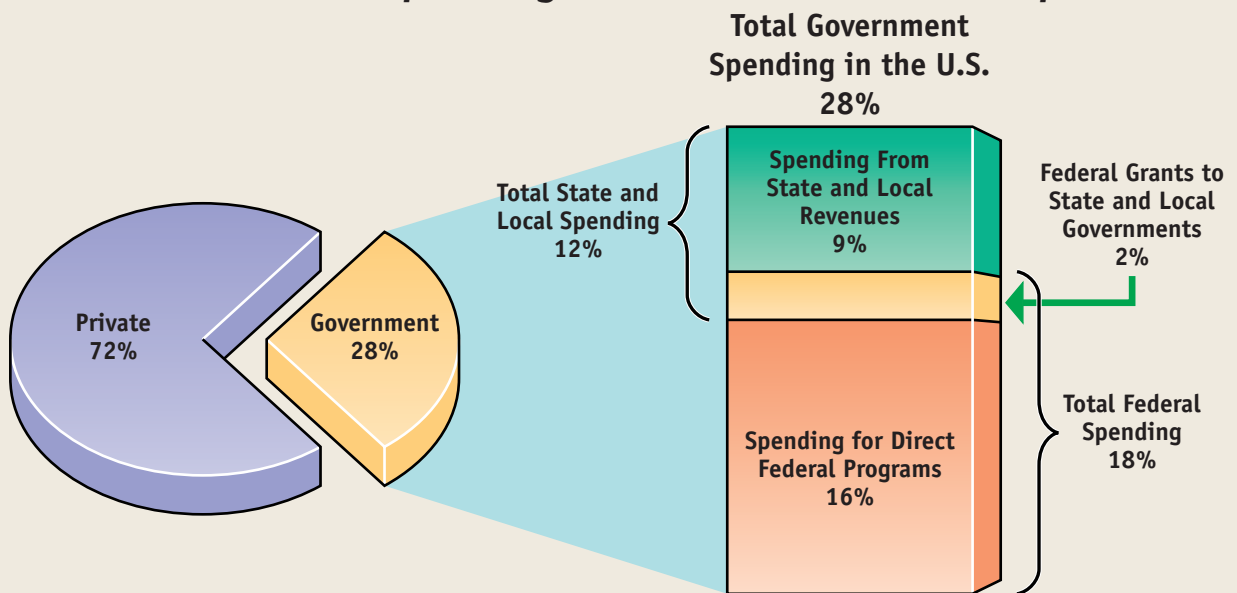
aid for people with disabilities. People normally receive these payments solely because they need assistance.

There are different kinds of transfer payments. A transfer payment one level of government makes to another is known as a **grant-in-aid**. Interstate highway construction programs are an example. The federal government grants money to cover the major part of the cost, while the states in which the highways will be built pay the rest. The construction of new public schools also can be financed through grants-in-aid.

STANDARD & POOR'S

Figure 10.2

Government Spending as a Percent of Total Output



Source: *A Citizen's Guide to the Federal Budget*, FY 2002 (Variations due to rounding.)


Using Graphs The circle graph shows that all levels of government combined account for about 28 percent—nearly one-third—of the nation's total output. The bar graph shows that federal spending accounts for nearly two-thirds of all government spending, or 18 percent of the total output. **Do state and local governments derive most of their monies for expenditures from revenues or from federal grants?**

[CLICK HERE](#)



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Impact of Government Spending

 The enormous size of the public sector gives it the potential to affect people's daily lives in many ways. Several of these effects are examined below.

Affecting Resource Allocation

Government spending decisions directly affect how resources are allocated. If the government spends its revenues on projects such as missile systems in rural areas rather than on social welfare programs in urban areas, economic activity is stimulated in rural areas as resources are shifted there. The allocation of resources can be affected indirectly as well. In agriculture, the decision to support the prices of milk, grains, or peanuts keeps the factors of production working in those industries.

Redistributing Income

Government spending also influences the **distribution of income**, or the way in which income is allocated among families, individuals, or other designated groups in the economy. The incomes of needy families, for example, can be directly affected by increasing or decreasing transfer payments.

Incomes are affected indirectly when the government decides where to make expenditures. The

decision to buy fighter planes from one factory rather than from another has an impact on the communities near both factories. Many businesses not linked to either company will feel the effects when workers are laid off or get new jobs and alter their spending habits. These situations are not merely hypothetical. The military base closings of the 1990s had a devastating impact on incomes in local communities that had come to depend on the military installations.

On the positive side, government can provide temporary income support for selective groups. In 1999, for example, the Department of Agriculture purchased millions of pounds of pork in an attempt to support low pork prices for farmers.

Competing With the Private Sector

When the government produces goods and services, it often competes with the private sector. In the area of higher education, many public colleges and universities compete with more expensive private ones. In many cases the cost difference is due to the subsidies received by the public institutions.

In the area of health care, the government runs a system of hospitals for military veterans. Taxpayer dollars fund these facilities, which compete with hospitals in the private sector that offer similar services.

Section 1 Assessment

Checking for Understanding

- 1. Main Idea** Using your notes from the graphic organizer activity on page 255, describe why government spending during the Depression increased.
- 2. Key Terms** Define per capita, public sector, private sector, transfer payment, grant-in-aid, distribution of income.
- 3. Describe** the per capita growth in government spending since 1940.
- 4. List** two kinds of government spending.
- 5. Identify** three ways that government spending may impact the economy.

Applying Economic Concepts

- 6. Transfer Payments** Do you think that transfer payments, such as unemployment compensation, are a successful or unsuccessful way to accomplish the goal of economic security? Defend your answer.

Critical Thinking

- 7. Making Generalizations** Is government spending too much? Interview five people to learn their views on this question. Summarize their views in a short paper.



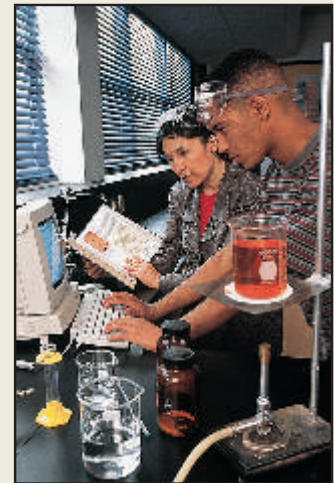
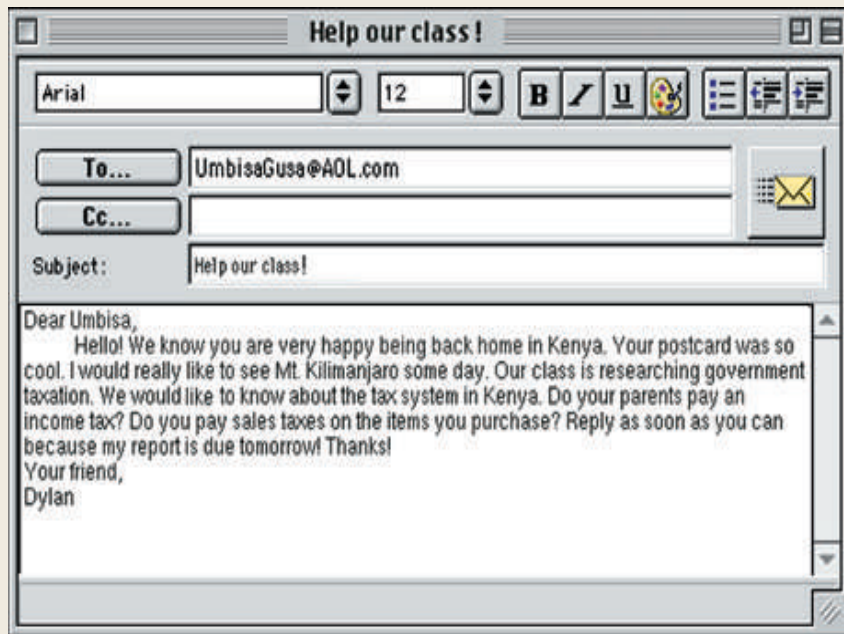
Practice and assess key social studies skills with the *Glencoe Skillbuilder Interactive Workbook, Level 2*.

TECHNOLOGY

Skill

Using E-Mail

Electronic mail, or E-mail, refers to communicating at a distance through the use of a computer. A computer is ready to “talk” to other computers after two things are added to it: (a) a modem—or device that allows communication through a telephone line, and (b) communications software, which lets your computer prepare and send information to the modem.



After you type in your message, you may send it, forward it, and even save it to a folder.

Learning the Skill

To send an E-mail message, complete the following steps:

- Select the “Message” function from your communications software.
- Type in your message, and proofread it for errors.
- Type in the E-mail address of the recipient and select the “Send” button.

The E-mail system places the message in the receiver’s electronic mailbox. He or she may read the message at any time, and send you a return message. When you receive E-mail, the sender’s address is on the message—add it to your electronic address book at that time.

Practicing the Skill

Select a current issue in economics to research. Possible topics include, What is the effect of the debt on the economy? and, What steps can be taken to reduce the debt? Then browse the Internet to obtain the E-mail address of a federal official concerned with the issue. E-mail the official, sharing opinions about the issue, asking questions about the issue, and requesting information.

Application Activity

E-mail a classmate. Forward the information you received from the government official concerning the issue above. Working together, write a summary of the E-mail correspondence with the official.

Federal Government Expenditures

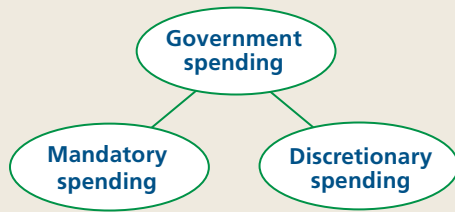
Study Guide

Main Idea

The federal government's budget supplies money for many services and programs.

Reading Strategy

Graphic Organizer As you read the section, complete a graphic organizer similar to the one below that describes the different types of government spending.



Key Terms

federal budget, mandatory spending, discretionary spending, fiscal year, federal budget surplus, federal budget deficit, appropriations bill, medicaid

Objectives

After studying this section, you will be able to:

1. **Explain** how the federal budget is established.
2. **Describe** the parts of the federal budget.

Applying Economic Concepts

Mandatory Spending Remember those FICA taxes deducted from your paycheck? The government does not save your FICA taxes until you retire. As soon as this money is collected from you, the government spends it as Social Security payments to others, which is why they are called transfer payments.

Cover Story

The Federal Budget

WASHINGTON—President Bush sent Congress a federal budget framework on Wednesday that would curtail and even reverse the growth of many domestic programs while plowing savings into tax relief and debt reduction.

Over a 10-year period, Bush pledged to slash the national debt by \$2 trillion, set aside funds to protect Medicare, cut taxes by \$1.6 trillion and establish a new reserve fund for unexpected needs.

Bush argued that his approach was “compassionate,” “responsible” and “reasonable.” The plan, he said, presumes “a federal government that is both active to promote opportunity and limited to preserve freedom.”

—The Los Angeles Times, March 1, 2001




President George W. Bush

Taking action on spending bills is but one step in the preparation of the **federal budget**—an annual plan outlining proposed revenues and expenditures for the coming year.

Approximately two-thirds of the federal budget consists of **mandatory spending**—spending authorized by law that continues without the need for annual approvals of Congress. Mandatory spending includes interest payments on borrowed money, Social Security, and medicare. The remaining one-third of the budget deals with **discretionary spending**—programs that must receive annual authorization. Discretionary spending decisions include how much to spend on programs such as the military, the Coast Guard, and welfare.

Establishing the Federal Budget

 The federal budget is prepared for a **fiscal year**—a 12-month financial planning period that may or may not coincide with the calendar year. The government's fiscal year starts on October 1 of every calendar year and expires on September 30 of the following year.

Executive Formulation

The first step in the process of developing the budget is executive formulation. This means that the president establishes the general budget guidelines for a multiyear period, with the primary focus on the upcoming fiscal year.

As part of the preparation, the president confers with government agencies, other executive office units, and the Office of Management and Budget (OMB), the division of the executive branch primarily responsible for assembling the budget under presidential guidelines.

By law, the federal budget must be sent to both houses of Congress by the first Monday in February. President Bush's federal budget for fiscal year 2004, pictured in **Figure 10.3**, lists \$1,922 billion of revenues and \$2,229 billion of mandatory and discretionary spending. The figure also shows a **federal budget deficit**—an excess of expenditures over revenues—of \$307 billion. Or, if expenditures had been less than revenues, there would have been a **federal budget surplus** equal to the difference. Whether or not these numbers turn out to be accurate depends on a number of factors, including the health of the economy and, more importantly, the cooperation of Congress.

Action by the House

The president's budget is only a request to Congress. Congress has the power to approve, modify, or disapprove the president's proposed budget—the most difficult and time-consuming part of the budget process. However, the House does not debate all budget expenditures, only the discretionary spending, which amounted to approximately \$819 billion in that year.

First, the House sets initial budget targets for discretionary spending. For example, the House might decide that the projected expenditures for agriculture are too high and spending on international affairs is too low, and then set different targets.

Once the budget targets are set, the House assigns appropriations bills to various House subcommittees—effectively breaking the entire budget down into 13 smaller ones. An **appropriations bill** is an act of Congress that allows federal agencies to spend money for specific purposes. House

CYBERNOMICS SPOTLIGHT

Using Technology

In an attempt to improve performance and reduce bureaucratic costs, the Social Security Administration is modernizing its computer system. Electronic “kiosks,” with touch-sensitive TV monitors, are being constructed in malls and public buildings. The kiosks are designed to be a user-friendly place where people can apply for Social Security cards or administration benefits. One kiosk in Arizona is programmed to speak the Navajo language. These kiosks will be connected to Social Security computers so that people can access their own accounts.

sub-committees hold hearings on each bill and debate the measure. If the bill is approved, it is sent to the full House Appropriations Committee. If it passes there, the bill is sent to the entire House for approval.

The deadline for completing this part of the process is September 15. However, individual appropriations bills are often delayed, or changed in a way that makes them incompatible with the overall budget targets. Part of the problem is that individuals in Congress often try to get appointed to specific budget appropriation committees so that they can secure funds to help their home districts.

Action by the Senate

The Senate receives the budget after the House approves it. The Senate may approve the bill as sent by the House, or it may draft its own version. If differences exist between the House and the Senate versions, a joint House-Senate conference committee tries to work out a compromise bill.

During this process, the House and the Senate often seek advice from several government bureaus and offices, including the Congressional Budget Office (CBO). The CBO is a congressional agency that evaluates the impact of legislation and projects future revenues and expenditures that will result from the legislation.

Final Approval

If everything goes as planned, the House and the Senate approve the compromise bill and then send it to the president for signature. Because Congress literally took apart, rewrote, and put back together the president's budget, the final version may or may not resemble the original proposal.

If the budget was altered too much, the president can veto the bill and force Congress to come up with a budget closer to the president's original version. Or, if Congress fails to pass a budget in time for approval by the Senate, the government can shut down briefly—as it did in late 1995 and early 1996. However, it is more likely that Congress and

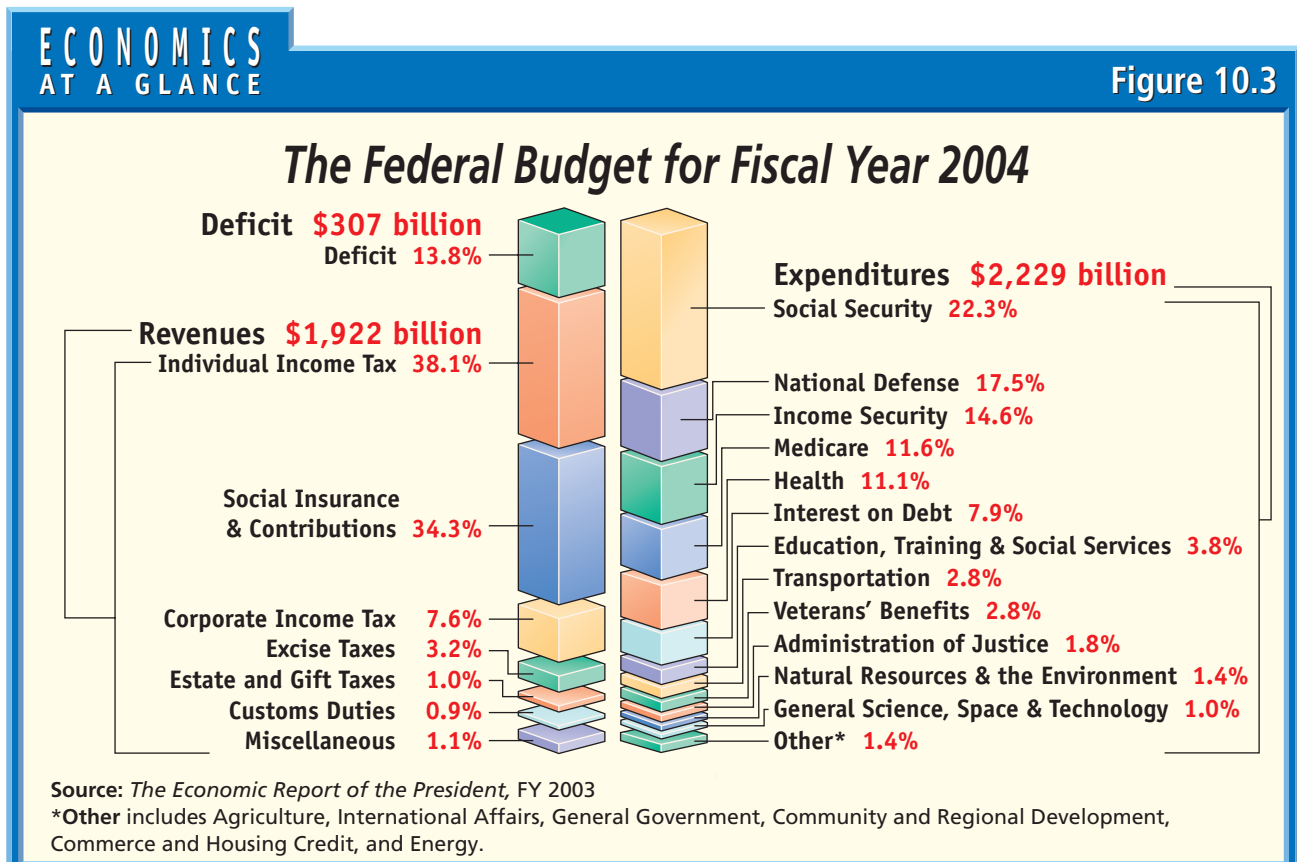
the president would agree to continue to operate at the previous year's spending levels.

Once signed by the president, the budget becomes the official document for the next fiscal year that starts on October 1 and ends on September 30. The budget shown in **Figure 10.3** is called the fiscal year 2004 budget because nine of the 12 calendar months fall in that year.

Major Spending Categories



The thousands of individual expenditures in the federal budget can be grouped into the broad categories shown in **Figures 10.3** and **10.4**.

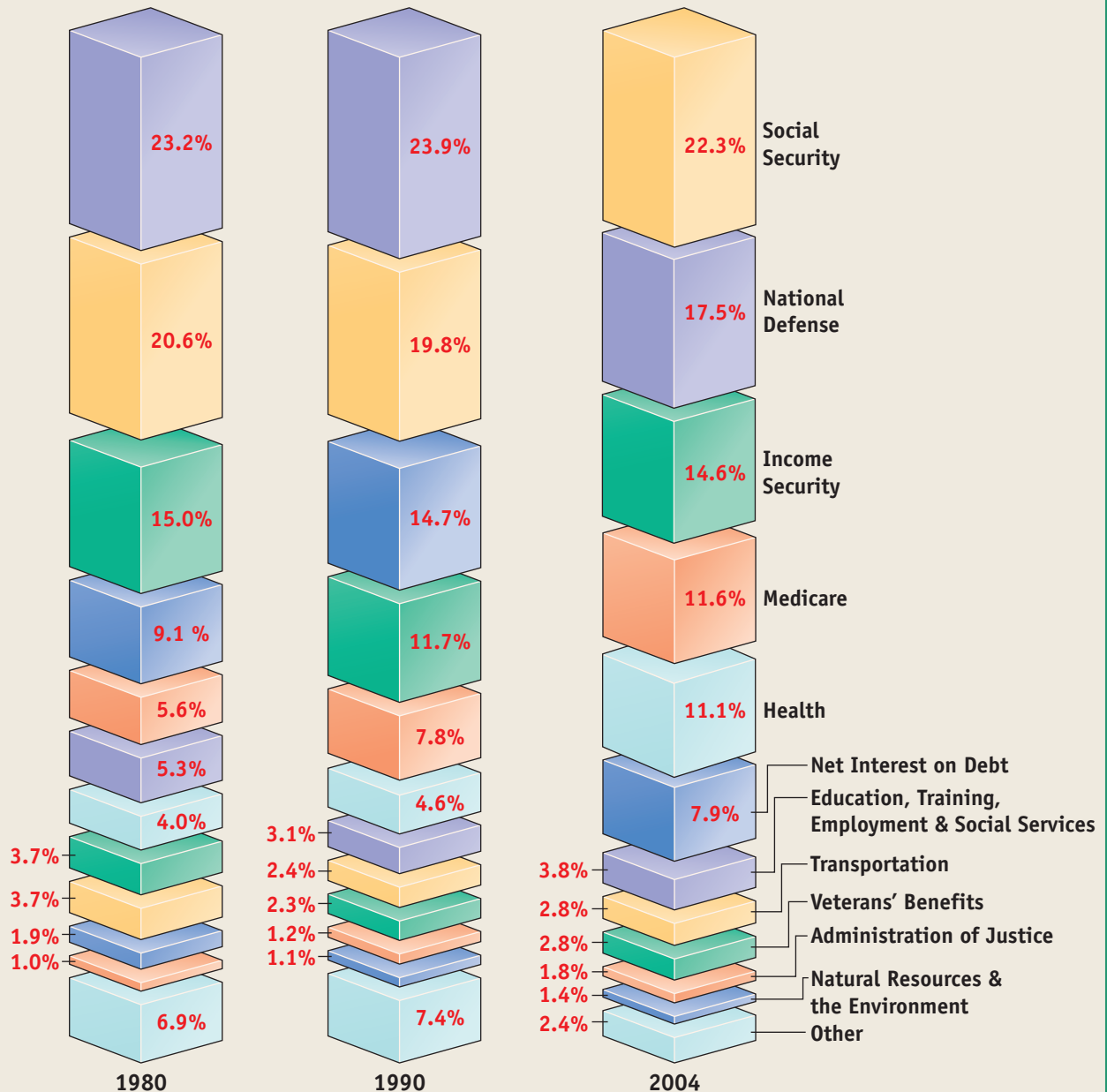


Using Graphs The federal budget for fiscal year 2002 projected revenues of about 1.9 trillion and expenditures of more than \$2.2 trillion. **From what source does the federal government receive most of its revenues?**

ECONOMICS Online
 Visit www.ck12.org and click on **Textbook Updates—Chapter 10** for an update of the data.

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Federal Government Expenditures, 1980–2004



Source: Economic Report of the President, various years

Using Graphs The major categories of federal government expenditures show some change from 1980 to 2004. The three largest federal spending categories in 2004 were Social Security, national defense, and income security. **How has spending for Social Security changed during the period from 1980 to 2004?**

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Payments to aged and disabled Americans through the Social Security program make up the largest category of federal spending. Retired persons receive benefits from the Old-Age and Survivors Insurance (OASI) program. Those unable to work receive payments from disability insurance (DI) programs.

Because Social Security is one of the mandatory spending categories, Congress simply takes the amount to be spent as a given that is dependent on the number of people eligible for Social Security payments.

For much of the late 1900s, national defense comprised the largest category of spending, although it is now second to Social Security. National defense includes military spending by the Department of Defense and defense-related atomic energy activities, such as the development of nuclear weapons and the disposal of nuclear wastes. This is the largest single discretionary category whose spending is approved annually.

Income security includes expenditures for retirement benefits to railroad workers and disabled coal miners, civil service retirement and disability

programs, and retirement benefits for the military. Subsidized housing, child nutrition, and food programs for low-income families also fall under this category. Most of these expenditures are mandatory, and are therefore not authorized annually.

Medicare, a health-care program available to all senior citizens regardless of income, began in 1966. The program provides an insurance plan that covers major hospital costs. It also offers optional insurance that provides additional coverage for doctor and laboratory fees, outpatient services, and some equipment costs. This is another of the mandatory programs that does not require annual funding approval.



Student Web Activity Visit the *Economics: Principles and Practices* Web site at epp.glencoe.com and click on **Chapter 10—Student Web Activities** for an activity on the federal budget.



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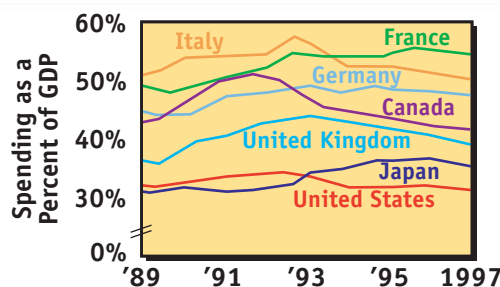


THE GLOBAL ECONOMY

GOVERNMENT SPENDING

Our government certainly spends a lot of money, but other nations spend even more. A comparison of the total government spending as a percentage of total output, or Gross Domestic Product, is shown in the graph.

Using this method, we can get a general impression of the size of the economic role of different governments. France and Italy are among the biggest spenders—with total government outlays exceeding 50 percent of their GDP. Germany and Canada are not far behind. During the time period shown on the graph, Japan and the United States generally spent between 30 and 40 percent.



Source: *A Citizen's Guide to the Federal Budget*, FY 2000

Critical Thinking

- Analyzing Information** Which nations' expenditures stayed at a level between 30 and 40 percent of their GDP?
- Drawing Conclusions** Would you agree with the statement that government spending by the United States "follows a consistent trend?" Why or why not?

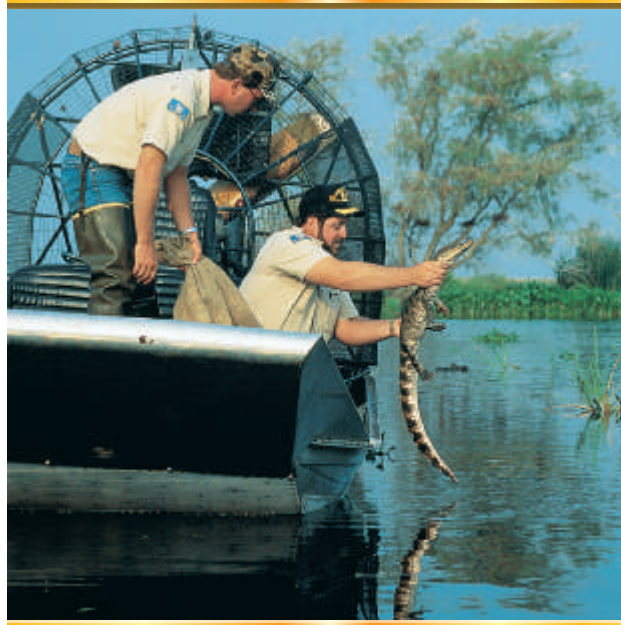


When the federal government spends more than it collects in taxes and other revenues, it borrows money to make up the difference. Interest on the federal debt made up the sixth largest category of federal spending for fiscal year 2004. The amount of interest paid varies with changes in interest rates and is a mandatory expenditure.

Health-care services for low-income people, disease prevention, and consumer safety account for this part of the federal budget. One popular program in this category is **medicaid**, a joint federal-state medical insurance program for low-income persons. Another is the Occupational Safety and Health Administration (OSHA)—a federal agency that monitors occupational safety and health in the workplace. Still others include AIDS and breast cancer research, substance abuse treatment, and mental health service programs. Some programs such as medicaid are part of mandatory expenditures, although many others are considered to be discretionary.

Other broad categories of the federal budget include education, training, employment, and social services; transportation; veterans' benefits; administration of justice; and natural resources and the environment.

Federal Expenditures



Natural Resources Biologists and conservation specialists release a farm-raised alligator into wetlands. *What percentage of federal expenditures went to natural resources and the environment?*

Section 2 Assessment

Checking for Understanding

- 1. Main Idea** Using your notes from the graphic organizer activity on page 260, write a definition of mandatory spending.
- 2. Key Terms** Define federal budget, mandatory spending, discretionary spending, fiscal year, federal budget surplus, federal budget deficit, appropriations bill, medicaid.
- 3. Describe** the three stages required to establish the federal budget.
- 4. List** the five largest components of federal government spending.

Applying Economic Concepts

- 5. Mandatory Spending** Contact your local Social Security office to find out about a person's

eligibility to receive Social Security payments. Ask about the age, other eligibility requirements, and the amount of the Social Security payments.

Critical Thinking

- 6. Understanding Cause and Effect** People are living longer, and families have fewer members. How will the combination of these two factors affect transfer payments, such as Social Security, in the future?
- 7. Finding the Main Idea** When the federal government spends more than it collects, how does it make up the difference?



Practice and assess key social studies skills with the *Glencoe Skillbuilder Interactive Workbook, Level 2*.

Profiles IN Economics

Economic Journal

A New Economics: John Maynard Keynes

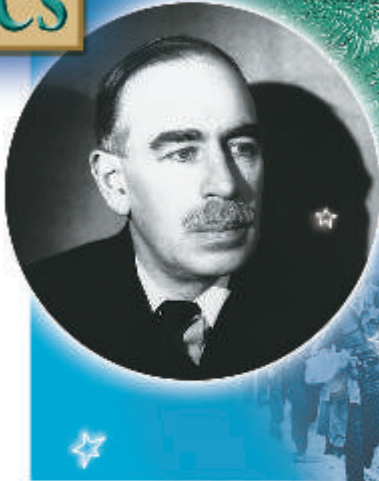
(1883–1946)

John Maynard Keynes is widely regarded as the most influential economist of the twentieth century. He wrote numerous books and articles that focused on short-run problems, instead of the long-run equilibrium solutions prevalent at the time. Keynes defended his short-run approach on the grounds that “in the long run, we are all dead.”

His most famous and influential work is *The General Theory of Employment, Interest, and Money* (1936). The book, written during the depths of the Great Depression, offered new insights in the midst of a crisis. The policy recommendations derived from his theories soon took the world by storm.

ECONOMIST, TEACHER

Keynes attended Eton, and then Cambridge University. After graduation, Keynes returned to Cambridge as a lecturer. In addition he served, at various times, as editor of the famous *Economic Journal*, on the staff of the Treasury, and as a director of the



Bank of England. He was instrumental in the planning of the World Bank. For his service to Great Britain, Keynes was knighted in 1942.

INFLUENCE

Keynes’s *General Theory* divided the economy into four sectors—consumer, investment, government, and foreign. Keynes argued that the health of the economy is based on the total spending of all the sectors. He hypothesized that a fall in spending by the business sector could have a magnified impact on other sectors of the economy. Increased government spending could offset this process. These ideas stood in stark opposition to classical economics, which emphasize laissez-faire policies. They have been dubbed the New Economics, or, more frequently, Keynesian economics.

The theories were revolutionary and they provided much needed

insight into the workings of a depression-era economy. Soon, the label *Keynesian economics* stood for any spending and taxing policies designed to stimulate the private sector.

The influence of Keynes was such that it led, in part, to the development of our national income and products accounts (NIPA) that are used to measure GDP and GNP.

Examining the Profile

- 1. Synthesizing Information** Write a brief description of Keynesian economics and compare it with one of classical economics to explain why the former was labeled “the New Economics.”
- 2. For Further Research** Find out in what ways countries today follow Keynesian economic policies.

State and Local Government Expenditures

Study Guide

Main Idea

Like the federal government, state and local governments have budgets that provide money for many programs and services.

Reading Strategy

Graphic Organizer As you read the section, complete a graphic organizer similar to the one below by listing and describing the components of the categories that account for more than 10 percent of local spending.



Key Terms

balanced budget amendment, intergovernmental expenditures

Objectives

After studying this section, you will be able to:

1. **Explain** how state and local governments approve spending.
2. **Identify** the major categories of state government expenditures.
3. **Identify** the major categories of local government expenditures.

Applying Economic Concepts

Human Capital is one of the most important investments we can make. Read to find out how state and local governments support this investment.

Cover Story

Hard Choices Await State Lawmakers

The May revision of the governor's budget is due within the fortnight.

Lawmakers in Sacramento are waiting to see whether Gov. Gray Davis holds fast to the \$104.7 billion plan he unveiled in January or proffers a truly revised budget that reflects that the state's economic outlook has taken a turn for the worst.

There are suggestions in the state capital that the looming budget problem is mostly attributable to California's electricity-supply crisis. Solve the electricity crisis, the argument goes, and the state's budget problem goes away.



Gov. Gray Davis

—The San Diego Union-Tribune, May 9, 2001

State and local levels of government, like the federal government, also have expenditures. Like the federal government, these governments must approve spending before revenue dollars can be released. As the cover story shows, the budget process at the state and local levels can be just as complicated as it is at the federal level.


Approving Spending

Approving spending at the state level can take many forms. In most states, however, the process is loosely modeled after that of the federal government.

Some states have enacted a **balanced budget amendment**—a constitutional amendment that requires that annual spending not exceed revenues. Under these conditions, states are forced to cut spending when state revenues drop. A reduction in revenues may occur if sales taxes or state income taxes fall because of a decline in the general level of economic activity.

At the local level, power to approve spending often rests with the mayor, the city council, the county judge, or some other elected representative or body. Generally, the amount of revenues collected from property taxes and other local sources limits the spending of local agencies. If state and local governments are unable to raise the revenue they need, they must deal with having inadequate resources to hire teachers, police officers, or other state and local workers.

State Government Expenditures

 The major types of state government expenditures are shown in **Figure 10.5**. Seven of the most important categories, accounting for nearly 80 percent of all state spending, are examined next.

The largest category of state spending is **intergovernmental expenditures**—funds that one level of government transfers to another level for spending. These funds come from state revenue sources such as sales taxes, and they are distributed to towns and other local communities to cover a variety of educational and municipal expenditures.


The second largest category of state expenditures is public welfare. These payments take the form of cash assistance, payments for medical care, spending to maintain welfare institutions, and other miscellaneous welfare expenditures.

Many states have their own retirement funds and insurance funds for state employees. Money in these funds is invested until such time as people retire, become unemployed, or are injured on the job. Contributions to these funds make this category a significant expenditure.

Generally a large category, higher education is a traditional responsibility of state governments with their networks of state colleges and universities. Local governments spend less in this area, usually to support community colleges and universities.

Highway construction and road improvement expenditures represent a significant portion of state expenditures. The federal government builds and maintains much of the interstate highway system, but states maintain state roads and other highways that generally link smaller communities with larger ones.

Local Government Expenditures

 Local governments include counties, municipalities, townships, school districts, and other special districts. The largest categories of spending by local governments include elementary and secondary education, utilities, hospitals, police protection, interest on debt, public welfare, and highways.

Local governments have primary responsibility for elementary and secondary education. Expenditures in this category include teachers' and administrators' salaries, textbooks, and construction and maintenance of school buildings. This category accounts for more than one-third of local government spending.

Many public utilities, such as water and sanitation, serve local needs. For most local governments,

Careers



Budget Analyst

Are you good at analyzing and comparing data? Budget analysts develop financial plans and provide technical advice about budgeting.

The Work

Budget analysts research, analyze, develop, and execute annual budgets. Working with managers and department heads, they seek new ways to improve a company's efficiency and increase profits. Reviewing financial requests, examining past and current budgets, and researching developments that can have an effect on spending are additional responsibilities.

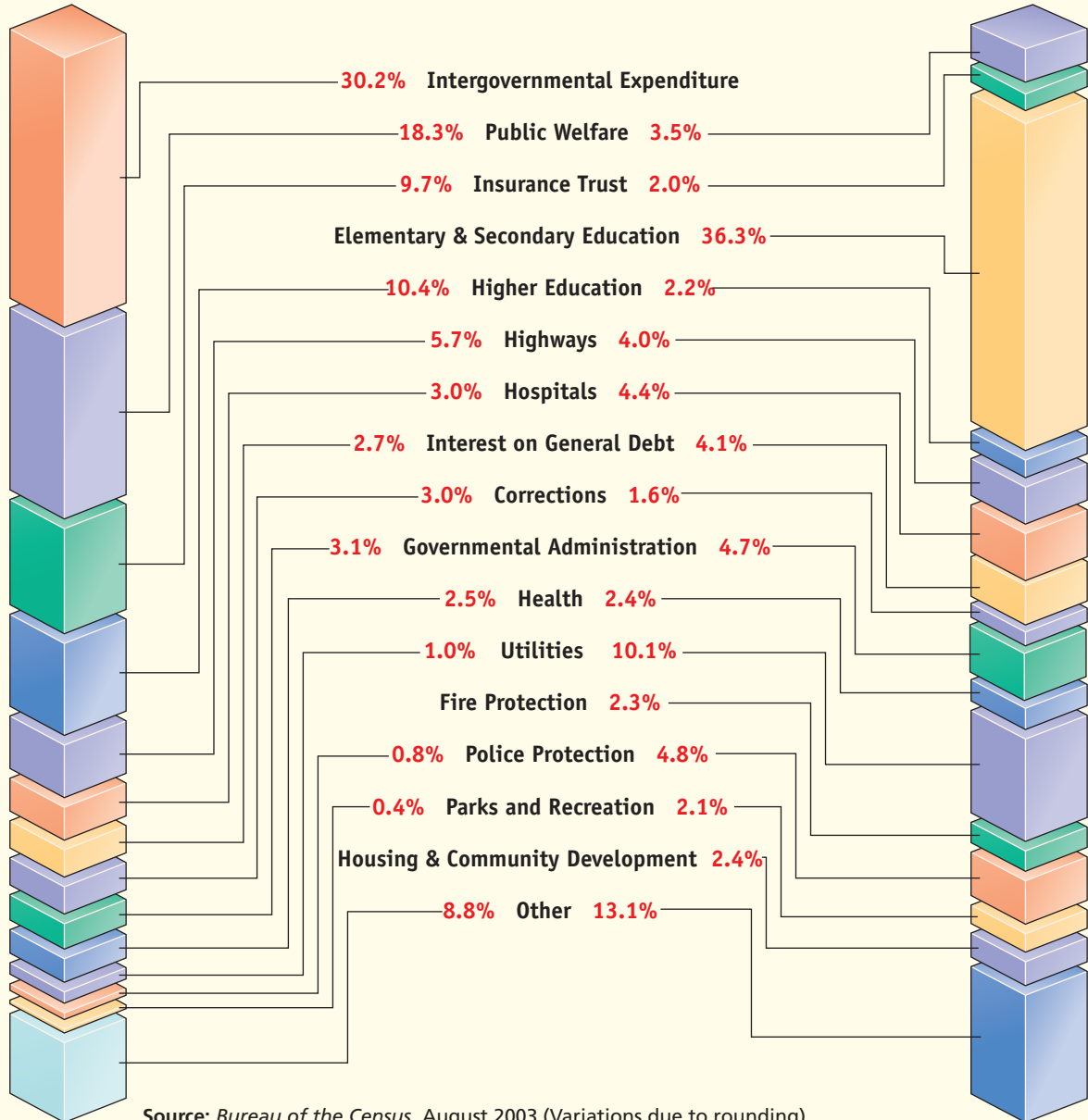
Qualifications

Budget analysts need strong analytical skills and must be knowledgeable in mathematics, statistics, and computer science. Because of their frequent interaction with others and the obligation to present budget proposals, budget analysts must possess strong oral and written communication skills.

Expenditures by State and Local Governments

State: \$1,084,097 million

Local: \$996,266 million



Source: Bureau of the Census, August 2003 (Variations due to rounding)

Using Graphs Education is the main expenditure for local government. What are the three largest spending categories for local governments? For state governments?



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spending on utilities amounts to the second most important expenditure.

Many hospitals receive some of their funding from local governments. Some hospitals are entirely city- or municipal-owned, which makes them a modest budget item for local governments.

Most localities have a full-time, paid police force to protect their community. As a result, police protection is a cost for local governments. Because there are far fewer state than local police forces, state spending for police protection is much lower.

State and local governments, like the federal government, often borrow money to cover capital expenditures for highways, universities, and even government buildings. As with the federal government, interest expenses vary as interest rates go up and down.

Local governments, like state governments, face public welfare expenditures. Local governments, however, spend much less than state governments on this category.

Local governments also spend money on highways, roads, and street repairs. This expenditure

Government Expenditures



Education Local government's largest spending category is primary and secondary education. *Which level of government has the major responsibility for higher education?*

category includes the repair of potholes, the installation and repair of street signs, snow removal, and other street-related items.

The remaining local government expenditures, approximately one-third of the total, are spread over a wide range of categories. Among the most important are housing and community development, fire protection, and parks and recreation.

Section 3 Assessment

Checking for Understanding

- 1. Main Idea** What are some services that state and local governments provide for in their budgets?
- 2. Key Terms** Define balanced budget amendment, intergovernmental expenditures.
- 3. Describe** how state governments handle the spending approval process.
- 4. List** seven major categories of state spending.
- 5. Identify** the seven major categories of local government spending.

Applying Economic Concepts

- 6. Human Capital** How does the market reward those who have invested in human capital—

the acquired skills of an individual in the areas of education, training, and work habits? Cite specific examples from your community to support your answer.

Critical Thinking

- 7. Finding the Main Idea** What is the purpose of a balanced budget amendment?
- 8. Making Generalizations** If you were to argue for reduced spending at the state and local levels, which categories shown in **Figure 10.5** would you choose to cut back? Explain the reasons for your choices.



Practice and assess key social studies skills with the *Glencoe Skillbuilder Interactive Workbook, Level 2*.

BusinessWeek

Newsclip

Creative students are finding new ways to gain the financing needed to attend the college of their choice. As you read the article, think about why it is important for students to explore many options as they plan for how to finance their college educations.

Dialing for Dollars

Jonathan Piper, 18, applied to nine top-notch colleges and got into them all. The Cleveland native scored in the 95th percentile on his SATs and managed a 3.9 average at prep school while playing baseball, singing lead in musicals, and participating in an engineering society. He's also an African American. But getting accepted was just the first step. Next came the money.

Last spring, Piper made call after call to college financial-aid officers. His soft-spoken pitch: "I have no idea what I want to do, and I want to see the best that each of you can offer me." University of Pennsylvania and Princeton University didn't move much, but Wake Forest University in Winston-Salem, N.C., raised its annual aid offer from \$8,000 to \$26,000. A freshman there now, Piper is studying poetry with Maya Angelou and has no regrets. "It would have cost me \$15,000 a year to go to Princeton, vs. nothing for Wake Forest," he says.

Colleges call it "dialing for dollars"—the time in March and April when parents and students phone them with better offers from other schools in hopes of coaxing more aid out of them. Rare a decade ago,

negotiating is now so much a part of the picture that some colleges openly encourage it, while others are quietly putting away aid dollars for maneuvering at season's end.

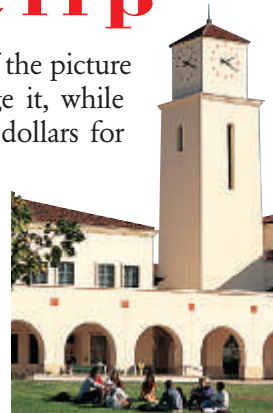
The result is that a classroom now resembles an airplane. Three people sitting side-by-side could be paying different prices, and economic need has less to do with it than savvy. Nationally, about half of all students receive assistance. . . .

It pays to be astute. Tuition and fees have risen 94% since 1989, nearly triple the 32.5% increase in inflation, according to the Bureau of Labor Statistics. The sticker price—tuition, fees, and room and board—for a year of undergraduate education ranges from \$33,000 at Ivy League schools down to \$10,500 at state universities. . . .

Cash-strapped students are . . . saving thousands by enrolling at a public college and later transferring to a private college or starting at a junior college (average tuition of \$1,500 a year) and moving on to a state university. . . .

Students are finding other creative ways to save. High school pupils who take advanced-placement courses can knock off several semesters of college. Some private colleges offer three-year bachelor's programs or five-year bachelor's-master's degrees. . . .

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Examining the Newsclip

- 1. Finding the Main Idea** What change does the writer discuss regarding financing college education?
- 2. Synthesizing Information** What methods are students using to decrease the cost of college?

Deficits, Surpluses, and The National Debt

Study Guide

Main Idea

Deficit spending has helped create a national debt.

Reading Strategy

Graphic Organizer As you read the section, describe the growth of the debt before and after 1970.



Key Terms

deficit spending, federal debt, balanced budget, trust fund, crowding-out effect, pay-as-you-go provision, line-item veto, spending cap, entitlement

Objectives

After studying this section, you will be able to:

1. **Explain** how the federal deficit is related to the federal debt.
2. **Relate** the impact of the federal debt on the economy.
3. **Describe** past attempts to eliminate the federal deficit.
4. **Describe** entitlements.

Applying Economic Concepts

Deficit Spending When the government must borrow money to spend, deficit spending occurs. Read to learn why American taxpayers must pay the interest on that borrowed money.

Cover Story

Report Warns of Chronic U.S. Deficits

The Bush administration has shelved a report commissioned by the Treasury that shows the US currently faces a future of chronic federal budget deficits totaling at least \$44.2 trillion.

But the Bush administration chose to keep the findings out of the annual budget report for fiscal year 2004, published in February, as the White House campaigned for a tax-cut package that critics claim will expand future deficits.

The study asserts that sharp tax increases, massive spending cuts or a painful mix of both are unavoidable if the US is to meet benefit promises to future generations.



The White House campaigned for more tax cuts.

—New York Times, May 29, 2003

In 1998 the federal budget had its first surplus in 29 years. The surplus did not last long, however, as the recession of 2001 reduced tax receipts while politicians simultaneously opted for tax cuts rather than debt reduction. By 2002, federal deficits were back.

From the Deficit to the Debt


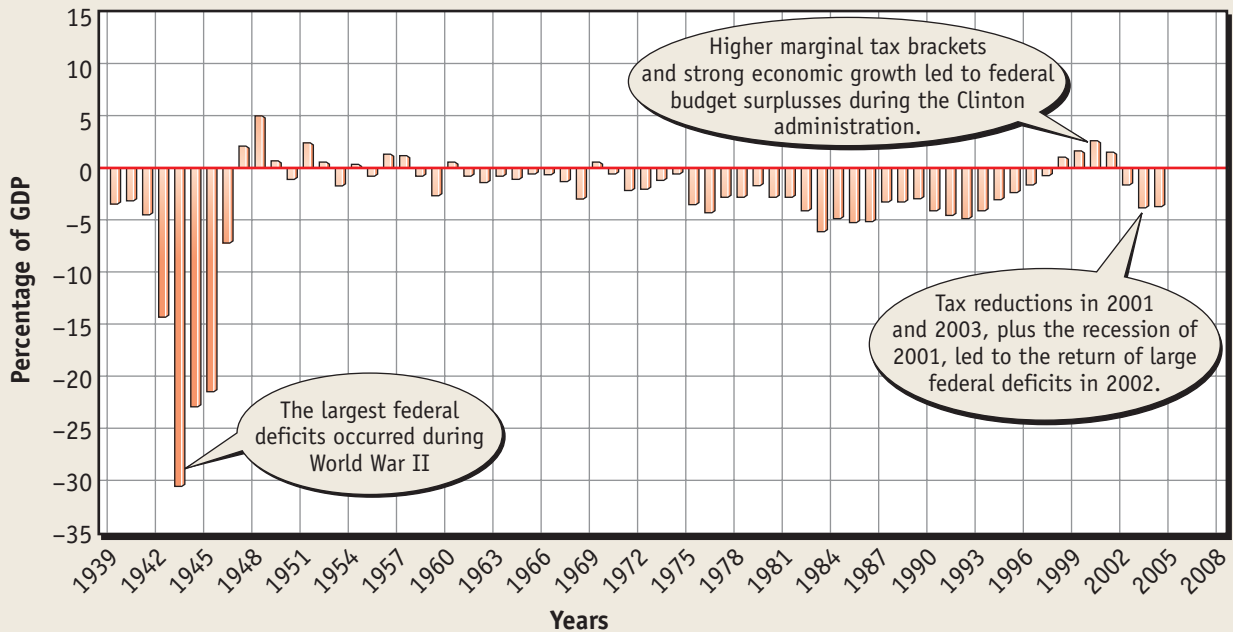
 Historically, the federal budget has been characterized by a remarkable amount of **deficit spending**—or spending in excess of revenues collected. Sometimes the government plans deficit spending. At other times, the government is forced to spend more than it collects because unexpected developments cause a drop in revenues or a rise in expenditures.

Figure 10.3 on page 262 shows that the government projected a \$307 billion deficit for fiscal year 2004. Budget projections are based partially on assumptions about the direction of the economy. If the economy has strong economic growth,

The Federal Deficit as a Percent of GDP



Source: Office of Management and Budget; Congressional Budget Office

Using Graphs Federal Deficits occur when the federal government spends more than it collects in revenues. **What caused the deficit to return in 2002?**

ECONOMICS
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the deficit could grow smaller. An upturn in the economy means more federal government revenues and a fall in expenditures such as unemployment compensation. **Figure 10.6** shows the history of federal budget deficits and surpluses since 1939. Percentages are used so that inflation does not distort year-to-year deficit comparisons.

Deficits Add to the Debt

When the federal government runs a deficit, it must finance the shortage of revenue by borrowing from others. It does this by having the Department of the Treasury sell bonds and other forms of government debt to the public. If we add up all outstanding federal bonds and other debt obligations, we have a measure of the **federal debt**—the total

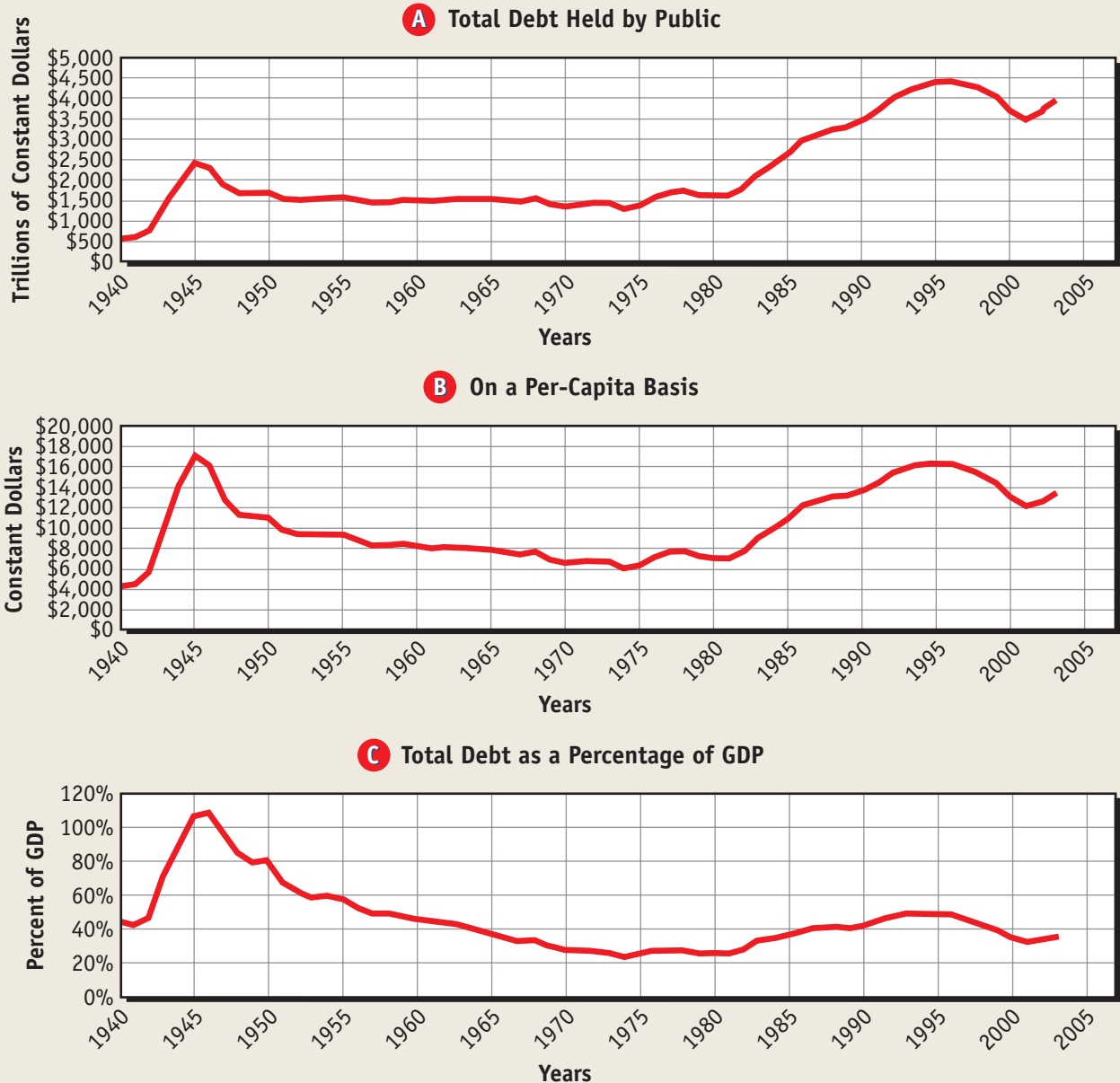
amount borrowed from investors to finance the government's deficit spending.

The debt grows whenever the government spends more than it collects in revenues. If the federal government attains a **balanced budget**—an annual budget in which expenditures equal revenues—the federal debt will not change. If the federal budget generates a surplus, the federal debt will become smaller.

How Big Is the Debt?

The national debt has grown almost continuously since 1900, when the debt was \$1.3 billion. By 1929 it had reached \$16.9 billion, and by 1940 it was \$50.7 billion. By mid-2003 the total federal debt was about \$6,740 billion—or \$6.74 trillion.

Three Views of the Federal Debt



Source: Economic Report of the President and Budget of the United States Government, various years

Using Graphs All three graphs show the total debt held by the public in inflation-adjusted terms. Panel A shows the debt. Panel B shows the total debt on a per-capita basis. Panel C shows the debt as a percentage of Gross Domestic Product. **What has happened to the size of the federal debt since 2001?**

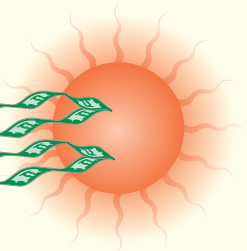
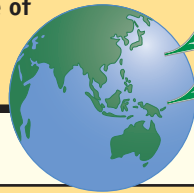
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How Big Is the Public Debt?

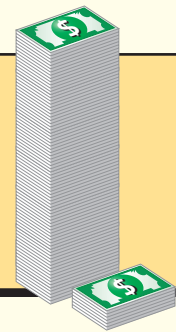
A \$1 bill is about 6 inches (15.2cm) long. If 3.9 trillion of these bills were laid end to end, they would form a chain 370 million miles (596 km) long—nearly enough to stretch from the surface of the earth to the surface of the sun and back—twice!



Or, suppose you had \$3.9 trillion. If each \$1 bill were counted 24 hours a day at the rate of one per second, it would take more than 123,630 years to count them all. At an average life expectancy of 70 years, that is about 1,766 lifetimes!



Or, a stack of \$1,000 bills 4 inches (10 cm) high would make you a millionaire. A \$3.9 trillion national debt represents a stack of \$1,000 bills 246 miles (396 km) high!



Using Charts The publicly held portion of the federal debt was \$3.9 trillion in 2003. The total federal debt in that year was about \$2.8 trillion higher, so the total debt amounted to \$6.7 trillion. **Why do economists regard the public portion of the federal debt as the economically relevant part of the debt?**

Some of this debt is money that the government owes to itself. In 2003 approximately \$2.8 trillion of this debt was held in government **trust funds**—special accounts used to fund specific types of expenditures such as Social Security and Medicare. When the government collects the FICA or payroll tax, it puts the revenues in these trust accounts. The money is then invested in government securities until it is paid out.

Because trust fund balances represent money the government owes to itself, most economists tend to disregard this portion of the debt. Instead, they view the public portion of the debt—which amounted to \$3.9 trillion in 2003—as the economically relevant part of the debt. **Figure 10.7** presents three views of the total federal debt held by the public. **Panel A**, which is adjusted for inflation, shows that the debt did not increase dramatically until the 1980s. **Panel B**, computed on a per capita basis, also shows a dramatic increase in the 1980s.

According to this view, the debt on a per capita basis was approximately \$13,400 by mid-2003.

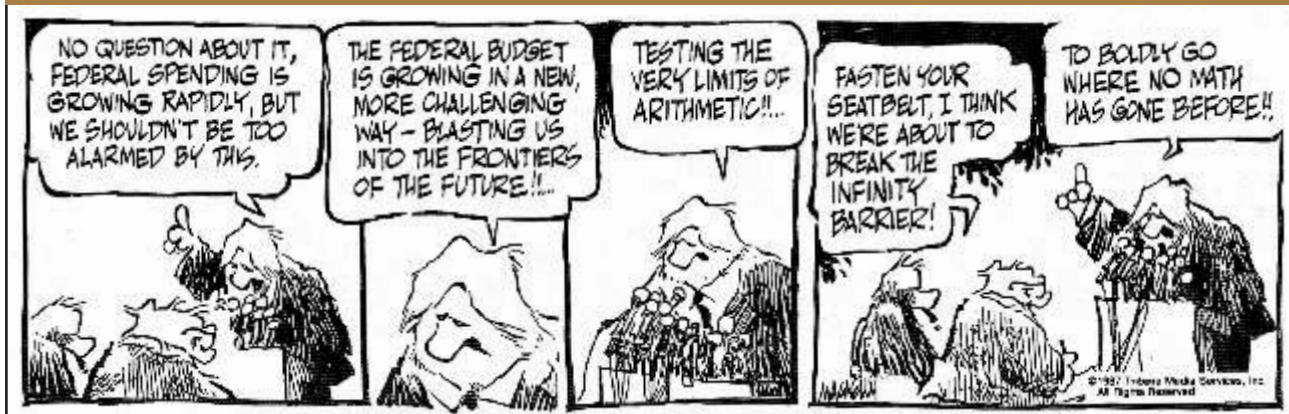
Panel C shows the debt as a percentage of Gross Domestic Product (GDP)—the dollar value of all final goods, services, and structures (houses and commercial buildings) produced within a country during any one year. The debt peaked in 1946. By 2003 it was about 36 percent.

Public vs. Private Debt

How does the federal debt differ from private debt? A key difference is that we owe most of the federal debt to ourselves—whereas private debt is owed to others. The federal debt is also different from private debt in other ways.

One difference is repayment. When private citizens borrow money, they usually make plans to repay the debt by a specific date. When the federal

Federal Debt




Effects In the 1990s the federal debt surpassed \$5 trillion. *How does the federal debt impact the economy?*

government borrows, it gives little thought to eventual repayment because it simply issues new bonds and uses the proceeds to pay off the old bonds.

Another difference has to do with purchasing power. When private individuals repay a debt, they give up purchasing power. They no longer have that money and so it cannot be used to buy more goods and services. When the federal government repays a debt, there is no loss of purchasing power because the taxes and revenue collected from some groups are simply transferred to others. The exception is 15 to 20 percent of the public debt owned by foreigners. When payments are made to investors outside the United States, some purchasing power is temporarily diverted from the American economy.

Impact of the National Debt

 Even though we owe most of the federal debt to ourselves, it still affects the economy in ways that can harm the private sector.

The federal debt can have a significant impact on the distribution of income within the economy. If the government borrows money from the wealthy, and if the burden of taxes falls on the middle class and the poor, taxes would be transferred to the rich in the form of interest payments on the debt.

If the government borrows money from the middle class, and if the burden of taxes falls on the rich,

those taxes would be used to make interest payments to the middle class. The federal tax structure, as much as the size of the debt itself, determines the distribution effects. Given the current progressive nature of the personal income tax, less is taken from the lower and middle income classes than would be the case under a less progressive, or flat tax.

Another consequence of the federal debt is that it causes a transfer of purchasing power from the private sector to the public sector. In general, the larger the public debt, the larger the interest payments and, therefore, the more taxes needed to pay them. When people pay more taxes to the government, they have less money to spend on their own needs.

A third impact is that the taxes needed to pay the interest can reduce the incentives to work, save, and invest. Individuals and businesses might feel

STANDARD & POOR'S INFOBYTE

Budget Deficits A deficit can be a negative catalyst in an economy. Some economists, however, will advocate deficit spending under certain conditions, such as a government spending its way out of a recession.


less inclined to work harder and earn extra income if higher taxes are placed on them.

Some people feel that the government spends taxpayers' money in a careless manner. A community, for example, may secure a federal grant to purchase expensive equipment that taxpayers in the community would never have approved. If people feel that their taxes are being squandered, they may have a reduced incentive to work.

When the government sells bonds to borrow money, it competes with the private sector for scarce resources. An example of this competition is the **crowding-out effect**—the higher-than-normal interest rates that heavy government borrowing causes.

This effect is illustrated in **Figure 10.9**. If the government runs a deficit and tries to raise funds by selling bonds, it will cause the interest rate paid by private borrowers to go up.

Taming the Deficit

 Concern over the size of the federal deficit and the debt has led to a number of attempts to control it. Several of the more important attempts are described below.

Gramm-Rudman-Hollings

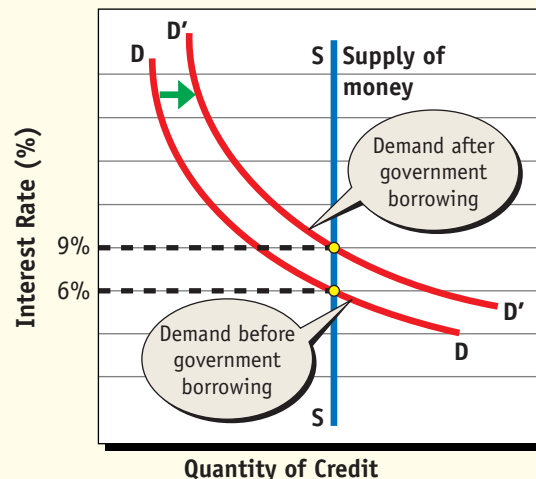
One of the first significant attempts to control the federal deficit took place when Congress tried to mandate a balanced budget by 1991. The legislation was formally called the Balanced Budget and Emergency Deficit Control Act of 1985, or Gramm-Rudman-Hollings (GRH) after its sponsors.

The key to GRH was to set federal deficit targets for Congress and the president to meet over a six-year period—targets that resulted in a zero deficit by 1991. Despite high hopes, GRH failed for two reasons. First, Congress discovered that it could get around the law by passing spending bills that took effect two or three years later. Second, the economy started to decline in July 1990—triggering a safety valve in the law that suspended automatic cuts when the economy was weak.

Budget Enforcement Act of 1990

In an effort to control future budgetary action, Congress passed the Budget Enforcement Act

The Crowding-Out Effect Caused by Federal Spending



Using Graphs Crowding out affects the allocation of resources in the economy. **What happens to the interest rate when deficit spending increases?**

(BEA) in 1990. The BEA's main feature is a **“pay-as-you-go” provision**—a requirement that new spending proposals or tax cuts must be offset by reductions elsewhere. If no agreement on the reductions is reached, then automatic, across-the-board spending cuts are to be instituted.

The BEA also has limitations. For one, it applies only to discretionary spending. For another, the act can be suspended if the economy enters a low-growth phase or if the president declares an emergency.

Omnibus Budget Reconciliation Act of 1993

President Clinton's Omnibus Budget Reconciliation Act of 1993 was an attempt to trim \$500 billion from the deficit over a five-year period. By 1993 the federal deficit had reached such enormous proportions that the act was intended to reduce only the rate of growth of the deficit, not the deficit itself.

The act featured a combination of spending reductions and tax increases that made the individual income tax more progressive—especially for the wealthiest 1.2 percent of taxpayers.

Balanced Budget Agreement of 1997

Congress gave the president a **line-item veto**—the power to cancel specific budget items without rejecting the entire budget—in 1996, but the Supreme Court declared it unconstitutional. This was followed by the Balanced Budget Agreement of 1997, which featured rigid **spending caps**—legal limits on annual discretionary spending—to assure that Congress balanced the budget by 2002.

Like many bills in Congress, however, most of the painful consequences of the cap would arise in later years rather than right away. Also, the caps required politically unpopular cuts in many programs like health, science, and education.

Success—then Failure

After 29 consecutive years of budget deficits, the United States government finally achieved the 1998 budget surplus shown in **Figure 10.6**. There were two reasons for this. First, a strong economy led to record tax collections. Second, previous efforts to control the deficit led to a reduced rate of federal

spending. The budget surpluses were even projected to last until 2010 if the economy remained healthy and if federal spending was contained.

Unfortunately, neither happened. First, the 2001 recession reduced the amount of tax receipts the government collected from individuals and businesses. Second, the terrorist attack on the World Trade Center in the same year led to more government spending on homeland security, as well as spending for the wars in Afghanistan and Iraq. As a result, record federal budget deficits returned in 2002 and 2003.

In addition, the federal government still faces the rapid growth of **entitlements**—broad social programs that use established eligibility requirements to provide health, nutritional, or income supplements to individuals. These programs are called *entitlements* because people are entitled to draw benefits if they meet the eligibility requirements. While entitlements make most of the “mandatory” federal budget spending, Congress can still revise them. The problem for Congress is that it will be difficult to cut these popular programs.

As we saw in the cover story, massive federal deficits are all but certain to occur by 2010. If this happens, control of the federal budget deficit will again become a major political priority.

Section 4 Assessment

Checking for Understanding

- 1. Main Idea** What is the difference between the federal debt and the federal deficit?
- 2. Key Terms** Define deficit spending, federal debt, balanced budget, trust fund, crowding-out effect, pay-as-you-go provision, line-item veto, spending cap, entitlement.
- 3. Describe** how the federal deficit affects the debt.
- 4. List** five ways the national debt can affect the economy.
- 5. Identify** four recent attempts to bring the federal deficit under control.
- 6. Identify** three entitlement programs.

Applying Economic Concepts

- 7. Deficit Spending** Identify those benefits that are directly related to entitlement programs. If you were given the task of reducing entitlement programs, which ones would you select to reduce or alter? Provide reasons for your choices.

Critical Thinking

- 8. Making Generalizations** Make a list of five ways that you or your family directly benefit from federal government expenditures.
- 9. Understanding Cause and Effect** How can the federal debt affect worker incentive?



Practice and assess key social studies skills with the *Glencoe Skillbuilder Interactive Workbook, Level 2*.

Chapter 10 Summary

Section 1

The Economics of Government Spending (pages 255–258)

- Government spending takes the form of expenditures on goods and services, most of which are public goods, and on **transfer payments** such as **grants-in-aid** for which the government receives nothing in return.
- Government spending influences the **private sector** by affecting the allocation of resources, the **distribution of income**, and by competing with the private sector for scarce resources.



Section 3

State and Local Government Expenditures (pages 267–270)

- State budgets go through an approval process that varies from state to state. The largest state spending categories are intergovernmental expenditures, public welfare, insurance trust, and higher education. Others include highways, hospitals, and interest on state debt.
- The largest single category of spending for local governments is elementary and secondary education. Public utilities, hospitals, police protection, interest on debt, public welfare, and highways follow.

Section 4

Deficits, Surpluses, and the National Debt (pages 272–278)

- Federal budget deficits existed from 1970 until 1998 when the budget finally had a surplus.
- Deficits add to the **federal debt**, and the total debt amounted to \$5.7 trillion in fiscal year 2001, approximately \$3.3 trillion of which is held by the public.
- The debt affects the economy in several ways: Taxes are needed to pay the interest on the debt; the **distribution of income** is altered; purchasing power is transferred from the **private sector** to the **public sector**; and incentives to work, save, and invest may also be altered.
- Despite recent budget surpluses, the overall federal budget would show a deficit if not for the surpluses in the Social Security Trust Fund.
- The rapid growth of **entitlements** are still a threat to future budget surpluses.



Section 2

Federal Government Expenditures

(pages 260–265)

- The president is responsible for developing the **federal budget** for the **fiscal year**, which begins on October 1. When the budget is complete, the budget is sent to the House of Representatives.
- The House only deals with **discretionary spending**. **Mandatory spending** is not part of the annual budget process, although Congress can deal with it separately.
- Discretionary spending is broken down for action by various committees that propose **appropriations bills**. The budget is reassembled and voted on by the House and the Senate.
- If differences between the House and the Senate emerge, a compromise bill is developed on which both vote.
- The largest components of the federal budget are Social Security, national defense, income security, medicare, net interest on the federal debt, and health.

Chapter 10 Assessment and Activities

ECONOMICS Online



Self-Check Quiz Visit the *Economics: Principles and Practices* Web site at epp.glencoe.com and click on **Chapter 10—Self-Check Quizzes** to prepare for the chapter test.

CLICK HERE

Reviewing Key Terms

Write a sentence about each pair of terms below. The sentences should show how the terms are related.

1. public sector, private sector
2. transfer payment, grant-in-aid
3. distribution of income, deficit spending
4. federal budget, fiscal year
5. appropriations bill, balanced budget amendment
6. deficit spending, federal debt
7. deficit spending, crowding-out effect
8. entitlement, balanced budget
9. mandatory spending, discretionary spending
10. spending cap, federal budget deficit

Reviewing the Facts

Section 1 (pages 255–258)

1. **Describe** the growth of government spending since 1940.
2. **Identify** two kinds of government spending.
3. **Explain** three ways that government spending can impact the economy.

Section 2 (pages 260–265)

4. **Identify** the three stages of approval required to establish the federal budget.
5. **Identify** nine of the most important budget categories in the federal budget.

Section 3 (pages 267–270)

6. **Explain** how states model their budget approval process.
7. **Describe** three major categories of state spending.
8. **Describe** three major categories of local spending.

Section 4 (pages 272–278)

9. **Discuss** the relationship of the federal deficit to the federal debt.
10. **Describe** how the debt can affect the economy.
11. **List** four legislative attempts to deal with the problem of federal budget deficits.
12. **Cite** at least six examples of entitlement programs.
13. **Explain** why entitlements are so named.

Thinking Critically

1. **Classifying Information** Examine the major types of federal expenditures in **Figure 10.3** on page 262. Classify each as to whether they are entitlement or non-entitlement programs. Use a chart like the one below to answer the question.

Program	Entitlement	Non-Entitlement

2. **Making Comparisons** Compare the federal expenditures for the three years included in **Figure 10.4**. Identify at least three major differences in the expenditures. How do changes in spending reflect the priorities of the administration that develops the budget?

Applying Economic Concepts

- 1. Human Capital** Which of the categories in **Figure 10.4** reflect an investment in human capital?
- 2. Deficit Spending** If you were a presidential adviser, what spending cuts would you suggest to balance the budget? Explain your reasoning.
- 3. Budget Deficits** The federal government has made several attempts to deal with the problem of federal budget deficits. Identify three of the pieces of legislation discussed in the chapter, and outline their main features and weaknesses in a chart similar to the one below.

A.	_____
1.	Features
2.	Weaknesses
B.	_____
1.	Features
2.	Weaknesses
C.	_____
1.	Features
2.	Weaknesses

Math Practice

A neighbor spent \$20,000 a year for 10 years and had an annual income of \$15,000 during this period. What is the neighbor's total debt?

Thinking Like an Economist

An economist likes to think in terms of trade-offs and opportunity costs. If you wanted to make changes to a balanced budget in any given year, what would be the opportunity cost of lowering taxes? Of increasing discretionary spending?

Technology Skill

Using a Spreadsheet Review the information on using a spreadsheet on page 29. If you need additional assistance to help you get started, read the information on page 349. Using the Internet, select one of the states of the United States and download or print its state budget. Using this information, create a spreadsheet to record and analyze the following categories.

- Name of State
- Budget Total
- Public Welfare
- Higher Education
- Insurance Contributions
- Highways
- Hospitals
- Interest on State Debt

Enter the information from the state's budget into the spreadsheet.

After entering the information, create a graph for the state's expenditures. What conclusions can you draw from your data? Where is the most money allocated? Compare the data for the state you are analyzing to **Figure 10.5**, which shows expenditures by all the states. Would you consider that state typical or atypical in where it spends its funds? Using a word processor, create a brief summary of your findings. Import your spreadsheet and graphs into the document. Print your results and share them with the class.

Building Skills

Using E-Mail Locate a Web site for your state's government on the Internet. Find out about current bills that your state legislature is considering. Using E-mail, compose a letter to your legislator requesting his or her opinion about current bills of interest to you that are being considered.



Practice and assess key social studies skills with the *Glencoe Skillbuilder Interactive Workbook, Level 2*.

*A Case Study:***PROTECTING THE ENVIRONMENT:
IS ENOUGH BEING DONE?**

One of the sharpest debates of the last three decades has been over the state of the environment. Squaring off are business interests, who often view environmental regulations as unnecessary and costly, and environmental groups, who see such regulations as key to saving the planet.

Many analysts maintain that the earth is fragile, and that current economic activities are on the verge of damaging the planet in a fundamental way. Other analysts argue that economic activity always involves the exploitation of natural resources, resulting in some environmental impact. That impact, they claim, is negligible, especially in view of the many benefits of a thriving economy.

**Who's right? As you read the selections, ask yourself:
Is current economic activity putting the earth at risk?**



The World Environment Is Threatened

For us, the key limits [in the] twenty-first century are fresh water, forests, rangelands, oceanic fisheries, biological diversity, and the global atmosphere. Will we recognize the world's natural limits and adjust our economies accordingly, or will we proceed to expand our ecological footprint until it is too late to turn back? Are we headed for a world in which accelerating change outstrips our management capacity, overwhelms our political institutions, and leads to extensive breakdown of the ecological systems on which the economy depends? . . .

As world water use has tripled since mid-century, overpumping has led to falling water tables on every continent. . . .

Since mid-century, the demand for lumber has doubled, that for fuelwood has nearly tripled, while paper use has gone up nearly six times. In addition,

forestlands are being cleared for slash-and-burn farming by expanding populations and for commercial crop production and livestock grazing. . . .

[In] just the last half-century the oceanic fish catch increased nearly five times, doubling seafood availability per person for the world as a whole. [But] 11 of the world's 15 most important fishing areas and 70 percent of the major fish species are either fully or overexploited. . . .

[A]s with fisheries, overgrazing [of rangeland] is now the rule, not the exception. . . . Yet another of our basic support systems is being overwhelmed by continuously expanding human needs.

Perhaps the best single indicator of the earth's health is the declining number of species with which we share the planet. . . . [We] are now in the early stages of the greatest decimation of plant and animal life in 65 million years. . . .

Even in a high-tech information age, human societies cannot continue to prosper while the natural world is progressively degraded.

—Lester R. Brown and Christopher Flavin,
Worldwatch Institute



The American Environment Is Improving

Twenty-five years ago, only one-third of America's lakes and rivers were safe for fishing and swimming; today two-thirds are, and the proportion continues to rise. Annual wetlands loss has fallen by 80 percent in the same period, while soil losses to agricultural runoff have been almost cut in half. Total American water consumption has declined nine percent in the past 15 years, even as the population expands. . . . Since 1970, smog has declined by about a third, even as the number of cars has increased by half; acid rain has fallen by 40 percent; airborne soot particles are down 69 percent, which is why big cities have blue skies again. . . . [Emissions] of CFCs, which deplete stratospheric ozone, have all but ended.

Other environmental measures are almost uniformly positive. Toxic emissions by industry declined 46 percent from 1988 to 1996, even as petrochemical manufacturers enjoyed record U.S. production and copious profits. . . . The forested acreage of the United States is expanding, with wildlife numbers up in most areas. . . . Since the Endangered Species Act was passed, only a few U.S. species have fallen extinct, not the thousands predicted, while species such as the bald eagle, gray whale, and peregrine falcon have recovered enough to no longer require full legal protection. Only two major U.S. environmental gauges are now negative: continuing inaction against greenhouse gases and continuing loss of wildlife habitats to urban expansion.



An important conceptual lesson is being learned: When pollution stops, natural recovery does not require ponderous geological time. . . .

[T]echnology has (for the moment, at least) entered a relatively benign phase in which products and industrial processes consume steadily fewer resources and produce steadily less waste. . . .

Because the character of environmental progress is nonideological—reflecting well both on federal initiatives and on business—neither political camp knows how to extol what's happened. That no interest group sees itself as benefiting from public awareness of environmental success . . . [has] the effect of preventing commentators and voters from focusing on the locus of the real environmental emergencies—the developing world.

—Gregg Easterbrook, social issues analyst

Analyzing the Issue

1. What "important conceptual lesson" does Easterbrook refer to? How might this impact Brown and Flavin's argument?
2. Do the two selections address the same issues? Explain.
3. On what issue might Brown and Flavin agree with Easterbrook?