



AP Macro Unit 5.4: Government Deficits and the National Debt

Presenter



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What is expected (from AP CED)

LEARNING OBJECTIVE

POL-3.B

- a. Define the government budget surplus (deficit) and national debt.
- b. Explain the issues involved with the burden of the national debt.

ESSENTIAL KNOWLEDGE

POL-3.B.1

The government budget surplus (deficit) is the difference between tax revenues and government purchases plus transfer payments in a given year.

POL-3.B.2

A government adds to the national debt when it runs a budget deficit.

POL-3.B.3

A government must pay interest on its accumulated debt, thus increasing the national debt and increasingly forgoing using those funds for alternative uses. [See also LO POL-3.C on crowding out.]

Foundational Content - Definitions

Federal Government budget = the plan to spend the revenue collected by the federal government

REVENUE

Income for the Federal Government (primarily taxes)



EXPENDITURES

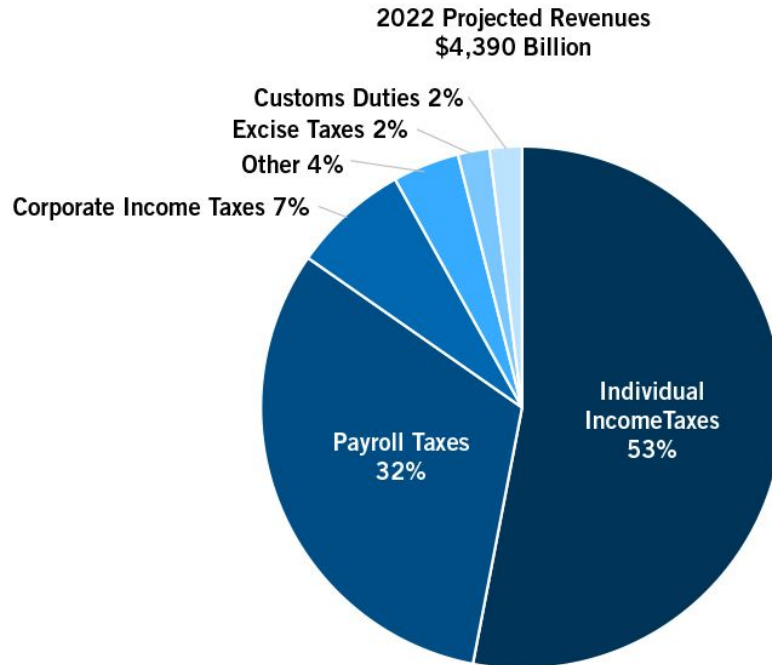
Money *spent* by the federal government (spending)



Revenues are mainly “taxes” in AP



The federal government collects revenues from a variety of sources



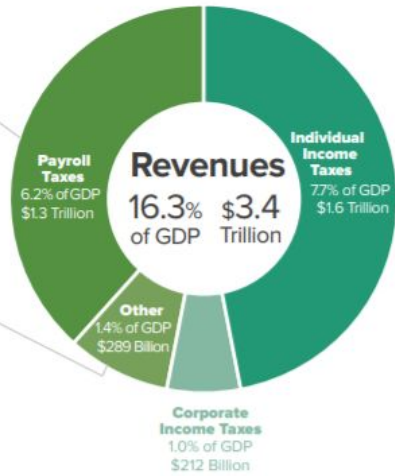
SOURCE: Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2021 to 2031*, July 2021.
NOTE: Other includes estate and gift taxes, income from the Federal Reserve, and miscellaneous fees and fines.

2020

THE FEDERAL BUDGET IN FISCAL YEAR 2020

Taxes that fund social insurance programs, primarily Social Security and Medicare's Hospital Insurance program

Excise taxes, estate and gift taxes, customs duties, remittances from the Federal Reserve, and miscellaneous fees and fines



Mandatory Spending
21.8% of GDP
\$4.6 Trillion

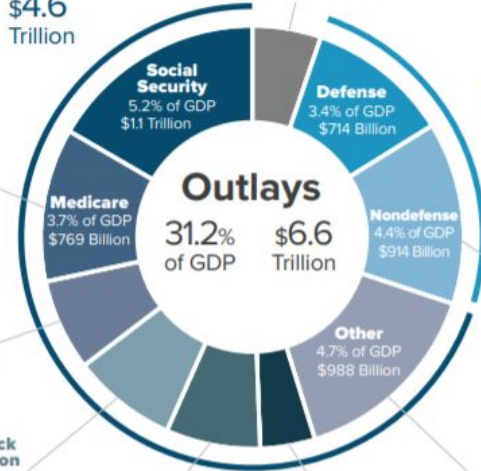
Net Interest
1.6% of GDP
\$345 Billion

Discretionary Spending
7.8% of GDP
\$1.6 Trillion

Outlays for Medicare minus income from premiums and other offsetting receipts

Outlays for many programs related to health, transportation, education, veterans' benefits, housing assistance, and other activities

Outlays for federal civilian and military retirement, some veterans' benefits, the earned income and child tax credits, the Supplemental Nutrition Assistance Program, and other mandatory programs, minus income from offsetting receipts



3 possible outcomes...know your vocab

BALANCED

- Expenditures equal revenues

SURPLUS

- Expenditures are **LESS THAN** revenues

DEFICIT

- Expenditures are **MORE THAN** revenues

DEBT

- The TOTAL amount of money owed over time, including all previous surpluses and deficits

Econ Express Practice

Econexpress.org

Concept 35

<https://www.gpb.org/education/econ-express/federal-deficits-surpluses-debt>

For each year, click on the correct outcome on the budget and federal debt. Assume all surpluses will be used to pay down debt.

1 — 2 — 3 — 4 — 5 — 6

◀ Year One ▶

	Tax Revenues \$20,000,000.00	Government Spending \$28,000,000.00
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Effect on Budget:

<input type="button" value="Balanced"/>	<input type="button" value="Deficit"/>	<input type="button" value="Surplus"/>
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Effect on Federal Debt:

<input type="button" value="Increase Debt"/>	<input type="button" value="Decrease Debt"/>	<input type="button" value="No Change"/>
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SUBMIT ANSWERS

Using the US Debt Clock



US Debt Clock.org

State Debt Clocks

World Debt Clocks



US NATIONAL DEBT

\$30,517,634,431,447

DEBT PER CITIZEN

\$91,618

DEBT PER TAXPAYER

\$242,985

US FEDERAL SPENDING (OFFICIAL)

\$6,131,738,599,313

US FEDERAL BUDGET DEFICIT (OFFICIAL)

\$1,898,594,442,101

US FEDERAL SPENDING (ACTUAL)

\$6,207,682,381,596

US FEDERAL BUDGET DEFICIT (ACTUAL)

\$1,974,538,224,664

US FEDERAL DEBT TO GDP RATIO

1960 • **52.78%** 1980 • **34.60%** 2000 • **57.56%** NOW • **129.40%**

US FEDERAL TAX REVENUE

\$4,233,144,157,212

REVENUE PER CITIZEN

\$12,715

INCOME TAX REVENUE

\$2,440,601,000

TOTAL STATE REVENUE

\$2,224,923,606,255

TOTAL LOCAL REVENUE

\$1,529,093,529,846

CORPORATE TAX REVENUE

\$379,700,000,000

STATE DEBT

\$1,211,414,181,245

DEBT PER CITIZEN

\$3,639

LOCAL GOVT DEBT

\$2,060,700,000,000

US GROSS DOMESTIC PRODUCT

\$23,584,594,346,303

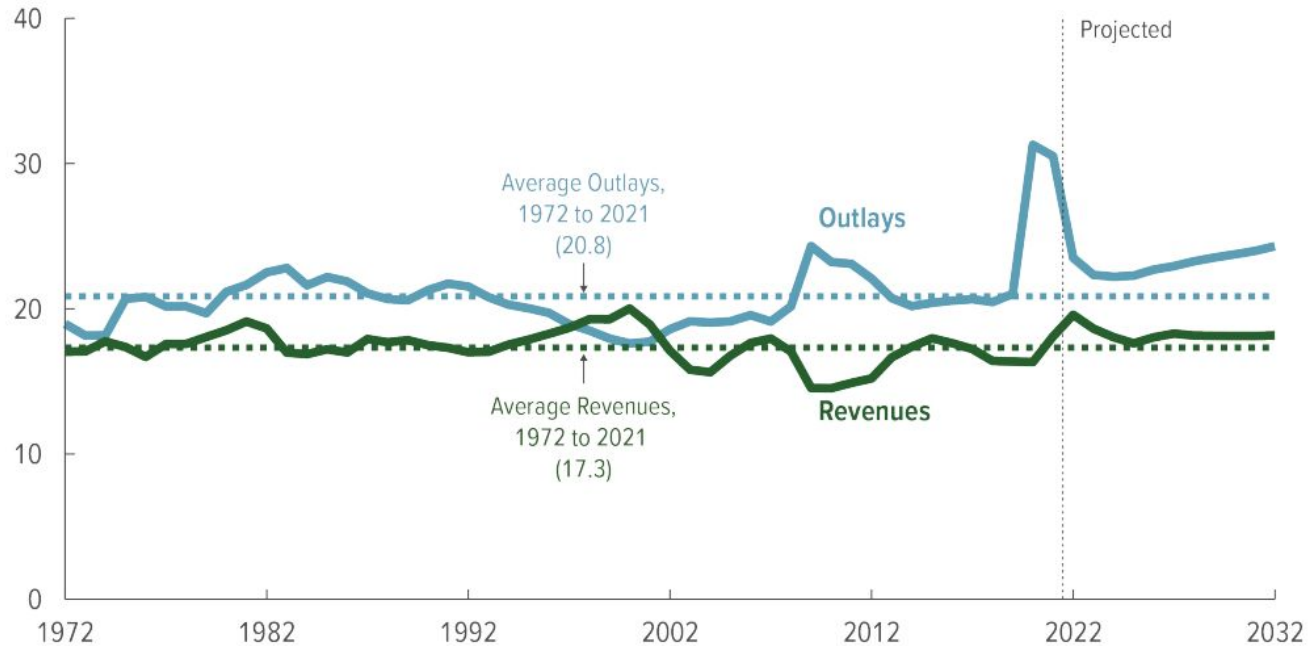
TOTAL FEDERAL/STATE/LOCAL SPENDING

\$9,463,044,914,822

Historically?

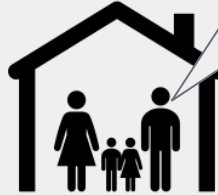
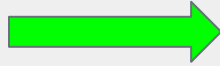
Total Outlays and Revenues

Percentage of Gross Domestic Product

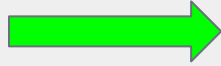


But how can the government spend more than it takes in?

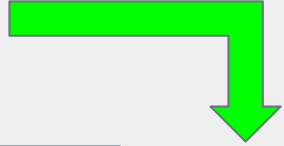
We need \$100.



We have \$100 in our savings account.



Can we borrow it? We'll pay you interest and we promise we'll return it in 10 years.



How do we know we can trust you?



We'll put in writing and issue you a bond.



OK, here is the \$100

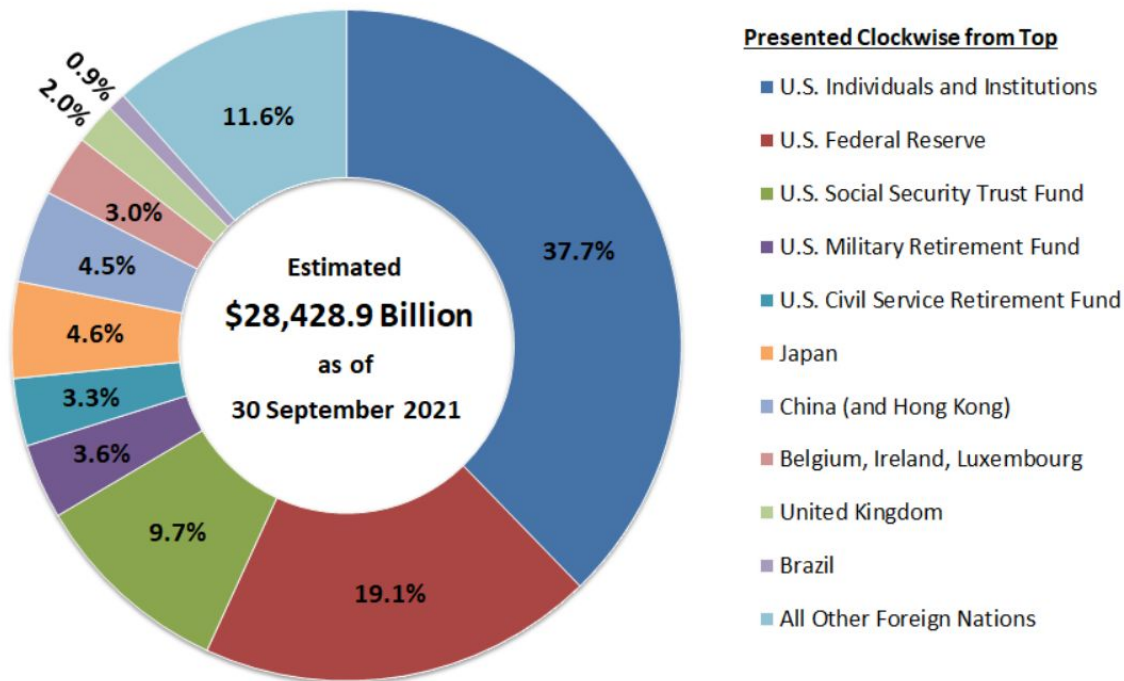


Thanks! Here is your \$100 bond that will pay 3% for 10 years. If you need your \$100 back before then you can sell this on the bond market.



Who holds this US Government Debt?

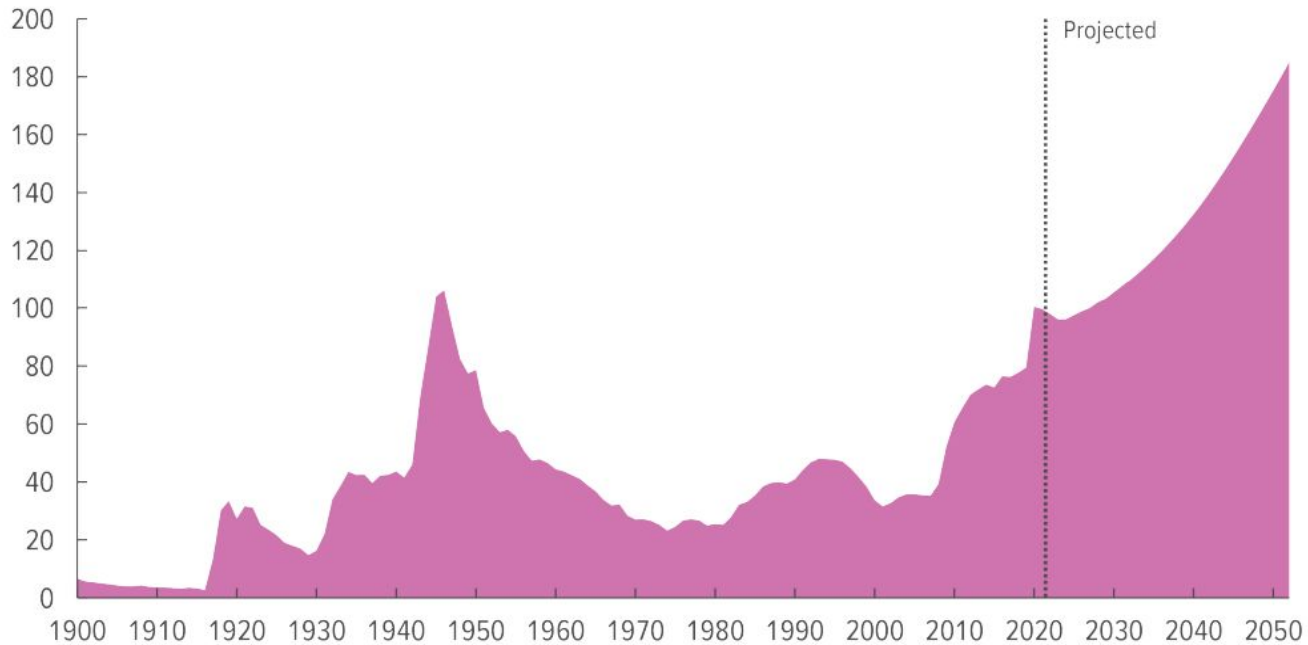
September 2021 (First Estimate): To Whom Does the U.S. Government Owe Money?



We've been cool with this for a while

Federal Debt Held by the Public, 1900 to 2052

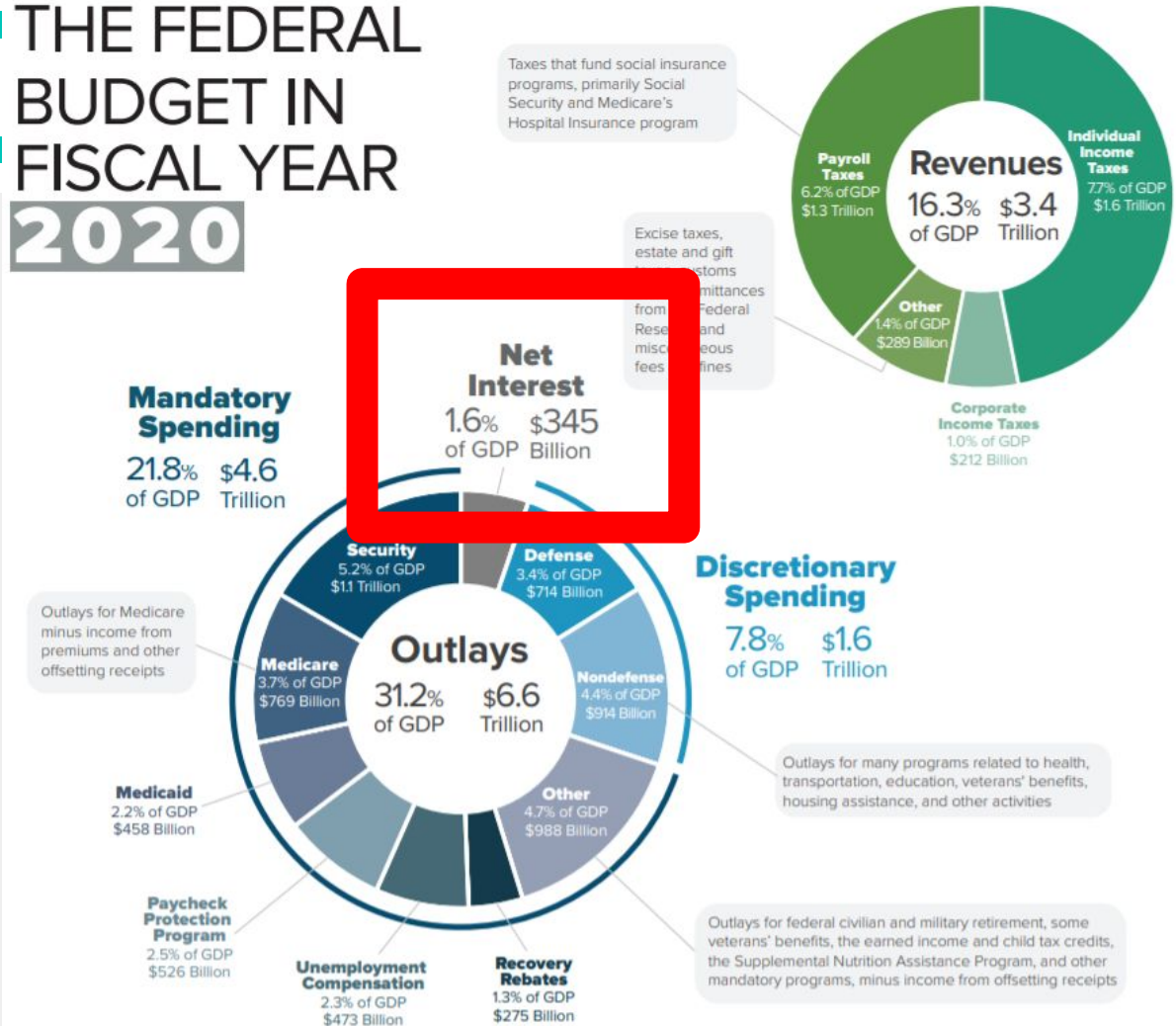
Percentage of Gross Domestic Product



Interest

- In theory, the Government could do this as long as someone was willing to lend money
- In practice, there is a huge opportunity cost

THE FEDERAL BUDGET IN FISCAL YEAR 2020



392 BILLION

Amount spent on interest in 2021

Federal Government Department Budgets

	State	July 27, 1789	69,000 13,000 Foreign Service 11,000 Civil Service 45,000 local	\$52.505 billion (2020)
	Treasury	September 2, 1789	86,049 (2014)	\$16.55 billion (2021)
	Defense	September 18, 1947	2.86 million	\$716 billion (2021)
	Justice	July 1, 1870	113,543 (2012)	\$33.2 billion (2021)
	Interior	March 3, 1849	70,003 (2012)	\$21.55 billion (2021)
	Agriculture	May 15, 1862	105,778 (June 2007)	\$151 billion (2021)

So, how do we fix it? (Hint...it's really hard)

GRADE 9-12, LESSON

Federal Budget: The Fiscal Ship Game

Time: 90 mins, Updated: April 24 2019, Author: [joelmiller Miller](#), [Elizabeth Healy](#)

 [TEACHER VERSION](#)

[Objective](#)[Standards](#)[Summary](#)[Procedure](#)[Assessment](#)[Extension](#)[Resources](#)[☆ SAVE](#)

Objective

Students will be able to:

- Analyze the economic and political impact of different fiscal policy strategies.
- Apply their selected fiscal policy goals.
- Understand the implications of their policy choices on the national debt.

Fiscal Ship - <http://fiscalship.org/>

THE FISCAL SHIP

NEW GAME

LOAD GAME

ABOUT + FAQ

COMPARE PLANS

DEMO

Presented By:

 Hutchins Center
on Fiscal & Monetary Policy
at BROOKINGS

 Wilson
Center

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 RESOURCES FOR TEACHERS

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FTE - Making sense of the Federal Budget

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Making Sense of the Federal Budget, Debt & Deficits

Discussions of budgets, debt, and deficits often dominate our news media when it comes to Federal, State, and local government decisions and actions pertaining to providing government services and programs to citizens. These discussions tend to be shallow sound bites or accusations of one interest group or politician trying to score political points or denigrate a policy they do not support. What is usually missing is a rational, measured analysis to help citizens better understand these terms and the implications of each for our country and our economy at the federal, state, and local levels.

This unit of study is designed to bring clarity and understanding to the processes and the outcomes of government spending when it comes to budgeting, running deficits and accumulating debt. It uses economic reasoning (the economic way of thinking) to provide students with powerful critical thinking tools they can apply to the discussion of these topics.

Organized into five lessons the unit covers the topics of; the national debt and its historic origins; government spending and federal budget allocations; sustainability of the federal debt; federal, state and local government budgeting, spending and funding; government financial accounting and reports; how rational public choices can lead to budget deficits.

The unit targets grades 7-12 and has application across the social studies, especially in

Making Sense of the Federal Budget, Debt & Deficits

Lesson 1: Our National Debt

Lesson 2: Where Does our Money Go?

Lesson 3: Is our Federal Debt Sustainable?

Lesson 4: Where are the Numbers? – Tracking the Words and Tracking the Deeds

Lesson 4 Appendix: State and City Budget and Financial Reporting

Lesson 5: Debts, Deficits, and Debatement: Using Public

<https://www.fte.org/teachers/teacher-resources/lesson-plans/making-sense-of-the-federal-budget-debt-deficits/>

Big Takeaways

- Know the vocabulary (deficit, debt, surplus, budget, revenue, expenditure)
- Understand the process of creating bonds
- Understand the importance of interest
- Understand the scope of the debt and political difficulties manipulating it

Links to Loanable Funds Market and Crowding Out

THE LOANABLE FUNDS MARKET

Associated Learning Objectives

MKT-4.A

MKT-4.C

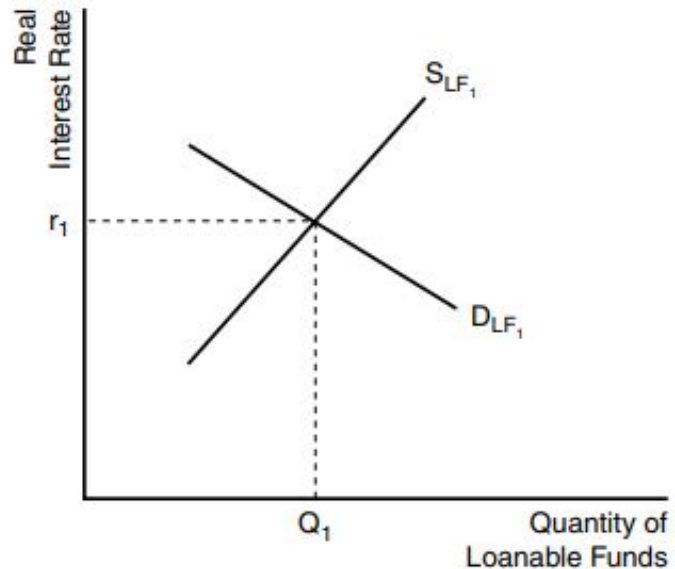
MKT-4.D

MKT-4.E

POL-3.C

MKT-5.G

Example



Questions?

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Thank you!