

## FINANCIAL LITERACY GUIDE *Government Borrowing*

[www.pbs.org/frontline/tentrillion/](http://www.pbs.org/frontline/tentrillion/)

### ABOUT THE FILM

All of the federal government's efforts to stem the tide in the financial meltdown that began with the subprime mortgage crisis have added hundreds of billions of dollars to our national debt. *Ten Trillion and Counting* reports on how this debt will constrain and challenge the new Obama administration, and on the growing chorus on both sides of the aisle that without fiscal reform, the United States government may face a debt crisis of its own which makes the current financial situation pale in comparison. Through interviews with leading experts and insiders in government finance, the film investigates the causes and potential outcomes of — and possible solutions to — America's \$10 trillion debt.

### WATCHING THE FILM

Teachers can either assign the film for viewing as homework or show the film in class. Suggested discussion questions are provided. The lessons and activities in this guide are focused on excerpts from the film and can be viewed on DVD in class or online.

### NOTE TO TEACHERS

This guide is intended for classes in social studies, civics and government, economics, business studies, mathematics, current events and history; grade levels 9-12. This lesson on government borrowing begins with an overview of important economic terms. The main lesson is a budget simulation game that helps students understand the choices the government faces when allocating scarce resources while not exceeding deficit and debt levels that could put our economy at risk in the future. An optional additional lesson engages students in researching and creating a budget for the United States. You can modify the lesson to accommodate instructional time and student abilities.

### DISCUSSION QUESTIONS

This guide includes a list of questions for students to discuss after viewing *Ten Trillion and Counting*.

### FEATURED LESSON PLAN “Government Borrowing”

#### LESSON OBJECTIVES

Students will explore:

- Important economic terms related to government budgeting and borrowing
- The process used for developing a government budget
- Trade-offs that must be made when developing a budget
- How government pays its debt
- What can happen if the percentage of debt to GDP is too high

### ADDITIONAL LESSON IDEA “You Make the Budget”

- Students will create a budget for the United States government.

### PURCHASING THE FILM

*Ten Trillion and Counting* can be purchased from Shop PBS for Teachers. (<http://teacher.shop.pbs.org>) Also, teachers and students can watch the film streamed on FRONTLINE's Web site, [www.pbs.org/frontline/tentrillion/](http://www.pbs.org/frontline/tentrillion/)

### CREDITS

This lesson was developed by Simone Bloom Nathan of Media Education Consultants, Inc. It was written by Kevin Murley of Montgomery Blair High School, Silver Spring, Md. Advisers were Debra Plafker Gutt of Stuyvesant High School, New York; Greg Timmons, curriculum writer and educational consultant; and Joshua Weiner of Benson Polytechnic High School, Portland, Ore.

## GOVERNMENT BORROWING LESSON: GLOSSARY<sup>1</sup>

*Note to Teachers:* You may wish to distribute and discuss the following terms with students prior to viewing the film.

- **Balanced Budget** A budget for which expenditures are equal to income. Sometimes a budget for which expenditures are less than income is also considered balanced.
- **Bond** A debt investment in which an investor lends money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. Bonds are used by companies, municipalities, states, and U.S. and foreign governments to finance a variety of projects and activities. ([www.investopedia.com](http://www.investopedia.com))
- **Budget Deficit** The amount by which the spending of a government, company or individual exceeds its income over a particular period of time.
- **Competitive Advantage** Condition which enables a company to operate in a more efficient or otherwise higher-quality manner than the companies it competes with, and which results in benefits accruing to that company.
- **Deficit Spending** The amount by which the spending of a government, company or individual exceeds its income over a particular period of time.
- **Economic Stimulus** A tax cut and/or an increase in government spending, so called because it tends to increase aggregate demand and therefore the level of economic activity in the short run. (<http://www-personal.umich.edu/~alandear/glossary/f.html>)
- **Fiscal Policy** Decisions made by the president and Congress, usually relating to taxation and government spending, with the goals of full employment, price stability and economic growth. ([www.businessdictionary.com](http://www.businessdictionary.com))
- **Gross Domestic Product (GDP)** A measure of economic activity in a country. It is calculated by adding the total value of a country's annual output of goods and services. ([www.economist.com](http://www.economist.com))
- **Inflation:** The overall general upward price movement of goods and services in an economy, usually as measured by the Consumer Price Index and the Producer Price Index. Over time, as the cost of goods and services increases, the value of a dollar is going to fall because a person won't be able to purchase as much with that dollar as he or she previously could.
- **Infrastructure** The basic physical systems of a country's or community's population, including roads, utilities, water and sewage. These systems are considered essential for enabling productivity in the economy.
- **Medicaid** A program, funded by the federal and state governments, which pays for medical care for those who can't afford it.
- **Medicare** A federal program that pays for certain health care expenses for people age 65 or older.
- **Monetary Policy** The regulation of the money supply and interest rates by a central bank, such as the Federal Reserve Board in the U.S., in order to control inflation and stabilize currency. ([www.investorwords.com](http://www.investorwords.com))
- **National Debt** The sum of all previously incurred annual federal deficits. Since the deficits are financed by government borrowing, national debt is equal to all government debt outstanding.
- **Recession** Broadly speaking, a period of slow or negative economic growth, usually accompanied by rising unemployment. ([www.economist.com](http://www.economist.com))
- **Social Security** The comprehensive federal program of benefits providing workers and their dependents with retirement income, disability income and other payments. The Social Security tax is used to pay for the program.
- **Trillion** The number represented as one followed by 12 zeros; a million million. ([www.freedictionary.com](http://www.freedictionary.com))

<sup>1</sup>Unless otherwise noted, the source of definitions is investorwords.com.

## DISCUSSION QUESTIONS for *Ten Trillion and Counting*

*Note to Teachers:* You may wish to give these questions to students prior to watching the film and invite them to supply answers as they watch, stopping the tape as needed.

- 1 What is a budget deficit?
- 2 What is total national debt?
- 3 What are some reasons why the budget deficit and nonbudgeted spending have been adding more than \$500 billion to the national debt in recent years?
- 4 Name three countries that loan money to the U.S. government. What instruments do they receive to guarantee their loans?
- 5 On several occasions, a balanced budget amendment has been proposed as law but not passed by Congress. What would be the advantages and disadvantages of having such a law?
- 6 What was PAYGO? What happened to that policy, and how did it impact the budget deficit?
- 7 According to Greg Ip of *The Economist*, President Bush's economic policy of cutting taxes and spending through borrowing was "politically smart" rather than "economically smart." Do you agree or disagree? Explain.
- 8 How did the U.S. government pay for the wars in Afghanistan and Iraq?
- 9 What impact did spending for the wars in Iraq and Afghanistan have on the budget deficit?
- 10 When compared to other countries, to what extent is the U.S. debt compared as a percentage of GDP something to be concerned about? Why? (*Note:* The following link, [www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html](http://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html), ranks countries according to their debt-to-GDP percentages. The U.S. percentage is 60.8, putting it at number 23 out of the 126 countries listed. Countries with higher debt percentages include Japan, Italy, Norway, France and Canada.)
- 11 With increased foreign purchases of U.S. government debt by central banks of foreign countries such as China, what are the political and financial risks if these countries stop buying this debt?
- 12 Most economists agree that both tax cuts and additional spending are needed to stimulate the economy in a time of recession. In what ways does each of these policies stimulate the economy?
- 13 How are Republicans in Congress responding to President Obama's proposed stimulus package? Why are they responding this way?
- 14 According to the program, entitlement programs such as Medicare and Medicaid represent the biggest threat to the U.S. budget deficit. What reforms do you suggest to help avoid an unsustainable increase to the debt?

## FEATURED LESSON PLAN “Government Borrowing”

### LESSON OBJECTIVES

Students will explore:

- Important economic terms related to government budgeting and borrowing
- The process used for developing a government budget
- Trade-offs that must be made when developing a budget
- How government pays its debt
- What can happen if the percentage of debt to GDP is too high

### MATERIALS NEEDED

- *Ten Trillion and Counting* DVD or Internet access to watch the video online
- Student handouts: *Glossary* and *Be a Budget Hero* (Note: This activity requires access to the Internet. If classroom access is not available, assign this as homework prior to teaching the lesson. Students can complete it by using computers at home, in your school’s media center or the public library.)

### TIME NEEDED

The lesson should take about 45 minutes. Watching the video clip and the discussion questions take about an hour. Add another hour if you use the entire film. An optional extension activity, *You Make the U.S. Budget*, requires research that will take students a class period to research and a class period to present and debate.

### PROCEDURE

- 1 As a class, read and review the glossary of economic terms provided.
- 2 Distribute the *Be A Budget Hero* handout to students. Review the following background information with students concerning government budgets and borrowing:
  - Spending is part of fiscal policy. If you spend more than you have in your budget, it creates what is called a budget deficit. Total debt or surplus is the addition of the budget deficit or surplus from preceding years plus interest owed to anyone that is financing that debt.
  - A trade-off involves giving up something in order to gain something else in return as well as understanding the upside and downside to the choices that were made. You can ask the students, “Can you tell me an example of a trade-off decision you have had to make recently?” Also ask, “What trade-offs do you think the U.S. has to make when it comes to spending priorities?”
  - In order to understand whether the overall debt is too big for a government, total debt is often compared to the gross domestic product (GDP), which is the total value of all the goods and services produced in a country. The following link, [www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html](http://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html), ranks countries according to their debt-to-GDP percentages. Note that the U.S. percentage is 60.8, putting it at number 23 out of the 126 countries listed. Countries with high debt percentages include Japan, Italy, Norway, France and Canada.
  - Governments generate revenues to cover budgetary obligations through taxation. If tax income does not generate enough money to cover spending, governments need to borrow. This borrowing takes place in the forms of bonds.

- Deficit spending can help minimize or end a recession. However, if a government has too much debt and needs to borrow too much, or people or countries stop lending the money, problems could include:
  - The need to pay more interest
  - Lower growth rates
  - Inability to pay for important programs
  - Future tax increases
  - Inflation
- 3 As a class, if time permits, watch the entire video of *Ten Trillion and Counting*. If time does not permit, watch segment 5, “*The Greatest Threat Is Health Care*,” which begins at 40:00 and runs for 7 minutes.
- 4 Use the discussion questions to guide the students through what they watched in the video.
- 5 Have students enter the following Web site that contains the Budget Hero Game: [http://marketplace.publicradio.org/features/budget\\_hero/](http://marketplace.publicradio.org/features/budget_hero/)
- 6 Prior to having students play the game, review the instructions on the handout and have students click the link and complete the briefing.
- 7 Discuss and debate each of the questions on the handout. Seek multiple opinions about each of the questions and prompt students to share why they prioritized their budget decisions differently from their classmates.

#### OPTIONAL EXTENSION ACTIVITY

- 1 Divide the class into six groups.
- 2 Distribute the handout *You Make the U.S. Budget* and review the directions with students. Each group should complete the budget assignment and also research one of the six categories and prepare a presentation. You may wish to assign each group a category, or let them choose, making sure that each category is allocated.
- 3 When their research is completed, each group should share its findings with the whole class. Discuss with the class what would be an acceptable budget for everyone.

#### RESOURCES

- [//www.cbo.gov/](http://www.cbo.gov/)  
The Congressional Budget Office Web site includes charts, graphs, projections, historical data, Webcasts and blogs on key issues surrounding the U.S. government budget.

#### METHOD OF ASSESSMENT

- Class participation
- Completion of homework assignments

## STUDENT HANDOUT “Be A Budget Hero”

*Note to Students:* Review the following information, play the simulation online, then answer the questions at the end of this handout concerning the choices you made and the results of the simulation.

### LESSON BACKGROUND

- Spending is part of fiscal policy. If you spend more than you have in your budget, it creates what is called a budget deficit. Total debt or surplus is the addition of the budget deficit or surplus from preceding years plus interest owed to anyone that is financing that debt.
- A trade-off involves giving up something in order to gain something else in return, as well as understanding the upside and downside to the choices that were made.
- Governments generate revenues to cover budgetary obligations through taxation. If tax income does not generate enough money to cover spending, governments need to borrow. This borrowing comes in the forms of bonds.
- Deficit spending can help minimize or end a recession. However, if a government has too much debt and needs to borrow too much, or people or countries stop lending the money, problems could include the need to pay more interest, inability to pay for important programs, inflation, lower growth rates and future tax increases.

### LESSON INSTRUCTIONS

- You are going to be in charge of running the U.S. government budget while you play this game.
  - Go to the following Web site: [http://marketplace.publicradio.org/features/budget\\_hero/](http://marketplace.publicradio.org/features/budget_hero/)
  - Click the link for “Get Briefed” to learn the game rules.
  - Make sure you select badges in the game that represent your values. You win these badges by running the budget well.
  - To make your budget choices, click on the buildings that represent the different budget categories. There you will see specific choice cards. You can drag cards you would like to choose that represent new spending or spending cuts over to the “Played Cards” column.
  - As you play the simulation, answer the questions below to prepare for our class discussion.
- 1 A trade-off involves prioritizing some areas over others. What three badges did you prioritize over the others that reflect your values, and why?
  
  
  
  
  
  
  
  
  
  
  - 2 What was the most important card you played for each of the following budget categories? *(Click on the buildings to see the cards. Play the cards by dragging them to the column on the right that lists “Cards Played.”)*

<b>a</b> Defense	<b>f</b> Infrastructure
<b>b</b> Education	<b>g</b> Health Care
<b>c</b> Science	<b>h</b> Social Security
<b>d</b> Housing	<b>i</b> Interest on Debt
<b>e</b> Miscellaneous	<b>j</b> Taxes <i>(Click the button for tax categories)</i>
  
  
  
  
  
  
  
  
  
  
  - 3 What were two important cards you played that added spending to the budget, and why did you decide it was important to spend more in these areas?

- 4 What were two important cards you played that cut spending by a lot of money? What made you choose these areas to cut spending?
  
- 5 What was your general policy when it came to raising or lowering taxes?
  
- 6 What are some potential risks with following your tax plan?
  
- 7 When done, click the button on the bottom right to see results of your budget. What was the percentage of debt to GDP in your budget? What was the percentage of debt to GDP in 2008?
  
- 8 Until what year did you delay the budget bust?
  
- 9 How many of your badges did you earn?
  
- 10 What specific decisions caused you to earn or not earn your badges?
  
- 11 What decisions would you make differently now that you have seen how the entire process works?

## STUDENT HANDOUT “You Make The U.S. Budget”

*Note to Students:* In the film *Ten Trillion and Counting*, you learned that the U.S. government’s total debt totals more than \$10 trillion. This debt does not include the unfunded promises of social programs such as Social Security, which is held in the Social Security Trust Fund and which many believe will also need additional funding to cover future obligations. The debt is an accumulation of budget deficits from previous years and interest owed on the debt. As with your personal budget, when spending exceeds income, borrowing is the only solution.

If big lenders such as China stop lending money, the United States faces the challenge of cutting programs and facing additional economic hardships. Currently, many believe the U.S. is on a crash course toward economic hardship because of its relationship of debt-to-GDP level. The CIA *World Factbook* ranks countries according to their debt-to-GDP percentages. The U.S. percentage is 60.8, putting it at number 23 out of the 126 countries listed. In order to borrow, the U.S. government issues Treasury bills and bonds, among other securities. President Obama has proposed cutting the U.S. budget deficit in half over the years to come, which could slow the growth in total debt from its recent pace. You can read President Obama’s budget by clicking the following link. Note that summary tables are on page 114. [www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf](http://www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf)

### YOUR MISSION

Your group has been assigned to see if you can even do better than the president’s proposals. Also, for your budget category, you will need to prioritize and conduct research on one area of the budget. In your group, discuss and answer the following:

- 1 **Budget Plan** The proposed U.S. budget includes more than \$3 trillion in spending annually. In your group, answer the questions below and assign percentages to each of the six budget categories listed below. If you decide to spend more than you bring in through taxation, your government will need to borrow by selling more bonds.
  - a Do you think it is important to create a budget that has less spending than tax revenues collected? Explain.
  - b What are some economic and political reasons why it is difficult to cut spending from the current high levels?
  - c Deficit spending happens when a government spends more than what it has coming in from taxation. Under what circumstance do you think this could be a good strategy?
  - d Will you increase taxes to help collect more money? If so, what will be your plan for your tax increase?
  - e Will you decrease taxes? Regardless, what are possible advantages to decreasing taxes even when spending is high?
  - f In what areas will you allocate money to stimulate the economy? Explain.



- 2 Create A Budget** In your group, discuss your priorities and rationale for allocating resources to each of the following six categories. When you have reached a consensus, detail what percentage of the total budget you will spend on each of six budget categories listed below.

<b>BUDGET CATEGORY</b>	<b>PERCENTAGE OF TOTAL BUDGET</b>
Education	
Energy	
Defense	
Health Care	
Infrastructure	
Social Programs	
TOTAL SPENDING	= 100%

- a** Will you have a budget deficit or surplus?
- b** What criteria did you use to decide which areas received the most or least amount of the budget?
- 3** Research your specific budget area with your team and prepare a presentation for your class. Explain the main spending priorities and programs within the budget proposal made by the president for your budget category.  
The link is [www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf](http://www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf).

- 4 The following White House link has important links to budgets for different departments and programs: [www.whitehouse.gov/omb/](http://www.whitehouse.gov/omb/). Other useful Web sites you can use for research include:

**Education** [www.ed.gov/about/overview/fed/10facts/index.html](http://www.ed.gov/about/overview/fed/10facts/index.html)

**Energy** [www.energy.gov/index.htm](http://www.energy.gov/index.htm)

**Defense** [www.defenselink.mil/comptroller/budgetindex.html](http://www.defenselink.mil/comptroller/budgetindex.html)

[//www.cia.gov/library/publications/the-world-factbook/rankorder/2034rank.html](http://www.cia.gov/library/publications/the-world-factbook/rankorder/2034rank.html)

**Health Care** [www.hhs.gov/news/budgetblueprint.html](http://www.hhs.gov/news/budgetblueprint.html)

**Infrastructure** [www.dot.gov/new/index.htm](http://www.dot.gov/new/index.htm)

[www.whitehouse.gov/omb/budget/fy2004/transportation.html](http://www.whitehouse.gov/omb/budget/fy2004/transportation.html)

[www.whitehouse.gov/omb/assets/fy2010\\_factsheets/fy10\\_homeland\\_security.pdf](http://www.whitehouse.gov/omb/assets/fy2010_factsheets/fy10_homeland_security.pdf)

**Social Programs** [www.ssa.gov/pgm/links\\_governance.htm](http://www.ssa.gov/pgm/links_governance.htm)

Explain the main spending priorities and programs within the budget proposal made by the president for your budget category:

- 5 What are some reasons why your budget category should receive the highest percentage of spending possible?

- 6 As you research your budget area, identify what decisions you would make to eliminate spending. Explain below any ideas for spending cuts that you propose.

- 7 Present your proposal to the class and help debate what budget would be acceptable to everyone.