SECTION 2 NONTAX REVENUES AND BORROWING

TEXT SUMMARY

The Federal Government receives large sums of money from multiple nontax sources. Much of this money comes from the earnings of the Federal Reserve System, mostly in interest. **Interest** is a charge paid for borrowing money and is usually a percentage of the amount borrowed. Fees for such items as copyrights and trademarks also bring in money.

The Constitution gives Congress the power to authorize federal borrowing. The government borrows money at lower interest rates than do private borrowers, and there is no limit on the amount it may borrow.

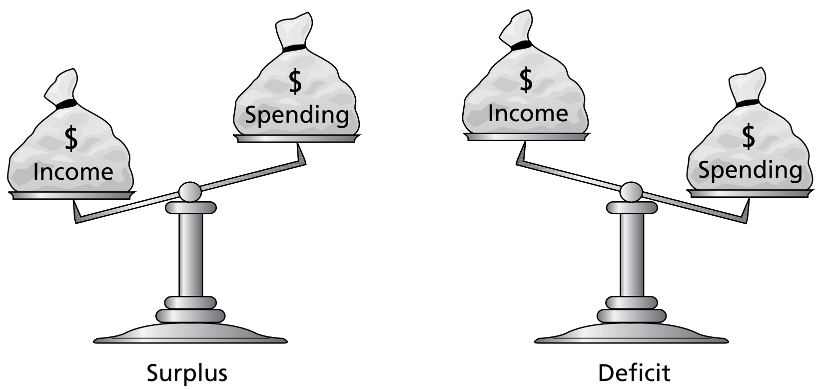
These privileges allowed the Federal Government between 1929 and 1968 to regularly spend more money than it took in. This process is called running up a **deficit.** When the government takes in more than it spends, it shows a **surplus.** The annual federal budget never showed a surplus between 1969 and 1998.

The annual interest on the federal debt is the amount that must be paid each year to those from whom the government has borrowed. All past deficits that are yet to be repaid, plus interest, add up to form the **public debt**—the total amount of money owed by the government. The debt has often been criticized because it causes concern for the country's future stability.

THE BIG IDEA

The United States has a huge public debt, created by borrowing when government spending exceeded its income.

GRAPHIC SUMMARY: *Budget Surplus and Deficit*



In a year when the government spends more than it takes in, it must borrow to make up the deficit.

REVIEW QUESTIONS

1. What is the difference between the deficit and the public debt?
2. **Diagram Skills** When showing a surplus, does the government take in or spend more money?