Following are possible answers for each section of the Reading Notes.

Section 2

1. 1789–1921: The legislative branch dominated the federal budget process. Proposals requesting the spending of federal funds originated in the House and were combined into a single spending bill. Once the House approved the bill, it went to the Senate. Usually, revenues and expenditures came out even, creating a balanced budget. The government typically raised taxes and borrowed money only in times of war.

1921–1974: The executive branch gained more power to control the federal budget process. Faced with a huge war debt from World War I, Congress enacted the Budget and Accounting Act of 1921, which required the president to submit a proposed budget to Congress. This gave the executive branch more power to decide which agencies and programs received funding. Congress could override the president’s recommendations, but it generally went along with the president’s budget.

1974–present: The legislative and executive branches have shared control of the federal budget process since 1974. In response to President Nixon’s use of impoundment to object to congressional budget decisions, Congress enacted the Budget and Impoundment Control Act of 1974. The main change in the process was the creation of budget committees in the House and Senate to draft Congress’s spending priorities.

2. When the Constitution was written, governments simply collected taxes and spent money as needed. When there was a shortfall, Congress raised taxes to bring in extra money. Passage of the Budget and Accounting Act of 1921 concentrated the budget-making process in the hands of the president. Over the years, many costly new programs led to deficit spending, because lawmakers did not want to raise taxes. This deficit spending led to a drastic increase in the national debt.

Section 3

Phase One: Budget requests are submitted to the Office of Management and Budget. The OMB reviews requests and prepares a budget proposal. President submits budget proposal to Congress.

Phase Two: House and Senate budget committees hold hearings and prepare budget resolutions. Budget resolutions from both houses go to conference committee to be reconciled. The full House and Senate approve the final version.

Phase Three: House and Senate Appropriations Committees work on appropriation bills. Congress works out differences between House and Senate appropriation bills. The 13 appropriations bills are sent to the president for approval.

Phase Four: The fiscal year usually begins in October. If the president and Congress cannot agree on appropriations bills, the president signs a continuing resolution to keep the government running. The president and Congress work out differences. If not, a budget crisis could result in a government shutdown.
Section 4

1. Diagrams should include the following information:

- **Individual income tax:** tax paid on an individual’s or married couple’s annual income
- **Social insurance tax:** tax deducted from a paycheck to fund Social Security and Medicare, among other programs
- **Corporate income tax:** tax paid by businesses on their profits
- **Excise tax:** tax paid on the sale of goods and services
- **Borrowing:** money from private sources and foreign countries that the government uses to fund a deficit

2. A progressive tax is one in which the tax burden falls more heavily on the wealthy than on the poor, such as individual and corporate income taxes. A regressive tax is one in which the burden falls more heavily on poor than wealthy taxpayers, as a percentage of their income. Excise taxes are one example.

3. Diagrams should include the following information:

- **Mandatory spending**
  - Majority of federal spending.
  - Can be altered only by special legislation.
  - Includes interest on the national debt.
  - Includes entitlements, programs through which individuals receive benefits based on their age, income, or some other criteria; food stamps and Social Security pensions are two examples.

- **Discretionary spending**
  - Can be raised or lowered as Congress sees fit.
  - The largest chunk goes to defense.
  - The remaining money funds the many services provided by federal agencies.
  - There is frequent complaining about earmarks, or funds set aside for specific projects.

Section 5

**State and local budgets**

- Many state constitutions require a balanced budget.
- Some state constitutions restrict certain types of taxes.
- Citizens play a larger role in tax policy.
- Large share of budgets go to services for young people and their families.

**Both**

- Make budget decisions each year.
- Chief executive prepares budget, which is approved by legislature.
- Raise revenue through taxes.

**Federal budget**

- Face fewer limitations than do state and local governments.
- Can borrow money to fill gaps between spending and funding.
- Government makes tax policy.
- Bulk of spending goes to entitlements for the elderly and national defense.