

The Executive Branch at Work

Essential Question What are the functions of executive departments and independent agencies?



About the Photo Workers at the Internal Revenue Service Center in Cincinnati, Ohio, process income tax returns. At this and other centers across the United States, IRS employees process millions of tax returns each year. For instance, in 2009, the IRS processed more than 245 million tax returns. To reduce the paperwork flooding the processing centers each spring, the IRS now encourages taxpayers to file their returns electronically. In addition to processing tax returns, the IRS conducts over a million audits a year.





CHAPTER AT A GLANCE

SECTION 1 The Federal Bureaucracy

- The federal bureaucracy is made up of all of the agencies, departments, and bureaus of the federal government.
- Members of the civil service are responsible for carrying out the work of the federal government.
- Jobs in the federal bureaucracy were once filled through the use of the spoils system. Today's civil service system guarantees that qualified people are placed in government jobs.

SECTION 2 Executive Departments and Independent Agencies

- The executive departments, headed by the members of the cabinet, are charged with administering a broad range of government programs and services.
- As the size and power of the United States has grown, so too have the number of executive departments and their responsibilities.
- Independent agencies, outside the executive departments, focus on particular aspects of governing that cannot be attended to by the executive departments.
- Bureaucrats, members of Congress, and outside interest groups sometimes collaborate to protect and advance mutual interests.

SECTION 3 Financing Government

- The government funds its operations through various taxes and loans.
- Government spending is divided into two main types: mandatory spending and discretionary spending.
- The president works with Congress to create a budget to fund the vast number of government programs and activities.
- The government's fiscal and monetary policies can affect the economy.

CONNECTING TO THE CONSTITUTION



Our nation's system of government is based on constitutional law established by the United States Constitution. See the "We the People: The Citizen and the Constitution" pages in this chapter for an in-depth exploration of how the Constitution allows for the establishment of departments and agencies in the federal bureaucracy and the bureaucracy's role in the executive branch.

SECTION
1

The Federal Bureaucracy

BEFORE YOU READ

Main Idea

The federal bureaucracy includes all the organizations and agencies of the executive branch. The civil service system is used to place qualified civilians into positions within the agencies of the federal bureaucracy.

Reading Focus

1. What is the federal bureaucracy?
2. What is the civil service, and how has it changed over the years?

Key Terms

bureaucracy
bureaucrats
civil service
spoils system



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TAKING NOTES

Use the graphic organizer online to take notes on what makes up the federal bureaucracy.

The Nation's Largest Employer

WHY IT MATTERS

Working for the Federal Government

The federal government is the largest employer in the United States. More than 2.7 million people work for the government, excluding military personnel. That number translates into 1 out of every 50 nonmilitary workers in the United States. The vast majority of these workers are members of the executive branch.

Only a fraction of this gigantic workforce is located in the nation's capital. In fact, about 300,000 federal employees actually work in the Washington, D.C., area. Because different jobs require employees to work in different areas, this vast enterprise is spread across all 50 states and in more than 200 countries. It is divided into hundreds of different organizations, each devoted to a specific task. Taken together, this collection of agencies, bureaus, commissions, and departments is known as the federal bureaucracy. ■

What Is the Federal Bureaucracy?

A **bureaucracy** is any organization, either in government or the private sector, having the following features: a clear formal structure, a division of labor, and a set of rules and procedures by which it operates. The bureaucracy associated with the U.S. executive branch is called the federal bureaucracy.

The federal bureaucracy contains all the agencies and departments of the executive branch, including the office of the vice president, the Executive Office of the President, the executive departments, and the independent agencies. As the chart on the next page shows, there are three types of independent agencies: independent executive agencies, independent regulatory commissions, and government corporations. You will read more about each type in Section 2.

The federal bureaucracy is large and has grown throughout U.S. history—although it is actually smaller today than it was a few decades ago. In the late 1960s it employed about 2.9 million people. By the early 1990s it had topped 3 million. Today about 2.7 million people work for the federal bureaucracy.

Some of this recent reduction is due to an increase in the federal government's use of outside contractors. Contractors are private businesses who are paid to perform specific jobs. However, numerous state and local government employees have jobs that are paid



The Executive Branch

The executive branch, led by the president, consists of hundreds of departments and agencies whose employees make up the federal bureaucracy.

PRESIDENT

Executive Office of the President



Executive Departments

The 15 executive departments have broad administrative responsibilities. The Department of State has embassies all over the world, including this one in Santiago, Chile.



Independent Regulatory Commissions

Independent regulatory commissions regulate specific areas of the economy. The Nuclear Regulatory Commission, for example, is responsible for regulating all nuclear facilities and materials.

Vice President



Independent Executive Agencies

Independent executive agencies manage particular aspects of the federal government. For example, the Environmental Protection Agency works to safeguard the environment, which this EPA worker demonstrates by collecting water samples.



Government Corporations

Government corporations, which are run like businesses, provide Americans with a variety of services. Amtrak provides passenger rail service to all areas of the continental United States.

for largely, if not entirely, through federal funds. Taking these people into account adds additional millions to the total number of government employees.

In the federal bureaucracy, the top administrators are political appointees. That is, they are nominated by the president and approved by the Senate, or they are directly appointed by the president. These direct appointees most often leave office when a president's term ends. However, most of the **bureaucrats**—the administrators and skilled, expert workers who carry out many specific tasks of the federal bureaucracy—are career

employees. These people are hired through a competitive process, and they stay in their jobs as presidents come and go. By having so many career employees, the bureaucracy is able to build expertise so it can implement legislation and executive orders.

READING CHECK Summarizing How many people work for the federal bureaucracy today?

Skills Focus

INTERPRETING CHARTS

What are the three types of independent agencies and their primary functions?

ACADEMIC VOCABULARY

implement to fulfill or carry out

The Civil Service

The **civil service** is made up of the civilians who carry out the work of the federal government. Unlike the few top-level policy makers—such as the heads of the executive departments and independent agencies—who are appointed by the president, civil service workers are hired through competitive processes. This hiring system, however, was not always in place in the United States.



What are the advantages and disadvantages of the spoils system? of civil service?

The Spoils System In the nation's early years, government jobs were given out by the president, usually as political rewards to people who supported the president's policies or the president's election campaign. This practice is known as the **spoils system**.

Both George Washington and John Adams selected federal workers from the Federalist Party. When Thomas Jefferson took office, he replaced many Federalists with people from his own party, the Democratic-Republicans, which set a precedent for using the spoils system. This system remained in place through many early presidencies.

In 1829 Andrew Jackson took office and replaced more than 2,200 federal employees with Jacksonian Democrats. In 1832 Senator William L. Marcy defended Jackson's actions when he said, "To the victor belong the spoils of the enemy." Marcy implied that Jackson was justified in his appointments because, as the victorious candidate, he had a right to the spoils, or rewards, of his election victory.

In time, the spoils system began to come under scrutiny. Critics believed that it led to government corruption, with political appointees rewarding an administration's supporters with contracts for work on federal projects. Additionally, with so much turnover in government jobs as presidents came and went, the federal bureaucracy remained inexperienced and inefficient.

Changes in the Spoils System In the late 1800s, reformers began to push for changes in government appointments. In 1871 Congress created a Civil Service Advisory Board to write new rules governing federal hiring. Inadequately funded, it accomplished little in its three years and was disbanded.

PRIMARY SOURCES

The Spoils System

For most of its first 100 years, the United States relied on the spoils system as the primary method for choosing federal workers. This system, however, often led to corruption and the appointment of people who were not qualified to perform their duties. The Pendleton Civil Service Act of 1883 began a process of reform. However, the spoils system remained difficult to kill: Too many political figures still benefited from it. This cartoon from 1889 illustrates the struggle between the old system and the forces of reform.

21ST CENTURY



Benjamin Harrison sits atop the Republican Party elephant, whose trunk holds tight to the spoils system, as Civil Service Commissioners Theodore Roosevelt, Hugh S. Thompson, and C. Lyman pull the elephant back toward civil service reform.

Skills FOCUS

INTERPRETING PRIMARY SOURCES

Making Inferences Why might some politicians push for others to follow civil service-reform legislation?

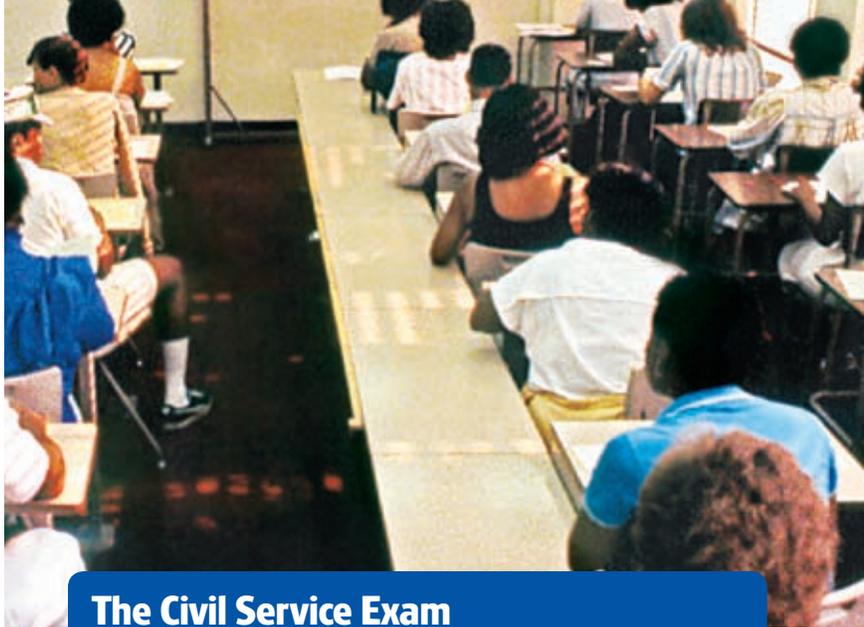
See **Skills Handbook**, p. H9.

A tragedy spurred new reform efforts. In 1881 Charles Guiteau, a disappointed office seeker, assassinated President James Garfield. Garfield's successor, Chester A. Arthur, used the assassination to convince Congress to pass civil service–reform legislation.

In 1883 Arthur signed the Pendleton Civil Service Act into law. This law was the first in a series of laws that would eventually put an end to the spoils system. The Pendleton Act based hiring and promotions for certain government jobs on merit and not on a person's party affiliation. The act created a Civil Service Commission to administer exams as an objective assessment of a person's qualifications and to grant jobs only to qualified applicants.

The Civil Service Today The Pendleton Civil Service Act initially applied to only 10 percent of positions within the federal bureaucracy. With subsequent presidents, however, Congress broadened the scope of the act to include other jobs. Today more than 90 percent of federal government jobs are protected by civil service legislation.

The Civil Service Reform Act of 1978 created the agencies that manage today's civil service. The Office of Personnel Management (OPM) conducts competitive exams, places applicants in jobs, and maintains the administrative functions of the civil service. The Federal Labor Relations Authority handles federal employees' complaints regarding unfair labor practices and works to resolve



The Civil Service Exam

For many years, in order to get a job with the government, people had to pass a civil service exam. Today, however, the majority of people obtain federal jobs through an interview process.

employee concerns. The U.S. Merit Systems Protection Board protects civil service employees and the system of hiring them from partisan practices and abuses by the executive branch.

Many civil service jobs today require specialized technical or professional qualifications not covered by a standardized examination. For this reason, Congress has allowed a number of agencies to devise their own hiring criteria with OPM approval.

READING CHECK Identifying Problems and

Solutions What were the problems with the spoils system, and how did civil service reform help solve them?

SECTION

1

ASSESSMENT

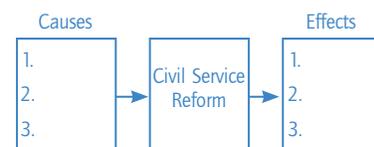
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ONLINE QUIZ

Reviewing Ideas and Terms

1. **a. Define** What is the federal **bureaucracy**?
 - b. Explain** How has the size of the federal bureaucracy changed over time?
 - c. Evaluate** Why do you think the bureaucracy has shrunk in recent years?
2. **a. Describe** What is the **spoils system**, and what is its relationship to the **civil service**?
 - b. Summarize** How did the spoils system for selecting government workers benefit presidents?
 - c. Rate** How important do you think the civil service system is to the overall organization and operation of the federal bureaucracy?

Critical Thinking

3. **Analyze** Copy the graphic organizer below and use it to record the causes and effects of civil service reform. In what ways did civil service reform change the federal bureaucracy?



FOCUS ON WRITING

4. **Expository** Write a brief lecture that describes the major features of the federal bureaucracy.



SECTION
2

Executive Departments and Independent Agencies

BEFORE YOU READ

Main Idea

Executive departments and independent agencies provide key services and regulate important industries for the American people.

Reading Focus

1. What is the purpose of the executive departments?
2. What are the primary functions of executive departments today?
3. What are independent agencies?
4. What are some issues regarding power and accountability in the federal bureaucracy?

Key Terms

independent agencies
independent executive agencies
independent regulatory commissions
bipartisan
government
corporations

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TAKING NOTES

Use the graphic organizer online to take notes on the executive departments and independent agencies.

WHY IT MATTERS

The Organizations of the Federal

Government The federal bureaucracy is made up of hundreds of individual departments and agencies—both large and small, well-known and obscure. Some, such as the U.S. Postal Service, employ hundreds of thousands of people and are visible parts of Americans' everyday lives. Others—such as the Federal Communications Commission, which licenses and monitors the content of TV and radio

stations—employ far fewer people but play no less a part in our everyday lives. You may not know it, but you regularly interact with the federal bureaucracy, whether you are mailing a letter or sitting down to watch your favorite television show.

The federal bureaucracy was not always as extensive as it is today. But as Americans' ideas about the proper role and responsibility of government changed, particularly since the 1930s, the bureaucracy grew to meet the changing demands. The primary organizations of the federal government are the executive departments and independent agencies. ■

GOVERNMENT IN Our Daily Lives



A U.S. Postal Service employee helps a customer resolve a zip code issue.

Executive Departments

The executive departments are the major units of administration and policy making in the executive branch. Because the heads, or secretaries, of these departments make up the cabinet, the executive departments are sometimes called cabinet-level departments. In the U.S. government today, there are 15 executive departments, and they employ about 60 percent of all federal government employees.

Each executive department oversees a broad area of government responsibility. Within each department, there are often smaller, more narrowly focused agencies. The Federal Highway Administration, for example, is an agency within the Department of Transportation.

Congress and the president share responsibility for the executive departments. When establishing a new executive department, Congress spells out the department's general duties and powers. Congress must also approve the budgets and expenditures for each executive department. The president nominates the secretaries, top officials, and heads of the smaller agencies of each department, but the Senate must give advice and consent on these selections.

Early Departments George Washington established the first executive departments in 1789 when he created the Departments of State, Treasury, and War. Although the post of attorney general was also established at this time, the Department of Justice was not officially created until 1870.

In the 1800s and 1900s, Congress created new executive departments to meet new needs. In 1849, for example, the new lands and responsibilities that the nation acquired as a result of the Mexican-American War led Congress to create the Department of the Interior. Its purpose was to manage the country's public lands, its resources, and its relationships with Native American groups.

Congress also created new departments to show the federal government's changing priorities. For example, the Department of Labor was created in 1913, which reflected the increased power and importance of organized labor.

New Departments since 1950 In the post-World War II era, Congress created seven executive departments. The new departments reflected the expanded role government now played in Americans' lives. Increasingly, Americans expected the federal government to take action when a problem confronted society. Congress created the Department of Housing and Urban Development in 1965, for example, shortly after riots in the Watts section of Los Angeles and in other cities dramatized how economic decline and racial unrest had begun to undermine U.S. cities. Likewise, Congress created the Department of Energy in response to the 1973 Arab oil embargo, which led to gasoline shortages and skyrocketing prices.

READING CHECK Identifying Supporting

Details What were the first three executive departments established by Congress?

The Departments Today

The table on pages 198 and 199 lists each of the executive departments and its goals and functions. Below, we will take a closer look at three of these departments: the Department of Health and Human Services, which oversees a number of health-related agencies; the Department of Defense, which has the largest budget of any government agency; and the most recently created department, the Department of Homeland Security.

Health and Human Services It is the job of the Department of Health and Human Services (HHS) to protect the health of the American people. It is also the main federal provider of social services. Originally a part of the Department of Health, Education, and Welfare (HEW), the Department of Health and Human Services was restyled into its present state in 1980, when Congress created a separate Department of Education.

HHS employs more than 65,000 people. Key HHS programs include Social Security, Medicare, and Medicaid. Medicare provides medical insurance to people age 65 and older, while Medicaid provides medical insurance to low-income people of all ages. Together these programs help supplement health care for about one-fourth of the U.S. population.

ACADEMIC VOCABULARY

supplement
supply what is missing from

THE EXECUTIVE DEPARTMENTS

| DEPARTMENT (YEAR CREATED) | GOALS AND FUNCTIONS |
|--|--|
| Department of State (1789) | <ul style="list-style-type: none"> • Protect and assist U.S. citizens living and traveling abroad • Help advance the global interests of the United States • Coordinate and provide support for American international activities |
| Department of Defense* (1789) | <ul style="list-style-type: none"> • Provide military forces and domestic security • Deliver humanitarian aid and disaster relief and provide peacekeeping forces |
| Department of the Treasury (1789) | <ul style="list-style-type: none"> • Manage federal finances and supervise national banks • Print and coin U.S. currency • Collect money due to the United States and pay the bills of the United States • Develop domestic and international financial policy |
| Department of the Interior (1849) | <ul style="list-style-type: none"> • Protect the nation's resources—both natural and cultural • Manage resource use • Provide recreation opportunities |
| Department of Agriculture (1862) | <ul style="list-style-type: none"> • Protect farmland by promoting sustainable development • Work to end hunger and improve health in the United States • Keep food safe for the consumer |
| Department of Justice (1870) | <ul style="list-style-type: none"> • Represent the United States in the Supreme Court and other courts • Control federal law enforcement • Manage the legal affairs of the United States |
| Department of Commerce (1903) | <ul style="list-style-type: none"> • Promote international trade • Ensure effective use of American technological and scientific resources by U.S. citizens • Assist states, groups, and individuals through economic progress |
| Department of Labor (1913) | <ul style="list-style-type: none"> • Work to improve working conditions; set standards for wages and overtime pay • Protect retirement and health care benefits • Protect employees from discrimination |

*When established in 1789, the Department of Defense was known as the War Department. In 1947 an act of Congress created the National Military Establishment, which established the Department of Defense and the cabinet-level position of secretary of defense.

Similar to other executive departments, HHS has many smaller agencies that work within the larger department. The Centers for Disease Control and Prevention (CDC) and the Food and Drug Administration (FDA), for example, are divisions of HHS.

The CDC monitors health trends and helps prevent disease outbreaks. It also warns the nation of influenza outbreaks and plans for possible bioterrorism attacks. The FDA inspects and sets safety standards for food, food additives, and medicinal drugs. It also approves new drug and food products and makes sure that they are safe for the public.

Department of Defense The Department of Defense (DOD) oversees U.S. military forces charged with protecting the nation. First known as the Department of War, it was one of three departments created by Congress in 1789. In the nation's early years, the Department of War housed several smaller departments, each responsible for managing a specific branch of the armed services, such as the army or the navy.

During World War II, however, a new defense strategy emerged: Officials believed that military operations would be more successful if the various branches of the

| DEPARTMENT (YEAR CREATED) | GOALS/FUNCTIONS |
|--|---|
| Department of Health and Human Services (1953) | <ul style="list-style-type: none"> • Conduct and fund health-related research; responsible for food and drug safety • Monitor and prevent disease outbreaks • Provide health care to low-income citizens (Medicaid) and senior citizens (Medicare) |
| Department of Housing and Urban Development (1965) | <ul style="list-style-type: none"> • Work to increase access to affordable housing • Ensure fair housing laws are followed • Assist in developing public-housing programs for low-income citizens |
| Department of Transportation (1966) | <ul style="list-style-type: none"> • Form national transportation policy and oversee safety of air and rail travel • Assist states in building new highway systems • Develop programs for improvement of public transportation systems |
| Department of Energy (1977) | <ul style="list-style-type: none"> • Promote reliable, clean, and affordable energy sources and assist in environmental protection • Develop nuclear weapons and energy technologies • Ensure the safety of the nation's nuclear weapons • Promote scientific discovery and improve the quality of life through technological innovations |
| Department of Education (1980) | <ul style="list-style-type: none"> • Establish policies for federal financial aid for educational purposes • Collect data and research on American schools • Focus national attention on major educational issues • Enforce laws that ban discrimination in educational programs that receive federal funding |
| Department of Veterans Affairs (1989) | <ul style="list-style-type: none"> • Assist disabled veterans • Help veterans returning from military service to transition back into civilian life • Honor veterans in life and memorialize them in death |
| Department of Homeland Security (2003) | <ul style="list-style-type: none"> • Identify and assess threats to the safety of the United States • Coordinate the national response to and lead recovery efforts after acts of terrorism, natural disasters, and other emergencies • Work to prevent possible attacks to the United States |

Skills FOCUS

INTERPRETING CHARTS

Why do you think Congress created so many executive departments following World War II?

military served under a unified command. As a result, in 1947 Congress created the DOD, which brought all branches of the military under a single secretary of defense.

The DOD is a massive enterprise. It employs more than 1.3 million men and women on active duty in the armed forces and another 1.1 million in the National Guard and Reserve. These armed forces are supported by another 670,000 civilian employees. The DOD has a larger budget than any other department. The proposed 2008 DOD budget was \$480 billion. Salary and housing make up about a third of this

amount. Procurement of equipment and supplies costs about \$100 billion, and about \$75 billion is spent on research and testing.

Homeland Security The Department of Homeland Security is a prime example of how the changing world can bring about changes in, or additions to, the executive departments. In 2003 Congress created the Department of Homeland Security, two years after the attacks of September 11, 2001.

ACADEMIC VOCABULARY

procurement the act of getting something through special means

This department differs from some of the others in that it was not an entirely new organization but, rather, a reorganization of several agencies that were already in place.

The purpose of this reorganization was to refocus government efforts involving law enforcement, border security, transportation, immigration, emergency preparedness, and other issues, in order to prevent further attacks on U.S. soil. The Secret Service—the organization charged with protecting the president and other high government officials—and the U.S. Coast Guard are also under the jurisdiction of the Department of Homeland Security.

READING CHECK Identifying Cause and

Effect Why was the Department of Homeland Security established?

ACADEMIC VOCABULARY

quasi resembling in some degree

Independent Agencies

In addition to the executive departments and their many smaller offices and agencies, the federal bureaucracy includes about 140 **independent agencies**—government agencies that operate separately from the executive departments. Creating an independent agency requires an act of Congress. For the most part, Congress establishes independent agencies to address certain issues that have become too complicated or require too much specialized knowledge to handle through regular legislation.

For example, Congress established the Environmental Protection Agency, or EPA, in 1970 to address the issue of protecting the environment. The EPA is in charge of all government programs that are related to safeguarding the environment, such as the Energy Star program, which promotes the reduction of energy consumption and greenhouse gases.

Congress retains power over independent agencies. It must approve the funding that allows the agencies to operate. Congress can also pass laws to direct an agency to do something and can change the scope of an agency's authority whenever it wishes.

Congress grants certain independent agencies powers that go beyond the scope of executive functions. In doing so, Congress gives these agencies quasi-legislative and quasi-judicial powers, which means these agencies have not only the power to make regulations that have the force of law but also the authority to decide disputes over their regulations. While these agencies have the power to enforce the laws that they have created, Congress maintains the authority to override any of those laws.

Independent agencies vary greatly in size. On one hand, the U.S. Postal Service, which has more employees than any of the executive departments, employs more than 700,000 people. On the other hand, some of the smaller agencies, such as the Defense Nuclear Facilities Safety Board, have fewer than 100 full-time employees.

There are three main types of independent agencies: independent executive agencies, independent regulatory commissions, and government corporations. We will examine each in closer detail below.

Independent Executive Agencies The purpose of **independent executive agencies** is to oversee and manage a specific aspect of the federal government. These agencies are given executive powers similar to those of the executive departments. However, the heads of independent executive agencies are not cabinet members.

Although Congress establishes these agencies and retains ultimate authority over them, the president exercises much of the control over their operation. For example,

NASA: An Independent Executive Agency

These astronauts work on the International Space Station as members of NASA. They are helping to achieve NASA's goal of making advancements in space exploration.



the president nominates the top officials of independent executive agencies. These nominees must be confirmed by the Senate, but they report directly to the president.

The structure of the National Aeronautics and Space Administration (NASA) is typical of that of the larger independent executive agencies. Like many such agencies, NASA has one head administrator who oversees the entire agency. This person is nominated by the president and confirmed by the Senate. In addition, NASA is divided into program offices that are responsible for particular parts of the agency. These smaller offices are in charge of all the various aspects of space exploration—from research into the origins of the universe to continuing human exploration of space.

Presidents may push for the creation of certain independent executive agencies to help fulfill their particular vision. An example of such an agency is the Peace Corps, which was created in 1961 at the urging of President John F. Kennedy. In his inaugural address, Kennedy encouraged Americans to fulfill their civic duties and to “ask not what your country can do for you—ask what you can do for your country.”

This historic speech laid the foundation for a change in people’s ideas about political involvement and gave individuals a new role to play in world affairs. People could fulfill this new role through federal agencies like the Peace Corps, which places American volunteers in developing nations in order to help those nations address their economic and social problems.

Other independent executive agencies include the General Services Administration (GSA) and the National Archives and Records Administration (NARA). The GSA helps other government agencies buy goods and services, while the NARA organizes and maintains government records.

Independent Regulatory Commissions

The purpose of **independent regulatory commissions** is to regulate some aspect of the economy. These commissions are, in a sense, separate from the branches of government. Their job is to set and enforce rules that have the force of law, and most have quasi-judicial powers to settle disputes arising from



The SEC: An Independent Regulatory Commission

The Securities and Exchange Commission (SEC) protects investors and maintains fair markets for trading. These traders at American Stock Exchange are regulated by SEC laws.

their rules. They are led by a three- to seven-person board, whose members are nominated by the president and confirmed by the Senate. In most such commissions, the members of the board serve fixed terms and cannot be removed by the president. By law, this board must be **bipartisan**, or include members from both major political parties. For example, on a five-person board, only three members can be from the same party.

Why would Congress want to create such powerful agencies independent of the three branches of government? The answer can be found by looking at the first independent regulatory commission Congress created—the Interstate Commerce Commission (ICC).

Congress created the ICC in 1887 for three main reasons. Many in Congress believed that (1) a group of specialists was better equipped than Congress to regulate the railroads; (2) there could be more continuity in legislation if a permanent commission, rather than an elective legislative body, oversaw regulation of certain aspects of the economy; and (3) an independent body would be free of undue political influence. Although abolished in 1995, the ICC set the template for later independent regulatory commissions.

An example of an independent regulatory commission that is still active is the Federal Communications Commission, or the FCC. Congress created the FCC in 1934. The commission now regulates radio, television, wire, satellite, and cable communications.

The FCC gives licenses to broadcasters and sets and enforces broadcast rules. One of its primary responsibilities is to limit the use of obscene or offensive language on television and radio. Violations of FCC rules can lead to fines and even a loss of license.

As with all independent regulatory commissions, Congress can override FCC rules. In 1996, for example, Congress passed legislation that lifted many FCC restrictions on the ownership of media outlets, such as TV and radio stations. The new law allows any business to enter the communications industry. The goal is to increase competition and thus encourage the development of new TV and radio services. By passing this new law, Congress asserted its role as the primary communications policy maker.

The powers of regulatory commissions have at times proved controversial. For example, during the 1930s, issues arose over the constitutionality of some of the new regulatory agencies. One such controversy involved the Schechter Poultry Corporation

and the National Recovery Administration (NRA), an independent agency created by the National Industrial Recovery Act (NIRA). The purpose of the NIRA was to help regulate economic activity and foster economic growth. The Schechter Poultry Corporation was found in violation of NRA regulations, and the case eventually went to the Supreme Court.

Government Corporations The third type of independent agency is a government corporation. **Government corporations** are organized and run like businesses but are owned in whole or in part by the federal government.

In general, Congress creates a government corporation to achieve a public goal that private business may not be able to address for a sufficient profit. An example of a government corporation is the U.S. Postal Service (USPS). Through the USPS, anyone can send a letter anywhere in the United States for a fixed price. The USPS follows the principles of a business in order to operate as efficiently as possible. The USPS is not expected to make a profit, although it is supposed to break even.

Unlike a private business, however, the USPS does not focus on the most profitable areas of business. As an agent of the federal government, the USPS has a responsibility to see that all areas of the country, no matter how remote, have affordable and equitable mail services.

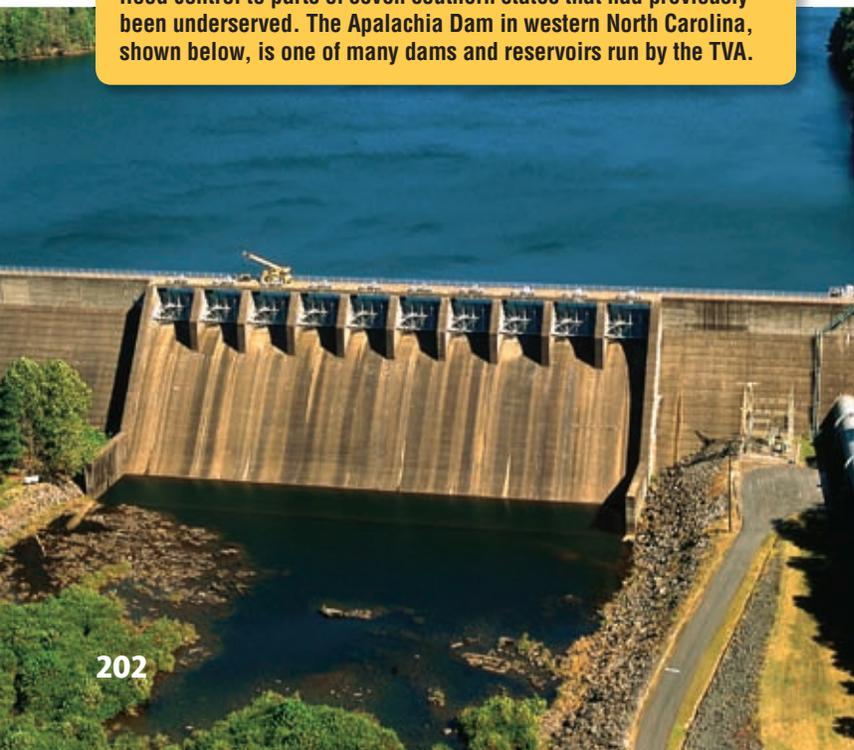
Another government corporation is the National Railroad Passenger Corporation, or Amtrak. Amtrak is a government-run passenger rail service. It was formed in 1971 when the growth of air and auto travel made it less profitable for private companies to provide rail service in most parts of the country.

Amtrak has come under criticism in recent years for its significant financial losses. To compensate for these losses, Amtrak has had to rely on government subsidies, which are government payments aimed at achieving a public benefit. Today Amtrak continues to struggle just to break even.

READING CHECK Identifying the Main Idea What is the purpose of independent agencies?

The TVA: A Government Corporation

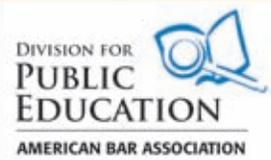
The Tennessee Valley Authority (TVA) provides electric power and flood control to parts of seven southern states that had previously been underserved. The Apalachia Dam in western North Carolina, shown below, is one of many dams and reservoirs run by the TVA.





LANDMARK SUPREME COURT CASES

Constitutional Issue: Powers of the President



Schechter Poultry Corporation v. United States (1935)

WHY IT MATTERS

In Schechter, the Court examined whether the federal government overstepped its authority in regulating commerce and business practices, giving the president an unconstitutional extension of power.

Background

During the Great Depression, Congress and President Franklin D. Roosevelt worked together to pass various reform bills intended to pull the nation out of its economic slump. At the heart of Roosevelt's New Deal legislation was the National Industrial Recovery Act of 1933 (NIRA), which aimed to stimulate the economy and reduce unemployment. The act set up the National Recovery Administration (NRA), which in turn created industry-specific boards whose purpose was to enforce codes for production, prices, wages, and working hours. The NIRA allowed these boards to draft the codes that the president would then sign into law. The goal of these boards was to create jobs for many unemployed Americans and to promote fair production and competition among industries and businesses.

The Schechter Poultry Corporation sold chickens at wholesale prices and fell under the jurisdiction of the Live Poultry Code, which was part of the NIRA. In addition to convictions against Schechter for the sale of unfit and uninspected chickens, among other charges, a federal district court found the company guilty of violating the minimum wage and maximum hours specifications set forth by the NRA for the live poultry industry. Schechter appealed the ruling and lost. The "Sick Chicken" case eventually came before the Supreme Court in 1935.

Arguments for Schechter

Schechter argued that Congress had acted unconstitutionally by relinquishing too much legislative authority to independent regulatory commissions like the NRA. The defendants also argued that because they were local operators who sold their product only locally, their employees' wages and hours did not

affect interstate commerce. The defendants held that their business should be free from federal regulations. Schechter also argued that since it operated within New York State boundaries, the commerce clause was not implicated and federal jurisdiction was not created.

Arguments for United States

The government argued that Schechter Poultry Corporation broke federal regulations and violated the poultry code. The government argued that the NIRA, and by extension the poultry code, was constitutional and necessary for the good of the nation. The government maintained further that Congress could delegate lawmaking power to the executive branch under the NIRA because the NIRA only dealt with businesses and industries that participated in interstate commerce.

THE IMPACT TODAY

In a unanimous decision, the Court ruled that the NIRA was an unconstitutional delegation of Congress's legislative powers to the executive branch. Later decisions by the Court, however, reversed this holding, paving the way for the many independent agencies of the executive branch that regulate various aspects of business and industry, including minimum wage standards.

CRITICAL THINKING

What Do You Think? Congress creates regulatory agencies that have control over some areas of the economy. At what point is it necessary for Congress to overrule these agencies? When might it be appropriate for Congress to take some power away from these agencies? Explain your answer.

Power and Accountability in the Federal Bureaucracy

The Constitution provides a number of tools for ensuring the accountability of the federal bureaucracy. Presidents, for example, can shape the direction of the bureaucracy through their appointment powers and by issuing executive orders. Likewise, congressional oversight committees and subcommittees routinely demand answers from federal agencies. By boosting or cutting funds to a federal department or agency, congressional appropriations committees can affect its operations.

Over the years Congress has taken some additional steps to ensure that agencies remain accountable. In 1946, for example, it passed the Administrative Procedure Act. This law and its various revisions set clear guidelines for agency rule making, including a lengthy period for public comment and participation. In addition, the Freedom of Information Act, passed by Congress in 1965 and later strengthened, allows citizens access to written records kept by federal agencies. Presidents can exempt certain information in the interest of national security or for other reasons. Together, these measures place a check on an agency's freedom of action.

One danger these measures do not address is what happens when bureaucratic agencies, congressional oversight committees, and outside interest groups form an unofficial alliance. An interest group will support members of Congress who support legislation that the group wants. The bureaucrats, hoping to obtain the necessary funding from Congress, may in turn shape their policy recommendations to Congress in ways that favor the interest group. Thus, each group benefits from the actions of the others.

Political scientists label this three-sided relationship an *iron triangle*. The triangle is “iron” because outsiders, including the president, cannot seem to penetrate or disrupt it. The danger is that policy making becomes a closed loop, for and in the interests of specific interest groups.

Iron triangles may not be as prominent as they once were. Issues are so complex that multiple congressional committees and federal agencies, each with a different agenda, have a hand in making policy. In addition, interest groups on both sides of an issue compete vigorously for influence, canceling each other out.

READING CHECK Summarizing What are some of the ways the federal bureaucracy is held accountable?

SECTION 2 ASSESSMENT

 hmhsocialstudies.com
ONLINE QUIZ

Reviewing Ideas and Terms

- a. Recall** How many executive departments are there today?

b. Elaborate What possible reasons explain the growth in the number of executive departments that occurred in the 1900s?
- a. Identify** In 1980 what change took place within the Department of Health, Education, and Welfare?

b. Develop What do you think about the Department of Defense's having the largest budget of all the executive departments? Explain your answer.
- a. Define** What are **independent executive agencies**, **independent regulatory commissions**, and **government corporations**?

b. Make Generalizations How are independent agencies beneficial to the federal bureaucracy as a whole?
- a. Define** What is an *iron triangle*?

b. Explain Do you think it was necessary for Congress to step in and further regulate independent agencies?

Critical Thinking

- Elaborate** Using a graphic organizer like the one below, identify the main features of the executive departments and independent agencies. What functions do the executive departments and independent agencies serve as a part of the federal bureaucracy?

| The Federal Bureaucracy | |
|-------------------------|----------------------|
| Executive Departments | Independent Agencies |
| | |

FOCUS ON WRITING

- Persuasive** Write an editorial in which you analyze the consequences of the political decisions made by different independent agencies and the effect of these decisions on society.



The Size of the Federal Bureaucracy

Is the federal bureaucracy too large?

THE ISSUE

The federal bureaucracy is made up of numerous agencies and departments. More than 2.7 million employees work in these various organizations, and many people feel that the bureaucracy has grown too large. Supporters of the bureaucracy, on one hand, claim that a large bureaucracy is necessary because as a major world leader, the United States needs all of these agencies and departments to successfully run the country. Opponents, on the other hand, feel that a large bureaucracy impedes the efficiency of the federal government.



This cartoon comments on the size of the federal bureaucracy and the challenge of shrinking it.

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VIEWPOINTS

The federal bureaucracy is the right size for accomplishing the many tasks that are set before it.

A large bureaucracy does not impede government actions; it helps government function better. Our nation needs a large bureaucracy to run all of the programs that benefit the American people. Having agencies that specialize in very specific aspects of the federal government is in the greatest interest of U.S. citizens, as Congress—the main overseer of all government actions—does not have the management capacity or expertise that the federal bureaucracy does. Furthermore, while the bureaucracy does spend a lot of money, U.S. government spending is not high compared to government spending in other economically developed countries. Most of the money that the bureaucracy spends goes back into the economy in the form of salaries for employees. This funding also makes it possible for certain businesses to run.

The federal bureaucracy has grown too large and needs to be downsized considerably.

The term *bureaucracy* is just another word for *waste* and *inefficiency*. The chain of command is so complicated, with larger agencies overseeing so many smaller agencies, that it takes a long time to get anything accomplished. Even when an agency succeeds in implementing a program, the time when that program was needed may have already passed, making the program obsolete. There are too many people working for the bureaucracy to make it an efficient body. A smaller bureaucracy would allow the various agencies to function at a higher level because there would be fewer channels to go through. With fewer channels, work would get done faster and programs would reach more people. The government would also have more money to spend on other aspects of government that are in need, such as Social Security.

What Is Your Opinion?



1. Is a large bureaucracy beneficial to a powerful nation like the United States? Defend your position.
2. Should the federal bureaucracy be decreased to help it run more efficiently? Explain your reasoning.



SECTION
3

Financing Government

BEFORE YOU READ

Main Idea

By collecting taxes and borrowing money, the federal government is able to generate the funds it needs to run the nation. The government then assigns these funds to create a federal budget for the upcoming year.

Reading Focus

1. How does the federal government pay for its operations?
2. What are the two types of government spending?
3. How does the federal budget process work?
4. How do fiscal and monetary policy affect the nation's economy?

Key Terms

income tax
progressive tax
payroll tax
regressive tax
proportional tax
bond
federal debt
mandatory spending
discretionary spending
fiscal policy
monetary policy

 hmhsocialstudies.com
TAKING NOTES

Use the graphic organizer online to take notes on financing the federal government.

WHY IT MATTERS

The Federal Budget In February 2007 President George W. Bush presented his proposed budget for the upcoming fiscal year. This proposed budget called for \$2.9 trillion to spend on government programs.

How can we make sense of a number that large? To put it another way, take the average U.S. Navy aircraft carrier. The total unit cost for just one of these massive ships is about \$4.5 billion. In order to equal the \$2.9 trillion proposed in the president's 2008 budget, you would need a fleet of more than 644 of these ships.

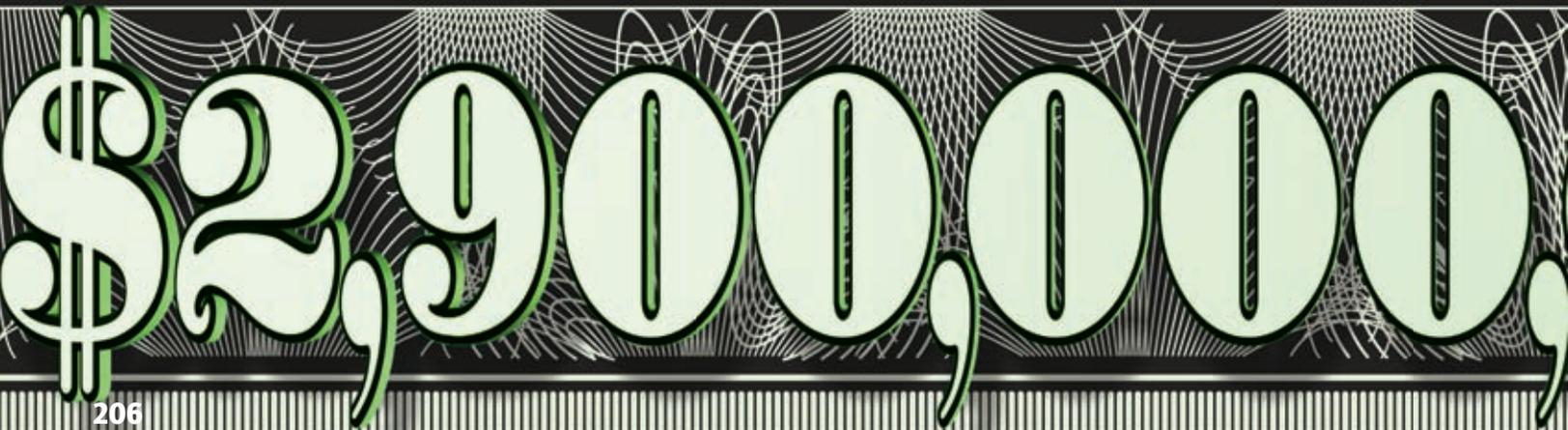
The federal budget represents approximately one-fifth of the country's overall gross domestic product—the total market value of all the goods and services produced within a country in a given year. This number translates to more than \$9,300 for every single man, woman, and child living in the United States.

The proposed budget also reveals how much the federal government plans to receive in revenue. The 2008 budget projected that the government would receive about \$240 billion less than it planned to spend. That is also a big number. It represents a debt of about \$800 for each person in the country.

The budget, in part, tells the story of the bureaucracy—what the different agencies and departments will receive and how they plan to spend the money. In effect, the budget is a story about our government and the way it works. ■

The number below illustrates what \$2.9 trillion looks like when it is written out. Including the decimal places, there are 13 zeros in 2.9 trillion.

BIG NUMBERS



Paying for Government

To pay for its operations—the programs and services it provides—the federal government relies on collecting revenue, or income, and borrowing. The revenue comes in the form of taxes, fees, and other nontax sources.

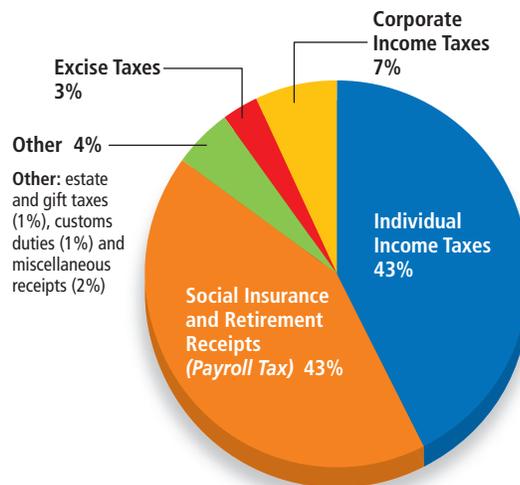
Income Taxes The Constitution grants Congress the power to “lay and collect” taxes. However, this power was limited to excise taxes, or taxes on the sale of a specific item. In 1913 the Sixteenth Amendment gave Congress the power to levy an **income tax**, which is a tax on a person’s or corporation’s income. Most people’s income consists almost entirely of wages or a salary from a job and people are obligated to pay income taxes each year.

Today the income tax brings in the largest share of the federal government’s revenue. Individual income taxes account for about 47 percent of federal revenue. Corporate income taxes make up another 12 percent.

The income tax is a **progressive tax**—a tax whose rates increase as the amount that is subject to taxation increases. Therefore, the income tax rates are higher for those who earn more. The federal individual income tax rates range from 10 percent for very low-income earners to 35 percent for high-income earners.

Payroll Taxes Another big source of federal revenue is payroll taxes, which are collected to help pay for Social Security, Medicare, and other forms of social insurance. A **payroll tax**, which makes up about 34 percent of federal revenues, is money that is withheld from a person’s paycheck by his or her

FEDERAL REVENUES FOR 2009



Source: Office of Management and Budget

**Skills
FOCUS**

INTERPRETING GRAPHS

Where does the third-largest share of the government’s revenue come from?

employer. The payroll tax is a **regressive tax**, or a tax that has a greater impact on lower-income earners than on upper-income earners. The Social Security tax is a good example of a regressive tax because it applies to income only up to a certain amount. In 2007 this amount was \$97,500. As a result, people who earned more than that sum paid a lower share of their income for the tax than did people who earned less. For example, a person who earned \$200,000 per year paid the same Social Security tax as someone earning \$97,500. In effect, the higher earner paid the tax at about half the rate of the lower earner.

The Medicare tax is a **proportional tax**, or a tax that is applied at the same rate against all income. Since this rate does not change according to the amount earned, the Medicare tax is also a regressive tax.

Other Sources of Revenue The federal government collects several other taxes and nontax revenues. Together, these revenues make up 6 percent of all federal funds.

Other taxes include excise taxes and tariffs. Tariffs are taxes on imported goods. They are also referred to as customs duties. Customs duties were once a major part of federal revenues, but the government has been trying to move toward “free trade”—trade without tariffs or with reduced tariffs.

Another federal tax is the estate tax. This tax is placed on money and property that is passed on to the heirs of someone who dies. In 2007 the government taxed estates valued at more than \$2 million. Like estate taxes, gift taxes are placed on property that is given from one person to another. The difference between gift taxes and estate taxes is that gift taxes are placed on items that are passed on by a living person. Gift taxes exist so that people will not avoid paying estate taxes by giving property away before they die.

The federal government also collects nontax revenue from several sources, such as entrance fees at national parks. The largest source, however, is earnings by the Federal Reserve System. This system loans money to banks and charges interest. You will read more about this system later in the section.

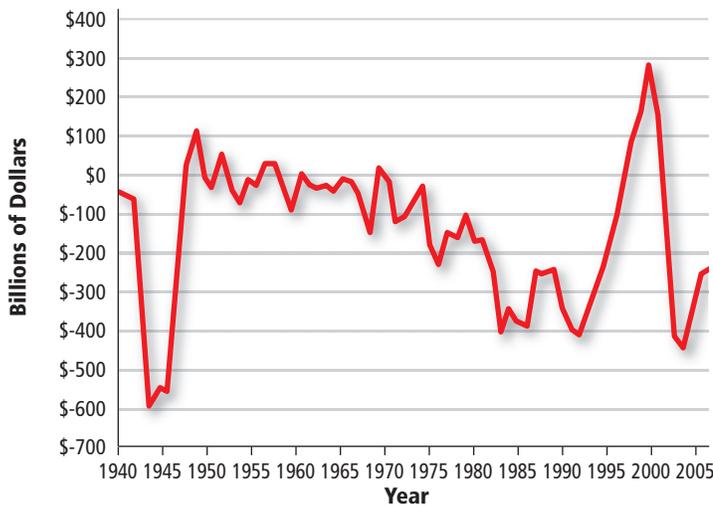
Borrowing Money The federal government does not always cover its expenses by collecting revenue. When it does not, it borrows money. The Constitution gives Congress the power to borrow money, and the federal government does so by selling bonds. A **bond** is a financial instrument by which a borrower agrees to pay back borrowed money, plus interest, at a future date. Thus, a person may buy a \$50 bond based on the promise of getting \$100 back at some later date.

Historically, the government borrowed money only in emergencies. A war, for example, could place heavy financial strains on the government. Economic depressions could also cause a steep drop in government revenues, leading to budget deficits. A deficit occurs when government revenues are lower than expenses. In such cases, the government might borrow money until the emergency has passed.

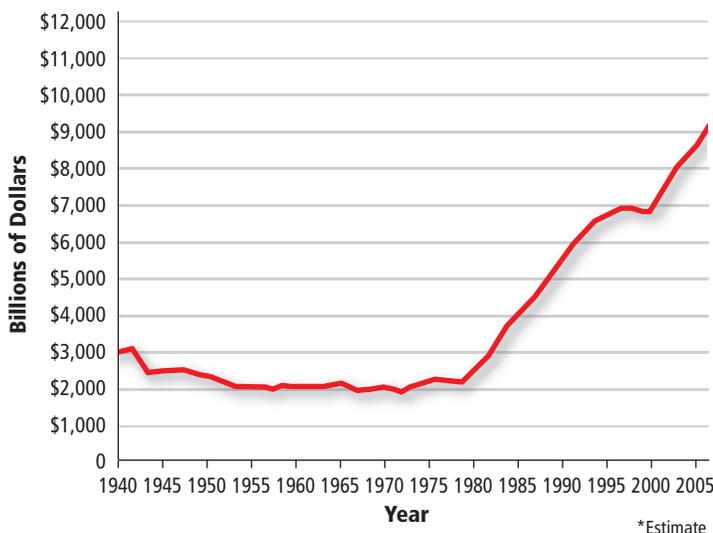
In recent decades, the federal government has been running a deficit as a matter of course. Since 1970 the country has only had a surplus—more revenue than spending—from 1998 to 2001.

THE FEDERAL DEFICIT AND DEBT

Federal Deficits and Surpluses, 1940–2008* (in 2007 dollars)



Gross Federal Debt, 1940–2008* (in 2007 dollars)



Source: Office of Management and Budget

*Estimate

**Skills
FOCUS**

INTERPRETING GRAPHS

Why does the gross federal debt graph dip slightly when the federal deficits and surpluses graph peaks in 2000?

The total sum of money that the federal government has borrowed and not yet repaid is known as the **federal debt**. Today the federal debt has surpassed \$9 trillion. In years of deficit, the government pays only the interest on the federal debt. The interest alone, however, amounts to hundreds of billions of dollars a year—now about 9 percent of the total annual budget.

The federal debt and interest expenses are growing sharply just as the demands on Social Security and Medicare are increasing because of the aging of the baby boomer generation—those people born between 1946 and 1960. This situation presents major difficulties for government officials:

PRIMARY SOURCE

“One such challenge is putting the federal budget on a [path] that will be sustainable as our society ages. Under current law, federal spending for retirement and health programs will grow substantially in coming decades.”

—Ben Bernanke, speech, 2006

Some observers fear that unless the debt is reduced, there will not be enough money to pay benefits to this aging population.

READING CHECK Summarizing What are the main sources of government revenue?

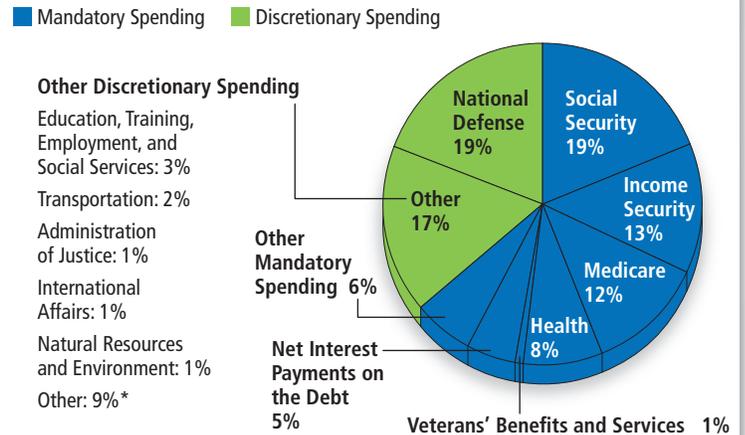
Government Spending

Each year, Congress creates a budget that tells how much the government will spend to fund its various programs. The two types of spending are mandatory and discretionary.

Mandatory Spending The first type of federal spending is known as mandatory spending. **Mandatory spending** is spending required by laws and not subject to the annual budget process. A large percentage of mandatory spending goes to entitlement programs, or government programs that people are entitled to by law, such as Social Security. Government cannot deny funding to such programs without changing the law.

The part of the budget used for mandatory spending has risen steadily in recent decades. In 1962 the government spent 26 percent of the budget on mandatory programs. Today the number is about 69 percent.

FEDERAL SPENDING 2009 (PROPOSED)



* Other includes general science, space and technology, energy, agriculture, commerce and housing credit, community and regional development, general government, allowances.

Source: Office of Management and Budget

Skills FOCUS

INTERPRETING GRAPHS

1. What percentage of the budget is spent on mandatory programs?
2. What does this graph tell you about how discretionary funds are spent?

Discretionary Spending The second type of federal spending is discretionary spending. **Discretionary spending** is spending subject to the annual budget process. Congress is able to use its own judgment when deciding how to allocate discretionary funds. It is from this pool of funds that the government must pay for any optional program or activity. Discretionary spending today makes up about 31 percent of the entire budget.

The budget process deals with how to allocate the discretionary funds. Recall that once the president proposes the budget, it must still be passed by Congress. Creating the budget, therefore, is a collaborative effort between the legislative and the executive branches. The pool of discretionary money is limited, though, and disputes often arise between Congress and the president. When the president's plan for the discretionary funds does not match that of Congress, approving the budget becomes a long and often laborious process.

READING CHECK Contrasting What is the difference between mandatory and discretionary spending?

ACADEMIC VOCABULARY

allocate to set aside for a particular purpose

The Budget Process

More than a plan for bringing in and spending money, the federal budget is a reflection of the nation's priorities. It also illustrates how the branches of government compromise. The president and Congress must decide which programs receive funds and how much funds they should receive.

The federal budget lasts for one fiscal year. The term *fiscal* means “financial” or “having to do with money.” The government's fiscal year begins on October 1 and runs to September 30 of the next calendar year. A fiscal year is given the number of the calendar year in which it ends. So, fiscal year 2008, or FY2008, would go from October 1, 2007, to September 30, 2008.

The President's Budget The creation of the federal budget begins with the president. In 1921 an act of Congress formally gave the president the job of preparing and presenting a budget. This proposed budget reflects the president's legislative priorities, highlighting the areas of the federal government that he or she feels are most in need of funding.

As discussed in Chapter 6, the Office of Management and Budget (OMB) assists the president in creating the budget. Once the president sets broad budget and policy guidelines, the OMB director works over a period of about four months with the various government departments and agencies. Each department and agency submits its budget requests to the OMB, which reviews them and makes adjustments according

to presidential priorities. A department or agency can make a case for its funding requests, but the OMB has the final word on which requests make it into the president's budget proposal.

By the January prior to the start of the fiscal year, in time for the State of the Union address, the president's budget is complete. In addition to offering spending proposals, the massive document estimates revenues and spending several years into the future. These estimates show the long-term effects of all the president's recommendations.

The Budget in Congress The president must present the budget to Congress by the first Monday in February. From that point on, budget work takes place in Congress. Congress uses the president's proposed budget as a guide for its discussions. Congress reviews the president's proposal and makes any changes that it deems necessary.

The Congressional Budget Office (CBO) assists Congress in this work. The nonpartisan CBO was created to provide expert economic analysis to Congress. Congress can then make its own judgments about the economic effects of various proposals and ideas.

Congress's first steps are to agree on the grand totals for revenue and spending and to pass a concurrent resolution, which will guide its future budget work. The resolution is not signed by the president and does not have the force of law. In order to write this resolution, the House and Senate Budget Committees hold hearings to gather input on the budget from the members of Congress.

Budget Milestones

The annual federal budget process lasts for seven months. *Why does the budget process take so long to complete?*

First Monday of February

The president's budget proposal is submitted to Congress. The House and Senate Budget Committees and Appropriations Committees begin analyzing the budget.



Senate Budget Committee staff unload the president's proposed budget. Congress then begins its review of the president's budget, making the changes that it sees fit.

April 15

The House and Senate Budget Committees send a concurrent resolution on spending and taxation to the floor of each house.

May 15

The entire Senate and House pass the concurrent resolution.

Congress then deals with the hundreds of individual funding and revenue resolutions contained in the budget. This work takes place in the House and Senate Appropriations Committees. The Appropriations Committees are committees that have authority over the discretionary spending of the budget.

The difference between the Appropriations Committees and the Budget Committees is that the Appropriations Committees actually write the budget legislation. Whereas the Budget Committees devise the concurrent resolution, which does not have the force of law, the Appropriations Committees have the power to determine precisely how the discretionary funds are to be spent.

The final product of the entire effort by the Appropriations Committees is a series of appropriations bills. Together, these bills formalize the spending decisions of the federal budget. These bills are then sent to the president.

Congress is supposed to complete its budget work by the beginning of the fiscal year. In recent years, Congress has often failed to meet this deadline. In such cases, Congress passes a continuing resolution for the president's approval to allow temporary funding of the government. Congress and the president have occasionally quarreled over such continuing resolutions. This quarreling has sometimes led to the shutdown of government programs while Congress and the president worked out a solution.

READING CHECK Sequencing What are the steps, in order, for creating the federal budget?

Fiscal and Monetary Policy

Each year the government takes in an amount of money equal to about 20 percent of the gross domestic product. It also spends and borrows a similar amount. Government spending and borrowing have a huge effect—both positive and negative—on the economy. Increasing taxes, increasing government spending, and borrowing money can all cause the economy to shift.

By creating the federal budget and tax laws, Congress and the president are making a **fiscal policy** for the United States. When the government alters the amount of money in circulation and the interest rates at which money is borrowed, it is creating a **monetary policy** for the United States. Together, fiscal and monetary policies help the federal government work toward a four-part economic goal, which includes economic growth, low unemployment, stable prices for goods and services, and a balanced budget.

Fiscal Policy The goal of fiscal policy is to provide adequate funds for government without adversely affecting the overall economy. In some circumstances, fiscal policy can even be used to boost the economy.

When the economy is growing slowly or shrinking, the government can do one of two things: spend more money or cut taxes. Through targeted government spending, sectors of the economy can be stimulated to produce more goods and hire more workers. By cutting taxes, though, the government can



The Senate and House Budget Committees discuss the federal budget. This task can often be a long and arduous process.

May–September

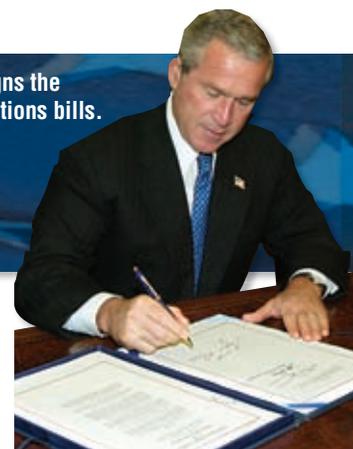
The House and Senate Appropriations Committees continue to hold hearings and debate any conflicts they have with the concurrent resolution.

September

Conference committees form to decide on any issues the House and Senate Appropriations Committees cannot resolve. Appropriations bills are passed by the House and Senate.

October 1

The president signs all appropriations bills, and the budget is enacted.



The president signs the budget appropriations bills.

FISCAL POLICY AND THE ECONOMY

QUICK
FACTS

To counteract a slowing economy, the government can adjust fiscal policy by:

- 1. Cutting Taxes** Consumers have more money to buy goods and services.
- 2. Increasing Government Spending** The government buys more goods and services.
- 3. Cutting Taxes and Increasing Government Spending**

Such government actions can cause one of two scenarios:



IF the economy grows so much that tax revenue increases

THEN

- The deficit closes
- Government borrowing decreases
- Interest rates drop
- Businesses can afford to expand

AND the economy continues to grow



IF the economy fails to grow enough to increase tax revenues

THEN

- The deficit does not close
- Government continues to borrow money
- Interest rates rise
- Businesses can not afford to expand

AND the economy begins to decline



Skills
focus

INTERPRETING CHARTS

What are some of the effects that fiscal policy can have on the economy?

leave more money in taxpayers' pockets. This action spurs consumer spending and business investment. In either case, the goal is to stimulate the economy by increasing the public demand for goods and services and by promoting long-term economic growth.

However, increasing government spending while cutting taxes can sometimes create large budget deficits, which the government must then cover by borrowing money. As you read earlier, the government borrows money by selling bonds to investors.

As the government borrows more, it must often pay higher interest on government bonds to continue to attract investors. This action triggers a rise in the rates at which businesses borrow money. With borrowing more expensive, businesses borrow less, build less, and expand more slowly. As a result, the economy itself begins to slow.

Too much government spending can, under certain conditions, trigger inflation—a rise in prices for goods and services. Inflation

cuts into the purchasing power of people and businesses. People must buy less with the same amount of money, which reduces their standard of living. Government can combat inflation by reducing spending, raising taxes, or raising interest rates.

Monetary Policy The federal government can also influence the economy through its monetary policy, which controls the amount of money in circulation and the interest rates at which money is borrowed. This policy is set and carried out by the Federal Reserve System, or the Fed.

Created in 1913, the Fed is an independent regulatory commission that acts as the nation's central banking system. It has a seven-person board with one member acting as chairperson. The Fed Board is nominated by the president and confirmed by the Senate. The Fed chairperson holds a powerful position, as his or her decisions have a great impact on the U.S. economy.

RESPONSIBILITIES OF LEADERSHIP

The Federal Reserve uses all the information it can to try to set interest rates at a level that will best serve the American economy, businesses, and consumers.

The Fed carries out the monetary policy of the federal government in several ways. First, it sets rules for how much money banks must have in reserve. If it raises the reserve requirement, the Fed keeps more money out of circulation. If the Fed lowers the reserve requirement, it increases the amount of money in circulation.

The Fed also carries out monetary policy by adjusting the interest rates it charges its customers—the nation’s other banks. These banks borrow money from the Fed at rates set by the Fed. Raising the rate discourages borrowing and reduces the amount of money in circulation. Lowering interest rates has the opposite effect.

Finally, the Fed can affect the money supply by buying or selling government bonds. When the Fed buys bonds, it puts money in circulation. When the Fed sells bonds, it reduces the amount of money in circulation.

Creating a successful monetary policy is a balancing act. In general, more money in circulation will foster economic growth, but it can also trigger inflation. Less money in circulation may reduce inflation, but it can also slow economic growth.

There are limits to what government can achieve with its fiscal policy and monetary policy. For example, any change in policy

PROFILES IN GOVERNMENT

Ben BERNANKE
1953–



Ben Shalom Bernanke, whose middle name literally means “peace,” has an affinity for diplomacy. Paired with his diplomatic nature, Bernanke’s strong

academic background prepared him well for his current role as the Federal Reserve chairman, a position he has held since February 2006. After graduating with a B.A. in economics from Harvard in 1975 and a Ph.D. in economics from the Massachusetts Institute of Technology in 1979, Bernanke went on to teach at several universities, including Stanford and Princeton. He has published numerous articles and books on economic theory and policy. Much of his scholarly work has also focused on the political and economic causes of the Great Depression.

Infer How do you think Bernanke’s background helps him perform his duties as America’s leading economist?

takes time to put in place. As a result, the effect of the change may not begin for months. By then, the nature of the problem itself may have changed—requiring yet another change in policy. This cycle could continue while the economy slows and becomes unstable.

READING CHECK Identifying Supporting

Details Why is inflation bad for the economy?

SECTION



ASSESSMENT

hmsocialstudies.com
ONLINE QUIZ

Reviewing Ideas and Terms

- a. Define** What is a **bond**?

b. Develop Defend the current practice of the federal government’s methods of obtaining revenue by taxing the American people and borrowing money.
- a. Define** What is meant by the terms **mandatory spending** and **discretionary spending**?

b. Make Generalizations How do discretionary spending choices affect the budget process?
- a. Recall** How often must the federal government prepare a budget?

b. Contrast How do the roles of the president and Congress differ with regard to the budget process?
- a. Identify** What are the main goals of the federal government’s **fiscal policy** and **monetary policy**?

b. Elaborate Do you think it is accurate to label maintaining a successful monetary policy a “balancing act”?

Critical Thinking

- Compare and Contrast** Copy the chart below and record key information about monetary policy and fiscal policy. In what ways are monetary policy and fiscal policy similar? In what ways are they different?

| Monetary Policy | Fiscal Policy |
|-----------------|---------------|
| | |

FOCUS ON WRITING

- Narrative** Imagine you are trying to explain to a visitor from another country the government’s budget process. Write a brief narrative explanation of the process.



We the People

THE CITIZEN & THE CONSTITUTION

The Federal Bureaucracy

The First Congress set up executive departments and agencies to carry out the business of the executive branch. Learn why Congress creates executive departments and agencies and identify some of the checks on the exercise of administrative power.

Why does Congress create administrative organizations, and what powers do they exercise? Laws usually are written in general terms. Congress cannot anticipate and does not have the expertise to resolve problems that arise when general laws are applied to specific circumstances. Almost from the beginning Congress has had to delegate some of its lawmaking powers to those who administer the laws. Administrative units exercise quasi-legislative powers by adopting rules to implement broad congressional mandates. Rules are published in the *Federal Register*. Many administrative units also exercise quasi-judicial powers by holding hearings to resolve disputes that involve parties claiming to have been injured by administrative policies or procedures.

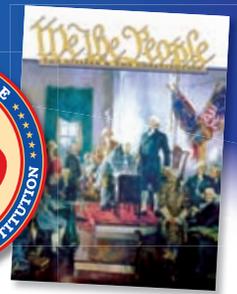
The Internal Revenue Service (IRS) provides an example. The Sixteenth Amendment gives Congress the power to “lay” (establish) and collect taxes on income. Congress enacts general income tax laws. It has delegated to the IRS the responsibility to make and enforce rules about tax collection, including income tax forms, deadlines, and penalties for late filing. The IRS holds quasi-judicial proceedings, including hearings and opportunities to present evidence to a neutral hearings officer, for taxpayers who are accused of violating tax rules.

In 1946 Congress adopted the Administrative Procedure Act that established guidelines for administrative units to follow when they make rules to implement laws. Among other things the act requires public notice and an opportunity for the public to be heard before a rule goes into effect. The act also permits judicial review of the decisions of administrative units in federal court after someone has gone through, or exhausted, all quasi-judicial proceedings within the administrative unit.

How do checks and balances affect administrative agencies? Administrative agencies are subject to many checks on the exercise of their powers. Those who exercise checks include the following:

The president Presidents use their appointment power to reward political loyalists and advance their policy agendas. Presidential appointees usually are required to pursue the president’s policies in administering government programs, thereby checking the power of civil service career employees.

Presidents also check the exercise of administrative power through the use of executive orders, which direct agency heads and cabinet members



to take particular actions. Executive orders have become more common in recent years as a means of forcing agencies to adjust administrative policies and procedures. For example, soon after he took office President George W. Bush issued executive orders creating Faith-Based and Community Initiatives offices in several departments and agencies to help ensure that faith-based groups would receive government contracts to provide social services.

Congress Congress can control the bureaucracy in many ways. It is responsible for the creation, consolidation, and elimination of administrative agencies. The Senate must confirm high-level presidential appointees. Many statutes direct agencies to undertake certain actions and refrain from others. Congress also must appropriate the money required for agencies to operate. Congressional committees are responsible for overseeing the actions of administrative agencies. They review agency budgets, require administrators to justify expenditures, hold investigative hearings about agency activities, and require agencies to submit their proposed rules, which Congress has the power to “veto.” The Supreme Court declared the congressional veto unconstitutional in 1983, but Congress has continued to use it and has found other ways, including joint resolutions, to prohibit agencies from implementing rules with which Congress disagrees.

Courts Courts decide whether agency operations follow the Fourteenth Amendment requirements of due process and equal protection. Courts also determine whether Congress has delegated too much legislative authority to administrative agencies. The Supreme Court has never questioned Congress’s power to permit administrative agencies to “fill in the details” of statutes, but the Court has insisted that Congress clearly identify the standards that agencies must meet.

Federalism If a state policy differs from a national policy—as has occurred in areas such as education, welfare, and environmental protection—then national bureaucrats can encounter resistance or refusal to comply with the national standards. Sometimes acting alone, and almost always when acting with others, states can have a significant effect on the national bureaucracy.

Citizens, interest groups and the media Those who are directly affected by administrative policies or who are interested in particular areas of public policy also check the exercise of administrative power. Many Social Security recipients, for example, monitor actions of the Social Security Administration and report complaints to the agency or to members of Congress. Environmental activists, welfare recipients, and many other individuals and groups keep a close watch over various administrative agencies. Media investigations also can alert the public and elected officials to problems and miscarriages of justice in the bureaucracy.

Reviewing Ideas and Terms

- 1. Describe** What are the limits on the exercise of administrative power?
- 2. Explain** How do both Congress and the president rely on administrative agencies?

Research Activity

- 3. Develop** Find an example of how the media or a citizens’ group in the United States or in your community has brought to light a problem in the bureaucracy.

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Examine key concepts in this chapter.

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Learn about U.S. government through simulations you can complete online.

Comprehension and Critical Thinking

SECTION 1 (pp. 192–195)

1. **a. Review Key Terms** For each term, write a sentence that explains its significance or meaning: bureaucracy, bureaucrats, civil service, spoils system.
- b. Draw Conclusions** Why do you think the federal bureaucracy today is so large?
- c. Evaluate** What do you think about the end of the spoils system and the implementation of a civil service?

SECTION 2 (pp. 196–204)

2. **a. Review Key Terms** For each term, write a sentence that explains its significance or meaning: independent executive agencies, independent regulatory commissions, bipartisan, government corporations.
- b. Summarize** In what ways have the executive departments changed since 1789?
- c. Analyze** What is your opinion about the legislative and judicial powers given to certain independent agencies? Should they be allowed to have such powers? Explain your answer.

SECTION 3 (pp. 206–213)

3. **a. Review Key Terms** For each term, write a sentence that explains its significance or meaning: progressive tax, regressive tax, proportional tax, bond, federal debt.
- b. Contrast** What is the difference between fiscal policy and monetary policy?
- c. Predict** What might happen if current budget patterns continue as they have over the past 50 years?

Critical Reading

Read the passage in Section 2 that begins with the heading “Independent Regulatory Commissions.” Then answer the questions that follow.

4. What is the primary purpose of the Federal Communications Commission (FCC)?
 - A to regulate passenger trains
 - B to regulate radio, television, wire, satellite, and cable communication
 - C to regulate print media
 - D to regulate communication with foreign countries
5. What is distinctive about independent regulatory commissions?
 - A They are not a part of the federal bureaucracy.
 - B They only regulate commerce.
 - C They all have a bipartisan board of directors.
 - D They have only executive functions.

Read the passage in Section 3 that begins with the heading “The Budget in Congress.” Then answer the questions that follow.

6. What is Congress’s role in the budget process?
- A Congress is legally bound to follow the president’s proposed budget.
 - B Congress is able to change nearly any aspect of the president’s proposed budget.
 - C Congress is required to produce an entirely different budget.
 - D Congress is bound by the advice of the Congressional Budget Office.
7. What is the main role of the Budget Committees in the House and the Senate?
- A to approve the president’s proposed budget
 - B to debate the concurrent resolution
 - C to cut the budget
 - D to establish spending and revenue guidelines

RESPONSIBILITIES OF LEADERSHIP



8. How much do you know about the **purpose and function of independent agencies**? Select an independent agency and research its purpose and function. Use your research to write an editorial on whether this agency is an important part of the federal bureaucracy today. Use persuasive arguments and language in order to convey your point.
9. The federal government takes an active role in many public health issues. The National Institute on Alcohol Abuse and Alcoholism, for example, is an agency that works to reduce alcohol-related problems in the United States. Using the library and the Internet, research examples of how **federal, state, and local governments take a role in substance abuse programs**. Write a report detailing the agency and explain why this agency is important to the prevention of substance abuse.

CONNECTING TO THE CONSTITUTION

10. Go to the periodicals section of your library and select articles from newspapers or magazines that show examples of actions taken by the executive departments and agencies. Use these articles to explain how the actions of these organizations relate to the purposes of republican government.

ANALYZING PRIMARY SOURCES



Political Cartoon *The federal budget determines the levels of funding that the agencies and organizations of the federal bureaucracy will receive each year. With every new fiscal year, the budget continues to grow. As budgets become bigger, the amount of tax revenue and additional government borrowing increases, which creates a strain on Americans and also increases the size of the federal debt.*



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11. **Analyze** What is the message of this cartoon?
12. **Make Inferences** How does the cartoon use the notion of weight loss to illustrate the size of the federal budget?

FOCUS ON WRITING



Expository Writing *Expository writing gives information, explains why or how, or defines a process. To practice expository writing, complete the assignment below.*

Writing Topic: The Executive Departments

13. **Assignment** How has the increasing number of executive departments affected the bureaucracy? Write a short essay in which you develop your position on this issue. Support your point of view with reasoning and examples from your reading and studies.