“IF GOVERNMENT IS TO SERVE ANY PURPOSE IT IS TO DO FOR OTHERS WHAT THEY ARE UNABLE TO DO FOR THEMSELVES.”

—LYNDON JOHNSON, 1964
Chapter 7: The Executive Branch at Work

Section-1  The Federal Bureaucracy

Section-2  Executive Departments and Independent Agencies

Section-3  Financing Government
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.
The Federal Bureaucracy

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
- What is the federal bureaucracy?
- What is the civil service, and how has it changed over the years?
Working for the Federal Government

The Nation’s Largest Employer
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.

- Federal bureaucracy contains all agencies, departments of executive branch, including office of vice president, Executive Office of the President, executive departments, independent agencies
- Three types of independent agencies: independent executive agencies, independent regulatory commissions, government corporations
- Today about 2.7 million work for federal bureaucracy; top administrators: political appointees, often leave when president’s term ends
- **Bureaucrats**, administrators, skilled expert workers, career employees hired through competitive process; remain in jobs as presidents come and go
Summarizing

How many people work for the federal bureaucracy today?
Summarizing

How many people work for the federal bureaucracy today?

**Answer(s):** 2.7 million
The Civil Service

- **Civil service** made up of civilians who carry out work of federal government
- Few top-level policy makers—heads of executive departments, independent agencies—appointed by president
- Civil service workers hired through competitive process
- System was not always in place in United States

The Spoils System

- In early years, government jobs given out by president as political rewards—practice known as **spoils system**
- Critics believed system led to government corruption, political appointees rewarding supporters with federal contracts
- High turnover led to inexperienced, inefficient federal bureaucracy
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.

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.
The Civil Service {continued}

Changes in the Spoils System

- 1871: Civil Service Advisory Board created, but accomplished little
- 1881: President James Garfield assassinated by disappointed office seeker
- President Chester A. Arthur used assassination to convince Congress to pass civil service reforms
- President Chester A. Arthur used assassination to convince Congress to pass civil service reforms
  - Hiring, promotions on merit
  - Created Civil Service Commission, administer exams

The Civil Service Today

- Pendleton initially applied to only 10 percent of federal bureaucracy
- Subsequent presidents expanded scope
- Today more than 90 percent of federal government jobs protected by civil service legislation
- Civil Service Reform Act of 1978
- Federal Labor Relations Authority handles labor practices, concerns
- U.S. Merit Systems Protection Board protects employees from partisan practices and abuses
Identifying Problems and Solutions

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

Identifying Problems and Solutions

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

**Answer(s):** possible answer—corruption, uneven balance of power, inefficiency; reform based hiring on merit rather than party affiliation
Section 2 at a Glance

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.
Executive Departments and Independent Agencies

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

Reading Focus
• What is the purpose of the executive departments?
• What are the primary functions of executive departments today?
• What are independent agencies?
• What are some issues regarding power and accountability in the federal bureaucracy?
The Organizations of the Federal Government

GOVERNMENT IN
Our Daily Lives

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

- Major units of administration and policy making in executive branch
- Called cabinet-level departments because heads of departments make up president’s cabinet
- Today, 15 executive departments employ about 60 percent of all federal government employees
- Each oversees broad area of government responsibility; smaller, more focused agencies within each department

- Congress and president share responsibility for executive departments
- Congress spells out each department’s general duties and powers, approves budget and expenditures
- President nominates secretaries, top officials, heads of smaller agencies
- Senate must give advice and consent on selections
Executive Departments (continued)

Early Departments

• 1789: George Washington established first executive departments of State, Treasury, and War, as well as attorney general post
• Justice Department not created until 1870
• 1800s, 1900s: Congress created new departments to meet new needs
• 1849: United States acquired new lands and responsibilities following Mexican-American war
• Department of Interior created to manage country’s public lands, resources, relationships with Native American groups
• Congress created new departments to show government’s changing priorities
• 1913: Department of Labor created—reflected increased power, importance of organized labor
New Departments since 1950

• Post World War II: Congress created seven executive departments
• Departments reflected expanded role government played in Americans’ lives
• Americans expected federal government to take action when problems confronted society
• 1965: Department of Housing and Urban Development created after riots in Watts section of Los Angeles
• 1973: Department of Energy created in response to Arab oil embargo, gasoline shortages, skyrocketing prices
Reading Check

Identifying Supporting Details

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

What were the first three executive departments established by Congress?

Answer(s): Departments of State, Treasury, and War
The Departments Today

There are 15 executive departments in the federal bureaucracy today. We will take a closer look at three of those departments: the Department of Health and Human Services, the Department of Defense, and the Department of Homeland Security.

**Health and Human Services**

- Established to protect health of American people
- Main federal provider of social services
- Employs more than 65,000 people
- Key programs include: Social Security, Medicare, Medicaid
- Medicare: medical insurance for people 65 and older
- Medicaid: medical insurance for low-income people of all ages
- Smaller agencies work within, including Centers for Disease Control and Prevention, Food and Drug Administration
The Departments Today \textit{continued}\textbf{\textit{}}

**Department of Defense**
- Oversees U.S. military forces charged with protecting the nation
- Originally Department of War, one of original departments created in 1789
- 1947: DOD created, brought all military branches under single secretary
- More than 1.3 million active service; 1.1 million in National Guard, Reserve
- Largest budget; $480 billion proposed for 2008

**Homeland Security**
- 2003: created after terrorist attacks of September 11, 2001
- Reorganization of several agencies already in place
- Purpose: to refocus government efforts involving law enforcement, border security, transportation, immigration, emergency preparedness, other issues
- Secret Service, U.S. Coast Guard under jurisdiction of Homeland Security
# THE EXECUTIVE DEPARTMENTS

<table>
<thead>
<tr>
<th>DEPARTMENT (YEAR CREATED)</th>
<th>GOALS AND FUNCTIONS</th>
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| Department of State (1789) | • 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) | • Provide military forces and domestic security  
                                 • Deliver humanitarian aid and disaster relief and provide peacekeeping forces |
| Department of the Treasury (1789) | • 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) | • Protect the nation’s resources—both natural and cultural  
                                  • Manage resource use  
                                  • Provide recreation opportunities |
| Department of Agriculture (1862) | • 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) | • 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) | • 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) | • 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.
<table>
<thead>
<tr>
<th>DEPARTMENT (YEAR CREATED)</th>
<th>GOALS/FUNCTIONS</th>
</tr>
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| Department of Health and Human Services (1953) | • 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) | • 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) | • 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) | • 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) | • 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) | • 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) | • 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 |
Chapter 7

Reading Check

Identifying Cause and Effect

Why was the Department of Homeland Security established?
Identifying Cause and Effect

How did the Civil War resolve the issue of secession?

Answer(s): to coordinate government efforts to prevent future terrorist attacks on U.S. soil
### 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.

#### Issues

- Congress establishes independent agencies to address issues too complicated, requiring too much specialized knowledge, to handle through regular legislation
- 1970: Environmental Protection Agency created to address issue of protecting environment
- Congress retains power, funding approval over agencies

#### Powers

- Powers go beyond scope of executive functions, quasi-legislative, quasi-judicial powers
- Congress maintains power to override laws created by agencies
- U.S. Postal Service employs more than 700,000
- Defense Nuclear Facilities Safety Board has fewer than 100 workers
Independent Executive Agencies

- **Independent executive agencies** oversee and manage specific aspects of federal government
- Executive powers similar to executive departments; heads of agencies not cabinet members
- President nominates top officials, subject to Senate confirmation
- National Aeronautics and Space Administration typical of such agencies
- NASA divided into program offices responsible for particular parts of agency
- Research into origins of universe, continuing human exploration of space
- 1961: President John Kennedy urged creation of Peace Corps
- Peace Corps places American volunteers in developing nations
- Other independent executive agencies include General Services Administration, National Archives and Records Administration, others
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.
Independent Regulatory Commissions

- Independent regulatory commissions regulate some aspect of economy
- Set and enforce rules that have force of law; most have quasi-judicial powers to settle disputes arising from their rules
- Led by three- to seven-person board; members nominated by president, confirmed by Senate
- Boards must be bipartisan—include members from both major parties
- Examples: Interstate Commerce Commission, Federal Communications Commission, National Recovery Administration
- Congress created new departments to show government’s changing priorities
- Why create powerful, independent agencies?
  - Specialists better equipped to handle specific areas
  - More continuity in legislation
  - Independent body free of undue political influence
Government Corporations

- **Government corporations** are organized and run like businesses, but owned in whole or in part by the federal government.
- Created to achieve public goal that private business may not be able to address for sufficient profit

United States Postal Service (USPS)

- USPS not expected to make profit; expected to break even
- Has responsibility to see entire country has affordable, equitable mail service

National Railroad Passenger Corporation (AMTRAK)

- Government-run passenger rail service
- Criticized in recent years for considerable financial losses
- Relies on government subsidies
- Continues to struggle just to break even
Reading Check

Identifying the Main Idea

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

What is the purpose of independent agencies?

**Answer(s):** to address certain issues that have become too complicated or require too much specialized knowledge to handle through regular legislation
Landmark Supreme Court Cases  *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.*
Power and Accountability in the Federal Bureaucracy

- Constitution provides number of tools for ensuring accountability of federal bureaucracy
- President can shape direction through appointment powers, executive orders
- Congressional oversight committees and subcommittees demand answers from federal agencies
- Appropriations committees affect operations through funding
- Additional steps taken over the years to ensure agencies remain accountable

- 1946, Administrative Procedure Act: set clear guidelines for agency rule making, including period for public comment, participation
- 1965, Freedom of Information Act: allows citizens access to written records
- *Iron triangle*: bureaucratic agencies, congressional oversight committees, outside interest groups form unofficial alliance
- Not as prominent as they once were; issues so complex that multiple committees and agencies have a hand in making policy
Summarizing

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

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

**Answer(s):** possible answer—funding, laws, federal guidelines
Debating the Issue: 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.
Section 3 at a Glance

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.
Financing Government

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

• How does the federal government pay for its operations?
• What are the two types of government spending?
• How does the federal budget process work?
• How do fiscal and monetary policy affect the nation’s economy?
The Federal Budget

BIG NUMBERS

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.
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**
- 1913: 16th Amendment gives power to levy *income tax*, a tax on person’s or corporation’s income
- Largest share, 47 percent, of federal government’s revenue
- *Progressive tax*: tax whose rates increase as amount subject to taxation increases
- Rates range from 10 to 35 percent

**Payroll Taxes**
- *Payroll tax*: money withheld from person’s paycheck to help pay for Social Security and Medicare
- Makes up about 34 percent of federal revenues
- Payroll is *regressive tax*: greater impact on lower-income earners
- Medicare is *proportional tax*: same rate against all income
Other Sources of Revenue

- Federal government collects several other taxes and nontax revenues
- Excise taxes and tariffs: taxes on imported goods
- Estate tax: tax on money, property passed on to heirs of someone who dies
- 2007: estates valued at more than $2 million taxed by federal government
- Gift tax: tax on property given from one person to another
  - Gift taxes exist so people will not avoid paying estate taxes by giving away property before they die.
- Nontax revenue comes from many sources, including entrance fees at national parks.
- Federal Reserve System—loans money to banks, charges interest
FEDERAL REVENUES FOR 2009

- Individual Income Taxes 43%
- Social Insurance and Retirement Receipts (Payroll Tax) 43%
- Other: estate and gift taxes (1%), customs duties (1%) and miscellaneous receipts (2%)
- Corporate Income Taxes 7%
- Excise Taxes 3%

Source: Office of Management and Budget
Paying for Government \{(continued)\}

Borrowing Money

- Federal government expenses not always covered by revenues collected
- Borrows money by selling bonds
- **Bond**: financial instrument by which borrower agrees to pay back borrowed money, plus interest, at future date
- Steep drops in government revenues lead to budget deficits, when revenues are lower than expenses
- Federal government has been running deficit in recent decades
- **Federal debt**: total sum of money federal government has borrowed but not yet repaid
- Today federal debt has surpassed $9 trillion
- Interest amounts to hundreds of billions of dollars—currently about 9 percent of total annual budget
- Some feel benefits to aging population in peril
Chapter 7

**THE FEDERAL DEFICIT**

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

- Billions of Dollars
- *Estimate

**Source:** Office of Management and Budget

**THE FEDERAL DEBT**

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

- Billions of Dollars

**Source:** Office of Management and Budget
Reading Check

Summarizing

What are the main sources of government revenue?
Reading Check

Summarizing

What are the main sources of government revenue?

Answer(s): taxes, fees, and borrowing
Government Spending

Mandatory Spending

- **Mandatory spending**: required by laws, not subject to budget process
- Entitlement programs included, like Social Security
- Mandatory budget spending steadily rising
- 1962, 26 percent of budget; today, 69 percent of annual budget

Discretionary Spending

- **Discretionary spending**: spending subject to annual budget process
- Congress decides how to allocate discretionary funds
- Currently about 31 percent of entire budget
- President proposes budget, but must be passed by Congress
- Pool of discretionary money limited, disputes often arise
- Creating budget a collaborative effort, often long, laborious process
**FEDERAL SPENDING 2009 (PROPOSED)**

- **Mandatory Spending**
  - Social Security 19%
  - Medicare 12%
  - Income Security 13%
  - National Defense 19%
  - Health 8%
  - Veterans’ Benefits and Services 1%
  - Net Interest Payments on the Debt 5%
- **Discretionary Spending**
  - Other 17%
  - Other Discretionary Spending
    - Education, Training, Employment, and Social Services: 3%
    - Transportation: 2%
    - Administration of Justice: 1%
    - International Affairs: 1%
    - Natural Resources and Environment: 1%
    - Other: 9%*

*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
Contrasting

What is the difference between mandatory and discretionary spending?
Contrasting

What is the difference between mandatory and discretionary spending?

**Answer(s):** Law determines mandatory spending, while Congress decides how to spend discretionary funds.
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 federal budget lasts for one fiscal (“financial”) year, which begins on October 1 and runs to September 30 of the next calendar year.

The President’s Budget

- Creation of federal budget begins with president
- Proposed budget reflects president’s legislative priorities
- Office of Management and Budget assists president in creating budget
- President sets broad budget, policy guidelines; OMB provides details
- Shows revenue and spending estimates into the future
- Budget complete in January in time for State of the Union address
The Budget in Congress

- President must present budget to Congress by 1st Monday of February
- Congress uses president’s proposed budget as guide for discussions
- Reviews proposal, makes changes deemed necessary
- Nonpartisan Congressional Budget Office provides expert economic analysis
- First steps: to agree on grand totals for revenue, spending

- Next steps: deal with hundreds of individual funding and revenue resolutions
- House and Senate Appropriations Committees have authority over discretionary spending of budget
- Series of appropriations bills formalize spending decisions, sent to president
- Budget work supposed to be finalized by beginning of fiscal year
- Congress has often failed to meet deadline; continuing resolutions passed to allow temporary funding of government, while solutions worked out
Chapter 7

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.

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.

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.

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

Sequencing

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

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

**Answer(s):** The president creates a budget, OMB makes adjustments, Congress and CBO review the president’s proposals, Budget Committees devise concurrent resolution, Appropriations Committees write appropriations bills, House and Senate approve bills and send them to the president, who signs them.
Fiscal and Monetary Policy

- Each year government takes in amount of money equal to about 20 percent of gross domestic product
- Government also spends and borrows similar amount
- Increasing taxes, increasing government spending, and borrowing money can cause economy to shift
- Government spending and borrowing have huge effect—positive and negative—on economy
- **Fiscal policy** made when president and Congress create federal budget and tax laws
- **Monetary policy** created when government alters amount of money in circulation and interest rates at which money can be borrowed
- Fiscal and monetary policies help federal government work toward four-part economic goal—economic growth, low unemployment, stable prices for goods and services, balanced budget
Fiscal Policy

- Goal of fiscal policy to provide adequate funds for government without adversely affecting overall economy
- When economy is growing slowly, shrinking government can spend more or cut taxes

- Targeted government spending can stimulate sectors of economy to produce more goods, hire more workers
- Cutting taxes can leave more money in taxpayers’ pockets, spurring consumer spending, business investment

- Increasing government spending while cutting taxes can create large deficits, which must be covered by borrowing money
- As government borrows more, higher interest on bonds must be paid to attract investors

- This triggers rise in rates at which businesses borrow money
- This can cause economy to slow
- Too much government spending causes inflation—rise in prices, cutting into people’s purchasing power
**FISCAL POLICY AND THE ECONOMY**

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 cannot afford to expand

**AND** the economy begins to decline
Monetary Policy

- Federal government can influence economy through monetary policy by controlling amount of money in circulation, interest rates for borrowing
- 1913: Federal Reserve System created to act as nation’s central bank system
- Seven-person board, nominated by president, confirmed by Senate
- Fed Chairperson’s decisions have great impact on U.S. economy

Federal Reserve System

- Sets rules for banks’ reserves; increasing, reducing amount of money in circulation
- Adjusts interest rates it charges nation’s other banks
- Affects money supply by buying, selling bonds

Fiscal, Monetary Policies

- Successful policies a balancing act
- Limits to what government can achieve with fiscal, monetary policy
- Changes take time to put in place
- Effect of change may not begin for months
Benjamin 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?
Identifying Supporting Details

Why is inflation bad for the economy?
Identifying Supporting Details

Why is inflation bad for the economy?

**Answer(s):** possible answer—Inflation cuts the purchasing power of people and businesses
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?
• How do checks and balances affect administrative agencies?
Print Slide Show

1. On the File menu, select Print
2. In the pop-up menu, select Microsoft PowerPoint If the dialog box does not include this pop-up, continue to step 4
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