

Glossary of Common Terms

Unless otherwise noted, definitions were drawn from the sources listed at the end of this glossary.

adjusted gross income (AGI)

Income on which individual federal income tax is assessed. A person's AGI is his or her total income minus allowable deductions for such items as personal exemptions, business expenses, charitable contributions, contributions to a tax-deferred retirement account, and interest paid on student loans or a home mortgage. Also referred to as net income.

agrarian

Relating to agricultural or rural matters.

anarchy

Social or political disorder caused by insufficient government control.

appropriation

Revenue reserved for a particular purpose.

austerity

Economic measures taken by a government to reduce spending to a minimum on nonessential items, usually in response to an unsustainable deficit.

Baby Boomer

A term referring to someone born between 1946 and 1964, a period during which there were 76 million births in the United States, compared with 52.5 million in the preceding 19 years and 66 million in the following 19 years. Policymakers are concerned about the impact that the retirement of this generation will have on Social Security and Medicare resources.

balance of payments

The record of all transactions (expressed in monetary terms for goods, services, and physical and financial assets) between individuals, firms,

and the government of one country and those in all other countries within a given year.

balance of power

A distribution of power among nations that prevents any nation from dominating or interfering with others.

balanced budget

A budget in which total expenditures equal total revenue. A budget is balanced when government spending equals government income from taxes and tariffs within a given year.

bank notes (federal currency)

Currency that is payable on demand, issued by an authorized bank, and intended to circulate as money.

Bank War

A political controversy in the 1830s over the rechartering of the Second Bank of the United States.

beneficiary

An individual who receives compensation, financial or otherwise, from a government entitlement program.

bimetallism

The use of two metals with a fixed relative value, typically gold and silver, as the monetary standard.

bipartisan

Representing, or composed of, two (political or other) parties.

bonds

An investor's loan of money to an entity (corporate or governmental) that borrows the funds for a specific period of time at a fixed interest rate. Bonds (loan contracts) are used by companies, municipalities, states, and U.S. and foreign

governments to finance a variety of activities and projects.

budget

A tool for financial planning for which all income is listed and compared with all expenditures. To balance a budget, expenditure decisions must hold spending to less than or equal to income.

budget deficits and federal debt

A budget deficit or annual debt results when revenue (income) is lower than expenses in a given year. Individuals, organizations, and nations can incur them. For the United States, the sum of yearly federal deficits creates the federal debt or gross debt, the total amount of money owed by the U.S. federal government. Individuals or nations that allow debts to grow too large may be unable to repay them. An unsustainable debt can cause nations to use desperate measures. When the Weimar Republic in Germany tried to pay its debts by printing money it didn't have, it caused high inflation or hyperinflation, a rise in prices so high that money became almost worthless. Economists recommend that governments be fiscally responsible by balancing spending with efforts to reduce their debts to a sustainable level. They may advise governments to reduce debts in good economic times in order to spend more to revive growth during recessions.

budget process

The process by which an organization or individual creates and manages a financial plan. Also, the annual process by which a government decides what funds to spend (outlays) and to collect (revenues) from taxation, fees, and borrowing.

budget resolution

At the federal level, the annual framework, agreed upon by Congress, that sets targets for total government spending. The budget resolution is not binding on the executive branch.

budget surplus

The total amount of money in the budget that results when government income is greater than government spending within a given year.

Buffett rule

A policy proposed by President Obama to ensure that the wealthiest Americans pay at least 30 percent of their income in federal taxes. Named after the billionaire investor Warren E. Buffett, who noted that his secretary pays a higher effective federal tax rate than he and other billionaires do. See also *capital gains tax*.

canonical

Classical; widely accepted as true or foundational, based on a canon.

capital gains tax

A tax paid on the profit from the sale of a financial investment (such as a stock, bond, or property). In 2011, the capital gains tax on investments held longer than a year was 15 percent, a significantly lower tax rate than that imposed on most other sources of income. Some argue that this is good tax policy because people will have an incentive to invest. Others think that all forms of income should be taxed equally so that wealthy people who earn much of their income from investments (i.e., capital) don't have a much lower tax rate than people who earn their income as salary.

causation

The creation of an effect.

charter (recharter)

A document issued by a ruler or state outlining the organization of a corporation, colony, city, or other corporate body and defining its rights and privileges.

cherry picking

To select the best or most desirable items or individuals from a population under study.

civic responsibility

The responsibility individuals have to the community where they live and of which they are members. Also, the responsibility citizens have to contribute to a participatory democracy.

commercial bank

A bank specializing in checking accounts and short-term loans. Commercial banks are federally insured to protect customer accounts. The banking sector is split into two fundamental divisions: investment banking and commercial banking. Institutions that mix the two activities have come under scrutiny lately, accused of being major contributors to the global economic meltdown of 2008. Debate rages as to whether the two distinct banking activities should be carried out under a single roof, or whether they should be forever separate. See also *investment bank*.

conditionalities

When used by the International Monetary Fund, a term referring to the requirements that a government must meet in order to receive international aid or loans. Usually economic or political reforms desired by international donors or lenders.

conservative (political)

An adherent of traditional values, ideas, and institutions; an opponent of social and political change. In national politics, conservatives are often wary of enlarging the responsibilities and power of the federal government.

constituency

The body of voters who elect a representative to be a member of a legislative or other public body; generally the whole body of residents in a district or place represented by such a member.

consumer debt

Debts owed by consumers rather than businesses or government as a result of buying goods that are consumable and/or do not appreciate—goods

that do not represent an investment. High levels of consumer debt can lead an individual or a family into bankruptcy.

Consumer Price Index (CPI)

A measurement of the cost of a fixed basket of consumer goods and services, which compares the cost of this basket in one time period with its cost in another base period. Changes in the CPI are used to measure inflation.

consumption analysis

The breakdown of the determinants and/or effects of consumption, or what consumers buy (versus save or invest). Consumption can be public or private, and is generally stimulated by higher levels of income.

consumption tax

See *sales tax*.

corporate income tax

A tax levied on a corporation's profits. In 2011, taxes on corporate profits provided about 9 percent of federal tax revenue compared to about 25 percent in the 1950s. Some tax revenue is lost because of multinational companies that use overseas "tax havens" to avoid paying U.S. taxes. The top corporate tax rate is 35 percent, but the Treasury Department estimated that in 2004, the most recent year for which data is available, American multinationals paid \$16 billion in taxes on \$700 billion in foreign income—an effective rate of 2.3 percent.

correlation

In statistics, the degree to which measurements of two or more factors change in the same or opposite ways. In a perfect positive correlation, two factors increase or decrease together at the same rate. In a perfect negative correlation, one factor decreases at the same rate as the other increases. A correlation may result from coincidence rather than cause and effect.

cost

In accounting, the actual price of something—for example, the cost of college would be the money for tuition, room, and board required to attend college. In economic terms, cost also includes opportunity cost, the cost of what was given up—for example, college cost might include unearned income.

cost–benefit analysis

An evaluation of a proposed action that considers whether its benefits (or profits) outweigh its costs, thereby producing a net benefit. In politics, this term might refer to a study that compares the costs and benefits to society of providing a public good in order to evaluate a change in policy or program.

Cost–benefit analyses reflect the economic concept of scarcity, which holds that resources are too limited to meet unlimited wants. As a result, people must make choices that involve trade-offs, giving up or getting less of one desire to gain another. One can evaluate a choice by comparing its costs and benefits (also profits or incentives) with those of its opportunity cost, the second best choice one gives up to get the first choice. For example, if Congress spends limited funds on highways instead of education, the total cost would include highway costs plus the opportunity cost of lost education spending.

credit

The opportunity to borrow money or receive goods or services in return for a promise to pay it back later.

creditor

A party (individual, organization, or country) to which money is owed.

currency

Something used as a unit of exchange, usually money.

debt

Money owed to a party (individual, organization, or country). See also *consumer debt* and *national debt*.

debt service

An amount set aside annually to pay the interest and part of the principal owed on a debt.

debt to GDP ratio

A comparison of a country's national debt to its national income, also known as its gross domestic product (GDP). This ratio is used to measure the relative debt level of a particular country and is considered an indicator of economic health.

debtor

A party (individual, institution, or government) that owes money to another party.

default

Failure to make timely payments of interest or principal or to comply with other legal obligations of loans, bonds, mortgages, promissory notes, or other debt contracts.

deficit

See *budget deficit*.

deficit spending

The amount by which a government, private company, or individual's spending exceeds income over a particular period of time—also referred to as the deficit. See also *stimulus program/stimulus spending*.

Democratic Party

One of the two major political parties in the United States. (See also *Republican Party*.) The party's platform generally reflects a more liberal or progressive approach to public policy and supports some level of social and/or economic justice as a legitimate goal of government policies and programs.

demographic

A statistic used to describe a characteristic of human populations. Examples include gender, age, race, income, geographic location, education level, and employment.

depression

A severe downturn in the economy as measured by such factors as gross domestic product (GDP) and unemployment that lasts several years. During the Depression that began in 1929 and lasted until 1933, unemployment reached 25 percent, wages (for those who had jobs) dropped 41 percent, and the GDP was as low as –8.3 percent. In January 2011, when the economy was considered weak, unemployment was 9.4 percent and the GDP was approaching 3 percent.

deterrent

In military defense terms, an ability to defend a country or strike back strongly enough to deter an enemy from attacking.

direct cost

A cost directly related to the production of a product, function, or service.

discretionary spending/discretionary program

In the U.S. budget, federal spending that is not required by law and can be more easily adjusted through the annual budget process to meet changing circumstances. A category of spending in which government can choose how to distribute its money. Funding for discretionary programs such as defense, education, and transportation varies depending on an annual budgetary process negotiated between Congress and the President. See *mandatory vs. discretionary programs*.

disposable income

The amount of income an individual has after his or her taxes have been paid.

duty

A tax levied on a specific product imported from outside one's country.

economic bubble

A rapid increase in the price of a good or investment, usually caused by the belief that the price will rise further. It is typically followed by a

sudden drop in price. The economic crisis of 2008 was caused by a bubble in the price of housing.

economic cycles

Economies go through economic cycles of growth and decline measured by system-wide fluctuations in their gross domestic product (GDP) and other economic indicators. It is easier to keep a balanced budget in a growing economy. When the GDP declines for at least 6 months and businesses start to fail while unemployment rises, the economy is said to be in a recession. If a recession worsens, it can become a more severe depression. Governments usually respond to economic downturns by spending on public works, called stimulus spending or deficit spending, and/or cutting taxes to encourage business spending. In either case, these actions cause a deficit, adding to the debt held by the public. Many economists support Keynesian economics, a set of theories created by John Maynard Keynes that recommends stimulus spending to combat recessions and promote the public good. Also called business cycles.

economic efficiency

The use of resources in a way that maximizes the production of goods and services.

economic indicators

Nations select statistics or economic indicators to analyze the relative health of their economies. The gross domestic product (GDP) estimates a nation's income by measuring the total value of all the final goods and services produced within its borders in a given year. Economists compare the average standard of living in different countries by dividing a nation's GDP (national income) by its population to obtain its GDP per capita (GDP per person). One way to estimate a country's ability to pay its national debt is to calculate its debt to GDP ratio. The lower a nation's debt to GDP ratio, the greater its national income to pay its debt. The balance of payments (also known as net exports) measures a nation's wealth or debt from international trade by subtracting the cost of its imports from the

earnings of its exports. A positive trade balance means a country exports more than it imports, whereas a negative trade balance means the reverse. Other important indicators include the unemployment rate and the Consumer Price Index (CPI), which measures the rate of inflation.

economic welfare

The level of prosperity and quality of life in an economy as measured by the gross domestic product (GDP) and less quantifiable measures such as the degree of pollution or leisure time.

effective tax rate

The percentage of total income paid in federal and state income taxes.

efficiency

Achieving the best results at the lowest possible cost; getting the most out of resources used. See also *economic efficiency*.

entitlement programs

Government programs that provide beneficiaries with financial benefits to which they have a legal right when they meet the eligibility conditions specified in the law that authorizes the programs. Federal entitlement programs include Social Security, Medicare, Medicaid, most Veterans Administration programs, unemployment compensation, food stamps, and agricultural price support programs.

estate and gift taxes

A tax on large inheritances and monetary gifts above a certain sum. Currently, estates worth more than \$5 million are taxed. Total estate and gift taxes for 2011 provided about 1 percent of federal revenue. The estate tax is controversial and was eliminated altogether in 2010, but it returned in 2011.

euro

The official currency of 22 European countries plus the Vatican City. Most of the countries that have adopted the euro are part of the European Union.

European Union

An association of 27 European nations formed in 1993 for the purpose of achieving political and economic integration.

Eurozone

A geographic and economic region consisting of all the European Union countries that use the euro as their national currency.

excise tax

A tax on specific goods for sale (e.g., alcohol or tobacco products); often intended to discourage use of goods deemed to be harmful. In 2011, excise taxes provided about 3 percent of federal revenue. See also *user tax*.

expansionary policy

A policy that aims to increase the money supply to encourage economic growth or combat inflation (price increases).

expenditure

In a budget, the amount of money used to pay for goods or services.

externality

The unintended effect of an economic transaction on a third party—a party other than the buyer or seller. The effect, which can be either positive or negative, is not reflected in pricing.

fairness

Free from bias or injustice; evenhanded. In economics, it typically refers to a just distribution of benefits or taxes. See also *taxes*.

federal budget

The budget of the federal government. An annual effort to balance federal outlays (spending) with revenue (income). See also *budget process*.

federal debt

See *gross federal debt* or *national debt*.

federal income tax

A tax is based on an individual's adjusted gross income (AGI), the total income a person earns less varied tax code deductions. It is known as a progressive tax because its rate increases as an individual's or couple's income increases. The income tax rate for the top bracket declined significantly from a high of 94 percent after World War II (on the portion of income over \$200,000) to 35 percent since the early 2000s. Some 18 million Americans earn too little to file income taxes and another 33 million pay no taxes at all. Overall, individual income taxes have averaged about 45 percent of total revenues since 1950, providing the federal government's largest source of income.

Federal Reserve System

The central bank and monetary authority of the United States. See Lesson 3.3, U.S. History: The Federal Reserve System: Overview Lesson.

federal spending

A national government's expenses.

fiatism

The government assignment of value to paper money that has no intrinsic value, usually paper money that is not backed by gold or silver.

fiscal

Of or relating to government finances including spending, revenue, and debts.

fiscal policy

Government policy undertaken to promote employment, price stability, and economic growth by raising revenue through taxation and deciding on the amounts and purposes of government spending.

fiscal responsibility

The obligation to make economic choices that ensure the needs of the present generation will be met without jeopardizing the well-being of future generations.

fiscal year

The 12-month accounting period. For the federal government, the fiscal year begins on October 1 and ends on September 30. Also known as budget year.

fixed amount tax model

See *fixed rate tax*.

fixed rate tax

A constant tax rate—a lump sum tax—that does not vary according to the value of the item being taxed or the income or wealth of the person paying the tax.

flat tax rate

A system that imposes the same rate of taxation on all taxpayers. See also *proportional tax*.

foreign debt

The money owed by one country to another as a result of loans and/or a negative balance of trade.

foreign investors

People who purchase property, business interests, or money instruments for profit in a country they are not a citizen of.

free market

An economic system in which resources, goods, and services are distributed according to supply and demand, with little government interference except to enforce contracts and protect private property.

Free Silver

In U.S. history, the name of a political movement calling for the use of both silver and gold as currencies, typically at a ratio of 16 ounces of silver for every ounce of gold. "Silverites" hoped cheaper money would help indebted businesses pay back their loans and earn higher prices for their goods and services.

GDP per capita

A measure of an average individual's material standard of living calculated by dividing a nation's total income (gross domestic product or GDP) by its total population.

globalization

Usually refers to the increased flow of trade, investment, technology, culture, ideas, and people among countries.

gold standard

A monetary system whose unit of currency uses or is based on gold of a specified weight and fineness.

governance

A method or system of government or management.

government subsidy

Financial aid provided by a government to another party, usually a business or industry.

graphical representation

A graph showing the relation between two changing quantities, each measured along a pair of axes at right angles.

grassroots

A type of political movement that arises naturally and spontaneously, driven by the community's politics and outside traditional power structures.

Great Society

President Lyndon B. Johnson's set of domestic programs that formed his agenda for Congress in 1965. These programs included aid to education, Medicare, Medicaid, urban renewal, beautification, conservation, wide-scale anti-poverty programs, and greater protections of the right to vote.

gross domestic product (GDP)

An estimate of the total money value of all final goods and services produced in a given one-year period using the factors of production located within a particular country's borders.

gross federal debt

The total amount of money owed by the federal government to those countries, people, organizations, and programs within the government (intragovernmental debt) from which it has borrowed to finance itself.

gross state product

The monetary value of all the finished goods and services produced within a nation in a given time period. The gross domestic product (GDP) is an annual calculation of the gross state product.

healthcare insurance

Insurance that pays for medical and surgical expenses incurred by the insured.

hospitalization insurance

Insurance that pays all or part of the insured's hospital expenses.

hyperinflation

Out-of-control inflation in which prices increase rapidly as a currency loses its value. Hyperinflation can be at rates as high as 50 percent a month. As money loses its value, people may resort to bartering for goods and services.

impoverish

To create a situation of poverty, in which people's material needs are not being met.

incentive

Any reward or benefit, such as money or good feelings, that motivates individual choices and behaviors.

income tax

A tax on money earned through wages from work, rental payments on property, interest payments on savings, profits from businesses owned, and other sources of income. Can be imposed by federal, state, and local governments. See also *federal income tax*.

income tax brackets

A system of segmenting/categorizing taxpayers according to their income. In 2011, the lowest income quintile (fifth or 20 percent) in the United States paid about 10 percent taxes on their income, with each successive quintile paying more taxes. The highest tax rate was 35 percent and was applied to individuals or couples making over \$373,000 a year. See also *progressive tax*.

Independent Party

Considered a third political party in the United States, its members believe in the strict interpretation of the U.S. Constitution and very limited interference from the federal government. It should not be confused with political independents or “America’s Independent Party.”

indirect cost

An expense (such as for advertising, computing, maintenance, security, or supervision) for more than one purpose that is hard to assign to a specific cost or cost center (department, function, program). Indirect costs are usually constant for a wide range of outputs and are listed under fixed costs.

inflated adjusted dollar

The value of a dollar after removing the effects of inflation. Adjusting for inflation makes it possible to compare prices over time, whether the value of the dollar has gone up or down.

inflation

A rise in the general or average price level of all goods and services produced in an economy.

infrastructure

The public works of a country, state, or region such as its highways, hospitals, and schools; also the resources (e.g., personnel, equipment, or building) needed for an activity.

interest (on a loan)

A percentage of money charged for the use of real or financial capital over a specific period of time. Those who use the resources pay interest to those who own them, as in mortgage payments paid by a borrower to a lender. The federal government pays interest on the money it borrows. In the past, some religions forbade the charging of interest, branding certain types of high-interest charges as usury.

interest payment

A payment on the cost of borrowing money.

intergenerational commitment

A commitment between generations such as Social Security, in which younger workers’ taxes fund the retirement of retired workers.

intergovernmental debt

Debt owed among one or more governments or levels of government.

International Monetary Fund

An international organization created to promote the stable growth of international trade through the coordination of multinational payments, currency exchanges, monetary policies, and international aid.

investment

The purchase of resources such as technology or buildings to produce goods and services for profit. In personal finance, money invested in bonds, stocks, mutual funds, and other instruments to earn a profit.

investment bank

Investment banks facilitate the buying and selling of stocks, bonds, and other investments, as well as helping companies go public with initial public offerings (IPOs). Investment banks are only loosely regulated by the Securities and Exchange Commission (SEC), allowing them leeway in their strategic decision making.

Keynesian economics

The school of economic thought that believes the market does not always function with perfect efficiency and may require intervention from the government. Named for John Maynard Keynes, a British economist who lived from 1883 until 1946. Keynes’s 1936 book, *The General Theory of Employment, Interest and Money*, was very influential. His ideas about economic policy were widely adopted by capitalist countries following World War II.

laissez-faire economy

An economy that runs with a minimum of government interference. Also known as free market economy.

land speculators

People who purchase real estate (physical property) that may yield quick or large profits, but poses a higher-than-average risk of loss.

lender

In the context of the federal budget, a party (individual, organization, or country) from which the government may borrow money.

leverage

The strategic advantage one has to act effectively or influence another party. In finance, it refers to the use of borrowed funds to speculate in investments. When a foreign government purchases large quantities of another nation's securities (debt certificates), it can gain leverage or power over the borrowing nation's policies. Lending (or creditor) nations have a strong interest in the economic policies of debtor nations that owe them money. Also, the greater the risk that a debtor nation won't pay back its loan or interest, the higher the interest payment it will be charged for borrowing. High interest rates can add greatly to a nation's debt.

liberal (political)

A person who favors proposals for reform, is open to new ideas, and is tolerant of the ideas and behavior of others. In the United States, someone who favors an active government role in providing social insurance (e.g., healthcare insurance), equal opportunity, and civil and consumer protections. In Europe, the term is used quite differently and often refers to someone who is an economic liberal and favors limiting government intervention in a market economy.

liberalism (economic)

An economic philosophy that tends to oppose government intervention in the free market and

supports the idea that economic freedom is essential to political freedom.

liberalism (political)

In current usage, a political ideology that supports an active government role in achieving social justice. See also *liberal (political)*.

Libertarian

One who believes that government should be as small as possible and play a minimal role in regulating economic and social life.

line of best fit

A line on a scatter plot drawn near points representing two sets of data to show the degree of correlation between them.

lobbyist

An individual who receives any amount of compensation or reimbursement for efforts to influence government action through written and oral communication with legislators.

macroeconomics

The study of the economy as a whole including all demand and supply transactions and a nation's monetary and fiscal policy.

mandate

A command; an authorization. A legislative mandate is an action required by legislative decree. Unfunded mandates are actions required by decree, but for which no money is provided. Examples of unfunded mandates at the federal level include the Clean Air Act, the Clean Water Act, and provisions in the Americans with Disabilities Act.

mandatory programs/mandated programs

Programs such as Medicare, Medicaid, and Social Security that the government is legally obligated to fund. They pay fixed benefits to qualified individuals and are automatically funded each year unless changed by federal law outside the annual budgetary process.

mandatory vs. discretionary spending

A budget contains mandatory spending that must be paid, such as mortgage payments for an individual or Medicare, Medicaid, or Social Security payments for the U.S. federal government. A government's mandatory expenses are called entitlements because laws require these fixed payments to qualified individuals each month. Such programs are funded annually without Congress or the President negotiating bills to pay for them. Social Security provides benefits for the unemployed, disabled, and retired. Medicare provides health insurance for those over 65. Medicaid provides medical insurance for the poor. If the mandatory spending portion of a budget becomes too large over time, an individual or nation will have fewer discretionary choices in future budgets. Discretionary spending refers to costs not required by law that can, through the annual budget process, be more easily adjusted to meet changing circumstances, such as expenses for family vacations or federal space exploration. Each year Congress and the President negotiate how much to spend on discretionary programs such as defense, education, transportation, and many other services provided by federal agencies.

marginal tax rate

In a graduated income tax system, the tax rate applied to the last dollar a person earns. This rate will be equal to or higher than the rate paid on the rest of the person's income and differs from the average tax rate, which is the total tax paid as a percentage of total income earned.

market economy

An economic system in which economic decisions and the pricing of goods and services are guided by the interactions of a country's citizens and businesses, with little government intervention or central planning. Market economies work on the assumption that market forces, such as supply and demand, are the best determinants of what is right for a nation's well-being.

market failure

When a market does not match supply and demand efficiently on its own. Can result from side effects whose costs are not included in transactions or in the provision of certain public needs.

mathematical representation

A chart, graph, or other depiction of numerical data.

McCulloch v. Maryland

An 1819 case in which the U.S. Supreme Court established the primacy of the federal government over state governments, by deciding that the federal government has broad powers to pass certain kinds of laws and that states may not interfere with federal agencies within their borders.

median

The middle value in a numerically ordered sequence, taken as an average of the two central values when the sequence has an even number of values or as the middle value when it has an equal number of values lesser and greater than it.

Medicaid

A means-tested health insurance program for legal U.S. residents who cannot afford to pay for medical care or who have certain disabilities. It is jointly funded by the state and federal governments, and managed by the states.

Medicare

A health insurance program administered by the federal government, providing health insurance coverage to people age 65 or over or who meet other special criteria.

monetary policy

Actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit as a way to promote national economic goals.

mortgage

A loan secured by real property such as the mortgage used to purchase a home.

national bank

A bank controlled by a national government that sets monetary policy for a country.

national debt

The total amount of money the federal government owes to those countries, people, organizations, and programs within the government (intragovernmental debt) from which it has borrowed to finance itself.

national debt clock

Created in 1989, this is a continuously updated tally of the national debt. It is located on 6th Avenue in New York City as well as online. The clock is privately owned and operated by the Durst Organization, a family-run real estate business.

national security/national defense

A public government service that protects the country from emerging foreign threats and/or outside harm.

nonpartisan

An individual not associated with a political party; also, not taking sides.

Occupy Wall Street

A protest movement launched in New York City in 2011 that has inspired similar protests internationally. It defines itself as a movement against corporate greed and the enormous gap between the rich and poor.

opportunity cost

The cost of the next best alternative given up in order to gain something. It reflects the economic concept of scarcity, which holds that resources are too limited to meet unlimited wants. As a result, people must make choices that involve trade-offs, giving up or getting less of one desire to gain another. Economists include the opportunity cost in an action's cost to decide on the most efficient use of scarce resources. For example, the total cost of attending college includes tuition fees and

the opportunity cost of not earning an income. See also *cost-benefit analysis*.

outlay

The amount of money a government actually spends within a given fiscal year.

panic of 1893

A serious economic depression in the United States lasting from 1893 until the late 1890s.

pay-as-you-go (PayGo)

The practice of financing expenditures with funds that are currently available rather than borrowed. Congress passed the Budget Enforcement Act (BEA) of 1990 (expired in 2002), requiring that new mandatory spending proposals or tax reductions be offset by cuts in other mandatory spending or tax increases to ensure that neither the deficit rose nor the surplus fell.

payroll taxes (FICA)

These federal taxes on the payrolls of employers and employees fund Social Security, Medicare, and other social insurance programs. They are the second largest source of federal revenue after income taxes, providing nearly 40 percent of total revenues. The largest of these, for Social Security and Medicare, are considered regressive because they require lower-income earners to pay a larger share of income than higher-income earners. The unemployment tax, a smaller payroll tax, is paid only by employers and varies by a company's size. Also known as social insurance tax or FICA taxes (required by the Federal Insurance Contribution Act).

per capita

Translated as "by each head," this indicates a count per person and is often used to express averages. For example, in a town that has a high per-capita income, everyone may not earn a high salary but, on average, residents of the town have high salaries.

personal savings account

A deposit account held at a bank or other financial institution where individual deposits of up to \$250,000 are insured by the Federal Deposit Insurance Corporation (FDIC). Money held in a savings account usually pays an interest rate that may not be much above the rate of inflation.

philosophy

A set of ideas or beliefs about a particular subject. The use of logic to investigate the truths and principles of reality.

political action committee (PAC)

A committee organized for the purpose of raising and spending money to elect certain political candidates and defeat others running for public office.

political ideology

A set of beliefs about the role government should play in promoting social and economic goals. Conservatives tend to favor more limited and local governments that allow greater economic freedom. They prefer to use markets (selling and buying exchanges based on supply and demand) and charitable donations to meet public needs. Liberals (or progressives) tend to favor active national governments to protect citizens' rights and reduce market uncertainties and inequalities.

political spin

To provide a one-sided interpretation of something (e.g., a statement or event) in order to influence public opinion.

political typology

A classification system used to describe how governments are organized. Governments may be classified according to how they are formed and how they distribute power among governing institutions, officials, and citizens.

Ponzi scheme

An investment fraud that pays returns to its investors from funds contributed by new investors

instead of from legal investments it claims to engage in. Its organizers attract new investors by claiming to generate high returns on fictional, low-risk investments.

populism

A political movement or philosophy that aims to support the interests of common people against those of a privileged elite.

poverty rate

The percentage of the population living below the poverty line, or minimum income below which a person is officially considered to lack adequate resources. In 2012 the poverty rate was set at \$23,050 (total yearly income) for a family of four.

principal (of a loan)

The original amount of money borrowed and excluding any interest that might have accumulated. See also *interest*.

private debt

Debt held by private individuals and usually borrowed from banks or accumulated on credit cards. Also called consumer debt.

private sector

The part of the economy run by individuals and companies for profit rather than by government to serve public needs.

privatization

The transfer of government assets or service contracts to private business owners.

procurement

The purchasing of goods and services from the processing of a request through receipt and approval of the invoice for payment.

profit

A positive gain realized when the total costs of a business activity are less than the total income it earned.

progressive

A person who favors proposals for reform, is open to new ideas, and is tolerant of the ideas and behavior of others. In the United States, someone who favors an active government role in providing social insurance (e.g., healthcare insurance), equal opportunity, and civil and consumer protections. See also *liberal (political)*.

progressive tax

A tax that mandates high-income people pay a larger percentage of their income in taxes than low-income people are mandated to pay. See also *income tax brackets*.

property tax

A tax on ownership of land, buildings, or other forms of personal property.

proportional tax

An income tax that requires the same percentage of income from all individuals regardless of how much (or little) they earn. See also *flat tax rate*.

public debt

Debt owed by the federal government. Also called federal debt, government debt, or national debt.

public debt per capita

The amount of debt owed by a government divided by the number of people being governed.

public debt securities and interest

When an individual or nation builds up debt, it must find lenders or creditors from whom to borrow. An individual may borrow money from a bank and pay interest (a borrowing fee) on a loan. The U.S. government holds some federal debt in government accounts and borrows the rest by selling savings bonds and U.S. Treasury bills (T-bills), notes, and bonds as well as special securities issued to state and local governments. It must pay interest to investors and governments who buy its public debt securities, also called the debt held by the public. For example, in its early history, the U.S. Treasury sold bonds to foreign

countries to help pay its debt from the American Revolution.

public good

A good (or service) that is consumed without reducing the amount available for others, and that cannot be withheld from those who do not pay for it. Public goods (and services) include law enforcement, national defense, and public parks.

public policy

A set of laws, regulations, plans, actions, or programs that a government adopts to address a public need.

public sector

All goods and services provided by a government rather than by private parties for profit.

ratio of debt to GDP

A comparison of a country's total debt to its total economic output or national income in a given year (gross domestic product or GDP). Used as a rough measure of a country's ability to pay its debt.

recession

A period of general economic decline; typically defined as a decline in gross domestic product (GDP) for two or more consecutive quarters. A recession is typically accompanied by a drop in the stock market, an increase in unemployment, and a decline in the housing market.

Recovery Act/Obama's stimulus bill

A law initiated and signed by U.S. President Barack Obama in February 2009 to stimulate an economic recovery through tax cuts, domestic spending, and extended unemployment benefits.

redistribution of wealth or income

The transfer of income, wealth, or property from some individuals to others by tax laws or monetary policies. It most often refers to progressive redistribution, from the rich to the poor.

regressive tax

A tax that causes lower-income earners to pay a larger share of their income in taxes than higher-income earners do. Consumption taxes, which are taxes on consumer goods and services, are usually regressive because lower-income people spend more of their income on such items and therefore pay more in consumption taxes than higher-income people do.

Republican Party

One of the two major political parties in the United States. (See also *Democratic Party*.) The party's platform generally reflects conservatism in the United States and supports government protection of individual economic and social freedom over government policies intended to promote economic or social justice.

resources (economic)

Components of a society, including land, labor, entrepreneurship, and capital, that are used to produce goods and services.

retiree

A person who has left employment completely, often at a predetermined age. Currently, retirees who have paid into Social Security may begin collecting benefits at age 66.

retirement plan/pension plan

A plan to set and achieve retirement income goals by identifying sources of income, estimating expenses, implementing savings, and managing assets (<http://www.investopedia.com/terms/r/retirement-planning.asp>).

revenue (federal government)

Money that the federal government collects from taxes, fees, and other sources of income. In 2011, it received income from individual income taxes and payroll taxes (82 percent), corporate income taxes (9 percent), and excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts (9 percent).

revenue neutral/revenue positive

A proposal or policy that does not increase government income from taxes or other sources is revenue neutral; one that increases government income is revenue positive.

rhetoric

The study of the effective use of language, including influential speech that lacks substance.

sales tax

A tax paid by consumers on retail goods and services at the point of sale and passed on by retailers to the government. It is an efficient way to collect taxes and is an example of a flat tax or proportional tax, which charges the same percentage regardless of income. Flat taxes are considered regressive because they take a greater share of a poor person's income than a wealthier person's income.

sample of convenience

An unrepresentative sampling technique in which subjects are selected because they are easily accessible to the researcher.

sampling

The process of selecting a representative part of a population in order to infer the characteristics of the whole population.

scarcity

The fundamental economic reality of having seemingly unlimited human needs and wants in a world of limited resources. Because of scarcity, decisions that cost money or require resources have opportunity costs and involve trade-offs.

scientific sampling

Any method of sampling that uses random selection. For a selection to be random, different individuals or units in a population must have an equal probability of being chosen in a sample.

securities

Documents that represent debt or equity issued by governments or other organizations; they include stocks, government or corporate bonds, and ownership rights such as options or futures.

self-interest

In economics, a fundamental component of capitalism, which holds that the market works when everyone is allowed to act in ways that are of greatest benefit to themselves.

Share Our Wealth program

A program proposed in 1934 by Huey Long, governor of Louisiana, to provide a decent standard of living to all Americans by redistributing the nation's wealth.

Sherman Silver Purchase Act

An 1890 act of Congress requiring the U.S. government to greatly increase the money supply by purchasing nearly twice as much silver as before. When overproduction caused silver prices to drop, holders of government notes redeemed them in gold rather than silver, thereby threatening the nation's gold reserves. After the panic of 1893 began, the act was repealed by a special session of Congress called by President Cleveland.

social contract

An agreement between citizens and their government that defines and limits the rights and responsibilities of each.

social democracy

A social system in which government plays a key role in promoting and protecting the welfare of its citizens. It is based on the principles of equitable distribution of wealth, equality of opportunity, and social responsibility for those who lack the basic provisions for a good life.

social insurance tax

See *payroll taxes (FICA)*.

Social Security

Social Security is funded by dedicated payroll taxes and provides benefits for disabled and retired workers and their families. First enacted in 1935, eligible workers today may begin receiving benefits as early as age 62. Also known as federal Old-Age, Survivors, and Disability Insurance (OASDI).

social welfare program

A government program designed to achieve social goals such as insuring citizens against certain economic risks.

socialism

Any of various economic theories or systems in which the means of producing and distributing goods are owned or regulated by a community for its shared benefit. The role of socialist governments ranges from full control of the economy to the redistribution of some private wealth in social democracies.

socialized medicine

A system of medical care that is financed and/or administered by a government to serve the entire population of a country.

sophistry

A subtle, tricky, superficially logical, but generally dishonest method of reasoning.

special interest group

An organization of people with a particular legislative interest or concern who work to gather information, lobby politicians, publicize their concern, and influence public opinion.

spending cap

A set limit on the amount a government can spend on discretionary programs.

spending freeze

A period during which spending in a particular area or on a particular government program is not increased.

stakeholder

An individual or group that has a share, investment, or interest in something, as in an industry or business.

standard of living

A measure of the material comfort enjoyed by an individual, group, or society based on the goods, services, and luxuries available to them.

stimulus program/stimulus spending (fiscal stimulus)

A set of government policies and funds intended to revive an economy and prevent or reverse a recession by boosting employment and consumer spending. Such programs reflect Keynesian economic theory, which argues that government spending helps economies recover from recessions.

strategy

A plan, method, or series of maneuvers for obtaining a specific outcome or long-term goals.

structural reform

Reform involving the organization and/or functions of a government or economy. Often involves reforming government spending, taxing, and regulation policies.

subsidize

A government's offer of financial aid to a person or group engaged in an enterprise considered to be in the public interest. Governments may offer money to keep prices below what they would be in a free market, help struggling businesses stay afloat, or make activities happen that would otherwise not take place.

superpower

A very powerful nation, especially a nuclear power that leads its allies and dominates other countries.

supply and demand

In classical economic theory, the interaction between supply (quantity available) and demand

(quantity wanted) determines the price of an item. If demand for an item exceeds supply, prices will rise causing an increase in supply until it matches demand at a new price. If supply exceeds demand, prices will drop until demand increases to match supply. This model assumes that supply will meet demand under most circumstances, resulting in a self-regulating market. Modern economic theory assumes that many other factors affect price including advertising, monopolies, and government regulations.

surplus

The quantity of an item left over when quantity supplied exceeds quantity demanded. Usually occurs when the price of an item is above the market equilibrium price where demand equals supply.

tariff

A tax on an imported good or service. Governments impose tariffs to raise money and protect the economic interests of their own citizens.

tax expenditures

Tax deductions, credits, and exclusions that reduce a government's income from taxes.

taxes

Mandatory payments made to the government by individuals, households, and businesses. Taxes are the primary source of revenue for federal, state, and local governments. Since World War II, federal tax rates have averaged about 18 percent of gross domestic product (GDP). In 2009, they fell to 15 percent of GDP, as a result of tax rate decreases and lower economic growth.

Notions of fairness influence both the type and rate of taxation. Some people think a fair tax system should be based on the principle of vertical equity, in which people who are wealthier pay a larger share of their income than do people who have less. Others think it is fairer for everyone to pay the same tax rate regardless of income or for people to save for their families rather

than pay taxes for others. Efficiency is another important consideration because some kinds of taxes are easier and cheaper to collect. Those who wish to avoid raising taxes want tax reforms that are revenue-neutral. Those who want more taxes collected to reduce the debt or increase government spending want tax reforms that are revenue-positive. See also *revenue (federal government)*.

Townsend plan

A popular pension plan proposed but never passed by Congress in 1934 that would have awarded \$200 monthly to persons over 60 who were no longer gainfully employed. The plan was to be funded by a 2 percent sales tax, even though the revenue collected would not cover its large cost. Its author and his followers were bitterly disappointed with Social Security because it did not offer immediate payments, offered smaller benefits per month, and required people to work before receiving benefits.

trade-off

An exchange of one thing of value for something else of value when, because of scarce resources, having both is not possible. A good or service that must be given up to some extent to gain another. See also *opportunity cost* and *cost-benefit analysis*.

Treasury bonds

Treasury bills and bonds are sold by the U.S. Treasury in order to raise money. The bills/bonds, which are purchased by individuals and by other governments, are a mix of securities. Although the return these securities offer is at interest rates set lower than those of privately held stocks or bonds, the securities are attractive because they are backed by the U.S. government. Also known as Treasuries/T-bills.

unemployment

Often expressed as a rate to describe the percentage of people in the labor force who are actively seeking work but are unable to find jobs.

unsustainable (federal) debt

A debt so large that the payments on that debt deprive the government of the funds needed to perform essential functions and provide essential services.

U.S. Treasury Department

A division of the government that oversees the production of coins and currency, the disbursement of payments to the public, revenue collection, and collection of funds needed to run the federal government.

user tax (user fee)

A tax levied on certain goods and services so that the cost of providing public goods and services is borne most directly by those that benefit from them (e.g., an excise tax on gasoline designed to make drivers pay a greater share of road maintenance costs). Not to be confused with a use tax, which is a tax levied by one jurisdiction on goods used but not purchased in that jurisdiction, when sales tax was not paid on the item.

usury

Charging an exorbitant or unlawful rate of interest for money loaned.

utility

The total satisfaction received from using a good or service.

vertical equity

See *taxes*.

veto

A constitutional right by one branch of government to reject a proposal or decision made by another branch. Typically refers to the power of a chief executive to reject a bill passed by the legislature and thus delay or prevent its enactment into law.

voting share

A share in an enterprise that gives an investor the right to vote on corporate policies and elections of members of the board of directors.

wages

Payments for labor services that are directly tied to time worked or to the number of units of output produced.

war bond

A financial tool that the U.S. government sold during World War II to raise funds for the war effort. When the war ended, war bonds could be redeemed with interest.

Ways and Means Committee

A permanent committee of the U.S. House of Representatives that makes recommendations to the House on all bills for raising revenue, including bills concerning taxes, custom duties, and international trade agreements.

Weimar Republic

The unofficial name for the German democratic republic founded in the town of Weimar in 1919 that lasted until Hitler's rise to power in 1933. It struggled with numerous problems including huge reparation costs required by the Treaty of Versailles, hyperinflation, high unemployment caused by the Great Depression, and disruptions by political extremists of the left and right.

worker to beneficiary ratio

The ratio of workers paying Social Security taxes to beneficiaries collecting Social Security payments.

Glossary of Common Terms

Sources:

<http://aging.senate.gov/crs/ss4.pdf>
<http://dictionary.reference.com/browse/correlation>
<http://encyclopedia2.thefreedictionary.com>
<http://financial-dictionary.thefreedictionary.com>
<http://legal-dictionary.thefreedictionary.com>
<http://www.answers.com>
<http://www.businessdictionary.com>
http://www.civilization.ca/cmcc/exhibitions/hist/medicare/medic-glossary_e.shtml
<http://www.dictionary.com>
<http://www.economicswisconsin.org/guide/glossary.htm>
<http://www.economist.com/economics-a-to-z>
<http://www.hueylong.com/programs/share-our-wealth.php>
<http://www.investopedia.com>
<http://www.investorwords.com>
<http://www.merriam-webster.com>
<http://www.nytimes.com/library/financial/glossary/bfglosa.htm>
<http://www.sec.gov/answers/ponzi.htm>
<http://www.ssa.gov/history/ratios.html>
<http://www.ssa.gov/history/towns5.html>
<http://www.thefreedictionary.com>
<http://www.u-s-history.com/pages/h792.html>
<http://www.zitofinancial.com/resources/helpful-terms.php>