



**Chapter 14: Taxes and
Government Spending
Section 3**

Prentice Hall

ECONOMICS

PEARSON

In Partnership With
THE WALL STREET JOURNAL
CLASSROOM EDITION

Objectives

1. **Distinguish** between mandatory and discretionary spending.
2. **Describe** the major entitlement programs.
3. **Identify** categories of discretionary spending.
4. **Explain** the impact of federal aid to state and local governments.



Key Terms

- **mandatory spending:** spending that Congress is required by existing law to do
- **discretionary spending:** spending about which Congress is free to make choices
- **entitlement:** social welfare program that people are “entitled to” benefit from if they meet certain eligibility requirements



- How does the federal government spend its income?
 - Federal spending is divided up into mandatory and discretionary spending.
 - Mandatory spending pays for Social Security, Medicare, Medicaid, and other entitlements.
 - Discretionary spending pays for everything else, including defense, education, law enforcement, environmental cleanup, and disaster aid.



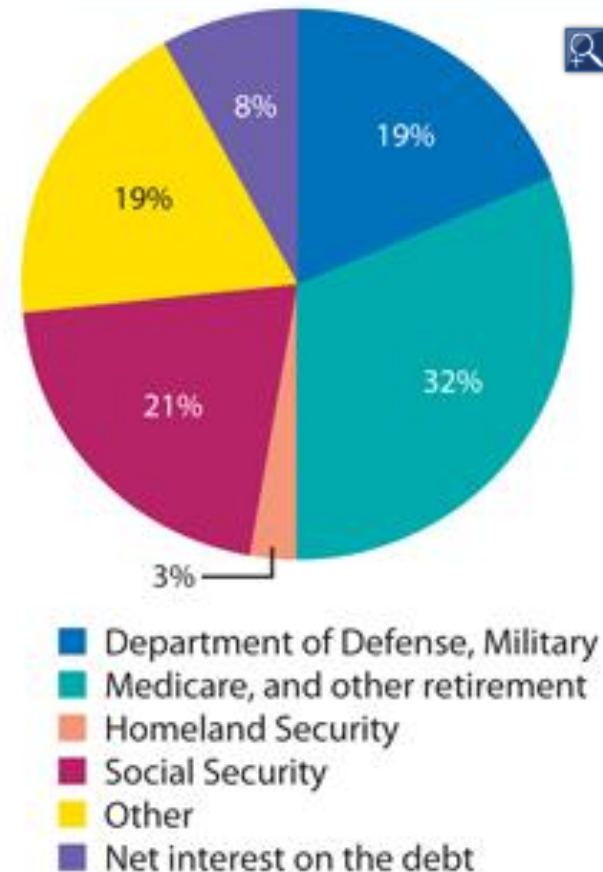
Federal Spending

- There are two types of government spending.
 - Mandatory spending is money that Congress is required by existing law to spend on certain programs or to use for interest payments on the national debt.
 - Discretionary spending is spending about which lawmakers are free to make choices.



Federal Spending, cont.

- The federal government spends the funds it collects from taxes and other sources on a variety of programs.
 - Which are the three largest categories of expenditures in the federal budget?



SOURCE: The Internal Revenue Service, U.S. Department of Treasury
Note: Because of rounding, totals may be greater than or less than 100 percent.



Entitlement Programs

- Most of the mandatory spending items are for entitlement programs, which fund social welfare programs.
- The federal government guarantees assistance for all people who qualify for such programs.
- Entitlements are a largely unchanging part of government spending.
 - Congress can only change the eligibility requirements or reduce benefits if there is a change in the law.



Social Security

- Social Security is a huge portion of federal spending.
 - About 50 million Americans receive monthly benefits from the Social Security Administration.
- The future of Social Security is uncertain.
 - As the millions of baby boomers—people born after World War II—start to retire, the ratio of existing workers, who pay for Social Security, to retirees will fall.



Medicare and Medicaid

- About 42 million people receive Medicare benefits.
 - It pays for hospital care and for the costs of physicians and medical services.
 - Medicare costs have been rising as a result of expensive technology and people living longer. It faces the same problem as Social Security.
- Medicaid benefits help low-income families pay for their medical expenses
 - The federal government shares the cost of Medicaid with state governments.



Other Mandatory Programs

- Other means-tested entitlements benefit people and families whose incomes fall below a certain level. These entitlements include:
 - Food stamps and child nutrition programs
 - Retirement benefits and insurance for federal workers
 - Veterans' pensions
 - Unemployment insurance
- In recent years, there has been a debate over governmentally funded universal healthcare.



Discretionary Spending

- Checkpoint: Approximately how much of the federal government's discretionary spending goes toward defense?
 - Defense spending accounts for about half of the government's discretionary spending.
 - The Department of Defense uses this money to pay salaries of enlisted men and women as well as its civilian employees.
 - This money also buys weapons, missiles, ships, tanks, airplanes, and equipment.



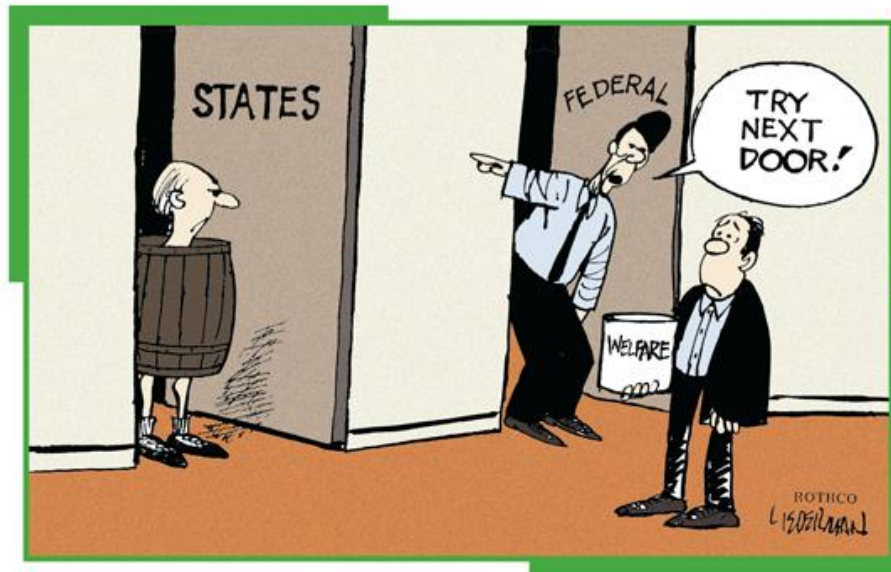
Discretionary Spending, cont.

- The remaining discretionary funds goes to pay for the following:
 - Education and training
 - Scientific research
 - Student loans
 - Law enforcement
 - Environmental cleanup
 - Disaster relief



Federal Aid

- Federal taxes are sometimes used to help state and local governments.
 - State and federal governments share the cost of Medicaid, unemployment insurance, education, lower-income housing, highway construction, and dozens of other programs.
 - States also rely on federal aid for disaster relief.



Review

- Now that you have learned about how the federal government spends its income, go back and answer the Chapter Essential Question.
 - How can taxation meet the needs of government and the people?

