

# Federal Spending 14.3

- **What is the difference between mandatory and discretionary spending?**
- **What are some major entitlement programs?**
- **What are some of the categories of discretionary spending?**
- **How does federal aid impact state and local governments?**

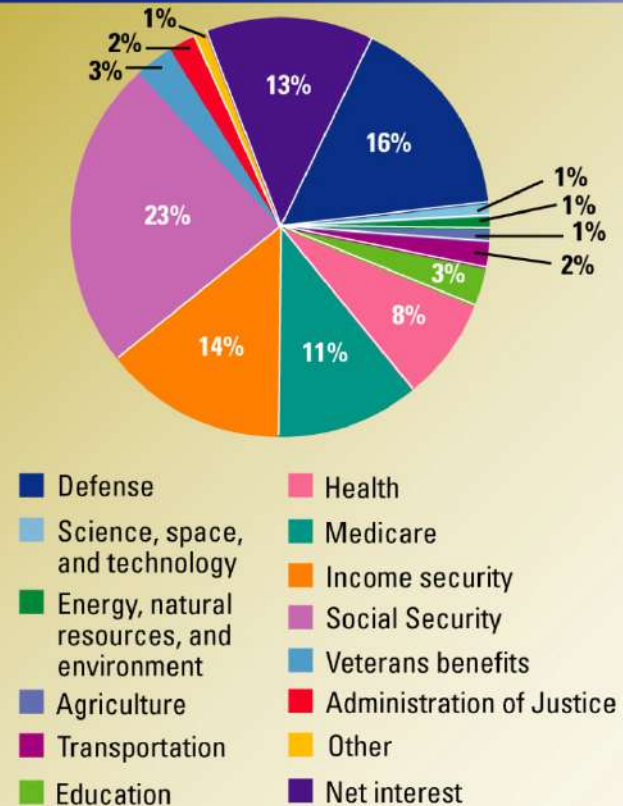


# Mandatory and Discretionary Spending

## Spending Categories

- **Mandatory spending** refers to money that lawmakers are required by law to spend on certain programs or to use for interest payments on the national debt.
- **Discretionary spending** is spending about which government planners can make choices.
- <http://www.concordcoalition.org/issues/indicators/federal-budget-pie-charts>

Federal Spending, 1999



Note: Because of rounding, totals may be less or greater than 100 percent.

Source: Office of Management and Budget

# Entitlements

An **entitlement program** is a social welfare program that people are “entitled” to if they meet certain eligibility requirements.

- **Social Security** <http://www.ssa.gov/planners/benefitcalculators.htm#ht=0>  
Social Security is the largest category of government spending. Age 67 or older, or disabled.
- **Medicare** Age 65 or older
  - Medicare pays for certain health benefits for people over 65 or people who have certain disabilities and diseases.
- **Medicaid**
  - Medicaid benefits low-income families, some people with disabilities, and elderly people in nursing homes. Medicaid costs are shared by the federal and state governments.



# Discretionary Spending

## Defense Spending

- Spending on defense accounts for about half of the federal government's discretionary spending.
- Defense spending pays military personnel salaries, buys military equipment, and covers operating costs of military bases.

## Other Discretionary Spending

- Other discretionary spending categories include:
  - Education
  - Training
  - Environmental cleanup
  - National parks and monuments
  - Scientific research
  - Land management
  - Farm subsidies
  - Foreign aid



# Section 3 Assessment

**1. All of the following are examples of mandatory spending except**

- (a) defense spending
- (b) Medicare
- (c) Social Security
- (d) Medicaid

**2. An entitlement program is**

- (a) a program to provide benefits paid to everyone.
- (b) a program to provide benefits paid to government employees only.
- (c) a program to provide benefits to people who meet certain requirements.
- (d) a program to provide benefits to illegal aliens.

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# State and Local Taxes and Spending 14.4

- How do states use budgets to plan their spending?
- How are state taxes spent?
- What are the sources of state tax revenue?
- How do local governments obtain and use revenues?



# State Budgets

- **Operating Budgets**
  - A state's **operating budget** pays for day-to-day expenses. These include salaries, supplies, and maintenance of state facilities.
- **Capital Budgets**
  - A state's **capital budget** pays for major capital, or investment, spending.
- **Balanced budgets**
  - Some states have laws requiring balanced budgets. These laws, however, only apply to a state's operating budget.





# Where Are State Taxes Spent?

- **Education**
  - State education budgets help finance public state universities and provide some aid to local governments for elementary, middle, and high schools.
- **Public Safety**
  - **State governments operate state police systems, as well as correctional facilities within a state.**
- **Highways and Transportation**
  - **Building and maintaining highways is another state expense. States also pay some of the costs of waterways and airports.**
- **Public Welfare**
  - **State funds support some public hospitals and clinics. States also help pay for and administer federal benefits programs.**
- **Arts and Recreation**
  - **State parks and some museums and historical sites are funded by state revenues.**
- **Administration**
  - **Like the federal government, state governments spend money just to keep running.**



# State Tax Revenues

- **Limits to State Taxation**
  - Because trade and commerce are considered national enterprises, states cannot tax imports or exports. They also cannot tax goods sent between states.
- **Sales Taxes**
  - **Sales taxes are the main source of revenue for many states.**
- **Other State Taxes**
  - **Different states have various other means to collect revenue, such as state income taxes, excise taxes, corporate income taxes, business taxes, and property taxes.**



# Local Government Spending and Revenues

## The Jobs of Local Government

- The following is a brief list of the many functions that local governments carry out or assist in:
  - Public school systems
  - Law enforcement
  - Fire protection
  - Public transportation
  - Public facilities, such as libraries and hospitals
  - Parks and recreational facilities
  - Record keeping (birth/death certificates, wills, etc.)

## Local Government Revenues

- Property taxes are the main source of local revenue. These taxes are paid by people who own homes, apartments, buildings, or land.
- Local governments sometimes collect excise, sales, and income taxes as well.
- Some taxes, such as room and occupancy taxes, are aimed at nonresidents in order for local governments to earn additional revenue.



# Section 4 Assessment

- 1. Which of the following is not a source or revenue for most state governments?**
  - (a) education tax
  - (b) intergovernmental revenue
  - (c) income tax
  - (d) sales tax
  
- 2. What is a tax assessor?**
  - (a) someone who pays high taxes
  - (b) someone who decides which taxes are unfair
  - (c) someone who prepares individual tax statements
  - (d) someone who determines the value of a property

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