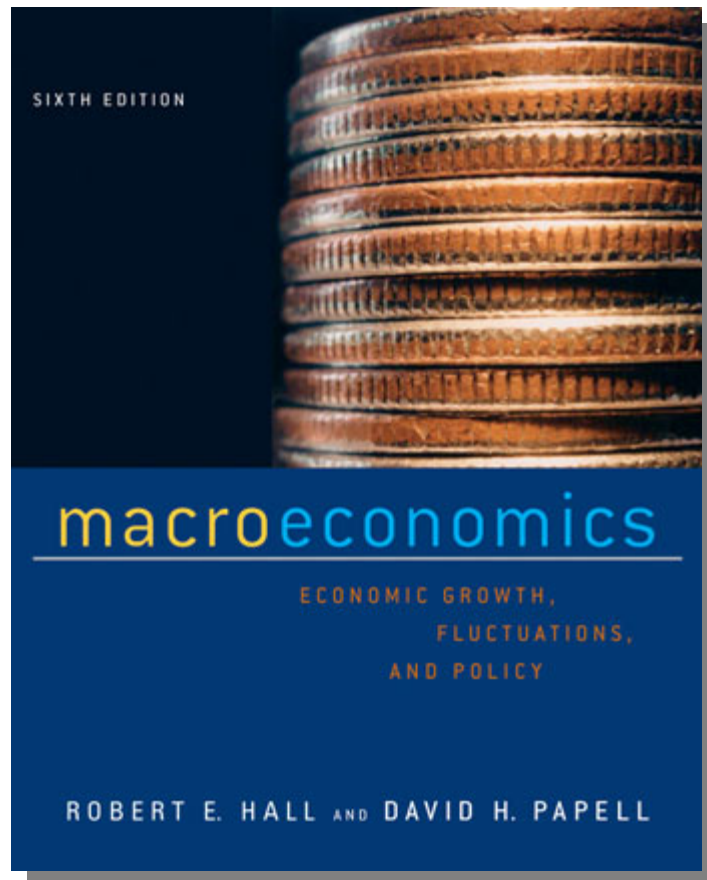


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Chapter 13 Spending, Taxes, and the Budget Deficit

**Robert E. Hall
David H. Papell**

TABLE 13.1 THE 2003 BUDGET OF THE UNITED STATES GOVERNMENT (BILLIONS OF DOLLARS DURING THE CALENDAR YEAR)

| | |
|-----------------------------------|------|
| RECEIPTS | 1876 |
| Individual income taxes | 809 |
| Corporate income taxes | 196 |
| Social security taxes | 759 |
| Other taxes and receipts | 112 |
| OUTLAYS | 2259 |
| Purchases | |
| National defense | 453 |
| Other purchases | 212 |
| Transfer payments | 989 |
| Grants to local governments | 351 |
| Interest on the debt | 195 |
| Subsidies less enterprise profits | 59 |
| DEFICIT | 383 |

SOURCE: Bureau of Economic Analysis, *National Income and Product Accounts*, Second Quarter 2004.

**TABLE 13.2 THE 2003 BUDGET OF THE UNITED STATES
GOVERNMENT (BILLIONS OF DOLLARS)**

| | |
|-----------------------------------|------|
| RECEIPTS | 1396 |
| Personal tax | 277 |
| Corporate tax | 38 |
| Sales and property taxes | 628 |
| Payroll and other taxes | 102 |
| Grants from federal government | 351 |
| OUTLAYS | 1412 |
| Purchases (goods and services) | 1068 |
| Transfer payments | 359 |
| Net interest paid | -2 |
| Subsidies less enterprise profits | -13 |
| DEFICIT | 16 |

SOURCE: Bureau of Economic Analysis, *National Income and Product Accounts*, Second Quarter, 2004.

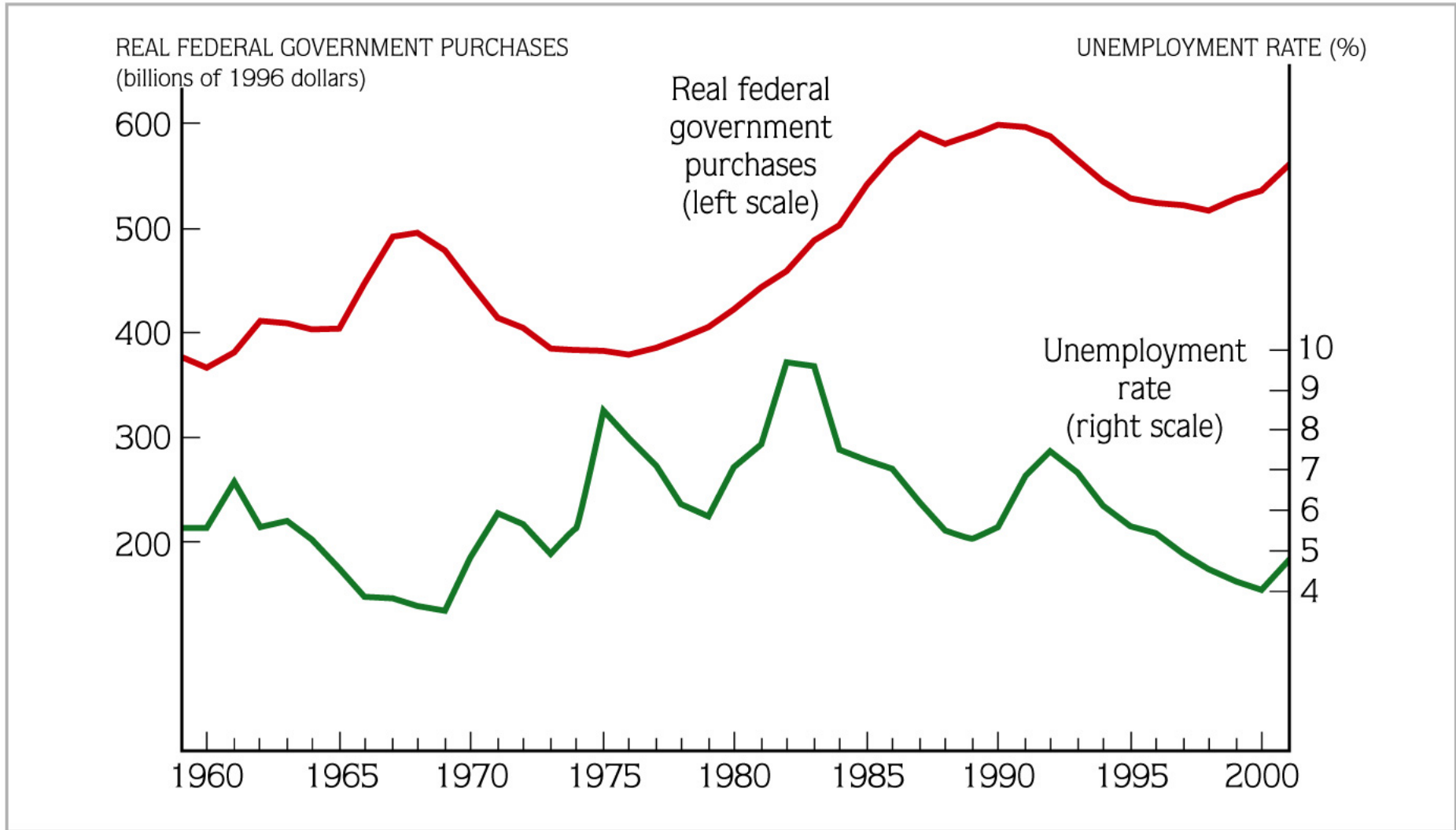


FIGURE 13.1 Real Federal Government Purchases and Unemployment

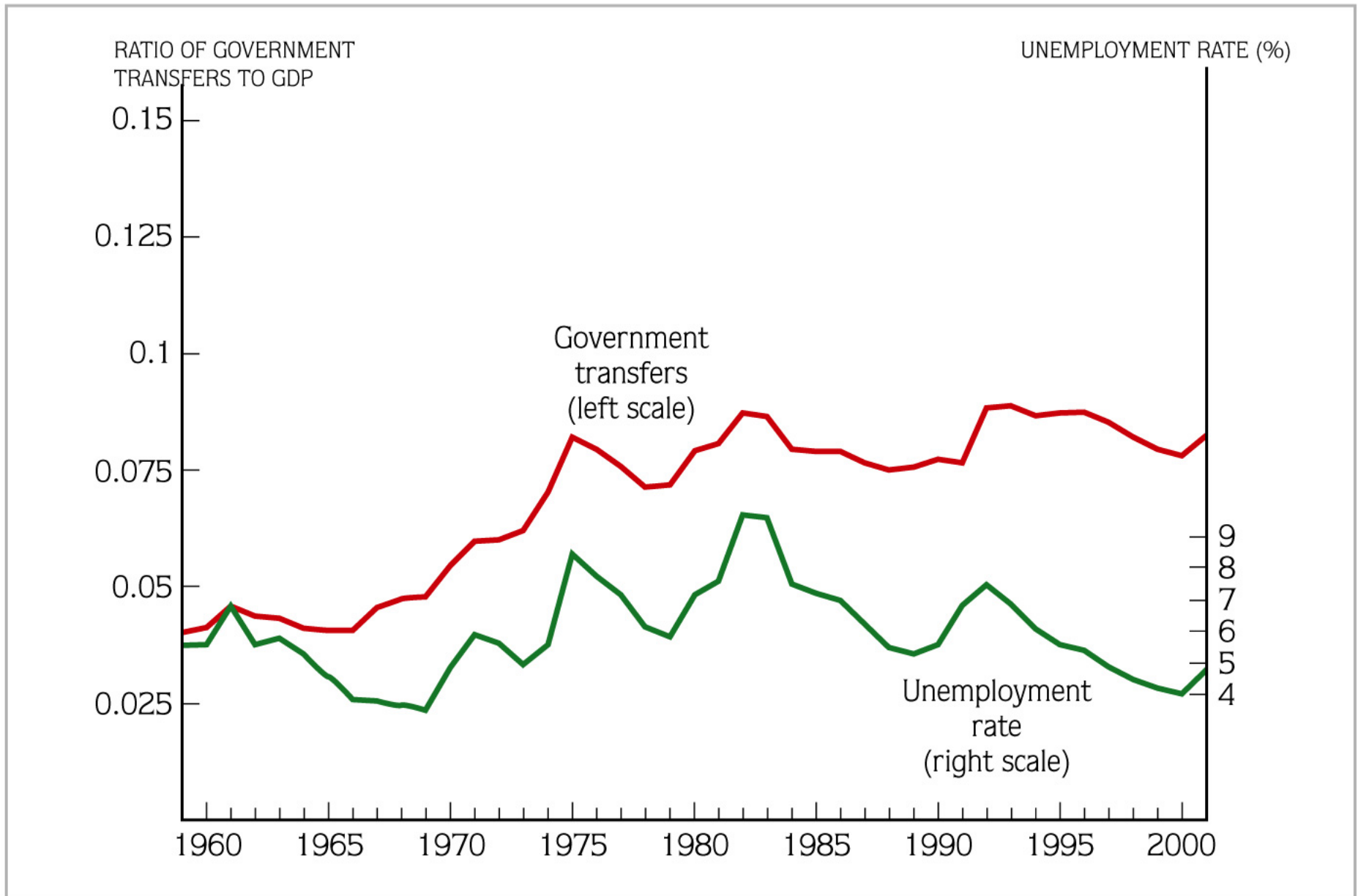


FIGURE 13.2 Government Transfers and Unemployment

TABLE 13.3 AUTOMATIC STABILIZERS: GOVERNMENT TRANSFER PROGRAMS THAT RESPOND TO THE STATE OF THE ECONOMY

| PROGRAM | DESCRIPTION |
|------------------------|--|
| Unemployment insurance | A combined federal-state program that pays benefits to workers who have lost their jobs. |
| Food stamps | A federal program that pays benefits to any family with an income below a certain threshold; in recessions, additional families become eligible. |
| Welfare programs | A combined federal-state program that pays benefits to poor families with dependent children; as incomes fall during recessions, payments increase. |
| Medicaid | A combined federal-state program that assists poor families with medical benefits; the number drawing these benefits rises during recessions. |
| Social security | A federal program that supports people in retirement; some people who are eligible for benefits choose to work instead, but their number declines in a recession and the volume of benefits rises. |

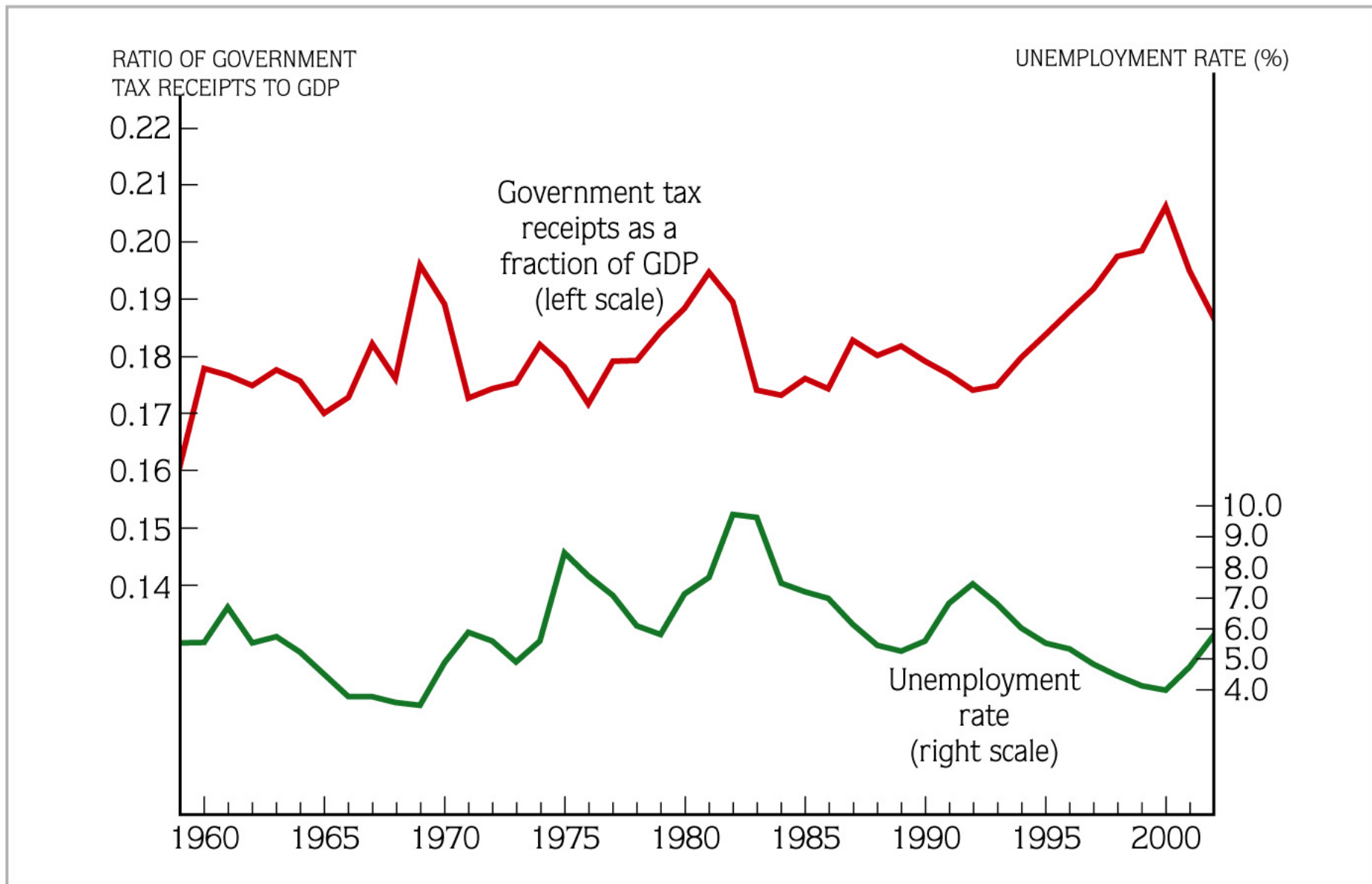


FIGURE 13.3 Government Tax Receipts and Unemployment

**TABLE 13.4 DISCRETIONARY STABILIZATION MEASURES:
WAYS THE FEDERAL GOVERNMENT CAN AFFECT
DEMAND THROUGH FISCAL POLICY**

| MEASURE | DESCRIPTION |
|-----------------------------|---|
| Temporary income tax change | A temporary cut in personal income taxes stimulates consumption and offsets a recession; a temporary surcharge discourages consumption and cools off a boom. |
| Investment tax credit | A subsidy to investment through the tax system stimulates investment for the period when the credit is in effect and discourages investment before it takes effect and after it is removed. |
| Home purchase credit | A subsidy for home purchases by individuals has the same effect as an investment credit but on residential investment. |
| Public works | An increase or speedup in highway construction and other government purchases adds directly to demand. |

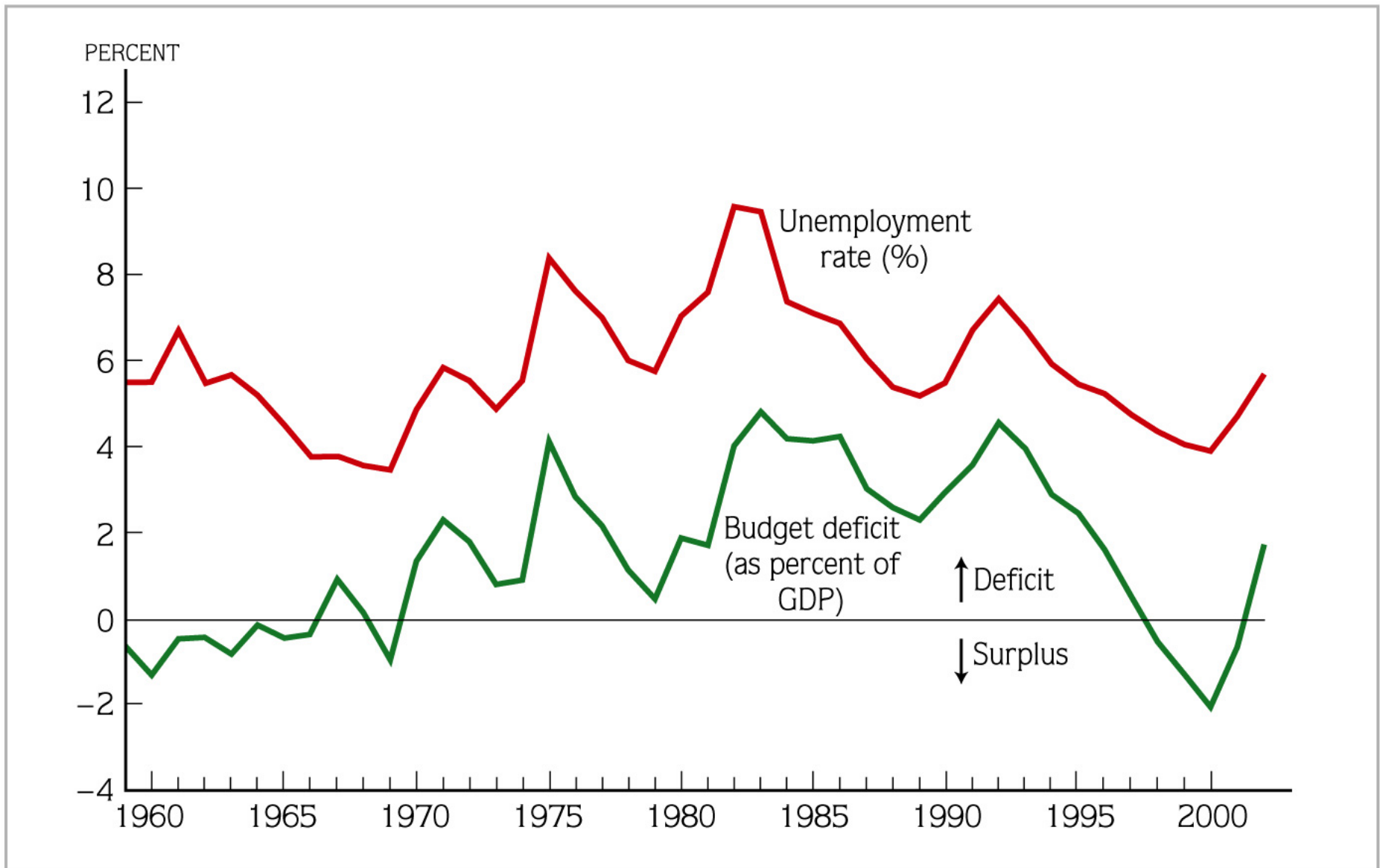


FIGURE 13.4 The Cyclical Behavior of the Deficit

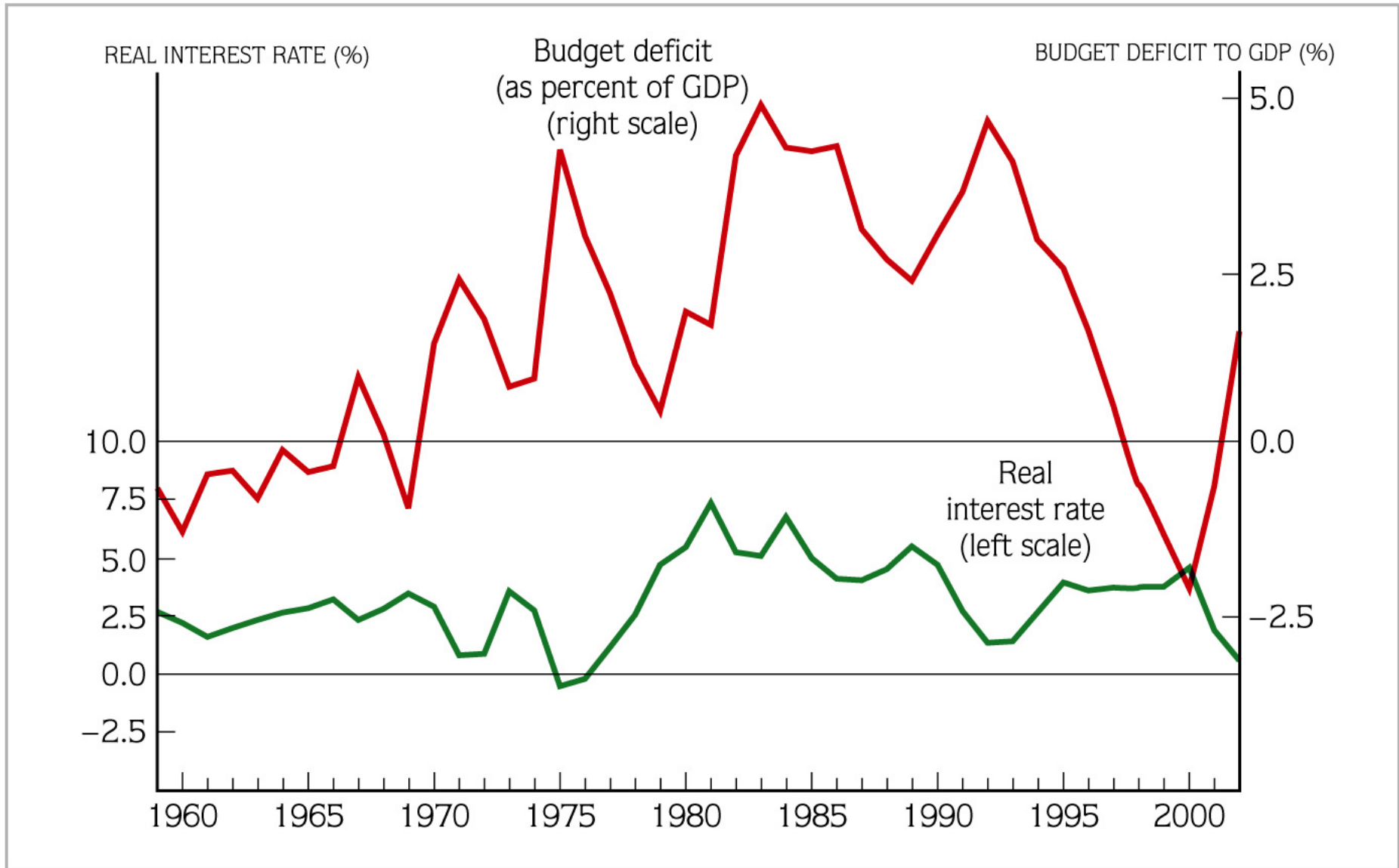


FIGURE 13.5 Budget Deficits and Real Interest Rates

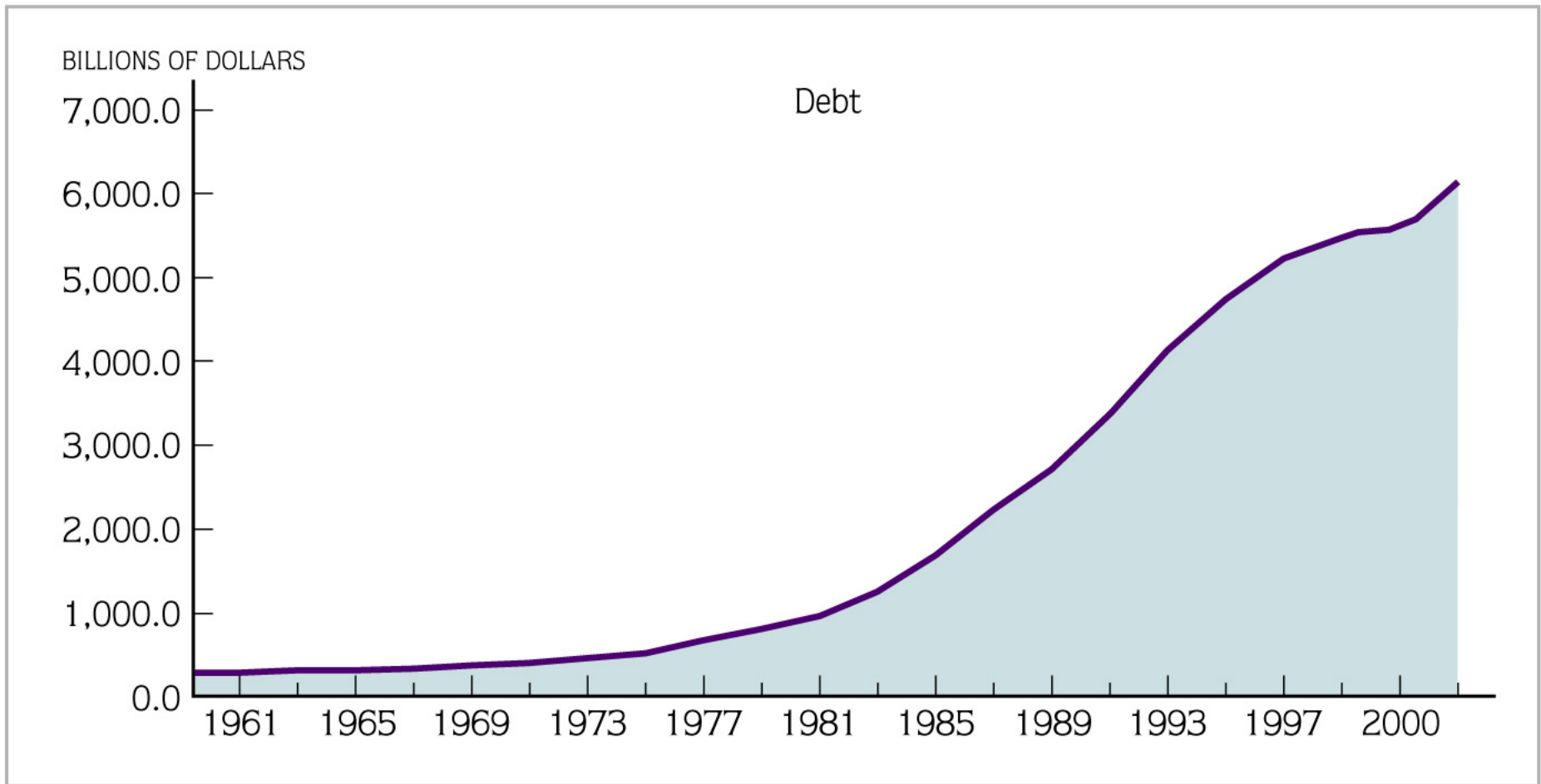


FIGURE 13.6 The National Debt (top)

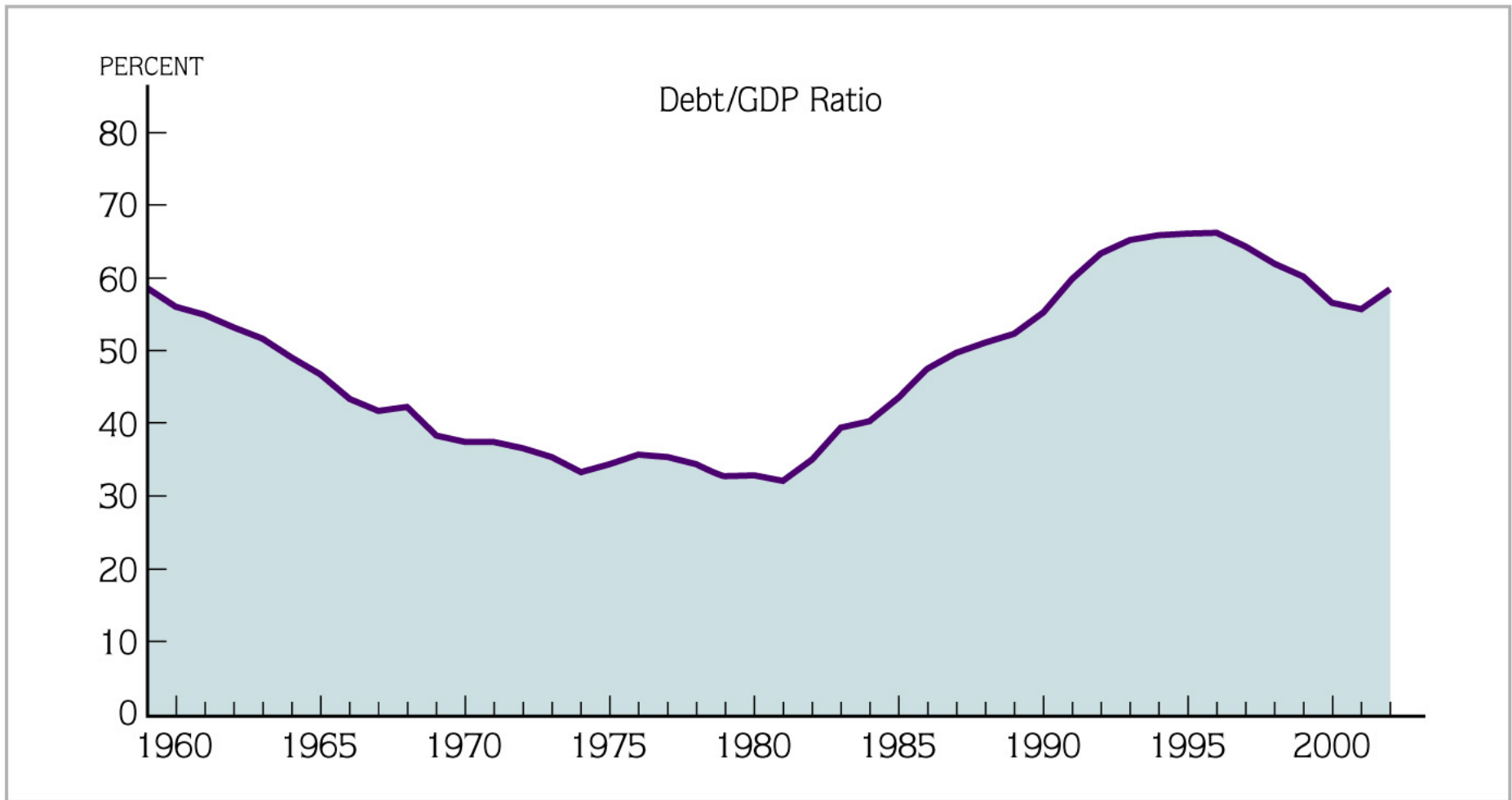


FIGURE 13.6 The National Debt (bottom)

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