

UNIT 7 - THE ROLE OF GOVERNMENT IN A MARKET ECONOMY (8 Days)

One of the most important functions of our government - one that enables our market economy to operate smoothly in an imperfect world - is the government's enforcement of private property laws. There is also a role for government in areas where markets are inefficient or fail to provide the goods and services that people require and many want.

EPF.8 The student will demonstrate knowledge of the role of government in a market economy by

a) identifying goods and services provided by government to benefit society
(BUS6120.041)

- Day 1 Public goods and services
- Day 2 Expanding the definition of public goods
- Day 3 Tragedy of the commons

EPF.8 The student will demonstrate knowledge of the role of the government in a market economy by

b) identifying the role the government plays in providing a legal structure to protect property rights and enforce contracts
(BUS6120.041)

- Day 1 Protecting private property and enforcing contracts

EPF.8 The student will demonstrate knowledge of the role of the government in a market economy by

c) providing examples of government regulation of the market
(BUS6120.041)

- Day 1 Government regulation and market failures

EPF.8 The student will demonstrate knowledge of the role of the government in a market economy by

d) explaining that governments redistribute wealth

EPF.16 The student will demonstrate knowledge of taxes by

b) exploring how tax structures affect consumers, producers, and business owners differently.
(BUS6120.041) (BUS6120.090)

- Day 1 Transfer programs and tax structures

EPF.8 The student will demonstrate knowledge of the role of the government in a market economy by

e) explaining that taxes and fees fund all government-provided goods and services

EPF.16 The student will demonstrate knowledge of taxes by

a) describing the types and purposes of local, state, and federal taxes and the way each is levied and used.

(BUS6120.041) (BUS6120.089)

- Day 1 Where does the money come from and where does it go?

Evaluation Day

EPF. 8 The student will demonstrate knowledge of the role of government in a market economy by

a) identifying goods and services provided by government to benefit society

Day 1 - Public goods and services

Content Knowledge

Most economic decisions in the United States are made in the marketplace—what is frequently referred to as the private sector. However, students need to also realize that government has a role in the economy, often providing goods and services that would not or could not be adequately or equitably provided in a market economy due to the unusual characteristics of the good or service. These “public goods” make us better off but would not otherwise be provided by the private sector.

There is an economic role for government to play in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive.²

Why does government pay private construction firms to build roads and highways? Why do the firms that build the roads not own them themselves and charge tolls to users? All kinds of goods and services are produced and distributed through private markets, so why not roads and highways, too? In flipping through the pages of the telephone directory, we observe a vast array of businesses and government agencies. Why do markets work well to supply much of what we want, while failing to produce other things we want?² The section on Market and Government Failure in Nexus: Connections between Economics and Civics provides excellent teacher background on these topics.³

Students should understand the limitations and shortcomings of both markets and government policies. Learning the economic as well as the political and social reasons for public sector services helps citizens make better choices.²

Virginia Board of Education Framework

The government provides goods and services such as military protection, street lights, and police protection. These goods and services may not be provided by the private sector because it would not be profitable for them to do so when non payers might enjoy the benefits.

Though schools, roads, and fire protection can be provided by the private sector, the government generally provides them as these services benefit society as a whole. An educated public benefits the whole society. Roads facilitate trade. If one person’s house burns and the fire department refuses to come due to nonpayment, neighboring houses may also catch fire.

Governments may provide an alternative method to supply goods and services when the benefits to society of doing so outweigh the costs to society.

Teaching Tips

1) Students have trouble distinguishing between private and public goods. Identify private goods as "me only" goods, that is, only the person who pays receives benefits from the goods. Identify public goods as "shared" goods meaning that many people can benefit whether or not they paid for the goods.³ Brainstorm a list of goods and services (such as schools, police protection, roads, parks, etc.) not usually privately ("me only") produced.²

2) To introduce this section, the teacher may want to use the circular flow of goods and services, introduced in EPF.2j. In that version, the circular flow diagram showed the way in which resources, goods and services, and money flow among households and businesses. Briefly review these concepts, but do not include government into the flow yet.

Ask students to name services or products that they use or consume that are not provided by private businesses. (Students will provide various answers including some of the following: parks, police services, schools, libraries, defense, etc.) Tell them they are known as public goods and public services. Ask them how these services are provided and how the resources are gathered to make them available. They should reply that government provides them and they are paid for with taxes.

Redirect student attention to the circular flow. The easiest way to add government to the flow is to draw a new sector in the middle of the circle and label it "government." The instructor can now begin to add lines to indicate the flow of resources, goods and services and payments. Ask students how to indicate the flow of public goods and services to households and firms. (Lines can be drawn directly from government to households and firms. Payment (tax) lines can be drawn directly from households and firms to government.) Ask students how resources and intermediate goods are provided to government. (Lines can be drawn directly from households and firms to government. Payment lines can be drawn directly from government to households and firms.)

Lessons and Resources

Focus: Understanding Economics in Civics and Government Lesson 4: What are the Economic Functions of Government?

Old MacDonald to Uncle Sam: Lesson Plans from Writers Around the World Lesson 2: Goods and Services: Some Are Private, Some Are Not

EconEdLink Lesson: No Fireworks on the 4th of July <https://www.econedlink.org/resources/no-fireworks-on-the-4th-of-july/>

Day 2 – Expanding the definition of public goods

Content Knowledge

Once the idea that government provides goods and services is established on Day 1, Day 2 is spent delving more deeply into the concept of public goods. How do we know which goods and services are best provided by the government? Two concepts that can help us answer that question are the ideas of non-exclusion and shared consumption. Non-exclusion means that it is difficult to exclude non-payers from receiving the benefit of a good or service. Shared consumption means that the consumption of a good or service by one consumer does not reduce the benefit to other consumers.

When people can obtain a good or service whether they pay for it or not, they have less incentive to pay. If consumers have no incentive to pay the costs, then producers will have little incentive to provide the benefits. As a result, such goods and services will not be produced despite the fact that everyone wants them. This explains why the role of government is so important.

Government can provide goods and services when it is difficult to exclude non-payers and when the product or service involves shared or non-rival consumption. Through taxation, government can require all citizens to pay for their share so no one gets a “free” good or service. For example, everyone desires police protection. However, because it is difficult to exclude people from the benefits of police protection, government supplies the service to everyone, and everyone pays for it through taxation.

Vocabulary

Public goods – Goods and services, provided by the government, that provide benefits to more than one person at a time (non-excludable), and their use cannot be restricted to only those people who have paid to use them (non-rival in consumption).²

Excludable – A good or service for which payment must be made before use. A movie at a theater is an excludable good. A scenic view from a highway is not.

Rival – A good or service which, if consumed, prevents another from consuming it. A chocolate bar is a rival good. A radio broadcast is not.

Free rider – One who enjoys the benefits of a good or service without paying for it.

Virginia Board of Education Framework

The government provides goods and services such as military protection, street lights, and police protection. These goods and services may not be provided by the private sector because it would not be profitable for them to do so when non-payers might enjoy the benefits.

Though schools, roads, and fire protection can be provided by the private sector, the government generally provides them as these services benefit society as a whole. An educated public benefits the whole society. Roads facilitate trade. If one person’s house burns and the fire department refuses to come due to nonpayment, neighboring houses may also catch fire.

Governments may provide an alternative method to supply goods and services when the benefits to society of doing so outweigh the costs to society

Teaching Tips

1) When you discuss public goods with your students, discuss the characteristics of rivalry and excludability. True public goods have neither of these characteristics. They do not exhibit rivalry because when any one person uses a public good, no one else is prohibited from using it as a result. Radio waves, for example, are not suddenly unavailable to you when someone else turns on her car stereo and tunes in to a station you desire to listen to; you may both "consume" these radio waves simultaneously. Nor do public goods exhibit excludability. That is, there is no way to prohibit any one person or group of persons from using a public good for any reason. The example of radio waves still applies. No one--not individuals, firms or even the government--can exclude a certain group, teenagers, for example, from consuming radio waves. This example also shows that not all public goods must be produced by government. Radio programs are produced by private businesses because they can sell advertising. Most public goods, however, are produced by government.³

2) Have students explain how tax dollars are used to provide national defense. Discuss why national defense would not be provided in the private sector.²

Lessons and Resources

Focus: High School Economics Lesson 11: Public Goods and Services

Focus: Institutions and Markets Lesson 7: Public Goods and Externalities

EconEdLink Lesson: The Mystery of is it Mine or Ours?

<https://www.econedlink.org/resources/the-mystery-of-is-it-mine-or-ours/>

EconEdLink Lesson: Goods and Services: Some Are Private, Some Are Not

<https://www.econedlink.org/resources/goods-and-services-some-are-private-some-are-not/>

Video

Seinfeld – “The Pledge” <http://www.yadayadayadaecon.com/clip/56/>

Day 3 – Tragedy of the commons

Content Knowledge

When property is owned publicly, rather than privately, it is often overused and abused. This problem was noted in 1832 by the economist William Forster Lloyd, who was concerned about overgrazing on public pasture land in England. Acknowledging the inevitability of these problems, the biologist Garrett Hardin coined the now familiar phrase, "the tragedy of the commons," in 1968.³

The “tragedy of the commons” provides students with an important lesson on the value of managing common resources. It can often be applied when discussing many environmental issues – including overfishing, air and water pollution, and the extinction of the buffalo. Modern solutions to these problems support the notion of sustainable development, meshing economic growth and environmental protection.

Vocabulary

Tragedy of the Commons – Overuse or misuse of a commonly-owned resource, such as public grazing land or fishing waters.³

Teaching Tips

1) Introduce an example of a public resource being overused – this could be the extinction of the buffalo or the over-harvesting of crabs in the Chesapeake Bay. Ask students how government might be used to avoid the “tragedy of the commons.” Discuss examples where governmental policies have been taken to avoid or reverse the “tragedy.” Then ask students how it might be possible for individuals acting within the market economy to avoid the “tragedy of the commons.”

Lessons and Resources

Capstone: Exemplary Lessons for High School Economics - Unit 7: Lesson 44 – World Environmental Issues: Is the Market at Fault?

Focus: Understanding Economics in US History Lesson 2: Property Rights Among North American Indians

Focus: Economic Systems Lesson 3: Property Rights, the Tragedy of the Commons, and the Coase Theorem

EconEdLink Lesson: New Sense, Inc. vs. Fish ‘Till U Drop or Coase vs. Pigou
<https://www.econedlink.org/resources/new-sense-inc-vs-fish-till-u-drop-or-coase-vs-pigou/>

Reading

“Fishy Business in the South China Sea,” The ASEAN Post.

<https://theaseanpost.com/article/fishy-business-south-china-sea>

“Mark Carney Warns of ‘Market Failures’ From Overfishing in the World’s Oceans.” Sky News.

<https://news.sky.com/story/mark-carney-warns-of-market-failures-from-overfishing-in-worlds-oceans-11281909>

Videos

“Anglers Are in Dire Straits Along Istanbul’s Bosphorus” (article is behind a paywall, but the video is open.

<http://online.wsj.com/article/SB10001424052748704723104576061990776738036.html#articleTabs%3Dvideo>

“Thousands of Fishermen Empty Lake in Minutes”

http://www.youtube.com/watch?v=_Tc6ywqoL6o

EPF.8 The student will demonstrate knowledge of the role of government in a market economy by

b) identifying the role the government plays in providing a legal structure to protect property rights and enforce contracts

Day 1 – Protecting private property and enforcing contracts

Content Knowledge

An important economic role for government is to define, establish, and enforce property rights. Markets do not allocate resources effectively if property rights are not clearly defined or enforced.²

Property rights refer to the legal ownership of resources, which include the right to own, use and sell them. Property rights are essential to the transactions in a market economy, and one of the essential roles of government in a market-oriented economy is to protect property rights. When goods, including everything from cars to groceries, are bought and sold, a property right is transferred from one party to the other. Your ownership of your own labor, that is, your property rights in your own labor, is what gives you the right to be paid for your work. Without property rights and ownership, firms would lack any reason to build factories, produce and innovate, because they wouldn't be able to keep what they made or earned. Similarly, people and firms would have a greatly reduced incentive to save or invest, because they wouldn't be confident of receiving the future value from doing so.³

Political opinions differ about how extensive the role of government should be in managing the economy. But it is clear that a market-oriented economy requires the backdrop of a rule of law to function well, in which the government enforces contracts and protects property rights.³

Vocabulary

Contract – A legal agreement enforceable by law.

Virginia Board of Education Framework

Property rights give people the right to use their possessions as they choose (within the limits of the law).

Property rights, contract enforcement, standards for weights and measures, and liability rules affect incentives for people to produce and exchange goods and services.

Without property rights there would be little incentive to invest. People invest in what they own because they expect to earn a return on that investment. So, for example, many people landscape the lawns of homes they own, but few landscape a home they are renting.

People would have less confidence in contracts if there were no guarantee of enforcement. Thus people would be less willing to trust contracts to buy, sell, or invest. This would reduce economic activity.

The government enforcement of weights and measures assures consumers that when they buy ten gallons of gas, they are actually getting ten gallons.

Teaching Tips

1) Predict what would happen to the value of apple orchards if owners were unable to prohibit apple theft. Predict what might happen if there were no legal way to settle boundary disputes or if every state had its own system of weights and measures.²

2) Lead a student discussion using the following prompts: Why are well defined property rights so important? First, property ownership encourages wise use of the resource. Are you more concerned with changing the oil in a car you own or a car you rent? Second, private ownership encourages people to use their property productively because this increases its value. Third, private sellers will try to use their property for the benefit of others because this increases its value. Because they will benefit from a higher price, people improve their homes in ways that make the homes more attractive to potential buyers. Finally, owning property encourages its wise development and conservation for the future. Why are there more cattle than whales? Why is commonly owned property often abused?³

Lessons and Resources

Economics in Action: 14 Greatest Hits for Teaching High School Economics Lesson 4: Property Rights in a Market Economy

Focus: Institutions and Markets Lesson 2: Property Rights and Contracts as Economic Institutions

EconEdLink Lesson: “The Mystery of ‘Is It Mine Or Ours?’”

<https://www.econedlink.org/resources/the-mystery-of-is-it-mine-or-ours/>

Property Rights Video and Quiz (Econedlink and VE 4.5)

<https://www.econedlink.org/interactives/EconEdLink-interactive-tool-player.php?iid=193>

EPF.8 The student will demonstrate knowledge of the role of the government in a market economy by

c) providing examples of government regulation of the market

Day 1 – Government regulation and market failures

Content Knowledge

A market succeeds when it brings together a willing buyer and willing seller to make a mutually beneficial transaction in a way that satisfies the parties involved. However, there are certain well-recognized conditions under which market failure occurs; this means either that a market transaction affects third parties not involved in the transaction or that a market has difficulty in providing certain kinds of products.³

Markets do not allocate resources efficiently if: (1) property rights are not clearly defined or enforced; (2) externalities (spillover effects) affecting large numbers of people are associated with the production or consumption of a product; or (3) markets are not competitive.² The sections on Market and Government Failure, and Regulation, in Nexus: Connections between Economics and Civics provides excellent teacher background on these topics.³

Examples of Market Failures:³

Externalities are situations in which a market transaction affects a third party who is not part of the transaction. A classic example is pollution, where people who do not purchase the good whose production created the pollution must nevertheless face polluted air or water.

A *public good* is a good where it is difficult to charge people for using it, and where one person's use of the good does not diminish the good for others. An example is national defense or police protection in public places. Because it is hard for private firms to charge people for these services, markets often do a poor job of providing them.

A *monopoly* firm that operates without competition, and thus has the power to increase the prices it charges to consumers, is an example of market failure.

Imperfect information is often cited as a market failure. Ideally all market participants would have perfect information, and it is often argued that markets fail when buyers and sellers have imperfect information. But buyers and sellers always have less than perfect information.

Indeed, any attempt to acquire perfect information would be inefficient because it would soon begin costing more than it was worth.

Vocabulary

Externalities – Economic side-effects or third-party effects, in which some of the benefits or costs associated with the production or consumption of a product affect someone other than the direct producer or consumer of the product. Can be positive or negative.³

Market failure – A market failure occurs when the market forces of supply and demand do not lead to the output society desires.¹

Government failure – A government failure occurs when the cost of solving a market failure is greater than the benefit.¹

Virginia Board of Education Framework

Some examples of government agencies that regulate to protect:

- consumers (e.g., Consumer Protection Agency, Food and Drug Administration)
- labor (e.g., Occupational Safety and Health Administration)
- the environment (e.g., Environmental Protection Agency).

Government regulations also aim to remedy market failures. A market failure occurs when the market forces of supply and demand do not lead to the output society desires.

The four primary sources of market failures are as follows:

- Public goods, such as military protection and roads, are provided by government since the market would fail to provide them.
- Externalities exist when some of the costs and the benefits associated with production and consumption of a product fall on someone other than the producers or the consumers of the product (e.g., air and water pollution, noisy neighbors). The market cannot solve this; sometimes the government does (e.g., Environmental Protection Agency).
- Market power occurs when a shortage of competition results in rising prices. Government may pass laws such as the Sherman Antitrust Act and regulate through agencies like the Federal Trade Commission. It may regulate “natural monopolies,” such as electrical utilities.
- Inequity exists because markets reward people according to their effort and skills. People without skills, or who cannot work, are likely to be poor. Governments often redistribute income in order to alleviate poverty.

A government failure occurs when the cost of solving a market failure is greater than the benefit.

Teaching Tips

1) Use simple examples of positive and negative externalities to illustrate market failures. A simple positive externality is a flu shot. The person who receives the shot receives the benefit of the drug's protection and the cost of pain. Other people do not pay the cost but do receive the benefit because fewer people spread the flu. A simple negative externality is cigarette smoking. The person who smokes benefits in the short term, but other people nearby have costs associated with secondhand smoke.³

2) Have students discuss why there might be a role for government in dealing with pollution, vaccinations, and medical research and what they believe that role should be.

3) Explain why state and local governments use public money for elementary education. Why are tobacco and gasoline heavily taxed? Why are some polluting firms taxed and/or regulated?²

4) Explain why the Federal Trade Commission might oppose the purchase of one large corporation by its closest competitor and what the effects might be on consumers, producers, and workers if the merger were allowed.²

Lessons and Resources

Focus: Economic Systems Lesson 11: No Sacrifice is Too Great for Someone Else to Make

Economics in Action: 14 Greatest Hits for Teaching High School Economics Lesson 5: The Role of Government in a Market Economy

Focus: Understanding Economics in United States History Lesson 25: The Economic Effects of 19th Century Monopoly.

EconEdLink Lesson: Clean Land Thanks to US! (EPA lesson)

<https://www.econedlink.org/resources/clean-land-thanks-to-us/>

EconEdLink Lesson: Guess Who's Coming to Dinner?

<https://www.econedlink.org/resources/guess-whos-coming-to-dinner/>

Videos

Making Sense with Paul Solman - What's Really in Herbal Supplements?

<https://www.pbs.org/newshour/show/whats-really-in-herbal-supplements>

Video on externalities <http://www.youtube.com/watch?v=DOuBxJNIFkY&feature=related>

A Civil Action – DVD – (7:10 to 11:25 and 27:30 to 30:30)

Erin Brokovich – DVD – Chapter 19 (2 minutes)

EPF.8 The student will demonstrate knowledge of the role of the government in a market economy by

d) explaining that governments redistribute wealth

Day 1 – Transfer programs and tax structures

Content Knowledge

Governments often redistribute income directly when individuals or interest groups are not satisfied with the income distribution resulting from markets. Governments also redistribute income indirectly as side-effects of other government actions that affect prices or output levels for various goods and services.²

One of the roles of government is to redistribute income to promote economic equity or fairness. If the distribution of income among households is considered inequitable, government policies may be used to redistribute income. These include changes in who pays taxes, and the level of benefits provided to some individuals and households through transfer payments (including welfare programs and social security) or programs that provide or partially subsidize education and training programs. However, because differences in income reflect differences in productivity and are powerful incentives for workers and firms, government policies to reduce inequality may weaken these incentives.³

Vocabulary

Progressive tax – A tax that take a larger percentage of income from people in higher-income groups than from people in lower-income ones; the U.S. federal income tax is an example.³

Regressive tax – A tax that takes a larger percentage of income from people in lower-income groups than from higher-income ones. A regressive tax applies the same to everyone, but the tax paid represents a larger share of a poorer taxpayer’s income than of a wealthier tax payer’s income. Sales taxes and excise taxes are examples.³

Virginia Board of Education Framework

EPF 8d: Governments redistribute income to create a safety net and alleviate poverty.

Redistribution may be direct through social service programs.

Governments also redistribute income with progressive tax rates. With progressive taxes, marginal tax rates are lower at low incomes and rise with income levels; thus, people with higher incomes pay a larger percentage of their income for taxes.

A proportional tax levies the same percentage tax at all income levels. So, people who earn more pay more, but, they pay the same percentage rate.

With a regressive tax, a higher percentage actually falls on people with lower incomes. The sales tax is considered a regressive tax because people at lower incomes pay a higher percentage of their income in sales tax. This occurs because people at lower incomes spend more of their

income on taxable things, whereas people at higher incomes spend a much lower percentage of their income on taxable things —saving and investing large percentages of their income. Social Security is also considered a regressive tax in that there is a cap, and income above that cap is not taxed.

EPF 16b: Tax structures may be progressive, regressive, or proportional.

A progressive tax system is one in which the tax rate rises as a taxpayer's income rises. Income tax is a progressive tax.

A proportional tax is one in which the same tax rate is paid by people at all income levels. Property tax is a proportional tax.

Taxes are regressive when taxpayers who earn lower incomes pay a higher percentage of their income than those who earn higher incomes. Sales tax is a regressive tax.

Teaching Tips

1) Describe a government assistance program, discuss why government provides it, and determine which groups in the economy benefit and which groups bear the costs.²

2) Analyze the following situation: A government has to raise \$100 billion of revenues. It can do so through a sales tax or a progressive income tax. Explain the effect of each tax on a low income and a high income family.² The lesson below from Teaching the Ethical Foundations of Economics is an excellent tool for this purpose.

3) Students have difficulty understanding regressive taxes. The problem comes from the fact that although a person's income increases, the percentage of that person's income paid in taxes declines. This is because most regressive taxes are consumption taxes and consumption does not increase in proportion to income. A tax is even more regressive if poor people buy more of the good or service taxed than rich people. Lottery tickets may be the most regressive tax of all.³

4) Ask students how they would classify licenses and fees. These are payments to government in exchange for certain services. However, they are different from taxes in that the payment is based on usage. Would certain licenses or fees be considered progressive, regressive or proportional?

Lessons and Resources

Focus: Understanding Economics in Civics and Government Lesson 11: How Should Government Structure the Tax System?

Math & Economics: Connections for Life 9-12 Lesson 13: Tax Math

Capstone: Exemplary Lessons for High School Economics Unit 5 Lesson 30: Poverty and Income Inequality

Teaching the Ethical Foundations of Economics Lesson 10: What is Economic Justice?

Focus: Economic Systems Lesson 12: Income Distribution and Redistribution Policies

Understanding Taxes: The Whys of Taxes – Theme Three: Fairness in Taxes

<http://www.irs.gov/app/understandingTaxes/teacher/whys.jsp>

Econedlink Lesson: Income Inequality

<https://www.econedlink.org/resources/income-inequality/>

Econedlink Lesson: Distribution of Income

<https://www.econedlink.org/resources/distribution-of-income/>

Econedlink Lesson: UBI - What is Universal Basic Income?

<https://www.econedlink.org/resources/ubi-what-is-universal-basic-income/>

Video

Making Sense with Paul Solman: Does US Economic Inequality Have a Good Side?

<https://www.econedlink.org/resources/making-sense-with-paul-solman-exploring-the-psychology-of-wealth-pernicious-effects-of-economic-inequality/>

Readings

New York Times: The Rich Really Do Pay Lower Taxes Than You

<https://www.nytimes.com/interactive/2019/10/06/opinion/income-tax-rate-wealthy.html>

Bloomberg: The Rich Really Do Pay Higher Taxes Than You

<https://www.bloomberg.com/opinion/articles/2019-10-10/the-rich-really-do-pay-higher-taxes-than-you>

EPF. 8 The student will demonstrate knowledge of the role of the government in a market economy by

e) explaining that taxes and fees fund all government-provided goods and services

Day 1 – Where does the money come from and where does it go?

Content Knowledge

Although having to pay taxes may be hard to swallow, the money that taxes raise makes government possible. In a market economy, we need government to enforce private property laws and to step in when markets fail. Without taxes, there would be no laws and no courts. “Taxation,” said Supreme Court Justice Oliver Wendell Holmes Jr., “is the price we pay for civilization.” And those with basic economic literacy understand: “There is no free lunch.”

Most federal government tax revenue comes from personal income and payroll taxes. Payments to Social Security recipients, the costs of national defense and homeland security, medical expenditures (such as Medicare), transfers to state and local governments, and interest payments on the national debt constitute the bulk of federal government spending.²

Most state and local government revenues come from sales taxes, grants from the federal government, personal income taxes, and property taxes. The bulk of state and local government revenue is spent for education, public welfare (including hospitals and health), road construction and repair, and public safety.²

Virginia Board of Education Framework

EPF 8e: The bulk of federal spending goes toward

- national defense
- payments to Social Security recipients
- the costs of goods and services, medical expenditures (i.e., Medicare and Medicaid)
- interest payments on the national debt.

Most federal tax revenue comes from federal income tax and payroll taxes.

The bulk of state and local government revenue is spent on public education, public welfare, road construction and repair, and public safety.

Most state and local government revenues come from sales taxes, grants from the federal government, personal income taxes, and property taxes.

Governments may provide an alternative method to supply goods and services when the benefits to society of doing so outweigh the costs to society.

EPF 16a: The federal government provides goods and services from military defense and the interstate highway system to the administration of domestic programs and agencies. Most federal tax revenue comes from personal income taxes and payroll taxes.

Most state and local government revenue comes from sales taxes, grants from the federal government, personal income taxes, and property taxes. The bulk of state and local government revenue is spent for education, public welfare, road construction and repair, and public safety.

Types of taxes:

- Income
- FICA
- Flat
- Inheritance
- Personal property
- Progressive
- Proportional
- Real estate
- Regressive
- Sales
- Social Security

Teaching Tips

- 1) Use data from the U.S. federal budget to construct two pie charts, one representing major categories of federal revenue and the other representing major categories of federal expenditure.² The resources listed below should be helpful as a source for data.
- 2) Compare the various sources of state and local revenues and various categories of state and local expenditures in Virginia and the students' community with those of the U.S. federal government.²
- 3) Have students answer the following question: If the national, state and local governments had no power to tax, what goods and services would we have to do without?²

Lessons and Resources

Focus: Middle School Economics Lesson 10: Where Does the Money Go?

Personal Decision Making: Focus on Economics Lesson 8: The Role of Government: Who Needs It?

EconEdLink Lesson: Government Spending: Why Do We Spend the Way We Do?

<https://www.econedlink.org/resources/government-spending-why-do-we-spend-the-way-we-do/>

EconEdLink Lesson: Where Does All the Money Come From?

<https://www.econedlink.org/resources/where-does-the-money-come-from/>

JFK Presidential Library and Museum - Federal Budget Simulation Lesson Plan

<https://www.jfklibrary.org/Education/Teachers/Curricular-Resources/High-School-Curricular-Resources/Federal-Budget-Simulation.aspx>

Data

Policy Basics: Where Do Our Federal Tax Dollars Go?

[Policy Basics: Where Do Federal Tax Revenues Come From?](https://www.cbpp.org/research/federal-tax/policy-basics-where-do-federal-tax-revenues-come-from)

<https://www.cbpp.org/research/federal-tax/policy-basics-where-do-federal-tax-revenues-come-from>

[Econedlink Lesson” FRED and the Federal Budget Interactive Lesson.](https://www.econedlink.org/resources/fred-and-the-federal-budget-interactive-lesson/)

<https://www.econedlink.org/resources/fred-and-the-federal-budget-interactive-lesson/>

Commonwealth of Virginia: spending trends compared with neighboring states.

[https://ballotpedia.org/Virginia state budget and finances](https://ballotpedia.org/Virginia_state_budget_and_finances)

Portal for data on revenues and expenditures, including state and local governments

<http://datapoint.apa.virginia.gov/>