

What do taxes fund? Take a look. Do you think we need any of these services? What would your life be like without these?



Most government spending pays for goods and services that benefit all of us. These goods and services are called public goods. Very few people could actually afford to pay for all the services they use. Still, people want and need these services.

Public goods are products or services supplied by the government with two primary characteristics. For one thing, they can be consumed by more than one person at a time. Just because one person uses a public good, this doesn't prevent others from using the same good.

In addition, access to public goods cannot be restricted to those who have paid to use it. When a public good is provided for one individual, there is no way to exclude others.

Let's look at an example to help clarify this definition.



Fireworks are a great example of a public good.

Who puts on the fireworks display in your hometown on Independence Day?

Most likely, this service is provided by the town or city that you live in, paid for using your tax dollars. This fulfills the first requirement of public goods—they are products or services supplied by the government.

If I watch the fireworks does it prevent you from enjoying them as well? Nope!

Check off the next part of the definition: they can be consumed by more than one person at a time. This is called “shared consumption.”

Finally, I live in town and pay taxes. You’re a tourist from another state and didn’t pay the taxes that bought the fireworks. Does this mean you aren’t allowed to watch the fireworks? No again! Use of public goods cannot be restricted to only those people who have paid to use them. This is called “non-exclusion.” What if the city only let’s people who live there into the park to see the fireworks? It doesn’t matter! They are still non-exclusive because you can stand across the street and watch them!

# Government Revenue

Federal government gets most of the money it spends on goods and services through taxes, or by borrowing it.

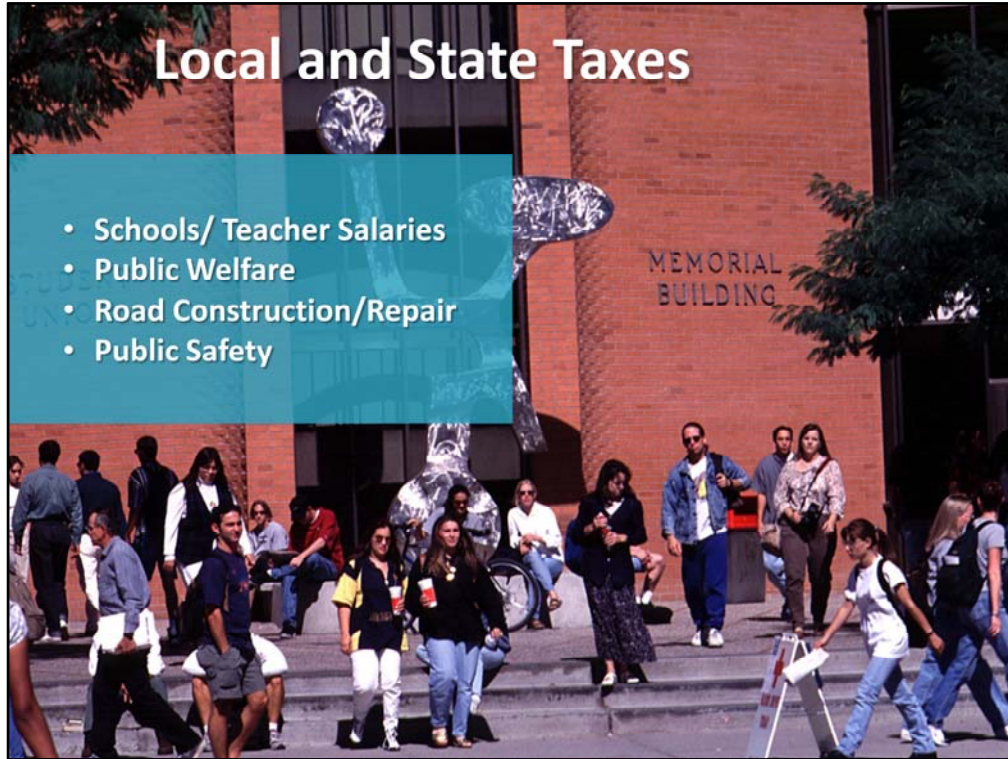


Public Sector

As we saw earlier, with very few exceptions, the Federal Government gets most of the money it spends on goods and services through taxes, or by borrowing it. Another way to say this is that taxes shift resources from the private sector (your paycheck) to the public sector in order to pay for the goods, services, and government operations that we, through our representatives, ask government to provide.

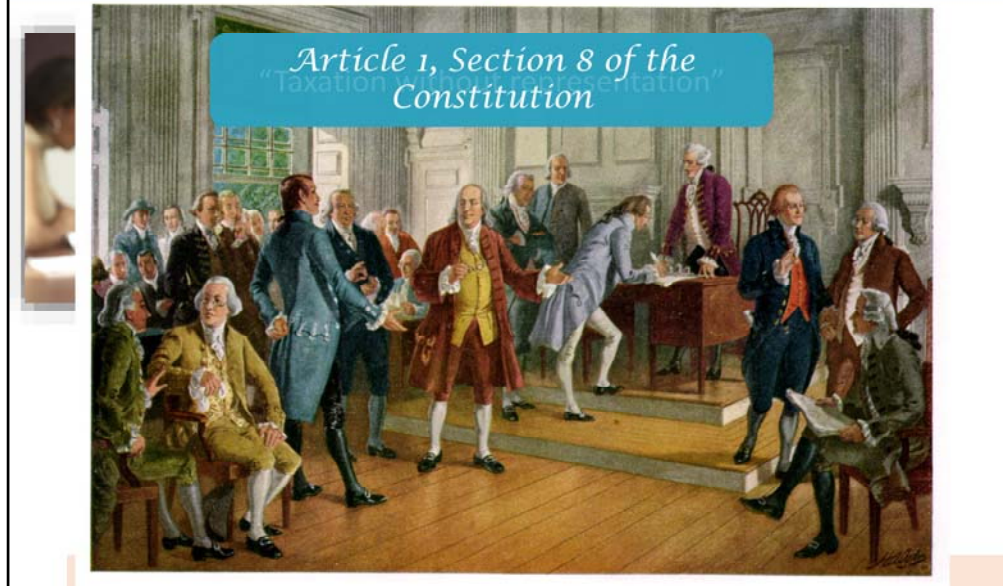
For example, think of the fire station in your neighborhood. When the government builds a fire station, it has to use tax dollars to pay the company that hires the workers and owns the construction equipment.

Everyone can call the fire department in your town, regardless of whether they live in the area, or even if they come from another country.



In addition to the taxes collected at the federal level, taxes are also collected by local and state governments, which use them to provide goods, services, and other government operations. Your school building is an example of a public good provided by the local government. Without local taxes, there would be no way to pay for new schools and to repair existing ones, or to pay teachers their salaries. If you play any sports at your school or play in the band, these activities are also funded through local taxes.

## Government's Right to Tax



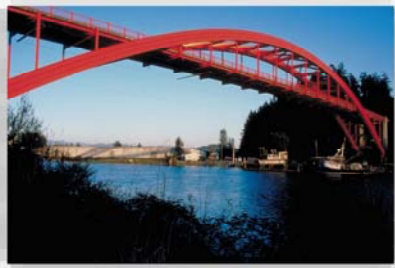
Even if you don't currently have a job or own property, you still pay taxes. The candy bar or cell phone you just bought included a tax. The price you paid was actually some percentage higher than the price listed on the store shelf. This additional money is called a sales tax.

What right does the government have to tax its people? After all, no one asks whether you want to pay taxes or not...or do they?

"Taxation without representation." You've probably heard this phrase a lot as one reason America revolted against England. The colonists objected to being taxed without having any say over what these taxes were, or how the money was spent. They established a system of government where everyone had a voice through their elected officials. You vote for local, state, and federal representatives who represent your interests.

Once elected, your representative makes decisions for the good of the group, be it city, state, or country. Article 1, Section 8 of the Constitution says that one of these decisions can be how much to tax the people. Although you don't decide how much you are taxed, your representatives have a say.

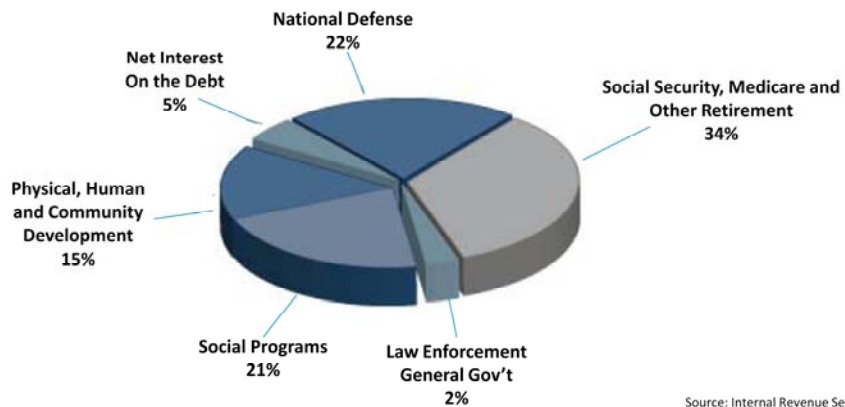
## No Taxes?



Some people believe that if the government really worked for the people, we wouldn't have to pay taxes. After all, who likes to pay taxes? Think, for a moment, of what would happen if the government didn't collect taxes. For one, we wouldn't have a military to protect our borders, police to protect our lives and property, or bridges, roads, parks, and many more things that you use on a daily basis. These are all public goods that everyone uses, but no one could afford to provide by themselves.

# Where Does Your Money Go?

**Federal Spending 2007**



Where does your money go?

The government uses your tax dollars to provide public goods and services to everyone. In order to do this, the government must have income, or revenue, which it gets from taxes. This money is used for federal spending or government programs.

Your tax dollars serve to fund a huge spectrum of services that the government offers which you might not even think about. Let's take a look how your tax dollars get spent. Just how much of your tax dollar goes to each government service?



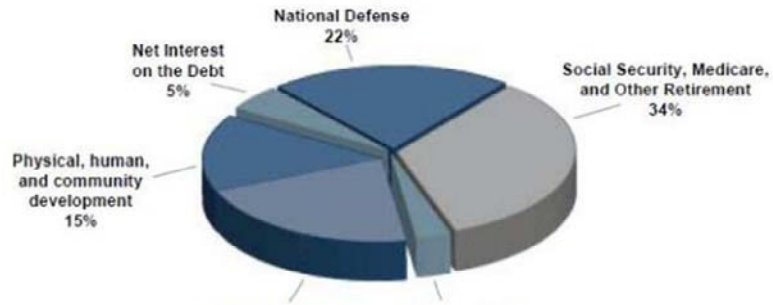
## Where Does All the Money Go?

Questions

On which category did the government spend the most money in 2007?

Select the text for the category and then select **Submit**.

### The Federal Government Dollar – Where It Goes



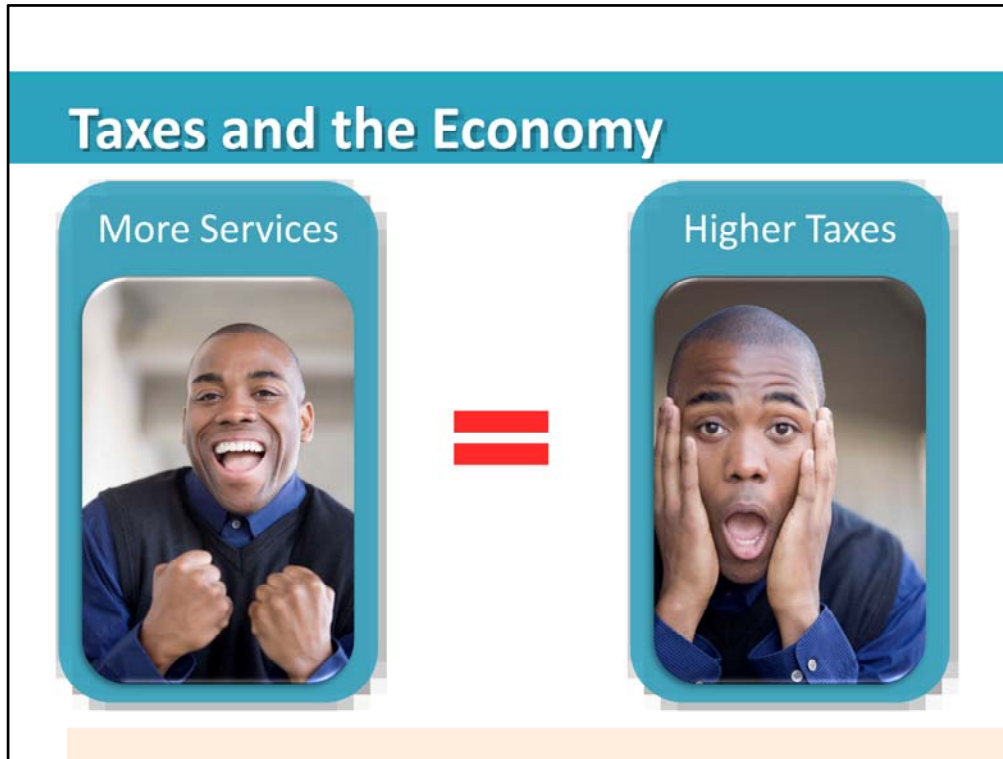
## Where Do Local and State Taxes Go?



Federal taxes aren't the whole story. Remember that state and local governments also levy taxes, and those revenues fund different programs, so we could make the same pie charts to show where those revenues come from and are spent. In short, your tax dollars go wherever your representatives decide is best with the input of their constituents.

How and why are new taxes created? You might hear on the news that a law was passed to create a new toll on a road near where you live, or the sales tax is being increased. How does this happen? State and local taxes are proposed by representatives and follow the legislative process. In order to create or amend a tax, legislators propose, debate, and review the tax bill before it is approved.

Wait a minute. Do you get a say in this process? You do. You can express your views to your local legislators who represent your interests at one of the three levels of government.



Higher taxes help the government provide more services, but this leaves people less disposable income to keep the economy growing.

Each year, the government tries to balance the people's desire to have more services with an acceptable level of taxation. Over the past hundred years, the tax burden in the United States has increased by twenty-five percent. These taxes have gone to fund a lot of programs that benefit people's health (Medicare, Medicaid), retirement (Social Security), and America's interests around the world (increased military budget).

You might think that this sounds like a huge increase in government revenues, but it's easily consumed by people's desire for more services, and as we saw in the presentation on how the U.S. budget works, the government usually has to borrow money to pay for it all. This leads to the growth of the government's debt.

More services, lower taxes. Your representatives have a difficult time making everyone happy while looking out for the long term financial health of the country.