Who Pays for Protection?

Compare tax and spending choices across economic systems

GE.2.5 "Describe fiscal policy, including how taxes are used within different economic systems."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline each way a government raises or spends money, and circle each economic system named in the passage. Use your marks to compare how the systems could fund and build flood barriers.

Harborview Plans for the Next Storm

1. After a severe storm, the city of Harborview needs stronger flood barriers. Businesses can sell supplies, but the barriers protect entire neighborhoods, including people who cannot pay for them directly. The city council proposes a temporary tax on high-value waterfront properties to help fund construction. It also considers lowering sales taxes on replacement tools, so repairs cost less. These choices are fiscal policy: government decisions about taxes and spending that affect economic activity. A higher property tax would raise public revenue and leave affected owners with less money to spend. A lower sales tax could encourage purchases but would reduce revenue from those sales.

2. In a market-oriented economy, private businesses make most production decisions, but governments still collect taxes and buy public goods. Harborview could use tax revenue to hire competing construction firms to build the barriers. If the city cuts the sales tax on tools, buyers may spend more at private stores, although stores decide what to stock. The city might also run a deficit, spending more than it collects in taxes, and borrow to cover the gap. This could speed up repairs, but borrowing creates future repayment costs. Tax and spending choices shape demand without the government directing every business decision.

3. In a mixed economy, the government and private sector both have major roles. Harborview could tax waterfront property, hire private builders, and pay a public agency to maintain the barriers. In a centrally planned economy, officials may instead assign state-owned factories to supply materials and direct state crews to build. Such a government can still collect taxes, but it may also fund projects with revenue from state-owned enterprises. In every system, taxes can shift resources toward public goals or change incentives. What differs is how much the government relies on private decisions and tax revenue when carrying out its plan.

2 ANSWER WITH EVIDENCE

Use the passage

1. How would Harborview's proposed property tax support the barrier project, and how could it affect property owners?

2. In a market-oriented economy, how could Harborview use tax revenue to build barriers while leaving production decisions to private firms?

3. How do the mixed-economy and centrally planned options differ in how they could fund and build the barriers?

4. Why might cutting the sales tax on tools help with repairs, and what would the city give up?

3 YOUR TURN

Your own words

A mountain town needs firebreaks to reduce wildfire damage. In four sentences, propose a tax-and-spending plan for a market-oriented economy, explain how a centrally planned economy might pay for and build the same firebreaks, and identify one tradeoff of your tax choice.

ANSWER KEY

Who Pays for Protection?

PART 1 · READ AND MARK

Underline each way a government raises or spends money, and circle each economic system named in the passage. Use your marks to compare how the systems could fund and build flood barriers. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	How would Harborview's proposed property tax support the barrier project, and how could it affect property owners?	**It would raise revenue for construction and leave affected owners with less money to spend.**
2	In a market-oriented economy, how could Harborview use tax revenue to build barriers while leaving production decisions to private firms?	**It could use tax revenue to hire competing construction firms, which would make their own production decisions.**
3	How do the mixed-economy and centrally planned options differ in how they could fund and build the barriers?	**In the mixed-economy option, Harborview taxes property, hires private builders, and uses a public agency for maintenance. In the centrally planned option, officials direct state factories and crews and may use taxes or revenue from state-owned enterprises.**
4	Why might cutting the sales tax on tools help with repairs, and what would the city give up?	**A lower tax could make tools cost less and encourage purchases, but the city would collect less revenue from those sales.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

In a market-oriented economy, the town could raise a temporary property tax and use the revenue to hire private crews to clear firebreaks. The tax would help pay the crews but leave property owners less money to spend. In a centrally planned economy, officials could direct state crews to clear the firebreaks and pay for supplies with taxes or revenue from state-owned enterprises. One tradeoff is that owners facing costly home repairs might struggle to pay the new tax.

Accept other plausible tax choices if the response explains how revenue pays for firebreaks and identifies a related tradeoff. A centrally planned government may collect taxes, use revenue from state-owned enterprises, or do both.