



TEST YOURSELF: THE PUBLIC SECTOR

Striving for success without hard work is like trying to
harvest where you haven't planted.

David Bly



HOW HAS THE SIZE OF US GOVERNMENT CHANGED?



Since the 1950s, US government expenditures have grown from about one-quarter to over one third of GDP.

CHART: GOVERNMENT EXPENDITURES, 1940-2005

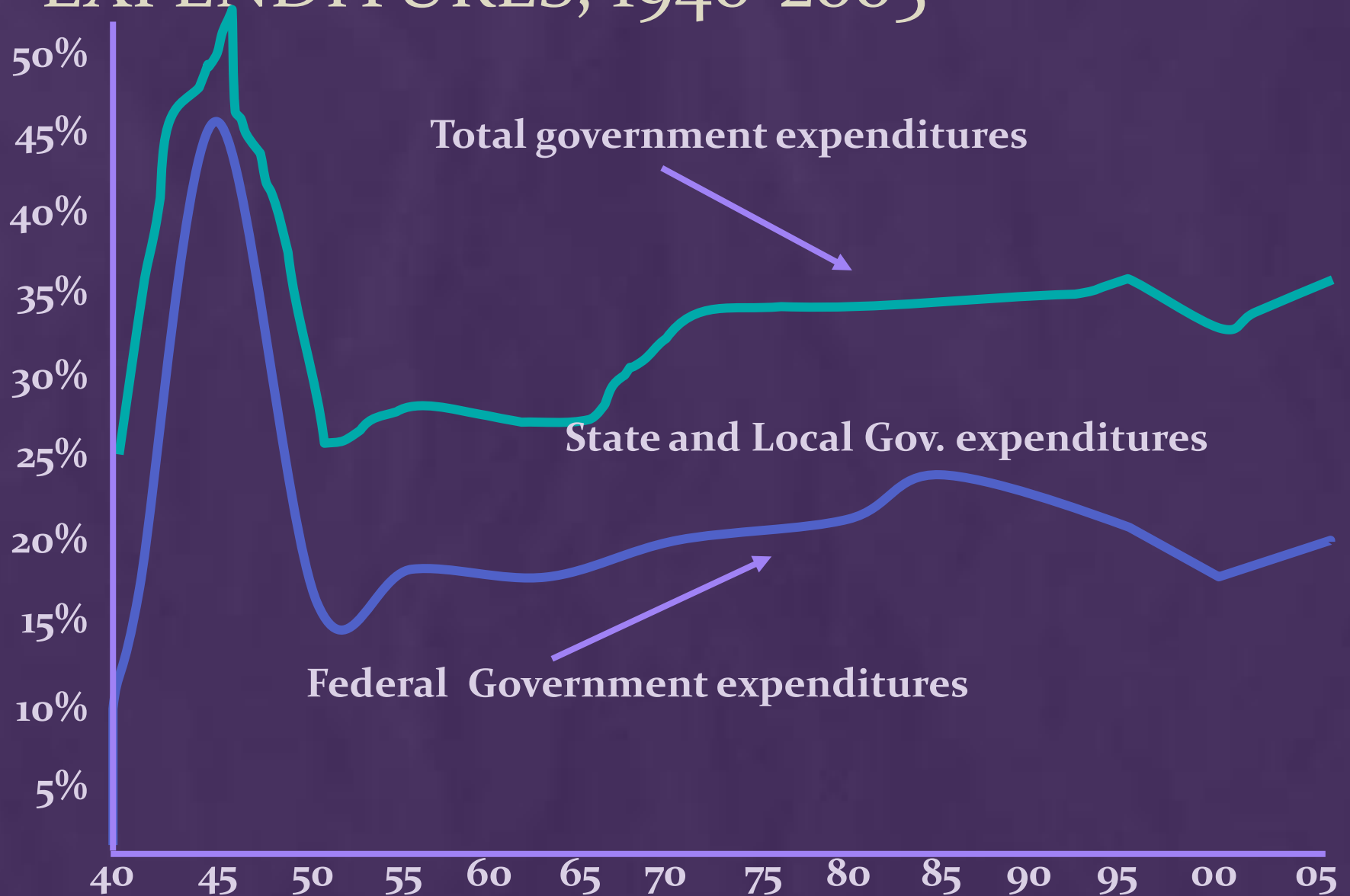
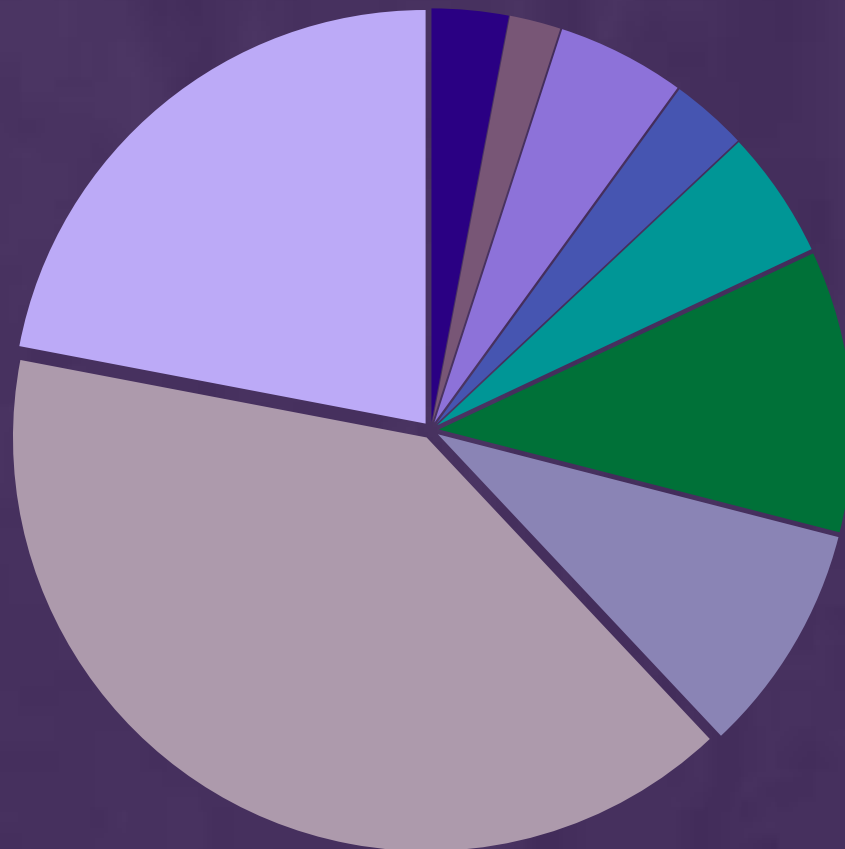
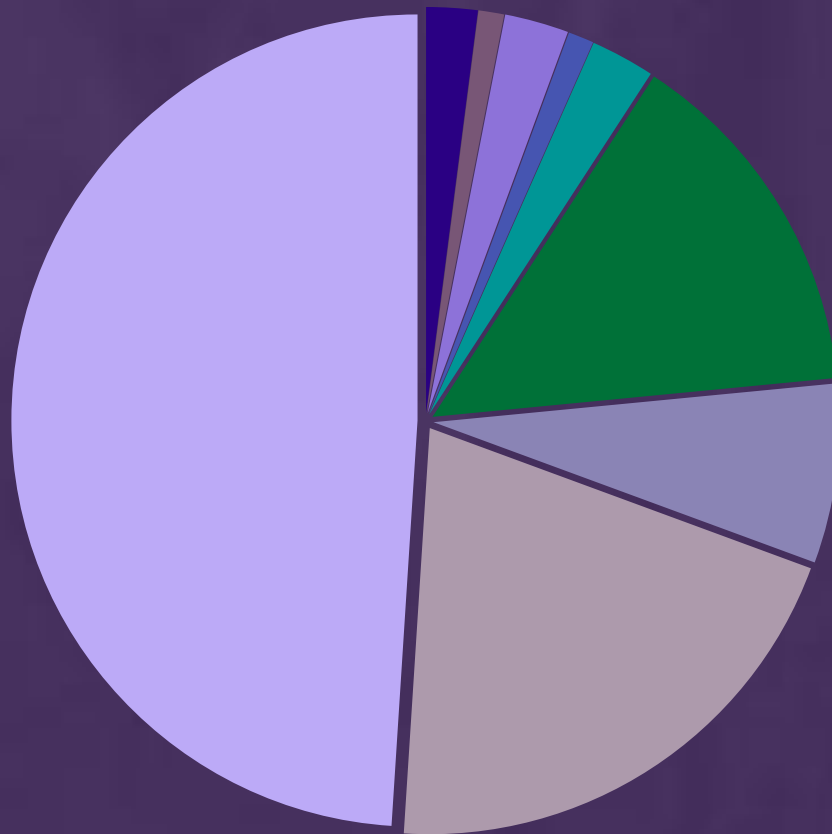


CHART: 1970 FEDERAL OUTLAYS



- Other
- International affairs
- Veteran's benefits
- Agriculture
- Transportation
- Education and health
- Interest on federal debt
- National defense
- Income security

CHART: 2005 FEDERAL OUTLAYS



- Other
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CHART: 1970 STATE AND LOCAL OUTLAYS

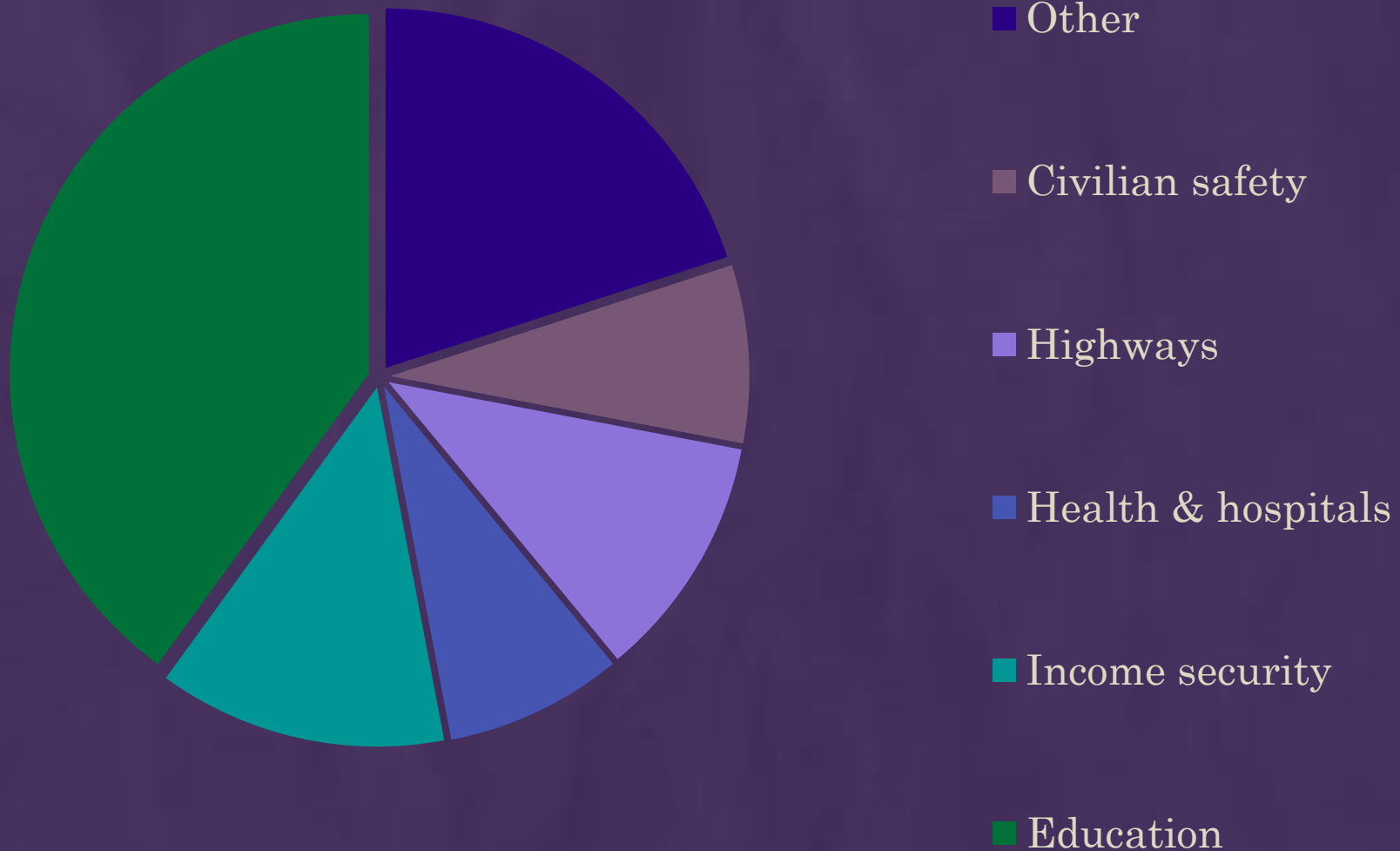
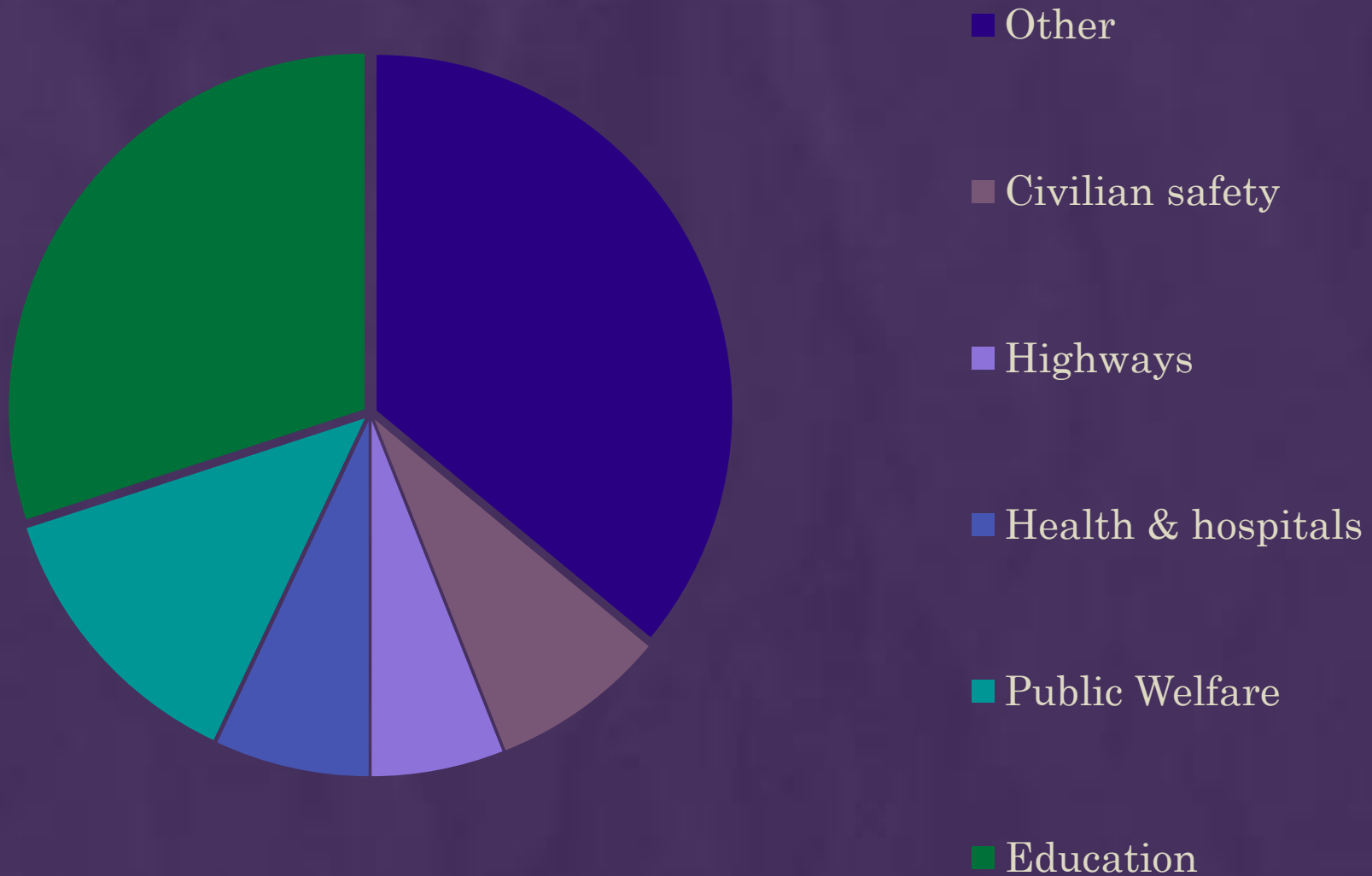


CHART: 2004 STATE AND LOCAL OUTLAYS





HOW DO TAXES IN THE US COMPARE TO TAXES IN OTHER COUNTRIES?



US citizens are among the most
lightly taxed people in the
industrialized world.

CHART: EXPENDITURES IN OTHER COUNTRIES, 2005

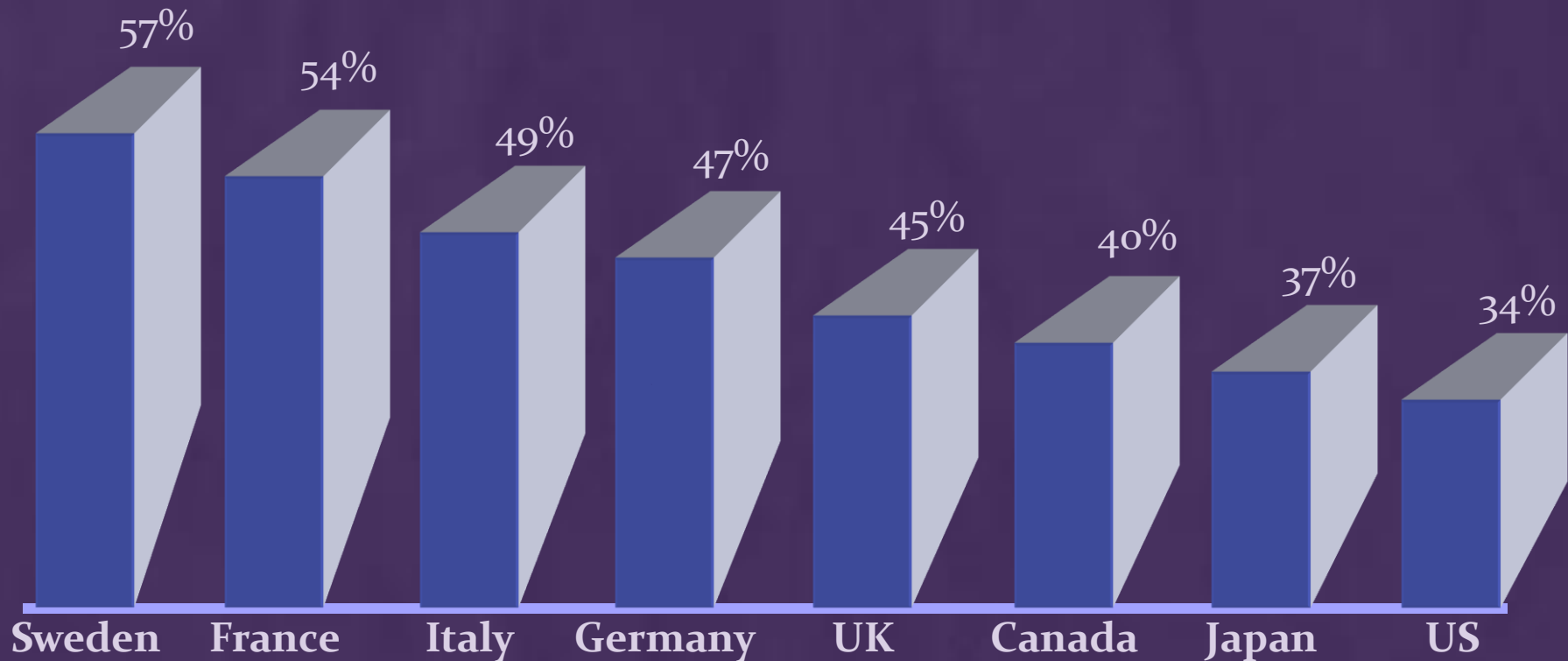
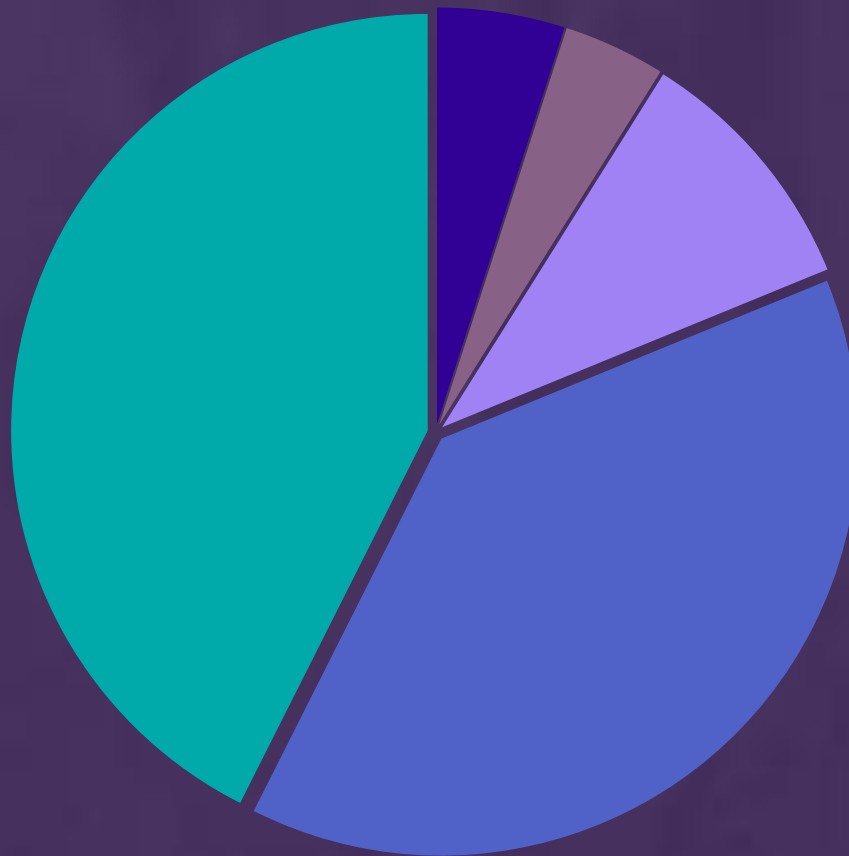


CHART: FEDERAL RECEIPTS, 2005



■ Other

■ Excise taxes

■ Corporate income taxes

■ Social insurance taxes

■ Individual income taxes

CHART: STATE AND LOCAL RECEIPTS, 2005

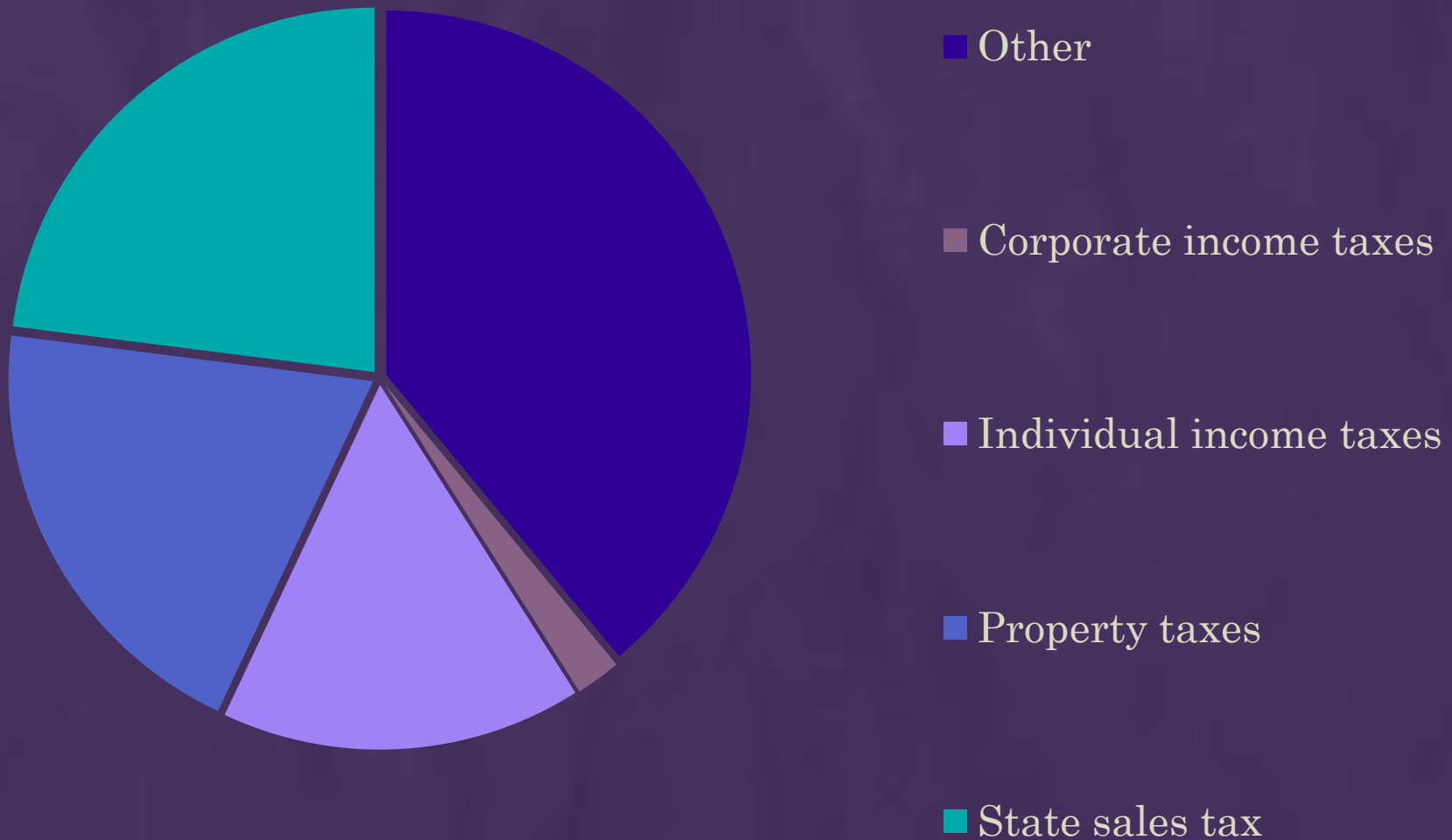


CHART: THE TAXATION BURDEN IN SELECTED COUNTRIES, 2005

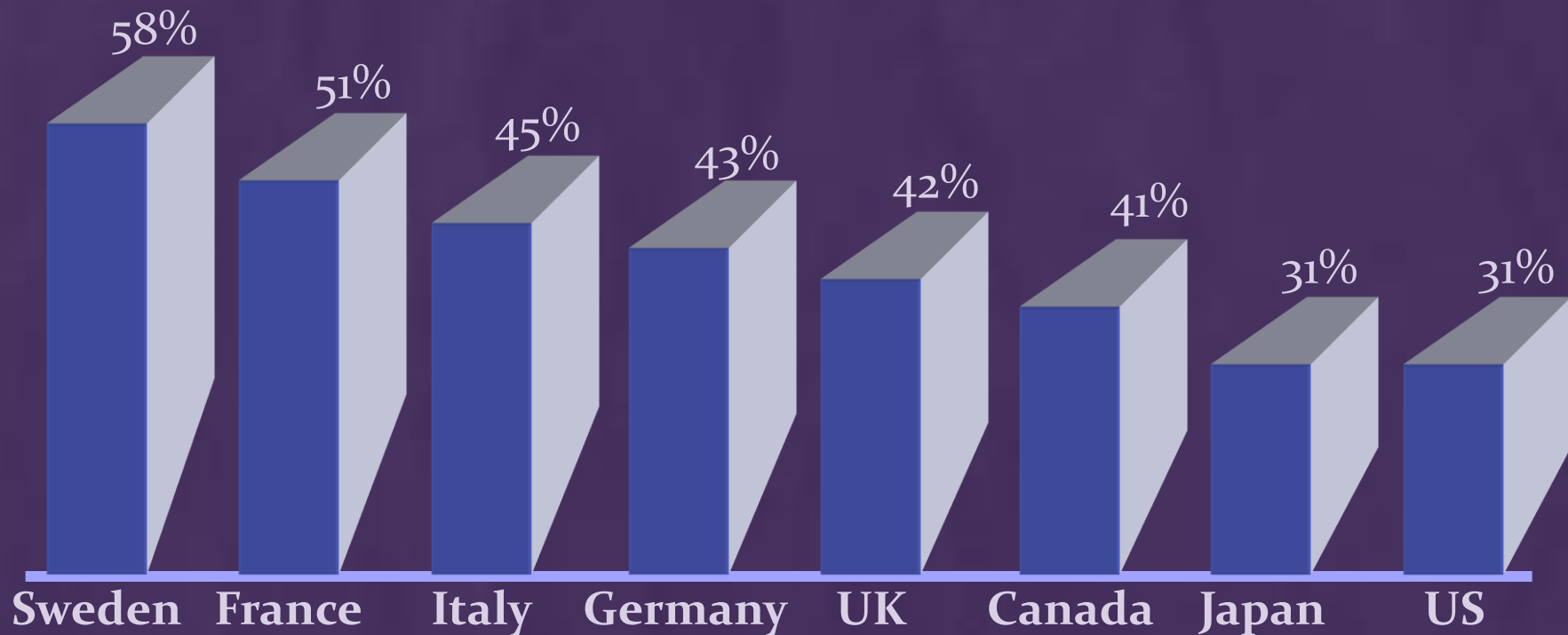
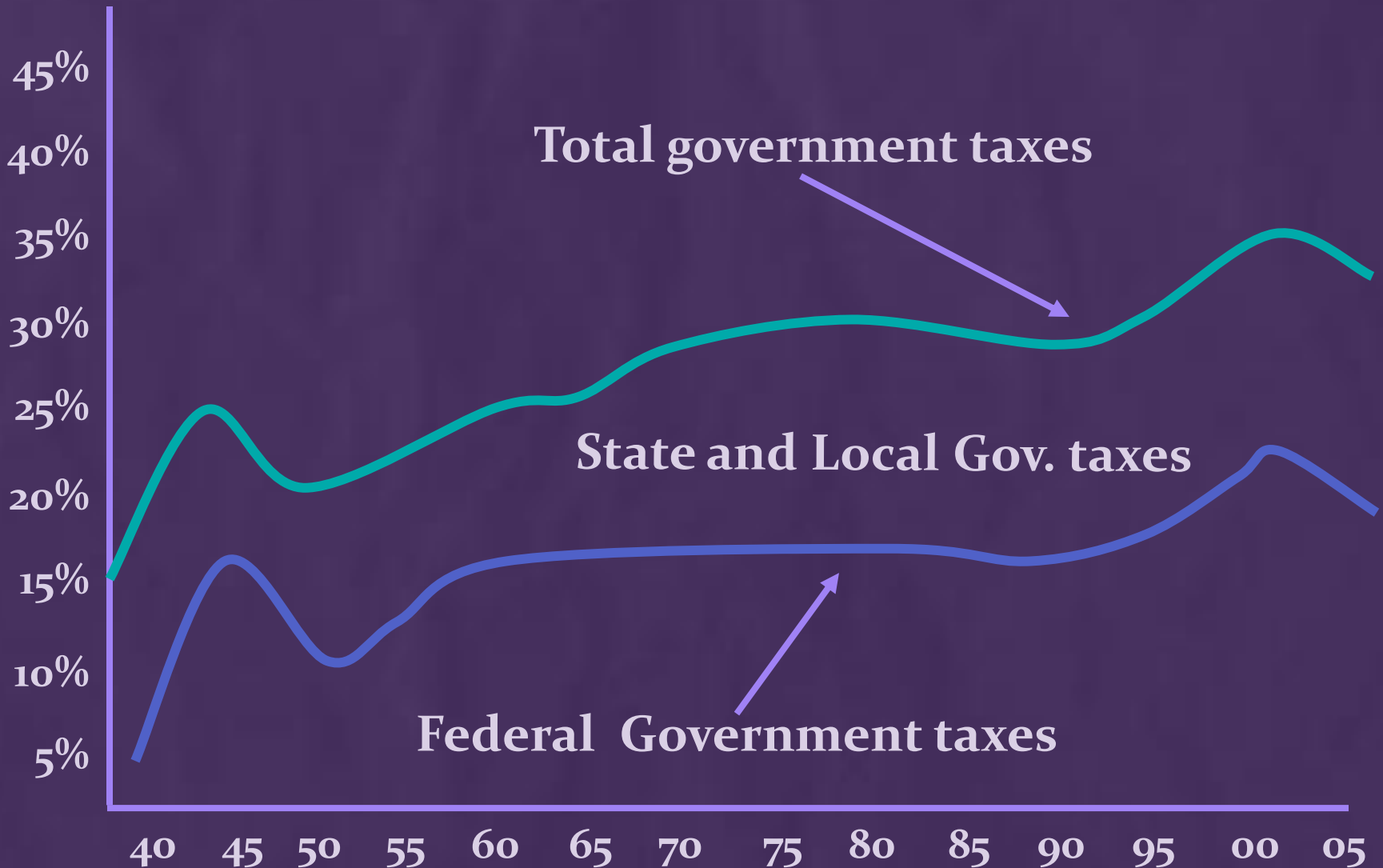


CHART: GROWTH IN TAXES IN THE US, 1935-2005





WHAT ARE TWO PRINCIPLES OF
TAXATION?

Two principles of taxation are:



☞ Benefits Received Principle - Those who benefit from government expenditures should pay the taxes that finance their benefits.

☞ Ability to Pay Principle - Those who have higher incomes can afford to pay a greater proportion of their income in taxes, regardless of the benefits.

☞ The ability-to-pay principle dominates in the US.



WHAT IS A PROGRESSIVE TAX?



A progressive tax is a tax that charges a higher percentage of taxation as income rises.



WHAT IS THE
AVERAGE TAX RATE?



The average tax rate is the total tax due divided by the total taxable income.



WHAT IS THE
MARGINAL TAX RATE?



The marginal tax rate is the change in taxes due divided by the change in taxable income.



WHAT IS A REGRESSIVE TAX?



A regressive tax is a tax that charges a lower percentage of taxation as income rises.

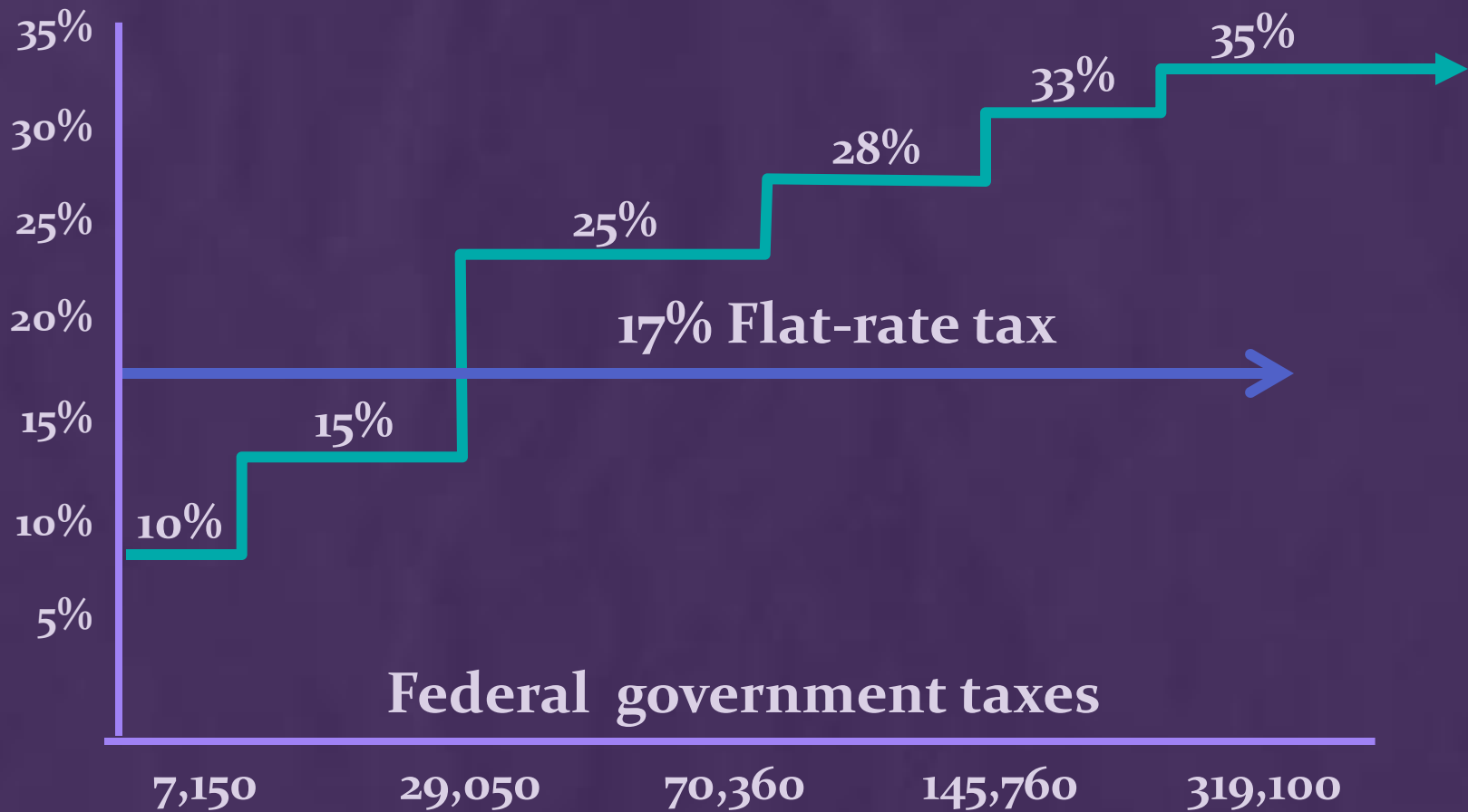


WHAT IS A PROPORTIONAL TAX?



A proportional tax is a tax that charges the same percentage of taxation regardless of the size of income ... a flat tax.

CHART: THE PROGRESSIVE INCOME TAX VS A FLAT TAX





WHAT IS PUBLIC CHOICE THEORY?



Public choice theory is an analysis of the government resource allocation decision-making process.

It applies economic analysis to politics.

James Buchanan is the founder of public choice theory.



WHAT IS BENEFIT - COST ANALYSIS?



Benefit-cost analysis is a comparison of the rewards and costs of an economic alternative.



WHAT IS THE BASIC RULE OF
BENEFIT-COST ANALYSIS?



The basic rule of benefit-cost analysis is that a firm will produce additional units as long as marginal benefit exceeds marginal cost.



WHY MIGHT GOVERNMENT BE
INEFFICIENT IN SOLVING SOCIETY'S
PROBLEMS?



Government might be inefficient in solving society's problems because of:

∞ the majority rule problem - Voting can lead to a rejection of projects with marginal total benefits exceeding the marginal cost. Majority rule can lead to inefficient solutions because “one person one vote” cannot measure the intensity of voters' preferences as well as the market can.



Continued:

∴ the special interest group effect - Special-interest groups can create government support for programs with costs out-weighting their benefits. Special-interest voting can be inefficient because a small group within the society can benefit while the whole society pays the costs.

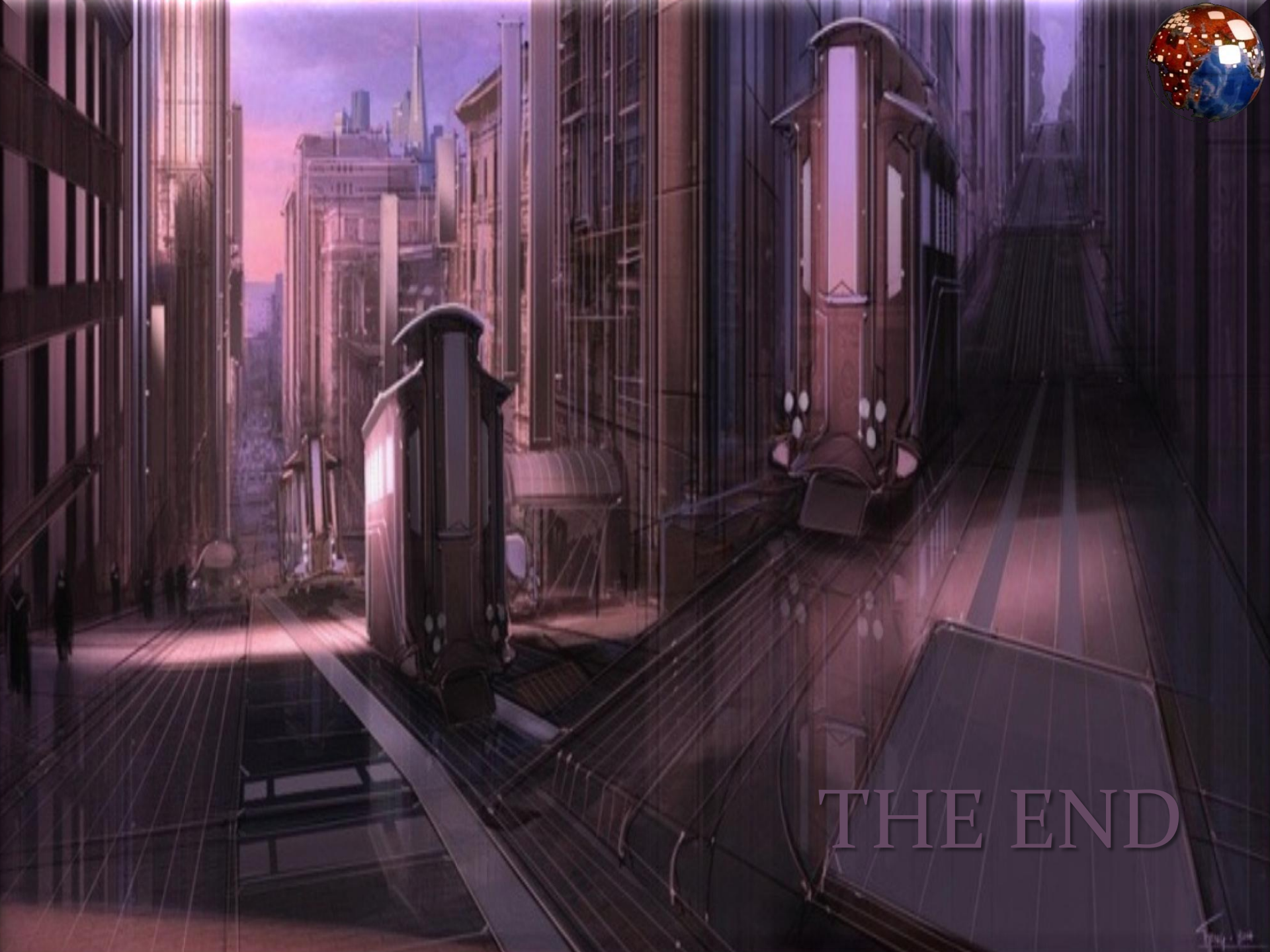
∴ rationale ignorance - Voters choose to remain uninformed because the marginal cost of obtaining information is higher than the marginal benefit of knowing it.



Continued:

∞ bureaucratic inefficiency - The bureaucracy may become more powerful than elected officials.

∞ the shortsightedness effect - Democracy has a bias toward programs offering clear benefits and hidden costs.



THE END

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