

# Economics



**ASSIGN  
BUSTER**

Government and the Economy Economics devolves around the basic concept that while the resources available to a society are limited or 'scarce' the needs for these resources are almost unlimited. The question that needs address is how these resources are used and which needs given priority.

Therefore, the basic decision that needs to attention is what to produce, how to produce, who will produce, who gets the product. This report looks at the question of the 'who will produce' aspect defined here.

Government, in its role of economic regulation and policy definition, has two options that define the extreme conditions, or a judicial mix of the two strategies. The first situation is the traditional 'capitalist' approach where the government adopts a totally 'hands off' policy allowing the resources to be used by privately owned enterprise, reducing protection to local industry and agriculture by lowering import tariffs and allowing free competition. The second approach (communist) is heavy governmental involvement in the economy where all resources are publicly owned and the government decides their allocation and use. However, it is usual to find a middle path adopted by most countries including the US.

Governments cannot distinguish companies that will perform well and their reasons for entering a particular area of the economy frequently targets serving of social causes and political ends rather than those of economics. Examples are, the distribution of wealth, regulation of competition, supplying infrastructure etc. This leads to a diversion of resources to non-productive enterprises and away from private hands that could have utilized the resources more efficiently and effectively stops investment/ competition from abroad. Freeing of trade can result in competition for goods and services leading to efficient utilization of resources, improved standards of

living, and economic growth. Despite this, it is necessary for governments to address certain areas that private enterprise would otherwise neglect or the benefits of economic growth would not percolate down to the economically backward sections of society. For example, the defense of the country is not an issue that private enterprise can attend; another example is the provision of health care, if completely privatized good health-care would become out of reach for large sections of the economically weak.

Either the ‘ neo-classical’ rationale of market failure in the provision of public goods and need to lessen the effect of externalities etc. or the evolutionary approach to system failure dictates government involvement in the economy (Hauknes & Nordgren 1999). The acceptance of government involvement and active participation in the economy depends on public belief in the ability of the government “ to be wisely paternalistic”; belief in the governments’ ability to collect and provide information on quality; “ the extent that equity and universalism are emphasized”; and the level of trust in the public sector (Blank 2000).

In the US the major source of federal revenue is individual income taxes and payroll taxes (Tax Policy Center [1]), followed by corporate income taxes. Excise, customs, and estate duties, gift taxes, and miscellaneous receipts make up the \$2. 5 trillion collected in fiscal 2007 (ibid). The payroll taxes have shown marked increase while corporate income tax and excise duty have shown a downward trend in the past few years. Income tax collection from individuals has remained roughly constant (ibid). Total collections represent approximately 19 percent of the GDP. Payroll taxes have increased with the introduction of Medicare in 1965, and the periodic increases in Social Security taxes.

Expenses (Source: Tax Policy Center [2]) controlled by laws (mandatory expenses) cover slightly more than half of the total federal spending. Such expenses largely include Social Security, Medicare, Medicaid, and to a lesser extent expenses on food stamps, retirement and disability payments etc. Discretionary expenses account for less than 40 percent of spending, these include defense, agricultural subsidies, highway construction, and federal courts; a small portion (3%) was spent on international aid . The remaining is used for payment of interest on national debt (ibid) in fiscal 2007. Trends in federal spending show increasing concentration on mandatory spending that has doubled between 1962 and 2007; this has been at the cost of reduction in discretionary spending. Interest on national debt has been constantly rising in recent years as America borrows more money to fund imports of oil and other goods.

The state and the local governments' collections of revenues, include taxes on property, sales of public utilities, gas, alcohol, and tobacco; individual and corporate income tax surcharges, motor vehicle licenses, recoveries from colleges and school lunch provision, hospital fees, highway toll collection, airport taxes, parks, sewerage provision etc. A significant portion comes from utility (water, electricity, gas, transit systems) supply provision. Their expenses cover capital outlay on new projects and maintenance of existing infrastructure, salaries and wages, education, libraries, health services provisions, employment security, Police and Fire fighting services, expenses on correctional institutions, waste management, development of parks and recreation, the judiciary and legal aid, expenses on utility service establishment and maintenance etc. In addition, expenses are incurred on service of debt and on insurance of public property, retirement benefits to

employees etc. (US Census Bureau).

Figures of federal, state, and local government revenues are available for fiscal 2005 (Tax Policy Center [3]). These indicate that total collection of revenues at \$4. 2 trillion consists of, roughly, 50% federal collections, 30% state, and 20% local government revenues. This, however, is only the direct collections, in addition, transfers take place from the federal government to the state and the local government, and further transfer takes place from the state to the local government. This changes the balance considerably (ibid) with the final share being 1. 24, 1. 18, and 1. 29 trillion dollars among the three respectively.

#### REFERENCES

Blank (2000): in “ Arguments for and against Governmental Involvement in the provision of Social Services” available at: <http://www.res.org.uk/society/mediabriefings/pdfs/2000/March/blank.pdf>

Hauknes, J and

Nordgren L. (1999): Economic rationales of government involvement in innovation and the supply of innovation-related services, (abstract) available at: <http://econpapers.repec.org/paper/stpstepre/1999r08.htm>

Tax Policy Center 1: “ The Numbers: What are the federal government’s sources of revenue?” available at: <http://www.taxpolicycenter.org/briefing-book/background/numbers/revenue.cfm>

Tax Policy Center 2: “ The Numbers: How does the federal government spend its money?” available at: <http://www.taxpolicycenter.org/briefing-book/background/numbers/expenses.cfm>

Tax Policy Center [3]: The Numbers: What is the breakdown of revenue among federal, state, and local governments? available at: <http://www.taxpolicycenter.org/briefing-book/background/numbers/revenue-breakdown.cfm>

U. S. Census Bureau: <https://assignbuster.com/economics-essay-samples-8/>

State and Local Government Finances by Level of Government and by State:  
2005-2006 available at: [http://www.census.gov/govs/estimate/0600ussl\\_1.html](http://www.census.gov/govs/estimate/0600ussl_1.html)