Government redistribution programs

Business

Equity and Efficiency in the U. S.

Government Redistribution Programs In United States equity concerns relating to government's redistribution programs cannot be completely separated from efficiency concerns. This is because improvement in equity can take place at constant efficiency and be traded off against a reduction in efficiency (Benassy-Quere et al, 2010). Efficiency is not the only method used to evaluate resource allocation in the US government redistribution programs. Outcomes should also be evaluated in terms of equity and perceived fairness of the product (Hyman, 2010). The analysis of issues related to equity should not be restricted to determination of the impact of substitute policies on the distribution of income among the US citizens (Blank & McGurn, 2004).

This is because taxes and transfers change economic incentives and, therefore, affect the market equilibrium. According to Hyman (2010), improvement in efficiency is often vigorously opposed by certain interest groupsthat suffer losses if the improvements are enacted (p. 78). The major problem in using the efficiency criterion as a normative tool is that the actual amount of allocated resources might be small and quickly exhausted. Backhaus & Wagner (2004) commented that " since redistribution benefits go to those with political power rather than to those who according to some justification deserve them, it is unlikely that the ultimate result of government redistribution activity will satisfy any reasonable criteria for efficiency or equity (p.

154)”. How Redistribution Program Leads to Equity and Fairness The tax and transfer redistribution program should be used to reallocate social wealth. In the tax and transfer redistribution program decisions concerning the appropriate role of the government and the appropriate way of doing finance in a strict welfare is made by public finance. This program minimizes the deadweight losses or excess burdens of the fiscal intervention to the government (McCaffery & Slemrod, 2006). Benassy-Quee; re et. al (2010) indicated that redistribution should involve an equity-efficiency trade-off.

The more income is redistributed, the higher the efficiency loss. This happens because both taxes and transfers reduce the supply of production factors. Redistribution programs can in certain cases improve efficiency. Benassy-Quere et. al (2010) claim that public policies aiming at ensuring access of the poor to education and health care frequently yield efficiency gains through improving the productivity of the labor force. In conclusion it should be noted that the redistribution programs typically result in some efficiency costs.

A great deal of economic analysis of government redistribution programs focuses on trying to document and measure the inefficiencies such programs create. Blank & McGurn (2004) say that supporting welfare view of public finance entails separating the allocation and distributive dimensions of public finance to achieve an optimal combination of efficiency and equity.