

Part III: Ten Elements of Clear Thinking About Economic Progress and the Role of Government



Element 1: Government Promotes Economic Progress by Protecting the Rights of Individuals and Supplying Goods That Cannot Be Provided Through Markets.

1. Is it necessary for government to have a “monopoly on the legitimate use of force”? Why or why not?
2. “Well defined and enforced property rights will help promote peaceful interactions among people” Is this statement true? Discuss.
3. How does the U.S. Constitution limit the economic powers of the federal government? Provide examples of policies in existence today that you believe violate the spirit (or text) of these limitations. Why have such policies been adopted? What incentives exist to modify or remove such policies?

Element 2: Government Is Not a Corrective Device.

4. “...unless the impulses of the majority are restrained, even popularly elected governments will often adopt policies that undermine economic prosperity.” Do you agree or disagree with the statement?
5. “When government bureaus or enterprises are financed or subsidized by coerced payments (taxes), there is no assurance that people who use the goods or services value them more than their costs.” Is this a problem? Discuss.
6. “Government action is based on majority rule, whereas market action is based on mutual consent. The market allows for proportional representation of minorities, but minorities must yield to the views of the majority when activities are undertaken through government.” What does this statement mean? Is it true? Explain, using examples.
7. “The United States is rich because it is a democratic nation.” Is this statement true? Discuss.

Element 3: The Costs of Government Are Not Only Taxes.

8. Do politicians have an incentive to conceal the cost of taxes? Why or why not?
9. “The personal income and payroll taxes are already too high. I think business should shoulder a larger share of the tax burden.” Have you ever heard a politician make a statement like this? Does the statement reflect sound economics? Why or why not?

Element 4: Unless Restrained by Constitutional Rules, Special Interest Groups Will Use the Democratic Political Process to Fleece Taxpayers and Consumers.

10. Why do politicians so often support special interest groups?
11. From the viewpoint of economic efficiency, does representative democracy do a good job of handling special-interest issues? Why or why not? If the power of special interests was reduced through the adoption of a supermajority voting rule, for example, would economic efficiency improve? How would contributions to political campaigns be affected?
12. Do you agree or disagree with the following statement: “The fleecing of taxpayers and consumers in order to provide benefits to identifiable and politically active voting blocs has become the primary business of modern politics.” Use examples not posed by the authors to support your argument.
13. Do you think special interest groups have too much political power? If so, what do you think should be done about it?

Element 5: Unless Restrained by Constitutional Rules, Legislators Will Run Budget Deficits and Spend Excessively.

14. Do elected political officials like to spend on projects that benefit their constituents? Do they like to levy taxes on their constituents? How do these tendencies influence the incentive of politicians to balance the government’s budget?
15. Would an increase in taxes be likely to reduce or increase the size of the budget deficit? If Congress collected more tax revenues, how would this affect the future level of government expenditures? Explain.
16. “Predictably, politicians will talk about controlling spending but at the same time push for spending programs that benefit favored constituents and well organized voting blocks.” Do you agree or disagree with this statement?

17. How can political rules be changed in a manner that would reduce the tendency of the federal government to spend more than it taxes?

Element 6: Government Slows Economic Progress When It Becomes Heavily Involved in Trying to Help Some People at the Expense of Others.

18. "In this era of the unconstrained state, income transfers from taxpayers to well-organized groups and voting blocs have become the business of modern politics." Explain why you either agree or disagree with this statement.
19. Why is much of the gain of transfer recipients often eroded by the change in the structure of the incentives accompanying the transfers? Do transfer payments sometimes encourage recipients to make "bad decisions"?
20. "If you subsidize something, you will get more of it." Is this statement true? What does the statement imply about the relationship between government spending on anti-poverty programs and the poverty rate?

Element 7: The Costs of Government Income Transfers Are Far Greater Than the Net Gain to the Intended Beneficiaries.

21. Large income transfers are targeted toward the elderly, farmers, and the unemployed, regardless of their economic condition. Why do you think this is the case?
22. What are some of the secondary effects of government anti-poverty programs? Give some examples. Does government anti-poverty spending crowd out private charitable activities?

Element 8: Central Planning Replaces Markets with Politics, Which Wastes Resources and Retards Economic Progress.

23. Are central planners able to allocate resources into activities that will be highly valued by the citizenry? Will efficient use of resources be a priority for central planners? Why or why not?
24. "When property rights are well-defined and competition present, economic activities organized through markets will be based on agreement among the parties and resources will generally be channeled into projects that increase the wealth of the citizenry. On the other hand, when economic activity is organized through the political process, the majority will often impose its will on minorities and resources will often be channeled into

projects that reduce wealth.” Evaluate this statement. Indicate why you either agree or disagree with it.

25. The Matrix on page 108 indicates four possible production and payment categories. Does it make any difference who pays for the good or who produces the good? Is category (1) fundamentally different from the other three categories? Discuss.

Element 9: Competition Is Just As Important in Government As in Markets.

26. What is the meaning of competition? How is competition among governments similar to competition among private firms? How is it different?
27. What conditions are necessary for competition among government units? When competition is present among governments, how do citizen-taxpayers indicate their preferences to political decision-makers?
28. “...poor performance and failure to achieve objectives are often used as arguments for increased funding in the public sector.” Do you agree or disagree? Use examples to strengthen your case.

Element 10: Constitutional Rules That Bring the Political Process and Sound Economics into Harmony Will Promote Economic Progress.

29. Identify and describe the components of the Economic Bill of Rights, as proposed by the authors on pages 115-118. State whether you agree or disagree with each element, and provide an example of a current action that would be prohibited if this Bill of Rights were adopted.
30. Do you believe that the Bill of Rights suggested in the text on pages 115-118 would promote economic prosperity and stability? Explain.