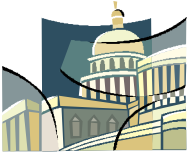


Part III: Ten Elements of Clear Thinking About Economic Progress and the Role of Government



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

1. Describe the *protective* and *productive* functions of government.
2. A government is fulfilling a protective function when it
 - a. provides national defense.
 - b. defines and secures property rights.
 - c. increases or decreases the level of competitiveness in markets.
 - d. redistributes income.
 - e. invests in public transportation and education.
 - f. addresses environmental issues.
3. When resources are privately owned, users must confront the opportunity cost of employing resources. Why is this true, and why is it important?
4. Identify the characteristics of public goods. Provide examples. Explain why public goods are rare.
5. If the government provides a good, does this make it a “public good”? Why or why not?
6. Why is it often difficult for markets to supply public goods?
7. Explain why markets will often find it difficult to allocate resources efficiently under the following circumstances.
 - a. Property rights are poorly defined and/or enforced.
 - b. It is difficult to connect who pays with who benefits.
 - c. There are large spillover effects affecting a large number of people.
 - d. Competition is absent.

Element 2: Government Is Not a Corrective Device.

8. Does majority voting lead to an efficient allocation of resources? Why or why not?

9. What makes a government project productive? If a productive project was undertaken by the government, would it be possible for the project to gain the support of a supermajority (for example, 75 percent of the voters)? Why or why not?
10. If a supermajority (for example, 75 percent of the voters or more) is supportive of a project, is the project highly likely to be a productive one? Why or why not?
11. What are the fundamental differences between allocation of resources through markets versus allocation through government (voting)? How important are these differences?
12. "The political process sometimes leads to economic inefficiency because we elect the wrong people to political office. If the right people were elected, majoritarian democracy would allocate resources efficiently." Evaluate this statement.

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

13. Identify the main sources of federal government revenue. Now, list the major components of federal spending.
14. If federal, state and local governments had no power to tax, what goods and services would you have to give up or secure privately?
15. Why will taxes understate the cost of government? What are the three costs of government indicated by the authors?
16. What are some of the costs associated with the enforcement of tax laws and collection of tax revenues? How large are these costs?
17. Why don't the authors (unlike many politicians) distinguish between "business" and "personal" taxes? Do you think there is a distinction? Why?

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

18. Indicate the characteristics of a special interest issue. Give an example of a special interest issue. Do politicians have a strong incentive to support the positions of well organized interest groups? Why or why not?
19. Explain the meaning of the following quote in your own words. "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.” Do you agree or disagree with this statement? Explain.
20. Why is the price of sugar so much higher in the United States than in other countries around the world? Has government action in this area improve the well-being of Americans? Why or why not?
21. Did the framers of the U.S. Constitution seek to limit the political power of special-interest groups? If so, how?
22. Like consumers and businesspeople, government officials and special interest groups are influenced by which of the following?
- scarcity
 - concerns for national welfare
 - their own self-interests
 - threats of bankruptcy

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

23. What is a budget deficit? What is the national debt? How do they differ?
24. Explain how the Keynesian revolution changed people’s ideas regarding budget deficits and government debt.
25. “Debt is an alternative to current taxes.” In your own words, why is this statement true?
26. Do members of Congress have a strong incentive to minimize the size of the budget deficit? Why or why not? Indicate why there is so little incentive for a legislator to be a “spending watchdog”.
27. Identify ways the authors believe that budget deficits could be reduced or eliminated.

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

28. What are the various ways that individuals can acquire income? From the standpoint of economic efficiency, does it make any difference how individuals acquire income? Why or why not?

29. Do individuals have a property right to income they acquire from market transactions? Is it a proper function of government to tax some people in order to provide benefits to others? Why or why not?
30. How will an expansion in income transfers affect the growth rate of an economy? Explain.

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

31. Why is it difficult, if not impossible, to simultaneously transfer income and improve the recipients' well-being? How does this reflect the "unintended consequences of secondary effects"?
32. Was the poverty rate increasing or decreasing prior to President Lyndon B. Johnson's War on Poverty? As income transfer programs increased beginning in the latter half of the 1960s, what happened to the poverty rate?
33. Even if transfer programs and subsidies to specific groups are largely ineffective, why is it difficult to cut these programs?
34. Because income transfers to the poor typically increase their marginal tax rate, will a \$1,000 additional transfer payment cause the income of poor recipients to rise by \$1,000? Why or why not?
35. "Higher unemployment compensation benefits will lead to higher rates of unemployment." Evaluate this statement.

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

36. Describe the four major reasons why the authors proclaim that central planning does more harm than good.
37. In a democratic setting, will the allocation of government funding to various projects be determined primarily by the likelihood of the project's success? Why or why not?
38. Will central planners be more likely than private investors to allocate investment funds into wealth creating projects? Why or why not?
39. Consider the Matrix on page 108. Analyze the incentive structure present in each of the four categories of the matrix.

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

40. Is there competition among governments? Does competition among governments help consumers obtain public services and taxes more in line with their preferences and their willingness to pay? Discuss.
41. How does the incentive of the managers of government enterprises and agencies compare with the incentive of private businesses to operate efficiently and provide services to consumers based on willingness to pay and personal preferences?
42. Will local governments prefer to operate in a competitive market environment? Why or why not?
43. When local governments are largely dependent on federal and state governments for their funding, how will the competitiveness among local governments be affected?

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

44. Evaluate the proposed Economic Bill of Rights presented in the final section of this part of the book. Indicate why you would favor or oppose each of the proposals, and explain why.
45. One of the proposals would prohibit the government from imposing price controls on a good. Many states impose price controls on gasoline, water, and other products during emergencies such as hurricanes. Do you think these price controls help consumers? Why or why not?
46. Is there often a conflict between “good economics” and “good politics”? Would the proposed Economic Bill of Rights help reduce this conflict? Why or why not?
47. “When government controls what is bought and sold in an economy, the first thing that will be bought and sold will be the legislators.” Evaluate this statement.
48. “The first law of economics is scarcity. The first law of politics is to deny the first law of economics.” What is meant by this statement? Do you think this is true?