

Part III. Economic Progress and the Role of Government



Government 1. Government Promotes Economic Progress by Protecting the Rights of Individuals and Supplying a Few Goods That Are Difficult to Provide 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?

Government 2. Allocation Through Political Voting Is Fundamentally Different from Market Allocation, and Economic Analysis Indicates That the Latter Is More Consistent with Economic Progress.

4. “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 potential problem? Discuss.
5. “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.
6. In a market economy, if a business or consumer makes bad choices, who bears the consequences? If a political majority makes bad choices, who bears the consequences? How does the incentive structure in the two systems affect the likelihood that people will make poorly informed choices and undertake counterproductive projects? Discuss.

7. “The United States is rich because it is a democratic nation.” Is this statement true? Does economics indicate that democracy will make people rich if resources are not allocated primarily through markets? Discuss.

Government 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?
10. Do you believe the statements of politicians are more likely to be true than those of business entrepreneurs? Why or why not?

Government 4. Unless Restrained by Constitutional Rules, Special-Interest Groups Will Use The Democratic Political Process to Fleece Taxpayers and Consumers.

11. Why do politicians so often support special interest groups?
12. 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?
13. Do you think special interest groups have too much political power? If so, what do you think should be done about it?

Government 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 does this incentive structure affect the attractiveness of budget deficits?
15. “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?
16. Does the federal government face a serious problem of budget deficits and outstanding debt in the decade ahead? Why or why not?

17. What is meant by the “unfunded liabilities” of the Social Security and Medicare programs? How will these liabilities influence future budget deficits? Explain.
18. How might the political rules be changed in a manner that would reduce the tendency of the federal government to spend more than it taxes?

Government 6. Government Slows Economic Progress When It Becomes Heavily Involved in Providing Favors to Some at the Expense of Others.

19. “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.
20. As more firms, products, and sectors are subsidized, businesses will spend more time trying to get the subsidies. What impact will this have on both the businesses and the products they produce? How will this affect the economy’s output and income levels?
21. What is rent-seeking? When the government is heavily involved in taxing some in order to provide subsidies and income transfers to others, how will the level of rent-seeking be affected?
22. What percentage of Americans does not pay any personal income tax? How large are income transfers and subsidies as a share of the federal budget? When the government is heavily involved in taxing a minority of voters in order to provide transfers and subsidies to a large share of voters, what impact will this have on political democracy? Discuss.

Government 7. The Net Gain to Those Receiving Government Transfers Is Less, and Often Substantially Less, Than the Amount They Receive.

23. 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”?
24. “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?
25. 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?

26. What are three things a young person could do that would substantially reduce the likelihood they would spend much time in poverty? Is this message being clearly communicated to younger people? Discuss.

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

27. 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?
28. “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.

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

29. What is the meaning of competition? How is competition among governments similar to competition among private firms? How is it different?
30. 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?
31. “...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.

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

32. Identify and describe the components of the Economic Bill of Rights, as proposed by the authors. 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.
33. Do you believe that the Bill of Rights suggested in the text would promote economic prosperity and stability? Explain.

