

WHAT THE GOVERNMENT DOES

In a financial sense, it is the exclusive job of the democratic government to raise revenue – that is, its income – in order to fulfill its primary responsibility of spending resources thus acquired in the interest and welfare of its citizens.



INCOME

Taxes are a transfer of resources from citizens to the government.

These are:

- Compulsory and enforceable payments;
- Levied on the basis of pre-determined criteria;
- Spent on societal purposes for which each taxpayer may not always receive benefit.

EXPENDITURE

Public welfare is the provision of 'social goods' which are beneficial for citizens.

These goods may be:

- Excludable; or
- Non-excludable, anybody can consume these goods;
- Rivalrous; or
- Non-rivalrous, one's consumption of these goods does not reduce others'.

One such type of Social Good is a Public Good, which is both non-excludable and non-rivalrous.

The government is responsible for **balancing citizen preferences** in a way that achieves the most efficient use of the state's limited resources. This process involves deciding the **priorities of allocation** and developing means of **optimising public service delivery**.

But prioritising which non-excludable goods to provide, in order to maximise public welfare with the limited resources of the government, is wrought with the following two dilemmas:

THE FREE-RIDER PROBLEM

If everybody can enjoy the benefits of a public good without restriction, why would one willingly pay for the public good?



THE TRAGEDY OF THE COMMONS

If everybody has unrestricted access to something that is finite and limited, then who would stop its reckless consumption?



Ex: Temptation to free ride on public goods discourages citizens from paying taxes, so they have to be coerced to pay up.



Ex: Overgrazing is an environmental issue since common cattle grazing lands are a perishable natural resource.

To resolve this to an extent, the government decides to label certain goods that raise public welfare (but may be limited in availability) as 'excludable'. Such goods are called club goods.

	NON-EXCLUDABLE	EXCLUDABLE
NON-RIVALROUS	Public Goods <ul style="list-style-type: none"> • Defence and security • Unpolluted air • National television 	Club Goods <ul style="list-style-type: none"> • Parks with entry fee • Cinema halls • Paid satellite TV
RIVALROUS	Common Pool Resources <ul style="list-style-type: none"> • Fisheries in the high seas • Grazing grounds • Coal and mineral resources in international territory 	Private Goods <ul style="list-style-type: none"> • Clothes • Food products • Houses and personal property such as cars

On the other hand, certain social goods are deemed by the government to be desirable to provide to citizens on the basis of some concept of 'need' rather than one's ability or willingness to pay. Such goods are Merit Goods e.g. subsidies on education, healthcare, fuel, etc.

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