Five Questions from Lecture

What is the best way to generate tax revenue? One of the key duties of government is to ensure that taxes are levied in equitable ways. Taxes that are levied on those who are most able to pay should generate the most consistent streams of revenue. Government can succeed in generating revenue and in helping to make people more equal in social class when the elements of horizontal and vertical equity are considered.

Should governments impose taxes that people will avoid paying by changing their behaviors? If the behaviors that would be changed by imposing such taxes are undesirable, then it may be a more attractive proposition for these taxes to be implemented. However, governments should only impose regressive taxes when necessary to fund programs that need temporary revenue sources. Because other types of taxes such as progressive and proportional taxes will generate more revenue over long periods of time, these taxes should be imposed to supply revenue for permanent programs.

How can government help to reduce the impact of market failures? Government can help regulate market failures caused by natural monopolies through charges and fees that help limit their scope as much as possible. Natural monopolies should be forced to break into the smallest possible corporate divisions to ensure the most competition in a given area. Market failures caused by externalities or public goods can be controlled through taxes and subsidies.

Who benefits from economic development? Everyone benefits from economic development. More money flowing in the national economy means more money for everyone. Everyone will be hurt when economic development is stopped by excessive regulation. Although it may take time for certain groups to be affected by economic growth, most everyone should benefit as a final outcome.

Which is better, forward or backward shifting? Neither forward nor backward shifting is good, unless either the suppliers or the consumers need immediate relief from their tax burden. In the end, whether taxes are forward shifted to the consumer or backward shifted in the form of reduced payments to points of origin, the consumer will be forced to pay at some point.