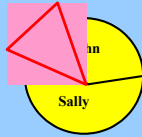


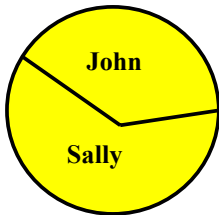
## Government as Tax Collector



## What Does the Government Do?

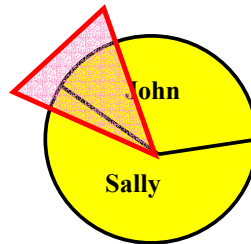
- Consumes Resources
- Transfers Income
- Collects Taxes

## The National Pie



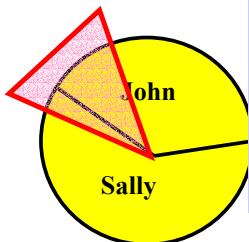
John and Sally's shares are determined by how much they earn, either as wages or as return on the capital they earn.

## Taxing



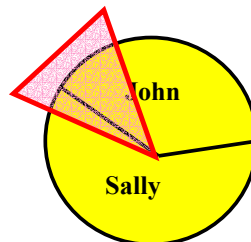
The government must take part of their earnings from John and Sally to pay the cost of government programs, including transfer payments.

## Borrowing



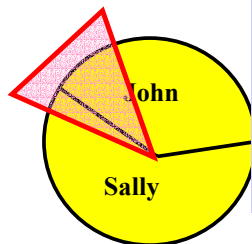
Neither John nor Sally must set  $\text{Consumption} = \text{Income}$ . They can borrow and lend programs, including transfer payments.

## Borrowing



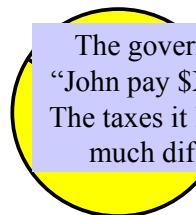
So too with the government, but let's set this complication aside. Assume  $\text{Taxes} = \text{Expenditures}$  programs, including transfer payments.

## A Promise



So too with the government, but let's see. A Promise: deficit financing is an important issue and we come back to it. programs, including transfer payments.

## How We Tax



John and Sally's shares are. The government does not say "John pay \$X and Sally pay \$Y". The taxes it levies determine how much different people pay. return on the capital they earn.

## The Role of Taxes



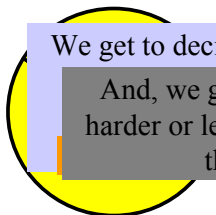
John and Sally's shares are. The government does not say "John pay \$X and Sally pay \$Y". It effectively does so by saying "everyone must pay income and sales taxes". return on the capital they earn.

## Consumption and Saving



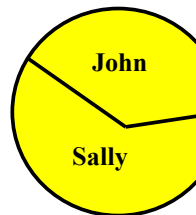
John and Sally's shares are. We get to decide how to allocate our after tax income between consumption and saving. sales taxes". return on the capital they earn.

## Work or Leisure



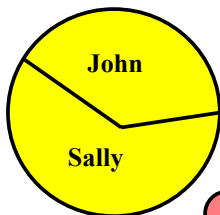
John and Sally's shares are. We get to decide how to allocate. And, we get to decide to work harder or less hard depending on the tax laws. return on the capital they earn.

## Do Taxes Matter?



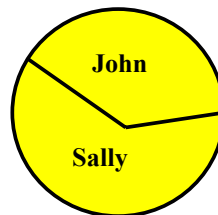
A Simple Example: the government started taxing 100% of all wages.

Yes



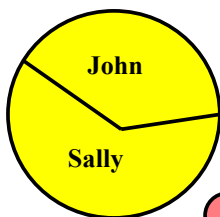
A Simple  
Common sense  
says people  
would stop  
working and the  
pie would shrink

Do Taxes Matter?



A second  
example: the  
government  
started taxing  
100% saving.

Yes?



A second  
Common sense  
says people  
would stop  
saving and the  
pie would  
eventually shrink

End

©2004 Charles W. Upton.  
All rights reserved