Principle of Maximum Social Advantage

Principle of Maximum Social Advantage

- An important principle of public finance.
- Propounded by British economist Hugh Dalton.
- The theory was further developed by Musgrave.
- Richard Musgrave designates Dalton's Principle of 'Maximum Social Advantage' as the 'Maximum Welfare Principle of Budget Determination'.
- The principle is about providing guidelines to the public authorities to determine the optimum level of public finance.
- According to Dalton, public finance is concerned with income and expenditure of public authorities and with adjustment of one with the other.

Principle of Maximum Social Advantage

- Criticising laissez faire system, Dalton is of the opinion that all taxes are not bad and all expenditure are unproductive.
- Keeping the budget to minimum level may not be a noble idea.
- In fact, government can play significant role in improving the social welfare of the people of the country through its budgetary activities.
- Budgetary activities of the government results in transfer of purchasing power from some individuals to others.

Principle of Maximum Social Advantage

- Taxation causes transfer of purchasing power from tax payers to the public authorities, while public expenditure results in transfers back from the public authorities to some individuals, therefore financial operations of the government cause 'Sacrifice or Disutility' on one hand and 'Benefits or Utility' on the other.
- This results in changes in pattern of production, consumption & distribution of income and wealth.
- So it is important to know whether those changes are socially advantageous or not.
- If they are socially advantageous, then the financial operations are justified otherwise not.

Principle of Maximum Social Advantage

- According to Hugh Dalton, "*The best system of public finance is that which secures the maximum social advantage from the operations which it conducts*."

- Hugh Dalton explains the principle of maximum social advantage with reference to:-
  A. Marginal Social Sacrifice
  B. Marginal Social Benefits
- The Principle of Maximum Social Advantage states that public finance leads to economic welfare when pubic expenditure & taxation are carried out up to that point where the benefits derived from the MU (Marginal Utility) of expenditure is equal to (=) the Marginal Disutility or the sacrifice imposed by taxation.
- MU (Marginal Utility) of expenditure = Marginal Disutility or the sacrifice imposed by taxation

Principle of Maximum Social Advantage

- According to Musgrave, Dalton has proposed two principles of budget policy.
- The first is that resources should be distributed among different directions in such a way as to equalize the marginal return of satisfaction for each type of expenditure.
- The second is that public expenditure should be pushed to the point where the satisfaction Obtained from the last rupee spent is equal to satisfaction lost from the last rupee taken in taxes.
- Therefore, the size of budget must be determined in such a way that it results in maximum welfare to the society.

To be continued ----------