

Principle of Maximum Social Advantage

Part II

Principle of Maximum Social Advantage

- **Assumption:**

- This principle is however based on the following assumptions :-

1. All taxes result in sacrifice and all public expenditures lead to benefits.
2. Public revenue consist of only taxes and no other sources of income to the government.
3. The government has no surplus or deficit budget but only balanced budget.
4. Public expenditure is subject to diminishing marginal social benefit and taxes are subject to increasing marginal social sacrifice.

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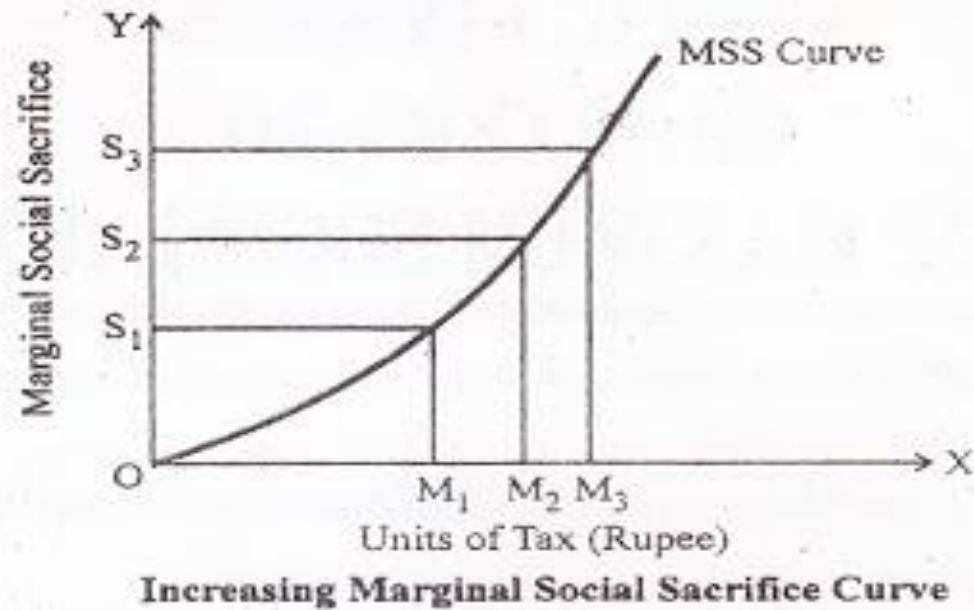
■ Marginal Social Sacrifice (MSS)

- Marginal Social Sacrifice (MSS) refers to that amount of social sacrifice undergone by public due to the imposition of an additional unit of tax.
- Every unit of tax imposed by the government taxes result in loss of utility. Dalton says that the additional burden (marginal sacrifice) resulting from additional units of taxation goes on increasing i.e. the total social sacrifice increases at an increasing rate.
- In order to minimize the aggregate sacrifice, Dalton has advised to apply principle of equal marginal sacrifice to distribute the tax burden among people.

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- The Marginal social sacrifice is illustrated in the following diagram :-

Fig: Increasing marginal Social Advantage



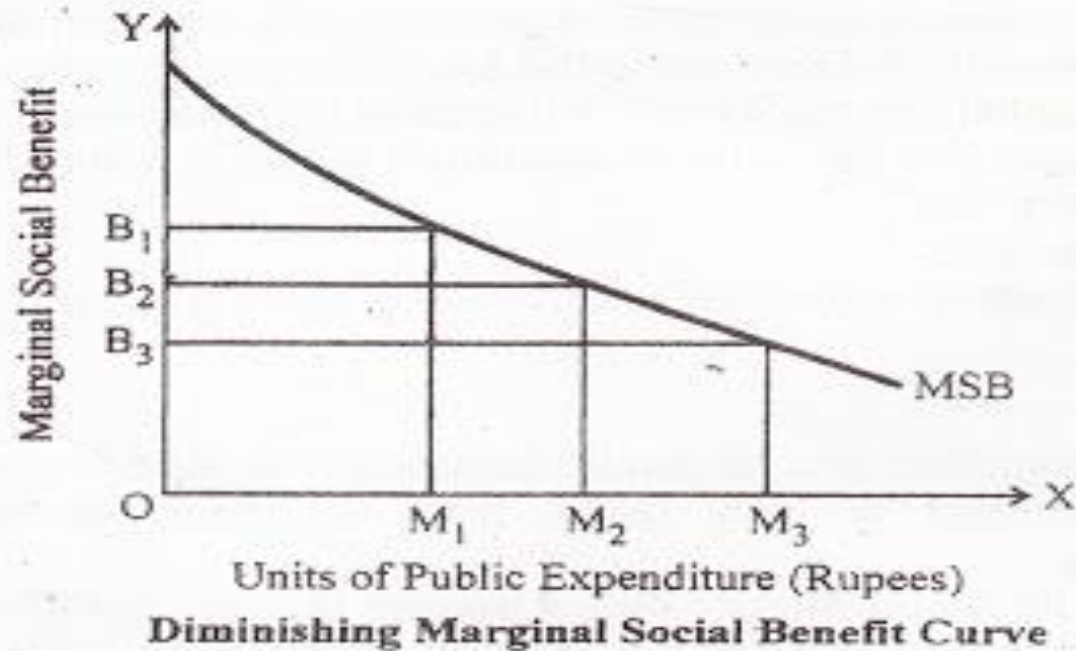
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- The above diagram indicates that when the unit of taxation was OM_1 , the marginal social sacrifice was OS_1 , and with the increase in taxation at OM_2 , the marginal social sacrifice rises to OS_2 .
- **Marginal Social Benefit (MSB)**
- While imposition of tax puts burden on the people, public expenditure confers benefits. The benefit conferred on the society, by an additional unit of public expenditure is known as Marginal Social Benefit (MSB).

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- the social benefit from each additional unit of public expenditure declines as more and more units of public expenditure are spent.
- In the beginning, the units of public expenditure are spent on the most essential social activities.
- Subsequent doses of public expenditure are spent on less and less important social activities.
- In order to maximise total benefits, Dalton has suggested to allocate the resources in such a way that marginal benefits from different uses becomes equal (Principle of equi-marginal utility).

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- As a result, the curve of marginal social benefits slopes downward from left to right as shown in figure below.
- In the above diagram, the marginal social benefit (MSB) curve slopes downward from left to right.
- This indicates that the social benefit derived out of public expenditure is reducing at a diminishing rate.
- When the public expenditure was OM_1 , the marginal social benefit was OB_1 , and when the public expenditure is OM_2 , the marginal social benefit is reduced at OB_2 .

To be Continued -----