

## Standard 17 : Using Cost/Benefit Analysis to Evaluate Government Programs

### Students will understand that:

Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

### Students will be able to use this knowledge to:

Identify some public policies that may cost more than the benefits they generate, and assess who enjoys the benefits and who bears the costs. Explain why the policies exist.

Do government officials try to promote the general welfare of the nation, or are they guided by their own self-interests? Businesses that fail to satisfy consumer wants go bankrupt; but how do we know when government programs fail, and how do we change or eliminate failed government programs? Why do some farmers receive large subsidies from the government, and why are many businesses protected from competition by tariffs or quotas even when only a small percentage of the U.S. labor force is employed in those industries? Why don't taxpayers rise up and put a stop to the favoritism accorded to certain industries and special interest groups? And why do so few people participate in the political process, and so many choose not to register or vote?

It is important to realize that governments, like markets, also have shortcomings and imperfections. Citizens should understand the sources of these imperfections, including the distribution of costs and benefits of some programs that lead to special-interest problems, the costs involved in gathering and using information about different candidates and government programs, and the incentives that can induce government leaders and employees to act in ways that do not promote the general national interest. Understanding this allows citizens to compare actual with ideal government performance, and to decide about the appropriate role for federal, state, and local government.

### Benchmarks

#### Grade 12

<b>At the completion of Grade 12, students will know the Grade 4 and Grade 8 benchmarks for this standard, and also that:</b>	<b>At the completion of Grade 12, students will use this knowledge to:</b>
Citizens, government employees, and elected officials do not always directly bear the costs of their political decisions. This often leads to policies whose costs outweigh their benefits for society.	Predict the costs that would be imposed on the public if federal taxes were reduced and the budget was balanced by Congress, and explain how political goals conflict with economic goals.
Incentives exist for political leaders to	Explain why a political leader would

<p>implement policies that disperse costs widely over large groups of people and benefit small, and politically powerful groups of people.</p>	<p>support an idea that helps only a few while harming many, such as a tariff on imported luggage or import quotas on sugar.</p>
<p>Incentives exist for political leaders to favor programs that entail immediate benefits and deferred costs; few incentives favor programs promising immediate costs and deferred benefits, even though the latter programs are sometimes economically more effective than the former programs.</p>	<p>Explain why, although most Americans say they are in favor of reducing the deficit, Congress doesn't vote to increase taxes.</p>
<p>Although barriers to international trade usually impose more costs than benefits, they are often advocated by people and groups who expect to gain substantially from them. Because the costs of these barriers are typically spread over a large number of people who each pay only a little and may not recognize the cost, policies supporting trade barriers are often adopted through the political process.</p>	<p>Analyze the following scenario: The United States allows Taiwan to export shirts to this country without placing a tariff on the imports. The Taiwanese can produce shirts at half the cost of shirts produced by American manufacturers. What groups in the United States and in Taiwan will be helped, and what groups will be hurt, if the United States continues the present free-trade policy toward Taiwan? Prepare an argument supporting the American shirt manufacturers' desire for a tariff on Taiwanese shirts.</p>
<p>Price controls are often advocated by special interest groups. Price controls reduce the quantity of goods and services produced, thus depriving consumers of some goods and services whose value would exceed their cost.</p>	<p>Explain the statement, Removing rent controls in New York City is good economics but bad politics. Also, explain who would gain and who would lose as a result of 10 percent ceiling on credit card interest rates.</p>