Moral Hazard of Government Assistance

Government assistance, while in some cases providing much needed benefits, also brings what economists call moral hazard.

- reduces personal responsibility, generally
- if someone else pays then people can take more risk (e.g., engage in dangerous activities/behavior, unhealthy lifestyles)
- reduces incentive to work hard
- often leads to a "dependency trap"
- reduces perceived "need" for charitable sharing by wealthier people
- it is easy for government to share and to spend other people's money
- "free" stuff is too easy to undervalue and to underappreciate
- persistence/expectations: it is quite difficult to take assistance away once given
- if government pays, government sets the rules
- politicians can "buy" votes with other people's money

The road to hell is paved with good intentions.

Unequal Distribution of Federal Tax Money to States

The federal government distributes money collected from taxes unevenly. The disparity is significant.

Indeed, there are nine states that send more tax revenues to the federal government than they receive in federal aid.

Generally, states receiving more federal tax money tend be those whose citizens are poorer and with a higher level of government assistance and that have lower state and local tax revenues. States with higher income residents tend to receive less federal aid and to have higher state and local taxes.

California receives the highest *total* amount of federal funding, but that amount is merely $12 per resident.

Perhaps not unsurprisingly, Kentucky – home of Senator McConnell – receives the second most federal money per person.

Government Spending Return on Investment

LIBERTARIAN PARTY
of Alameda County
Minimum Government • Maximum Freedom

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Introduction

The surge of government spending during and related to the pandemic of 2020 is unprecedented, except, perhaps, for spending in World War Two. That begs the question: How much do taxpayers get for higher government spending?

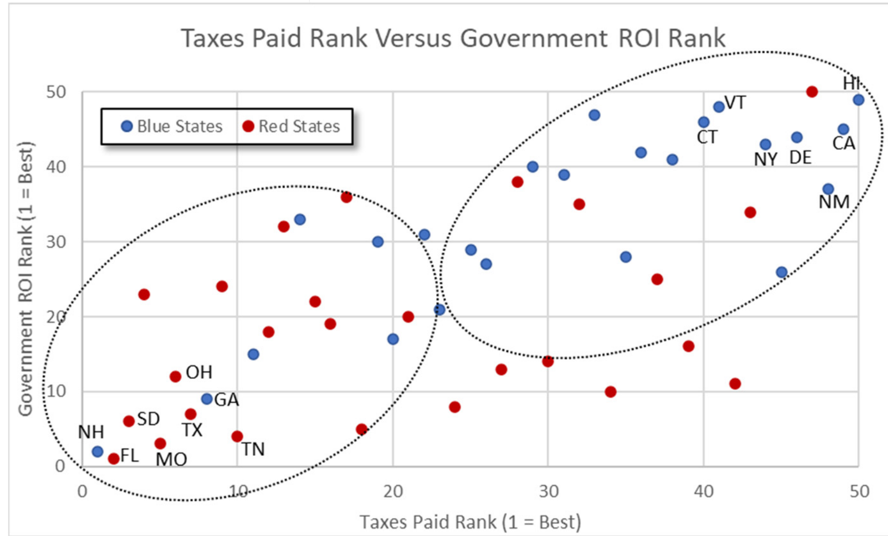
Government Big Spending Equals Poor Return on Investment

Libertarians tend to believe that a primary reason to limit the size and scope of government is that government spending tends to yield benefits that are too low.

Consider the “Taxpayer Survey” results and the excellent analysis entitled “States with the Best & Worst Taxpayer Return on Investment” published on March 23, 2021 by the non-partisan website WalletHub.

First, based on their Taxpayer Survey 74% of those surveyed believe that “government hasn’t handled their tax dollars wisely” especially during the pandemic.

Wallet Hub’s excellent analysis addressed the question: “do people in high-tax states receive superior government services?”



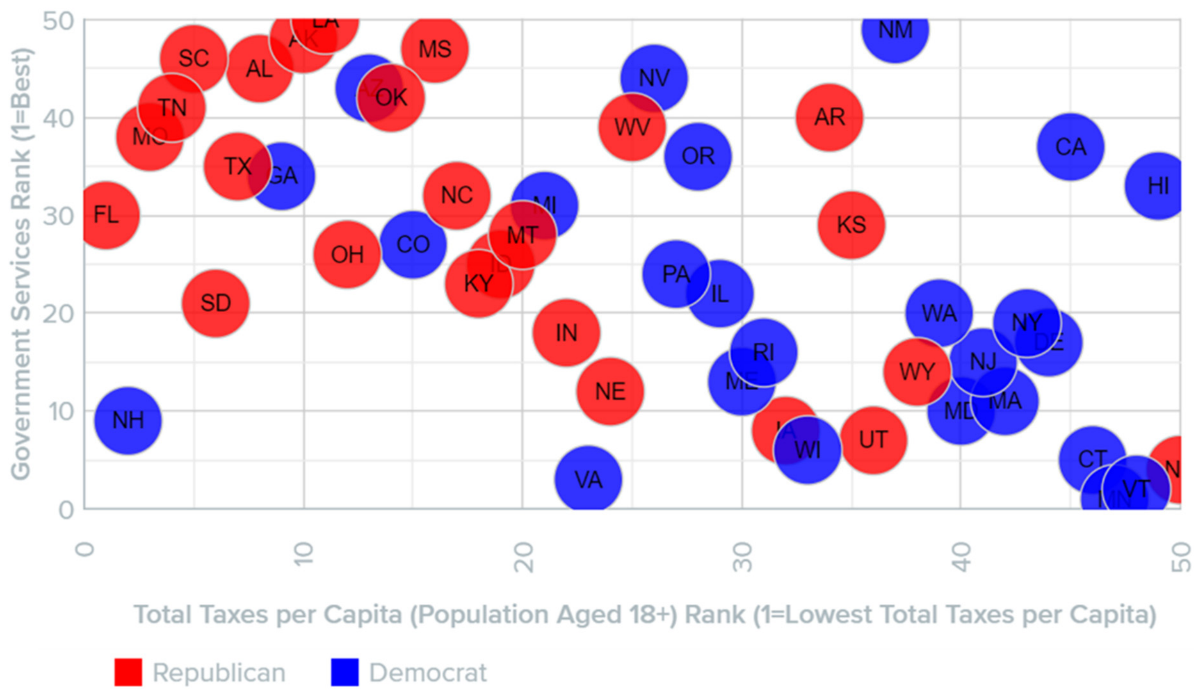
One conclusion is that return on investment (ROI) for total tax dollars tends to be almost inversely related to how much is spent! Generally, more taxes = lower ROI.

Consider findings for California ranking 45th in total taxes paid, with the second worst ROI rank and with a rank of 37th for quality of services.

At the other end of the spectrum is Florida with the second lowest total taxes, the highest rank for ROI and 30th for quality of government services.

Results also indicate that “red” states – whose tax burden tends to be lower than for “blue” states -- have a 41% better overall score for government services quality meaning that, on average, red states provide 41% better services overall per tax dollar spent.

So don’t expect a great ROI for tax money spent if you live in a high tax blue state like California.



Government Services Rank (1=Best)
50
40
30
20
10
0
0
10
20
30
40
50
Total Taxes per Capita (Population Aged 18+) Rank (1=Lowest Total Taxes per Capita)
SC
AL
MS
NM
NV
TN
OK
WV
AR
CA
TX
OR
HI
FL
NC
MT
KS
OH
CO
PA
IL
SD
KY
WA
NY
IN
NJ
RI
WY
NE
MA
NH
WI
UT
CT
VA
VT
Republican
Democrat