



Deadweight Costs and the Size of Government*

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Abstract

We provide a model for analyzing effects of the tax system and spending programs on the determination of government spending and taxpayer welfare. An improvement in the efficiency of either taxes or spending would reduce political pressure for suppressing the growth of government and thereby increase total tax revenue and spending. We demonstrate the similarity of the political responses to revenue shocks, spending shocks, changes in tax efficiency, and changes in spending program efficiency. Empirical analysis of oil shocks, intergovernmental grants, and other autonomous changes in taxes or spending indicates that cause and effect is not only from spending to tax structures.



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