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B.A. Economics
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Paper-4th
Topic : Principal of Maximum Social Advantage

Principle of Maximum Social Advantage :

Introduction:-

financial activities of the Government have a significant impact on the production conjunction and income pattern of a country.The principle of maximum social advantage is the principle that governs operation of public finance (financial activities of the government) to maximize the economic welfare of the society as a whole.

Prof. Dalton *has suggested the manner and extent in which public expenditure and revenue should be incurred and collected.*

According to him "public expenditure in every direction should be carried just so far that the advantage to the community of a further small increase in any direction is just counter-balanced by the disadvantage of a corresponding small increase in taxation or in receipt from any other source of public income. This gives the ideal total both of public expenditure and public income".

This principle states the following:

- *Government should collect money and spend it to maximize the welfare of people*
- *When taxes are imposed dis-utility is created and when expenditure is done,utility is created.*
- *Government must adjust its revenues and expenditures in such a way that the surplus of utility is maximum and dis-utility is minimum*

Assumptions:

1. *All taxes result in sacrifice. All public expenditure lead to benefit.*
2. *Public revenue consists of only taxes and government has no other source of income.*
3. *Government has no surplus no deficit budget.*
4. *Public expenditure is subjected to law of diminishing marginal utility there for marginal social benefit keeps on diminishing.*
5. *Taxes are subjected to increase marginal social sacrifice.*
6.

Principle of maximum social advantage:

Dalton stated the extent to which public expenditure should be done and taxes should be collected. According to Dalton public expenditure should be done till the point where the advantage of a unit increase public expenditure to the society is counter balanced by the disadvantage of a unit increase in revenue or taxation.

With every additional unit of taxes raised by the public, the burden of tax keeps on increasing while the quantum of benefits keep on decreasing.Hence public expenditure should be carried out till the point of maximum social advantage.

He gave the following two concepts:

- ***Marginal social sacrifice:it is the amount of sacrifice undergone by public(tax payer) due to imposition of one additional unit of tax.***

- ***Marginal social benefit: benefits enjoyed by the public one additional unit of public expenditure.***

The point of maximum social advantage is the point wale marginal social sacrifice cuts the marginal social benefit curve. This is the optimum limit State's public Finance activity.

It is the point at which the marginal utility from public expenditure equals marginal utility due to taxation. Hands at this point the benefit derived from last unit of money spent on public expenditure equals the sacrifice in post in raising that one additional unit of revenue from the public.

How to achieve the point of maximum social advantage:
In order to achieve maximum social advantage,

Marginal social benefit = Marginal social sacrifice

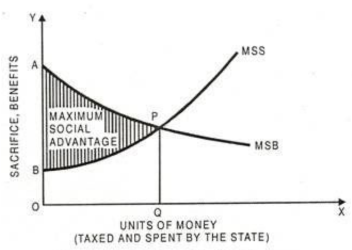

Fig. 1. The Maximum Social Advantage

Diagrammatic Representation:

In technical jargon, the maximum social net advantage is achieved when the marginal social sacrifice (disutility) of taxation and the marginal social benefit (utility) of public expenditure are equated. Thus, the point of equality between the marginal social benefit and the marginal social sacrifice is referred to as the point of aggregate maximum social advantage or least aggregate social sacrifice.

The equilibrium point of maximum social advantage may as well be illustrated by means of a diagram,

In Fig. 1, MSS is the marginal social sacrifice curve. It is an upward sloping curve implying that the social sacrifice per unit of taxation goes on increasing with every additional unit of money raised. MSB is the marginal social benefit curve. It is a downward sloping curve implying that the social benefits per unit diminishes as the public expenditure increases.

The curves MSS and MSB intersect at point P. This equality (P) of MSS and MSB curves is regarded as the optimum limit of the state's financial activity. It is easy to see that so long as the MSB curve lies above the MSS curve, each additional unit of revenue raised and spent by the state leads to an increase in the net social advantage.

This beneficial process would then be continued till marginal social sacrifice (MSS) becomes just equal to the marginal social benefit (MSB). Beyond this point, a further increase in the state's financial activity means the marginal social sacrifice exceeding the marginal social benefit, hence the net social advantage.

Thus, only under the condition of MSS = MSB, the maximum social advantage is achieved. Diagrammatically, the shaded area APB (the area between MSS and MSB curves, till both intersect each other) represents the quantity.