

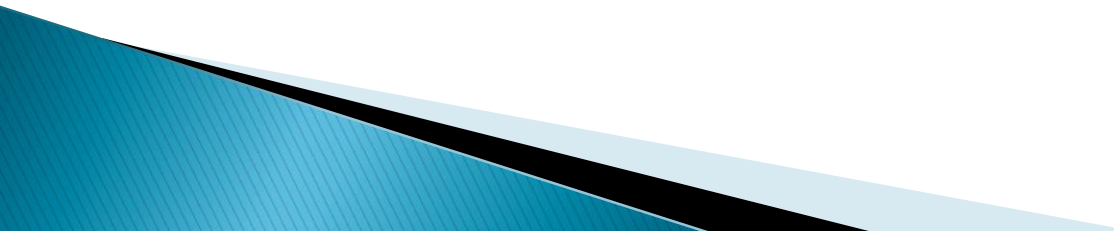
SPD College, Garhwa

Department of Economics

Presentation on:
Principle of Maximum Social Advantage
(UG Sem-III: CC-07)

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Main Points of the topic

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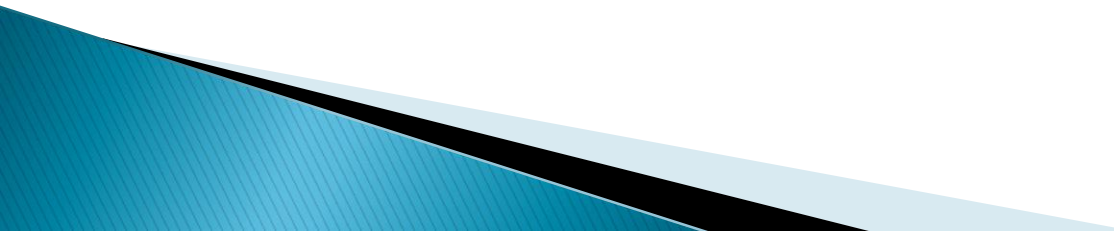
Introduction

The Principle of Maximum Social Advantage (introduced by HG Dalton) states that public finance leads to economic welfare when public expenditure and taxation are carried out up to that point where the benefits derived from the MU (Marginal Utility) of expenditure is equal to the Marginal Disutility or the sacrifice imposed by taxation.

Definition

- ▶ One of the important principles of public finance is the principle of maximum social advantage explained by the well known British economist Professor Hugh Dalton.
- ▶ According to Hugh Dalton – The best system of Public Finance is that which secures the maximum social advantage from its fiscal operations. He propounded the Principle of Maximum Social Advantage and stated the following:
“Government should collect money and spend it to maximize the welfare of people”.

Assumptions

- ▶ All taxes result in sacrifice.
 - ▶ All public expenditure lead to benefit.
 - ▶ Public revenue consists of only taxes.
 - ▶ Government has no other source of income.
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Explanation of the Theory

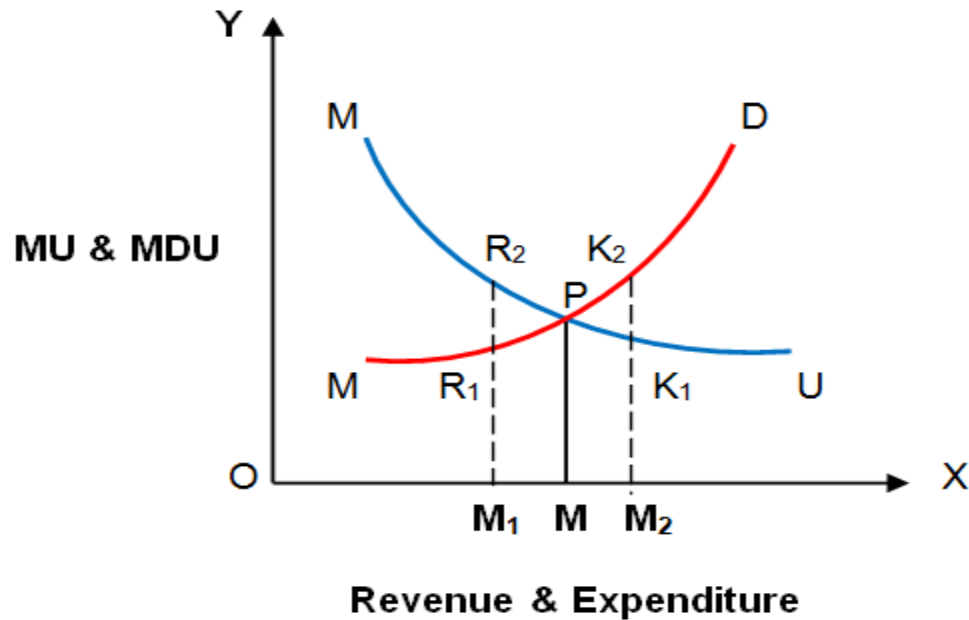
- ❑ At present time Govt. imposes taxes and fees and fines to collect revenue. Govt. spend the collected revenue in public welfare like salary payments, health, education, infrastructure development, etc.
- ❑ After imposition of taxes the tax payers feels sacrifice or disutility. On the other hand when Govt. spend it on public welfare, public feel benefit or utility.
- ❑ As per this principle the Govt. should increase taxation and spending up to the limit where both (Rev. & Exp.) can equal to each other.

Explanation by Table

Unit of Tax	Marginal Dis–Utility of Tax	Marginal Utility of Exp.
1	15	70
2	20	60
3	27	48
4	35	35
5	44	22
6	55	15

As per the table, 4th Unit of taxation and Expenditure equalizes MDU taxes and MU of expenditure. It is the maximum social advantage point.

Diagrammatic Representation

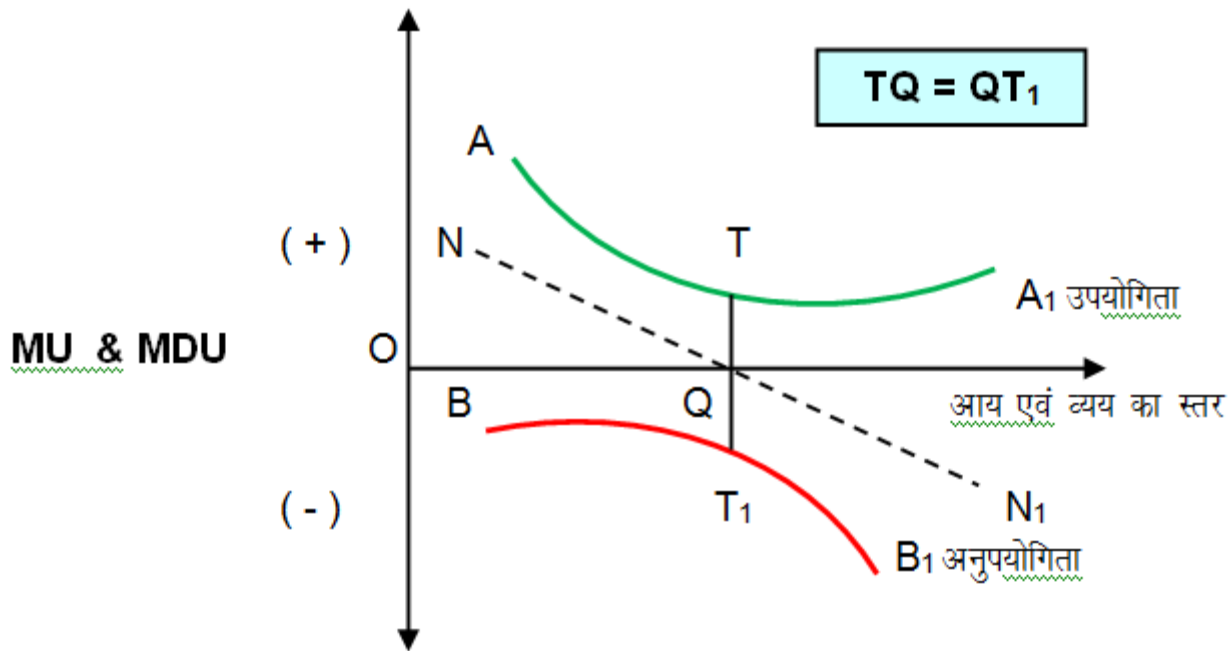


For obtaining Max Social Advantage Govt. will increase Rev & Exp up to OM level.

Explanation by Prof. Musgrave

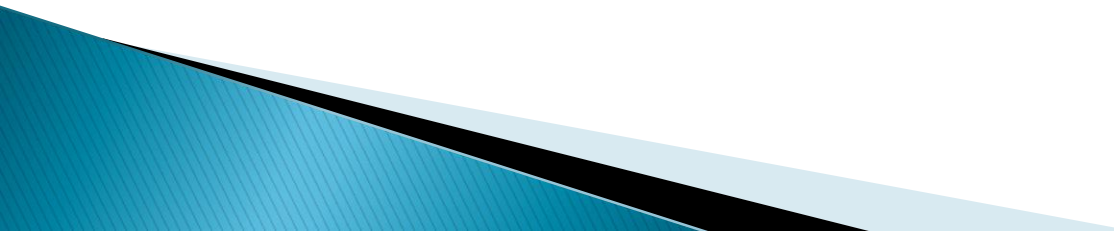
R.A. Musgrave has explained the principle of Max Social Advantage on the basis of Annual Budget. Govt. prepare draft of income and expenditure by budget which encourages and discourages the welfare activities.

Diagrammatic Representation



OQ level shows good budget, where revenue and expenditure both are equal. Point Q is optimum level where social welfare is maximum.

Suggestions by Musgrave

- **Defense from external attacks and to establish internal law and order**
 - **Increase in production**
 - **Improvement in distribution of wealth and income in the society.**
 - **Stability in economic activities and employment level**
 - **Good effect on forthcoming generation.**
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Conclusion

The Principle of Maximum Social Advantage establishes the new approach of Govt. Expenditure and it explains clearly the aims of financial activities.

----- The End -----



Thanks for watching

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