

[Would you prefer your subsidy to a public good as a tax break or a grant?](#) [1]

Written by [Tim Worstall](#) [2] | Friday 12 July 2013

Let us, for the sake of the argument, agree that tertiary education is a public good. I'm not so sure myself, it being both rivalrous and excludable but let's just accept that it is. Now, having determined that it is a public good then there's a reasonable argument that there should be government subsidy to it. For we're pretty sure that markets unadorned don't produce quite the quantity of public goods that might be desirable. If you prefer, public goods are, like negative externalities, one of those times when we might righteously consider intervention in the pure and unadulterated free market.

Given all of that would we prefer our government subsidy to be in the form of tax breaks, taxes not paid, by those undertaking the activity or would we prefer that it be a system of grants to those who do? I ask because Felix Salmon over at Reuters thinks that the grants are, by definition, a better manner [of subsidy](#) [3] :

If state and federal governments are going to spend billions of dollars subsidizing tertiary education ? and they should ? then they should spend those billions wisely, with a focus on education. Instead, they spend those billions through the tax code, with no kind of oversight at all, pushing their thumb on the scales so as to encourage, at the margin, the purchase of buildings and the building-up of large endowments.

At which point I entirely disagree: I think that tax breaks are much the better subsidy delivery scheme.

This is really a difference of world views. If you believe that politicians, those who direct such subsidies, are knowledgeable, clever and honest beings, striving only to do what is right for the common weal, then you might well argue that they should direct, in detail, where the taxpayers' money goes. If you're over the age of seventeen you will have been disabused of that notion, that politicians are honest, knowledgeable and clever, and so would prefer that politicians do not direct in detail. Rather, we might accept that public goods exist, that they should be subsidised in some manner, but having done that we want to keep the politicians as far away as possible from the details of what happens next.

I would go further too. A tax break means that anyone who meets the rules gets the tax break. A grant making system means only those who suck up to the politicians get the grants. And let's face it, we really don't want our impressionable youth educated by those who can stand interacting with politicians now, do we?

All of which leaves me with only one problem. I know very well that Felix is over 17 so how come he still thinks of politicians as they are not?

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[3] <http://blogs.reuters.com/felix-salmon/2013/07/08/universities-shouldnt-be-tax-exempt/>

[4] http://disqus.com/?ref_noscript

[5] <http://disqus.com>