How Should the Government Spend Your Taxes?

Table 1. Percent Change in Quantities of Commodity Consumption and Production

Commodity	Variable name	GOVCLOS = 1	GOVCLOS = 2	GOVCLOS = 3
AGR Consumption	QQ("AGR")	-.73	-3.8	-1.7
MFG Consumption	QQ("MFG")	-.16	-4.4	-2.1
SER Consumption	QQ("SER")	0.0	1.2	0.5
AGR Production	QX("AGR")	-.30	-4.1	-1.67
MFG Production	QX("MFG")	-.73	-5.4	-2.9
SER Production	QX("SER")	-.16	1.2	0.6
Household AGR consumption	QHTOT("AGR")	-1.4	-1.2	0.3
Household MFG consumption	QHTOT("MFG")	-8.3	-7.7	-3.6
Household SER consumption	QHTOT("SER")	-3.3	-3.1	1.7

Table 2. Percent Change in Macro Variables				
Variable	Variable name	GOVCLOS = 1	GOVCLOS = 2	GOVCLOS = 3
Household income	YHTOT	-4.4	-4.1	-4.3
Household Income tax revenue	HTAX	-4.4	-4.1	-2761.2
Household consumption	EHTOT	-4.4	-4.1	0.5
Government tax revenue	YG	22.9	21.4	-2.3
Government budget balance	GSAV	1639.8	0	0
Government expenditure	EG	-2.4	21.7	-2.4
Government share of GDP expenditure	GOVSHR	-2.5	21.8	-2.4
Investment share of GDP expenditure	INVSHR	18.6	-3.3	0.1

Table 3. Household Income Tax Rate Under 3 Government Closures				
Variable	Base rate	GOVCLOS = 1	GOVCLOS = 2	GOVCLOS = 3
Household Income tax revenue	TY0	TY	TY	TY
	0.2	0.2	0.2	-4.8

2. MFG accounts for a smaller share of activity output.

3. The income tax rate and MPS remain the same under closures 1 and 2, so consumption changes by the same proportion as income. When the income tax becomes a subsidy in closure 3, the share of income that can be allocated to consumption rises. So consumption rises even though income falls.

4. With a savings-driven closure, the increase in government surplus leads to an increase in the supply of savings, leading to increase in investment.
5. Income tax rates are fixed in closure 1 and 2, so government revenue from income taxes fall when incomes fall. The income tax becomes a subsidy in closure 3, so tax revenues from income and total tax revenues falls.