A government’s role, as it relates to taxation and public spending, has never gone unquestioned. Controversy arises from conservatives advocating fiscal responsibility and limited government intervention in a market economy. This supports the notion that taxes should be levied at the lowest possible level, specifically designated for the financing of the few public goods that only government can provide. However, there are advocates supporting an expanded role for government and arguing in favor of higher taxes to finance more public goods. They also argue for a social protection system of redistributive schemes that, to some extent, will correct the stark inequities in our society. Public provisioning of goods and services and redistribution policy can be defined according to different criteria, some of which have real economic significance while others are matters of convention and convenience. In general, ‘public spending can be wise or foolish, appropriate or inappropriate, effective or ineffective but—the paradox first pointed out by Keynes—it cannot be more costly to the economy as a whole than doing nothing’ (Nell, 1988, p. 228).

The provisioning of public goods and services can be wide ranging and can be classified into two broad categories:

1) collective consumption goods—goods and services affecting the entire population such as defense, the judicial system, police and fire protection, physical infrastructure and so on; and

2) private consumption goods—those affecting individuals that can also be provided by the private sector such as education and health care services, since they can meet the microeconomic criteria of excludability, positive supply curves and have no ‘external effects’ found in the collective consumption goods (Samuelson, 1966a, pp. 1223–5, emphasis in the original).

Moreover, the latter category of goods admittedly possesses ‘an element of variability in the benefit that can go to one citizen at the expense of
some other citizen,' but it is not necessarily synonymous to being optimally produced solely by the ordinary market process (Samuelson, 1966b, p. 1232, emphasis in the original). However, there can be a number of other arguments supporting their place within the functions of government. These arguments can include:

- market failure;
- basic needs considerations;
- externalities; and
- distributional considerations (Hare, 1988, p. 68).

Public finance projects, especially those involving education and health, cannot usually be determined or ranked on the basis of their rate of return, but rather on their discounted net benefits (Summers, 2003, p. 285). Education is subject to long-term decisions and the rates of return are assumed to be reflected in future earnings. Health care is fraught with incidence of adverse selection and moral hazard. Both result in inefficient markets or in absolute market failure, as they are in the realm of public provisioning.

The concept of basic needs enters into the argument for the public provisioning of goods that are required to maintain 'socially accepted norms or standards.' In the same way, minimum amounts of schooling and health to ensure social cohesion can be justified. Providing the elderly with a state pension may or may not be sufficient to cover their basic needs, the latter then requiring further public intervention (Hare, 1988, p. 69).

Externalities are hard to quantify, but they are nevertheless prominent if one assumes that returns to education result in the societal improvement, thus redounding in benefits to a larger segment of the population beyond the individuals whose human capital has increased the most. The same can be said for publicly provided health care, which not only positively affects those who fall ill, but also is beneficial to those who are well by reducing the risk of infection (ibid., pp. 69–70).

Income distribution has always been a dominant concern of the public sector. Governments are empowered to impose taxes on commodities, income and wealth and spend the resulting revenues in many ways to achieve a more equitable distribution. Targeted re-distributive transfers, such as assistance to the poor and the disabled, social insurance and pensions, and agricultural supports, can benefit either a large segment of the population or a narrow one. 'Similarly in the absence of a complete system of private markets for [particular goods and services] some public sector provision is likely to be justified on distributional grounds' (ibid., p. 70). The public supply of such goods and services is not tantamount to being provided only by state-run enterprises, but perhaps through partnerships between the private and public sectors. The financing of such programs can come from various sources of general tax revenues or special tax-surcharges.