

The Global Economy

Fiscal Policy

Road Map

- ▶ What Should Governments Do?
- ▶ Taxes and debt: how should they pay for it?
- ▶ Sustainability analysis.
- ▶ Issues in the U.S.
 - Social Security
 - Medicare/Medicaid

What Should Governments Do? I

- ▶ Provide public goods
- ▶ Public goods are hard for markets to supply
 - Non excludable: hard to keep people from consuming it Fish in the ocean, (olde tyme) radio, fireworks
 - Non rival: my consumption does not affect your consumption T.V. (cable and broadcast), fresh air, NY skyline
- ▶ Hard for a private firm to capture all the benefits of these goods, so market would provide too little
- ▶ Public goods governments may provide
 - National defense, environmental protection, police, fire

What Should Governments Do? II

- ▶ Provide insurance and redistribution
- ▶ Protect the unfortunate and unlucky
 - Disability insurance, medical programs
 - People who save too little: social security
- ▶ Theory
 - Rawls' "Veil of Ignorance"
 - Market failure: adverse selection, moral hazard
 - These are large programs in many countries