经济学思想的沿革♪

计划经济体制♪

市场经济体制♪

优点♪

缺点♪

市场效率♪

♪
- 经济学原理♪
- 基本分析工具♪
- 消费者行为♪
- 厂商行为♪

♪

市场失灵♪

- 外部性♪
- 公共产品♪
- 公共资源♪
- 信息不对称♪
- ----

♪

国际贸易理论♪与政策♪

混合经济中的♪政府♪

长期经济增长

Topic 14
Government in the Mixed Economy

Economic Systems

- Market economy (Ex: United States, Great Britain, Japan)
- Command economy (Ex: Cuba, China, Laos)
- Traditional Economy (Ex: Chad, Haiti, Rwanda)
- Mixed economy

Market Economies

- Resources are owned and controlled by individuals
- Economic decisions are made by individuals competing to earn profits
- Individual freedom is considered very important
- Economic decisions are made by the basic principles of supply and demand
- Profit is the motive for increasing work rather than quotas
- Also called capitalist economies
- There are many economic freedoms
- There is competition among businesses
- Competition determines price which increase the quality of the product

Command Economies

- The government or other central authority makes decisions and determines how resources will be used
- Change can occur relatively easily
- There is little individual freedom
- There is no competition
- Businesses are not run to create a profit
- Consumers have few chooses in the market place
- Factories are concerned with quotas
- Shortages are common because of poorly run factories and farms
- The government dictates the job in which you work
- The government sets the prices of goods and services

Examples of command economies: Cuba, North Korea and the People's Republic of China

Traditional Economies

- Traditional economies are found in rural, non-developed countries
- Some parts of Asia, Africa, South America and the Middle East have traditional economies
- Customs govern the economic decisions that are made
- Technology is not used in traditional economies
- Farming, hunting and gathering are done the same way as the generation before
- Economic activities are usually centered toward the family or ethnic unit
- Men and women are given different economic roles and tasks

Mixed Economies

- Government and individuals share the decision making process
- Government guides and regulates production of goods and services offered
- Individuals own means of production
- Protects consumers and workers from unfair policies
- Most effective economy for providing goods and services

What is the role of government?

- Why do we need government?
- Why can't the private sector provide for all our needs?
- Answer: For the most part it can.
- But there are certain goods and services (called public goods) that it is more efficient for the state to provide.
- By having the state provide these goods and services we have more of them, or they are better than if we provided them ourselves

Public goods

- The classic example is defence: if I protect myself against foreign invasion then I protect my neighbour too. I pay for the defence and my neighbour need pay nothing. So I try to get my neighbour to share the cost.
- Other examples are: law and order and roads
- But what about rail, health services, education? Should they be provided by the state?

Redistribution of income

Redistribution between individuals and across time

- Large redistributive element to health & education expenditures
- Pensions (state or private?)
- Unemployment benefits
- Family (incl. child) support

Public bads

We also use the state to legislate against certain things:

- Crime
- Pollution

Different types of government spending

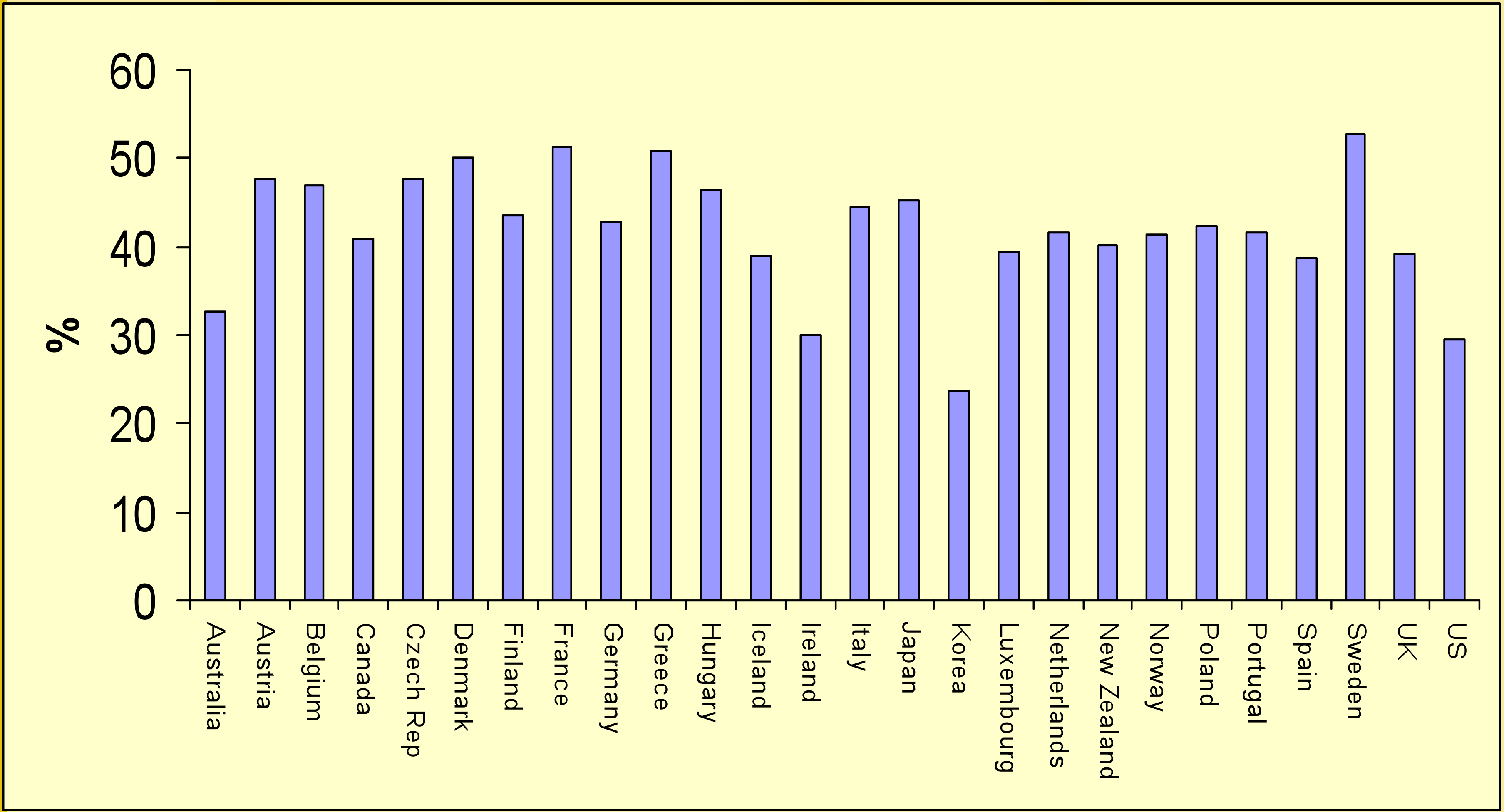
Level of government

- National
- Local/state

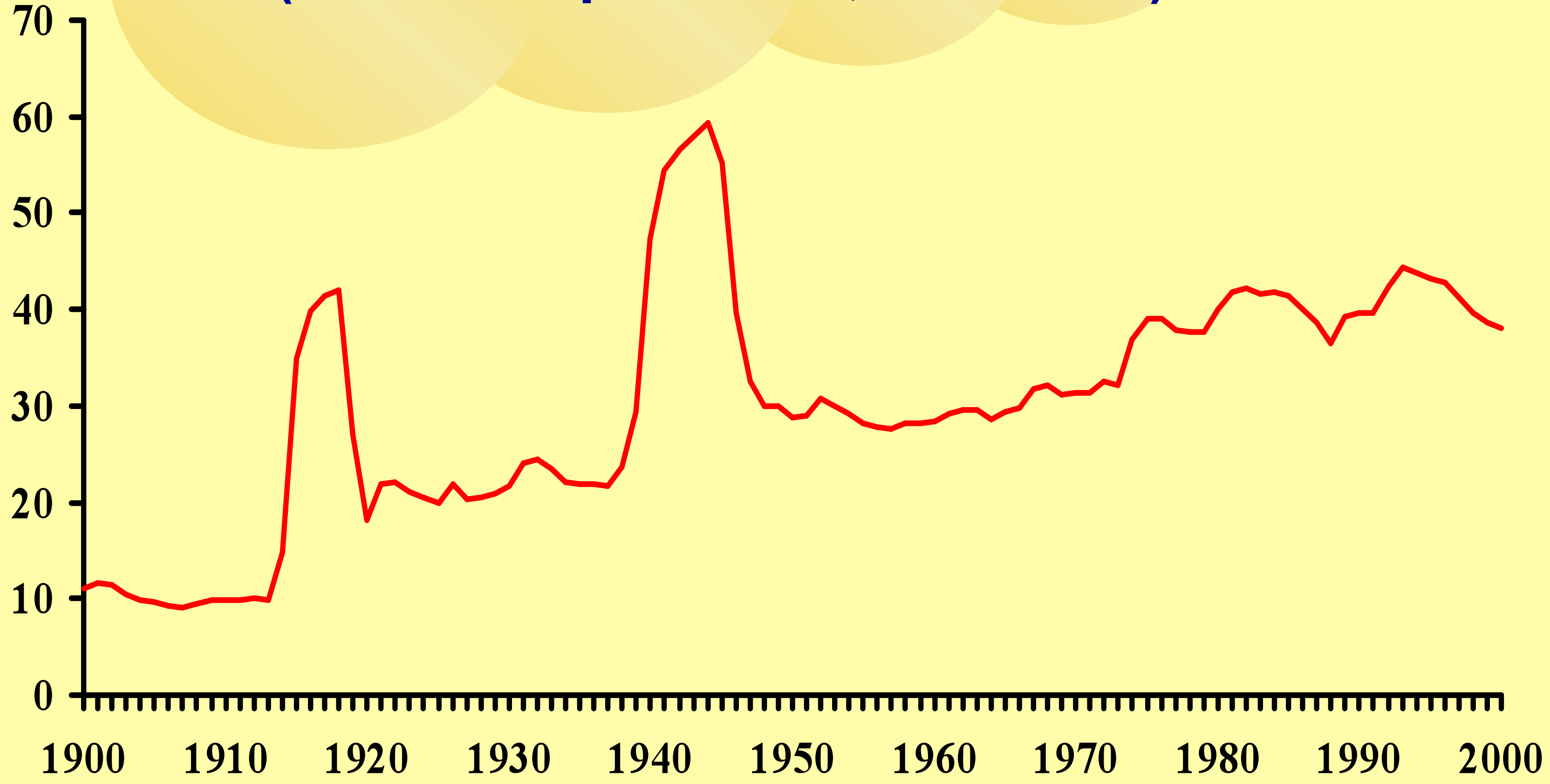
Categories of spending

- Current expenditure on goods and services
- Social security transfers
- Subsidies and grants
- Capital spending
- Debt interest

Government Expenditure (%GDP) 2000



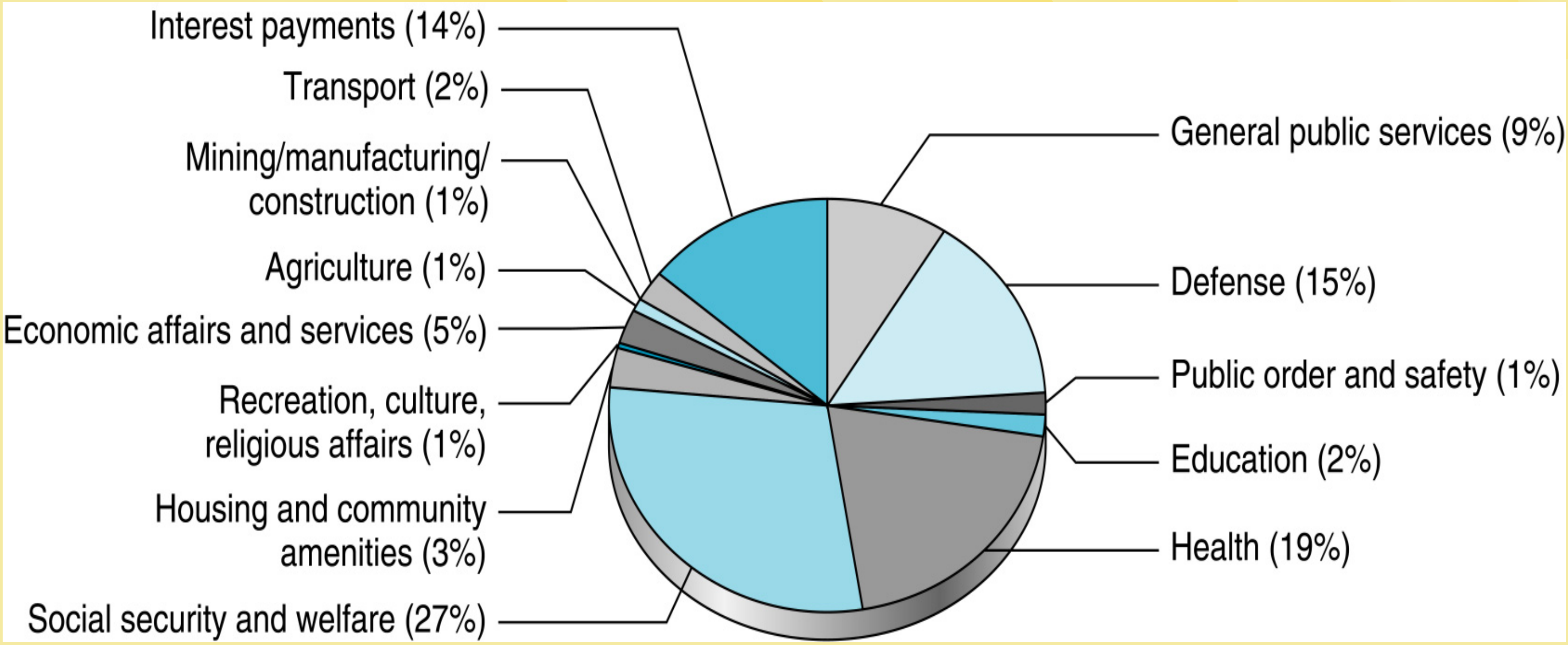
UK public spending, 1900-2000
(current expenditure, % of GDP)



Upward trend over time with major increases during war time

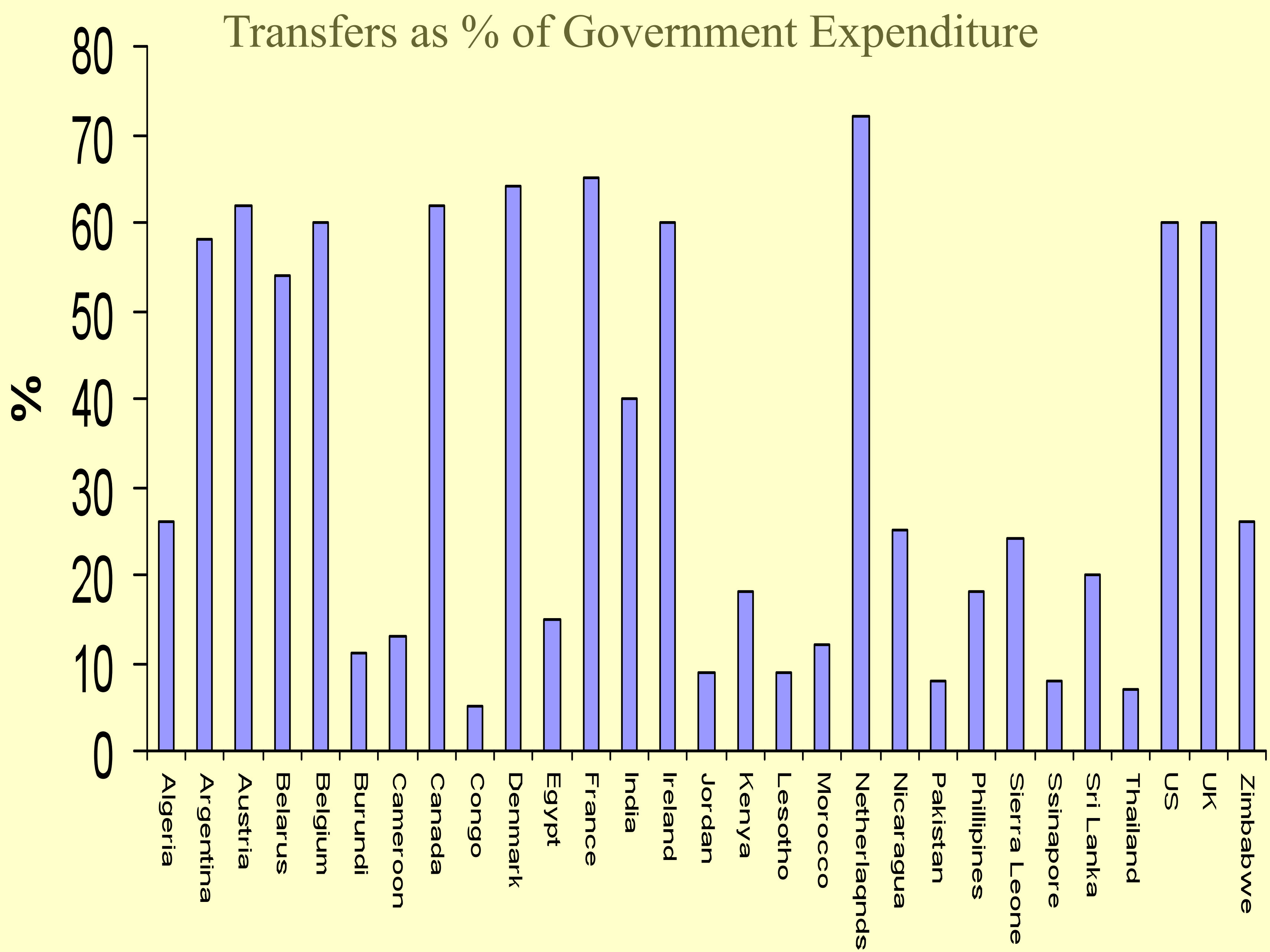
TABLE 10.1 The Increasing Share of Government Expenditure, 1870–1998 (in percent of GDP)

	Later 19th century (about 1870)[a]	Pre-World War I (about 1913)[a]	Post-World War I (about 1920)[a]	Pre-World War II (about 1937)[a]	Post-World War II (1940)	1980	1990	1998
Austria	—	—	14.7	15.2	35.7	48.1	48.6	49.7
Belgium	—	—	—	21.8	30.3	58.6	54.8	50.8
Canada	—	—	13.3	18.6	28.6	38.8	46.0	42.6
France	12.6	17.0	27.6	29.0	34.6	46.1	49.8	52.4
Germany	10.0	14.8	25.0	42.4	32.4	47.9	45.1	47.3
Italy	11.9	11.1	22.5	24.5	30.1	41.9	53.2	48.6
Japan	8.8	8.3	14.8	25.4	17.5	32.0	31.7	36.9
Netherlands	9.1	9.0	13.5	19.0	33.7	55.2	54.0	43.5
Norway	3.7	8.3	13.7	—	29.9	37.5	53.8	46.4
Spain	—	8.3	9.3	18.4	18.8	32.2	42.0	39.4
Sweden	5.7	6.3	8.1	10.4	31.0	60.1	59.1	56.6
Switzerland	—	12.7	4.6	6.1	17.3	32.8	33.5	37.6[b]
United Kingdom	9.4	12.7	26.2	30.0	32.2	43.0	39.9	40.1
USA	3.9	1.8	7.0	8.6	27.0	31.8	33.3	30.5
Average	8.3	9.1	15.4	18.3[c]	28.5	43.3	46.1	44.5



Miles & Scott/Macroeconomics: Understanding the Wealth of Nations
Chapter 10, Figure 10-04a

U.S. government expenditure, 1998.


Transfers as % of Government Expenditure
%
80
70
60
50
40
30
20
10
0
Algeria
Argentina
Austria
Belarus
Belgium
Burundi
Cameroon
Canada
Congo
Denmark
Egypt
France
India
Ireland
Jordan
Kenya
Lesotho
Morocco
Netherlaqnds
Nicaragua
Pakistan
Phillipines
Sierra Leone
Ssinapore
Sri Lanka
Thailand
US
UK
Zimbabwe

Government Revenue

How does the government pay for its expenditures?

- By taxation
- By borrowing
- By printing money

The government has its own budget constraint

Total expenditures = Total revenue (including new borrowing & money printed)

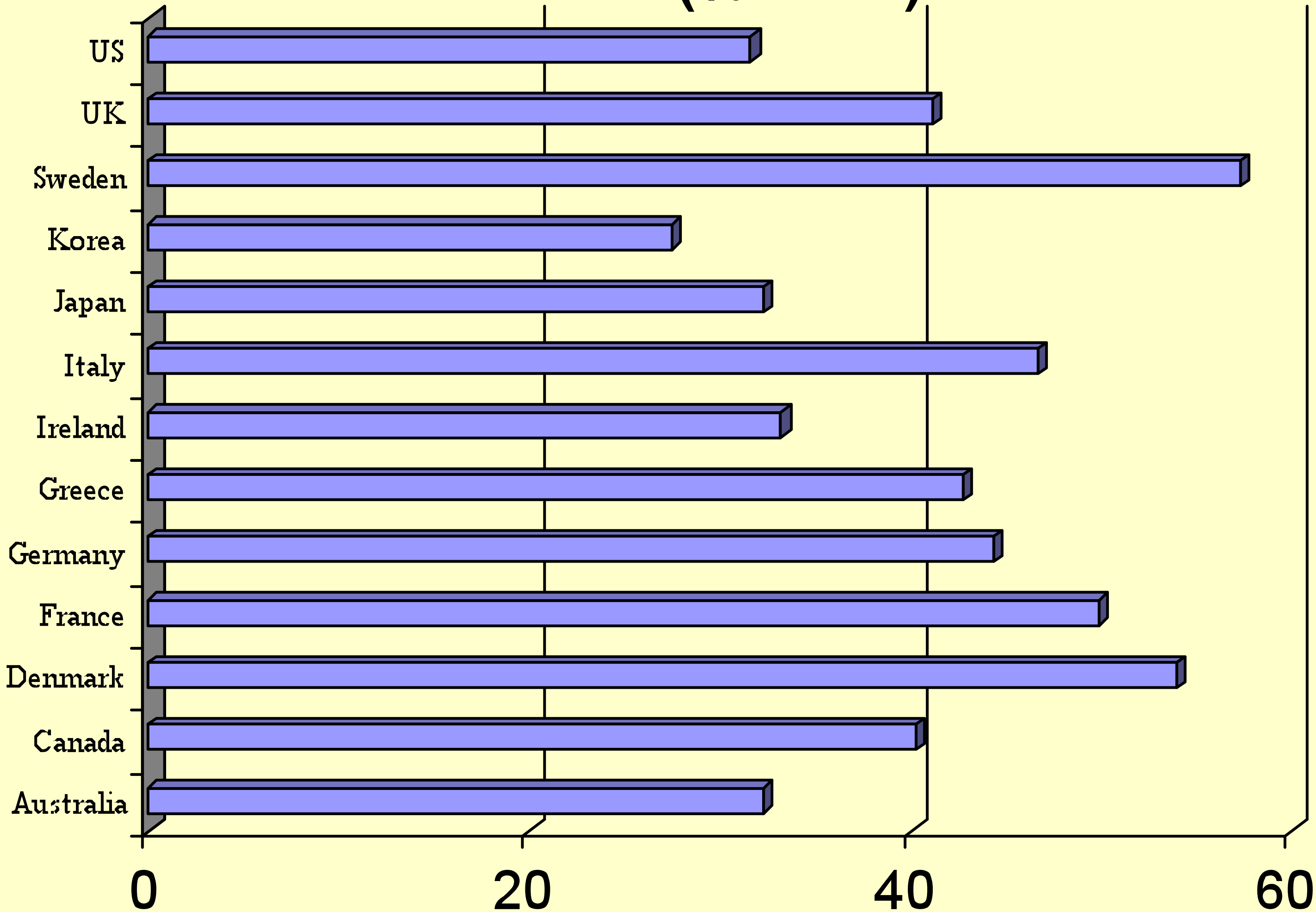
Expenditures on goods and services+ transfers (social security payments)+debt interest payments +increase in debt + increase in money supply

= tax revenue

Taxation - How government raises its money

- Taxes on personal income (mainly labour income)
- Taxes on corporate profits
- Social security contributions (levied on payroll)
- Wealth and property taxes
- Taxes on goods and services (VAT, specific duties)

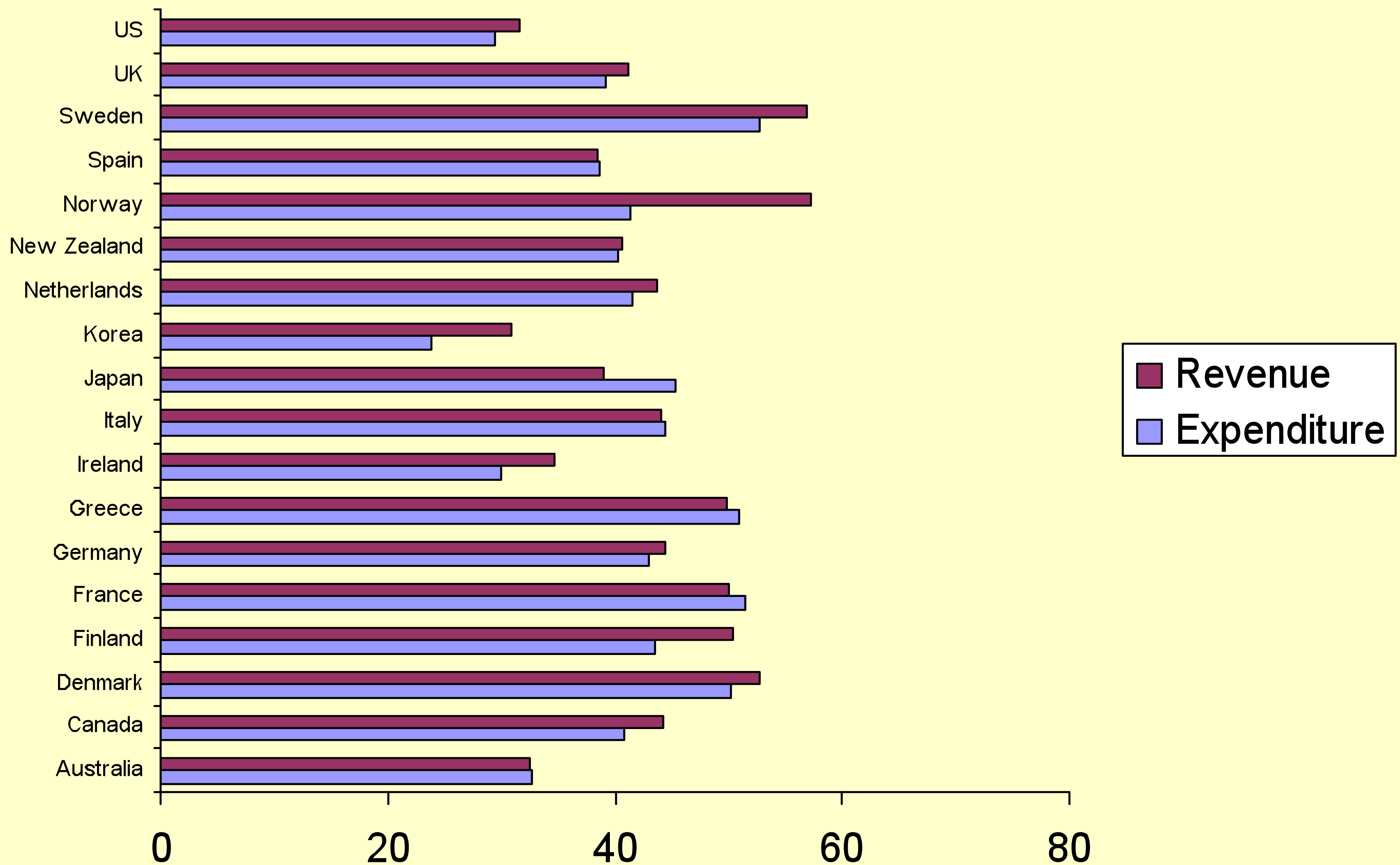
Tax Revenue (% GDP) 2000



Public spending - Why do some countries spend more than others?

- Public spending is 20% of GDP in Korea, 35% in US/Japan, 40-65% in Europe
- There is a certain level of spending required for national defence, law and order, basic education, etc
- Beyond that, the level of spending is a matter for political choice about the level of collective provision
- Collective spending appears to be a “luxury” good - as incomes rise, we tend to spend an increasing proportion of it collectively
- However, there may also be adverse economic effects and political resistance to higher taxes

Europe spends and taxes more
(% of GDP, 2000)



Distortions

- Taxation affects behaviour
- It may improve behaviour (eg cut pollution)
- It may also cause a loss of welfare
- Items very responsive to price changes are taxed lightly (eg luxuries) – have high price elasticities
- Items not very responsive to price changes are taxed more heavily (eg tobacco, petrol) – have low price elasticities

Taxation and Revenue

Problem is governments have to raise money from somewhere

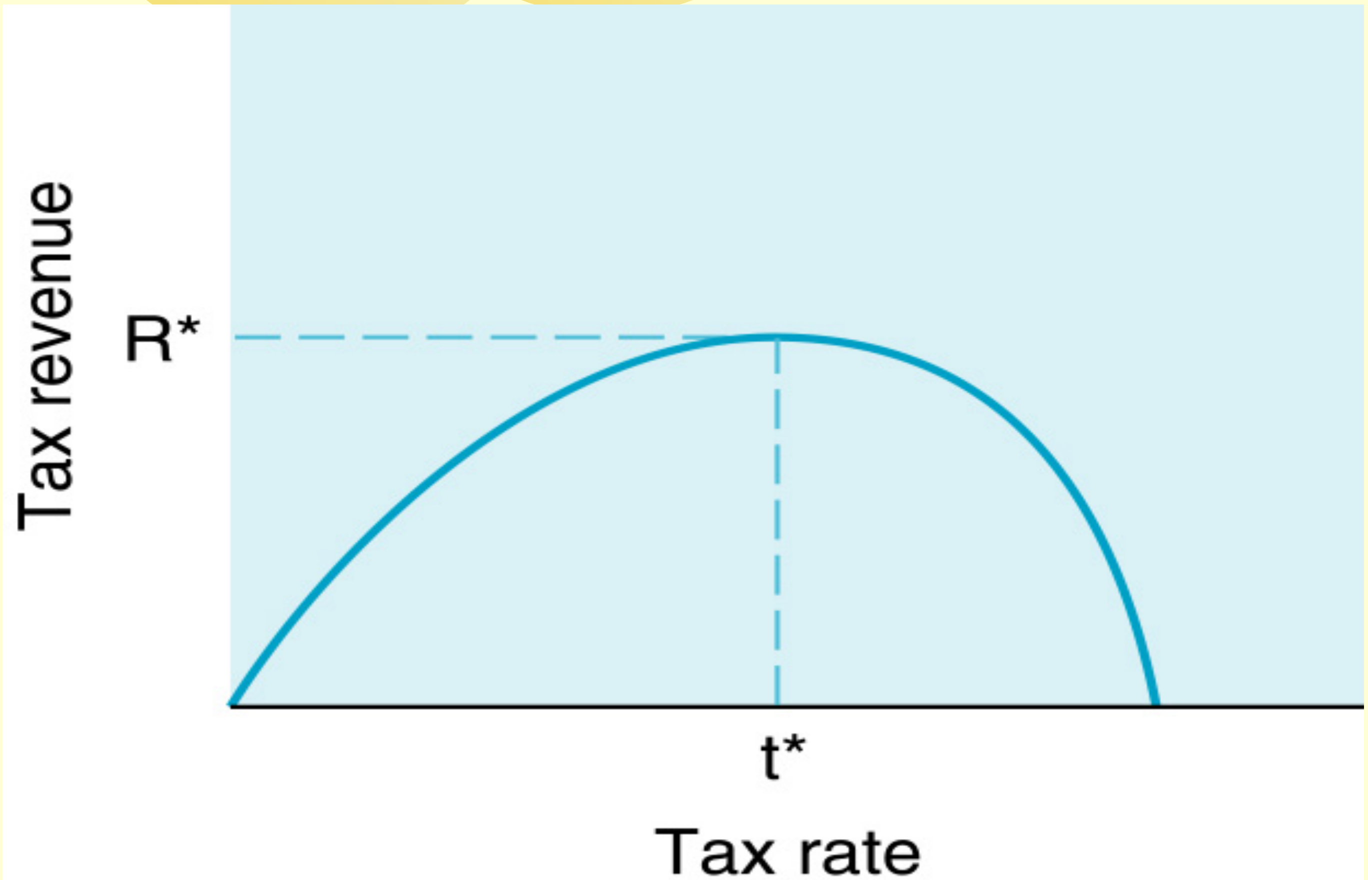
While low taxes lead to low distortions they don't produce much revenue. But do high taxes necessarily produce high revenue?

High rates of tax on earned income discourage productive effort because:

- People work less hard
- They spend their time trying to avoid tax
- Brightest people leave the country

If supply effects strong then cutting taxes may increase revenue!

The Laffer Curve

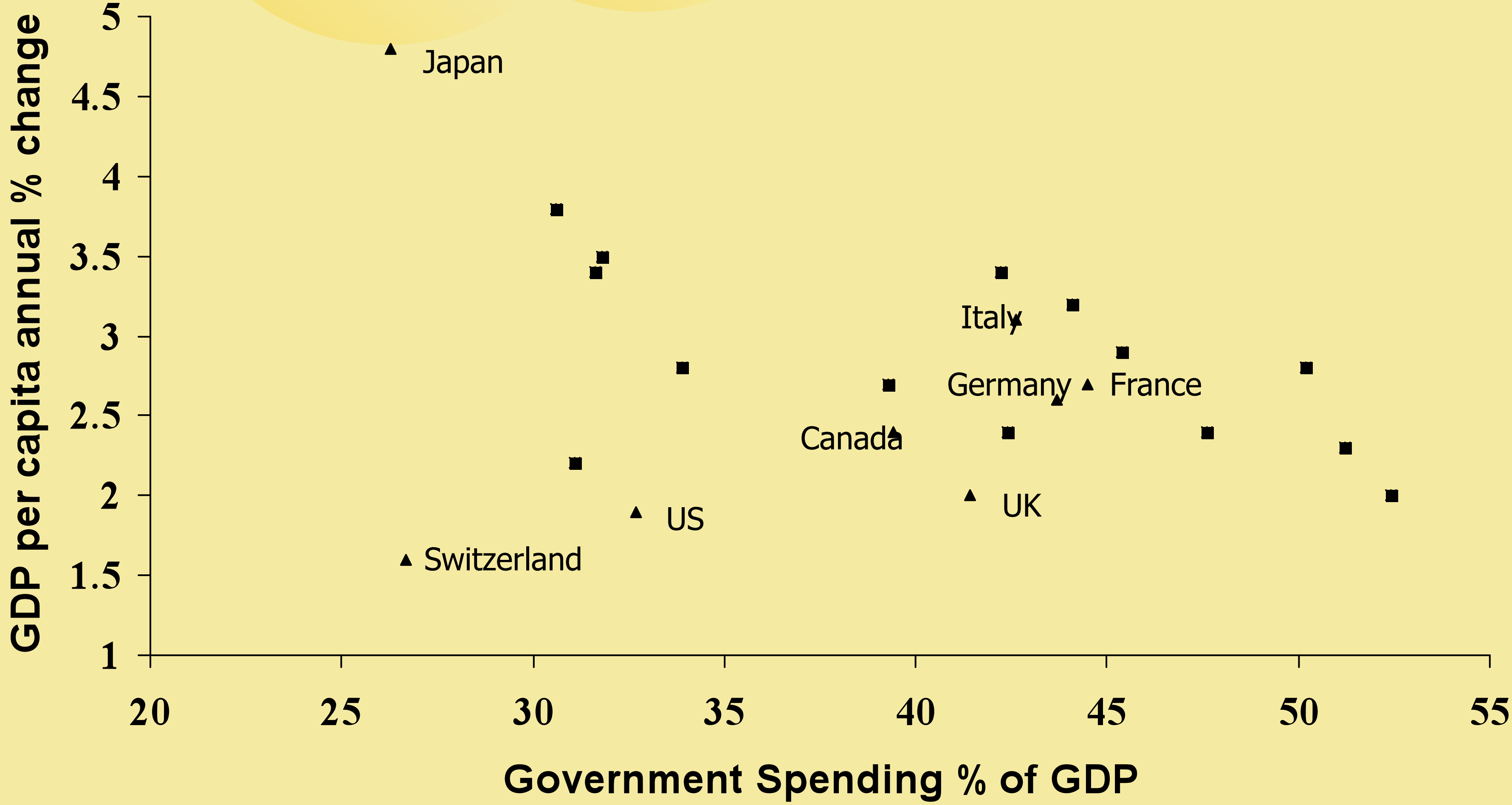


- Is there any truth behind the Laffer curve?
- Yes - beyond a certain point high tax rates bring in less revenue. However rate this occurs is likely to be very high - estimates suggest above 75%
- For instance Reagan tax cuts led to huge deficit - supply side effects small
- However for very wealthy/high income earners a Laffer curve did operate - low tax rates encouraged income earners to switch non-pecuniary benefits to pecuniary form which increased revenue

Is big government bad for growth?

- Not necessarily
- Stupid government is bad for growth
- Big government can be stupid on a bigger scale
- No simple correlation between government size and economic growth or investment rate - at least among OECD countries

Government spending and growth - is there a relationship?
(OECD Countries, 1960-99)



Source: OECD Historical Statistics

Where government spends its money matters for economic growth

Examination of steady state suggests that the more government concentrates on *investment* the higher the standard of living In a country (although don't forget teachers salaries!)

Positive effects from a) Education and training b) Basic health care c) Transport infrastructure

Controversial issue: Do generous social security systems hold back growth because public provision discourages private saving (and hence investment)?

How do Governments decide?

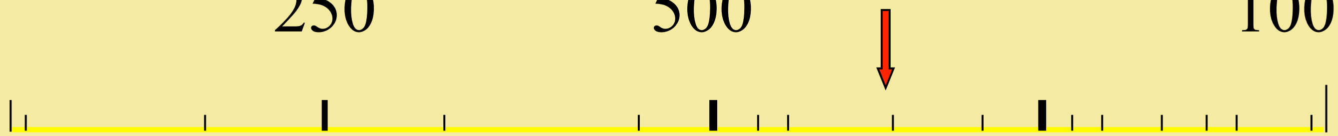
✓ Voting

Table 3.3 The paradox of voting

voter	outcomes A	B	C
1	1	2	3
2	3	1	2
3	2	3	1

Median Voter

0 250 500 1000



- ✓ Legislators “Logrolling”

Table 3.3 logrolling

person	A	B
1	−4	−1
2	−3	4
3	6	−1

- ✓ Civil servants