

# The public sector

*Principles of Economics // Fall 2025*

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# The government & the economy

# The government & the economy

Two sides:

- *Expenditures* side;
- *Revenue* side.

# The government & the economy

*Expenditures* side:

- What kind of **services** should the government provide, if any?
- Why should the government be spending billions of dollars on aid to local **schools**, **health insurance** for the **unemployed**, and new electrical grids?
- Why is the government the **primary provider** of goods and services such as highways and education?
- Then why the provision of goods and services such as clothing, entertainment, and property insurance is generally left to the **private** sector?

# The government & the economy

*Revenue* side:

- How much should the government **tax** its citizens?
- How should the amount of taxes be related to the ***economic circumstances*** of those individuals?
- What kinds of ***activities*** should be taxed or be given tax relief in difficult times?
- What ***effect*** do taxes have on the ***functioning*** of the economy?

# The government & the economy

3 questions:

1. *When* should the government *intervene* in the economy?
2. *How* might the government intervene?
3. *What* is the *effect* of those interventions on economic outcomes?

# The government & the economy

[1] *When* should the government *intervene* in the economy?

Two occasions:

- Market failures;
- Redistribution.

# The government & the economy

- *Market failures:*

Efficient interactions?



# The government & the economy

- *Redistribution:*

“Too-well-off” vs. “not-well-off-enough” citizens.

# The government & the economy

[2] *How* might the government intervene?

Several ways:

- *Price* mechanism;
- *Restricting/mandating* private sales/purchases;
- *Direct provision* of goods/services;
- *Financing* private entities.

# The government & the economy

[2] *How* might the government intervene?

- *Price* mechanism:
  1. *Taxes*:  $\uparrow$  prices;
  2. *Subsidies*:  $\downarrow$  prices;

# The government & the economy



## STATE CIGARETTE EXCISE TAX RATES & RANKINGS

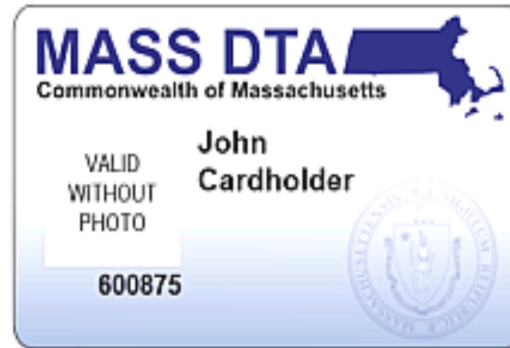
Average State Cigarette Tax: \$2.01 per pack

<u>State</u>	<u>Tax</u>	<u>Rank</u>
<b>Alabama</b>	<b>\$0.675</b>	<b>41st</b>
<b>Alaska</b>	<b>\$2.00</b>	<b>21st</b>
<b>Arizona</b>	<b>\$2.00</b>	<b>21st</b>
<b>Arkansas</b>	<b>\$1.15</b>	<b>37th</b>
California	\$2.87	14th
Colorado	\$2.24	18th
Connecticut	\$4.35	5th
Delaware	\$2.10	19th
DC	\$4.50	3rd
<b>Florida</b>	<b>\$1.339</b>	<b>34th</b>
<b>Georgia</b>	<b>\$0.37</b>	<b>50th</b>
<b>Hawaii</b>	<b>\$3.20</b>	<b>8th</b>
<b>Idaho</b>	<b>\$0.57</b>	<b>46th</b>
Illinois	\$2.98	13th
Indiana	\$2.995	12th
<b>Iowa</b>	<b>\$1.36</b>	<b>33rd</b>
<b>Kansas</b>	<b>\$1.29</b>	<b>35th</b>
Kentucky	\$1.10	38th

<u>State</u>	<u>Tax</u>	<u>Rank</u>
Louisiana	\$1.08	39th
<b>Maine</b>	<b>\$2.00</b>	<b>21st</b>
Maryland	\$5.00	2nd
<b>Massachusetts</b>	<b>\$3.51</b>	<b>6th</b>
<b>Michigan</b>	<b>\$2.00</b>	<b>21st</b>
Minnesota	\$3.04	10th
<b>Mississippi</b>	<b>\$0.68</b>	<b>40th</b>
<b>Missouri</b>	<b>\$0.17</b>	<b>51st</b>
<b>Montana</b>	<b>\$1.70</b>	<b>28th</b>
<b>Nebraska</b>	<b>\$0.64</b>	<b>42nd</b>
<b>Nevada</b>	<b>\$1.80</b>	<b>26th</b>
<b>New Hampshire</b>	<b>\$1.78</b>	<b>27th</b>
<b>New Jersey</b>	<b>\$2.70</b>	<b>15th</b>
New Mexico	\$2.00	21st
New York	\$5.35	1st
<b>North Carolina</b>	<b>\$0.45</b>	<b>48th</b>
<b>North Dakota</b>	<b>\$0.44</b>	<b>49th</b>
<b>Ohio</b>	<b>\$1.60</b>	<b>30th</b>

<u>State</u>	<u>Tax</u>	<u>Rank</u>
Oklahoma	\$2.03	20th
Oregon	\$3.33	7th
Pennsylvania	\$2.60	16th
Rhode Island	\$4.50	3rd
<b>South Carolina</b>	<b>\$0.57</b>	<b>46th</b>
<b>South Dakota</b>	<b>\$1.53</b>	<b>31st</b>
<b>Tennessee</b>	<b>\$0.62</b>	<b>43rd</b>
<b>Texas</b>	<b>\$1.41</b>	<b>32nd</b>
<b>Utah</b>	<b>\$1.70</b>	<b>28th</b>
<b>Vermont</b>	<b>\$3.08</b>	<b>9th</b>
Virginia	\$0.60	44th
<b>Washington</b>	<b>\$3.025</b>	<b>11th</b>
West Virginia	\$1.20	36th
<b>Wisconsin</b>	<b>\$2.52</b>	<b>17th</b>
<b>Wyoming</b>	<b>\$0.60</b>	<b>44th</b>
Puerto Rico	\$5.10	NA
Guam	\$4.00	NA
Northern Mariana Isl.	\$3.75	NA

# The government & the economy



Quick video

# The government & the economy

[2] *How* might the government intervene?

- *Restricting/mandating* private sales/purchases



# The government & the economy

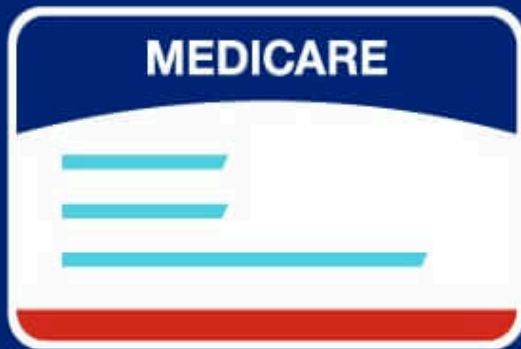
[2] *How* might the government intervene?

- *Direct provision* of goods/services



# The government & the economy

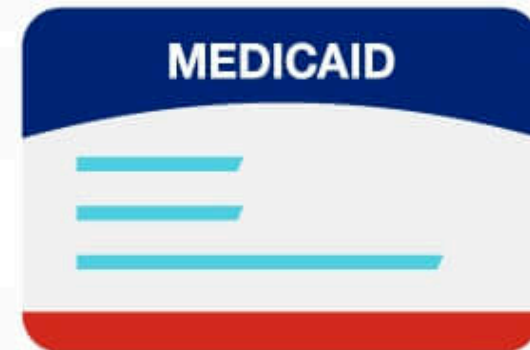
## Medicare



**Generally for people  
who are 65 & older, or  
who have a  
qualifying disability**

**vs**

## Medicaid



**For individuals,  
families, and  
children with limited  
income & resources**

# The government & the economy

[2] *How* might the government intervene?

- *Financing* private entities.

US Taxpayers Heavily Funded the Discovery of COVID-19 Vaccines

Brazil: Access and reimbursement of medicines in the public market

# The government & the economy

[3] *What* is the *effect* of those interventions on economic outcomes?

Brazil's Bolsa Familia program

Nutrition security gains: UN confirms Brazil is off the FAO Hunger Map

Next time: Taxation