

Chapter 4 State-Centered Economic Systems

In state-centered economic systems, governments (states) as a necessary structure to promote change and reduce inequality.

Determinants of the Quality of Governance

- Culture
- Constitution
- Distribution of power
- Quality of leadership
- Quality of democracy

State-Centered Economic Systems in History

- **Mercantilism:** is an economic policy that is designed to maximize the exports and minimize the imports for an economy. It promotes imperialism, tariffs and subsidies on traded goods to achieve that goal. The policy aims to reduce a possible current account deficit or reach a current account surplus.(from the 15th to the 18th centuries)
- **Fascism:** In simple terms, fascism is defined as **a government structure where one dictator has complete control of the entire country, state, or territory.** Anyone who opposes this dictator is suppressed and individual rights are often oppressed.  Adolf Hitler in Germany, Benito Mussolini in Italy, Francisco Franco in Spain.
- **Communism:** a system where all property is public and people work and are given things by the government according to their needs.
- **Socialism:** Socialism is an economic and political system where state owns the general means of production (i. e. farms, factories, tools, and raw materials.)

What is difference between communism and socialism?

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The main difference is that under communism, **most property and economic resources are owned and controlled by the state** (rather than individual citizens); under **socialism**, all citizens share equally in economic resources as allocated by **a democratically-elected government**.

Communist countries:

- * **China**
- **Cuba**: Government allowed the private ownerships for small and middle-class business
- * **Vietnam**
- * **Laos**
- * **North Korea**



Mercantilism

Trump's National Security Strategy: A New Brand of **Mercantilism?**



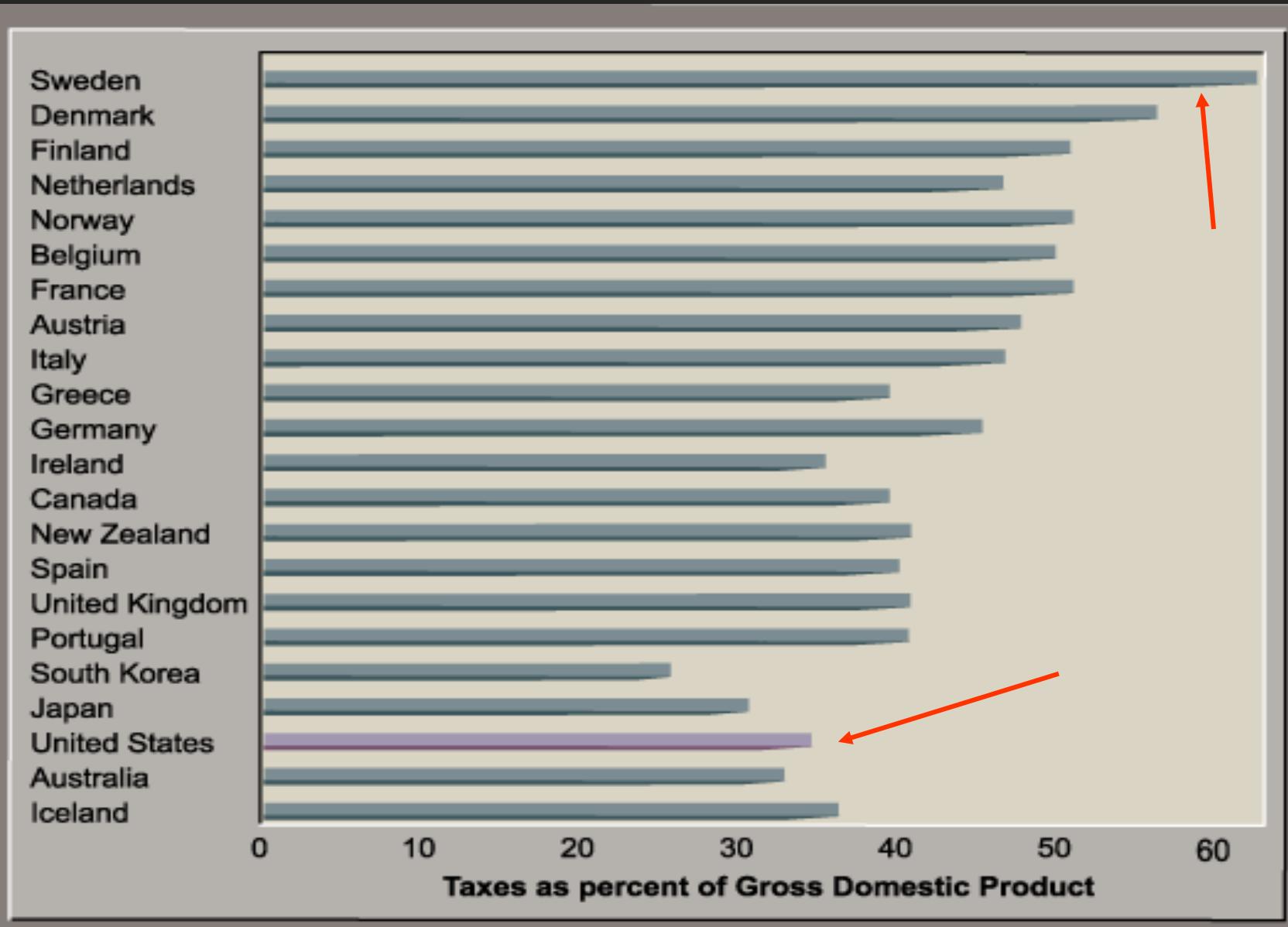
imbalanced system of trade



Bernie Sanders is, in his own words, a "**democratic socialist**." To him, that means he supports the policies in place in many democratic countries, particularly Northern European ones like Sweden, Finland, or Denmark.

Nordic countries

Comparing Tax Burdens



Potential Strengths of the State

- Prosperity
- Freedom and Justice
- Stability
- Peace
- Sustainability
- Human development
- Democracy

The State and Prosperity

- Providing infrastructure
- Providing information
- Maintaining competition
- Creating comparative advantage
- Redirecting the surplus



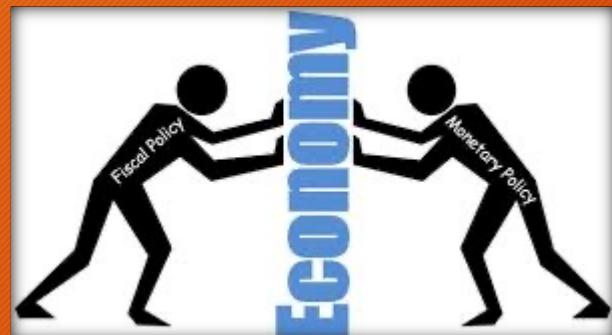
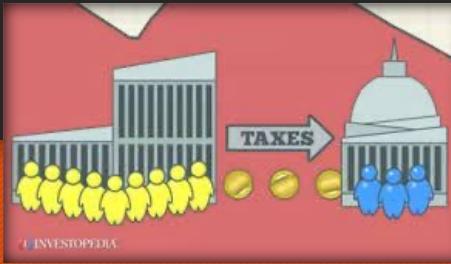
Biden's plan is to spend \$1.2 trillion for infrastructure

The State and Freedom and Justice

- Solving collective action problems
- Protecting civil rights
- Promoting equal opportunity
- Redistributing income
- Restructuring the market

The State and Stability

- Fiscal policy ???????
- Monetary policy ???????
- Financial regulation ???????
- Exchange rate stability
- Trade policy ???????



Exchange rate stability by the FED

\$1 = 1 ARS in 2000

\$1 = 92 ARS in 2021

Exchange rate risks

As an investor, I want to use (deposit) my money in a bank in Argentina since interest rates in Argentinean and the US banks are **29.32 % and 0.25%**

Where would you invest??

Who is conducting monetary policy in the US?



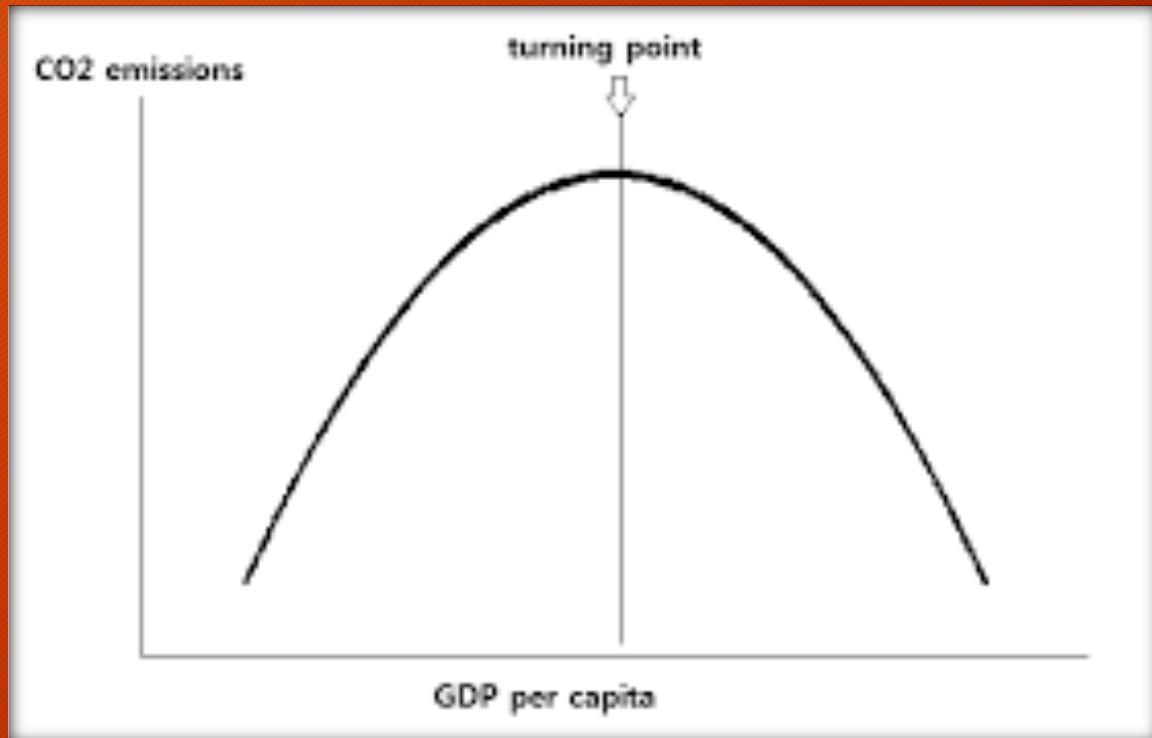
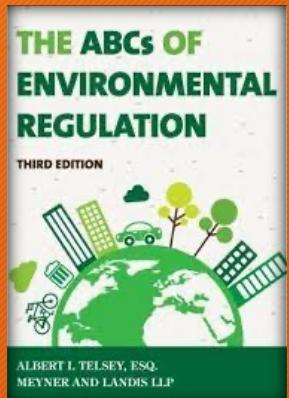
Who is conducting fiscal policy in the US?

Who is conducting monetary policies in the European Union?



The State and Sustainability

- Environmental regulations
- Taxes and subsidies



The State and Human Development

- Public goods: refer to commodities or services that are made available to all members of the society, provided free of charge through public taxation (**street lighting, fresh air, national defense**)
- Merit goods : Merit goods are those **goods and services that the government feels that people will under-consume**, and which ought to be subsidized or provided free. (**education, health care, welfare services, housing, fire protection**)
- Funding and subsidies: **Direct contributions, tax breaks and other special assistance (paychecks, money to the businesses)**
- **How much money was spent by the US Government and FED for COVID-19?**

The State and Democracy

- Election laws
- Protecting civil rights
- Transparency



Potential Weaknesses of the State

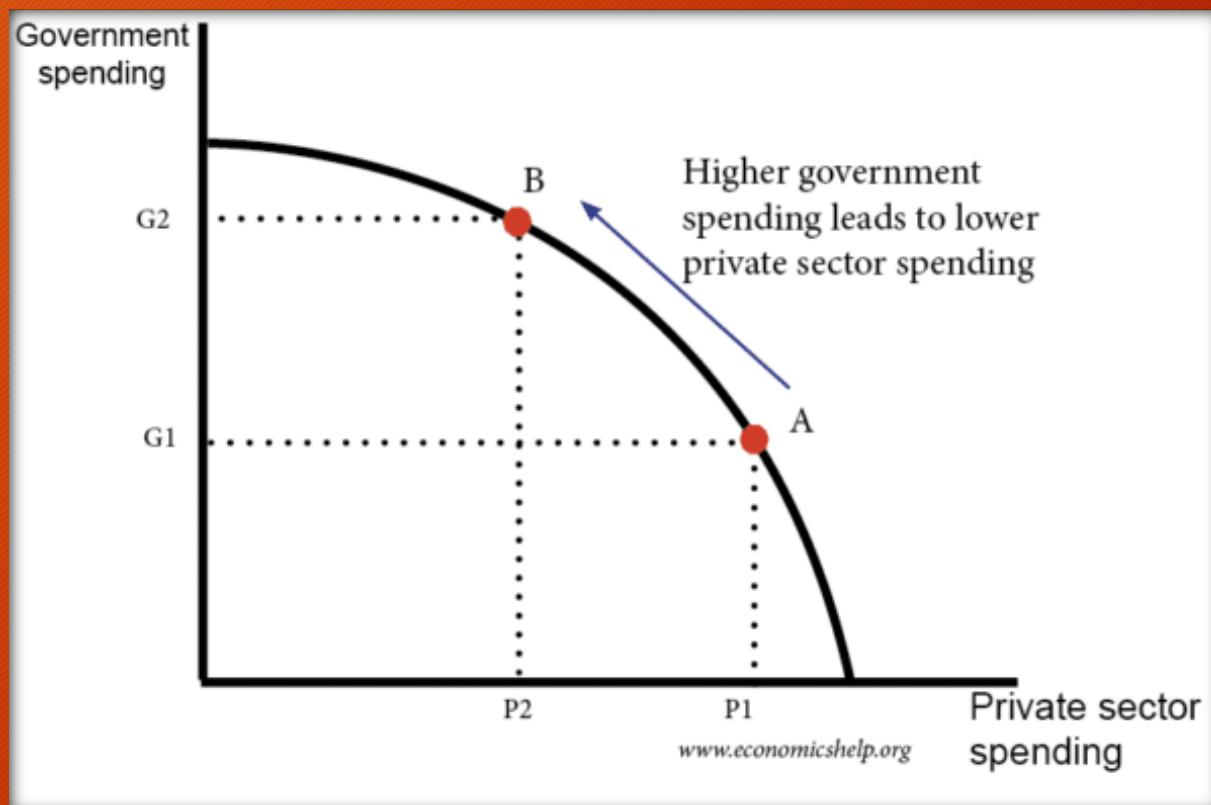
- Reduced prosperity
- Restricted freedom
- Injustice
- Instability
- Social conflict
- Restricted human development
- Erosion of democracy

The State and Reduced Prosperity

- Government inefficiency
- Reduced efficiency of the market

The State and Instability

- Crowding out: **where government borrowing and spending results in higher interest rates, which reduces business investment.**



Institutional Reforms to Maintain a Developmental State

- Public funding of political campaigns
- Increased transparency
- Increased accountability
- Redefining corporations and speech
- Reforming media regulations