



The Size of the Public Sector

WHAT ARE WE TALKING ABOUT TODAY

WHAT IS A MIXED ECONOMY

THE ECONOMIC SPECTRUM

HOW DO WE MEASURE THE
SIZE OF THE PUBLIC SECTOR?



Don't forget!

Mixed Economies

Definitions and more

Mixed Economy



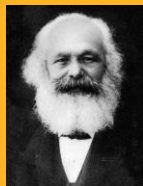
Every country in the world (North Korea might be the exception) is a mixed economy

Mixed Economy: An economy where some economic activities are undertaken by private firms and others are undertaken by the government. The government alters the behaviour of the private sector through a variety of regulations, taxes, and subsidies.

Command Economy: An economy where the government, rather than the free market, determines what goods should be produced, in what quantities, and the price at which the goods are offered for sale.

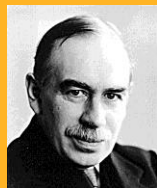
Free Market Economy: An economy where the prices for goods and services are set freely by the forces of supply and demand and are allowed to reach their point of equilibrium without any intervention by the government.

The Economic Spectrum



Marx

Marxist



Keynes

Keynesian



Krugman



Stiglitz

Neo-Keynesian

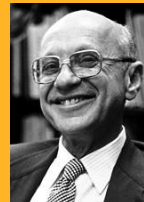


Mankiw



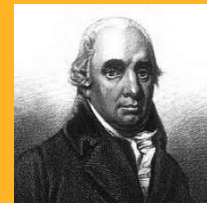
Hayek

Neoclassical
Austrian School



Friedman

Neoclassical
School of Chicago



Smith

Classical

Command Economy
Planned Economy
Communism

Social Democracy

Mixed Economy

Christian Democracy

Market Economy
Free Market
Capitalism

North
Korea

Cuba

China

Sweden

France

Germany

UK

United States

Singapore

Size changes over time...

Deregulation

Reducing the role of government in regulating the economy.



Privatization

Turning over to the private sector activities previously undertaken by the government.



Nationalization

Turning over to the public sector activities previously undertaken by the private sector.



Measuring the size of the public sector

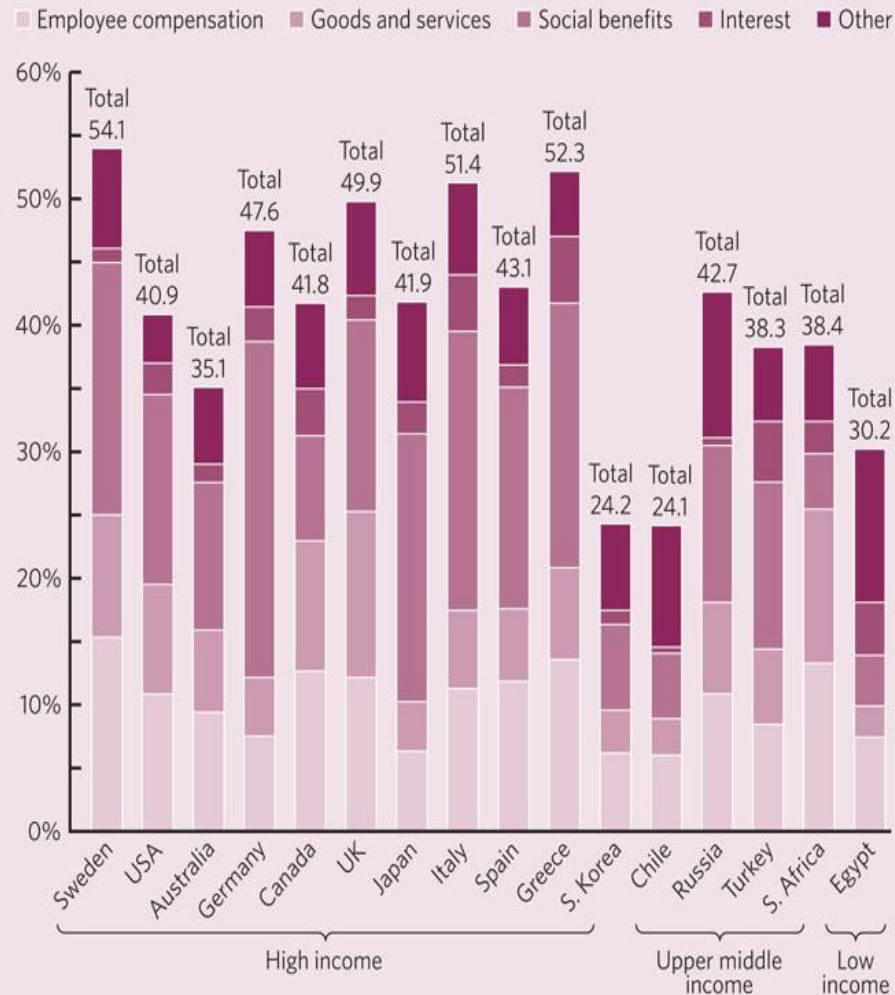
Different ways to measure

Expenditures

Public Sector or Government Expenditure as percentage of GDP is the most commonly used metric for the size of the Public Sector



FIGURE 2.7



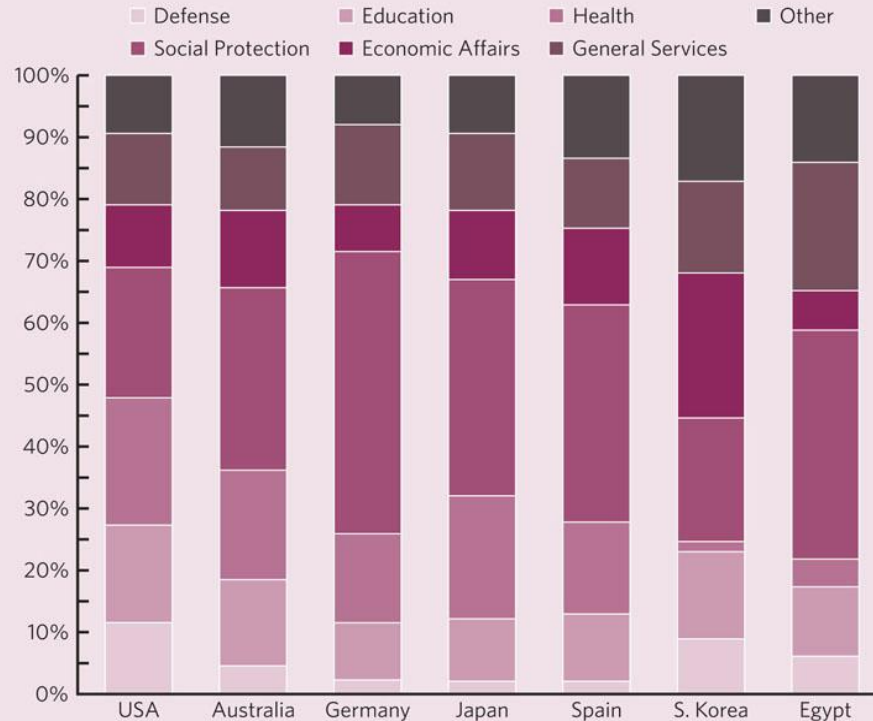
SOURCES: IMF, Government Finance Statistics Yearbook 2010, Tables W3 and W5; and World Bank, World Development Indicators.

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- Allocation of public expenditure should also be taken into consideration

But where is money spent?

FIGURE 2.8

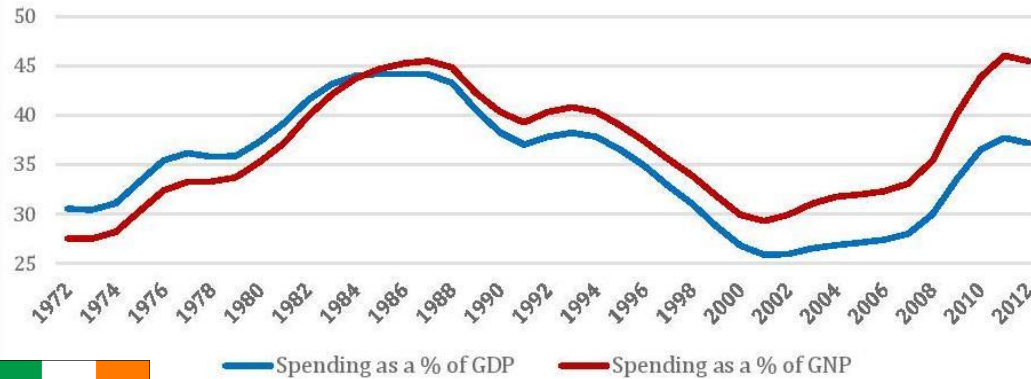


SOURCES: IMF, *Government Finance Statistics Yearbook 2010*, Tables W3 and W6; and World Bank, *World Development Indicators*.

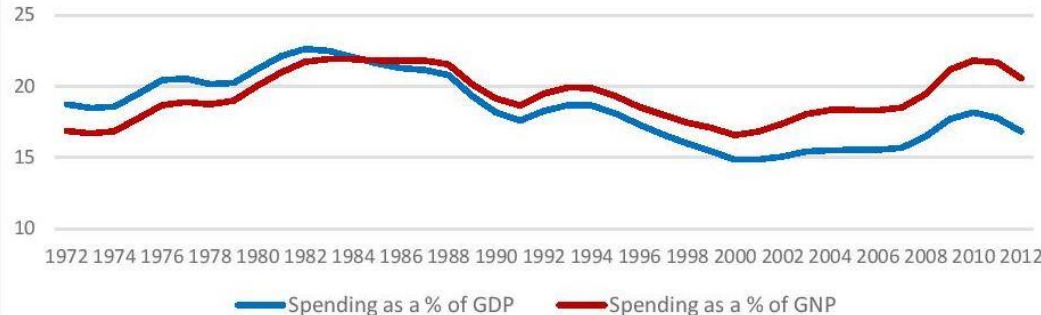
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The impact of the business/economic cycle

Total Government Expenditure as a percentage of National Income



Government Expenditure Excluding Interest and Transfer Payments



Government spending increases relative to the economy in periods of economic difficulty for three main reasons:

First, difficult economic conditions lead to higher unemployment which results in larger expenditure on government transfers.

Due to the decrease in income tax and increase in government transfers associated with greater unemployment, the public finances deteriorate. This leads to both higher public debt which accrues interest and an increase in government bond yields due to increased default risk.

Finally, even if government spending were to remain constant in nominal terms, contracting national output means that the size of the government sector relative to the economy will increase.

In an attempt to remove the effects of the business cycle, we look at government expenditure excluding government transfers and interest costs.

Revenues

Public Sector or Government Revenue as percentage of GDP is another commonly used metric for the size of the Public Sector

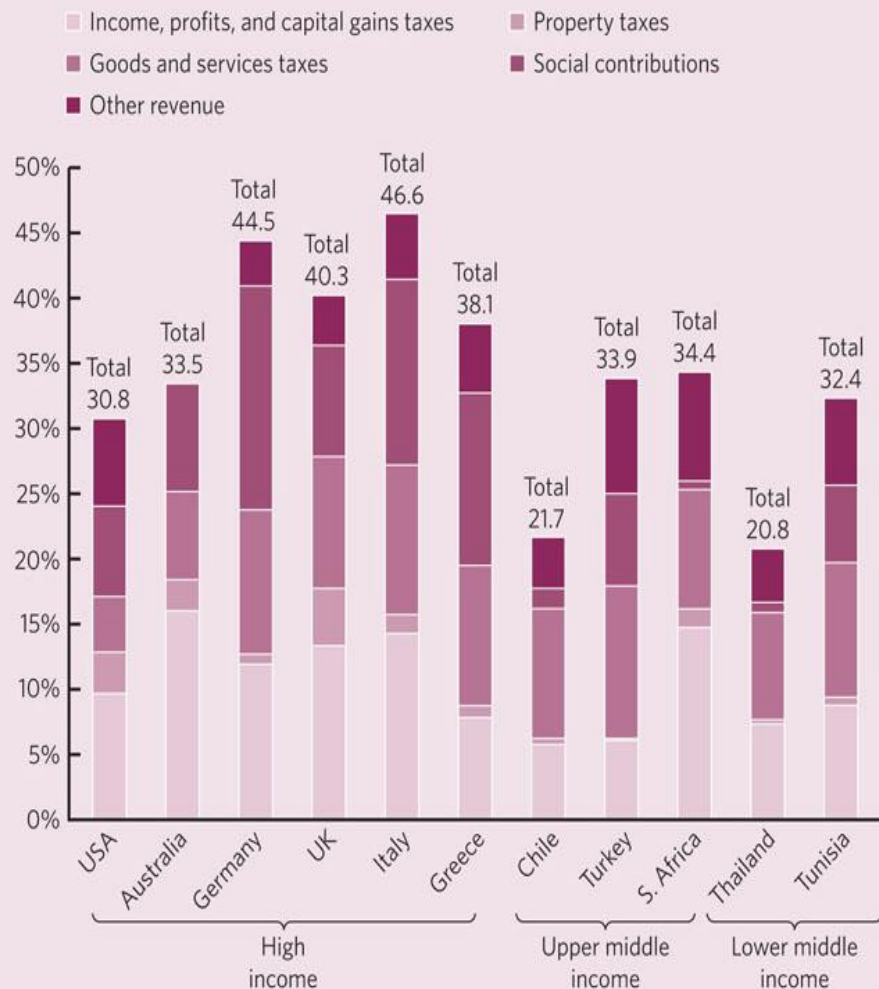


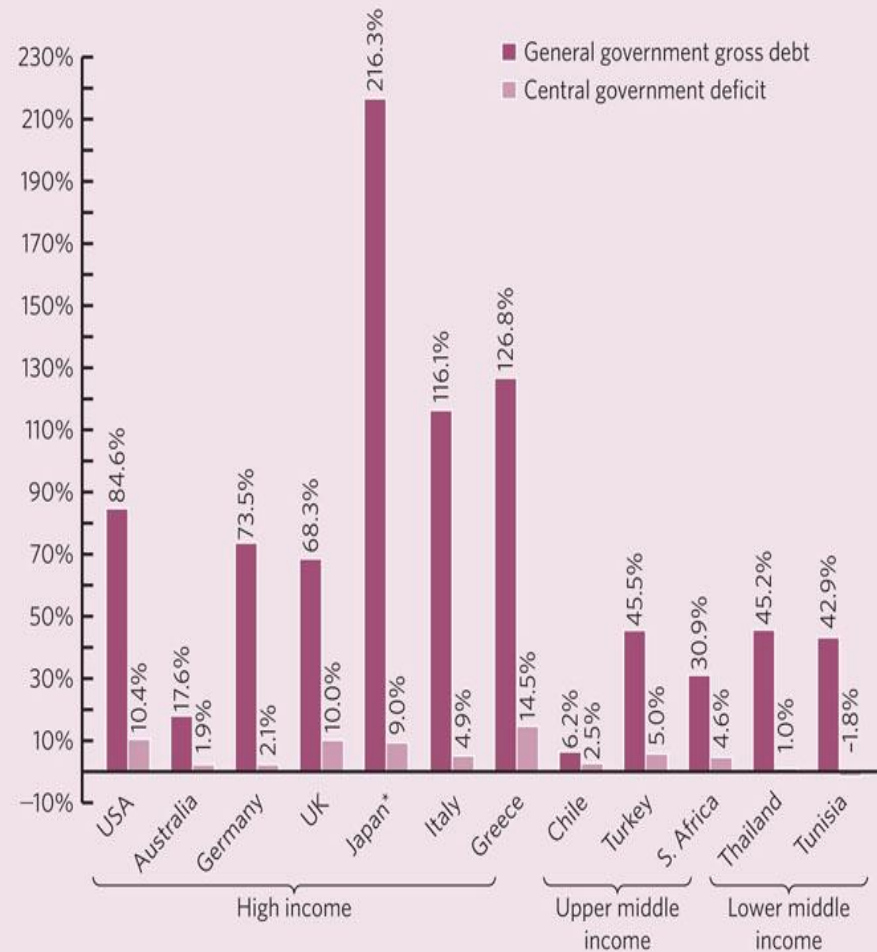
FIGURE 2.11

SOURCE: IMF, *Government Finance Statistics Yearbook 2010*, Tables W3 and W4.

Fiscal Deficit

- A fiscal deficit occurs when a government's total expenditures exceed the revenue that it generates, excluding money from borrowings.
- Deficit differs from debt, which is an accumulation of yearly deficits.

FIGURE 2.14



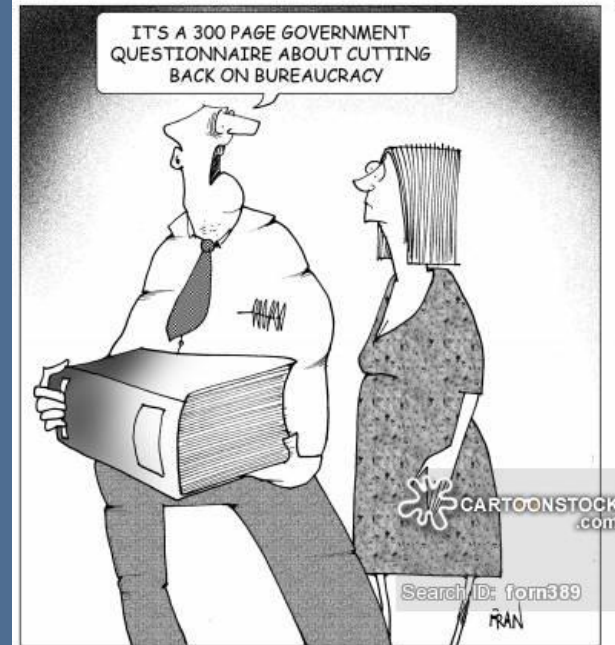
SOURCES: IMF, *Government Finance Statistics Yearbook 2010*, Table W3; IMF, *World Economic Outlook Database*, April 2011; and World Bank, *World Development Indicators*.

Problems when using public finances

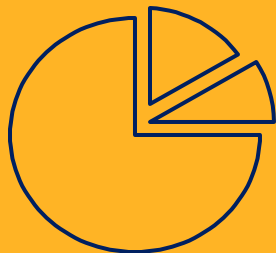
- The aspect of **off-budget items** contains all state-owned companies and participations in private companies held by the state.
- **Hidden costs of government** contains all those regulatory activities of the state which do not directly affect state expenditures, but which result nevertheless in high costs for those who have to adapt to the regulations.



Over-regulation and extensive bureaucracy for example lead to hidden costs because growth is hampered and at the same time private resources are bound inefficiently.



Employment



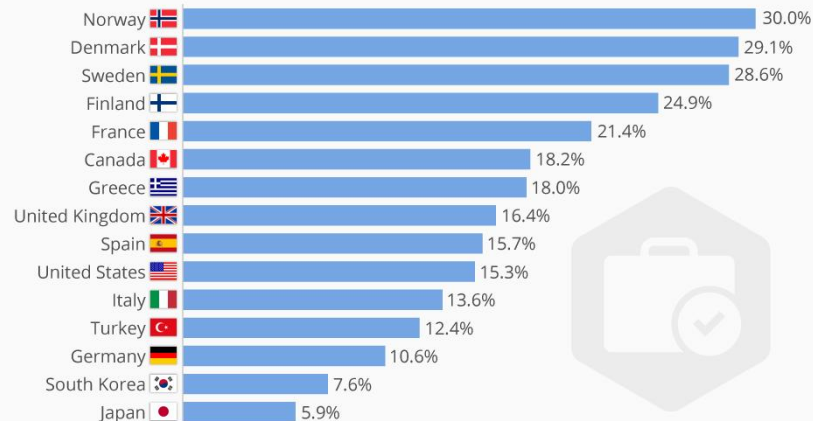
- Number of Civil Servants per Capita



- Gov. Employment as % of Total Employment

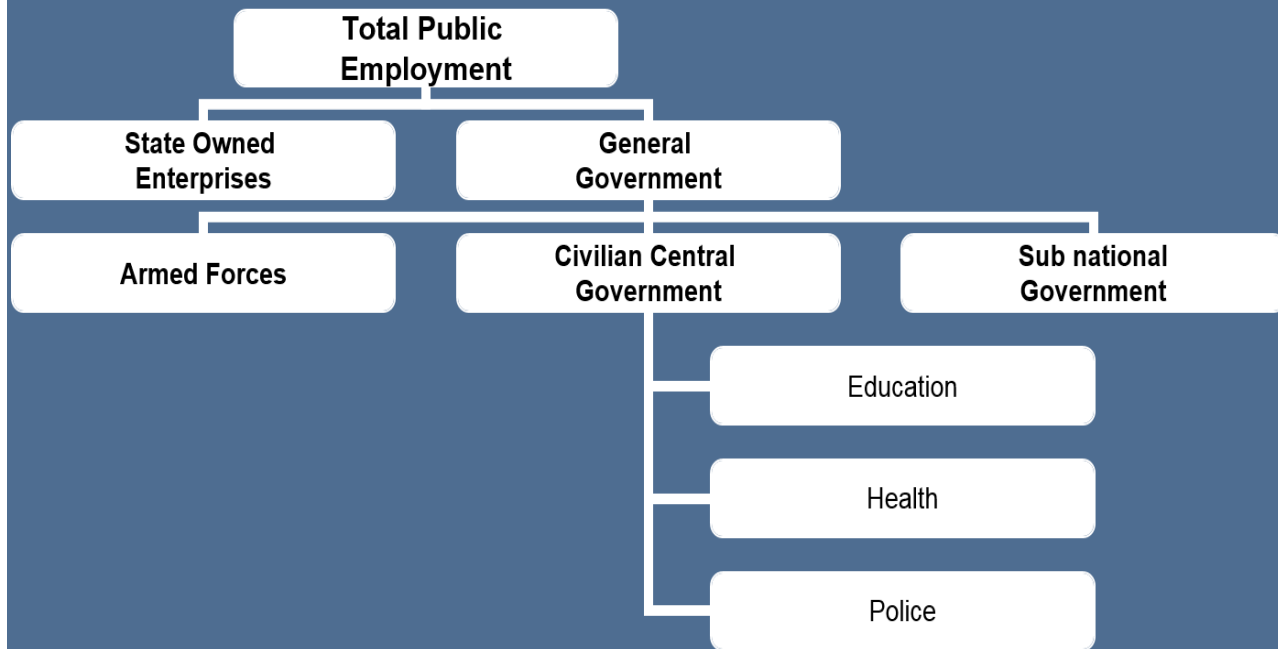
Scandinavia: First For Public Sector Employment

Employment in general government as a percentage of total employment (2015)



Which employees shall we include?

- Sometimes aggregated numbers might be misleading
- Shall we take productivity into consideration?



**Can you think other ways /
metrics to capture the size of the
public sector and/or its role in an
economy?**

Have you met with your groupmates for your presentation?

Did you find a platform for communication?





Done it?

Great! Now focus on your individual report...



Thanks!
Any questions?