

## Public Economics

- Positive vs Normative Economics
- Inherently normative often

# What is Public Economics?

## Analysis of:

- What government does
- How government action affects the economy
- Why government takes the action it takes
  
- What actions should government take

Musgrave:

Three roles for government

1. Allocation: Provide Public goods and correct for market failures
2. Redistribution
3. Stabilization

Also outside the scope of this class:

Market Power

Regulation (mostly)

Education (mostly)

Health Care (mostly)

## Theory vs. Empirics

- Book heavy on empirics

- I like theory :)

Both needed:

### Theory

- Sometimes fails to predict the direction of the effect
- Almost always fails to predict the magnitude

### Empirical results

- Need a theoretical framework

Example:

Labor supply and taxes

Substitution vs. income effect

## Institutional Background

### Size of Government?

1. Share of expenditures/GDP?
2. Share of revenues/GDP

Which one?

3. Share of workforce?

Why?

Show slides!!!!

## International differences:

- Implicit vs. explicit debt

-1998/9 G/GDP

US	28.3%
UK	40.2%
Canada	42.1%
Sweden	60.8%

-US G/GDP (2007, OMB): 30.9%, (2010 OMB): 35.0%

-Note that 2007 GDP 1% higher than 2010

Differences????

## Health Care

- US highest (13% of GDP), but mostly non-governmental

## Transfer payments:

- Sweden 27% of GDP

## Defense:

- US higher than others (1999) 3.2%, UK 2.3% (2003),  
Canada 1.1% (2001)

## Growth:

- Universal over last century in industrialized world
- Reasons???

## In US:

- + Medicare, Social Security, Interest Payments, Welfare
- Defense (47% of federal budget 1965, 1995 16%)