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? Which one?
2. Share of revenues/GDP

Show slides!!!!
International differences:

- Implicit vs. explicit debt

-2009 G/GDP (Source OECD)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>US</td>
<td>42.7%</td>
</tr>
<tr>
<td>UK</td>
<td>51.2%</td>
</tr>
<tr>
<td>Canada</td>
<td>44.4%</td>
</tr>
<tr>
<td>Sweden</td>
<td>54.9%</td>
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</tbody>
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OECD Average: 46.24%

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

Differences???
Health Care
- US highest (17.7% of GDP), but mostly non-governmental
Second highest: Netherlands (11.9%)

Social Expenditures (Transfers in Cash or Kind):
-Sweden 29.8% of GDP, United States 19.2% (2009 OECD)

Defense:
-US higher than others (2011 - SIRI Yearbook 2012) 4.7%, UK 2.6',
Canada 1.4%
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%)