

ECONOMICS OF THE

PUBLIC



SECTOR

FOURTH EDITION

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Outline of Presentation

- Background
- Highlights of Key Changes
- Access Information
- Q & A

Background: Chronology

- *Economics of the Public Sector* published in 1986
- 2nd edition published in 1988; modest update
- 3rd edition published in 2000; more substantial update, but no fundamental changes, data to 1997
- First three editions all written by Prof. Stiglitz
- Need for comprehensive re-writing given changes in global and domestic economics and finance, higher education market, textbook technology
- 6-year process: discussions began in 2009, contract finalized mid-2010, publication 15 January 2015

Background: About the Authors

- ***Joseph E. Stiglitz***: University Professor at Columbia University (Economics and Business); 2001 Nobel Laureate in Economics; Chairman of U.S. Council of Economic Advisors under Pres. Clinton; World Bank Chief Economist/Sr. VP; Chair of UN Commission of Experts on Reforms of the International Monetary and Financial System after 2008 global financial crisis
- ***Jay K. Rosengard***: Harvard Kennedy School Lecturer in Public Policy, Director of Financial Sector Program, and Academic Director of the Rajawali Foundation Institute for Asia; 35 years of experience in policy formulation, implementation, and evaluation in developing and transitional economies

Highlights of Key Changes: Overview

- Restructured for more thematic grouping of topics and logical flow between chapters
- Entire text updated, together with accompanying tables, figures, and references
- United States placed in international comparative perspective with many more non-U.S. examples
- 60 case studies (41 updated, 19 completely new)
- Revised and updated Instructor's Manual
- New textbook technology utilized

Highlights of Key Changes: Theory (1)

- Fundamental concepts of public sector economics re-examined based on current research findings and recent empirical experience
- Examples
 - The *tragedy of the commons* revisited in the context of achieving the appropriate level of property rights when markets fail, and introduction of the concept of *tragedy of the anticommons* in areas such as patenting of genes
 - *Global public goods* and difficulties of coping with public health crises, transnational security threats, and global warming ramifications when they transcend conventional government coping mechanisms

Highlights of Key Changes: Theory (2)

- Examples (continued)
 - Re-thinking of ***trade-offs between allocative efficiency and social equity*** in estimating the ***optimal tax rate*** when inequality is created by rent-seeking rather than increased marginal productivity
 - Introduction of the ***Great Gatsby Curve*** to examine inter-generational transmission of inequality
 - ***Government failures*** resulting in excess demand and excess supply (rent control, agricultural price supports)
 - Introduction of ***behavioral economics*** and ***managerial capitalism*** when examining tax incidence

Highlights of Key Changes: Application (1)

- Fresh analysis and new insights regarding the application of public sector economics theory
- Examples
 - The appropriate role of the public sector in the context of the ***Global Economic Crisis***
 - Gauging the size of the public sector in the context of estimating the ***full budgetary and economic costs of war***
 - Assessing and improving government performance in the context of ***CompStat post-expenditure evaluation***
 - Reforming health care in the context of the ***Affordable Care Act (“Obamacare”)***

Highlights of Key Changes: Application (2)

- Examples (continued)
 - Social protection in the context of ***unconditional and conditional cash transfer programs***
 - Effective tax administration in the context of ***corruption-resistant tax systems***
 - Taxation of multinationals in the context of ***income earned abroad*** (worldwide vs. domestic income)
 - Consequences of government debt in the context of ***fiscal consolidation*** (austerity) during a recession

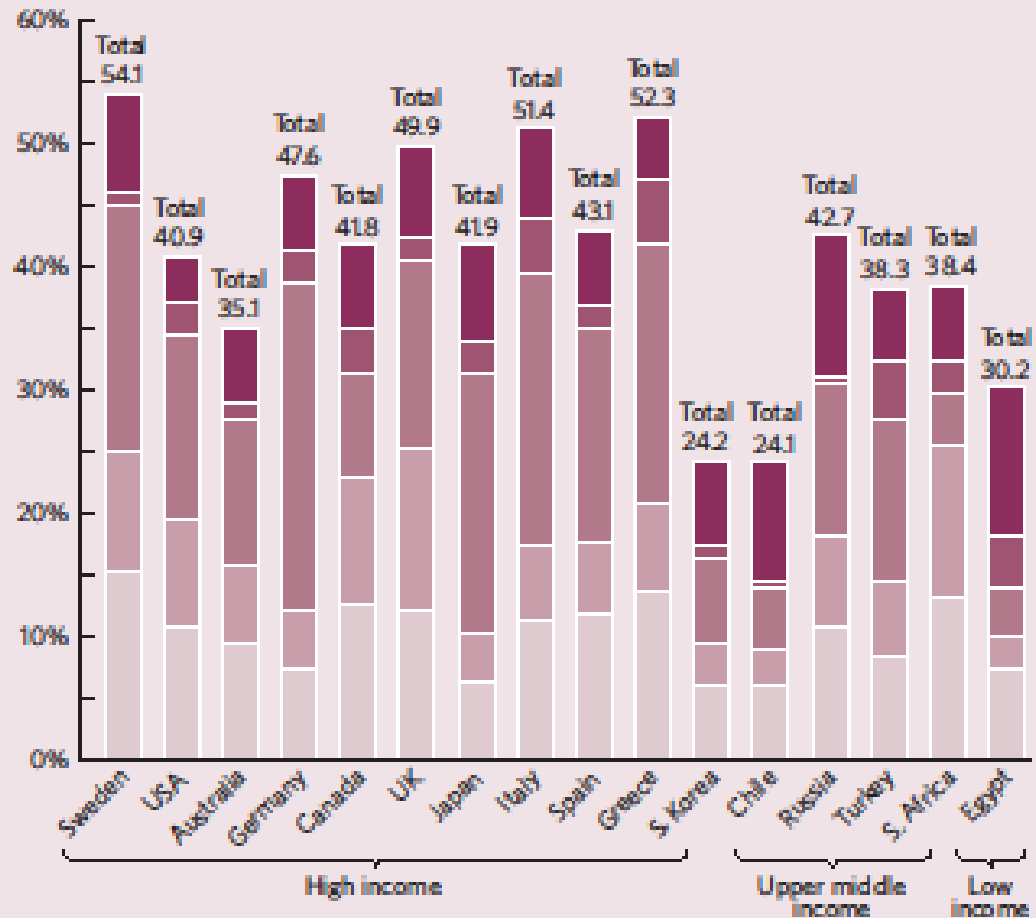
Highlights of Key Changes: Comparative (1)

FIGURE 2.7

GOVERNMENT EXPENDITURES AS A PERCENTAGE OF GDP IN 2009

Despite the growth of government in the United States, it has one of the smallest public sectors of the eleven high-income countries shown here—only those of Australia and South Korea are smaller.

Employee compensation Goods and services Social benefits Interest Other



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

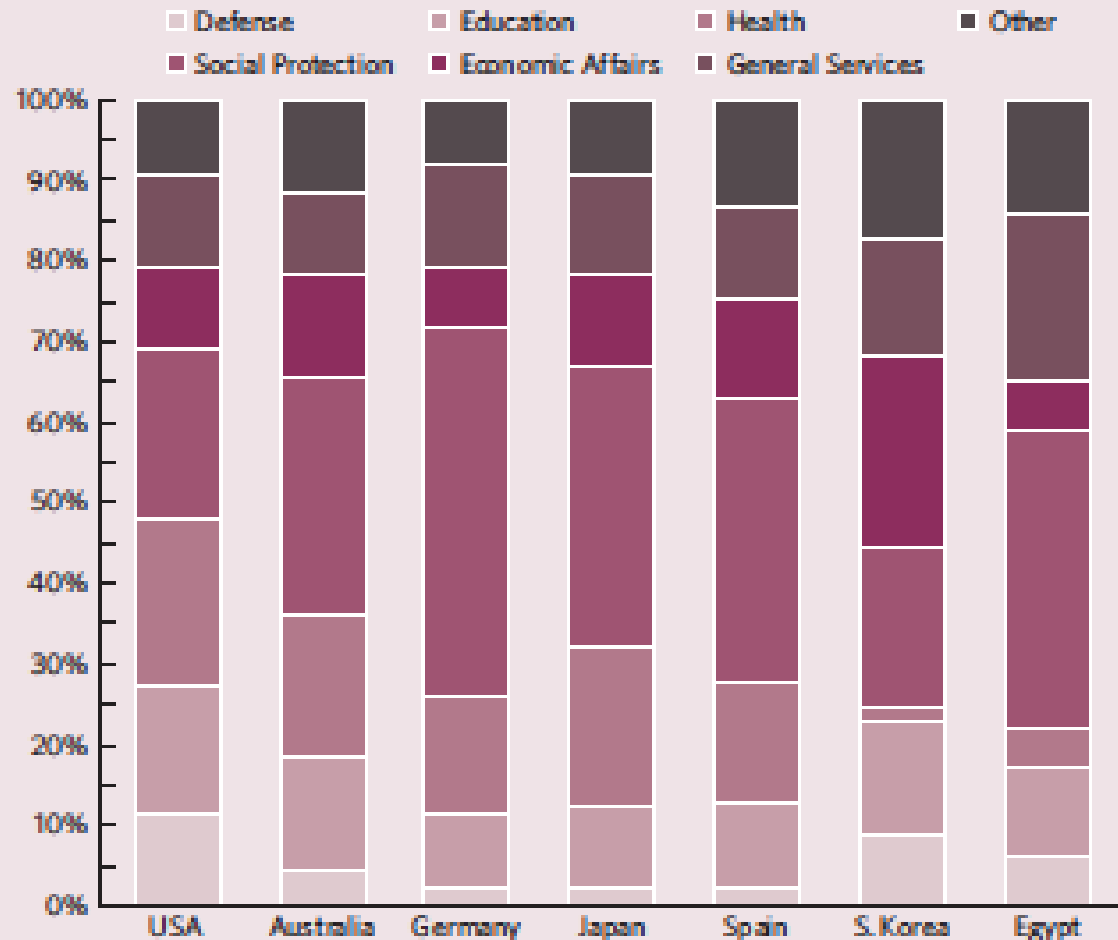
Highlights of Key Changes: Comparative (2)

FIGURE 2.8

COMPOSITION OF GOVERNMENT EXPENDITURES IN 2009

Spending priorities differ significantly between countries, as seen, for example, by health and defense spending in the United States, social protection spending in Germany, and economic affairs spending in South Korea.

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



Highlights of Key Changes: Comparative (3)

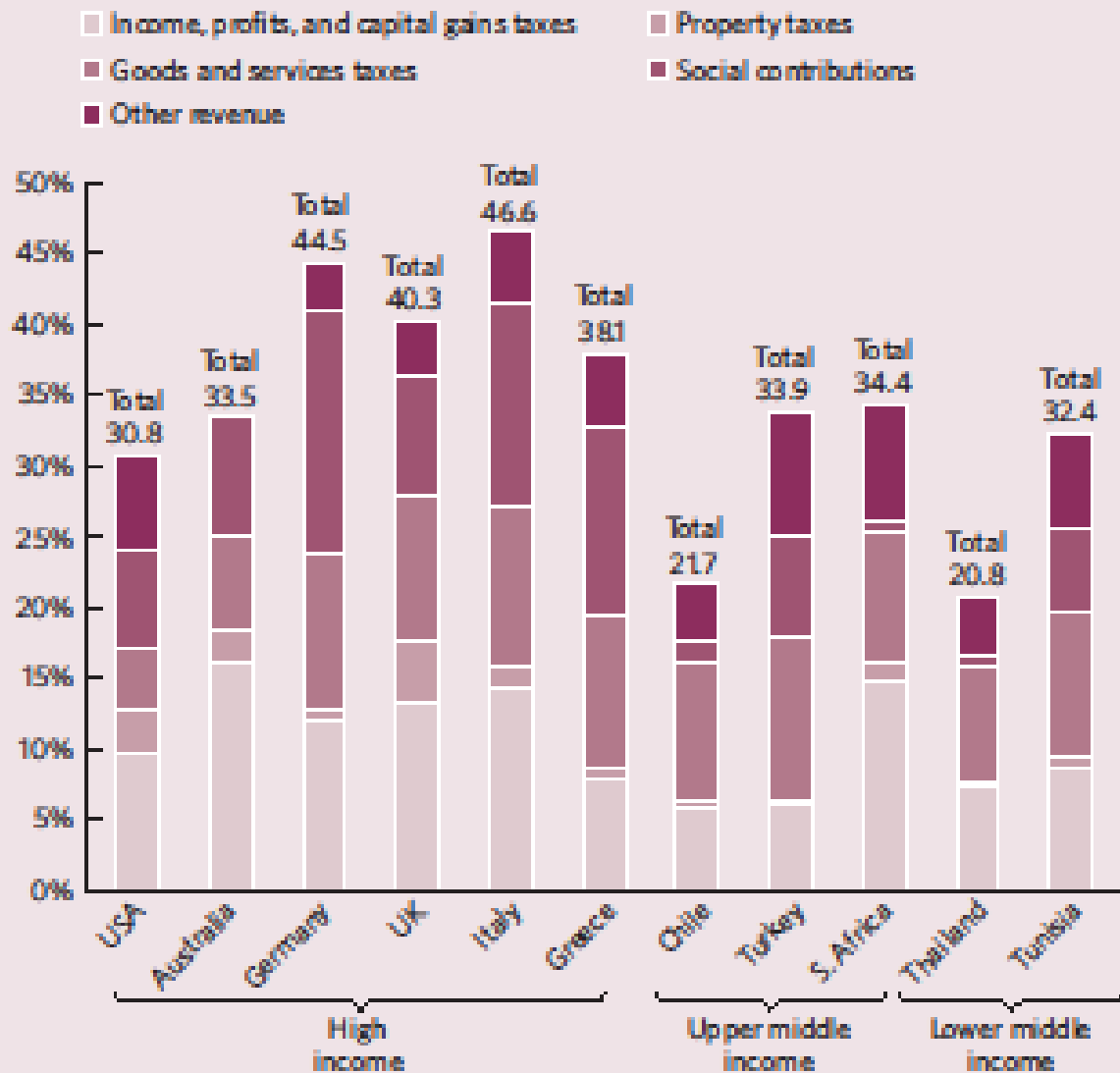


FIGURE 2.11

GOVERNMENT REVENUE AS A PERCENTAGE OF GDP, 2009

The United States has a comparatively diverse set of revenue sources when all levels of government are aggregated, as do the United Kingdom, Italy, and Tunisia.

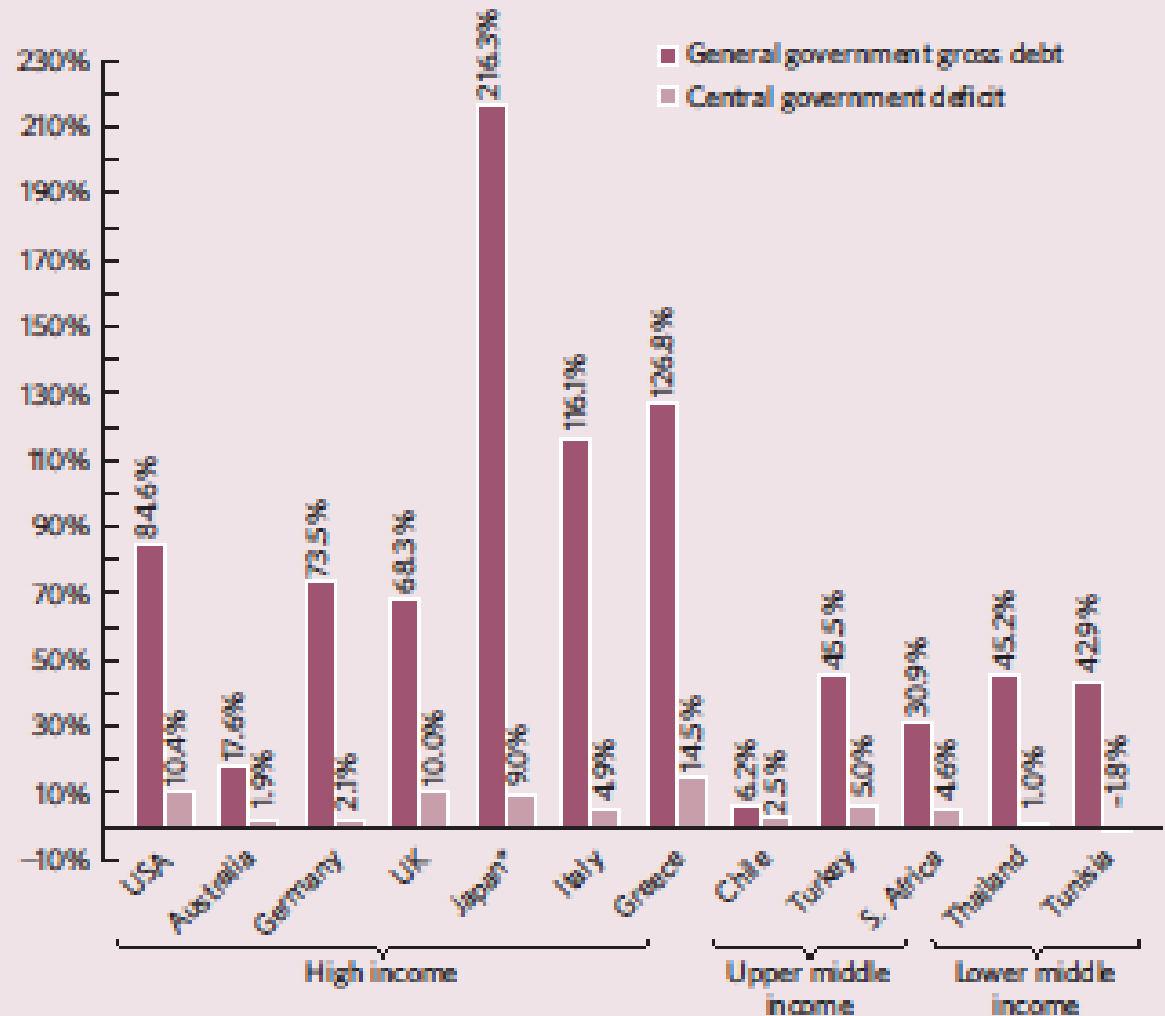
SOURCE: IMF, Government Finance Statistics Yearbook 2010, Tables W3 and W4.

Highlights of Key Changes: Comparative (4)

FIGURE 2.14

CENTRAL GOVERNMENT DEFICITS AND GENERAL GOVERNMENT DEBT, 2009 (% OF GDP)

The United States ran deficits comparable to those of the United Kingdom and Japan in 2009, and only Australia had a significantly lower debt in 2009. Japan's chronic large annual deficits have resulted in a debt at more than double its GDP, while Chile stands out with remarkably low deficit and debt figures.



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

Highlights of Key Changes: Comparative (5)

TABLE 12.1 DEFENSE EXPENDITURES IN COMPARATIVE PERSPECTIVE

COUNTRY/COUNTRY GROUP	% OF GDP (2010)	% OF EXPENDITURES* (2009)
HIGH-INCOME COUNTRIES		
Australia	1.9**	7.3
Canada	1.4	7.6
France	2.3	5.3
Germany	1.4	4.5
Greece	3.1	6.3
Japan	1.0	na
South Korea	2.7	13.4
Saudi Arabia	10.4	na
United Kingdom	2.7	5.7
United States	4.8	18.0
High Income, OECD	2.8	10.0
High Income, Non-OECD	5.5	na
MIDDLE-INCOME COUNTRIES		
Brazil	1.6	6.3
Chile	3.2	15.4
China	2.0	16.1***
Colombia	3.7	18.9
Ghana	0.4	2.4
India	2.4	16.4
Indonesia	1.0	5.5
Pakistan	3.2	19.3
Russian Federation	4.0	14.0
South Africa	1.2	4.1
Thailand	1.5	9.5
Turkey	2.4	9.7
LOW-INCOME COUNTRIES		
Bangladesh	1.2	10.2
Burkina Faso	1.5	10.4
Kenya	1.9	9.1
Middle and Low Income	2.0	na
Lower Middle Income	2.1	12.0

*Share of central government expenditure

**2009

***2008

SOURCES: World Bank, World Development Indicators; and Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

Highlights of Key Changes: Comparative (6)

TABLE 12.2 RESEARCH AND DEVELOPMENT EXPENDITURES IN COMPARATIVE PERSPECTIVE (2010)

COUNTRY	% OF GDP (PPP, \$US BILLIONS)	GERD* (PPP, \$US BILLIONS)	SHARE OF TOTAL GLOBAL R&D SPENDING (%)
TOP 10			
United States	2.8	415.1	33.2
China	1.5	149.3	11.9
Japan	3.4	148.3	11.8
Germany	2.8	82.9	6.6
South Korea	3.4	49.0	3.9
France	2.2	47.4	3.8
United Kingdom	1.8	39.3	3.1
India	0.8	32.5	2.6
Canada	2.0	25.9	2.1
Brazil	1.1	23.9	1.9
SELECTED OTHERS			
Russian Federation	1.0	22.9	1.8
Taiwan	2.3	18.9	1.5
Sweden	3.6	12.9	1.0
Israel	4.3	9.4	0.8
Singapore	2.5	7.4	0.6
Finland	3.9	7.2	0.6

*GERD: Gross expenditures on research and development, includes public and private, current and capital expenditures.

SOURCE: Battelle, 2012 Global R&D Funding Forecast, December 2011.

Highlights of Key Changes: Comparative (7)

TABLE 13.1 HEALTH EXPENDITURES IN COMPARATIVE PERSPECTIVE (2009)

COUNTRY/COUNTRY GROUP	PUBLIC AND PRIVATE HEALTH EXPENDITURES (% OF GDP)	PUBLIC HEALTH EXPENDITURES (% OF GOVERNMENT EXPENDITURES*)	OUT-OF-POCKET EXPENDITURES (% OF TOTAL HEALTH EXPENDITURES)
HIGH-INCOME COUNTRIES			
Australia	8.5	17.1	18.6
Bahrain	4.5	10.9	18.1
Canada	10.9	17.0	15.5
France	11.7	16.0	7.2
Germany	11.3	18.0	11.4
Greece	10.6	13.0	35.3
Japan	8.3	17.9	14.9
South Korea	6.5	12.3	34.8
United Kingdom	9.3	15.1	10.4
United States	16.2	18.7	12.4
High Income, OECD	12.1	16.6	13.7
MIDDLE-INCOME COUNTRIES			
Brazil	9.0	6.1	31.0
Chile	8.2	15.6	34.4
China	4.6	10.3	41.2
Columbia	6.4	17.9	7.9
Ghana	6.9	9.2	43.2
India	4.2	4.1	50.0
Indonesia	2.4	6.9	35.2
Pakistan	2.6	3.6	56.8
Russian Federation	5.4	8.5	28.8
South Africa	8.5	9.3	17.7
Thailand	4.3	14.0	16.5
Turkey	6.7	12.8	16.0
Middle Income	5.6	na	36.5
Lower-Middle Income	4.3	5.8	49.6
LOW-INCOME COUNTRIES			
Bangladesh	3.4	7.5	65.9
Burkina Faso	6.4	16.3	35.6
Kenya	4.3	5.4	51.2
Low Income	5.1	na	50.1

*Share of central and local government expenditures

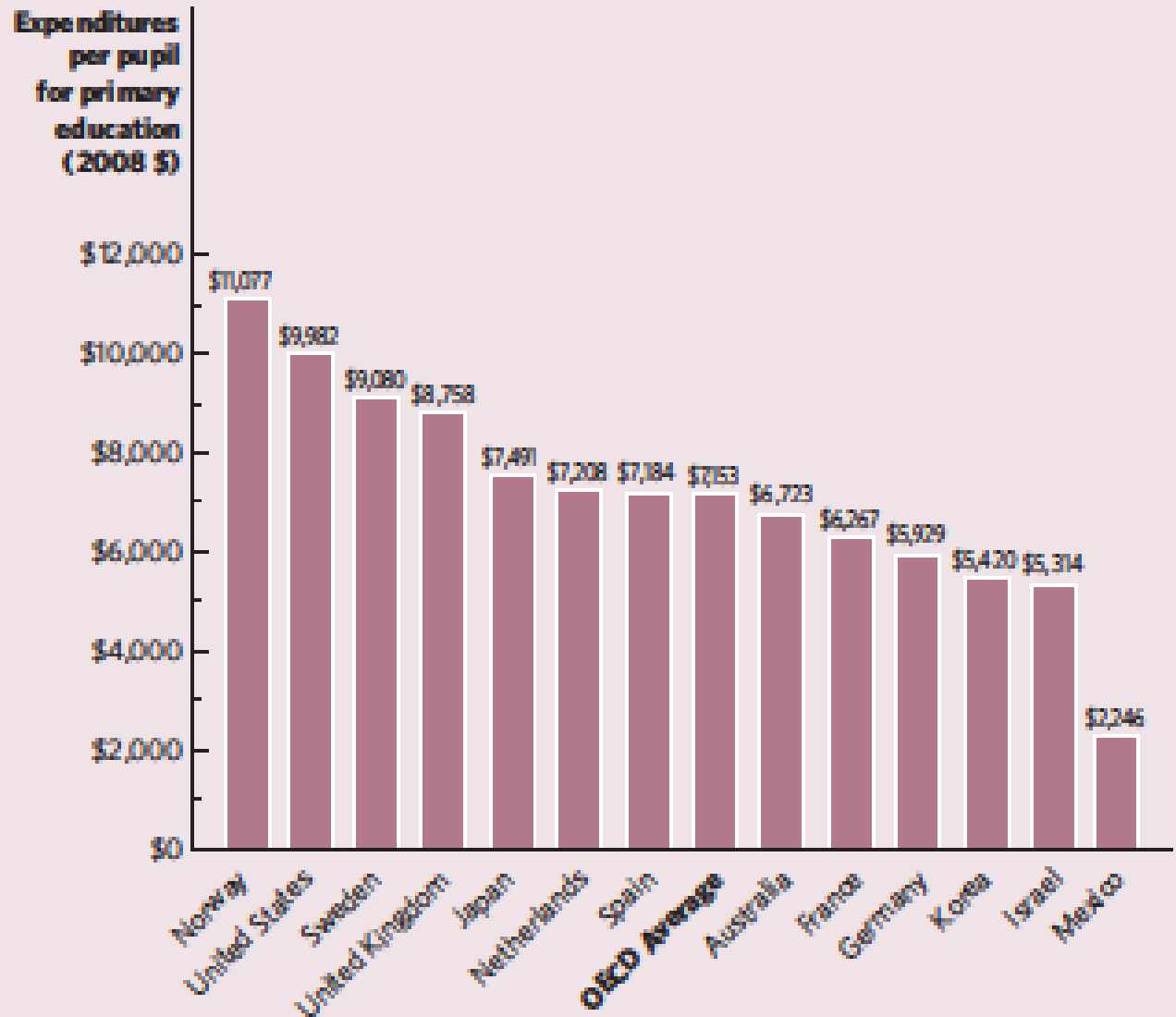
SOURCES: World Bank, World Development Indicators; and World Health Organization, National Health Account Database.

Highlights of Key Changes: Comparative (8)

FIGURE 14.2

DIFFERENCES IN EDUCATIONAL EXPENDITURES AMONG COUNTRIES

The United States spends more per pupil on primary education than almost any other country, and 40 percent more than the OECD average.



SOURCE: Organization for Economic Cooperation and Development, *Education at a Glance 2011*: OECD Indicators, Table B1.1a.

Access Information:

Resources for Students and Instructors

- Ebooks
 - At NORTONEBOOKS.COM
 - Students can access entire book; can also search, highlight, and take notes with ease, as well as collaborate and share their notes with teachers and classmates
 - *Economics of the Public Sector*, 4th ed. can be viewed on any device (laptop, tablet, phone, public computer) and will stay synced between devices
- Instructor's Manual
 - Includes chapter summaries, solutions to in-text questions, test questions, lecture notes, and additional questions for discussion
- Art Slides
 - PowerPoints and JPEGs of all of the figures and tables in the textbook are available for classroom use

Access Information: Local Rep

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Q & A

- Questions?
- Comments?
- Objections?