Introduction to Public finance

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Introduction to public finance

* ## Public finance
  * Financial operations between public institutions and other subjects (citizens, households, componaies, non-profit organizations etc.)
  * Yet not any united definition

Public finance X Public sector

* Public Finance
  * Financial operations, relations and its tools

* Public sector
  * Part of national economy
  * Financed from public budgets

Public finance

* Public expenditures
* Public revenues

Public revenues

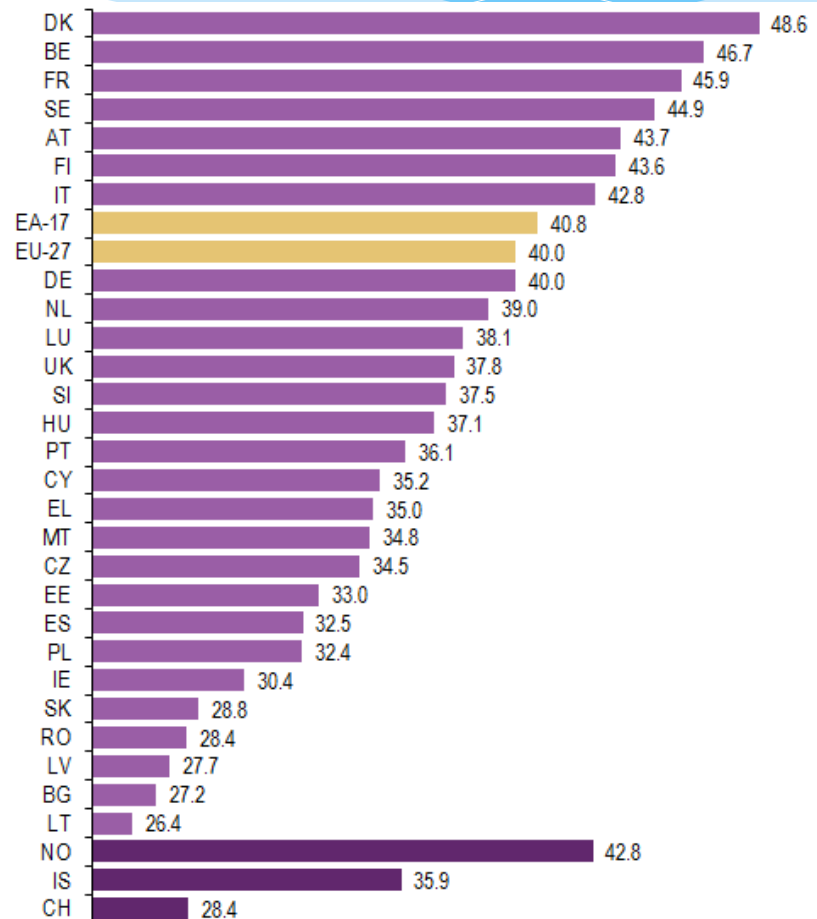* Tax revenues

* Capital revenues

* Subsidies

* Other

Tax revenues

Tax revenues as a percentage of GDP = **tax quota**
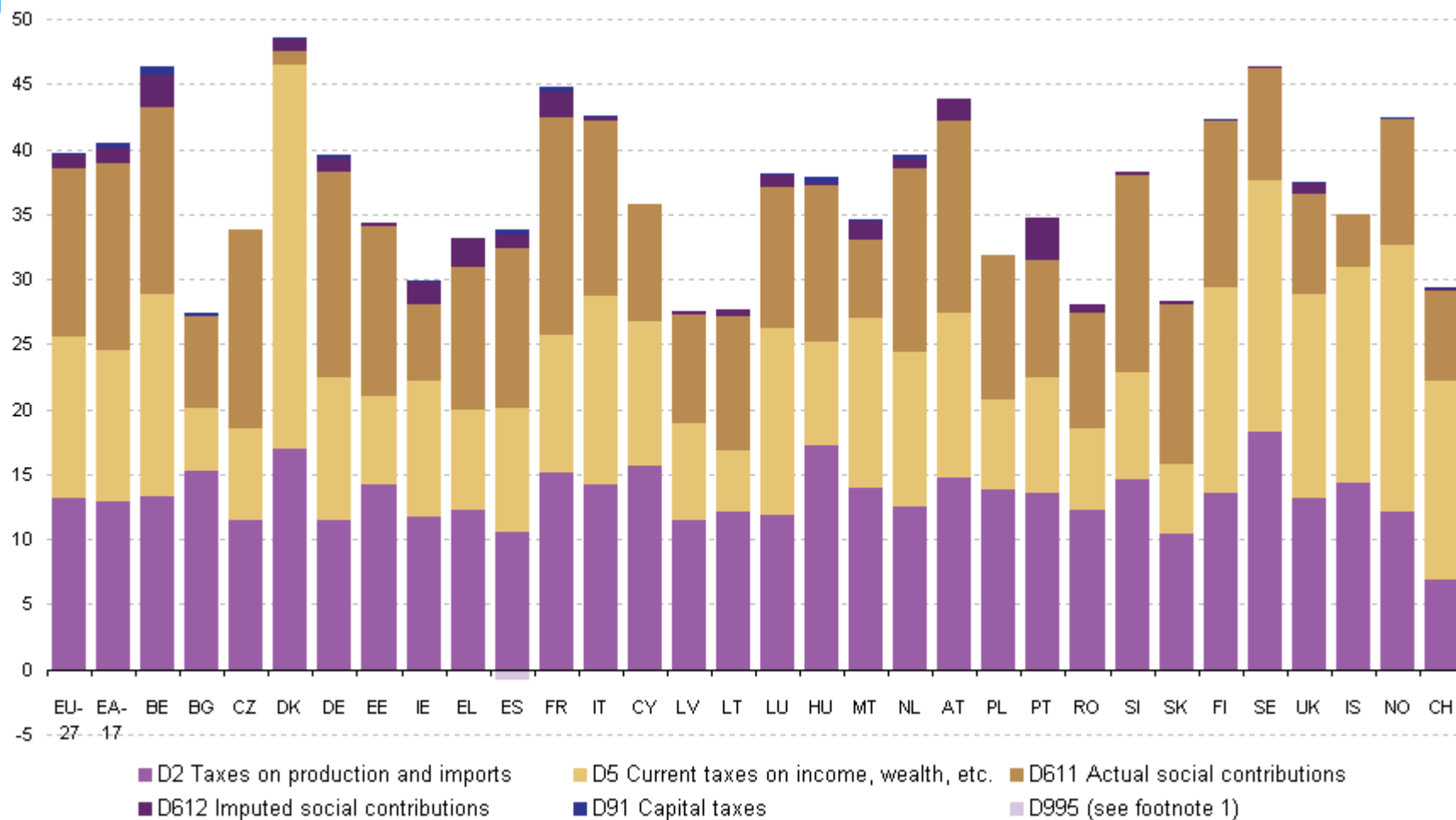
(simple, compound)

[Eurostat](#) (Year 2011)
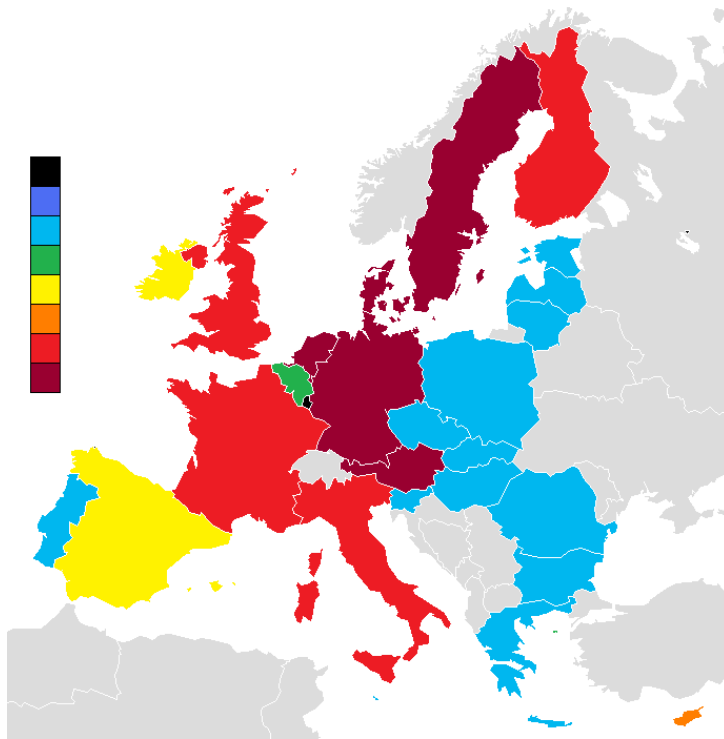
[Worldbank](#)

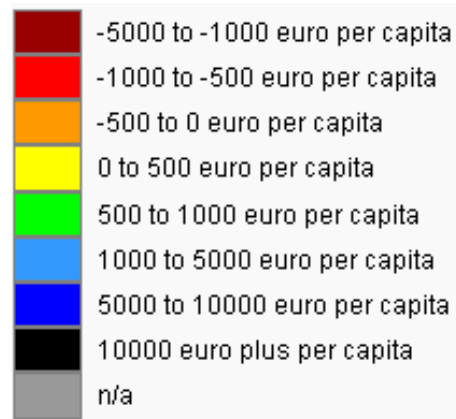*Source: Eurostat*

Structure of tax revenues

Source: Eurostat

Subsidies

* e. g. from European Union

Total budget expenditure in euros for the whole period 2007-2013 per capita (2007 population figures) are given below. Negative numbers indicate net contributors, positive numbers indicate net recipients.

⬛ (dark red)	-5000 to -1000 euro per capita
🟥 (red)	-1000 to -500 euro per capita
🟧 (orange)	-500 to 0 euro per capita
🟨 (yellow)	0 to 500 euro per capita
🟩 (green)	500 to 1000 euro per capita
🟦 (light blue)	1000 to 5000 euro per capita
🟦 (blue)	5000 to 10000 euro per capita
⬛ (black)	10000 euro plus per capita
⬜ (grey)	n/a

Source: http://www.openeurope.org.uk

Capital revenues

* Revenues from selling state property
* Mostly quite small amounts
* Irregular, one-time revenue

Other revenues

* Revenues from services provided to public (e. g. Highways)
* Penalties
* Revenues from selling non-capital property
* …

Public expenditures

* Part of the GDP which is related to realization of government functions

* Part of the GDP which is consumed rather collectively than privately

Public expenditures

* Indicitors of size of the public expenditures
    * percentage of public expenditures on GDP *(source: worldbank)*
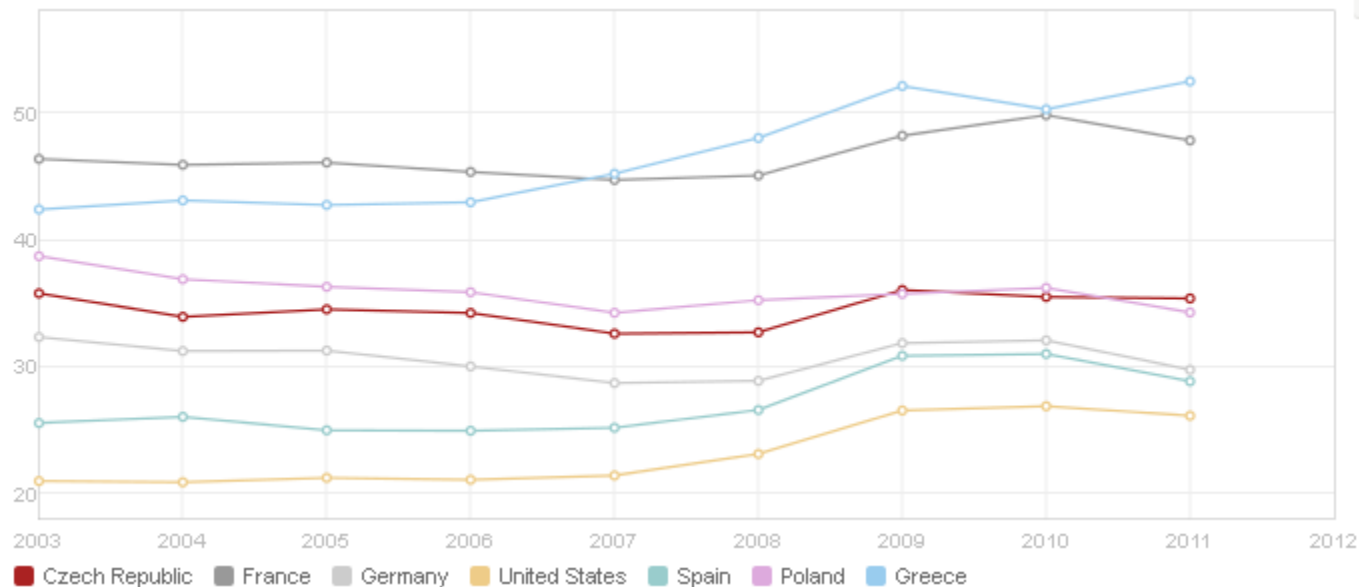
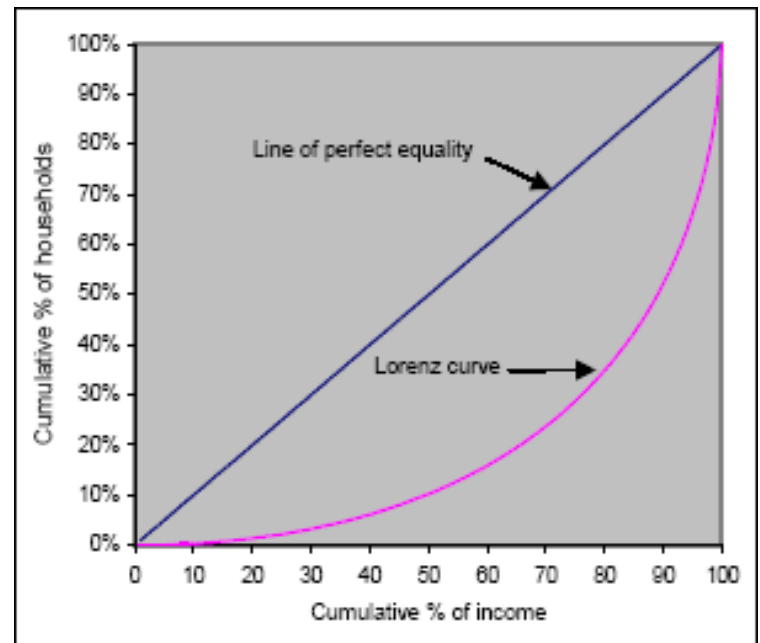   * percentage to the increase of other economic indicators etc...

Government functions

* Allocation
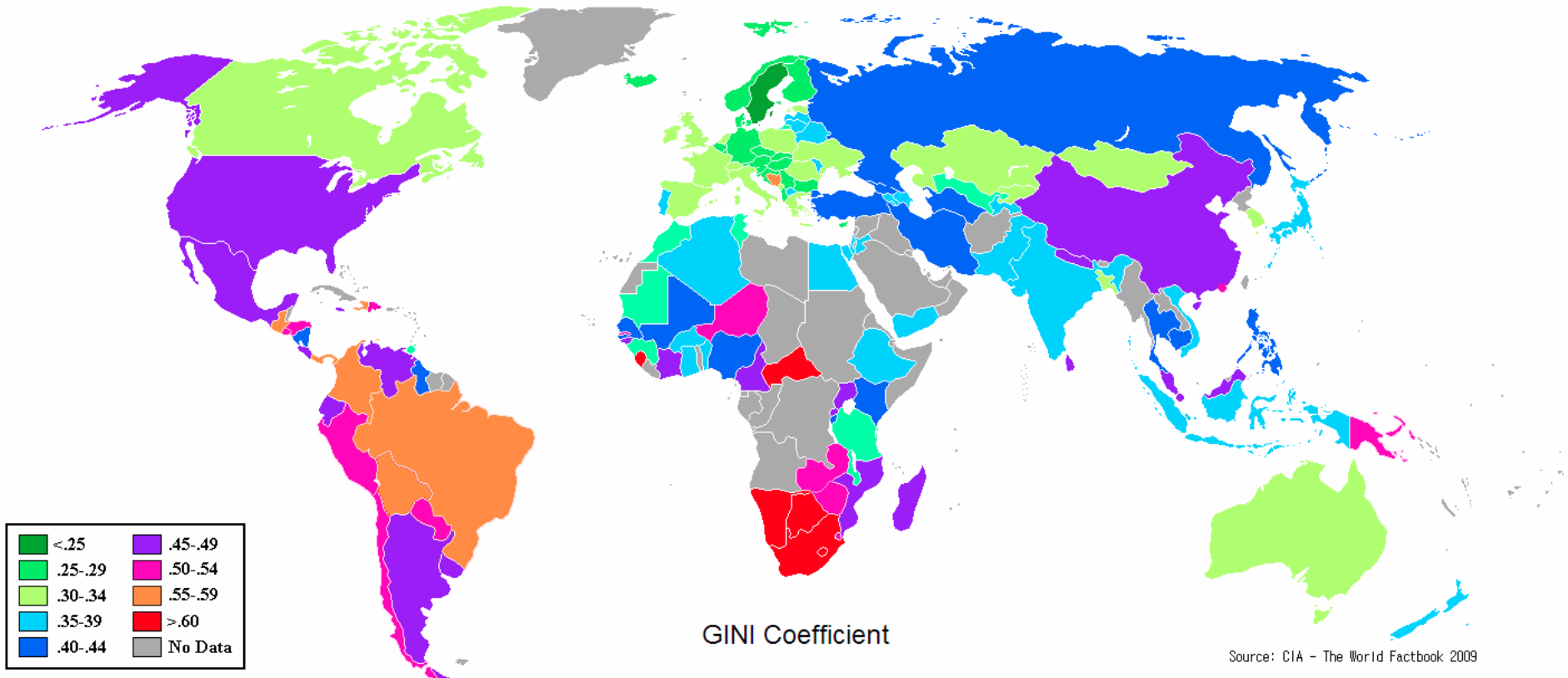* Stabilization
* Redistribution

Allocative function

* Providing services in situations where private sector does not generate sufficient quantity or quality of these services

e. g. Education, health care system…

Redistributive function

* „*Fair*" allocation of sources

* Lorenz curve measuring division of income in the society

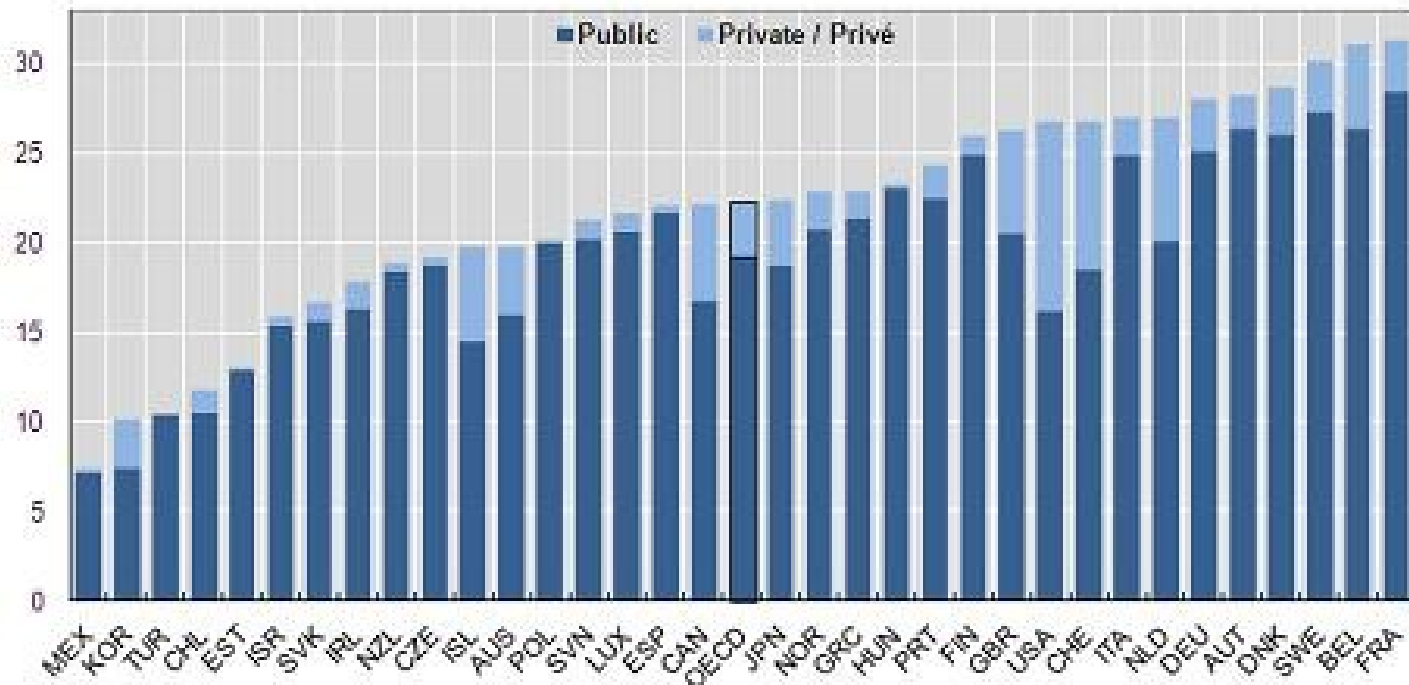* Gini coefficient
  - 0 (total equality)
  - 1 (total inequality)

Gini keoficient

GINI Coefficient

Source: CIA – The World Factbook 2009

■ <.25	■ .45-.49		
■ .25-.29	■ .50-.54		
■ .30-.34	■ .55-.59		
■ .35-39	■ >.60		
■ .40-.44	■ No Data		

Social expenditures

* Public and private social expenditures 2007

Redistributive function

* Tools
  * Revenues (Taxes – e. g. Progressive taxes)
  * Expenditures
    * Subsidies
    * Transfers

Stabilization

* Tools
  * Monetary (national banks)
    * Discount rate (interest rates of national banks)
    * Reserve requirements (http://en.wikipedia.org/wiki/Reserve_requirement)
    * Open market operations

  * Fiscal
    * Public expenditures (http://en.wikipedia.org/wiki/Government_spending)
    * Public revenues (taxes)
   * Budgeting of deficit

Trends in public expenditures
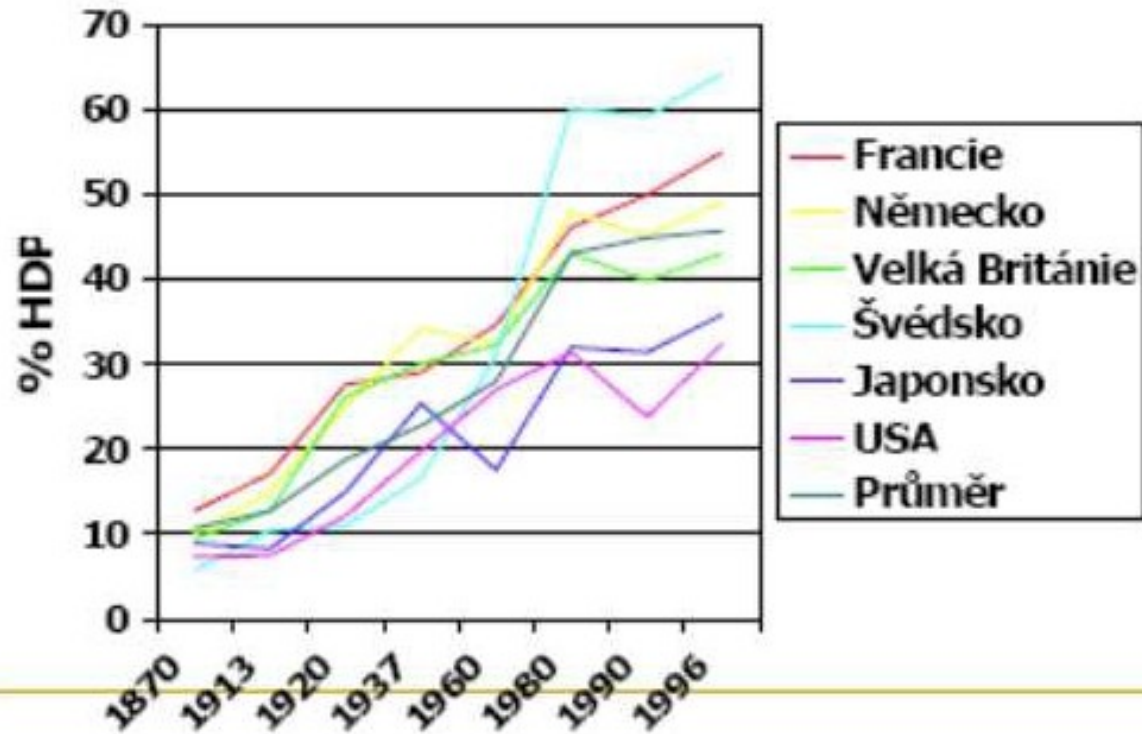
Trends in public finance

* Alfred Wagner – 1890
  * *„Togother with growing income in economics grows the size of public sector"*

* Why?
  * Technological changes (e. g. health care)
  * Social and demographic factors
  * Threshold effect (wars, floods…)
  * Political reasons

Changes in population

* [Changes in population](#) –> pension schemes…?!?

Threshold effect
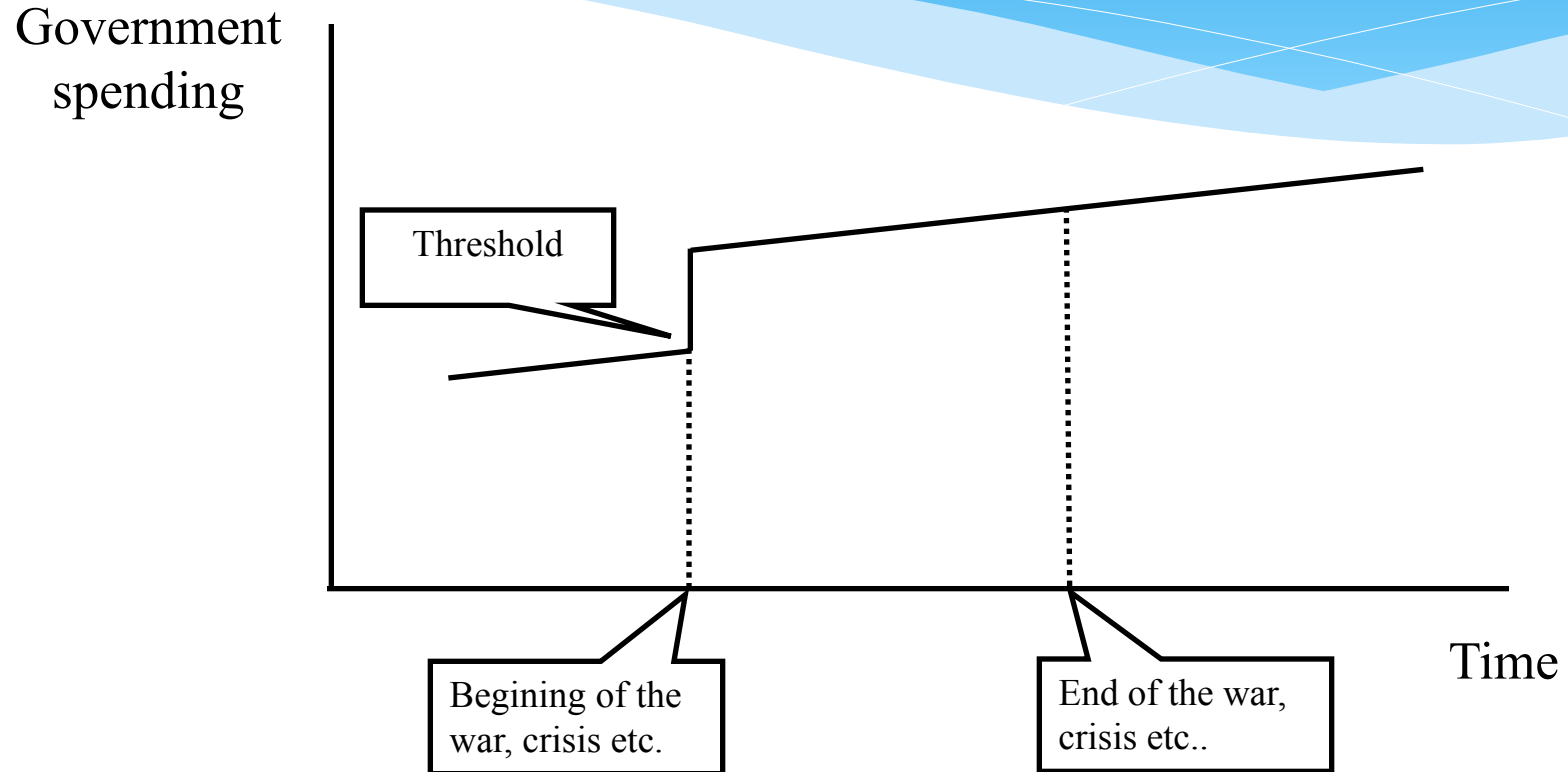
Political reasons

* Greece…
* Czech republic – social security system, health care system…
* Your country…?

Mandatory and quazi-mandatory expenditures

* Mandatory expenditures
  * expenditures, which has to be paid and can't be changed (are determined by law)
  * e.g. retirments
  * About 60% of public expenditures

* Quazi-mandatory expenditures
  * Are not determined by law, but goverment is highly expected to pay them (
  * e. g. Salaries of state employees
  * About 20% of public expenditures

...thank you for your attention