

Public Economics ECS3704

Course structure



Learn without limits.

UNISA


college of
economic and
management sciences

Study unit 6: Public expenditure (G) and growth

- Constitutional entitlement
- MTEF important – see BCS (Chapter 17)
- Size and growth of public expenditure
- Share of resource use \uparrow at diminishing rate – even larger \downarrow in long-term real economic growth
- *Changing composition of G*
- Table 7.2 (BCS) & Table 7.3 (BCS)
- Functional shifts
- Table 7.4 (BCS) & Table 7.5 (BCS)

Reasons for growth of government

- Expanding government sector vs rest of economy
- Explain reasons for expenditure growth
- Why government exceeds its optimal size?
- Technical/X-inefficiency– allocative inefficiency
- Relevance of different models for SA

Macro models

- “Wagner’s Law”, Public expenditure will \uparrow if the per capita $Y \uparrow$
- Implication: Government expenditure \uparrow faster than output of economy
- $G=f(P;Y)$
- Peacock and Wiseman
- Contingencies
- Governments expand - chance events

Macro models (cont.)

- Musgrave and Rostow
- How G tends to \uparrow from subsistence/traditional to industrialized phase
- Meltzer Richard Hypothesis
- Majority voting (median voter) vs magnitude of Y distribution & share of G
- SA – fiscal restraint (MTEF) reallocation of social spending

Micro models

- Baumol's unbalanced productivity growth
- $G \uparrow$ disproportionately because of \uparrow in P inputs
- Brown and Jackson
- Important & relevant factors influence D & S of public g & s
- G can change without change in level of services
- Crime increases etc.

Role of politicians, bureaucrats and interest groups

- LT-effects
- New Growth theory (Romer)
- Contribution that G can make stimulating economic growth