

What do states do?

Four Basic Types of Activities States tend to be involved in:

Influence behavior of actors

1. Subsidies with strings attached (incentives)
2. Regulation (sanctions)

Determine Outcomes Directly

3. Transfer of Resources
4. Development & administration

Subsidies with strings attached

Tax cuts or grants for investment in certain areas.

Examples:

- 1.) giving tax cuts to firms that invest in new technologies.
- 2.) providing tariff protection for firms threatened by competition from imports.

Regulation

- prohibitions against crimes murder, theft, extortion.
 - rules about domestic content, worker safety, racial and gender discrimination, anti-trust regulation.

Transfer of Resources

redistributes resources from some citizens to others

- most direct form is by taxing some and giving to others.
- but taxing citizens at different rates can have redistributive effects

Development & administration

Providing services - usually those that are "undersupplied" by private market.

- Traditionally, defense, police and fire protection, roads, education, etc.
- recently (mid-late 20th c.) many of these have been expanded to include "Commanding Heights" such as Mass transit, utilities, coal, oil, steel, automobile etc.,
- research and development

2 motivations for direct administration:

- 1) natural monopoly character of industry (increasing returns) means that competition can't guarantee "public good" will be served by private ownership.
- 2) industries are large employers and or suppliers to other important industries ... failure would be catastrophic for country as a whole.

Variations in attention paid to different policy areas

- Defense policy
- Education
- R&D
- Health and social welfare ..
- Redistribution of income

Defense Policy

States vary widely in terms of the resources devoted to defense

Population - Israel ... 3.2% of pop in active mil.

Canada .3

Economic commitment

USSR 15 to 25% of national income

Canada 2.1 %

Some third world countries spend large shares of their extremely scarce resources on defense

Education

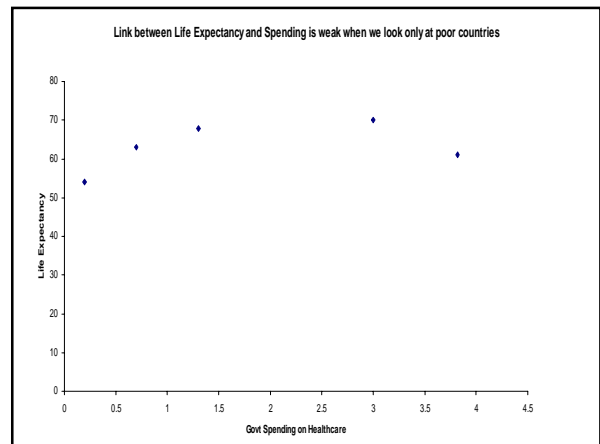
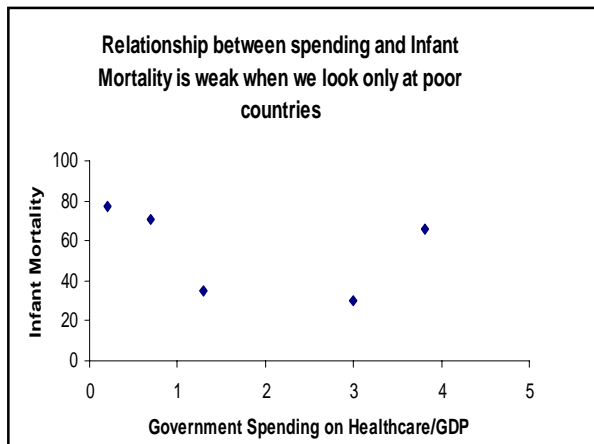
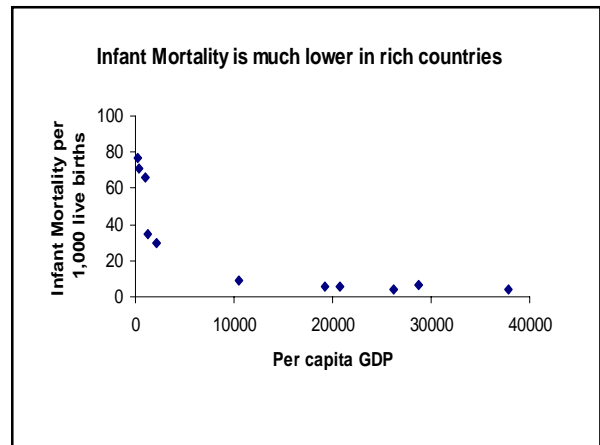
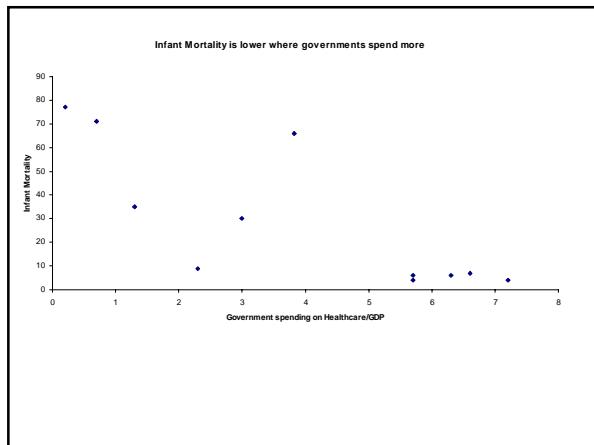
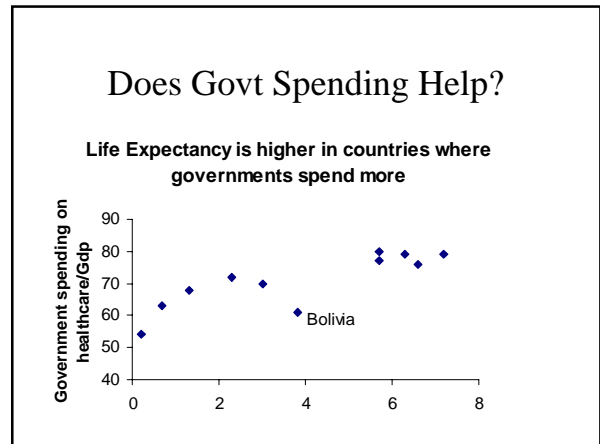
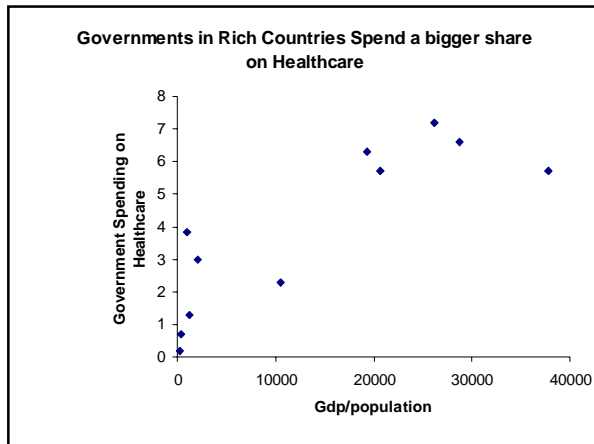
- Third world countries caught in a bind.... to develop education they must devote larger shares of their resources.
 - if they do so, they must forgo current consumption
 - they do not do so, future consumption will be foregone

Research and Development

Big difference between first & third world

Health and Social Welfare

again , first world governments devote a lot more of their resources to these and even within advanced industrial countries there is wide variance.



Redistribution of Income

Achieved in a number of ways:

- 1) special subsidies and or transfer payments
- 2) "progressive taxes"
Graduated tax schedule, such that high incomes are taxed more heavily

Redistribtution... continued

regressive taxes take a higher percentage of poor people's income than, rich, thus they effect poor people's after tax income more than a distribution-nuetral tax would.

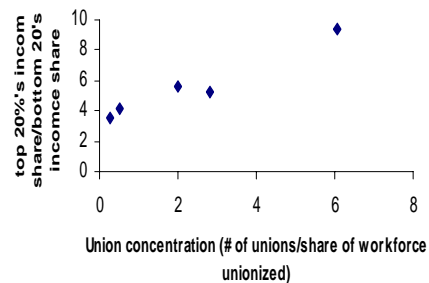
flat taxes such as sales tax are good example.

Do govt. efforts to redistribute income have much effect?

Ratio of 90th income percentile to 10th income percentile

USA	Norway
5.5	1.8

More concentrated Labor Unions produce less inequality



Does equality help or hinder growth?

- Not a lot of agreement as to the effects of income distribution on economic growth
- greater income equality is correlated with wealth of nations.

Effect of Wealth on inequality

