

State Institutions of Economic Governance

State and Governance

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1. When does the Economy Operate Well?

Goals the Government has to follow:

- **Development of the Economy**
 - GDP (Gross Domestic Product)
 - Other aspects: mode of production, servicing sector, regional development, structural problems

- **Efficiency of the Economy**
 - Widest sense: best production opportunities
 - Cost effective
 - Effective
 - Successful

Goals the Government has to follow:

- **Welfare of People**

 - Military industry

 - Poverty

 - Communist economic administration

 - Example: restrictions

- **Certain values and moral expectations**

 - Role of politics: public interest – personal interest

 - Example: privatization in Hungary

 - Other factors: customs, religion, ideology, social values, attitudes

 - Example: sharing in taxation

2. Questions of State Intervention in the Economy

State intervention: how the state let market mechanisms prevail

- **Liberalcapitalism**

Theory of Adam Smith: „Invisible Hands”

Free market competition

Against any state intervention

- **Communist economy**

Total state intervention

Elimination of market mechanisms

Questions of State Intervention in the Economy

State intervention: market failure – government failure

- **Market stability:** recession, inflation, unemployment
- **Market competition:** development of monopolies, institutions of competition supervision
- **Poverty:** unequal incomes, redistribution
- **Public services:** state responsibility, public interest

State intervention: market failure

- **Economic activities:**
 - public aim, not profitable
 - examples: public health, basic research

- **External economic effects:**
 - tort (cause damage) regulations
 - examples: environment protection, quality and safety

- **Information asymetry:**
 - insufficient information, regulations
 - examples: customer protection, banking supervision

3. Expectations from Economic Governance

Expectations: flexible, quick, client-oriented, having expertise, well-managed, efficient, etc.

European public administration:

Weberian model: centralized, public-private law, detailed legal rules

American public administration:

Management-oriented: decentralized, self-governance, business principles

New requirements: smaller and cheaper state, globalist tendencies, regional development, etc.

4. Institutions of Economic Governance

Organizations of economic governance

- **Political parties:** economic policy, right wing and left wing – populist tendencies
- **Parliament – local governments:** legislation based on the government economic policy
- **Administrative organizations:** prepare government decisions and implement acts
- **International organizations:** World Bank, IMF, European Union

Institutions of Economic Governance

Activities of Economic Governance

- **Economic policy:** monetary – fiscal, sectoral policies, e.g. employment
- **Legislation:** acts, decrees– interpretation of the constitutional court
- **Administrative jurisdiction:** decision in authoritative cases, based on legal disputes or official initiation
- **Organizing public services:** by state-owned enterprises, or regulations
- **State property management and public money utilization:** privatization, treasury assets, state budget, state contracts