

# The role of the state in the definition of economic policy

5RE254 Regional Economics  
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**MŠMT**  
MINISTERSTVO ŠKOLSTVÍ,  
MLÁDEŽE A TĚLOVÝCHOVY

# Lecture content

- Last lesson 's summary
- Text analyses and summaries
- Role of the state in the economic policy
- Actors of economic policy

# Literature

- Smith, A. (1776). An Inquiry into the Nature and Causes of the Wealth of Nations (any newer edition)
- [www.transparency.org](http://www.transparency.org) – CPI index
- Stokes, Susan C; Dunning, Thad; Nazareno, Marcelo; Brusco, Valeria (2013). Brokers, Voters, and Clientelism: The Puzzle of Distributive Politics.
- Roniger, Luis; Briquet, Jean-Louis; Sawicki, Frederic; Auyero, Javier; Piattoni, Simona (2004). "Political Clientelism, Democracy, and Market Economy". Comparative Politics. 36 (3): 353–375
- Hamilton, A. (2013). "Small is beautiful, at least in high-income democracies: the distribution of policy-making responsibility, electoral accountability, and incentives for rent extraction". World Bank.
- Senior, I. (2006), Corruption – The World's Big C., Institute of Economic Affairs, London
- And other sources on topics of corruption, clientelism, public power, division of power, role of the state

# Lesson Summary

Which were those key historical events that have challenged economic theories and practice in the 20th century?

What was the key contribution to the economic theory of J.M.Keynes and Milton Friedman?

What are key difference between the approaches of Keynesian economics and monetarism towards the economic policy?

Provide some examples of practical implementations of both interventional and market-conformal concepts in the 20th/21st centuries.

# Why government picks losers – an article

- Provide 3 arguments why do governments support declining industries.
- Explain the term „sunk costs“
- What does the acronym „CSWF“ represent?
- Why is lobbying for declining industries stronger?
- What might the protectionist policy cause?

# Function of the state

According to A. Smith (1776):

- **Economic principle:**

State should produce and control *some* public goods and works and *some* public institutions.

- **Social principle:**

State should protect its citizens against violence and external attack (internal and external security).

State should protect its citizens against injustice and repression from the others (judicial power)

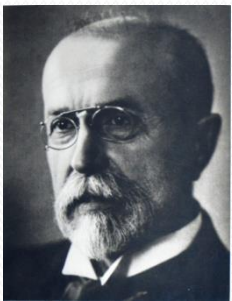
# Characteristics of modern democratic state

- Constitutional State
- Rule of law
- Democracy
- Welfare State

Democracy is a discussion.

*"Democracy has its faults, because people have their faults. Like teacher, like pupil.,"*

**Tomáš Garrigue Masaryk**



# Role of the state in modern democratic countries

## External

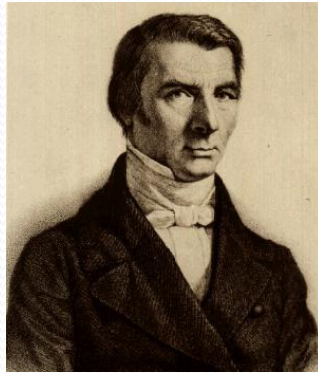
- Defense
- Foreign policy
- Trade policy

## Internal

- Economic
- Social
- Legislative
- Executive
- Security
- Living environment protection etc.



*Everyone wants to live at the expense of the state. They forget that the state wants to live at the expense of everyone.*



**Frederic Bastiat**

## „EP Players“

„The economic policy players“ can be both state and non-state institutions, alternatively also non-formalized group or an individual who plays an active role in the creation, implementation and control of the economic policy's measures.

# Division of the players of EP

- Legislative institutions (parliament)
- Government institutions (government, ministries , tariff and tax institutions)
- Emission bank (key actor of monetary policy)
- Institutions guarding the market environment (anti-trust institutions)
- Judicial institutions
- Non-fomalized groups of interest, special interest groups, opposition, lobbyist group (Trade Unions, employers organizations, political parties)

# Division of the EP players

- *Players of the economic-political decision-making process (decision sphere)*
  - Government
  - Parliament
  - Central bank
- *Players of the economic-political influence (influential sphere)*
  - Corporations
  - Political parties
  - Trade unions
  - Media etc.

# Division of the EP players

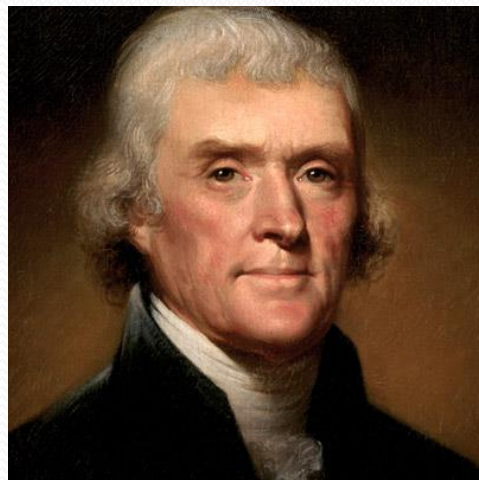
- **Supranational** (OECD, WTO, IMF, EU authorities)
- **National** (government, parliament, central banks, media, chambers of commerce etc.)

- Players of the economic policy are subjects that affect the whole process of economic policy creation:
  - Measures formulation
  - Measures implementation
  - Measures control



## Government

*A wise and frugal Government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government, and this is necessary to close the circle of our felicities.*



**Thomas Jefferson**

# Government

- A **government** is the system by which a state or community is governed
- Normally consists of legislators, administrators, and arbitrators
- Plays a leading role in policy's formation
- A form of government, or form of state governance, refers to the set of political systems and institutions that make up the organisation of a specific government.



# Government II

- Identifying a form of government is also complicated because a large number of political systems originate as socio-economic movements
- Every country in the world is ruled by a system of governance that combines at least 2 (or more) of the attributes of different forms of government



*Government is the great fiction, through which everybody endeavors to live at the expense of everybody else.*

**Frederic Bastiat**

# Corruption

*Still, corruption and oppression are far too common threats to the democratic society.*  
**Anna Lindh**

Government, or 'political', corruption occurs when an office-holder or the governmental employee acts in an official capacity for personal gain. (Senior, 2005)

Public sector corruption includes corruption of the political process and of government agencies such as the police. (Hamilton, 2013)

Political corruption is the abuse of public power, office, or resources by elected government officials for personal gain, e.g. by extortion, solicitation or offering bribes.

Political corruption is a manipulation of policies, institutions and rules of procedure in the allocation of resources and financing by political decision makers, who abuse their position to sustain their power, status and wealth.

The abuse of entrusted power for private gain.

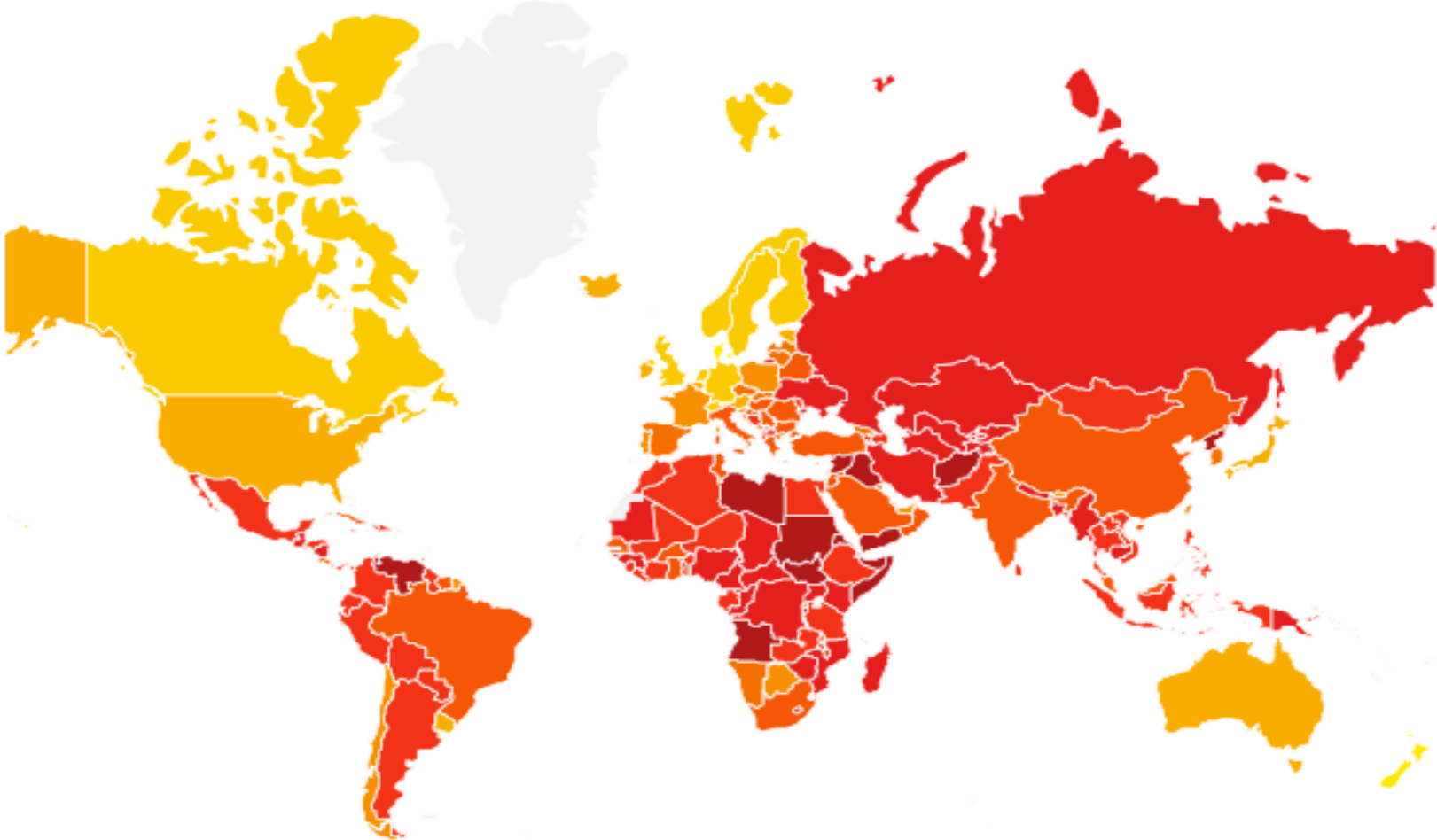
# Corruption Perception Index

The Corruption Perceptions Index ranks countries and territories based on how corrupt their public sector is perceived to be.

A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt and 100 means it is perceived as very clean.

A country's rank indicates its position relative to the other countries and territories included in the index.

# Corruption Perception Index 2016 – World map



Visit [www.transparency.org/cpi2016](http://www.transparency.org/cpi2016) for more information

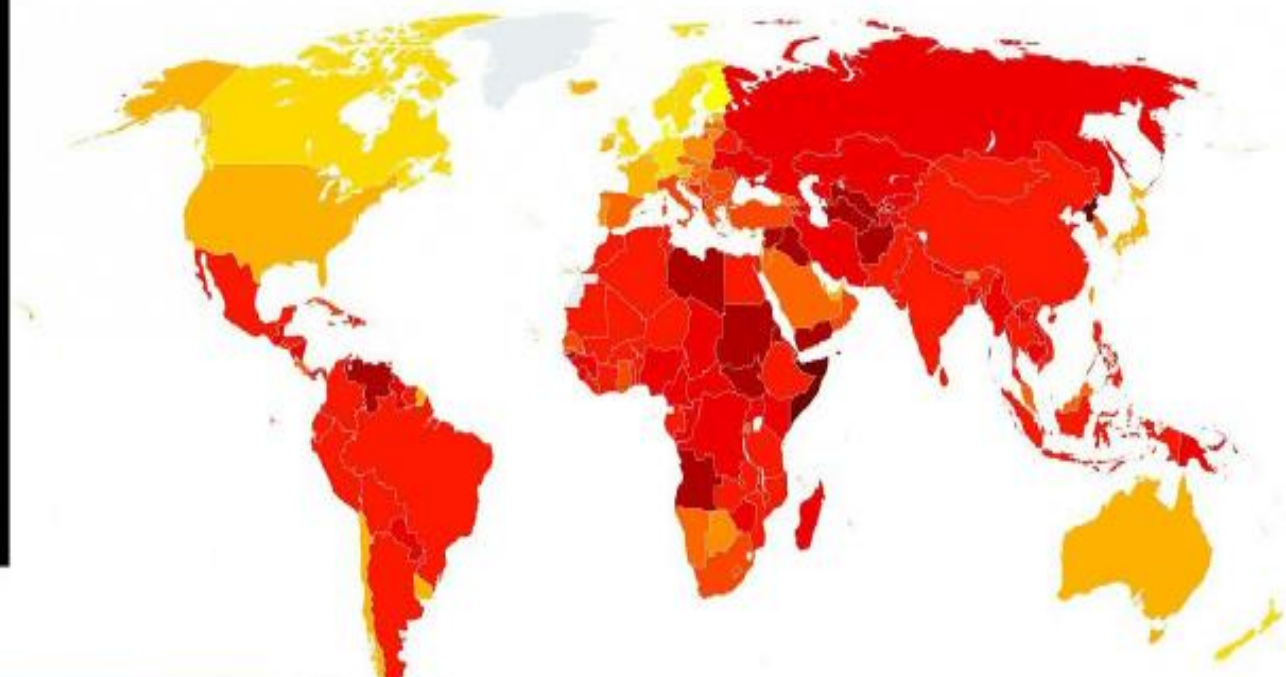
2016 Rank	Country	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score	Region
1	Denmark	90	91	92	91	90	Europe and Central Asia
1	New Zealand	90	88	91	91	90	Asia Pacific
3	Finland	89	90	89	89	90	Europe and Central Asia
4	Sweden	88	89	87	89	88	Europe and Central Asia
5	Switzerland	86	86	86	85	86	Europe and Central Asia
6	Norway	85	87	86	86	85	Europe and Central Asia
7	Singapore	84	85	84	86	87	Asia Pacific
8	Netherlands	83	87	83	83	84	Europe and Central Asia
9	Canada	82	83	81	81	84	Americas
10	Germany	81	81	79	78	79	Europe and Central Asia
10	Luxembourg	81	81	82	80	80	Europe and Central Asia
10	United Kingdom	81	81	78	76	74	Europe and Central Asia
13	Australia	79	79	80	81	85	Asia Pacific
14	Iceland	78	79	79	78	82	Europe and Central Asia
15	Belgium	77	77	76	75	75	Europe and Central Asia

## CPI Index 2016 – country ranking

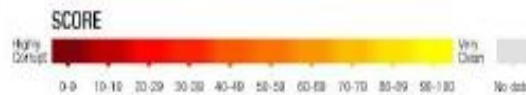
164	Eritrea	18	18	18	20	25	Sub Saharan Africa
166	Iraq	17	16	16	16	18	Middle East and North Africa
166	Venezuela	17	17	19	20	19	Americas
168	Guinea-Bissau	16	17	19	19	25	Sub Saharan Africa
169	Afghanistan	15	11	12	8	8	Asia Pacific
170	Libya	14	16	18	15	21	Middle East and North Africa
170	Sudan	14	12	11	11	13	Middle East and North Africa
170	Yemen	14	18	19	18	23	Middle East and North Africa
173	Syria	13	18	20	17	26	Middle East and North Africa
174	Korea (North)	12	8	8	8	8	Asia Pacific
175	South Sudan	11	15	15	14	N/A	Sub Saharan Africa
176	Somalia	10	8	8	8	8	Sub Saharan Africa

# CORRUPTION PERCEPTIONS INDEX 2015

The perceived levels of public sector corruption in 168 countries/territories around the world.



RANK	COUNTRY/TERRITORY	SCORE
1	Denmark	91
2	Finland	90
3	Sweden	89
4	New Zealand	88



5	Netherlands	87
6	Norway	87
7	Switzerland	86
8	Singapore	85
9	Canada	85
10	Germany	81
10	Luxembourg	81
10	United Kingdom	81
13	Australia	79
13	Iceland	79
15	Belgium	77
16	Austria	76
16	United States	76
16	Hong Kong	76
16	Ireland	75
16	Japan	75

21	Uruguay	74
22	Qatar	71
23	Chile	70
23	Estonia	70
23	France	70
23	United Arab Emirates	70
26	Bhutan	66
27	Botswana	63
28	Portugal	63
29	Poland	62
30	Taiwan	62
31	Cyprus	61
31	Israel	61
31	Lithuania	61
31	Slovenia	60
34	Spain	58
35	Czech Republic	58
36	Korea (South)	58
36	Malta	58
36	Romania	58
40	Cape Verde	55

41	Italy	44
41	Lesotho	44
41	Montenegro	44
41	Senegal	44
41	South Africa	44
45	Sao Tome and Principe	42
45	The FYR of Macedonia	42
46	Turkey	42
47	Bulgaria	41
48	Albania	40
48	Egypt	40
49	El Salvador	39
50	Mongolia	39
50	Panama	39
50	Trinidad and Tobago	39
50	Armenia	38
50	Bosnia and Herzegovina	38
50	Brazil	38
50	Burkina Faso	38
50	India	38

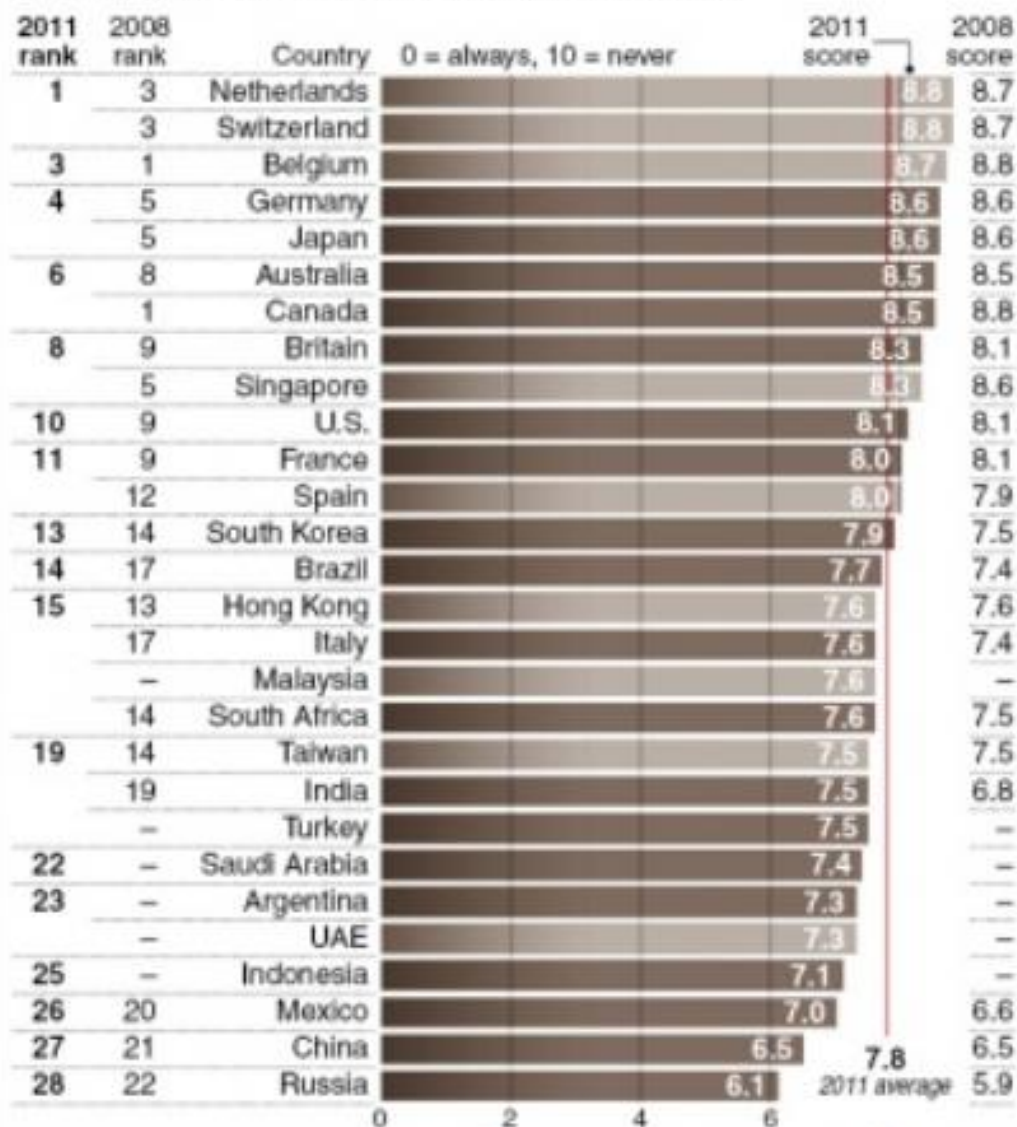
51	Djibouti	34
51	Gabon	34
51	Niger	34
54	Dominican Republic	33
54	Ethiopia	33
54	Kosovo	33
54	Moldova	33
54	Argentina	32
54	Bolivia	32
54	Côte d'Ivoire	32
54	Ecuador	32
54	Togo	32
54	Honduras	31
54	Malawi	31
54	Mauritania	31
54	Mozambique	31
54	Vietnam	31
54	Pakistan	30
54	Tanzania	30
54	Azerbaijan	29

128	Guinea	25
128	Kenya	25
128	Laos	25
128	Papua New Guinea	25
128	Uganda	25
128	Central African Republic	24
128	Congo Republic	23
128	Chad	22
128	Democratic Republic of the Congo	22
128	Myanmar	22
128	Iran	21
128	Nepal	21
128	Cameroon	21
128	Zimbabwe	21
128	Uzbekistan	19
128	Ukraine	18
128	Syria	18
128	Turkmenistan	18
128	Yemen	18
128	Haiti	17
128	Guinea-Bissau	17
128	Venezuela	17
128	Iraq	16
128	Libya	16
128	Angola	15
128	South Sudan	15
128	Sudan	12
128	Afghanistan	11
128	Korea (North)	8
128	Somalia	8

# 2011 BRIBE PAYERS INDEX

Transparency International said not one of the 28 countries surveyed was perceived as "wholly clean of bribery" and few had made a major improvement since the last bribery index in 2008

## LIKELINESS TO BRIBE WHILE OPERATING ABROAD



Source: Transparency International

G20 member country

REUTERS



# BPI Index according to sectors

Rank	Sector	Sector Score	Number of observations	Standard Deviation	90% Confidence interval	
					Lower bound	Upper bound
1	Agriculture	7,1	270	2,6	6,8	7,4
1	Light Manufacturing	7,1	652	2,4	7,0	7,3
3	Civilian Aerospace	7,0	89	2,7	6,6	7,5
3	Information Technology	7,0	677	2,5	6,8	7,1
5	Banking and Finance	6,9	1409	2,7	6,8	7,0
5	Forestry	6,9	91	2,4	6,5	7,3
7	Consumer Services	6,8	860	2,5	6,7	6,9
8	Telecommunications	6,7	529	2,6	6,5	6,9
8	Transportation and Storage	6,7	717	2,6	6,5	6,9
10	Arms, Defence and Military	6,6	102	2,9	6,1	7,1
10	Fisheries	6,6	82	3,0	6,0	7,1
12	Heavy Manufacturing	6,5	647	2,6	6,4	6,7
13	Pharmaceutical and Healthcare	6,4	391	2,7	6,2	6,6
13	Power Generation and Transmission	6,4	303	2,8	6,1	6,6
15	Mining	6,3	154	2,7	5,9	6,6
16	Oil and Gas	6,2	328	2,8	6,0	6,5
17	Real Estate, Property, Legal and Business Services	6,1	674	2,8	5,9	6,3
17	Utilities	6,1	400	2,9	5,9	6,3
19	Public Works Contracts and Construction	5,3	576	2,7	5,1	5,5
	Average	6,6				

- Global Corruption Barometer (GCB)
- Global Corruption Report (GCR)
- National Integrity System Assessments (NIS)
- Transparency In Corporate Reporting (TRAC)

# Parliament

- Refers to a democratic government's legislature
- Has three functions: representation, legislation and parliamentary control



Photo by Mark Vitale  
<http://www.webtruler.com/mark>



# Central bank

A **central bank**, **reserve bank**, or **monetary authority** is an institution that manages a state's currency, money supply, and interest rates.



# Functions of a central bank may include:

- implementing monetary policies.
- determining interest rates
- controlling the nation's entire money supply
- the Government's banker and the bankers' bank ("lender of last resort")
- managing the country's foreign exchange and gold reserves and the Government's stock register
- regulating and supervising the banking industry
- setting the official interest rate – used to manage both inflation and the country's exchange rate – and ensuring that this rate takes effect via a variety of policy mechanisms

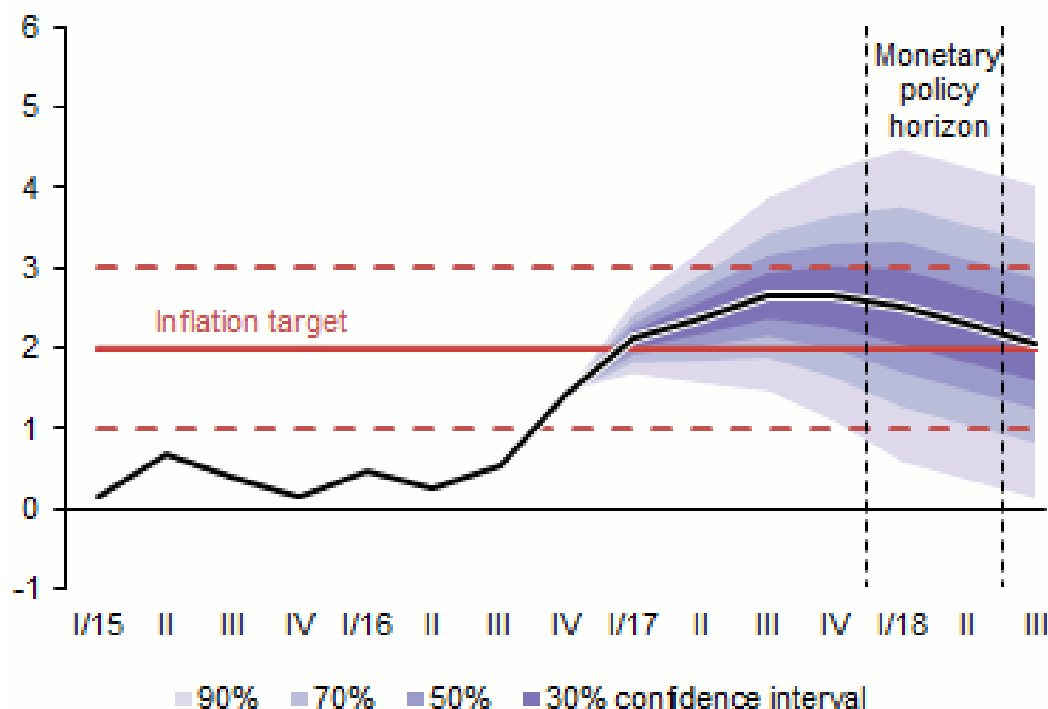
## **Czech National Bank (CNB)**

- **The CNB is the central bank of the Czech Republic and the supervisor of the Czech financial market.**
- As an independent institution, the Czech National Bank maintains price stability, supervises the financial system and supports its balanced development, and ensures smooth circulation of money and smooth payments.

# Inflation target and forecast for 2018 in the Czech Republic

## The forecast for inflation at the monetary policy horizon

Indicator	Horizon	Forecast
Annual consumer price inflation	2018, Q1	2.5%
	2018, Q2	2.3%



Source: ČNB 2017



# Special interest groups and lobbyist groups

- Any voluntary association that seeks to publicly promote and create advantages for its cause
- Often interrelated with government structure
- Includes corporations, charitable organizations, civil rights groups, neighborhood associations, professional and trade associations
- Professional lobbyists are people whose business is trying to influence legislation on behalf of a group or individual who hire them.

*„power breeds more power“*

# Clientelism

**Clientelism** is the exchange of goods and services for political support, often involving an implicit or explicit quid-pro-quo. (Stokes et al., 2013)

It is a political system at the heart of which is an asymmetric relationship between groups of political actors described as *patrons* and *clients* and political parties.

A set of actions based on the principle *take there, give here*, with the practice allowing both clients and patrons to gain advantage from the other's support. (Roniger et al., 2004)



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