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Course: Financing and economic management

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Contents

Financial theory, the theory of public finance and public sector institutions

1 Financial theory[1]

Financial theory is part of the public sector financial theory. Financial theory of public sector deals with issues of financing the public sector - the public finances. This financial theory of public sector generally differs from financial theory. The term "financial theory" is broader than the term "financial theory public sector" because of financial theory, for example, examines the money markets, private insurance or corporate finance.

<u>Normative and non-normative economic and financial theory</u>

The economic and financial theory can respond to the problem in two ways - non-normative (positivist), or normative. If the economist decides to use non-normative approach, then choose the research methods and procedures that are to preserve independence (disengagement) scientific evidence. Non-normative theory provides systematized knowledge, which refers to the analysis of the problem as the way it is "in itself".

2 Institutions and structure of the public sector

Public administration is the core of the public sector; it is the management of public affairs within a society organized into a state. It is an exercise of public power in the state, which has primarily state and other subjects entrusted her performance.

Public power is divided into state power, which performs state administration and other public authorities; they do subjects other than the state.

The concept of public administration has two meanings:

- organizational concepts - they are public authorities, their organizational structure and relationships,

[1] OCHRANA, František a kolektiv. *Veřejný sektor a veřejné finance.* 1. vyd. Praha: Grada, 264 s. 2010. ISBN 978-80-247-3228-2.

- functional concept - it is the performance of public administration, especially in the form of performance below - lawful and executive power.

Public administration is divided into two basic subsystems in terms of organization:

1) state administration,
2) self-government.

State administration

The state administration performs its state authorities (ministries, central state authorities
- Czech Statistical Office, the Office for the Protection of Competition, etc.). Performance of state government may transfer to other institutions, such as local and regional self-government (the Planning Authority).

The structure of state power:

1) the legislative branch - belongs to Parliament,
2) executive power - the president, the government, ministries and other central authorities,
3) judicial power - courts.

Self-government

Self-government is a community whose members are performing their affairs themselves. It is characterized with the creation of basic democratic self-government bodies and subordination, or at least the responsibility of self-government organs essential organs. Self-government is separate from the public administration.

In the Czech Republic there are two levels of public administration:[2]

- basic local government units (municipalities),
- higher local government units (regions).

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[2] *Managementmania: Územní samospráva* [on-line]. Praha: Managementmania. [2014-07-23]. Dostupné z: https://managementmania.com/cs/uzemni-samosprava.

The structure of the public sector

The public sector is broken down by sectors, where the criteria are the specifics of the activities of the public sector.

Organization refers to the formal organized group of people who have common goals and motivation, to measure the performance and are determinate against surroundings.

The public sector can be divided into the following blocks:[3]

1. Block societal needs,

2. Block sectors of human development,

3. Block knowledge and information,

4. Block technical infrastructure,

5. A block of private goods,

6. Block existential certainties.

3 The range of the public sector

The range of the public sector is continuously rising. Nonprofit organizations significantly participate in the gross domestic product (GDP). It is expressed through indicators. The most commonly used indicator of the proportion of expenditure on the public sector (EPS) to gross domestic product (GDP) in percent.

Expressed by:[4]

$$(EPS / GDP) \times 100.$$

The share of public expenditures to GDP is known as "expenditure quota". To compare the dynamics of public expenditure in time used indicator of public expenditure elasticity (E). This means a change in public expenditure (PE) to change in gross domestic product (GDP) between periods (eg. T, t + 1).

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[3] STRECKOVÁ, Yvone. MALÝ, Ivan a kol. *Veřejná ekonomie pro školu i praxi.* Praha: Computer Press, 1998. ISBN 80-7226-112-6.

[4] PEKOVÁ, Jitka., PILNÝ, Jaroslav., JETMAR, Marek. *Veřejný sektor – řízení a financování.* 1. vyd. Praha: Wolters Kluwer ČR, 2012. 488 s. ISBN 978-80-7357-936-4.

Expressed by:[5]

$$((PE_{t+1} – PE_t) : PE_t)) : ((GDP_{t+1} – GDP_t) : GDP_t)).$$

If E > 1, the public expenditures grow faster than GDP.

If E = 1, the evolution of public expenditures is consistent with the growth of gross domestic product.

If E <1, the growth of public expenditure is less than the gross domestic product.

Factors affecting the scope and structure of the public sector:

Economic Factors

Phase of economic development:

- the economically underdeveloped countries, countries in the developing stage,
- countries in the industrial stage,
- countries in the post-industrial stage.

Non-economic factors:

- geopolitical factors,
- historical factors,
- cultural and religious factors,
- political factors.

4 Fiscal functions of the state[6]

The market mechanism can fulfill its primary function, i.e. the production of goods or services cheapest way only under conditions of perfect competition.

[5] in the same place

[6] DITTRICHOVÁ, Jaroslava. *Studijní materiál k předmětu veřejné finance.* 1. vyd. Hradec Králové: FIM UHK. 2012. 161 s.

Their market mechanism tends:

- to monopolize,
- the polarization of wealth and poverty.

The government may intervene in the market economy most often in three basic ways:

- in influencing externalities, especially negative,
- in terms of social inequality,
- in ensuring production efficiency.

The essence of the fiscal competency of the state is:

- levying financial resources in the form of taxes, fees, duties, etc.,
- redistribution of financial resources in terms of ensuring the production of a number of public (collective) goods.

Basic methods of state intervention in the economy of the state include:

- taxing method of individual economic entities (including households),
- the size of each expenditure budgets subordinates state.

Fiscal functions of the state are manifested especially as a function allocation, redistribution and stabilization. These basic functions some economists extend the legislative function, control and regulation.

5 Public goods

Public goods are goods of which they all have a common benefit in the sense that the consumption of that good by any by an individual does not limit the consumption of others.[7]

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[7] CULLIS, J., JONES, P. *Public Finance and Public Choice: analytical perspectives.* London: McGraw-Hill Book Company, 1992.

According to financing method the production of goods and the way decisions about their production and consumption of goods are divided into:

- private,
- public (collective consumption goods).

Public goods (collective consumption goods)

According to the method of obtaining public goods belong to non-market goods. This means that:

- consumers are unable to obtain through the market,
- these goods do not have a market price because of their production and the conditions for their provision of state decides or another level of government,
- production of these goods does not profits.

Among the public goods often include goods whose consumption is in the public interest. There are three basic features of public goods:

- **non-exclusion** the consumption of certain goods citizen,
- **indivisibility** of consumption. Consumption of some goods cannot be divided between potential person their consumption, and then by size of consumption demand reimbursement.
- **economic component**. Increased consumption of the public good, some citizen or group of citizens does not increase the cost its acquisition.

Distribution of public goods:

- pure public goods,
- mixed public goods.

Dividing by the state's influence:

- Non-market public goods,
- Semi market public goods,
- Guardianship public goods.

<u>List of tasks for students</u>:

1) **Explain the nature and content side of financial theory.**
2) **Explain the normative and non-normative economic and financial theory.**
3) **Characterize state and local governments.**
4) **Explain the structure of the public sector.**
5) **Explain the scope of the public sector.**
6) **Name and Discuss individual fiscal functions of the state.**