Global Economic Issues and Policies
First edition

UNIT FOUR
Contemporary Global Economic Issues and Policies

Chapter 12
The Public Sector in the Global Economy

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PowerPoint Presentation by Charlie Cook
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Fundamental Issues

1. In what ways do government regulators seek to safeguard the interests of consumers?

2. How do the world’s governments protect rights to intellectual property?

3. What are international externalities and global public goods, and what can national governments or multinational institutions do about them?

4. How can the world’s nations protect the global environment?
5. How does increased globalization complicate the efforts of governments to finance their activities?
The Rationale for Consumer Protection

• Asymmetric Information
  ➢ One party’s possession of information in an economic transaction that the other party to the transaction does not possess.

• Adverse Selection
  ➢ The tendency for manufacturers of the lowest-quality products to have the greatest incentive to misrepresent the attributes of those products.
The Rationale for Consumer Protection (cont’d)

- Moral Hazard
  - The potential for a buyer or seller to behave differently after an economic transaction than what was agreed to before the transaction.
Safeguarding Intellectual Property Rights

• Intellectual Property Rights
  ➢ Laws granting ownership of creative ideas, typically in the form of a copyright, trademark, or patent.

• Copyright
  ➢ An author’s legal title to the sole right to reproduce, distribute, perform, or display creative works, including articles, books, software, and audio and video recordings.
Safeguarding Intellectual Property Rights (cont’d)

• Trademark
  ➢ A company’s legal title to a word or symbol that identifies its product and distinguishes it from the products of other firms.

• Patent
  ➢ An inventor’s legal title to the sole right to manufacture, utilize, and market an invention for a specific period.
Safeguarding Intellectual Property Rights (cont’d)

• Parallel Imports

  Gray-market imports, or goods and services brought into a country without authorization after initially being permitted to be sold elsewhere.
Figure 12-1a Increased International Protection of Intellectual Property Rights


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Figure 12-1b

Increased International Protection of Intellectual Property Rights and the Immediate Winners and Losers


Gain/Loss in Billions of 1995 U.S. Dollars

United States
Germany
France
Italy
Sweden
Switzerland
Panama

Australia
Ireland
New Zealand
Israel
Colombia
Portugal
Netherlands
South Africa
Greece
Finland
Norway
Denmark
Austria
Belgium
India
South Korea
Spain
Mexico
Japan
United Kingdom
Canada
Brazil

-4,000 -2,000 0 2,000 4,000 6,000 8,000
Dealing with Market Failures—Should Regulators Go Global?

• Market Failure
  ➢ The inability of unhindered private market processes to produce outcomes that are consistent with economic efficiency, individual freedom, and other broader social goals.
Dealing with Market Failures—Should Regulators Go Global? (cont’d)

• Externality
  ➢ A spillover effect influencing the welfare of third parties not involved in transactions within a marketplace.

• International Externality
  ➢ A spillover effect arising from market activities in one nation that influences the welfare of third parties in another country.
Figure 12-2  Policies to Correct Negative and Positive Externalities

Market for Gold

Price and Cost per Unit

Market for Vaccines

Price and Cost per Unit

(a)

(b)
Are There Global Public Goods?

• Private Good
  ➢ Any good or service that can be consumed by only one person at the same time.

• Public Good
  ➢ Any good or service that can be consumed by many people at the same time.
    ❖ Cannot be consumed by one individual without others also consuming it at no extra cost.
    ❖ Cannot be withheld from a person who has not contributed to funding its production.
Are There Global Public Goods? (cont’d)

• Global Public Good
  ➢ A good or service that yields benefits to a number of the world’s people simultaneously.
    ❖ Cannot provide benefits to one person without others around the world deriving benefits at no additional cost.
    ❖ Cannot be withheld from a person who has failed to contribute to its provision.
Are There Global Public Goods? (cont’d)

• Merit Good
  ➢ A good or service that residents of a nation determine, typically through a political process, to be socially desirable.

• Free-rider Problem
  ➢ The potential for an individual to try to avoid contributing funds to pay for provision of a public good because he or she presumes that others will do so.
Protecting the Global Environment—A Multinational Problem with Multilateral Solutions?

• Common Property
  ➢ A nonexclusive resource owned by everyone and therefore by no single individual.
<table>
<thead>
<tr>
<th>Agreement</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convention for the Regulation of Whaling</td>
<td>1946</td>
</tr>
<tr>
<td>Convention on the Prevention of Marine Pollution</td>
<td>1972</td>
</tr>
<tr>
<td>Convention on International Trade in Endangered Species</td>
<td>1973</td>
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<tr>
<td>Convention for the Prevention of Pollution from Ships</td>
<td>1973</td>
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<tr>
<td>Convention on Long-Range Transboundary Air Pollution</td>
<td>1979</td>
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<tr>
<td>Vienna Convention for the Protection of the Ozone Layer</td>
<td>1985</td>
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<tr>
<td>Basle Convention on the Control of Transboundary Movements of</td>
<td>1989</td>
</tr>
<tr>
<td>Hazardous Wastes and Their Disposal</td>
<td></td>
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<tr>
<td>Framework Convention on Climate Change</td>
<td>1992</td>
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<tr>
<td>Convention on Biological Diversity</td>
<td>1992</td>
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<tr>
<td>International Convention to Combat Desertification</td>
<td>1994</td>
</tr>
<tr>
<td>Kyoto Climate Change Convention</td>
<td>1997</td>
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Figure 12-3 Determining the Socially Optimal Degree of Water Cleanliness

Marginal Cost and Marginal Benefit

Marginal Benefit of Pollution Abatement

Marginal Cost of Pollution Abatement

Degree of Water Cleanliness (Percent)

0 25 50 75 83 90 100
Four Reasons NGOs Oppose International Trade:

• Worsens the scope for global market failures that harm the environment.
• Erodes regulatory standards as governments loosen regulations in response to international competition.
• Speeds the pace at which the world’s resources will be exhausted.
• Focuses on trade economics without giving due consideration for trade’s environmental effects.
Four Reasons NGOs Support International Trade:

• Helps raise developing nations’ living standards, increasing environmental protection efforts.
• Encourages developing countries’ industries to operate in more efficient, less environmentally harmful ways.
• Increases the pace of innovation, which permits sustainable growth of the global economy.
• Facilitates international efforts to protect the environment.
The Growing International Rivalry for Tax Revenues

• Tax Rate \((t)\)
  - A fraction of a tax base an individual or company is legally required to transmit to the government.

• Tax Base \((B)\)
  - The value of goods, services, incomes, or wealth subject to taxation.

• Total Income Tax \((T)\)

\[
T = t \times B
\]
The Growing International Rivalry for Tax Revenues

• Static View of Taxes
  ➢ If a nation’s tax base $B$ declines, then maintaining the same amount of tax revenues $T$ requires the nation’s government to increase the tax rate $t$.

• Dynamic View of Taxes
  ➢ Trying to maintain tax revenues at a goal level by raising the tax rate as the tax base declines is a self-defeating policy. The reason is that an even-higher tax rate will generate an even-smaller tax base.
Options for Dealing with Declining Tax Revenues

• Cut public spending to match the government’s lower revenues.
• Increase the tax rate again.
• Increase tax rates within a different domestic tax system in an effort to raise additional revenues from a different tax base.
• Broaden the tax base.
Globalization and Tax Competition

• Tax Competition
  ➢ Reducing tax rates below those of other regions in an effort to induce individuals and businesses to engage in taxable activities in that region.

• Value-added Taxes (VAT)
  ➢ Taxes applied to each stage of production in which value is added to a good or service.
Figure 12-4  Average Tax Rates in the European Union, Japan, and the United States

Figure 12-5  The Tax Schedule and Attaining a National Tax-Revenue Goal by Adjusting the Tax Rate
Figure 12-6

The Dynamic View of the Relationship between the Tax Rate and Tax Revenues

\[ T = t_2 \times B \]

\[ T = t_1 \times B \]
Figure 12-7  Marginal Tax Rates on Capital in the European Union


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