

Appendix 2.A – Classical Public Finance, Interventionism and Constitutionalism

CLASSICAL FINANCE	INTERVENTIONISM	CONSTITUTIONALISM
<p>Minimum State: Laissez-faire, with minimal intervention on private activity.</p> <p>Self-regulating market, as fair and almost efficient mechanism, with few market failures.</p> <p>Limited financial activity of the State within the function allocation.</p> <p>Budget reduced (approx. 10% of GDP), mainly expenditures on administrative costs and effective revenue (taxes, equity income).</p> <p>Rules: neutral and balanced budget (ie, no deficits) except in war times.</p> <p>Funding essentially based on taxes, condemning government borrowing and money creation.</p>	<p>Welfare State: Focus on market failures, whether at micro or macro in order to "correct" and regulate the private economy, and relevant executive power.</p> <p>Market, not is not self regulated and reproduces inequalities.</p> <p>Emphasis on redistribution policy (income distribution and equal opportunities' policies) and the stabilization function, beyond the allocation.</p> <p>Wider Budget (approx. 40% - 60% of GDP), with a weight for capital expenditure as well as socially relevant expenditure; interventionism with active fiscal policy, budget unbalanced (deficits) if necessary.</p> <p>Rules: no importance is given to fiscal rules except the "golden rule" (a surplus in current account)</p> <p>Funding through taxes, credit and the issuance of money supply.</p>	<p>Imperfect state: Stresses the failures of the governments and the political system. Political federalism as a way to limit the power of the executive.</p> <p>Market somehow not self regulated, but there is a "capture" of regulators by the entities (firms) they supposedly regulate</p> <p>Emphasis on the role of the state in the efficient allocation of resources and redistribution (but should be generalistisand not towards special interests)</p> <p>Relatively small budget (approx. 20% -30% of GDP): for capital expenditures and general social spending.</p> <p>Rules: defense of constitutional rules (balanced budget), few exemptions and reduced tax benefitsand exemptions.</p> <p>Financing, mainly through taxes and borrowing (with restrictions).</p>

Note: Modern Public Finance, at least in Euro countries is a combination of Interventionism and Constitutionalism in Public Finances.