

## MIXED ECONOMY: STABILITY AND EFFICIENCY OF PUBLIC SECTOR

Maya Tsoklinova  
University of Forestry, Sofia, Bulgaria

### Abstract

The main objective of the research report is to analyze and discuss the need for state intervention in the economy, the formation of the mixed economic system and the prerequisites for building effective and sustainable public sector in the current market conditions. The topic is highly relevant given that in the beginning of XX century, the processes of socio-economic development led to the emergence and rapid development of the economic system of a new type, called mixed economy. The attention is focused on the concept of "mixed economy", which was introduced to describe the economic systems that match the concept of the free market and planned economy, forming a set of different nature and ways of functioning components. An attempt to found the opportunity for establishing absolute balance between these elements was made, given that any mixed economy is generally characterized by the predominance of private or public property, or the existence of market or public sector. Special attention is paid to the hybrid nature of the mixed economy in which markets are driven by competition and pricing mechanisms that are more efficient. This means rational use of available limited resources (land, labour, capital, entrepreneurship) in the production of public goods. But with market mechanisms, there are other mechanisms for resource allocation, which can be characterized as non-market because they are created on a non-competitive basis. It is concluded that the effective and sustainable development of the public sector is associated with the interaction of public and private property within the national economy. Based on historical method and comparative analysis, summarized once again (especially after the financial and economic crisis of late 2007) that market mechanisms demonstrate its limited effectiveness of self-regulation in the current market conditions and once again confirmed the need for intervention in the economy by the modern state, emphasized the importance of the mixed type market systems in neutralizing and overcoming market failures.

**Ключови думи:** смесена икономика, устойчиво развитие, публичен сектор, пазарни и непазарни механизми.

**Key words:** mixed economy, sustainable development, public sector, market and non-market mechanisms.

**JEL:** D00, D60.

### Introduction

The public sector is an important part of the Bulgarian economy. It is characterized by the derivative nature of the functioning of the market economy, representing the function of the development of the private business of the market economy itself. For its development public sector draws resources and information from the private sector. They are the ones who finance public goods. Public resources, which are subject to the public sector, have their opportunity cost i.e. lost benefits from their use by private business. It is this alternative determines the efficiency of resource use in the public sector and primary changes in its development.

The creation of the public sector in the national economy reflects the global process of the emergence of a new type of economic system - a mixed economy, which depends on the right mix of private and public resources. The process of emergence and development of a mixed economy can be analyzed at three levels:

**1. scientific level** – as an idea and its future development in a number of concepts;

**2. institutional level** – such as the consolidation of these ideas as a system of social, government and market institutions;

**3. empirical level** – the actual practice of public institutions to solve social and economic problems of society.

### 1. Evolution of the public sector: effectiveness and efficiency in development

The idea of the emergence of a mixed economy arose in the late XX century, during the years of the transformation of liberal capitalism into monopoly and development of the economic role of the state in these conditions. In this period the German economists Shaffle and Wagner in numerous scientific papers try to support the idea of creating a "welfare state". State intervention in economic processes Shaffle called socialism, and Wagner calls for construction of state socialism and actively develops the conceptual foundations of the welfare state. This concept involves the conversion of the bourgeois state to the state of culture and welfare. This transformation includes the nationalization of the railways, mining, industrial, banking and insurance companies, as well as active social integration of citizens [3]. However, the whole theory of the mixed economy was established on the basis of increasing the role of the state. Sombart has equated socialism with all forms of increasing role of the public sector in the capitalist economy and increasing state intervention in the economy, which gives grounds to speak of the emergence of a mixed economy [4]. But in practice, after the First World War the governments of many countries (excluding the USSR) appeal to the ideals of economic liberalism. Under these conditions, the market economy receives a powerful impetus to development. All these actions

increase the economic tensions during the development of the "free market" and lead to a global economic crisis of 1929 - 1933, which destroyed the world's financial and trading systems, deteriorating national economies, increasing unemployment, inflation has amounted unprecedented tens, hundreds and thousands rates.

The main problem of the economy - the issue of economic development has become a problem for the crisis. All this leads to the creation of new "Keynesian" world economy in which the state becomes leading in the economic relations at the macroeconomic level. After World War II, active supporters of the theory of the mixed economy are bourgeois economists Hansen Clarke, Samuelson, Galbraith, Tinbergen. They believe that the creation of a mixed economy is due to the fact that in developed capitalist countries, government and private institutions subject their activities to the prosperity of society and economic and social role of the state, gradually remove the contradictions of capitalism and create opportunities for sustainable economic development. The concept of mixed economy was introduced in the scientific theory in the 60s of the XX<sup>th</sup> century by Paul Samuelson as "mixed system of free enterprise and economic control, which is implemented by both public and private institutions" [8]. Today, this concept is widely used in various fields, but if you do not take into account individual differences in the modern interpretation of the term by different authors, it can be assumed that a mixed economy is an economic system that naturally combines elements of institutional market (private sector) and government approaches (public sector) for the allocation of public resources [5].

It should also be noted that the term "mixed economy" implies the existence of different types of models, depending on the value of the institutional elements. In this vein, we distinguish liberal (market-oriented, "American"), social ("German") and government-social ("Swedish") models of mixed economy. However, it is necessary to specify that this approach to a certain extent can be defined as unproductive as the specific institutional features of each country are different. Much more interesting is the approach founded on the concept "based on a previous development", which indicates the presence of two global trends of structural transformation of the global economy. As a result of economic change, appear mixed market economies [6].

The formation of the public sector in the economies of developing countries took place half a century ago, in the post-socialist countries that continues today. This process has cyclical, inertial, irreversible nature and is based on objective factors - gradual structural changes in the economy transformations in politics and social ideology [2]. Historical chronology of the process of state expansion reflects its unique and cyclical nature. In XX<sup>th</sup> and XXI<sup>st</sup> century has been a general trend of steady increase in government spending and expansion of the public sector by increasing the total activity of the state.

State extends its power over education, health, social security and national security. This social area is growing faster than the economy, leading to an increase in public spending.

## 2. Effectiveness and public choice

For the maintenance of public services and public activities are required substantial resources. The efficiency of their use is not always associated with the optimum choice. In the public sector is required to bind the approaches to limit collective choice and collective action. These actions can come from members of the public that are associated with public choice. State and its institutions must organize these public activities that the market cannot provide efficiently. Economy of the public sector through the state realized the function of social justice, i.e. it strikes a balance between the efficiency of resource use on the one hand and social justice on the other. Efficient use of resources is crucial not only for the public sector but also for the economic growth of the country [1]. The process of reforming the system of public finances in Bulgaria provides the change of the budgetary procedure and practices in the direction of providing greater responsibilities to line ministries in planning their own budgets, coupled with the responsibility for the implementation of the budgetary plan and achievement of planned results.

Differentiation in the share of public sector in the economy is the result of differences in government approaches to implementation of privatization programs. When choosing an approach to restructure the state sector of the economy significant roles have social and political factors (privatization of strategic objects). The difference in approach led to significant differentiation in the public sector, even within the Member States of the European Union. The result of the mass privatization in 1970-1980 has led to the formation of the modern configuration of the public sector [7]. There is a general tendency for developed countries associated with maintaining a significant share of state property in the areas that belong to natural monopolies.

## 3. Indicators of sustainability of the public sector

At its core the sustainable development of the public sector is wide-ranging concept. According to Liliya Yotova [9], it incorporates sustainability of public finances, which are a means to achieve economic, social and political objectives. The author defines that for its state and development could be judged by set of indicators reflecting the resources available, the quantity and quality of the goods and services provided to the population. Liliya Yotova specifies the following sustainability criteria:

1) Within the economic capacity of the country should increase public sector resources. Thus achieves meet the current needs of society without a negative impact on future generations, given the primary and general problem in economic theory -

how to satisfy the unlimited human needs, when humanity lives in general scarcity of resources, income and goods. This economic dilemma raises the question of finding alternative methods and solutions to achieve universal equilibrium in the economy, i.e. achieving higher economic optimum.

2. Structurally sustainability implies consistency but flexible policies on the revenue and expenditure side of budgets. This requirement of sustainability is associated with the ability to carry out adequate budget policy, with a view to advancing economic transformations worldwide. As correctly noted Liliya Yotova, in financial terms the requirement of stability required to avoid the transfer of the debt burden to future generations.

3. In terms of functional economic, political and social mechanisms Liliya Yotova determines that sustainability is achieved when the tax burden and the benefits to final beneficiaries are allocated according to the principles of social justice. That social justice should not reduce incentives for use of production factors and simultaneously provides conditions to mitigate the income and social inequality, reducing poverty and intensifying the process of social inclusion [9].

Based on sustainability indicators displayed on the public sector, this article used statistics on public revenue and public expenditure in the period 2008 – 2013 (see. Table 1, Table 2).

**Table 1. Revenues by consolidated fiscal program for the period 2008–2013**

Millions leva	2008		2009		2010		2011		2012		2013	
	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)
<b>Total revenues</b>	27313.2	39.4	25040.8	36.7	23932.6	33.9	25378.1	33.7	27469.4	35.4	28977.2	37.1
<b>Tax revenues</b>	22 166.9	32.0	20 171.9	29.5	19 014.4	27.0	20 594.2	27.4	21 529.0	27.6	22 370.3	28.6
<b>Direct taxes</b>	4 200.0	6.1	3 813.5	5.6	3 384.5	4.8	3 675.5	4.9	3 775.7	4.8	3 901.5	5.0
<b>Corporate taxes</b>	2 228.5	3.2	1 762.3	2.6	1 353.3	1.9	1 495.9	2.0	1 478.1	1.9	1 553.0	2.0
<b>-by non-financial enterprises</b>	2 037.5	2.9	1 603.3	2.3	1 211.1	1.7	1 390.0	1.8	1 339.1	1.7	1 415.8	1.8
<b>- financial sector</b>	191.0	0.3	159.0	0.2	142.2	0.2	105.9	0.1	139.0	0.2	137.2	0.2
<b>Income tax on individuals</b>	1 971.5	2.8	2 051.1	3.0	2 031.2	2.9	2 179.6	2.9	2 297.7	2.9	2 348.5	3.0
<b>Revenues from insurance contributions</b>	5 392.6	7.8	5 273.1	7.7	4 969.8	7.0	5 509.6	7.3	5 596.0	7.2	6 060.2	7.8
<b>Indirect taxes</b>	11 757.9	17.0	10 398.6	15.2	9 954.1	14.1	10 624.6	14.1	11 342.8	14.5	11 590.7	14.8
<b>VAT</b>	7 485.3	10.8	6 432.5	9.4	6 267.1	8.9	6 611.7	8.8	7 151.9	9.2	7 366.5	9.4
<b>Excises</b>	4 051.6	5.8	3 844.5	5.6	3 567.9	5.1	3 860.1	5.1	4 047.8	5.2	4 055.8	5.2
<b>Duties</b>	221.0	0.3	121.6	0.2	119.2	0.2	131.3	0.2	117.7	0.2	146.2	0.2
<b>Tax on insurance premiums</b>							21.6	0.0	25.4	0.0	22.3	0.0
<b>Other taxes</b>	816.4	1.2	686.7	1.0	706.0	1.0	784.5	1.0	814.4	1.0	817.9	1.0
<b>Non-taxes revenues</b>	4 004.6	5.8	3 542.8	5.2	3 315.4	4.7	3 320.7	4.4	3 573.0	4.6	3 950.5	5.1
<b>BNB transfers</b>	250.6	0.4	401.0	0.6	354.7	0.5	200.9	0.3	180.5	0.2	105.8	0.1
<b>Others</b>	3 754.0	5.4	3 141.8	4.6	2 960.6	4.2	3 119.8	4.1	3 392.4	4.3	3 844.7	4.9
<b>Aids</b>	1 141.7	1.6	1 326.2	1.9	1 602.9	2.3	1 463.2	1.9	2 367.5	3.0	2 656.3	3.4

Source: Ministry of Finance: [www.minfin.bg](http://www.minfin.bg)

**Table 2. Costs by consolidated fiscal program for the period 2008–2013**

Millions leva	2008		2009		2010		2011		2012		2013	
	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)
<b>Total costs</b>	25 323.4	36.5	25 666.9	37.6	26 755.4	37.9	26 866.6	35.7	27 828.3	35.6	30 417.9	38.9
<b>Total non-interested costs</b>	24 018.2	34.7	24 400.0	35.7	25 599.8	36.3	25 540.4	33.9	26 446.3	33.9	28 795.0	36.9
<b>Current non-interested costs</b>	19 746.8	28.5	20 754.6	30.4	21 932.9	31.1	22 465.0	29.8	22 765.2	29.2	24 681.9	31.6

**MIXED ECONOMY: STABILITY AND EFFICIENCY OF PUBLIC SECTOR**

Millions leva	2008		2009		2010		2011		2012		2013	
	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)	Report	GDP (%)
Salaries and wages for staff	3 782.9	5.5	4 026.4	5.9	4 064.7	5.8	4 069.3	5.4	4 140.1	5.3	4 453.7	5.7
Insurance contributions	1 047.3	1.5	1 053.2	1.5	982.7	1.4	1 051.3	1.4	1 067.5	1.4	1 369.2	1.8
Scholarships	52.6	0.1	76.7	0.1	81.9	0.1	83.0	0.1	99.0	0.1	106.2	0.1
Maintenance	4 952.1	7.1	4 319.4	6.3	4 441.7	6.3	4 453.8	5.9	4 481.6	5.7	4 695.9	6.0
Subsidiaries	1 113.8	1.6	1 270.3	1.9	1 485.0	2.1	1 595.1	2.1	1 233.2	1.6	1 416.3	1.8
Social and health costs	8 798.1	12.7	10 008.6	14.6	10 876.8	15.4	11 212.5	14.9	11 743.8	15.0	12 640.7	16.2
Including pensions	5 605.8	8.1	6 492.5	9.5	6 995.5	9.9	7 107.8	9.4	7 234.3	9.3	7 762.2	9.9
Capital expenditures and growth of state reserve	4 271.5	6.2	3 645.4	5.3	3 666.9	5.2	3 075.4	4.1	3 681.1	4.7	4 113.1	5.3
Interest costs	585.0	0.8	520.8	0.8	485.9	0.7	547.0	0.7	572.7	0.7	688.8	0.9
Contribution to the EU budget	720.1	1.0	746.2	1.1	669.7	0.9	779.2	1.0	809.3	1.0	934.1	1.2

Source: Ministry of Finance: www.minfin.bg

Analysis of the data featured in Table 1 and Table 2 shows the following major trends:

Structure of income for 2013 includes the following components: tax revenues - 11.3%, Duties - 0.4 %; Other taxes – 2.8 %, Excise duties – 14.1 %, VAT – 25.8 %, Aid – 12.2 %, Insurance contributions – 19.9 %, corporate taxes – 5.2 % Income tax – 8.3 %. Total revenues in the consolidated fiscal program for 2009 and 2010 are the smallest, namely – 25,040.8 (36.7 % of GDP) in 2009 and 23932.6 (33.9 % of GDP) 2010. From 2011 there was an increasing trend of total revenues. This stimulates the achievement of the following key objectives that ensure the sustainability of the management of the public sector.

- Continue the consistent fiscal policy, which gave the country the procedure for excessive government deficit;
- Sustainable decisions on tax policy and implementation of social commitments to increase income.
- Policy for keeping the debt at reasonable low-risk limits.
- Measures to ensure budgetary discipline - strengthening the maximum permissible size of the obligations of the institutions.
- Maintain low tax rates for corporate taxes and taxes on personal income.
- Continue shift of tax burden from direct to indirect taxes by a gradual increase in rates for certain excisable goods under the agreed transitional periods with a view to reaching the EU minimum levels of excise duty.
- Measures to improve the collection of revenue by the administrations.

General expenses in the consolidated fiscal program in the period 2009–2013 has grown continuously, as for 2009, they amounted to 25 323.4 (36.5 % of GDP) and 2013–30,417 9 (38.9 % of GDP). These data suggest that the observed increase the size of the public sector, which is associated with an increase in the quantity of public goods produced by the public sector. This is an indicator that shows that the public sector is characterized by stability in its development.

The cost structure for 2013 include the following components: Health + reserve 3 353.4 (11.2 % of GDP) Social security and welfare + reserves 10 907.7 (36.5 % of GDP), Residential Construction , public works, community business and environmental + reserves 2 861.5 (9.6 % of GDP), Recreation, culture, religious activities 526.1 (1.8 % of GDP) Economic activities and services + reserves 4 502.7 (15.1 % of GDP) Non-interest expenses, non-classified elsewhere 70.0 (0.2 % of GDP) General government services + reserve 1 834.8 (6.1 % of GDP), Defense and Security + reserves 2 932.5 (9.8 % of GDP) Education 2 919.9 (9.8 % of GDP), Health + reserve 3 353.4 (11.2 % of GDP).

Expenditure policies are oriented in priority towards financing of basic social responsibilities of the state to increase their income, fighting poverty and care for the most vulnerable population groups such as:

- increasing the level of income and social security in accordance with the capacity of the economy and the budget;
- promoting employment among disadvantaged groups in the labour market;
- improving the match between supply and demand in the labour market;

- providing training to increase knowledge and skills of employed and unemployed persons.

### Conclusions and recommendations

The efficiency in the use of public resources is always associated with the optimal choice.

- The state and its institutions must organize these public activities that the market cannot provide efficiently.
- The state seeks to balance between efficiency of resource use on the one hand and social justice on the other.
- Social justice should not reduce incentives for use of production factors and simultaneously provides conditions to mitigate the income and social inequality, reducing poverty and intensifying the process of social inclusion.

Sustainable development of the public sector showed that the interaction of public and private property within the national economy is a cyclical process. Differences in proportions between them are external manifestations of deeper and general economic, political and social changes in society. The end of the XX<sup>th</sup> century and the beginning of the XXI<sup>st</sup> century began with a series of crises whose impact dramatically change the general picture of the economic and political factors and stressed the importance of the modern state and the public sector in the economy. The newest tangible incentive, that increases economic role of the modern state, became the financial crisis and economic recession of

late 2007 great economic contraction in developed countries once again demonstrated limited effectiveness of market mechanisms for self-limiting, overcoming and neutralizing negative external effects in current market conditions.

### References

1. Auerbach, A.J., Chetty, R. (2013). *Handbook of Public Economics*, Newnes, pp. 496.
2. Цоклинова, М. (2014). *Икономически растеж и устойчиво развитие: приоритети на новата икономика*, Международна научна конференция "Управление и устойчиво развитие", Лесотехнически университет, София, стр. 7.
3. Buchanan, J. M. (1949). *The pure theory of government finance: a suggested approach*, Journal of Political Economy, № 57, pp. 496–505.
4. Hansen A. (2003). *Fiscal Policy and Business Cycles*, Business & Economics № 8., 2003, pp. 3–7.
5. Higgs R. (1985). *Crisis, the growth of the state and ideological strike-slip faults, two hypotheses about the "inertial phenomena"*, p. 126.
6. Litorin S.O. (1991). *The collapse of the socialist myth. The rise and fall of the welfare state in Sweden*, Fund Referendum-Polifakt, Minsk, p. 3.
7. Powell, M. (2007). *Understanding the Mixed Economy of Welfare*, Social Policy Association, pp. 249.
8. Samuelson P. (2002). *Paul Samuelson and the Foundations of Modern Economics*, Transaction Publishers, New Jersey, pp. 265.
9. Yotova, L. (2009). *Global challenges and sustainable development in public sector*, Economic alternatives ed. 4, Sofia, pp. 66–68. /in Bulgarian/