

## MIXED ECONOMY AND ECONOMIC EFFICIENCY: CURRENT ISSUES AND CHALLENGES

Maya Tsoklinova  
University of Forestry, Sofia, Bulgaria

### Abstract

The main objective of this scientific paper is to reveal the relationship between the mixed economy and achieving economic efficiency. The topic is current, since the problem of mixed economy and ways to generate economic efficiency issues are facing each national economy, which is characterized by similar economic system. The attention is focused on key problem areas: the theory of market scarcity; natural monopolies and the need for government regulation; externalities and how to neutralize them; overcoming information asymmetry causing restructuring of market relationships. The emphasis is placed on formation of special economic functions of the state in accordance with the global cyclical changes and research of the triad "state-economy-society".

**Key words:** economic efficiency, mixed economy, market scarcity, current issues, challenges.

**JEL:** D6; D8, H00.

### Introduction

Because of its economical nature, we define that Many factors have determined the need for specific reforms, if capitalist economies aim to work efficiently and to meet human economic needs in the XX century, among which are: concern about global warming, the recent financial crisis, the continued rise in the cost of medical care, persistent poverty in many countries with higher average incomes and others. However, almost no one seriously considers that capitalism as a kind of economic system will be abandoned and at the same time something significant and different is about to take its place. This kind of argument has died with the end of the Cold War. Today, widespread opinion is that there are no real alternatives to capitalism.

The existing literature regarding capitalism shows that economies of countries that are generally considered as capitalist differ in important features. Also, the individual capitalist countries have undergone significant changes over the years. However, two main features are widely shared by all countries that are determined to be capitalist. First of all, these economies use the common organization of the market in order to manage the production and distribution of goods and services. Second, this practice is supported by broad ideological consensus that the common organization of the market is the best way to manage economic activity. This is at once source and a result of the ongoing political debate about the proper management of various economic activities and sectors [3]. When the term "mixed economy" is currently used to characterize modern capitalist systems, it is bear in mind the essential role of the government to maintain the conditions under which markets can operate effectively, including active fiscal and monetary policies when it is needed for ensuring macroeconomic stability.

### 1. Organisation of market and economic efficiency

Modern economics adds the argument of Adam Smith in favour of markets with an official theoretical argument that under certain assumptions about the behaviour of economic agents and, in certain conditions, the market organisation provides economic results that are optimal in some sense. The stance of most researchers in this field about the reliability of this theoretical argument is that it is not very useful because of a nature of functioning of the market organization. It is not useful, because on the one hand, no one believes that the neoclassical model really shows how the market works. On the other hand, the real market economies are much institutionally richer than simple theoretical model. Thus, the theoretical arguments (such as those contained in the theory of market failure) may not be an indictment against real market economies. It is important to recognize that the analysis of the advantages and disadvantages of used management market structures should be based on a mixture of raw empirical comparisons than just on academic theorising.

Looking at the issue from this perspective, while the common organization of the market almost never achieves optimum results, most economists argue that the common organization of the market and competition often generate moderately effective results. There are strong incentives for companies to produce goods and services at minimal production costs, that creditworthy customers want to consume. Also, in many circumstances, the sectors in competitive-organized markets react relatively quickly to changes in customer requirements, delivery, and technological capabilities. But there rises the question if market regulated economic activity generate or no economic behaviour and outcomes that are desirable, that depends on the context. First of all, the question is whether the most important values are adequately represented in what individual clients

want if they are willing to pay for it [4]. The case of television broadcasting of news is very interesting in this respect. Whether broadcasting of news can make money depends on how potential advertisers see the alternative media, which in turn is associated only with the value that viewers receive the news, considered to be reliable. On the supply side, the conditions may or may not be suitable for progress or stagnation of competition. How many highways are necessary to meet effectively the needs of the particular urban community? Also there is the question whether the costs met by manufacturers adequately reflect the social costs. In some cases, the idea that the common market organization provides relatively effective results is quite plausible, while in others is very problematic.

## 2. Mixed economy and the theory of market scarcity

Much of the argument at a high level about where market organization work efficiently and where it does not work well is held among economists using the “language of market failure”. The theory of market failure takes as its benchmark this theory, which argues that under a set of assumptions about behaviour in neoclassical economic theory, market management leads to Pareto optimal results. The limitations of the common market organization as a management structure, as activity or class of goods or services may stem from the nature of demand. The case of public goods is the canonical example. They may derive from the characteristics of the supply side, as in the case of natural monopolies. The problem of managing the distribution of goods and services, which include the creation of externalities, can be in terms of supply and demand. In this sense, there are problems associated with limited or asymmetric information or requiring specialized expertise.

## 3. The problem of defining public goods

Economists use the concept of public goods to denote class of goods and services where the benefits are collective and common, not individual and private. Under this conceptualization, pure public good has two main qualities:

1. **First** quality: Unlike private goods, such as chocolate wafer with peanuts, whose utility is used only by one user (although it can be divided and shared), public good provides collective (universal) benefits of which all can enjoy. In the language of economists, public goods are not competitive in its use unlike private goods and their consumption does not reduce the ability of other economic actors to use them.

2. **Second** quality: if the public good or service is provided to all, there is no way to deny access to any person or to request direct payment to access / usage.

There are several facts that need to pay attention to the attitude of this conceptualized card on real goods and services:

1. **First** of all, in many cases, publicity is a matter of degree in two dimensions. The next set of examples and subsequent reflections completes the above judgment. National defence can protect certain areas and not others and the existence of resources limitation - the protection of a group of people may therefore be at the expense of the protection of another group. So defence is not fully accessible to all and is not competitive in consumption [2]. On the other hand, if a person lives in a protected area, protection cannot be denied, although one could be put in jail for non-payment of taxes. In contrast, scientific knowledge seems really not competitive in use as a group of people can use a single fact or understanding at the same time. However, the creator of this knowledge may be able to patent it and sue anyone who uses it without paying a license fee.

2. **Secondly**, many goods and services are partly private and partly public, i.e. there is an identifiable benefits to certain individuals, which may be provided by paying for access and at the same time there is broad public benefits of the availability or provision of goods or services (examples: education, public transport newspapers, television networks, journalistic investigations). In this sense, the development and promulgation of news provides important public good. But newspapers are private organizations that can always aim to maximize profits and that should certainly be able to cover their costs in order to survive. As noted earlier, the newspapers make their income from aspects related to two private goods that provide their publications. One of them is the value of news as criteria for the purchase instead receive news through other means. The other is the cost to advertisers spreading their message to readers. News programs on television are almost entirely dependent on the latter, and thus they bring in money to cover their costs.

3. **Thirdly**, in many cases, the public benefits associated with beliefs about what is appropriate for a society or polity. Economists tend to believe that individuals in society benefit from public goods roughly in the same way that they benefit from private goods. However, it is clear that some people care about the quality of air and water, as well as the safety of wildlife in areas where they do not intend to visit and prepared their taxes to be slightly higher if it will help build better environment. National security is an integral part of foreign policy, and many citizens support a particular foreign policy, not because of any direct benefits for them than for conventional thinking, which they consider to be correct. Much of democratic societies supporting free public education not because they or their children will benefit from state schools or because they believe it will reduce the incidence of crime, but because they believe that free education is a prerequisite for equality opportunities in society. It is believed that society and the individual will receive enough benefits [5].

Whether a product or service has significant public properties it depends on how you consider the benefits generated by them. In the above cases the benefits are perceived as “public” are not easily analyzed in terms of standard benefits, which are the focus of the standard economy. Therefore, for many goods and services, the argument is not about whether innate publicity requires public funding to ensure a decent level of security, but rather whether good or service should be available to all and whether with public money to pay the bill. This means that a significant part of the debate is about what goods and services should be “public”.

There are significant costs associated with the implementation of public choice or as a supplement to “machine” to facilitate market demand. On first place there is the question of how to decide to which individuals and groups have to be granted the public provision of goods or services. Then raises a question of who should pay. Due to the large number of individuals and groups who may try to have a say in these matters, the process of decision-making is time consuming and cumbersome. The results of the collective processes that generate solutions, leads to the fact that some decisions will inevitably be considered unfair and inefficient. But if a product or service has a strong innate properties or public good is considered by some as something that should be public, this argument is inevitable [6].

Newspapers and public news broadcasting currently struggling to cover their costs create controversy about whether or to what extent their provision should be left to the market or to the proper role of other forms of financing.

#### **4. The problem of natural monopolies and the need for public control**

The publicity of the specific good or service raises issues related to the management of the process of “demand”. Natural monopolies create problems in the management of their supply. A number of US economists share the view that they tend to rationalize the use of antitrust laws to deal with the problems generated by natural monopolies. In defense of the aforesaid it is necessary to clarify that monopolies comply with the unwritten market rule to provide goods and services at too high a price appropriating consumer surplus. In this context emerges the need to regulate monopolies by government to reduce the losses of economic entities arising when private organizations gain considerable power over economic activity. Economists tend to consider the fact that governments not only finance but also directly controls the activities related to national security and criminal justice system by the fact that these activities are “public goods”. But this is a minor problem than these activities fall into private hands. Implicit assumptions here are on the first place, that the concentration of private power does not arise in the management of the market, and on

the other hand, when they do, they are less threatening to individual freedom rather than government [7].

Economists have only recently started to pay attention to the problems of economic organization and its management arising from the possession of information, knowledge and experience. Obviously this type of asymmetry is very widespread in the entire spectrum of economic activities and is subject to potential abuse. Here appears the following situation: the manufacturer or seller of a product often know much more about its features, including its quality than the potential buyer and may have an incentive not to reveal this information. The market of used cars is often cited example by economists. The result can be frustrating for buyers or lead to unwillingness on the part of potential buyers who prefer to be extremely careful with purchases.

This topic has not been subjected to serious discussion in the economic literature, but the problem is there. It can be defined as follows: problem regarding the possibility of abuse in the relationship when one party has the professional experience and expertise, and the other side act after consulting the first. The nature of the relationship “doctor-patient” and a relationship “client-financial advisor” are specific examples in this regard. In the fight against this problem and the possibility that the market will deal with it, economists put considerable emphasis on the importance of good long-term customer relationships and building an impeccable reputation, and achieving lasting profitability of the firms as a result of effective discipline the behavior of supplier. When customers tend to have long term relationships with its suppliers, the reputation of reliable or “lazy” (of poor quality) worker or goods is one that will destine whether it will seek new customers or are changing suppliers. Here, customer support can be by non-governmental organizations that have business relationships with companies that confirm reliable reputation for the firm, or at least to give potential customers more confidence. In capitalist economies there is a clear ideological tendency, similar mechanisms as those to deal with problems and avoid another type of regulation. However, when customers are affected by products manufactured in ways in which the seller saves money, also need to have regulation.

Professions related to medicine, law and accounting, usually have codes of conduct and code of practice and employees are expected to adhere to them. However, when the expert work is related to knowledge that can be tested or are dependent on vocational training often has state requirements to penalize license. These measures are designed to support people’s trust that customers will be served competently and honestly.

#### **5. Triad: State, Society and Economy**

The use of terms such as “political economy” and “social economy” is a signal that economic systems are closely intertwined with the institutions and

activities of the government and society. It is important to note that capitalist economies are mixed economies because economic institutions do not stand alone, but rather interact. A main economic objective of the state covers the following areas:

- economic freedom;
- economic effectiveness;
- economic justice;
- economic security;
- full employment;
- stable level of money;
- economic growth [8].

Economic freedom implies each country to ensure sufficient freedom of its economic agents - sellers and buyers, and they perform smoothly and efficiently their business. Economic efficiency require any advanced society to strive for maximum economic efficiency, perceives it as a basis for their welfare. Economic justice presupposes a democratic country to seek economic justice because it recognizes that it is the basis for peace in society. Economic security, in turn, requires each country to seek to protect its citizens from economic risks (crises, bankruptcies, unemployment, accidents, etc.). By aid subsidies, state, etc. Full employment as an economic aim of the country requires every state to seek to provide economic resources in production. Full employment of labour resources occurs when everyone who can and wants to work finds a suitable job. The stable level of money associated with it, the state seeks lack of inflationary and deflationary effects on the economy. Finally – economic growth, which requires the state to pursue economic growth because it is the basis of prosperity, economic security, full employment, price stability, etc. [1].

## 6. State functions

Economists tend to examine the role of the state, mainly to juridical and physical structures that are designed to lay the foundation for efficient economic system and to deal with different types of “market failure”. The theory that the state is a means by which a nation defines and implements collective values clearly captures the flavour of contemporary debates on issues such as the right to life and the right to choose, community engagement to the ideals of equality and justice, views on universal health insurance regardless of ability to pay. The state protects the rights of ownership and competition as fundamental principles of the market system. It corrects the defects of the market or compensate for the lack of private initiative in activities of public importance. For the implementation of these actions the state passes laws that govern her and each citizen economic and social responsibilities. These functions form the so called public sector. The main economic functions of the state are the allocation of scarce

economic resources; in the distribution of income and wealth; the stabilization of the level of economic activity and regulation of private economic activity.

## Conclusions and Recommendations

Public expenditure policy should be strengthened in the following areas:

- striving to reduce government spending as a share of GDP, but their absolute size increases proportionally to growth.
- focus on the restructuring of government spending in order to enhance the stimulating functions and directing them towards the realization of strategic objectives.
- budget-spending policy to comply with the economic principle.
- targeted pooling of a multi budgetary system and create a budget-expenditure instruments and mechanisms of influence and control at national, sectoral and regional level.
- introduction and implementation of new budgetary technologies to improve the budget process [9].

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