

Comments on the 'Beyond the GDP' Issue with special Regard to the Public Policies

by Daniel Janossy
(Research Institute of the State Audit Office)

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Integrated Economic, Social and Environmental Accounting

		<i>Civilization(A+B+C+D)</i>				
		<i>Socially organized activities (A+B+C)</i>				
		<i>Institutionalized activities (A+B)</i>				
<i>Output</i> <i>Input</i>	<i>A/ Market</i>	<i>B/ Public sector</i>	<i>C/ Nonprofit sector</i>	<i>D/ Society</i>	<i>E/ Natural environment</i>	
<i>A/ Market</i>		Input from the market included in the budget	Input from the market and sponsorship	Beyond keeping the society ± externalities	Predominantly negative externalities	
<i>B/ Public sector</i>	Output and subsidies to market players included in the budget +part of the VAPS		Subsidies (to cover the market input) + part of the VAPS	Public functions included in the budget + part of the VAPS	Effect to be assessed	
<i>C/ Nonprofits</i>	Partnership			Effect to be assessed, presumably positive		
<i>D/ Society</i>	Appropriate market players, tax-payers, public servants, civilians				Effect to be assessed	
<i>E/ Natural environment</i>	Comparative advantages; renewable and not renewable natural resources					

Definitions

The GDP measures the performance of the market sector. The market sector contributes to the GDP either directly, thru sales within the market sector or indirectly, thru meeting the public sector's needs as specified below:

Budgetary expenses (except transfers) are made to meet **the market input needs of the public sector**

- either thru public procurement
- or thru wages and salaries paid to public employees to cover their purchases on the market.



The public well-being contains, in addition to the GDP, the value added by the public sector (VAPS) as specified below:



The value added by the public sector (VAPS) is its numerically hidden performance, in addition to its market sector input,

- partly serving directly the well-being of the population,
- partly indirectly doing this by promoting the market sector.

Public well-being

$$\text{GDP}^* = (C + P) + (C^* + M),$$

where

- C and P are the direct and indirect well-being performance of the market sector, respectively; the components as defined before and $C + P = \text{GDP}$;
- C^* and M are the direct and indirect well-being performance of the public sector, respectively; the components as defined before and $C^* + M = \text{VAPS}$.

The Optimal Size of the Public sector

The size of the public sector (practically, in budgetary terms the amount of P) is reasonable to increase to the extent where the marginal value added directly to the public well-being by the public sector

is bigger

than the marginal loss in the value added directly to the public well-being by the market sector ($\Delta C^* > \Delta C$)

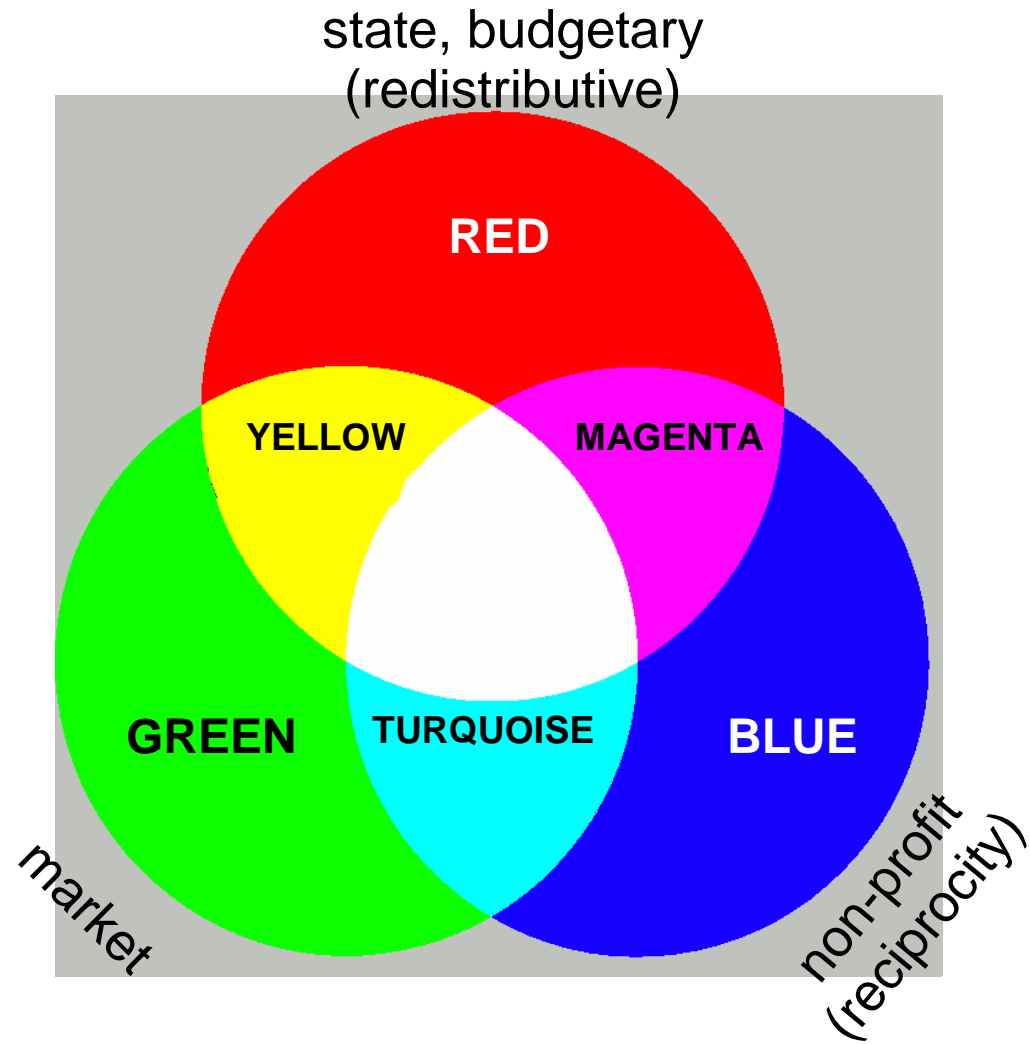
considering also the positive feed back from the public to the market sector (M)

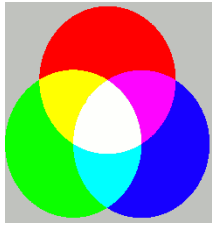
Limits of the Public Policies

The states are not able to meet fully the expectation to counterbalance the market forces

- because they are kept financially captive by the market economy (which is the source of the problems);
- because the states' legitimacy essentially depends on the political market (typically in our western civilization); moreover,
- the states themselves are market players in the global competition and, in that capacity, they are interested in the exploitation of social and environmental resources.

Illustration of the three types of coordination of economic activities





The meaning of colors

<p>RED</p> <p>TURQU.</p>	<p>Vertical (coordination from above)</p> <p>↕</p> <p>Horizontal (coordination from below)</p>	<p>Supported by an additional (political) coordination</p> <p>↕</p> <p>Theoretically self-regulative</p>
<p>GREEN</p> <p>MAGENT.</p>	<p>A service motivated primarily by profit</p> <p>↕</p> <p>Service to meet needs, to be useful for others</p>	<p>Direct compensation at market prices</p> <p>↕</p> <p>Indirect (budgetary) or optional compensation</p>
<p>BLUE</p> <p>YELLOW</p>	<p>An activity motivated by ethics, aesthetics, emotions, etc.</p> <p>↕</p> <p>Motivated by interest (individual or public)</p>	<p>An activity based on trust, commitment, conviction</p> <p>↕</p> <p>Legal basis (contract and law)</p>

The Non-profit Alternative

The non-profit sector coordinated from below and operating on the basis of reciprocity rather than direct compensation could counterbalance the drawbacks and shortcomings of the market and state and thus strengthen the society.

One more definition:

The social well-being contains also the value added by the non-profit civil sector in excess to the elements of the public well-being.

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How to proceed ?

The tasks resulting from my comments are the following:

- The total public sector input (public procurement and employment) within the GDP should be specified and included for analysis into the regular statistics;
- Research work aimed at quantifying the value added by the public sector (VAPS);
- Research work in order to review what items of the extended Integrated National Accounts have already been specified and quantified and, afterwards, to complete the table as fully as possible.

After having made significant progress in the above tasks we can proceed to the question of enforcement.