2. Three Theoretical Achievements

2.1 Basic Themes on Macro and Microeconomics.

One of the main issues of economic theory has always been the role and the impact of the government budget and fiscal policies on both individual decisions of families and businesses (microeconomic effects) and on the overall state of the economic system (macroeconomic effects).

The first topic we’ll address concerns the results obtained through economic theory regarding the relations between size, composition of the government budget, and development of an economic system. To be complete, we’ll analyze the problem first from the standpoint of neoclassical theory, and then in the context of endogenous growth models.¹

The synergy between efficiency and distributive equity represents the second of the economic theory assumptions which we intend to refer to for the empirical themes dealt with in this work. Going over the most recent literature on the subject² we’ll demonstrate how distributive equity and efficiency represent a binominal synergy, rather than two variables in opposition to each other, as according to the most traditional trade-off suggested by the most significant writings produced in the 1950s and 1960s.³

Finally, on the microeconomic front, with important macroeconomic implications, there is a whole series of studies connected to game theory and the theory of industrial organization. In

² In this context, we include contributions of Alesina and Rodrik (1994), Persson e Tabellini (1994), Perotti (1993), Baldassarri e Piga (1997) and Murphy Schleifer and Vishny (1997).
³ See also Kutnez’s example.
particular, reusing Curnot's model, an aspect that's often not considered in the current debate emerged. In other words, in the case of fiscal coordination, without a clear final objective of stability or a lessening of total fiscal pressure, there could in reality be a paradoxical result, that is an increase in that same fiscal pressure.

2.2 Economic Growth and Government Budget.

The literature that analyzes the relationships between economic growth and fiscal policy is particularly vast and rich, and a complete review of it would go beyond the scope of the present essay. As such, in the following pages we present only some aspects that we think are the most important for the purpose of our "argument," reviewing the most notable contributions concerning economic growth models, both exogenous and endogenous.

We begin with neoclassical growth theory, otherwise known as the theory of exogenous growth. In this area, government intervention in the productive structure of market economies has been analyzed since the dawn of modern economic theory, with reference in particular to two specific situations: the presence of private monopolies in crucial sectors of the productive system and the necessity of taking care of so-called government goods. Starting in the 1950s, however, and maybe unexpectedly, a form of "mixed" market gained growing weight in different European countries, in which government-owned businesses operative in various private markets were acting in competition with private businesses. The situation of so-called "businesses with a public interest" also fall into this category. It took on considerable dimensions in the case of Italy and was adopted by many other European countries. It must be emphasized that this form of market presents a double aspect: on one hand it can reduce competition in the market, on the other the presence of public enterprises operating under conditions of competition in various markets seemed to be able give additional vigor as an instrument of economic policy aimed at stabilizing the economy and promoting development.

In this type of "mixed" government-private economy, the limits of an analysis of fiscal policy interventions that are based exclusively on the levels of revenues and expenditures, or even more simply, on only the balances of the government administration's budget, seem clear.

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4 The writings on growth theory are particularly numerous: among them we note the roots by Šolow (1956) and Swan (1956).

5 Major criticism of the selected criteria of the growth and stability pact: